

DIFFERENCE BETWEEN ISLAMIC AND CONVENTIONAL BANKING SYSTEM

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Abstract. This research article examines the differences between Islamic banking products and services from traditional banking services, as well as their benefits and the main reasons for the growing interest. It also provides information on the first steps in the development of the Islamic banking market in Uzbekistan.

Key words: islamic banking, islamic finance, murobaha, mudaraba, musharaka, traditional lending, islamic windows, sukuk, rent, salam

Annotatsiya. Mazkur ilmiy maqolada islom bank mahsulotlari va xizmat turlarining ana'naviy bank xizmat turlaridan farqlari, shuningdek, afzalliklari va tobora ungan bo'lgan qiziqishlarning asosiy sabablari to'g'risida to'xtalib o'tilgan. Shuningdek, O'zbekistonda islom bank xizmatlari bozorini rivojlantirish borasidagi ilk qadamlar to'g'risida ma'lumotlar keltirilgan.

Kalit so'zlar: islom banki, islom moliyasi, murobaha, mudoraba, mushoraka, ana'anaviy kreditlash, islom oynasi, sokuk, ijara, salam

INTRODUCTION

Despite the majority of people who believe in Islam, the field of Islamic finance in Uzbekistan has not yet developed much compared to neighboring countries in Central Asia, although the country has great potential in the development of this field. This was recognized by the experts of major international financial organizations (Islamic Development Bank Group, International Finance Corporation, Asian Development Bank, etc.). In this regard, the President of the Republic of Uzbekistan, Sh. Mirziyoyev, in his Address to the Oliy Majlis dated December 29, 2020, said that "the time has come to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial organizations will be involved in this [Sh.M.Mirziyoyev, 2021].

As a result of the international recession in the banking and financial system and the need for a fundamental improvement of the financial market infrastructure, the attention of the investment financing community to the Islamic form of financing has increased significantly. In modern conditions, the segment of Islamic financing on a global scale is one of the fastest growing directions: "at the time of the decline of the speculative activity of banks, the profit of Islamic institutions is growing by 15-20% per year, and their assets are growing by more than 20%, and for 2020, the annual global banking assets of the Islamic world turnover is estimated at more than 1300 billion dollars [Bekkin R.I., 2009].

The reason for the intensive development of Islamic banking is the increase in demand and significant accumulation of financial resources by Muslim countries. Taking into account the fact that the financial markets of Arab countries are actively developing and there is competition among Western companies to attract foreign investors, it can be noted that the growth trend of Islamic banks will continue. This establishes the necessary conditions for a more extensive analysis of the activities of Islamic banks, as well as for determining their access to financial markets.

ANALYSIS OF LITERATURE ON THE SUBJECT

As a result of the research conducted within the framework of this topic, it is possible to analyze the definitions given by scientists about the Islamic bank, and create a suitable definition of Islamic banking services and Islamic banking.

Islamic banking services are a set of banking services organized under commercial banks in the form of a separate department or branch and provided to individuals and legal entities on the basis of Islamic Sharia.

Islamic bank is "a commercial organization that opens and maintains bank accounts, makes payments, attracts funds to deposits, finances individuals and legal entities, and performs other banking services on the basis of Islamic Sharia". Sharia (the body of Islamic law) requires that these transactions be legal. That is, it finances production projects that are safe for society as permitted by Sharia and prohibits paying or receiving interest on any transactions (Bashir, Hassan, 2004).

If we study the opinions of the above scientists and conclude, the Islamic bank is a commercial organization that provides services to customers based on the principles of Sharia.

RESEARCH METHODOLOGY

In the implementation of scientific work, in the organization of Islamic banking branches in commercial banks, interviews with scientists and representatives of the field, analysis of their written and oral opinions, expert evaluation, observation of processes, systematic approach to economic events and processes, comparative analysis with the author's experiences conclusions, proposals and recommendations are given in the relevant areas.

ANALYSIS AND RESULTS

It is known from the results of various surveys and studies that many people cannot fully explain the difference between the products and banking services offered by Islamic and traditional banks. Some argue that the products and services offered by Islamic banks are simply a rebranded version of existing conventional banking products and services, while others call the "interest" set by Islamic banks as "income" and simply , claiming to be named after Arabic terms to attract customers. It is a big mistake to express such opinions without getting to know closely how the activities of Islamic banks are organized and according to what principles they are conducted. Because such conclusions and opinions hinder the development of the market of Islamic banking services. Of course, it is also true that the market of Islamic banking services and products is facing various

problems in the process of development. Because this field has not been fully explored yet. It cannot be denied that mistakes are made during this process.

