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Abstract: *In this article, we consider the potential consequences of organizing Islamic banks in Muslim countries that have not been introduced and applied, like Uzbekistan and its edge over conventional banks. Also, a contribution of Islamic banks to country`s overall economic well-being and its bright prospect will be discussing in the next part and, finally, analysing statistic indexes of Islamic banks.*

Key words: *Islamic banks, conventional banks, Kuran, Khadis, Ijma, Kiyos, Riba, Sharia compliance, Complaine with Local laws, market demand, Capital adequacy, qualified personnel, economic stability.*

Introduction

Islamic banking, rooted in Islamic principles, offers a unique approach to financial services that adheres to Sharia law. Unlike conventional banking, which often involves interest-based transactions, Islamic banks operate on the principles of risk-sharing, profit-sharing, and avoidance of interest (riba). Islamic banks are supposed to be great financial institution because of its mitigated risks level. We are going to dive into history and overall concept of Islamic Banks, try to answer the common questions that are given by individuals, such as what the Islamic Banks is, its advantages over conventional banks, why we should choose this sort of banks and so on. According to the definition of Islamic Banks given by experts, Islamic banking is defined as banking system which is in consonance with the spirit, ethos and value system of Islam and governed by the principles laid down by Islamic Shariah. Interest free banking is a narrow concept denoting a number of banking instruments or operations which avoid interest.

Body part

While the initiation of modern Islamic Banking dates back to 1963, the present-day practice debuted in 1975, when banks were established and mandated to operate in adherence to Shari'a rules and principles. Ever since, Islamic Banking has been one of the fastest growing sectors in the global banking industry. As new geographies continue to open up to Islamic Banking, industry forecasts suggest that Islamic Banking assets held by commercial banks globally will continue to grow. The pace of growth has increased dramatically over the past decade driven by awareness and demand, as well as easier access to Islamic Banking services. Across world markets, and particularly in the GCC, South-East and South Asia (which is home to over 50% of the total Islamic Banking industry), the strategy has been to allow a dual banking system, whereby Islamic Banking co-exists with conventional banking. The growth of the Islamic Banking industry has been fuelled by surging demand for Shari'a-compliant products, not only from financiers in the Middle East and other Islamic countries, but also by investors worldwide, thus making it a global industry. Besides its vast geographical expanse, Islamic Banking is witnessing rapid expansion across the whole spectrum of financial activities including personal banking, insurance and capital market investments. The continued growth in the Islamic banking industry is attributable to three factors: increasing demand from a large number of Muslim communities (including Muslim immigrants to western countries); oil wealth in GCC countries; and the growing attractiveness of Shari'a-compliant financial services to non-Muslim investors seeking 'ethical' investments and banking practices

Table^[1]

