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DEVELOPMENT AND PROMOTION

OF ISLAMIC BANKING SYSTEM AND ITS ROLE IN THE GLOBAL BANKING SECTOR

DESARROLLO Y PROMOCIÓN DEL SISTEMA BANCARIO ISLÁMICO Y SU PAPEL EN EL SECTOR BANCARIO GLOBAL

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ABSTRACT

In this study, we attempt to investigate carefully the role of the Islamic Capitalism in the past, present, and future. This role has been bloomed around the world, is quickly blooming in Turkey and is expected to expand to other sectors in the years ahead. In this research, it is expected that shortly after the banks join the Islamic Capitalism, they will grow rapidly and this growth will occur more rapidly in the future. Although Islamic banking has a small share in the world financial system, it has achieved remarkable development in the recent years. Considering the large size of the banking sector around the world. We conclude that Islamic banking has a very small share of this market.

Keywords:

Islamic banking, Islamic banking in the world, Turkish banking.

RESUMEN

En este estudio, intentamos investigar cuidadosamente el papel del capitalismo islámico en el pasado, presente y futuro. Este papel ha florecido en todo el mundo, está floreciendo rápidamente en Turquía y se espera que se expanda a otros sectores en los próximos años. En esta investigación, se espera que poco después de que los bancos se unan al Capitalismo Islámico, crezcan rápidamente y este crecimiento ocurrirá más rápidamente en el futuro. Aunque la banca islámica tiene una pequeña participación en el sistema financiero mundial, ha logrado un desarrollo notable en los últimos años. Teniendo en cuenta el gran tamaño del sector bancario en todo el mundo, concluimos que la banca islámica tiene una participación muy pequeña en este mercado.

Palabras clave:

Banca islámica, banca islámica en el mundo, banca turca.

INTRODUCTION

Banks as financial institutions that collect people's unused money for a specified period of time and use it as a loan or investment, as well as an intermediary for buying and selling stocks and bonds, transfer money, rent safe deposit, cash promissory notes, accept credits, issue bank guarantees, and do businesses related to buying and selling foreign currencies, which are appreciated.

Islamic banking is a subset of the banking system, and in Turkey, it is considered as shared credit banking. Although the methods of this type of banking have been achieved in the past times, it has gained attention only after 1940s in an alternative manner. Especially after 1970, this type of banking has clearly begun to appear in the world economy. Shared credit banking has been also started in Turkey in 1985. Islamic banks, which operate in more than 60 countries around the world, on the one hand, are considered as a complement to depository banks because of bringing stagnant money into economy circle, and on the other hand, have been accepted as alternative financial institutions due to their different arguments compared to depository banks.

Today, the services offered by shared credit banking are presented and demanded not only in Islamic countries but also in all countries around the world. According to the 2016 annual report of shared credit banking (Islamic banking) union, it is estimated that nearly 2% of the world's total financial assets, which constitute the world's total non-interest-bearing assets (interest-free loan), have reached to over two trillion US dollars by 2015. Based on the data from the 2016 Thomson Reuters report on interest-free loans increases, the total non-interest-bearing assets of the usury-free banking system has increased by 8% and has reached to 2003 billion US\$ by the end of 2015 (Turkish Shared Credit Banking Union, 2015). Total holdings of Turkish Shared Credit Banking Union in 2016 has increased by 10.5 % to 133 billion Turkish Liras, and their market share has amounted to 4.9% of the market value. With regard to Turkish shared credit bank's activities based on relatively conservative policies in 2016, the total real sector's consumption increased by 7.2% amounted to 84.8 billion Turkish Liras. The share of capitals collected and used in the banking sector were 5.6% and 4.8%, respectively, in 2016. In 2016, the shared credit banking sector has ended the year with a net profit of 173% and has recorded a remarkable increase to 1.106 million Turkish Liras. In this regard, the total share of the banking sector in the shared credit banks' net profit increased from 1.6% to 2.9% (Turkish Shared Credit Banking Union, 2015). In the usury-free banking sector, Turkey with an average of 30% of assets has been in the next place after Indonesia

with an average of 40% as the first country among the countries with the highest average annual growth rate of assets (Turkish Shared Credit Banking Union, 2015).

In this study, we will investigate the development of the Islamic banking system and its role in the world's banking sector.

