



International Conference of Economics, Finance and Accounting Studies

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Practical Aspects of Islamic Finance Services by Commercial Banks

Absamatov Askar Ergashovich

Termiz State University, Finance and financial technologies, teacher of the department

ABSTRACT

This article discusses ways to develop Islamic banking services in commercial banks, including analyzing existing problems and improving development prospects. The article also reflects existing problems in the prospects for the development of the use of Islamic banking services in the activities of commercial banks of the Republic of Uzbekistan, as well as the author's approaches and proposals for eliminating them.

Keywords: Commercial banks, Islamic finance, musharaka, sukuk, mudaraba, murabaha, financing, Islamic banking, Islamic banking services.

An underdeveloped market infrastructure hinders the efficient management of Islamic banks' liquidity. Their level of liquidity is 40% higher than the similar indicator of traditional banks, which is explained by the insignificant depth of the money market due to the small number of participants and the insufficient means that can be used in the relevant operations with the Central Bank.

Another problem is the lack of official status of Islamic financing by commercial banks, so providers and investors of such services cannot operate with some sense of stability. The problem is further complicated by the existence of direct restrictions for banks in a number of operations, which are the main ones in Islamic financing, as well as the existence of a tax imbalance in relation to interest lending operations.

Islamic financing by commercial banks works with economic criteria as well as ethical categories, which brings it closer to sustainable financing: their approaches to social responsibility and justice, as well as corporate governance, are largely similar.

Commercial banks offering Islamic financial services by commercial banks have to comply with Sharia law, which can be difficult due to different interpretations of the principles. The lack of a single standard for Islamic finance leads to different approaches to risk assessment, asset management and other aspects of financial transactions. Islamic financial institutions have restrictions on investing in certain industries such as alcohol, tobacco, gambling and other immoral activities. Clients may not fully understand the specifics of Islamic financial services, leading to incorrect communication and usage of these services.

At the same time, in recent years, the countries of the world have been paying more and more attention to the search for effective means of solving social and climate change problems. Commercial banks that offer conventional financial services may compete with Islamic banks in the market, creating additional challenges for the latter.

Lack of awareness among customers, bankers and regulators about the principles of Islamic finance is causing problems in the distribution of these services. Islamic finance requires strict adherence to Shariah principles, which may pose a risk of ethical violations if control processes are not properly established. Islamic financial services of commercial banks are based on the principles of Sharia law and differ from conventional banking services. Lack of awareness among customers about such services leads to misunderstandings about their features and risks. Bank employees may also find it difficult to provide information and advice about these services because they do not have enough knowledge about them. Regulators may also face difficulties in regulating and supervising Islamic financial services due to lack of specialized knowledge. Therefore, educational and outreach institutions play an important role in disseminating these services to all stakeholders.

Some banking systems may not be ready to process the complex structures of Islamic financing, which creates technical obstacles in the implementation of such services. Islamic finance has its own characteristics and requires a specialized approach to risk assessment, which creates additional challenges for banks and investors.

Islamic banking, like conventional finance, has to face many cyber security challenges that require vigilance in the implementation of banking services. These threats not only jeopardize the security of financial transactions, but also create ethical and regulatory challenges for Islamic banking services.

Also, Islamic banks must comply with specific regulatory requirements for financial reporting and compliance with Sharia law, adding to the challenges of cyber security. Many customers face problems in protecting their funds due to lack of knowledge about ways to protect their financial information when using Islamic banking services.

To address these issues, it is advisable to develop a strategy to educate customers about safe online practices, implement technical information protection solutions, and establish rigorous security audit procedures to ensure compliance.

Implementing and maintaining a risk management and compliance framework for Islamic deposits requires significant investment from banks. In the introduction of Islamic deposit by Islamic banks, there are restrictions on Islamic financial instruments in some countries, which hinders the development of Islamic deposits, and many customers do not know the benefits of Islamic deposits, which hinders their popularization.

Different countries may have different regulations for Islamic banking services, which makes it difficult to offer the same type of services to customers. Islamic banks face the problem of insufficient liquidity as they do not have the opportunity to earn interest on deposits as in the conventional banking sector.

Islamic banks face a number of challenges in purchasing or investing in accordance with Shariah principles. First, Islamic banks have to ensure that all their operations are Shariah-compliant, which is a challenge in the context of diverse financial instruments and services. The lack of generally accepted standards for Islamic banking services can create uncertainty and complicate operations. Islamic banks must strictly comply with regulatory requirements to avoid the risks of possible violations of the law.

Some Islamic banks need to develop risk management models that are different from traditional financial risk management methods in the context of limited access to relevant investment opportunities that comply with Sharia principles.

Islamic banks adhere to Sharia principles, which prohibit direct participation in interest transactions and securities transactions. Therefore, one of the main challenges for Islamic banks in carrying out transactions with securities is to look for investment opportunities that comply with the principles of Shariah. Islamic banks can carry out transactions of Islamic bonds (sukuk), which represent a share in the assets or income of a particular project, and participate in transactions of sale and lease of securities based on the principles of Islamic financing (mudarabah and musharaka). Islamic banks must effectively manage financial risks associated with services such as mudarabah and musharaka. When using these forms of financing, it is very difficult to assess the project's assets and profitability, as it requires careful analysis and assessment of risks. Therefore, it is necessary for Islamic banks to consider legal aspects when implementing mudarabah and musharakah transactions to ensure compliance with Islamic law.

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