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ISLAMIC FINANCIAL MARKET

Abstract: Islamic banking is banking that is based on principles of Shariah and finds its practical application through the development of the Islamic economy. Islamic banking is based on the principle of partnership between the client and the bank. The article discusses some aspects of the Islamic financial services market.

Key words: Islamic economy, Islamic finance, Islamic banking windows, interest rate.

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Introduction

Companies that do processing or licensing of bank cards management systems have long supported the main rule of Islamic Finance (IF) according to which a bank cannot issue a loan and charge interest. The logic of credit cards is not applicable here, and therefore other ways of managing card accounts are implemented. They allow cardholders to use the bank's funds, and the bank to receive income in the form of fees for opening, issuing and maintaining an account.

Most people still did not fully understand the concept of IF and more often than even it is associated with service that is available only to Muslims. However, it is absolutely not the case. Any financial institution and any individual can work on IF principle.

The essence of Islamic Economics is, first of all, refusal of interest rate and futures transactions. The concept of project investment is the closest methodology that fits. Project investment is associated with risk division and equity participation. Bank does not gain interest rate but studies the person who came asking for help, his business plan and analyses the risks.

There is another concept which is called Islamic insurance. The main principle of Islam as a method of determining the approach to the objective world including labor processes. The main concern is not to

allow games with time and not to allow future (not yet lived time) to be mortgaged in favor of some speculators. For example, there is ban on sale of a crop of wheat that has not been grown yet however this practice is quite common in the Western countries.

Islamic society is fundamentally oriented towards the real economy at the level of official laws as well as of society. Set to real production and set to keep your own time from being speculated.

Islamic banking is developing dynamically in Europe, especially in the United Kingdom. In the UK not only Islamic banks are operating but also Islamic windows in conventional banks (e.g. Citibank, Barclays).

There is concept of Halal money which is permitted by Shariah that does not bear stamp of crime (by Shariah). Dynamics of Islamic banking development effectively competes with dynamics of developments of conventional banks.

Market of Islamic financial services is developing at a rapid pace: in the period from 2006 to 2011 the average annual growth of global Islamic financial assets was 18.82% [1].

Leading positions are occupied by Islamic banks which have now accumulated from 900 billions to 1 trillion USD [2] or more than 90% of Islamic financial assets [3]. Financial crisis of 2008 has questioned advantages of western financial system. Despite that

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or conventional financial institutions and instruments are still dominating.

Its noteworthy that even in financial markets of Muslim countries share of Islamic banks is relatively small on average: less than 20% of banking assets of Muslim countries [4] and about 1% of global banking assets [5].

The value of the market of Islamic financial services in general and Islamic banks in particular is estimated ambiguously.

An Islamic bank is a financial institution that accepts deposits and allocates borrowed funds in accordance with the principles that are expressed in the prohibition of interest on loans, speculations and such contractual conditions, under which uncertainty arises and one party receives excessive advantages at the expense of the other [9].

These principles correspond to Muslim ideas about justice (non-exploitative) distribution of income in society: a person who receives income must take part in the labor process and risk his property [10], and earning money on money is unacceptable.

From an organizational and legal point of view, the necessary conditions for the operation of Islamic banks are the following:

- the presence of a Sharia supervisory board, designed to ensure that all operations comply with Sharia requirements;
- the ability to carry out banking operations on the basis of Islamic financial principles (including observing the prohibition of loan interest;
- the absence of legislative restrictions on the participation of banks in trading operations and on the distribution of profits (loss) with customers.

Ensuring such conditions requires a special approach to the regulation of Islamic banks and three models are implemented in practice, in which:

- 1) banking legislation is built in accordance with the requirements of Sharia (Sudan, Iran and Pakistan);
- 2) the activities of banks are regulated by general banking legislation, and Islamic - by special laws (such banking systems operate in Malaysia, Bahrain, Turkey, Kyrgyzstan, Kazakhstan, etc.);
- 3) the activities of Islamic banks are regulated within the framework of general banking legislation, this model is typical for most Western countries where Islamic banks are represented, for example, Great Britain, Switzerland, and the USA [13].

There are two levels in the structure of the Islamic banking system:

- 1) transnational non-profit organizations that promote the development of Islamic banks (the key institution of this level is the Islamic Development Bank, which provides various support to Islamic financial institutions, including acting as a financial intermediary, accepting deposits and placing funds in accordance with Sharia requirements);
- 2) commercial organizations which are represented by:

a) commercial Islamic banks main goal of which is to make a profit by providing Sharia-compliant banking services;

b) specialized Islamic banks created to solve specific problems (agricultural, industrial banks, etc.);

c) Islamic banking windows in conventional banks, where an important condition for the operation of such units is "self-sufficiency as an Islamic financial intermediary" [14].

Unlike conventional banks, the financial intermediation of Islamic banks is based on a share in the profit (loss) from transactions with real assets. An Islamic bank provides and raises funds on specific terms: no interest rates are allowed on either loans or deposits.

