

ISSUES OF ESTABLISHMENT AND LEGAL REGULATION OF THE ACTIVITY OF ISLAMIC WINDOWS IN TRADITIONAL BANKS

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Annotation: *This article analyzes the work that needs to be done to open Islamic windows in Uzbekistan, the problems and prospects of establishing the provision of Islamic banking services in traditional banks.*

Also, in order to effectively establish and manage the activities of Islamic windows, appropriate suggestions and recommendations will be developed by studying advanced foreign experience.

Key words: *Islamic windows, parent bank, Islamic subsidiary bank, full fledged Islamic bank, ICD, Sharia Council.*

INTRODUCTION

Currently, Islamic banking services are provided in 3 different ways in the countries of the world. These are Islamic windows opened in traditional banks, Islamic subsidiary banks established by a traditional bank (parent bank) and independent Islamic banks (full fledged Islamic banks).

Islamic subsidiary banks operate independently from conventional banks. However, certain control functions are retained by the bank, which is the main shareholder. Currently, many banks operate in this way. This method does not require as many resources as the establishment of an independent bank and allows you to use the long-term experience and specialists of a traditional bank.

Also, Islamic subsidiary banks do not compete with the traditional bank that is their founder, the development and profitability of the branch bank is necessarily the success of the parent bank. Usually, subsidiary Islamic banks and full fledged Islamic banks are collectively referred to a "Islamic banks" without distinction.

The establishment of independent Islamic banks will have a good effect after the formation of sufficient demand for the Islamic banking and financial system, a wide domestic market, legislation, and experience.

As a starting point for the creation of Islamic banking, Islamic windows provide an opportunity to start a business with the lowest costs and risks during the development of the sector. The purpose of working through them

is to determine the requirements for the system and make a minimum investment for effective technical and operational work.

This system allows the bank to create the necessary infrastructure at an acceptable speed. Windows are not legal entities and are fully managed and controlled by a traditional bank, except that the Sharia compliance of the services provided and the non-intermingling of financial instruments with traditional banking are strictly controlled by a specially constituted Sharia Council[1].

DISCUSSION AND RESULTS

None of the three systems mentioned above has been implemented in Uzbekistan so far. However, Islamic finance is not an unfamiliar field for our local banks. That is, in 2003, Uzbekistan became a member the Islamic Development Bank and Islamic Corporation for the Development of the Private Sector (ICD) based on the decision of the Cabinet of Ministers on December 21, 2004 No. 596. After becoming a member of ICD, these institutions have been financing Uzbekistan government projects and local entrepreneurs through local commercial banks.

ICD allocated financing lines to commercial banks through murabaha financing method. So far, this institution has established cooperation with 15 commercial banks and 2 leasing companies, and within the framework of cooperation, financing lines in the amount of 285 million US dollars have been allocated to banks.

Also, for the purchase of raw materials and equipment, the Islamic Corporation for the Development of the Private Sector is providing short-term (repayable within 1 year) trade financing lines to entrepreneurs in cooperation with several local banks.

Currently, this Corporation has a total of 30 million USD financing lines in cooperation with Aloqabank, Asia Alliance Bank and Turonbank, while Kapitalbank, Uzsanoatkurilishbank and Trustbank have allocated a total of 32 million USD financing lines.

The leasing company "TAIBA LEASING" LLC, established in 2011 by the Islamic Corporation for the Development of the Private Sector with a 100 percent share, provides Islamic rental (leasing) services to clients. The company provides the opportunity to repay the funds by installments with the company's premium on the purchase of equipment on the basis of an interest-free lease agreement[2].

Based on the above information, it can be said that Islamic finance is not unfamiliar to Uzbek banks, and banks have the opportunity to open Islamic windows if there is action and support from the government.

Currently, the Central Bank and commercial banks are working on opening Islamic windows. For example, at the press conference held at the Central Bank on October 21, 2021, the Chairman of the Central Bank, Mamarizo Nurmurotov, informed that work is currently underway to establish an Islamic window in 14 banks[3].

Also, at present, Trustbank provides a financing service based on Islamic principles for legal entities and business owners. It envisages that the projects will be financed from 350,000 to 5,000,000 dollars from the resources of the Islamic Corporation (ICD) for a period of 3 years. This financing is offered for the purchase of raw materials, equipment and technology in order to replenish the working capital of the enterprise. To use this service, the state's share in the authorized capital must not exceed 49 percent, the number of employees must not be less than 10 people, and most importantly, Sharia norms in their activities. it is required not to break[4].

