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TRENDS IN THE DEVELOPMENT OF ISLAMIC FINANCE AND BANKING PRODUCTS IN THE WORLD

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Abstract: The article describes the origin and development of Islamic banks. The differences between the traditional and Islamic banks are compiled.
Key words: islam banking, riba, islamic windows, musharaka, mudoraba.

Introduction

Islamic banks are financial commercial organizations that attract deposits from the public and entrepreneurs and place them for investment in accordance with the principles of Sharia to make a profit. These include both balanced Islamic banks and separate branches of traditional banks that provide certain services using various Islamic financing methods called “Islamic windows”.

In accordance with Shariah norms, the organization of Islamic financial activities is built on the basis of such principles as a ban on interest-bearing lending, sharing risks with its clients, a ban on financing projects associated with prohibited activities, no investment in high-risk derivative financial instruments and speculative transactions, certainty terms of the contract regarding the goods, terms and remuneration.

The main reason was the religious norms of Muslims. Their further development was facilitated by:

– a significant influx of petrodollars into Muslim countries of the Middle East as a result of the oil crisis of 1973, which provided a large amount of temporarily free liquidity that was not redirected to finance investment projects within these countries;

– intensive development of financial infrastructure through the creation of financial centers in Saudi Arabia, Kuwait, the UAE and Malaysia.

The pace of development of Islamic finance is such that, according to some analysts, the assets of Islamic financial institutions exceed USD 2.5 trillion. The leading positions in the accumulation of financial assets in the Islamic world are occupied by Saudi Arabia, Iran, Brunei, Sudan and Malaysia. It is important to understand that the expansion of Islamic finance in the Western financial world is based on the creation of both new financial institutions and the diversification of the activities of existing financial centers in Saudi Arabia, Malaysia and Bahrain. Expansion is realized both through the entry of Islamic financial institutions into the global financial system and through the inclusion of Islamic financial products in the activities of traditional financial institutions. The degree of presence of Islamic finance in the financial systems of different countries is assessed based on the following main characteristics: 1) the number of Islamic financial organizations in countries; 2) the share of Islamic assets in the national economies of countries; 3) the popularity of Islamic financial products among the population. Of course, in countries such as Iran, Pakistan and Sudan, where public life is completely subject to the laws and norms of Sharia, the development of Islamic finance occurs in a natural evolutionary way - through the permanent integration of the national economies of these countries with the Islamic financial system. This happens harmoniously and does not require the formation of separate legal regulation. Thus, in the Islamic Republic of Iran (IRI) there are more than 30 commercial, specialized and private banks, which have a fairly extensive network of branches around the world. The growth of assets of Iranian banks and credit institutions from 2010 to 2020 more than doubled and by 2021 exceeded 7.5 billion USD. Such serious dynamics (despite the sanctions pressure from the United States) are primarily due to the attraction of foreign investors and government investments. Over the past decade, the Islamic finance industry has been spreading particularly rapidly throughout the world. It is very difficult to accurately identify the date of origin of the first official Islamic financial institution, however, many sources refer to Mitghamr - the Egyptian Savings Association, which has been operating since 1963. At the beginning of 2021, Islamic financial institutions operate in more than 75 countries around the world: their greatest concentration in the Middle East (Iran, Sudan, Saudi Arabia, Kuwait) and in Southeast Asia (Bahrain, Malaysia). At the same time, Islamic financial organizations are actively appearing in the European Union and the United States. The first Islamic bank in the West was the Islamic Banking System (now called Islamic Finance House), which was opened in Luxembourg (Luxembourg) in 1978. The location of the international financial group Daral-Malal-Islami is in Geneva (Switzerland). In the UK, Germany, Denmark, Australia, South Africa, the USA and other countries, Islamic financial institutions and organizations specializing in Islamic financial products with different purposes and implementation mechanisms are widespread.

whom sector. The Islamic insurance market can be called somewhat less developed; the total volume of insurance premiums accumulated by the 58 largest Islamic insurance companies is estimated at just over 2 billion USD. In addition, there are no global Islamic insurance companies operating on the basis of Shariah principles yet. In a number of countries of the Islamic world, along with Islamic finance, there is traditional finance, which plays a large role in national economies through the activities of traditional financial institutions. Thus, Saudi Arabia, which is the center of the Islamic world, does not abandon traditional finance and seeks to increase the influx of investments from Western countries. The structure of the banking system of Saudi Arabia includes commercial and special banks operating on the basis of both Sharia and Western banking. Large banks offering Islamic financial services are the National Commercial Bank of Saudi Arabia, whose assets exceeded 120 billion USD by 2021, the Saudi Investment Bank with assets of about 100 billion USD, etc. At the same time, an international bank is located in Saudi Arabia financial organization "Islamic Development Bank", whose activities are based on the principles of Islamic finance. The organization is engaged in the implementation of global financial and trade operations, develops entrepreneurship, insurance of investments and export loans, and finances research and educational activities.

