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Ways to Increase Resource Deficiency and Loan Portfolio Diversification through Islamic Bank Services

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A B S T R A C T

The article describes the theoretical foundations of Islamic finance.The differences between traditional and Islamic banking services and their interrelationships are also studied, as well as the specific advantages of Islamic banking services. The current state of Islamic banking services in developed countries is analyzed. Scientific proposals and practical recommendations have been developed to increase the efficiency of resource deficit and loan portfolio diversification through commercial banking services in commercial banks.

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Introduction

The Islamic financial mechanism has been recognized around the world as an alternative to the traditional banking system and in the short term has become an integrated mechanism that can fully compete with commercial banks.Unlike commercial banks, Islamic banks have been able to attract entrepreneurs and business people through a balanced distribution of profits and losses among participants in financing.Around the world, 48 countries have introduced Islamic finance, with the exception of countries with large Muslim populations, Muslim-majority countries, including the United Kingdom (4.4%), the United States (0.9%), and Singapore (Singapore). 14%), Switzerland (5.2%), Canada (3.2%), Australia (2.6%), France (9%), Germany (5%), Russia (15%) and Spain (2, Countries such as 1%) also use Islamic banking services[1]. The Islamic financial mechanism, with its fairness and low level of financial crisis, has attracted not only Muslims but also members of other religions.

Increasing the share of the non-governmental sector in the total authorized capital of the banking system, introducing new types of deposits and deposits, taking into account the needs of individuals and legal entities, attracting financial resources through placement of bank bonds abroad, expanding the quality and scope of banking services how much work is being done.Also, one of the new directions is the elimination of resource shortages in commercial banks and the diversification of the loan portfolio through the introduction of Islamic finance and Islamic banking services in commercial banks.This article provides practical suggestions and recommendations for overcoming these problems.

Literature review

Islamic banking is a system of banking or banking activities that implements banking services in practice in accordance with

[1]Islamic Financial Services Industry Stability Report 2020, p12

the principles of Sharia (Islamic rules).The term "Islamic economy" was first used in the book "Islamic Economics" by the Indian Muslim scholar Sayyid Manazir Gilani, published in Urdu in 1947.According to Saudi economist Muhammad Omar Chapra, Islamic economics embodies a network of knowledge that helps to achieve human well-being through the distribution of unique resources in accordance with Islamic teachings.[2]

