

ISLAMIC BANKS BETWEEN REALITY AND CHALLENGES

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ABSTRACT

A bank is a financial institution, with the stated objective of facilitating financial transactions for clients, and keeping and operating funds. Banks originated and developed in Europe over a period of 400 years, but when they moved to Islamic societies, they faced rejection from religious Muslims because the nature of their work violates the rules of Islamic dealing in several respects, the most important of which is dealing with usury (interest), in addition to many other detailed aspects.

That is why Islamic banks faced great difficulties and challenges in terms of support and marketing, and for this reason Islamic banks were addressed in this study for the purpose of analyzing these problems and challenges and developing effective solutions to them.

Keywords: Islamic Bank, Reality, Challenges

INTRODUCTION

In recent years, the financial sector has witnessed a number of challenges posed by globalization, internationalization and trade liberalization in financial services, which have had their impact on all global economic activities in light of the increasing trend towards conglomeration and merger and the formation of giant entities that can achieve economies of scale, thus enhancing competitiveness. In light of this economic environment involving high risks and fierce competition, Islamic banks emerged as a new phenomenon that characterized the last third of the twentieth century. These banks have taken rapid steps to occupy an important space and are now playing an active role in their locations (Gulzar & Ralf, 2007).

Despite this great development of Islamic banks, they are exposed to great challenges in light of economic openness and financial liberalization processes. The most important problems faced by Islamic banks in the seventies of the last century revolved around the doctrinal opinions related to controlling the transactions of Islamic financial institutions in line with the principles of Islamic law (Saeed, 1996). At the beginning of the twenty-first century, the central question has become, how Western financial instruments comply with the principles of Islamic law, so that Islamic financial institutions can use modern financing tools while at the same time not contradicting the principles of Islamic economics. Since the beginning of their business, Islamic banks have gone through many difficulties and challenges, some of which are related to the basis of their idea, some of which are related to their work mechanisms and the possibility of their success, as well as their continuity and the extent of their competitiveness in the international financial and banking environment (Naveed, 2014).

Purpose of the Study

This study aims to clarify the most important challenges faced by Islamic banks in light of globalization and the processes of financial and banking liberalization, as well as proposing a set of strategies that Islamic banks can adopt in order to confront these challenges and avoid the risks arising from them.

The Study Problem

Islamic banks are distinguished from other traditional banks by specificity in terms of work and financing, and the study problem is summarized by not taking into account this banking specificity in the process of enacting international banking judgments and decisions.

A historical introduction to the emergence of Islamic banks

The emergence of Islamic banks came in response to the desire of Islamic societies to find a formula for banking, away from the suspicion of usury and without the use of the interest rate, as the prohibition of usury is the religious justification for the emergence of Islamic banks, and the achievement of economic goals within the framework of Sharia (Christopher et al., 2015).

Islam is considered as an economic justification for its emergence. The emergence of Islamic banks dates back to 1940 when savings funds were established in Malaysia that operated without interest. Then, in the late forties, systematic thinking began to appear in Pakistan in order to develop financing techniques that take into account Islamic teachings, but this thinking took a long time and did not find an applied outlet for it. Except in Egypt at the beginning of the sixties. The city of Mit Ghamr in the Dakahlia Governorate in the Arab Republic of Egypt is the first city that witnessed the birth of the first experience of Islamic banks, even if it lasted only a few years (Feisal, 2015).

What are Islamic Banks and Their Most Important Goals?

Islamic banks have become a reality not only in the life of the Islamic nation, but in all parts of the world, as they are spread in most countries, providing an economic thought of a special nature.

Innovation and positively dealing with the developments of the times facing the world today, which leads us to identify its concept and take note of its objectives.

The Islamic Bank has been defined as: (a monetary and financial institution that works to attract cash resources from members of society and employ them effectively to ensure their maximization and growth within the framework of the agreed rules and provisions of Islamic Sharia in a manner that serves the peoples of the nation and works on developing their economies (Qureshi, 2005).