Strength Rank 2023	Largest Islamic Banks 2023	Bank	Country	Assets Score (17.5%)	Financing Score (2.5%)	Deposits Score (2.5%)	FDR Score (9%)	CAR Score (13%)	Profit Score (2.5%)	ROA Score (3%)	Costs Score (7.5%)	Fees Score (3%)	NPF Score (12.5%)	Reserves Score (12.5%)	Liquidity Score (50%)	LCR Score (10%)	NSFR Score (50%)	Aggregate Strength Score 2023
1	1	Al Rajhi Bank	Saudi Arabia	10.0	8.0	5.0	8.0	10.0	3.0	10.0	10.0	5.0	9.0	10.0	3.0	7.0	6.0	6.68
2	3	Kuwait Finance House	Kuwait	8.0	#4.0	#1.0	10.0	8.0	#6.0	8.0	9.0	6.0	7.0	10.0	7.0	8.0	6.0	7.73
3	16	Turkiye Emeklilik Katilim Bankasi	Turkey	1.0	#5.0	#5.0	7.0	10.0	#3.0	10.0	10.0	8.0	10.0	10.0	9.0	10.0	1.0	7.53
4	8	Qatar Islamic Bank	Qatar	6.0	1.0	1.0	9.0	9.0	2.0	10.0	10.0	8.0	7.0	10.0	2.0	7.0	7.0	7.18
5	7	Alfina Bank	Saudi Arabia	6.0	7.0	8.0	8.0	9.0	5.0	9.0	9.0	5.0	6.0	10.0	3.0	7.0	6.0	7.33
6	32	Meezan Bank	Pakistan	1.0	9.0	7.0	7.0	9.0	10.0	9.0	9.0	3.0	7.0	10.0	10.0	9.0	8.0	7.25
7	19	Kuveyt Turk Katilim Bankasi	Turkey	3.0	#5.0	#5.0	7.0	10.0	#3.0	10.0	10.0	9.0	5.0	6.0	10.0	10.0	10.0	7.15
7	95	Al Jaashid Islamic Bank	Iraq	0.0	8.0	10.0	9.0	10.0	10.0	10.0	8.0	6.0	8.0	10.0	1.0	8.0	8.0	7.15
9	11	Bank Abilad	Saudi Arabia	4.0	5.0	7.0	9.0	8.0	4.0	8.0	7.0	6.0	7.0	10.0	4.0	8.0	6.0	6.90
10	6	Maybank Islamic	Malaysia	6.0	6.0	6.0	9.0	8.0	3.0	5.0	10.0	1.0	8.0	10.0	2.0	5.0	5.0	6.81
11	23	Bank Syariah Indonesia	Indonesia	2.0	8.0	6.0	9.0	10.0	5.0	7.0	5.0	3.0	5.0	10.0	10.0	8.0	7.0	6.71
12	35	Vakif Katilim Bankasi	Turkey	1.0	#5.0	#5.0	10.0	8.0	#3.0	10.0	9.0	5.0	8.0	10.0	7.0	8.0	1.0	6.70
13	39	Turkiye Finans Katilim Bankasi	Turkey	1.0	#4.5	#4.0	9.0	10.0	#3.0	10.0	9.0	5.0	4.0	10.0	8.0	10.0	1.0	6.56
14	34	Al Salam Bank	Bahrain	1.0	9.0	9.0	8.0	10.0	8.0	5.0	5.0	6.0	6.0	10.0	3.0	9.0	6.0	6.53
15	13	Bank AlJazira	Saudi Arabia	4.0	6.0	5.0	10.0	9.0	0.0	5.0	5.0	6.0	6.0	10.0	3.0	8.0	6.0	6.50
16	33	Ziraat Katilim Bankasi	Turkey	1.0	#5.0	#5.0	10.0	7.0	#3.0	10.0	10.0	5.0	7.0	10.0	6.0	7.0	1.0	6.40
17	5	Dubai Islamic Bank	UAE	7.0	2.0	2.0	9.0	8.0	3.0	9.0	10.0	5.0	2.0	8.0	2.0	8.0	6.0	6.38
18	12	CMB Islamic Bank	Malaysia	4.0	7.0	6.0	9.0	8.0	4.0	3.0	8.0	3.0	7.0	10.0	3.0	8.0	5.0	6.35
18	81	Bank BTPN Syariah	Indonesia	0.0	5.0	5.0	9.0	10.0	5.0	10.0	8.0	1.0	5.0	10.0	3.0	9.0	8.0	6.35
20	16	Boubyan Bank	Kuwait	3.0	4.0	4.0	9.0	9.0	1.0	3.0	5.0	4.0	7.0	10.0	4.0	8.0	6.0	6.23
21	20	Bank Islam	Malaysia	3.0	6.0	6.0	10.0	9.0	0.0	2.0	4.0	2.0	7.0	10.0	5.0	8.0	#6.0	6.18
21	26	QIB	Qatar	2.0	1.0	2.0	9.0	8.0	1.0	8.0	10.0	10.0	5.0	10.0	5.0	6.0	1.0	6.18
21	28	Waha Bank	Kuwait	1.0	9.0	7.0	5.0	8.0	0.0	2.0	7.0	8.0	8.0	10.0	4.0	8.0	6.0	6.18