As noted earlier, Malaysia is one of the main participants in the global Islamic financial system. More than 20 Islamic banks operate in Malaysia, with assets exceeding USD 170 billion. Islamic finance accounts for more than 30% of the entire banking industry. Malayan Banking Berhad is the largest Islamic bank in the world - its assets amount to more than 120 billion USD. The country also operates the Malaysian Universal Bank (CIMB Group Holdings Berhad), which is the second largest bank in the country by assets with assets of more than USD 100 billion.

An Islamic bank can receive income only if it itself is a participant in the project; the bank must fully share both income and expenses with the client. Therefore, Islamic banks prefer business relationships with enterprises in the real sector of the economy. They actively finance both large long-term projects and small, low-income business projects.

A prerequisite for conducting financial transactions is that they are carried out on the basis of real assets or transactions with these assets.

Modern Islamic law differs significantly from traditional law in form, content, and relationship with positive legislation. In modern legal systems, Islamic law relatively rarely appears in the traditional form of doctrine, which remains its leading source in a few countries and only in relation to certain industries. In most cases, its norms are enshrined in legislation adopted by the state. As a result, doctrine (fiqh) as the main source of Islamic law gives way to legislation, and the pluralistic views of various schools are replaced by precise, unambiguous norms.

Unlike traditional banks, Islamic banks invest significantly less resources in securities. At the same time, securities permitted by Shariah ("sukuk") have their own characteristics. They must be associated with a specific asset. The owners of such securities do not have a fixed income, but share risks with the issuer. The profitability of these securities is related to the return on investment in real assets.

Another important feature of Islamic banking is the obligation of the parties to the transaction to strictly fulfill contractual obligations.

The main differences between Islamic and traditional banking are summarized in Table 1.

Table 1.
Main differences between Islamic and traditional banking

Criteria for differences	Islamic banking	Traditional banking
Interest rate	No	Yes
Speculative nature of operations	No	Yes
Risk Sharing	Yes	No
Focus on the real sector of the economy	High	Low
Social orientation	High	Low
Customer Focus	Relationships are based on an individual approach	The relationship is based on the sale of a specific banking product

The bank's right to change the terms of the agreement	No	Yes
Information openness for investors	Full	Low

Basically Islamic banking products are divided into four parts:
1. Products based on the principle of partnership;
2. Products based on the principle of participation in the transaction;
3. Commission banking products;
4. Charitable banking products.

Banking products based on the principle of partnership, in turn, are divided into two main types: products with a full partnership and with a trust partnership. Full partnership ("musharaka") involves the joint participation of the bank and the client in the implementation of a business project and its joint financing. Profit or loss from the implementation of a business project is subject to distribution between the bank and the client in proportion to their contribution to the capital. "Musharakah" is used as part of the bank's active operations for the purposes of export-import financing, project financing, as well as for syndications, issues of securities ("sukuk").

Some of the most significant problems hindering the development of Islamic banks are their competitive disadvantages, the undeveloped infrastructure of the Islamic financial services market, a high degree of regional fragmentation, and an imperfect system of banking supervision and regulation.

The competitive disadvantages of Islamic banks are usually studied in the context of the development of the Islamic financial services market, as well as in comparison with traditional financial institutions. According to Ya. M. Mirkin, "within the framework of Islamic finance (taking into account the hierarchy inherent in Islamic society), it is difficult to expect a mass retail investor in securities, taking high risks, focused on large-scale and liquid stock markets."

As a result, the market structure becomes simplified, the share of banks becomes excessive, and there is a predominance of large family investors in equity capital. Kuran is even more categorical, arguing that at this stage of development - in conditions of weak organization and lack of appropriate skills - the Islamic banking model is, in principle, unviable.

In their activities, they use different methods of financing, provide credit services to direct investments, carry out credit operations on the basis of leasing, rental, etc. in various countries of the world. These banks take equity participation in modern enterprises, provide credit for trade transactions, including installment payments, and provide comprehensive settlement services to their clients. Some of the Islamic banks are quite widely involved in investing in the production sector, including in national industry, preliminary conducting a comprehensive analysis of the investment project, monitoring the progress of its implementation, and then the activities of the newly created enterprise on the basis of the loan.

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