

**Review Article**

## THE PROBLEMS OF IMPLEMENTING ISLAMIC BANKING

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### ABSTRACT

With the expansion of banking industry, thinkers decided to take advantage of this phenomenon. Since banking activities based on interest, which is forbidden by Islam. Hence, they tried to maintain banking operations, to find religious justification. Some scholars have attempted to design a database based on Islamic transactions that we see today in Islamic banks. The banks are faced with many problems such as the complexity of the interest-free banking, education, lack of sufficient leverage to attract deposits, restrictions on the use of contracts, the high cost of utilities, delay in payment of debt solutions for timely payment, compensation in the banking, Islamic banking interest rate than international rates, government finance. Strategies is presented in this paper .

**Keywords:** Interest Financing , Islamic Financing , Deferral , Interest Rates , Moral Risks

With the expansion of the Islamic banking industry , scholars are facing with significant challenges .Bank with transactions, aggregate assets and give to capable persons to achieve benefits for owners for funding to bring prosperity .Due to usurious transactions, banks are in conflict with Islamic teachings .Scholars tried to take control of transactions and interest and this matter that why Islamic banking was introduced by Muslim thinkers.This idea turned into an executable model of Islamic banks now is seen in Islamic countries and some non -Islamic countries .

### Resource mobilization in Islamic Banking

The difference between the Islamic and non-Islamic banking, lending resources and facilities that include:  
1 – deposit of current loan with the loan nature. Natural and legal persons can deposit their funds into a bank and get the money they could receive Czech booklet based on banking regulations.This is a non-profit account and is regarded as a resource bank.

As a result, banks will invest through contracts to gain profit.

2 – deposits of savings and loans with nature of loan. Depositors receive a booklet and can get their money at any time. These accounts are owned by banks . Banks allocate these accounts to preferences , privileges , and non-cash prizes .

3- Deposit term investments: people are going to the bank to deposit the cash productivity of capital. Those funds are used to drive over to the bank as a lawyer. Then, after deducting the contingency reserves, they invest the rest of money. Banks are obliged to pay the original deposit. interest rates is not clear. Banks, real profits are calculated after the end of the financial period and then divide the rest among deposit holders as dividends.

### Banking Contracts free of interest

1 - Mozarebeh (internal trade - exports - imports);

2 - Civil partnership (Commercial - Production - Export - Housing and (Construction) ;

3 - Installment Sales (Raw aterials - Machinery - Housing);

4 - Self ;

5 - Lease acquisition condition ;

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- 6 - Interest Free Loan (Marriage - Repair - housing - medical assistance – scholarships);
- 7 - presented by 2 (review of legal and financial derivative instruments )

### **Mozarebeh:**

The contract in which one of the parties will commit to supply cash finance That other party businesses and parties are partners in the profits. Credit in the current account in the form of mozarebeh (General Mozarebeh) According to banking and credit facilities in an authentic modern Islamic banking law and develop new services to banks, Bank Sepah has offered a new job as a credit facility in the current account this kind of Mozarebeh.Mudaraba is a contract where one party is committed to provide the general fund. The other party performs business and the parties will share in the profits.

### **Civic involvement:**

Cash and non-cash contribution of shares which belongs to natural and legal persons, with intent to gain convention. Installment sales (raw materials - Machinery - Housing) The installment sales means of goods assignment with specified rate to others. all or part of the price is received in certain maturities with equal and unequal installments.

### **Self:**

Contract that a bank customer buys products and rates to be paid in cash in the future.

### **Loan:**

Contract that leaves the bank a certain sum to the people in accordance with the conditions set

### **Forgery:**

A person is required to pay a certain sum in exchange for certain functions in accordance with the contract. the banks can performs forgery to provide the necessary facilities for the expansion of production, trade and services with the contract as a forger.

### **Lease in condition of ownership**

This is a contract in which the customer will be owner at the end of lease term.

### **Complexity of Islamic banking**

Islamic banking is a banking facility loans.Banks receive deposits and savings deposits of individuals and pay them according to the specified rate. Deposits received and interest calculation is simple. Depositors and banks do this. receiving credit and facility is done by the customer. Borrowers without any oversight on the amount consumed, these funds are used for their needs.