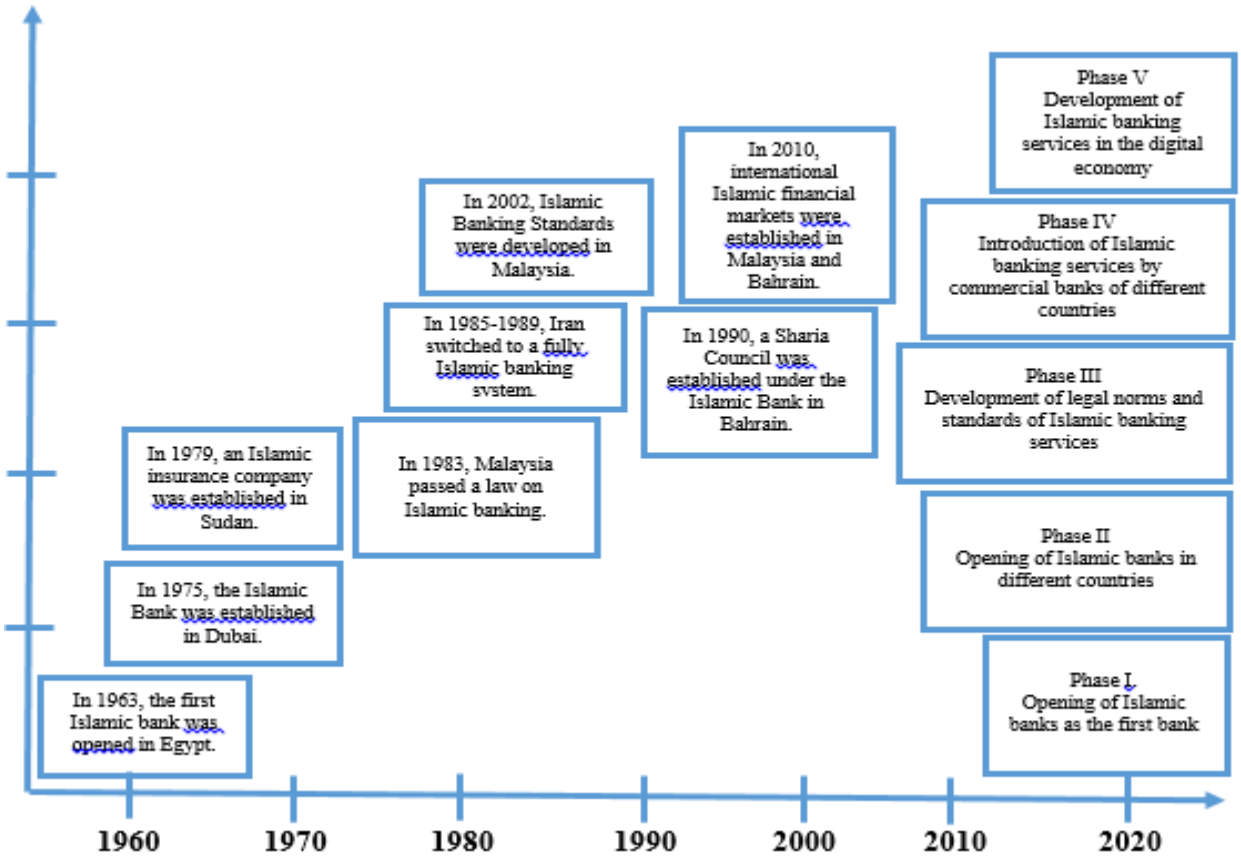


Figure 1. Stages of development of the Islamic banking and financial system [3]

After studying the opinions of the above scholars, we conclude that an Islamic bank is a commercial organization that serves customers based on Sharia principles.In Figure 1 we can see the evolution of Islamic banking development.

Today, two-thirds of Islamic finance is concentrated in Islamic banks.[4]The financial and economic relations of Islamic banking services are regulated by Islamic law and are as follows: The Holy Quran, Hadith, Ijma and Qiyas[5]. The basic principles of Islamic finance are as follows:

Any appearance of usury (interest) is prohibited.This is simply understood as lending money at interest or multiplying money without any effort.

Fopap is when one party in a relationship between people is not sufficiently aware of the information from the other party.In this case, the seller and the buyer must have equal information about the product.The main purpose of prohibiting this by the Shari'ah is to prevent one party from having an unfair advantage over the other.The fopap doesn't create anything extra at all, but rather gains in return for losing or damaging someone.

Maysir manifests itself as economic uncertainty and unjustified entrepreneurial risk.An example of this is gambling, which is the accidental acquisition of wealth in exchange for harming someone else without work.

From the above, it is clear that the role of Islamic banking services is important today.Although many aspects of this process have been revealed by scholars and Islamic finance and Islamic banking have yielded positive results in many countries, the lack of development of these services in our country today poses a challenge to our citizens who believe in Islam..

Methodology

In this study, statistical tables and graphs, analytical comparisons, logical and comparative analysis, grouping methods, as well as research work of foreign and domestic scientists on the subject were widely used.

[2]E.Baidaulet "Fundamentals of Islamic Finance" Uzbekistan 2019
[3]Author's development
[4]Islamic Finance Outlook 2020 Edition, p37
[5]E.Baidaulet "Fundamentals of Islamic Finance" Uzbekistan 2019, 7 p

Analysis

Attitudes toward money in economic development are radically different in Islamic economics.It has been found that in the Islamic economy, money is seen as a medium of exchange. The main differences between money and product are:

(a) Money itself has no value.It cannot be used directly to meet human needs.It can only be used to purchase certain products or services.The product can be used directly.

(б) the product may have a different quality, and as a result, product sales contracts are made on a specific product, and money is a measure of value and a means of exchange, and has no other quality.

According to Citi Bank, today more than 300 Islamic banks and more than 200 Islamic windows operate in 67 countries around the world.The total capital of Islamic banks has exceeded $ 2.5 trillion.[6]Islamic banks are developed in the following countries: Iran, Kuwait, Malaysia, Saudi Arabia, United Arab Emirates, Turkey, Bangladesh, Pakistan.In addition, Islamic banks operate in the United States, Canada, the United Kingdom, Germany, France, Italy, Ireland, Luxembourg and other countries.The fairness of the credit system of Islamic banks, the distribution of not only the profits but also the losses between the bank and the customer, has aroused great interest among members of non-Islamic religions.