So, it can be seen from the table that manifold economic and financial indicators that are ranging from asset to average strength score are shown. In this year’s Strongest Islamic Banks By Balance Sheet evaluation, Al Rajhi Bank maintained its standing as the world’s strongest Islamic bank in the world. The evaluation is conducted using a comprehensive and transparent scorecard, assessing the banks in six areas of balance sheet financial performance, namely the ability to scale, balance sheet growth, risk profile, profitability, asset quality, and liquidity, encompassing 14 specific factors. The Middle Eastern Islamic banks exhibited greater scale and profitability compared to their Asian counterparts, while Asian Islamic banks showed stronger asset quality. Islamic banks in Saudi Arabia and Kuwait have shown the highest overall strength, with impressive capitalisation, liquidity, and profitability metrics. Saudi banks, for example, boast an average Tier 1 capital ratio of 19% and a capital adequacy ratio of 21%. Kuwaiti banks, on the other hand, excel in liquidity, with a weighted liquidity coverage ratio of 181% compared to Saudi banks’ 134%. In Asia, Islamic banks in Pakistan exhibited the highest financial strength, propelled by exceptional performance in balance sheet growth, profitability, and liquidity.

¹ <https://tabinsights.com/ab100/strongest-islamic-banks>

In fact, Al Rajhi is the world's largest Islamic bank globally, with \$216 billion in assets and equity of \$28 billion. Along with its base in Saudi Arabia, it has operations in Jordan, Kuwait and Malaysia.

FDR = Financing-to-deposit ratio. CAR = Capital adequacy ratio. Profit = Operating profit. ROA = Return on assets. Costs = Cost-to-income ratio. Fees = Non-financing and investment income to total operating income.

NPF = Gross non-performing financing ratio. Reserves = Loan loss reserves to non-performing financing. Liquidity = Liquid assets to total deposits and borrowings. LCR = Liquidity coverage ratio. NSFR = Net stable funding ratio.^[2]

There are 2 primary regulating sources during a process of working Islamic banking system: Quran and Sunnah. Also, secondary source of Islamic law we have that are the reinterpretation of the primary sources such as *maslahah mursalah* (public interest), apart from *istihsan* (equity in Islamic law), *ijma* (consensus of the Muslim jurists), and *qiyas* (analogical reasoning).

Obtaining a License for Islamic Banking in Uzbekistan

To obtain a license for Islamic banking in Uzbekistan, Islamic financial institutions must follow a specific procedure outlined by the Central Bank of the Republic of Uzbekistan (CBU). The process typically involves the following steps:

Application and Documentation:

* Submission of Application: Islamic banks must submit a formal application to the CBU, along with a detailed business plan and other required documents.

* Documentation: The required documentation may include:

- * Financial statements
- * Organizational structure
- * Sharia Supervisory Board composition
- * Compliance policies and procedures

²TABInsights

* Risk management framework

* Personnel qualifications

Preliminary Approval:

* **Assessment:** The CBU will review the application and supporting documents to assess the bank's suitability for operating in Uzbekistan.

* **Preliminary Approval:** If the application meets the necessary criteria, the CBU may grant preliminary approval for the establishment of the Islamic bank.

Capital Requirements:

* **Minimum Capital:** Islamic banks must meet the minimum capital requirements set by the CBU. This ensures that they have sufficient financial resources to support their operations.

Regulatory Compliance:

* **Adherence to Regulations:** The bank must demonstrate its commitment to complying with all applicable banking regulations, including those related to Islamic finance.

* **Sharia Compliance:** The bank must have a robust Sharia governance framework in place to ensure that its operations adhere to Islamic principles.

