

DIFFERENCES BETWEEN ISLAMIC BANK AND TRADITIONAL BANKS

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Annotatsiya: *This article details the development trends of Islamic financial services in Uzbekistan and initiatives to create a legal framework. Issues of cooperation with international Islamic financial institutions are also covered. Analytical data on the prospects for the development of Islamic banks and financing services, as well as the work carried out by the state in this direction, are presented on the differences between Islamic banks and traditional banks.*

Kalit sozlar: *Islamic finance, trade finance corporation, microfinance organization, Sharia law, risk, financial market.*

INTRODUCTION

Although Islamic banks and the financial system have not yet fully developed in Uzbekistan, a number of initiatives are being considered to introduce this sector. The main focus is on the formation of banks and institutions where financial services are provided in accordance with Sharia rules. Currently, within the banks operating in the Republic, several are providing Islamic financing services on a trial basis. In particular, work is underway to create new financial products for commercial banks through the International Islamic Trade Finance Corporation and other Islamic financial organizations. The volume of Islamic financial instruments in the country so far amounted to about US \$ 500 million, but a full legislative base is required to be formed.

The Central Bank of Uzbekistan and the government, strengthening cooperation with international Islamic financial institutions, planned to create a

regulatory framework for the development of Islamic financing through microfinance organizations in 2024. However, there are a number of obstacles to expanding the Islamic banking system: this is due to insufficient infrastructure development, low financial literacy among the population, and a lack of more interest in banking services that comply with Sharia rules. Therefore, it will be necessary to focus on financial education and educational work in order to develop this area.

ANALYSIS AND RESULTS

While Islamic banks or organizations providing Islamic financial services have not yet been widely developed in Uzbekistan, some commercial banks have introduced Islamic financing services. The following is the basic information:

- Ziraat Bank Uzbekistan. This bank works in cooperation with Turkey and offers Islamic financing services. These services mainly include murabaha (trade-based lending) and other Sharia-compliant financial products.

- Kapitalbank. Some sharia-compliant financial services have been introduced on a trial basis. In particular, it proposes lending mechanisms based on Islamic principles.

- Asia Alliance Bank this bank offers some sharia-compliant products and services, including murabaha-based financing.

- The Merchant Bank has also started working in cooperation with International Islamic financial institutions and is offering certain Sharia-compliant financial services.

- Islamic Development Bank (ITB). A member of the Islamic Development Bank of Uzbekistan, ITB funds various infrastructure and social projects in the country.

- Work is underway to create a legal framework for the development of Islamic financing in Uzbekistan.

In recent years, cooperation between the Government of Uzbekistan and international financial organizations (including ITB) for the introduction of Islamic banking services has increased. The interest of the population in Islamic

Financial Services is growing, so it is expected that this industry will develop in the future¹.

Islamic banks: financing and revenue activities correspond to Islamic Sharia. Interest is followed by abstinence from taxics (ribo), suspicious and unclean activities. Through financial profit, profit and loss distribution partnership (musharaka) or goods out trade (murabaha).

Traditional banks: effective on the basis of interest and deposits. Funding focuses on legislative economic activities. The purpose of traditional banking activities is to make money through interest. It is not based on Sharia law, but is regulated by banking regulations in their respective countries. In the work of Islamic banking and traditional banking, the risk distribution factor is distinguished. Risk management factors and risks in financial markets differ in the work of Islamic Bank and traditional banking. In Islamic banking, there are two different forms of bank finance and Islamic securities, also called sukuk. While traditional banking refers to these as bank loans and bonds, these categories do not apply to Islamic finance. Because interest is prohibited in Islamic banking, the risk of loss is not fairly distributed if an organization is financed from a debt with an obligation to pay interest. According to Islamic finance, financing activities are carried out on the principle of profit and loss distribution. Under Sharia law, financing activities are carried out by various contracts. In Sharia law, mudoraba defines how profit and loss are distributed between entrepreneurs and financial institutions. Profit is distributed in a predetermined ratio, so the income in the business varies depending on the profitability of the business. Losses are borne by the financial institution. On the other hand, in traditional banking, the financial institution has the right to receive interest on loans issued, regardless of business activity [3,6,8].

CONCLUSIONS AND SUGGESTIONS

In conclusion, in this article we tried to provide information about the differences between Islamic financial banks and traditional banks, their work, and

¹ СПОТ – ДЕЛОВЫЕ НОВОСТИ УЗБЕКИСТАНА

it should be said that while Islamic bank provides ethical and socially responsible conditions for overcoming problems with its performances, traditional banks offer a wider range of services and opportunities for global markets. Both models have their own advantage and company. People choose which bank is talnalsh based on this belief, economic and economic orientation.

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