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## PROSPECTS FOR THE DEVELOPMENT OF ISLAMIC BANKING SERVICES MARKET IN COMMERCIAL BANKS OF UZBEKISTAN

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<p><b>Received:</b> June, 20<sup>th</sup> 2021 <b>Accepted:</b> July, 17<sup>th</sup> 2021 <b>Published:</b> August 26<sup>th</sup> 2021</p>	<p>This scientific article discusses the differences between Islamic banking products and services from traditional banking services, as well as their advantages and the main reasons for the growing interest. It also provides information on the first steps in the development of the Islamic banking market in Uzbekistan.</p> <p>The sufficiently intensive development of Islamic banking is due to the growing demand and the significant accumulation of financial resources by Muslim countries. Given the active development of financial markets in the Arab world and the competition among Western companies to attract foreign investors, it can be said that the growth trend of Islamic banks will continue. This sets out the necessary conditions for a more comprehensive analysis of the activities of Islamic banks, as well as to determine their access to financial markets.</p>
<p><b>Keywords:</b> Islamic bank, Islamic finance, mudoraba, musharaka, traditional lending, islamic window, rent, salam, religion, Islamic Development Bank Group, International Finance Corporation, Asian Development Bank, organization, payments, banking system, financial cooperation.</p>	

### INTRODUCTION

Despite the fact that Islam is the majority religion, the Islamic financial sector in Uzbekistan is still relatively undeveloped compared to its Central Asian neighbour's, although the country has great potential for development. This has been acknowledged by experts from major international financial institutions (Islamic Development Bank Group, International Finance Corporation, Asian Development Bank, etc.). In this regard, the President of the Republic of Uzbekistan Sh.Mirziyoyev in his Address to the Oliy Majlis on December 29, 2020 said, "It is time to create a legal framework for the introduction of Islamic financial services in our country. Experts from the Islamic Development Bank and other international financial institutions will be involved in this," he said

As a result of the international downturn in the banking and financial system and the need to radically improve the infrastructure of the financial market, the attention of the investment finance community to the Islamic form of financing has increased significantly. In modern conditions, the segment of Islamic finance on a global scale is one of the fastest growing; turnover is estimated at more than \$ 1,300 billion.

The sufficiently intensive development of Islamic banking is due to the growing demand and the significant accumulation of financial resources by Muslim countries. Given the active development of

financial markets in the Arab world and the competition among Western companies to attract foreign investors, it can be said that the growth trend of Islamic banks will continue. This sets out the necessary conditions for a more comprehensive analysis of the activities of Islamic banks, as well as to determine their access to financial markets.

As a result of the research conducted on this topic, it is possible to make the following definition of Islamic banking services and Islamic banking by analysing the definitions given by scholars about Islamic banking. Islamic banking services are a set of banking services provided to individuals and legal entities in accordance with Islamic law, organized in the form of a separate department or branch under commercial banks.

An Islamic bank is "a commercial organization that opens and maintains bank accounts in accordance with Islamic law, makes payments, raises funds for deposits, finances individuals and legal entities, and provides other banking services." Sharia (Islamic law) requires these transactions to be legal. That is, it finances production projects that are safe for society as permitted by Sharia and prohibits the payment or receipt of interest on any transactions (Bashir, Hassan, 2004). Having studied the opinions of the above scholars, we can conclude that Islamic banking is a



commercial organization that serves customers in accordance with the principles of Sharia.

### RESEARCH METHODOLOGY

Interviews with scholars and industry representatives in the organization of Islamic banking windows in commercial banks in the implementation of scientific work, analysis of their written and oral opinions, expert evaluation, process observation, systematic approach to economic events and processes, comparative analysis with the author's experience. Conclusions, suggestions and recommendations are given in the relevant directions.

### ANALYSIS AND RESULTS

It is clear from the results of various surveys and studies that many Islamic and traditional banks are unable to fully interpret the difference between the products and banking services offered. While some argue that the products and services offered by Islamic banks are simply a renaming of existing traditional banking products and services, others call the "interest" set by traditional banks "income" and simply, claim to be named in Arabic terms to attract customers.

It would be a great mistake to express such views without getting acquainted with how Islamic banking is organized and on what grounds. Because such conclusions and opinions hinder the development of the Islamic banking market. Of course, it is also true that Islam faces various challenges in the development of the market of banking services and products. Because this area has not yet been fully explored. There is no denying that mistakes can be made during this process.

The society, like the client / depositor-bank and the borrower-bank operating in the traditional banking system, has a financial relationship that is mainly in the interests of the bank, as well as a "partnership" that takes into account the mutual interests of the two parties in Islamic banking (ie the client and the bank). (financing of projects on the basis of investment partnership), "murobaha" (financing through a contract of sale), "mudoraba" (financing of projects under a trust partnership), "lease" (financing under a lease / lease agreement), "exception" (industry) Understanding the difference between economic and financial cooperation, such as "agreement" based on the financing of projects), "salam" (agreement, which is mainly used in agriculture, providing for pre-financing), "sukuk" (financing with the help of securities) and such a system, which is equally beneficial for both parties, will also contribute to the development of the modern banking and financial sector should make sure that hi is possible.