Table 1 Differences between the activities of a commercial bank and an Islamic bank[7]

Commercialbank	**Islamicbanking**
1. The value of money depends on time and interest is charged on borrowing money at risk.	1. Money is not valued as a commodity or service, it can add value to its use..
2. Transactions are based on financially sound assets.	2. Transactions are based on real assets.
3. Guarantees to receive the deposited money with interest for a certain period of time.	3. It does not guarantee interest on deposits for a certain period of time. It depends on the bank income.
4. If the loan is overdue, the entrepreneur will have to pay a penalty to the bank for each passing day, as well as repay the loan with added interest..	4. Delay in repayment of a loan by an Islamic bank shall not result in an additional penalty.
5.The relationship of a commercial bank with its customers manifests itself as a debtor and a creditor.	5. The status of the Islamic bank is built as a partner, investor, lessor and lessee with customers.
6. Depositors do not have information about the bank's investment and liquidity management activities.	6. Depositors will be informed about the investment and management activities of the bank.
7.Individuals and legal entities can engage in activities not prohibited by law with a loan from a bank.	7. In addition to activities not prohibited by law, a bank loan can be used for activities not prohibited by Sharia.For example, the production of alcoholic beverages, the sale of which is prohibited.
8. Lending money and repaying it on time with interest is one of the main functions of a commercial bank.	8. One of the main functions of an Islamic bank is to invest money in business and get a share of profits.
9. Since the share from the funded project is clear in advance, little attention is paid to its development and implementation.	9. As the share of the financed project depends on the profit and loss, its development and implementation will be in the focus of the bank..

As can be seen from the first table, it is forbidden to make money in an Islamic bank without taking risks and without expending any labor, in general, in all major aspects of life in pursuit of things that threaten or harm another person and society.

A comparative analysis of the current state and description of Islamic banking services in Uzbekistan, commercial banks, as well as the experience of Central Asia and developed countries, an assessment of the economic and financial conditions for the formation of Islamic banking services.

6Citibank annual report 2018, Citi Research, Reuters, SNL Research

[7]Author's development.

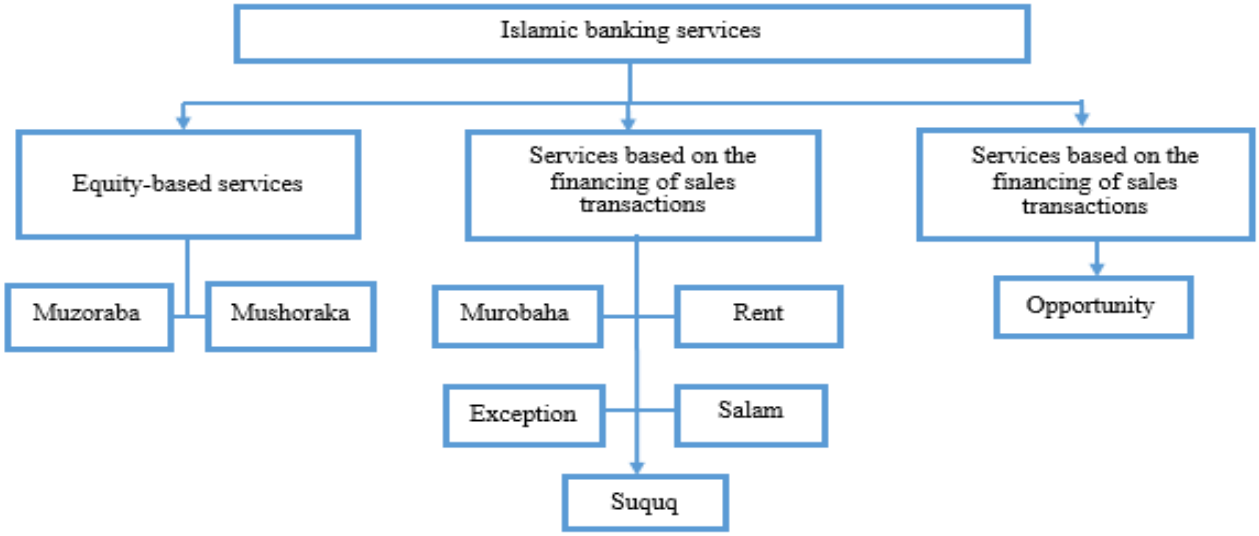


Figure 2. Types of Islamic banking services.[8]