This method is absolutely without problem . Also, after the conclusion of the contract .the interest rate is quite distinctive .In Islamic banking , the credit is applied to the account without any profit. Presumably , the banks will grant awards to account holders .In other amounts deposited in banks , banks are not permitted to use any funds due to the Office of Attorney .In the overall classification , relationship between banks and customers is as follows The first relationship : the relationship between lending and borrowing interest , which is done without any problems.The second relationship: bank is a mediator and attorney .Problem of depositors is due to this relationship because they give their deposits to bank to invest .

### **Deposit as investments is two kinds:**

Deposit to secure funding for certain economic projects .Deposit for a joint fund for investment projects by the bank The Bank, however, is an attorney Also, the power of delegating to bank, depositors can obtain information on the performance of economic sectors and issues related to the contract because the

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interest rate is unknown. depositors do not have enough confidence to make the deposit .Because according to contract law, banks are permitted to compromise the calculation of profits with the investors and recipients of credit.Finally , the amount is paid as interest to depositors .Depositors will also have to consider the clauses stipulated in the contract . Due to the multiple protocols and concepts unknown to them, depositors have had problems .Due to the lack of agreement causing hurt to contract .Another problem is the granting of a loan facility in the Islamic banking . After receiving the loan , the applicant will be later designated as the owner is obliged to pay the loan .Note that only the bank can repay the applicants without regard to their use .according to the Islamic banking system , applicants are faced with limitations and problems .

Islamic banking facilities are as follows: Mozarebeh, civic participation and rights, forgery, installment sales, leasing conditional acquisition, purchase loans, Self, Mozare'eh, Mosaqat and loan. Operation must be in a certain format, and it is essential to get familiar with the terms and conditions of the facility. If the credit is not used properly, problems will sometimes terminate the contract is legal and legitimate. For example, the facility in Mozarebeh is used for trade and commerce, and if it is used in agriculture, the contract is terminated.

### **Second:**

Problem in need of special education in banking. In Islamic Banking (without interest) , there are limitations due to the multiplicity of contracts . training is necessary for bank agents to comply with the orders of Islam, because the lack of adequate training, will have undesirable results . Such as the failure to credit, bad contracts, termination of contracts, lack of interest banking (Islamic), and religious people are not cooperating with the bank.So , explain and interpret contracts and their quality and optimum utilization of banking facilities, training is essential .Islamic banking is provided in facilities that can not completely solve the problem of delay due to the Bank contract .The third problem is the lack of strong and effective instrument to attract deposits.In Islamic banking, the interest rate based on deposits is considered as a powerful and effective means.Banks can increase or decrease the interest rate and can decrease or increase the volume of bank deposits. Changes in interest rates could reduce or increase the size of the loan request. In different economic conditions, the economic policies, the government is required to provide a powerful lever to improve inflation or recession. Hence, it can be used for bank bonuses to be attracted deposits by banks. When the value is changed, Islamic banking can leverage a robust and effective to use than spiritual motives. These incentives can attract bank funds. Non-interest banking, profit leverage is used, which can be very efficient. Islamic banks (without interest) and state banks are required to move in the direction of economic policy and public interests in the observance of society. Achieving these objectives requires principals to determine the interest rate and a certain percentage of the profits are given to those facilities. Other financial institutions or non-Islamic banks (with interest) considered high profits and optimization and they use less risk and more profit. Islamic banking deposits can leverage to attract strong and specific uses.

### **The fourth: limitation utilizes contract.**

In Islamic banking , credit is given to applicants in the form of loans. Applicants can receive funds to operate in such productive activities , trade and consumption. Then the banks can provide facilities for applicants. Of course , after assurance of the ability to pay.Accordingly, there are no restrictions on the provision of facilities for the bank and the applicant .in banking non-interest banking facility is divided into four main groups :

- 1 - Partnerships such as civic , legal , Mozarebeh , Mozar'eh and Mosaqat
- 2 - Exchanges : installment sales , leasing conditional acquisition and Self
- 3 - Commitments : forgery and warranty
- 4 – Loans

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Banks can only lend to pay your loan because the small size of the facility will be delivered to the bank ( or mortgage) or the applicant is granted ( as bank loans )On the other hand other contracts in banking ( without interest) are not able to lend.Other conventions are used in a specific group, excluding facilities that are paid to the applicants within the contract . For example , Mozarebeh contract is used solely in the business .So for all the economic needs of these contracts can not be used in any contract is limited to specific economic activities.There are also some restrictions for banking agents .Regarding the content , the bank and the applicant 's use of funds because banks are limited by certain criteria are calculated profit and supervise on the progress steps .These criteria include issues such as monitoring, control measures for recruiting violations and competent experts.