Understanding that Islamic banks share the risks inherent in any type of business with their

customers, and that the level of risk sharing depends on the business project being planned, as well as the type of product used for financing This will allow members of the public to take full advantage of the system, as well as ensure the further development of Islamic banking.

The risks faced by the Islamic bank. The Islamic bank faces different risks and risks at different stages depending on the position and role of the parties. Naturally, modern Islamic banks have developed effective tools to reduce the level of risk and in some cases, they even undermine confidence in the Islamic banking and financial sector due to non-compliance with the principles of division / distribution of risks inherent in the essence of Islamic finance. .

However, each Islamic financial product represents a different range of risks and risks accepted by the bank (which is different from traditional banks, which mainly have the problem of non-repayment risk). For example, if an Islamic bank joins a joint-stock company under a partnership agreement, it runs the risk of losing money as long as the partnership continues.

In a Murabaha transaction, the bank is at risk of losing the asset during the period of ownership (ie until the property is sold). In lease agreements, the bank bears the risk until the ownership of the property passes to the client. Thus, Islamic banking demonstrates that the ratio of risk to profit is economically reasonable. Such a banking system will meet the needs of both customers and the general public and will allow for a fair distribution of wealth.

The first steps in establishing an Islamic banking market in Uzbekistan Despite the fact that the majority of Muslims are Muslims, the Islamic financial sector in Uzbekistan is still less developed than in neighboring Central Asian countries, although the development of this sector the country has enormous potential. This has been acknowledged by experts from major international financial institutions (Islamic Development Bank Group, International Finance Corporation, Asian Development Bank, etc.). However, in recent years, some work has been done in this direction in cooperation with international financial institutions. The Islamic Development Bank (ISDB) and its affiliates, in particular the Islamic Corporation for the Development of the Private Sector (ICD), the International Islamic Trade Finance Corporation (ITFC) and the Islamic Research and Training Institute (IRTI), have contributed to the development of Islamic finance in the country. In addition, it has so far directed more than \$ 2 billion to funding based on Islamic finance principles. In addition, several universities in Uzbekistan have begun to develop curricula based on Islamic finance. Also, based on the current legislation, business representatives have also started offering Islamic financial services.



There are a number of Islamic leasing companies in Uzbekistan. In particular, in 2019, the first Islamic insurance company "Mutual" in the country was launched.

An e-Murabaha (financial product based on the Murabaha trade agreement) platform, one of the first not only in Uzbekistan but also in the CIS, has been developed. The first Islamic Business and Finance company (ISBF) was established to provide Islamic finance and consulting services, and the Islamic Finance Telegram website and website were launched to raise public awareness of Islamic finance. Leasing companies such as Taiba Leasing and Al-Mulk Kapital continue to offer rental products based on Islamic principles to small and medium-sized businesses. Significant work has also been done in the field of education. A number of trainings on Islamic finance have been conducted in Uzbekistan, and books on Islamic finance have been published in Uzbek.

These include Malaysian Professor Sudin Harun's "Islamic Finance and the Banking System: Philosophy, Principles and Practice," Kazakh economist Yerlan Baidaulet's "Fundamentals of Islamic Finance," and Russia's Rinat Bekkin's "Islamic Economic Model and Time." Also, given the high demand for Islamic financial services in the country, the ICD Advisory Group currently has Islamic windows in 6 commercial banks in Uzbekistan, including Kapitalbank, Trustbank, Asia Alliance Bank, Agrobank, Qishloq Qurilish Bank and Ipak Yuli Bank. (Islamic Financial Services Branch). These windows are expected to launch in early 2021. In addition, Alokabank, People's Bank, Universal Bank and Davr Bank are working to open Islamic windows.

## CONCLUSION

In conclusion, the Islamic financial services sector will be an important factor, foundation and development prospects for the bright future of Uzbekistan, which will increase the interest of foreign investors in the country, which reflects the deep roots of Islam in its culture. and will be able to make full use of it in the sustainable development of the country.

Based on the above information, we believe that the comprehensive introduction of the Islamic financial services industry in Uzbekistan will open the following opportunities for the country:

- increase and diversify foreign investment;
- creating an environment of fair and transparent competition in the banking sector and the ability to diversify the assets of the banking system;
- ensuring maximum participation of free funds available to the population and businesses in economic development;
- development and diversification of the capital market in the country;
- create many new jobs;

- increase the activity of the financial market by increasing the financial literacy of the population;
- coordination and modernization of infrastructure in the country through the development of the Islamic financial services industry;
- establishment of new financial institutions;
- contribute to the implementation of the state program to combat poverty;
- development of a training program in a new direction.

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