In 2019, the first Islamic insurance company "Mutual" in the country began its activities.An e-Murabaha (financial product based on the Murabaha trade agreement) platform has been developed, which is one of the first not only in Uzbekistan, but also in the CIS.IsBF(Islamic Business and Finance) the first Islamic finance company (whose main activity is consulting services in this field), was established, and the Islamic Finance Telegram page and website were launched to raise public awareness in Islamic finance.Leasing companies such as Taiba Leasing and Al-Mulk Capital continue to offer rental products based on Islamic principles to small and medium-sized businesses.

The main banking services, which are strictly defined by international standards and used by most Islamic banks, can be divided into three groups (Figure 2):

Table 2 SWOT analysis of the organization of Islamic banking services in commercial banks [9]

Strengths	**Opportunities**
1. Attract additional funds from the IDB group to finance the economy of Uzbekistan; 2. Targeted and efficient use of credit funds; 3. Sustainable development of Islamic banks in the world practice and avoidance of financial and economic crisis; 4. 95% of the population of Uzbekistan is Muslim; 5. It is possible to attract large amounts of savings (due to the large number of Muslim entrepreneurs) and thus increase the deposit base of banks through retail and corporate banking products; 6. The quality of services is not inferior to traditional banking services. This will increase competition for banks (based on interest) set in the same market.	1. Stimulation of real production in Uzbekistan; 2. Attracting investment funds from Arab and Asian countries and directing them to the local economy; 3. Islamic market, ie Islamic mortgage, Islamic insurance, new markets will emerge with the growth of new investment projects; 4. The principles of Islamic finance help to reduce social inequality, establish social justice; 5. With the emergence of alternative banking services, the population's access to banking services will expand; 6. The opening of Islamic windows in commercial banks will increase competition and create more opportunities for Muslims; It offers a wide range of opportunities to Muslim entrepreneurs who do not use bank loans to avoid usury.
Weaknesses	**Risks**
1. Lack of a legal framework for the establishment of Islamic banking services by commercial banks; 2. Lack of specialists in Islamic banking services; 3. Insufficient knowledge of the population and entrepreneurs about Islamic financing services; 4. Insecurity of the population to new financial services; 5. Existence of problems with the tax base in Islamic banking services; 6. Lack of capital of Islamic banks and non-allocation of large loans; 7. Insufficient knowledge of the country's muftis, clerics and scholars on the banking system.	1. Religious superstition can hinder the growth of Islamic banking in the country; 2. The existence of various misconceptions about the connection of Islamic banking services with terrorism and extremism; 3. Existence of strong competition with traditional banks; 4. Deviation of some of the Islamic principles in practice and the emergence of mistrust of the whole system; 5. The system is not supported by large transnational corporations, investment banks and the world's major economic powers.

The first phase of the above Islamic banking services is based on participation in Murobaha and Capital, which is based on the financing of Purchase Agreements. The use of consulting services was found to be appropriate. Because the Murobaha contract

[8]E.Baidaulet, H. Khasanov “Fundamentals of Islamic Finance” Uzbekistan 2019, p.37
[9]Author's development

is similar to traditional banking services and is relatively easy to use, the Murobaha contract is also one of the most widely used instruments in practice.The use of these banking services has been found to reduce risk.According to a survey conducted by the United Nations Development Program in early 2020 on the analysis of Islamic financial products in Uzbekistan, the main reasons for non-use of bank loans are, first of all, religious beliefs, high interest rates and the complexity of lending. if Islamic financial institutions are established in the country, the majority of respondents in the above survey admitted that they can use the services of these institutions.

Traditional banks have also expressed their views on the establishment of Islamic financial institutions in Uzbekistan, the emergence of fair and transparent competition in the banking system, which will lead to an increase and diversification of investment flows into the country.SWOT analysis of the organization of Islamic banking services in commercial banks of Uzbekistan was analyzed.We were able to rework and expand the analysis made by H. Khasanov.It examines the strengths and weaknesses, opportunities and risks associated with the establishment of Islamic services in commercial banks (Table 2).

