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Secrets of an Effective Islamic Banking System

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Abstract: Is a banking system possible in which morality, religious exaltation, and profit are present at the same time. Is it possible that the assistance is not an end in itself but a purpose together. The answer to that is yes, it is possible. As we return to the moral principles that formed the basis of all practicing religions, and some still do today. One religion where it is still somewhat preserved is Islam. Both the principles of cross and Islam are aimed at development, the support of the other, while banks are also capable of good business results. It is possible, but for that we need to go back to basics and change our approach. How does Islam do this?

Keywords: Islamic, Banking system, morality

1 THE ISLAMIC RELIGION

The word Islam means “devotion to God, resting in the will of God”. Muhammad, therefore, called the Arab form founded by monotheism without idolatry, which was intended to be the youngest religion in the world. Believers in this religion are Muslims. By the word “Muslim” we mean devotion to Allah, who follow this religion to call themselves and their religion. Turkish version: Muslim, the term Mohammedan (after the name of the prophet) is also used, but due to their inaccuracy, believers reject them. In Europe and Hungary (Middle Ages), Muslims of different ethnic backgrounds were called Ishmaelites or Bohemians, while Arabs who conquered Spain were called Moors.

The religion of Islam itself can be seen as a monotheistic religion based on monotheism, built on the teachings of the believing prophet, and fully trusting his words as well as believing in life after death. It is important to note that Muslims do not recognize a religion other than their own religion — its faith — and Christianity.



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The Islamic religion is “monotheistic,” nevertheless, in this religion it can be said that it considers the individual to be the cornerstone of society, as it emphasizes man’s accountability to God. Accountability is not a strange feature either, as it is a specific theorem of monotheistic religions. This religion sees the world as a network of relationships that is conservative in nature. By conservative nature, he means that he did not take into account changes (at least at the level of credit) because of ancient views, and therefore did not adapt the principles of the operation of the economy to that. Why do you say that? - Activities based on non-dogmas can disrupt the Islamic-based economic system, disrupting much of the economic action based on the principle of justice.

According to Islamic teachings, private property and self-management is a fundamental right of Muslims, but within moral limits. Justice is the most basic instruction proclaimed and disseminated by the Islamic religion. (Balázs, 2008)

1.1 A brief history of the islamic religion

At the beginning of the 7th century, it began to develop in the Arabian Peninsula, where it was subjected to pagan, but at the same time Christian, Jewish and Zoroastrian influences.

The Arabian Peninsula is the largest peninsula in the world with an endless, hot desert. An area inhabited by nomadic shepherds and Bedouins engaged in horse and camel farming (nomadic Arabs of African descent belonging to the Semitic language family). Due to the great drought, there was a constant struggle for water and the pastures of the oases, as well as for livestock. (Goldziher, 1881)

The population of southern Arabia was engaged in large numbers of trade, but the Middle East was also involved. Trade has developed caravan routes. The word caravan is a Persian-rooted word, named after a group of people traveling on a camel or horse. Merchants, pilgrims who travel together in the desert or other dangerous area for greater safety. Along the caravan routes, merchant cities were created, controlled by a stronger tribe, thus controlling the trades passing through them. One such trading town was Mecca, home to the holy fetish, the Kaaba stone, which later became the cradle of the Islamic religion. The inhabitant of this town was Mohamed (570-632), who was the son of a poor merchant, having been orphaned early by his grandfather and then raised by his poor uncle. He started working early as a camel hairdresser, thus getting to know the Arab world. He gained an insight into the lives of Bedouin shepherds, coming into contact with Persian, Jewish and Christian culture. Mohammed was known throughout Mecca as “Honest,” regardless of whether he was not a young person with a high intellectual level (he was illiterate). (Hillenbrand, 2016)



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At the age of forty he had visions of religious origin. He meditated in a cave when Archangel Gabriel appeared before him, who brought him divine revelation, which meant that Muhammad began to proclaim to the people the importance of religion. Muhammad thought God had singled him out to be a prophet to the people, like Moses to the Jews or Jesus to the Christians. The first chapter of the Qur'an, the "divine book," appeared in the aforementioned cave.

Following the will of Allah, he went to Mecca to proclaim the exclusive deity of their God. Mohamed's first followers were the poor because they were considered obsessed by the rich. Over time, he became more and more followers, but due to the local rich, he had to leave the city, so he moved his residence to Medina in 622, and was named the "City of the Prophet".