It was also defined as: (a banking financial institution, which conducts its business in accordance with the provisions of Islamic Sharia). Although there are a number of definitions of an Islamic bank (Mohammad, 2008), it can be defined as: a bank that is committed to applying the provisions of Islamic Sharia in all its transactions (Asif, 2017).

Banking and investment through the application of the concept of financial intermediation based on the principle of profit and loss sharing (Alsadek et al., 2007).

It is clear from the foregoing that there is agreement between these various definitions that Islamic banks are based on the foundations and rules of Islamic Sharia and its principles and that they do not deal with interest (usury) taking and giving and in the manner in which they serve their various business and activities (Choudhury, 1992).

The message presented by the Islamic bank stems from the need of the Islamic community to find a haven for banking and investment dealing away from the suspicion of usury, *i.e.*, not to deal with interest, taking and giving, but rather to provide a package of banking services and products by attracting deposits and savings and providing efficient investment mechanisms and vessels to attract these savings at the time. The same applies to the legal principles or rules, and it can compete in the banking sector and can enter the financial market (Gilles, 2003).

Investment Objectives

Islamic banks work to spread and develop savings awareness among individuals and rationalize the spending behavior of the broad base of peoples with the aim of mobilizing surplus economic resources and idle capital, attracting them and employing them in a sound and stable economic base that is compatible with the Islamic formula and inventing new formulas that are compatible with Islamic Sharia and commensurate with the changes that occur in the market Global banking, and therefore the investment role of Islamic banks has integrated dimensions that can be clarified through the following figure:

Development Goals

One of the main distinguishing features of Islamic banks is their contribution to achieving economic development goals. The Islamic bank does not aim at maximizing profits only, but it is obligated to take into account the benefits that accrue to the community and the harm that it causes as a result of carrying out its various activities. The meaning of development must be associated with social and economic aspects, and this is what Islamic banks envisage in their view of development and their behavior with customers. Islamic banks are among the most important vessels that collect savings in order to direct them to investment and actively contribute to development processes, and thus they set goals that extend to long-term horizons in the process of correcting the course of Islamic economies. The Muslim book affirms that the development goals of Islamic banks are represented in their quest to achieve economic well-being, the absence of unemployment and an optimum rate of economic growth, and then their exit from the circle of economic, social and political dependence. Latent energies and their explosion in Islamic countries and fueling the spirit of innovation and creativity through a pattern (Ahmad, 2015).

Distinguished development that achieves progress, justice and stability. Hence, Islamic banks should be an effective tool for economic development in Islamic societies through their quest to provide an appropriate climate to attract capital and resettle Islamic capital within their countries, in addition to Effective use of its resources to serve the Islamic community (Al-Sadr, 1974).

Social Goals

Islamic banks seek to balance between achieving economic profits on the one hand and achieving social profits on the other hand, as well as equitable distribution of income and wealth in the Islamic society. The Islamic bank, through its zakat funds, takes care of Muslim children and the elderly, provides an appropriate environment for their care, establishes public Islamic facilities, provides education and training for Muslims, and provides scholarships (Homoud, 2015). Several methods, including:

- A- Working to establish science houses that provide their services free of charge to Muslims.
- B - Establishing hospitals and scientific and health institutes.
- C - Working to develop citizens' confidence in the Islamic economic system as the best way to reach the prosperity and welfare of the nation.
- D - Increasing solidarity and solidarity among the members of the Islamic nation through zakat.
- E- The link between the social dimensions of Islamic banks and the economic and developmental dimensions of these banks. Thus, we find that the positive social basis in Islamic banks seeks to confirm the spiritual orientations in approving the role of work and

puts capital in its right place, where it should be a servant and a means that everyone capable of investing can find and take advantage of it. Therefore, the outputs of the banking system in these banks are programs that link the relative importance of projects to the allocation of resources, and this is coupled with the social responsibility system (Homoud, 2015).