### **Fifth : the high cost of utilities**

The cost of banking facilities ( without interest ) more than the cost of non-Islamic banking facility that has two causes : 1 - 2 banks in the economy - the role of bank intermediation However, due to the cost of entering the bank to economy are the normal costs that applicants must pay for investment but these costs are included in facility costs. There are also costs that are caused by the changing role of banks and bank must pay supervision fee, profit and loss.Expenses related to the cost of interest-free banking facilities include:

- 1 - Assessment and Review cost
- 2 - The cost of monitoring
- 3 - Cost of Insurance
- 4 - Registration Fee
- 5 - Information and marketing expenses
- 6 - Cost of Profit and loss
- 7 - spending time
- 8 - Risk compensation expense with respect to principal and interest

### **Sixth : delay in repayment of debts**

This is the most important problem in Islamic banking because the method of financing is based on liabilities. Like Morabebeh.This means that a high percentage of assets in Islamic banks is funded by debt. Thus, the problem of delay in repayment of a significant impact on the bank.The main activity is the financing banks. traditional bank loans are used for finance .Islamic banks use term trading.The first method used is regarded as the second method is considered as profit.The Bank is seeking to make a profit like private firms. This benefit can not be realized unless the customer will pay their debts on time. Because the bank is seeking profits. there is no tool to punish a debit to pay his debt with delay . because it is forbidden. In such circumstances, most banks are faced with many problems. Facility managers have increased spending money to compensate for this delay. This can be considered as weakness in global competitiveness compared to traditional banking and Islamic banking.Also the banks have increased their warranties and it causes that anyone can not present warranty.So only the rich can take advantage of this facility .It is proposed that the inauguration of the Fund and accounts are subject to late penalties and fines may be paid to the Fund . In this case the bank gets no benefit .Balance of the Fund is used at the expense of public works . In this case, people who are late will be punished and on the other this is not in favor of the bank .Also, in this approach, prove the debtor 's inability to provide the customer with evidence is clear .

### **Seventh :International dependency rates**

Sales of Islamic banks are based on traditional financing methods. The assets of Islamic banks is similar to traditional bank assets. Since the task of banks is financing and deposits attraction, the cost of goods is composed of two parts. The first part is the cost of purchasing and the second part is additional amount equal to the dividend period is called Morabebeh. and the percentage that increases each year

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based on the length of the repayment term and short term, that is similar to profitability rate because the annual percentage is calculated based on the amount of debt. So there is a huge difference between profit and interest. Interest rates factors: most of Islamic banks, their activities is in competition with traditional banks. All banks are the components of a market and Muslims and non-Muslims are transferring their deposits because the environment is competitive in the international arena. Banking activities needs a benchmark. International rate is considered as benchmark in activities of banks. Before concluding a contract, if the definitive profit is specified this profit is permissible under Islam. If the profit changes after the contract in accordance with the international interest rate, is not permitted and is considered as ignorance in transaction. It is suggested to reduce the method of financing based on debt and participation and Morabeheh methods should be considered. In the banking industry, an index is defined on the basis of an independent Islamic banking activities.

### **Eight: public financing**

Governments are the largest consumers of financial markets. In the United States, debt constitutes 50% of total reserves. The importance of this need in some countries to the extent that government debt in Italy is 105% of national income. In addition to the role of government in security and justice, border defense includes numerous benefits for individuals, such as health, education, communication, transportation, cultural and recreational facilities. The difference between public financing and other financing: Financing of Administration includes special features such as:

1 – government does not make a profit from the activity. Therefore, methods of financing on the basis of dividing profit is not appropriate.

2 - Financing for jobs: retention of companies, employee salaries.

3 - governments do not go to bankruptcy, but there is always a delay in repayment, while you can simply ask the debtor, you can confiscate their property.