To the greatest extent, the concept of participation in profits and losses corresponds to the instruments of equity project financing of Mudaraba and Musharaka, the urgent nature of which does not allow them to be classified as equity financial instruments in the strict sense of the word [16].

Active operations of Islamic banks on interest-free debt financing are formalized with such basic financial instruments as Murabaha, Salam, Istisna. 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.

In Uzbekistan Islamic finance is represented by the projects of the Islamic Development Bank for the development of the private sector, which has been successfully cooperating with IpakYuli Bank for a long time. Financing is carried out in the form of providing banks with financing lines to provide guarantees according to the principles of Murabaha.

This is one of the most common methods for conducting interest-free transactions used by banks in Muslim countries. Murabaha is an active client financing operation and is suitable for a variety of purchases from equipment to business buildings.

The principle of its operation is simple: the client agrees on the conditions for acquiring the necessary goods and applies to the bank, which, in turn, buys the goods and resells it to the client in installments with its own margin.

First attempts are being made to introduce Islamic finance tools in Uzbekistan: a legal framework is being formed.

The new version of the bill "On non-bank credit institutions and microfinance activities" developed by the Central Bank of Uzbekistan provides for the provision of services by microcredit organizations based on the principles of Islamic finance.

The document is currently under consideration by the Legislative Chamber of the OliyMajlis.

Along with this, the government created an interdepartmental working group on the organization of Islamic finance, headed by the Ministry of Investment and Foreign Trade. International experts

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were involved in the working group in cooperation with the Islamic Development Bank.

In the current legislation, in order to introduce Islamic financial principles into the activities of banks, it is necessary to amend a number of documents in accordance with international experience and standards of the Islamic Financial Services Board (IFSB).

These are, first of all, the Civil and Tax Codes, the laws "On the Central Bank", "On Banks and Banking", "On Guarantees of Citizens' Deposits in Banks", "On Mortgage", "On Leasing", "On Pledge".

Islamic finance attracts the attention of not only clients, but also regulators, as it is built on the principles of honesty and integrity, and is socially oriented.

Worldwide out of almost 500 Islamic financial institutions, 359 operate in the form of full-fledged Islamic banks, and 141 operate in the form of an "Islamic banking window" created under conventional banks.

A number of commercial banks in Uzbekistan have begun preparing to provide financial services based on Islamic banking by organizing Islamic banking windows in addition to their conventional banking activities. In particular, these are Qishloq Qurilish Bank, Agrobank, Turon Bank, Trustbank, Kapitalbank and Asia-Alliance Bank.

Islamic banking implies activities of the bank that comply with the principles of Sharia, and its practical application through the development of the Islamic economy, can attract up to \$10 billion annually to Uzbekistan if the necessary legislative norms appear.

In July 2018, Ipak Yuli Bank had announced the launch of a pilot project to create an "Islamic banking window" in cooperation with the Islamic Corporation for the Development of the Private Sector (ICD), a subsidiary of the IDB.

Islamic banking windows are one of the instruments of Islamic banking, an alternative type of financial services that comply with the principles of financing, which is widely used in the countries of Southeast Asia and the Middle East.

The main feature of financial services in Islamic banking is the rejection of loan interest, high-risk transactions and transactions with uncertainty.

Islamic finance is a new financial sector in Uzbekistan. In this regard, both the population and

commercial banks have developed different ideas, based only on theoretical knowledge and experience in other countries.

Winning people's trust in Islamic finance will naturally contribute greatly not only to the development of the field of Islamic finance but the entire financial system. Therefore, the launch of Islamic banking windows which are the first step in the field of Islamic finance, based on the principles of full Islamic finance, will further increase the country's achievements in the financial sector.

The President of the Republic of Uzbekistan Shavkat Mirziyoyev, in his address to the Oliy Majlis at the end of 2020, noted that the time has come for the organization of Islamic financial services and it is necessary to create an appropriate regulatory framework. In this process, an important role is assigned to the Islamic Development Bank.

Permitting procedures for the use of Islamic banking windows in different countries are different.

So, in Malaysia (for retail banking services), in Qatar and Lebanon, Islamic banking windows are not allowed only full-fledged Islamic banks are licensed.

In Ethiopia, only Islamic banking windows are allowed, and full-fledged Islamic banks do not work.

In Oman, the use of banking windows is only allowed for private business.

In other countries of the world where Islamic banks exist, financial institutions are allowed to open Islamic banking windows as well.

Islamic banking windows are allowed in Pakistan along with Islamic banks and conventional banks must obtain written permission from the Central Bank, providing information on training and marketing activities.

In Bangladesh, it has been decided not to open Islamic banking windows by either Islamic or banks until the Central Sharia Council is formed.

If legislation on Islamic finance is created in Uzbekistan, the country can attract up to \$10 billion in additional investments annually. Introduction of Islamic banking in Uzbekistan will also help attract additional resources from the population.

It is advisable to develop a roadmap for the phased introduction of Islamic finance in Uzbekistan, which provides for the training of specialized specialists and improving the overall financial literacy of the population.

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