Distinctive Features of Islamic Banks

Islamic banks became a tangible reality that transcended the framework of existence during the last quarter of the twentieth century and rushed towards the horizons of constructive interaction with the problems of the third millennium era. Islamic banks are characterized by certain characteristics and characteristics, and they practice their banking activities in a different way from the Islamic banks (Timur, 2004).

The business of traditional commercial banks. Commercial banks are financial institutions that deal in debt and credit. The main function of a commercial bank is based on borrowing and lending with interest or usury by giving and receiving (Labib, 1969). As for Islamic banks, they do not deal with usury whatever its forms and forms may be depositing, lending or taking. And this distinguished relationship between the Islamic bank and the owners of deposits has a relationship that is not based on a creditor and a debtor, but rather a partnership and trading relationship that takes many forms, the most important of which is speculation, participation, trading or Murabaha in buying and selling operations.

From the foregoing, Islamic banks have some features that distinguish them from other banks and the most important:

1. Commitment to the provisions of Islamic Sharia in all its banking activities, as it is obligated to finance activities that fall within the circle of halal and avoids other activities that fall within the circle of prohibition because of the serious damage they cause to society, such as liquor-making activities and other illegal activities, as well as not dealing with interest or Any activity that involves usury, fraud, monopoly, or exploitation of people's needs (Banaji,2007).
2. Islamic banks derive their intellectual and economic framework from the theory of succession, as this theory is based on the premise that God is the creator of this universe and that the property in this universe is God alone, so He is the owner of the property. It is not an original property, but it is acquired by succession, and their possession of it is linked to the terms of this succession
Which God Almighty specified in the Holy Qur'an
3. Islamic banks make every effort to mobilize the maximum amount of hoarded savings based on the Islamic Sharia, which forbids hoarding and fights it - because hoarding implies not utilizing resources - with the aim of securing economic benefit from the resources in a way that achieves a return to their owners, society and the economy as a whole when they are collected and use it to finance economic activities).
4. Islamic banks work hard to provide the maximum benefits to society through carrying out business, activities and services that would benefit their clients and shareholders, as well as benefit the community through the application of the spirit of Islamic Sharia and its lofty goals, which gives these banks a social character.
5. Islamic banks tend to provide the necessary financing for the most important economic activities for society in general, and this reflects on the development of economic sectors and their development in various fields and in a manner that leads to the development and development of the national economy.
6. Profit is not the only basic goal that Islamic banks seek to achieve through the activities they engage in, although it remains an important goal for them as financial and economic banking institutions. However, the other basic objectives of working on the development and development of the economy and community service makes the goal of achieving profit one of the basic goals that it seeks to achieve, but it is not the only primary objective.
7. Reviving the Zakat system: these banks, based on their lofty mission to reconcile the spiritual and material aspects together, work on everything that would lead to the achievement of well-being and

progress for the members of the entire Islamic community. Hence, Islamic banks collect zakat on their money and the money of their clients and those Muslims who wish, and spend it in their legitimate banks specified by God Almighty).

Islamic Banks and the Challenges of Globalization and Financial Liberalization

In recent years, the financial sector has witnessed a number of challenges imposed by globalization, internationalization, and liberalization of trade in financial services, whose effects have been reflected in all global economic activities in light of the increasing trend towards conglomeration and integration and the formation of giant entities that enable.

Achieve economies of scale, which enhances competitiveness. In light of this high-risk economic environment and fierce competition, the concepts and tools of Islamic finance have been able to build their base, and the Islamic banking industry has gained the attention of banking actors at the regional and international levels (Lopez, 2001).

The most important difficulties and challenges faced by Islamic banks in light of financial liberalization can be summarized as follows:

1- The Challenges of Islamic Financial Awareness:

One of the great difficulties facing Islamic financial institutions is the lack of Islamic financial awareness, and this is due to the absence of research and development institutions within Islamic banks, as technological development, education, training, research and development are the most important pillars of the growth of Islamic banking, which is still in its early stages compared to Moreover, research and development (R & D) operations in the banking and financial sector of developed countries do not receive the same interest in Islamic banks, as there is a small amount of research and studies seeking to develop Islamic financial tools.