His change of seat is called hijra, meaning it was Mohamed's "run" —not an escape, but rather an emigration — and later it became the beginning of the Islamic era. The inhabitants of Medina accepted Mohammed as their leader, who was already acting as head of the archbishop, thus both the Islamic religion and the state were born in this city. (Armstrong, 2005)

A large number of unbelievers were present in the city of Mecca, but Mohamed wanted to convert the inhabitants of the city at all costs, and he also wanted to win the Kaba for Islam. The disagreement between the two cities led to a war that ended in 630 with the victory of Mohammed. He "converted" and took Mecca, washed away the pagan symbols around Kaaba, and then incarnated the reverence for black stone. More and more Arab tribes joined the teaching of the Prophet, thus laying the foundations of the Arab Empire in addition to creating the youngest world religion. (Goldziher, 1881)

In his "farewell speech" (632), Mecca stated that the Muslim man has nothing ahead of reality over the non-Muslim, only his faith. He died when he returned to Medina, but was flown to Jerusalem, making it a place of shrine for Muslims today, the place of his ascension (the Temple of the Rock Mosque stands on the site of the Temple of Solomon).

He did not consider himself to be God, nor did his followers or followers do so after his death. Followers of the Islamic religion to this day revered him as a prophet who, in their view, is even greater than everyone else than Moses and Jesus. (Rostoványi, 2011)

The ideas of the Islamic religion are explained in the Qur'an. The Qur'an, a Mohammedan scripture, contains the revelations of Muhammad that God sent to believers through Gabriel. For a long time it was not allowed to translate it into other languages, who could not learn Arabic. The Qur'an never becomes invalid.

It consists of 114 stems (chapters) of the Qur'an, recorded by the Prophet's disciples on palm leaves after Muhammad's death. It regulates everyday life and describes



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Mohammedan legislation. The hadith or sunnah collects the deeds, explanations, and sayings that were not included in the Qur'an but from Muhammad. Controversy arose over the authenticity of the aforementioned sentences and "sacred customs".

The formation of different trends raised two questions. One is power and the other is based on religious opposition. The question of power questioned inheritance: who can be considered the legal heir of Mohamed. The sons of the prophet died in their childhood, which is why the first 4 caliphs were chosen from among the relatives and followers of the prophet. He became the son-in-law of the fourth caliph, Ali. A Syrian governor revolted against him, and when a fanatic killed Ali, he himself sat in the throne of the caliphs. This power struggle was coupled with a religious opposition, namely that opponents of Alit considered tradition, the Sun, to be binding, hence the name Sunni (today it is the largest, Orthodox) in Islam.

The Sunnis, the kind of trend that only considers the Qur'an to be followed, but not the Sunni, are called parties or sects (skiing). Hence the Shiite name of the other trend. This sect includes Ali's followers, who regard His two sons as legitimate heirs. The Sunnis slaughtered one of Ali's sons, and from this began the irreconcilable rage between the two camps. Shiites do not accept Sunni caliphs as religious leaders, and their own community is ruled by the imam - a denomination that still prevails in Iran today. (Armstong, 2005; Hillenbrand, 2016)

In addition to the Qur'an, the Sunnah (the tradition of customs) is the basis of religion, and the main tendencies of Islam are distinguished on the basis of its relation to it.

- Shiites - (10-14%) only recognize Muhammad and his descendants (imams) as prophets.
- Sunnis - (85-87%) After the death of Muhammad, not his descendants but also the reigning caliphs were accepted as imams, as they did not believe that the Sunnah ended with the death of Muhammad. (Hillenbrand, 2016; www.sulinet.hu)

Islamic religion distinguishes two basic concepts, faith and religious practice.

1.2 The islamic religion in practice

Islamic religious practice distinguishes five pillars, also called "pillars of Islam".

The following five commands must be followed by Muslims according to the Qur'an:

1. Faith - in Allah, the One God and His Prophet Muhammad.
2. Prayer five times a day to the holy city of Mecca.



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3. Mandatory distribution of alms to the poor. □ later there will be a tax of 2.5% of the property.
4. Observance of Ramadan monthly fasting - eating and drinking is forbidden from sunrise to sunset.
5. Pilgrimage to Mecca (Hajj) to the Kaaba Stone at least once in the life of every Muslim.