Society, the financial relations in the traditional banking system, such as customer/depositor - bank, borrower - bank, mainly in the interest of the bank, and "musharaka" in Islamic banking, which takes into account the mutual interest of the two parties (i.e., the customer and the bank). (financing of projects on the basis of investment partnership), "murobaha" (financing through a sales contract), "mudaraba" (financing of projects within the framework of trust-based cooperation), "ijara" (financing based on a rental/lease agreement), "isistna" (production sector) to understand the difference between economic and financial cooperation relations such as "salam" (pre-financing agreement, mainly used in agriculture), "sukuk" (financing with the help of securities) and should make sure that such a system, which is equally beneficial for both parties, can also help the development of the modern banking and finance industry[Bekkin R.I., 2009].

Understanding that Islamic banks, by cooperating with their clients, share with them the risks inherent in any type of business, and the level of risk sharing depends on the business project being designed and the type of product used for financing. reach, allows members of the society to fully enjoy the possibilities of this system, and ensures the further development of Islamic banking [Isxakov I.R, 2014]

Today, the dynamics of the development of Islamic banks is effectively competing with the dynamics of the development of traditional banks. Islamic banks, like other banks, attract financial resources from individuals and institutions and direct them to commercial firms that need external financing to support their production activities. Thus, Islamic banks perform the same financial intermediation functions as traditional banks. The main difference between Islamic banks and mainstream banks is how these functions are performed, that is, how they raise funds and how they are used. For the convenience of analysis, it is necessary to distinguish the sources and directions of the use of funds.

Sources of finance for Islamic banks include:

1. Current accounts (that is, balances in clients' bank accounts);
2. Savings accounts (that is, funds in time deposits);
3. Investment accounts (i.e. funds invested by clients for the purpose of earning income)

All Islamic banks manage the current accounts of their clients, who are individuals and entrepreneurs. These accounts are opened for the purpose of safekeeping of funds in the client's account and for the purpose of serving clients (for example, transferring money on their behalf, paying for various services, etc.).

The main features of these accounts are listed below:

- current accounts are also commonly known as "demand deposits" in banking parlance. These accounts can be opened by individuals or organizations/companies in local or foreign currency;

- the bank guarantees that the funds in these accounts will be returned in full at the time of the client's request, and the bank will not pay the client any share, interest or other form of income from the profit earned by using these funds;
- customers authorize the bank to use these funds. Therefore, even if some profit is seen as a result of directing these funds to a specific project, this profit belongs only to the bank. Therefore, if there is a loss, the loss will be covered only by the bank;
- there are no conditions for deposit and withdrawal of funds;
- generally, account holders have the right to withdraw money from their accounts at any time.

Risks Faced by Islamic Bank. Islamic bank takes risks and risks at different stages depending on the positions and roles of the parties. Of course, modern Islamic banks have developed effective means of reducing risk and risk, even in some cases they are not in accordance with the principles of risk sharing/allocation inherent in the essence of Islamic finance, which undermines the trust in the Islamic banking and finance sector.

However, each Islamic finance product presents a different level of risk and exposure to the bank (which is different from conventional banks, which mainly have default risk).

For example, if an Islamic bank enters into a joint-stock company under the Musharaka contract, it will be at risk of loss until the cooperation continues. In the Murobaha transaction, the bank has the risk of losing the property (asset) during the ownership period (that is, until the property is sold). In lease contracts, the bank bears the risk until the ownership of the property is transferred to the client. Thus, Islamic banking demonstrates that the ratio of risk to profit is economically reasonable. Such a banking system satisfies the needs of both customers and the general public and provides an opportunity for a fair distribution of wealth [Kuznetsova T., 2015].

The first steps in the organization of the market of Islamic banking services in Uzbekistan. Despite the majority of people who believe in Islam, the field of Islamic finance in Uzbekistan has not yet developed much compared to neighboring countries in Central Asia, although the country has great potential in the development of this field. This was recognized by the experts of major international financial organizations (Islamic Development Bank Group, International Finance Corporation, Asian Development Bank, etc.). At the same time, some works in this direction have been carried out in cooperation with international financial organizations in recent years. Including: Islamic Development Bank (IsDB) and its group organizations, namely Islamic Private Sector Development Corporation (ICD), International Islamic Trade Finance Corporation (ITFC) and Islamic Research and Training Institute (IRTI) contribute to the development of Islamic finance in the country. in addition, to date, it has directed more than 2 billion US dollars to financing purposes based on the principles of Islamic finance. In addition, several higher educational institutions in Uzbekistan have begun to prepare their educational programs taking into account the subjects of Islamic finance.