2- Institutional and Organizational Challenges:

Building a sound institutional entity or framework is the most dangerous challenge faced by Islamic banks and Islamic financing operations. Each system has its own institutional requirements, and Islamic banks cannot alone take care of all their institutional requirements, which are supposed to provide alternative ways to meet the needs of investment and consumer financing. In order to meet this challenge, it is necessary to adopt a practical and scientific approach towards building this environment by setting the appropriate legal framework and supporting policies for Islamic banking.

3- Operational Challenges:

These challenges are represented by the need for Islamic banks to have a diversified portfolio of financial tools that allow them to have sufficient flexibility to respond to the various requirements imposed by economic changes. (26) Successful financial engineering in Islamic banks is represented in the need to continuously anticipate the needs of customers, to meet these needs in an advanced manner, and to shift towards increasing competitive capabilities and capabilities, and to establish financial standards that ensure the development of Islamic banks.

4- Unequal Competition with Global Conventional Banks:

It is one of the important challenges facing the work of Islamic banks in light of economic openness and financial globalization, as represented by the unequal competition from traditional banks around the world that practice interest-based banking, as well as practicing the methods of the Islamic banking system, specifically global banking giants such as Chase Manhattan and Citibank and others. Competition is necessary for the growth of any industry, as it forces companies that lack competence to develop their level or leave the labor market. However, the entry of Islamic banks into the space of international banks puts these banks in front of a situation of unequal competition due to the enormous technological capabilities of these giant banks in providing various services and spending on research and development operations (R & D). Therefore, Islamic banks and financial institutions must develop existing financial instruments and innovate new ones to keep pace with current and future transformations in international financial markets (Kuran, 2005).

Survival Strategies for Islamic Banks

The Islamic banking system needs complete strategies to face the challenges imposed on it by the economic and financial developments in the international arena, the most prominent of which were financial globalization and agreements that are not in the interest of Arab banks in general and Islamic banks in particular. And the adoption of such strategies would increase the competitiveness of the Islamic banking system through well-thought-out mechanisms and plans. Survival strategies are those strategies that Islamic banks must adopt for survival and continuity as financial and banking institutions capable of competing and developing like the rest of the traditional financial and banking institutions. In addition to the urgent need to improve the regulatory capacity of Islamic banks in light of the liberalization of financial and banking services (Hasan, 2007). The most important of these strategies are:

Performance Appraisal Strategy

Performance appraisal is an advanced extension of financial control, and it is a modern control dimension.”³³ This dimension shows the extent of effectiveness and efficiency, as the first relates to the extent to which the set goals are achieved, while the second aspect shows the extent to which resources are properly used to achieve those set goals. The main objective of performance appraisal is to improve the level of management of Islamic banking activity, ensure the proper use and management of available resources, and avoid the reasons that impede banking effectiveness, achieving objectives and capital insufficiency), The performance evaluation is summarized in a set of procedures in which the achieved results of the activity are compared with the objectives of that activity with the intention of A statement of the extent to which these results are consistent with the objectives to assess the level of effectiveness of the activity’s performance, as well as to measure it and compare the elements of the activity’s inputs with its outputs. Therefore, the strategy of performance evaluation in Islamic banks must receive due attention, so that the level of the bank’s performance resulting from the study represents a basic criterion for evaluating (Mehmet, 2007).

Management performance and determination of its continuity and development

Installation Strategy

It is a strategy concerned with protecting and strengthening the competitive position of the Islamic bank within its current markets and the services it currently provides. The stabilization process requires increasing operational efficiency and emphasizing the basic elements of excellence, and then Islamic banks can create a competitive advantage with conventional banks.

Cost Strategy

This strategy revolves around strengthening the competitive position of Islamic banks by achieving higher returns for shareholders and depositors than it is now and depositors.