Islam cannot be considered a complicated religion, as the first of its five main pillars refers to faith, which formulates strict monotheism. The priesthood does not play an important role, a strong ecclesiastical hierarchy has not developed in this religion.

In addition to the five main commands, there are requirements that must also be complied with, such as a ban on the consumption of pork and alcohol, a restriction on polygamy (four wives are allowed).

Jihad (“Holy War”) is a task for every Islamic faith. It is also mentioned by Islam as the sixth pillar. Its original meaning is struggle, struggle, but it does not mean military struggle, but man’s struggle within himself. A believer who dies in battles for faith immediately goes to Paradise.

Islam forbids the depiction of people in holy places, which is why the depiction of Allah and Muhammad is also a forbidden activity. Mosques feature plant ornaments or geometric shapes. (Mawdudi, 1977)

1.3 The spread of religion

The Golden Age of Islam centuries lasts in 8-13 th century, during which it ruled the world’s economic, military and cultural power. In the absence of Muslim culture, part of the ancient cultural heritage for Europe would have been lost. Arab medicine, science and philosophy were advanced, at which time religion and state were not separated, neither in Islam nor in the Christian world. During this period, Islam is both a religion and a state.

The number of believers in Islam exceeded the number of Christian believers at the top of the rankings in 2008, making Islam the strongest religion in the world in terms of numbers. In the well-known developed Western world (Europe and America), Islam became the second largest religious community, accounting for about two-fifths of humanity. (Balázs, 2008)

Nearly two-thirds of all Islamic people live in southern Asia. India and Pakistan are home to more Muslims than North Africa and the Middle East. Looking at the world as a whole, however, it can be said that most people live in Indonesia, where 87% of the population is Islamic. It is estimated that by the end of 2020, nearly a quarter of the world’s population will be an Islamic believer, and the number of Muslims in Europe will more than double, reaching 8%. (Varga, 2017)



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1.4 Islamic economy

Books and literature on the Islamic economy show an increasing trend, and even the number of attempts and aspirations on economic methods that meet Islamic standards is growing.

The term “Islamic economy” is incompatible with the economies of Islamic countries. In the system of the Islamic economy, the organizations of the economy are built along religious foundations, Islamic norms and regulations, which in turn applies to the countries of Islam that the economic systems that are still in operation are semi-independent of Islam. Scholars dealing with the Islamic economy start from the totality of Islam. By wholeness, it is understood that if Islam is a complex system of command and control involving some areas of community life, it also includes areas affecting the economy. In contrast, other scientists believe that the economy is a part of human life that is inseparable from the rest. On the west side, it is typical to separate the different spheres of existence. Material factors come to the fore, thus pushing the non-material part of existence into the background. The economy is at the center, which is why it can be said to be morally and ethically neutral.

Because of the completeness mentioned above, Islam also examines the economy from several directions, so it includes non-economic areas as well. The characteristic of his system is that he draws in parallel all material, all spiritual and all spiritual aspects of life, explaining this by the fact that moral and material, economic and social, spiritual and physical, are inseparable. (Rostoványi, 2011)

There were two reasons for the growing trend of the Islamic banking system. On the one hand, full adherence to religious rules and compliance with regulations, as well as the large number of Islamic communities that have developed over time (approximately 2.4 billion people, 2018). It is the European headquarters of Islamic financial institutions in Germany, Britain and France, as it is home to a largely Muslim population.

Modern Islam has been present in the banking system since the 1970s. The rapid spread was the result of the Islamic Development Bank, founded in 1975, and in 2011 about 400 banks with Islamic funds were established in 75 countries. Interestingly, there are countries in Western Europe where, in addition to traditional banks, there are also banks with Islamic drunkenness or fully operating as Islamic bank branches. In the banking markets of Iran, Pakistan and Sudan, there are only banking institutions that follow Islamic rules.

It is important to note that Arab and Islamic banks are not the same as they do not operate under sharia rules. The sharia-based banks are the real Islamic banks, whose penetration can be traced back to the mid-1970s.