Licensing and Registration:

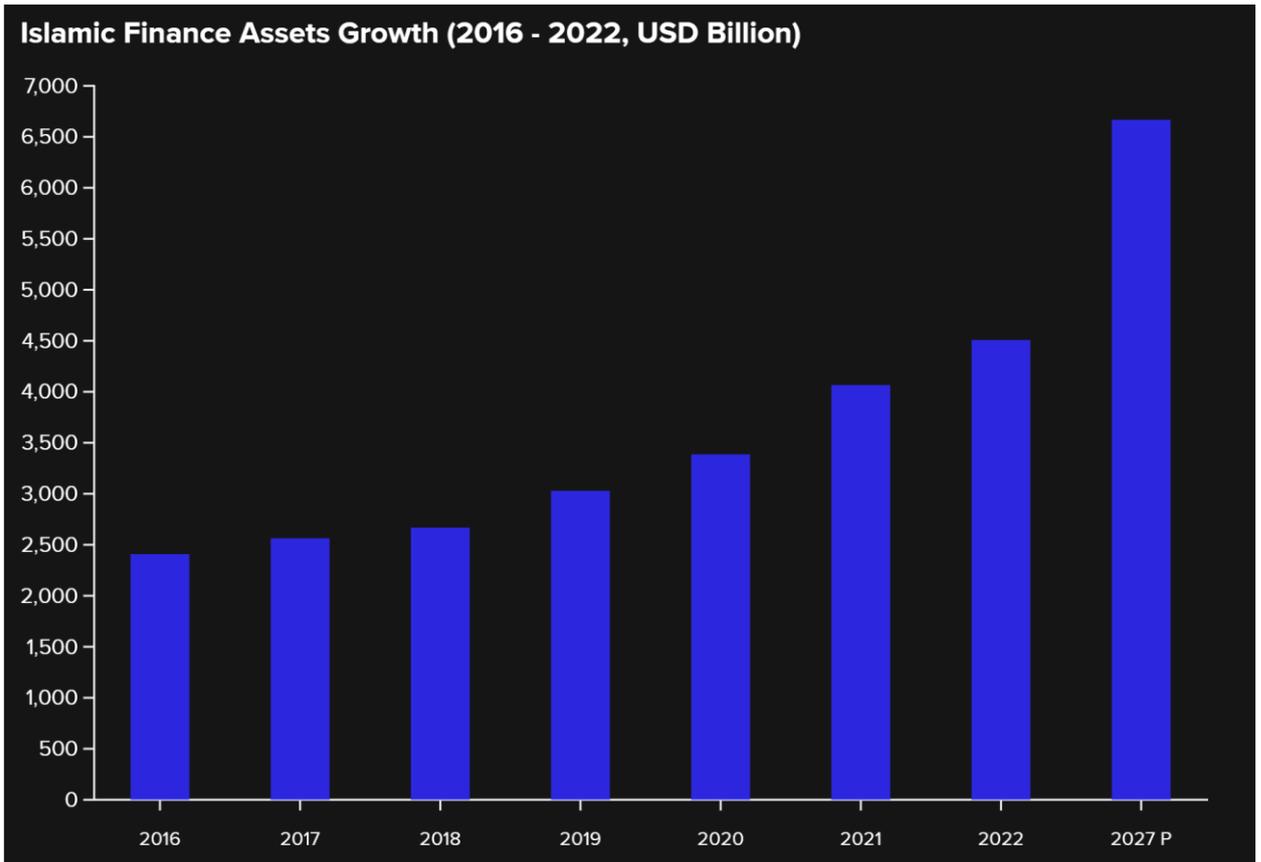
* **Issuance of License:** Upon successful completion of the review process, the CBU will issue a banking license to the Islamic bank.

* **State Registration:** The bank must also register with the relevant state authorities.