CONCLUSION AND RECOMMENDATION

A- Conclusions

1. Islamic banks, in light of the requirements of the new era, have become an inevitable economic necessity for every Islamic society that refuses to deal with usury (interest) and desires to apply Islamic Sharia with the aim of facilitating exchange and transactions, developing production processes and enhancing the operational capacity of capital within the framework of Islamic Sharia.
2. Islamic banks have great economic and social responsibilities, as well as being an important means of correcting the function of capital as it has a social function as well in addition to its economic function, as the capital is operated according to important legal rules such as the rule of sheep with fine and the rule of neither harm nor harm.
3. Islamic banks have become a reality not only in the life of the Islamic nation, but in all countries of the world, as these banks were able with a tremendous speed to build their institutions and establish their foundations and interact with their different environments and this came through their spread in many countries of the world and the increase in the volume of capital employed in them. The number of Islamic banks at the present time is about (270) with a capital estimated at (260 billion dollars), and achieving annual growth rates of about (16%-13%) for banks operating in developing countries. In addition to the challenges left by central banks and their failure to take into account the nature of the work of Islamic banks and what they require of a legal reserve equal to the legal reserve in other conventional banks.
4. The process of establishing Islamic financial markets represents the best solution and the best alternative for capital investment and circulation and in the various investment formulas decided and permitted by Islamic Sharia. The activation of Islamic investment formulas in the Islamic financial market is more effective compared to activating them in the traditional financial market.
5. Despite the great development that has occurred in Islamic banks, they are exposed to great challenges in light of economic openness and financial liberalization processes. Among the most important of these challenges are the challenges of Islamic financial awareness, regulatory, institutional and operational challenges, as well as the unequal competition between them and the traditional local and international banks.

B- Recommendations

1. The necessity of activating and developing the work of Islamic banks to raise their service and administrative efficiency in order to work towards achieving their goals, strategies and objectives within the framework of the competitive financial and banking environment, as there are some strategies that these banks can adopt to advance their reality, and the most important of these strategies is the performance evaluation strategy and the stabilization strategy and cost strategy. In addition to the urgent need to improve and develop the regulatory capacity of these banks in light of the liberalization of financial and banking services.
2. The necessity of improving capital adequacy in Islamic banks by focusing on the importance of risk management and encouraging continuous development in the capabilities of these banks to assess risks and finding consistency between the capital requirements of these banks and modern risk management practices, as well as giving an important role to the supervisory authorities regarding activating this system and improving disclosure methods related to capital risks.

3. Accelerate the idea of the Islamic financial market to support the march of Islamic banks and financial institutions and seek integration and bring Islamic investment companies to the level of multinational companies
4. The necessity of establishing specialized investment companies and Islamic economic institutions next to Islamic banks in order to expand their activities and services in various fields, which contributes to supporting the Islamic financial market, which is the main pillar in the success of the work of banks.
Islamic
5. The necessity of strengthening the financial resources of Islamic banks by increasing the capital of these banks and merging smaller banks among them to form larger and more effective financial units for the purpose of reducing costs and benefiting from economies of scale.
6. In light of global developments and the restructuring of the banking services industry, it is necessary to adopt a policy of transforming Islamic banks into comprehensive banks based on diversification strategies with the aim of stabilizing the movement of deposits, reducing investment risks, and balancing liquidity, profitability and degree of banking risk.
7. Central banks must take into account the nature of the work of Islamic banks and their objectives, which necessitates taking into account the nature of the investment accounts with these banks and what it requires that the legal reserve in them is much less than its counterpart in traditional commercial banks, if not non-existent. Without negligence, infringement or negligence, then these funds - investment deposits - are secured by banks, except in cases where negligence or negligence is proven.
8. The need to support and develop scientific research centers in Islamic financial and banking institutions, as scientific research represents a strong basis and an important entry point on which Islamic banks can rely to develop their capabilities to meet the challenges of financial globalization.

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