It is very difficult in the third world, so most of the banks try to prevent financing. Suggestion: Islamic banks should perform finance because their request is legitimate. It is suggested that a significant proportion of government intends is constructive purposes such as the construction of bridges, roads, schools and hospitals. In these cases, it is suggested Estesna contracts with the following conditions:

- In the event that it is essential for parties.

- Client is authorized to pay the price in installments

- The manufacturer is able to purchase goods and concede a Estesna.

- The Bank is committed to ensuring the quality of the original manufacturer.

If these conditions are met, banks can offer suitable method for financing the construction of such roads, schools and hospitals.

2 - The government thinks that they need to achieve their finance is provided by investment. a part of these needs is for the purchase of tools, services, vehicles and machinery. In most countries, the law does not allow banks to bid for supplying the place, so it is necessary to amend the rules.

3 - Delay in repayment of bank financing is as a barrier to entry to the state. Traditional banks can sell government debt as exchange. The first group of banks are lending to the government and the second group of banks refuse. Regardless of the method of financing, Islamic banks are faced with a problem. The solution to this problem is linking the debt to government revenues. For example, the administration issues financial documents for seller bank that are accepted by vendor Oil Company.

In case of delay in debt repayment, the bank receives a cash bond from oil company. The Company may produce wheat, copper, phosphate, or any marketable commodity.

### **State of banking system:**

As noted above, all banks in Iran are supervised by the Central Bank. As well as general policies (interest rates and distribution facilities) is notified to all banks through the central bank. Since most banks are state banks, the banking system in the country is affected. In some cases, their financial

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situation is under consideration and the realization of government objectives in other sectors will be considered in the long-term impact on the Bank's financial performance. In general, the state of the banking system in the country is subject to the following conditions:

1 - External Factors: These factors are divided into two parts: the international and domestic level. After the Islamic Revolution, banks are facing with many restrictions. Based on internal factors outside the banking system, it can be noted that the interest rate paid to depositors is minimal. Thus, investors use earnings capacity, which is generally not under any organ. Due to the high potential profitability in other sectors of the economy, investors are willing to depositing their funds in the banking system.

- Internal factors: the nature of the banking system and the particular situation depends on several factors. One of the key factors that enabled the banking system is the interest rate. Government policy in this regard is affecting the banking system.

2 - no logical relationship between interest rates to depositors and the interest rate that banking system receive facilities. Interest rate is over the interest rate that banks receive from the facility. Since one source of income for commercial banks is a source of positive difference in interest rate loans with interest rates of deposits, it is obvious that the current system, the banking system, the interest rate difference, is negative.

B - Due to high inflation, banks are injecting funds in the form of credit to productive sectors. It is obvious that low interest rates in the financial markets led to economic growth, but devastating consequences of this policy on the banking system, is mandatory for the long term.

C - electronic banking system has not been fully deployed in the lack of cultural infrastructure and technology that will lead to congestion in banks, banking sources is wasted and efficiency is reduced. With advanced electronic systems, the banks will need to create multiple branches and productivity will increase.

D - In the absence of banks in capital markets: banks in Iran have been banned from being imported into the stock market. However, in many countries, the bank invest a part of its resources in securities with high liquidity. This causes the banks to become business and increase their investment in physical assets. The proposed model of non-interest banking: The proposed model for interest-free banking is based on the following assumptions:

1 - Contracts in the bank's operations are divided into three categories: loans, swap contracts and partnerships with different characteristics that they require accounting procedures and guidelines for the proper implementation.

2- The banks are divided into three groups: commercial, specialized and comprehensive monitoring capabilities that are different in terms of scope and activities.

3 – however variety of contracts is useful, the excess of contracts causes complicated banking, education and formal problems and client understanding. Thus, to the extent possible, contracts should be reduced.

4 - Bank transactions should be commensurate with the clients' objectives and the performance of banks in attracting deposits, granting loans. Consequently, deposit and loan contracts vary in banks because these banks are different in terms of the nature of the bank's customers.

5 - The proposed model is based on non-interest banking operations and its implementing need to be revised in some guidelines and regulations.

6 - The proposed model, the ability to run the government and private banks, based on market activity and economic competition.

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