At the same time, Islamic financing lines are working in "Sanoat Qurilish Bank" [5], "Agrobank" [6], "Infinbak" [7].

In 2020, as part of the study on "Financing sustainable development in Uzbekistan" from the United Nations Development Program, the possibilities of introducing Islamic finance were studied and a survey was conducted. All 27 commercial banks participating in the survey expressed their support for the introduction of Islamic finance and banking[8].

Despite the absence of a legal system, the reason for the great interest in the sector by traditional banks is that this sector provides them with new customers and other financial opportunities.

It should be noted that banks that want to open Islamic windows are required to have an independent Shariah committee with scholars of Islamic jurisprudence, particularly Islamic finance and law, as well as banking experts.

Offering Islamic services to clients and preparing and formalizing transactions in accordance with the requirements of Islamic finance is carried out on the basis of decisions and under the supervision of the Shariah Committee established in banks.

In this case, traditional banks will benefit more by attracting new customers and increase their chances in competition with Islamic banks:

1. Development of "Islamic window" program, banking policy and operational mechanisms for Islamic finance based on the recommendations and standards of international organizations;

2. Establishment of the Sharia Council and strict adherence to its instructions;

3. Implementation of coordination work on Islamic finance in the banking system, in particular, introduction of software, accounting, fintech systems aimed at preventing the mixing of funds obtained by providing traditional services with window funds;

4. Training employees on Islamic finance, replenishing the banking system with experienced specialists who know the field well;

5. To create the necessary infrastructure for the provision of Islamic finance services and to ensure that employees working in Islamic windows comply with the codes of ethics of Islamic banks;

6. Implementation of services that fully comply with the principles of Sharia, conducting management policies in accordance with Sharia;

7. Adhering to the transparency policy developed by international organizations and introducing and applying standards, accounting and reporting forms consistent with the principles of Islamic finance.

In the international experience, Islamic windows were mainly formed by offering some Islamic financial services by traditional banks in countries where there is no legislation regulating the Islamic finance-banking system and where the traditional banking system is strong.

Also, as a result of the need to finance infrastructure facilities in the countries that have become members of the Islamic Development Bank, Islamic financing lines were introduced in traditional banks, and later branches were established based on the experience of these lines and internal needs.

It should be noted that the formation of the Islamic banking system in world practice is based on the opening of Islamic windows. For example, today there are only 6 specialized Islamic banks in the UK, while 22 conventional banks have Islamic windows. The first retail Islamic bank in Europe opened in August 2004. In 1993, Standard Chartered Bank opened its subsidiary, Standard Chartered Saadiq, offering Islamic banking products in Malaysia. "Standard Chartered Saadiq" was opened in the UAE in 2003. Islamic banking in Malaysia began to develop rapidly in 1993 when legislative amendments were passed to allow the opening of Islamic windows in conventional banks. Until 1993, there was only one Islamic bank in Malaysia (established in 1983), its market share did not exceed 1%, in about three years the share of Islamic banking grew to 6% (by 1997, more than 50 banks and financial institutions were Islamic serves with the help of windows). Currently, there are 17 Islamic banks and 10 Islamic windows operating in Malaysia [9].

CONCLUSION

In our opinion, Islamic windows are an ideal solution for determining the domestic market demand, studying local legislation, domestic political stability, attitude towards investors and investments, and forming the necessary infrastructure in a country without an Islamic banking system.

It should be noted that the opening of Islamic windows by traditional banks operating in our country can provide them with the following opportunities:

1. As a result of the transfer of monetary resources from external and internal sources, additional financial funds are formed in them, and this factor serves to increase the liquidity of banks.
2. In addition to traditional services offered by banks, offering Islamic services to customers satisfies their needs and strengthens mutual trust and loyalty.
3. It helps to diversify the assets and liabilities of banks.
4. Profits from Islamic windows serve to increase the total profit of banks.
5. The conversion of people who do not use traditional banking services due to their religious views into clients of Islamic windows helps to increase the number of total clients of banks.

According to the above analysis, the establishment of Islamic windows will bring only benefits for Uzbekistan, that is, the amount of domestic and foreign investment will increase, the business environment will develop, tax revenues will increase, and the real economy will develop.

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