Discussions

It should be noted that the "Islamic windows" in many major advanced banks of the world (ABN Amro, Bank of America, Barclays Plc., BNP-Paribas, Chase Manhattan, Citibank, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Lloyds Bank, Societe Generale , UBS, etc.) and provide all types of Islamic banking services, which are a complete alternative to traditional banking products.

Today, the principles of Islamic banking are successfully applied not only in Muslim countries, but also in Europe and the United States.Many major Western banks, such as Goldman Sachs, Citibank, Deutsche Bank, BNP Paribas, JP Morgan Chase, and others, have proven to support the Islamic Window.

Table 3 Analysis of the main reasons why the population of Uzbekistan does not use banking services and does not have a bank account[10]

№	Reasons	Reasons for not using banking services, %	Reasons for not having a bank account, %
1	Banking services are very expensive	44	11,2
2	Religious views	30	2,0
3	Use by other family members	30	16,6
4	Lack of necessary documents	21	17,6
5	The remoteness of banking institutions	12	11,8
6	Low confidence in banking institutions	10	9,8
7	Lack of funds for the use of banking institutions	0,4	35,9

Markets with high demand for Islamic banking are creating better opportunities.An Islamic window is a branch or branch set up by a traditional bank or even a separate board that provides Islamic finance and services to customers who prefer traditional finance.There are two main reasons for commercial banks to set up Islamic banking services:

- Retain clients who want to switch to Islamic finance;
- Attracting new customers from existing banks, including Islamic banks, through the best products and services provided by traditional commercial banks.

Analyzing Table 3, the largest share of factors was the cost of financial services at 44% and religious beliefs at 30%, both of which require an increase in financial literacy of the population on the one hand, and an alternative and optimal choice for customers from commercial banks on the other. requires the introduction of competitive products that enable.Indeed, the active movement of free money in the economy, the use of targeted investment projects to finance macroeconomic indicators, including the growth of money supply due to the slowdown in money supply and, consequently, rising inflation, will prevent factors leading to economic crisis.

Analyzing the above, the establishment of the Islamic Bank in Uzbekistan is a modern requirement.In world practice, there are 2 different ways of organizing Islamic banking services: Establishment of Islamic banking services under an existing commercial bank or establishment of an Islamic bank from scratch.Research in this area suggests that the first method is an alternative for developing countries.It is necessary to consider four factors that are very important for the successful introduction of the Islamic banking system into the traditional system: (I) compliance with Sharia, (ii) separation of Islamic and traditional funds, (ii) accounting standards, and (iv) awareness-raising measures.

Conclusion

In the process of conducting the research and as a result of the research, we were able to formulate the following conclusions.

1. It is necessary to make many changes to the current legislation, ie the Law on Banks and Banking, the Law on the Central Bank, the Tax Code, the Civil Code and a number of other by-laws, the experience of Central Asian countries and Islamic banking services. In doing so, it is advisable to use the Malaysian experience.
2. Attracting and using available funds at the disposal of the population and businesses through the introduction of Islamic

[10]Financial Inclusion, Regulation and Literacy in Uzbekistan, Asian Development Bank Institute report 2019

banking services in commercial banks will increase the bank's income and develop the economy.

3. By introducing Islamic finance, commercial banks can attract more customers by supporting business entities by sharing risk in business activities. It is advisable to use the Murobaha and Mushoraka methods from the Islamic financing models. The use of Islamic financing methods significantly attracts customers (entrepreneurs).
4. The establishment of Islamic banking services will increase the level of diversification in the financial market and increase competition. Islamic Bank is a new banking system that uses digital technologies to provide banking services. This will help reduce costs, provide remote customer service, and make international money transfers.
5. It is necessary to develop a roadmap for the establishment of an Islamic banking and financial system in the country. This roadmap should identify organizations responsible for the implementation of comprehensive measures to improve the activities of banks, the tax system, the legislation on the securities market, the development of international cooperation and the establishment of an Islamic window in commercial banks, and set clear deadlines for their implementation.

As a result of this research, we believe that Uzbekistan will become a center of Islamic finance among the CIS countries. In conclusion, we believe that the use of Islamic finance will increase the diversification and volume of the bank's loan portfolio.

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