

## REQUIRED FOR FINANCIAL INSTITUTIONS PROVIDING ISLAMIC FINANCE AND BANKING SERVICES

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**Abstract:** The article analyzes ways to improve islamic banking services. By using digital technologies, it is possible not only to restructure management and business processes, but also to implement a number of innovations that will ease human life in the banking sector.

**Key words.** Banking, digital banking, banking services, legal entity, individual, transformation.

**Абстрактный.** В статье анализируются пути улучшения islamic банковских услуг. С помощью цифровых технологий можно не только провести реструктуризацию управленческих и бизнес-процессов, но и внедрить ряд инноваций, которые облегчат жизнь людей в банковской сфере.

**Слова Кали.** Банковское дело, цифровой банкинг, банковские услуги, юридическое лицо, физическое лицо, трансформация.

In recent years, the demand for Islamic finance products and services has been increasing significantly worldwide, including in our country. A number of factors have contributed to this growing demand. Among the main factors are the increasing need and demand among the population for financial services and products that comply with Sharia requirements, as well as for halal investment sources. In addition, the consistent development of Islamic banks and Islamic financial products within the global banking and financial system can be highlighted. However, alongside these opportunities, cases of exploiting existing needs and opportunities for self-interested purposes have also emerged. The number of individuals and organizations operating under labels such as “halal installment sales” and “Islamic financing” has been increasing, while in reality they operate in a manner that is either completely contrary to Sharia requirements or only partially compliant, and do so without obtaining conclusions or approvals from recognized Sharia experts and Sharia councils. Such companies often employ vague and misleading marketing practices, fail to sufficiently disclose the substance and essence of the contracts they conclude, and as a result, citizens suffer not only financial losses but also moral harm to the most sensitive aspect—their religious beliefs.

This situation may lead to negative economic and social consequences. As a result, public trust in the Islamic banking and financial system may decline, the credibility of “halal finance” may be damaged, and obstacles may arise to the stable development of the financial market. Therefore, developing appropriate criteria for organizations offering Islamic financial products and services, establishing clear and strict requirements for their activities, ensuring systematic oversight of their operations, and thereby guaranteeing compliance with Sharia principles is one of the most pressing tasks of today. We believe that the main requirements to be imposed on such organizations should include the following:

Sharia Compliance Requirements

- Establishment of a dedicated Sharia Board – forming a Sharia board composed of qualified scholars, fiqh specialists, legal professionals, and finance experts, or alternatively, utilizing the services of an existing and operational Sharia board on an outsourcing basis;
- Obtaining written Sharia opinions (fatwas) from the Sharia board for each type of service or product, confirming that the product does not contradict Sharia principles;



- Conducting Sharia audits – carrying out an annual Sharia audit and publishing the conclusions of an independent Sharia auditor on the organization’s official website and other relevant public sources.

## Ethical and Social Requirements

- Clear and fair terms – offering customers transparent, fair, and clearly defined contractual conditions;
- Rejection of misleading advertising and ambiguous information, with regulation through state supervision and licensing mechanisms. This includes verifying, at the licensing stage, the existence of additional mandatory requirements for Islamic finance service providers, such as the presence of an affiliated Sharia board;
- Monitoring the use of Islamic finance-related terminology, ensuring that only organizations holding a special permit/license and having a Sharia board (or outsourced Sharia supervision) are allowed to use terms such as “Islamic finance,” “Islamic financing,” “halal installment sales,” and similar expressions;
- Imposing strict legal measures on individuals and legal entities that fail to comply with these requirements.

## Enhancement of Staff Qualifications

- Organizing fundamental courses on Islamic finance for employees of institutions offering financial products and services in compliance with Islamic finance principles;
- Establishing training through specialized courses within AAOIFI international certification programs.

## Improving Public Financial Literacy

Every user of Islamic finance services should acquire a fundamental understanding of the system, including:

- Core prohibitions such as *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling);
- Islamic financial products used in practice, such as *murabaha*, *ijara*, *mudaraba*, *musharaka*, *salam*, *istisna*, and others;
- One of the most important principles of Islamic finance—that all financial transactions must be based on and linked to real assets, which helps prevent financial bubbles and the creation of unjustified wealth, ensures a close connection between financial activities and the real economy, and, most importantly, guarantees that Sharia-based economic and financial transactions are transparent and ensure fairness and mutual benefit among all participants.

These requirements are significant not only as Islamic norms but also as guarantees of financial security and trustworthy cooperation.

## What to Pay Attention to in Practice to Avoid Fraud

### 1. Verifying Sharia Compliance



- Confirm whether the organization has a Sharia board and whether official Sharia decisions (opinions) are available.

- Such information should be published on the organization's official website or other official sources.

## 2. Carefully Reviewing Contracts

- Read and understand every clause thoroughly; request clarification for any vague or ambiguous wording.

- Verify the absence of Sharia-non-compliant conditions such as hidden interest, excessive fees, or penalties (except for penalties applied in accordance with AAOIFI Sharia standards).

- Ensure that the contract is free from prohibited elements such as *riba*, *gharar*, and *maysir*.

## 3. Being Cautious of Misleading Advertising

- Labels such as "halal installment" or "installment sale" should not automatically create trust.

- Any financial service or product claiming to be Sharia-compliant must substantiate this claim with proper documentation.

- Offers promising extremely high returns or rapid enrichment should be treated with extreme caution, as such proposals are typically fraudulent.

- It should also be noted that, at present, Islamic finance products and services are not necessarily cheaper than conventional commercial banking or microfinance services and may, in some cases, be more expensive. This can be explained by the absence of a dedicated legal framework for Islamic finance, taxation challenges related to Islamic financial products, and other factors. Check information about the organization through the internet, official media outlets, and independent financial platforms, or consult recognized experts in the field.

It should be emphasized that installment sales without intermediaries are permissible when the product belongs to the seller. However, when there is an intermediary between the seller and the buyer (such as a commercial bank, microfinance institution, or similar entity), the intermediary must comply with the requirements applicable to Islamic finance service providers. This includes having a Sharia board (or outsourced Sharia supervision), obtaining Sharia board approvals for contracts, conducting Sharia audits, and meeting other relevant requirements.

Relevant state authorities should take decisive steps to develop this sector, including establishing a legal framework for institutions operating in the field of Islamic finance and creating equal and fair competitive conditions with conventional financial institutions.

**CONCLUSION.** The digital transformation of financial services will create a wide range of opportunities for bank customers and help expand the economic opportunities of customers, while being considered an important stage for increasing financial activity. That is, one of the prospects of digital banks is that the cost of services will be reduced by 40-60 percent due to digitalization of financial networks. It allows customers to save time and money on their visit to the bank and documents. In a word, the transformation process of commercial banks and the change to work in the digital banking system is the development and active spread of new information technologies around the world. is the answer, and digital technologies not only increase the quality of products and services, but also reduce excess costs. In other words, the development of digital financial services serves as an important direction for the development of the country's banking and financial system.

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