Commencement of Operations:

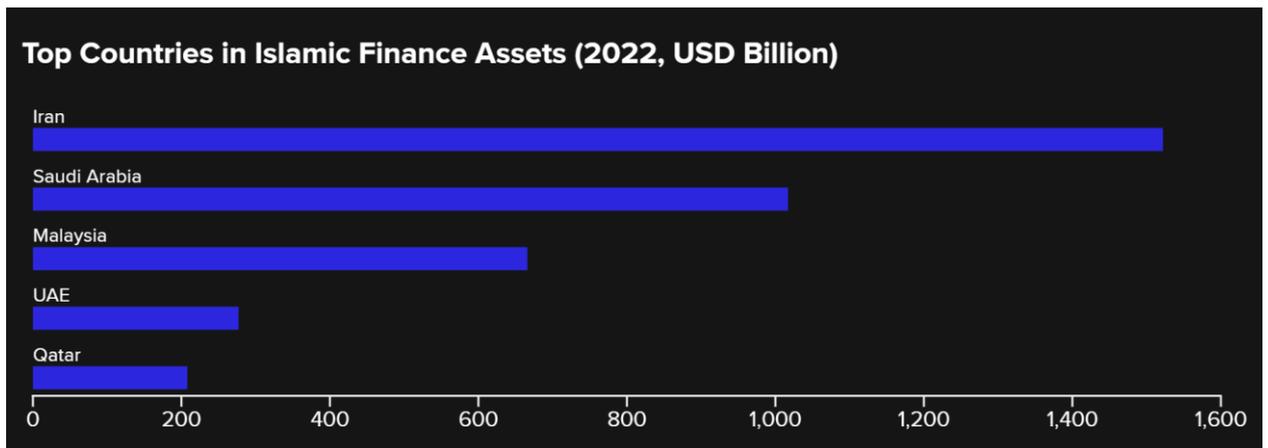
* **Operational Approval:** Once the bank has obtained all necessary approvals and licenses, it can commence its operations in Uzbekistan.

Table^[3]



You can see statistics from this bar chart that are about Islamic finance assets growth in the period of years between 2016 and 2027, and its assets range from under 2.5 trl to almost 7 trl.

Table^[4]



We also observed the push from governments in recent years for consolidation to create mega banks with international reach. We saw many

³<https://www.lseg.com/en/insights/data-analytics/navigating-uncertainty-global-islamic-finance-assets-expected-to-exceed-67-trillion-by-2027#:~:text=The%20assets%20of%20the%20world's,84%25%20to%20274%20in%202022.>

⁴ <https://www.lseg.com/en>

mergers and acquisitions within the banking sector in key Islamic finance markets, starting with the UAE, followed by Indonesia, Malaysia, Bahrain, Kuwait, and Saudi Arabia, among others. In addition, we also saw the increasingly mainstream Islamic finance attract conventional financial institutions, for example in Morocco and Oman conventional banks established Islamic subsidiaries and in Pakistan more insurance operators opened Takaful windows.

Islamic banks typically claim the following requirements to enter countries and apply there:

*** Sharia Compliance:**

This is the core requirement. Islamic banks must adhere to Islamic law (Sharia) in all their operations. This includes avoiding interest-based transactions, ensuring that all investments and financing activities are aligned with Islamic principles, and establishing a Sharia Supervisory Board to oversee compliance.

*** Regulatory Framework:**

Islamic banks need a clear and supportive regulatory framework from the host country. This framework should outline specific guidelines for Islamic banking, including licensing requirements, capital adequacy ratios, accounting standards, and dispute resolution mechanisms.

*** Market Demand:**

There should be a sufficient demand for Islamic banking products and services in the target country. This demand can come from both the Muslim population and non-Muslim individuals who are interested in ethical and interest-free financial solutions.

*** Economic Stability:**

The country's economy should be stable and have a conducive environment for doing business. Factors such as political stability, economic growth, and a developed financial sector are important considerations.

*** Reputational Risk:**

Islamic banks must be mindful of reputational risk and ensure that their operations align with the host country's cultural and social norms. Any negative publicity or controversies can damage their reputation and hinder their

growth. While Islamic banking has gained significant traction, it still faces challenges in terms of product innovation, regulatory frameworks, and public awareness. However, its potential to address the shortcomings of conventional banking systems makes it a promising avenue for future financial development. As the global economy continues to evolve, Islamic banking is likely to play an increasingly important role in shaping a more ethical and sustainable financial landscape.

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