Also, based on the current legislation, business representatives have started offering Islamic financial services. A number of Islamic leasing companies operate in Uzbekistan. In particular, in 2019, the first Islamic insurance company "Ozaro" started operating in the country. Electronic-Murabakha (a financial product based on Murabaha trade agreement), which is one of the first not only in Uzbekistan, but also among the CIS countries, was developed. IsBF (Islamic Business and Finance), the first company dealing with Islamic finance issues (the main activity of which is providing consulting services in this field) was established, in order to increase the literacy of the population in the field of Islamic finance, the "Islamic Finance" Telegram page and website were launched. Leasing companies such as Taiba Leasing and Al-Mulk Capital continue to provide rental products based on Islamic principles to representatives of small and medium-sized businesses.

Significant work has also been done in the field of education. Several trainings on Islamic finance were held in Uzbekistan, and books on Islamic finance were published in Uzbek. These include the books "Islamic Finance and Banking System: Philosophy, Principles and Practice" by Malaysian Professor Sudin Harun, "Fundamentals of Islamic Finance" by Kazakh economist Yerlan Baydaulet, and "Islamic Economic Model and Times" by Russian Rinat Bekkin.

Also, taking into account the high demand for Islamic financial services in the country, the ICD Advisory Group currently has Islamic branches in 6 commercial banks of Uzbekistan, including Kapitalbank, Trustbank, Asia Alliance Bank, Agrobank, Village Construction Bank and Silk Road Bank. (Islamic financial services branch) is working on opening. These windows are expected to be operational in early 2021. In addition, work is underway to open Islamic windows in Aloqabank, Xalq Bank, Universal Bank and Davr Bank.

Table 1

The main differences between islamic and conventional banking system

TRADITIONAL BANKING

Money is a commodity in addition to a means of exchange and storage of value. Therefore, it can also be sold and rented at a price higher than its face value.

Time value is the basis for calculating interest on capital.

Interest is charged even in case of loss of the organization using Bank funds. Therefore, it is not based on the distribution of profit and loss.

ISLAMIC BANKING

Money is not a commodity, but it is used as a medium of exchange and as a means of maintaining value. Therefore, it cannot be sold or rented at a price higher than its face value.

Income from the sale of goods or the provision of services becomes the basis for profit.

The Islamic Bank operates on a profit and loss sharing basis. If the entrepreneur has suffered a loss, the bank distributes this loss according to the method of financing used (Mudarabah, Musharaka).

When issuing cash, financing or financing working capital, no agreement on the exchange of goods and services is concluded.

Traditional banks use money as a commodity that leads to inflation.

The Investor or creditor trades at a predetermined interest rate or guarantees income.

Traditional banks pay more attention to the fact that their client is reliable.

When distributing funds under Murabaha, Salam and exclusion agreements, contracts for the exchange of goods and services are subject to execution.

The Islamic Bank seeks to communicate with the Real sectors of the economic system using trade-related activities. Because money is associated with Real assets, it directly contributes to economic progress.

Islamic banks confirm the distribution of risk between the owner of capital and the investor.

They focus on the financial capabilities of the projects.

Today, the growth of the Islamic financial industry in the CIS countries is slower than in other countries, but due to the increasing opportunities in this region, the world is attracting the attention of the international banking industry. While the governments of the CIS countries take the initiative to develop this sector, the work of the Islamic Bank is growing significantly over the next five years. Islamic banks benefit from financing projects.

CONCLUSION

In conclusion, it can be said that the field of Islamic financial services will be an important factor, foundation and development perspective for the bright future of Uzbekistan, as a result, the interest of foreign investors will increase in the country that reflects the deep roots of Islam in its culture, and the government will use this opportunity to benefit the people and it will be possible to achieve full use in the sustainable development of the country. Based on the above information, we believe that the comprehensive implementation of the Islamic financial services industry in Uzbekistan will open up the following opportunities for the country:

- increasing and diversifying the volume of foreign investments;
- to create a fair and transparent competitive environment in the banking network and to create an opportunity to diversify the assets of the banking system;
- to ensure the maximum participation of free funds at the disposal of the population and business representatives in the development of the economy;
- development and diversification of the capital market in the country;
- increase the activity of the population in the financial market by increasing the financial literacy of the population;
- Coordinate and upgrade infrastructure in the country by developing the Islamic financial services industry;
- creation of new financial institutions;

- contribute to the implementation of the state program to fight against poverty;
- creating a personnel training program in a new direction.

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