DEVELOPMENT

At the time when banks are not in the form of today's banks, Muslims were trading in a large geographical area because of the huge conquests they have made. Money-changers, who have existed since Babylonian era, have had a prominent and active role in the Islamic geographical area since the first century AH in order to finance Muslim traders spread out in the large Islamic geographical area, expedite works, and develop activities related to insurance and guarantees. In order to further clear the issue, we can point out to little promissory note (money lent to businessmen in order to secure the risk of travel) or little-money note (a paper written by the creditor for the debtor, in which it is determined that after a specified time, this amount has to be paid for the creditor or anyone who had received this paper) issued by money changers, which have the role of today's remittance or traveler's check.

This can be considered a way of facilitating money transferring to account in a period of time when paper money did not exist and in the monetary system in which coins had the central role. Another tool used for payments and payment instructions was called sack, which today we call it check. The word used in the Arabic language as sack and in the Persian language as check has entered the Western languages with its original meaning. These little promissory notes and checks were even accepted by traders outside of the Islamic geographical area.

Nowadays, when it comes to speak about the Islamic banking system, the first thing coming to mind is the conventional profit-based banks. According to the historical sources, the first modern Islamic bank established in the world is a bank founded in 1963 in the small town of Mitt Gomorrah in Egypt by Ahmed Al-Najjar. In another sense, the first private commercial Islamic bank is the Islamic bank of Dubai, which was established in 1975 (Moore, 1990; Najaf & Najaf, 2016). And from another sense again, the Islamic Development Bank founded in 1974 was the first modern bank in this perspective. The bank under discussion and not mentioned in the historical sources, the first bank bearing the "Islamic" name, is the Islamic Commercial Bank of Adapazari, starting its activities in the Ottoman Empire in 1913. The (Persian) Gulf countries' oil production and added value of the resulted increased

capital for these countries have had a significant impact on strengthening and expanding Islamic banks around the world. Considering motives responsible for selecting Islamic banks as depository institutions, religious motives did not stand out as being the only significant ones; bank customers are profit motivated; the evidence generated in the study did not find an important consideration of the new branches' role in increasing the utilisation of services provided by Islamic banks; peer group influence plays an important role in selecting Islamic banks. There is a high degree of awareness on the part of bank customers of the advantage of the profit-loss-sharing modes of investment and of the economic and social development role of the Islamic banking system (Erol & El-Bdour, 1989).

From a more practical perspective, El Hawary, Grais & Iqbal (2004), defines Islamic Banking Finance as a system that adheres to the following four principles:

(1) risk-sharing: the terms of financial transactions need to reflect a symmetrical risk/return distribution among each participant to the transaction,

(2) materiality: all financial transaction must have "material finality," i.e., be directly linked to a real underlying economic transaction; thus options and most other derivatives are banned,

(3) no exploitation: neither party to the transaction should be exploited,

(4) no financing of sinful activities: transaction cannot be used to produce goods banned by the Qur'an (e.g., alcohol, pork products, gambling, etc.).

Today, the issue widely criticized in the field of Islamic banking is the use of a model of acquiring investment called usury. In Turkish, usury has the following definition: Receiving excessive military and non-fair profits; (in such case, usury is legally prohibited (Sami, 1998). In Arabic, it means net profit.

The word "usurer" is also defined as: unjust money-changer who lends money to people and milks them. The negative connotations of the words of "usury" and "usurer" in the early 20th century are also seen in the 21st century and in the Turkish republic.

According to a report published by the Istanbul Chamber of Commerce and Industry in 1931, we find that usury is still done as a common practice. According to the report on the decisions made by the Istanbul Chamber of Commerce and Industry, one of the reasons for the increase in the prices of agricultural products is the loans offered by the mentioned usurers, who receive 5% to 10% interest on their loans each month. While, at that time, the

Agriculture Bank was operating in a wide area of the country, the restrictions on receiving loans from this bank, as well as the numerous physical and legal problems in borrowing faced by farmers, the farmers had to refer to usurers in order to meet their needs (the Istanbul Chamber of Commerce and Industry, 1931). Shamsuddin Sammi completed this dictionary in 1901.

However, before Sami wrote his work, a work titled "Usury Constitution" was produced in the Ottoman Government in 1864 for the first time and in 1887 for the second time. In the 1887 Constitution, the word "loan" has been used instead of the word "profit", and it has been said that the annual interest on the loan can be (at most) 9% and also it has been emphasized that objection to the amount of interest would not be acceptable. Prior to that date as well, there were rules specifying the extent of profits. For example, in 1609, the amount of interest was 15%, and also in the 1680 rule of interest rate, this amount was 10%.

From one of the important documents of the Ottoman archive dating back to 1891 on preventing an increase in the interest receiving from those who were deceived by usurer and sued them, it is inferred that all loans with the rate of interests that were very different from the ruled imposed by the government were legally prosecuted (Sarkis, 2006). Usury, as a jurisprudential word, means a trustable sale contract that is realized by adding interests to the purchase price or the initial price of the commodity. Basically, the word "usury", due to its inherited negative connotation and its negative role during the past historical times, has a negative connotation today and is regarded as a wrong job among the people.

Academic researchers on Islamic finance and Islamic economy are trying to introduce "usury" as a substitute for usury-free banking. To this end, many national and international conferences and gatherings have been organized in which academics and scholars have discussed the word "usury" in detail. The most important topics of discussion and exchange of views that have taken place so far are: 1) in today's Islamic banking, the method of bailment-partnership, which is based on partnership, is used instead of the method of lending and financing in the form of usury; 2) Creating a model of financing to meet the entrepreneurs' needs (such as risky investment and entrepreneurship); 3) Guaranteeing the direction of capitals under the dominance of the conventional banking towards the Islamic banking, thereby attracting more and more capitals by the Islamic banking; 4) According to some researchers, instead of emphasizing on the aspect of being Islamic, the focus should be on financing non-interest investments, and instead of investigating this issue from a religious perspective, it should be examined

from a socio-economic point of view; 5) reconsidering the economy through a new neoclassical theory, the issues related to bank and providing investment should be investigated fundamentally and the neoclassical economic pattern should be excluded (Tabakoğlu, 2014).

The government's needs for providing investment for their treasuries can be added to the above-mentioned provisions. Both today and throughout the history, governments have resolved their budget deficits by borrowing. In fact, Jahbazs (Jewish Jahbaz money-changers), who, since Samanian era, have a 1058-year history, had been collecting deposits and lending to the government. According to researchers, there are similarities between the activities of the first bank registered in the West (in Italy) in the early 15th century and Jahbazs' activities, and this issue strengthens this belief that the experience gained from Jahbazs' activities has provided the necessary background for the start of banking activities.

CONCLUSIONS

By investigating the tools and applications of all Islamic banks around the world, the ability of using the services among the conventional banks should be investigated and the offered services should be diversified. Currently, the performance of the services provided is increasing. Advisory committees should be formed for Islamic banking and joint decisions should be made. Also, these advisory committees should be standardized. Departments related to Islamic banking should be set up at universities, and while encouraging academic work, the number of faculties should be increased. The number of Islamic banking research centers across countries should be increased. In the light of Islamic banking, global risks can be safeguarded, the possibility of expansion can be guaranteed, and those in need for capital can be financed. Providing cheap and long-term loans for depositors is possible. The right marketing strategies should be implemented by developing interest-free tools. Necessary attempts for increasing the credibility of the Islamic banking system should be made. The increase in the share of the conventional banking sector should amount to 15% by 2025, and the banking sector should be able to provide banking services based on the world financial standard (Turkish Shared Credit Banking Union, 2015).

Islamic Banking institutions attempt to convince the pious that their funds are invested Islamically and, quite often, charge their clients more than would conventional banks. After almost three decades of Islamic Banking and Finance, we now have a sufficiently long track record to assess both its overall efficiency vis a vis conventional

banking and its claim to offer a 'better' alternative for observant Muslims (Khan, 2010).

Based on the main purpose of this study, which was initially pointed out, the role of Islamic banking that is expanding around the world with a high speed and is expected to grow larger in coming years in terms of the average banking sector, as well as the past, present, and future of it have been investigated. With regard to the information available in this area, we find that this sector has been growing rapidly since its first day and has been able to minimize the negative effects of some adverse events. As stated in the strategic document of the Turkish Shared Credit Banking Union, the increase in the Turkish conventional banking's market share will amount to 15% by 2015 and the ability of the banking sector to offer services based on the world standards is available.

Although the Islamic banking has a small share in the global financial system, it has been developed significantly in recent years. Considering the large size of the banking sector around the world, we conclude that the Islamic banking has a very small market share.

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