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From 2010 onwards, the Emirates Business Council (EBC) in Hungary will help us to have adequate information about the banking sector other than our domestic banking system. (Varga, 2012)

In the Arab regions, trade along the caravan routes mentioned in the 7th century played a very important role. This activity has long been a dominant economic activity. At the roots was the fact that Islam had acquired a truly evolving world economic and commercial practice.

A method similar to some financial transactions started in the early period, called suffaj. The Sufaja handled a transaction between three people.

- Suffaja

Procedure: Person X gives a bill of exchange to Y, in which another person asks Z, asking Y to give a certain advance, which person X repays in the same way.

So, person Y had the given amount of money at a given time and place, but he did not have that amount in cash.

Why is this good? - For safety. However, this method of transaction has been used among acquaintances who know each other personally or by correspondence. (Kóbori, 2013)

1.5 Islamic bank system

The banking system is completely embraced by the five pillars of the Islamic religion. The five pillars fully outline what the difference is between sharia-based banks and conventional banks.

The following principles govern the Islamic banking system:

- Prohibition of interest payments (limit).
- You may not conduct a business whose product or service is prohibited by religion. (alcohol, pork, gambling, black trade)
- Avoidance of speculative matters.
- Transactions must include a tax intended for charity or the poor, i.e., a jacket. (Varga, 2012)

Interest was banned because it was an unethical act for someone who was struggling to make a living and would have been asked to return an amount increased even with interest.

For the sake of transparency, let us take the example of the home loan scheme, which is also used at home. An Islamic bank provides a “home loan”, then during



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the transaction he buys the property himself and then uses it as a sublease from the borrower.

In the case of small business loans in Arabia, a stake is given to the financing organization, which receives the amount specified in the contract from the profits of the business.

(Balázs, 2008)

Halal is a product that is not forbidden by religion and has a clean background. In addition to regulating interest, this is another stipulation of religion that banks may not give money for haram activities, i.e., they do not finance prohibited and black activities (alcohol, pork consumption, buying and selling, gambling, etc.).

To determine the exact activities, which one is allowed to be brought by a league committee. These have implications for both individuals and economic institutions. So banks cannot serve claims that are related to some illegal activity.

Saria-compatible banking transactions must meet three conditions:

1. A financial institution may not require collateral, thereby incurring full material risk, but may require collateral in order to reduce moral hazard (eg to prevent the disappearance of entrepreneurs).
2. The value of the profit rate should be determined as a percentage and not as a lump sum. Profits must be shared.
3. The supporting and financing person cannot enter into the activities of the entrepreneur, as he has complete freedom in the management of the company. (Varga, 2017)

Instead of a ban on interest, they want to build the system along the principle of “profit and loss sharing”. Islam rejects interest altogether, unlike profit. This kind of idea can create a strong relationship with people. The system has not yet been fully implemented, so it works with the traditional system everywhere. The Islamic Development Bank has introduced a fixed interest rate due to the issue of consumer loans and short-term loans and transactions between Islamic banks and foreign banks operating under non-Islamic law. The amount received from the interest is kept in a separate account. (Kóbori, 2013)

1.6 The spread of Islamic bank system

An article on the spread of Islamic banks divides it into four sections.

1. The spread of Islamic banks to Egypt began in the 1960s.
2. It began in 1975 with the establishment of the Islamic Development Bank in Saudi Arabia.

3. Building on the application of the sukuk method, which was comparable to the interest-bearing bond of traditional banks.

4. Rising oil prices in 2000 resulted in high revenues for oil-producing countries, with Islamic banks also showing progress.

In 2000, the average growth rate of banks was 15%. Two-thirds of Islamic banks operated in the Middle East and North Africa, and the other one-third operated in Southeast Asia and Black Africa.

The further development of Islamic banks has been due to the fact that some parts of the world's 1.6 billion Muslim population have not yet had a banking relationship. The role of banks is defined by:

- per capita income and macroeconomic stability,
- a strong link to Malaysia and Bahrain (two major Islamic financial centers),
- trade with the countries of the Middle East.

Rising interest rates are hampering the development of Islamic banks. Scholars dealing with Islam, highlight another important point in the article, that Islamic financial institutions are not religious organizations but profit-oriented financial intermediaries whose activities are restricted by Islamic law. (Ligeti, 2007)

GCC's 10 largest Islamic banks rank

The following is a chart prepared by GGC's that illustrates the ranking of the largest Islamic banks.

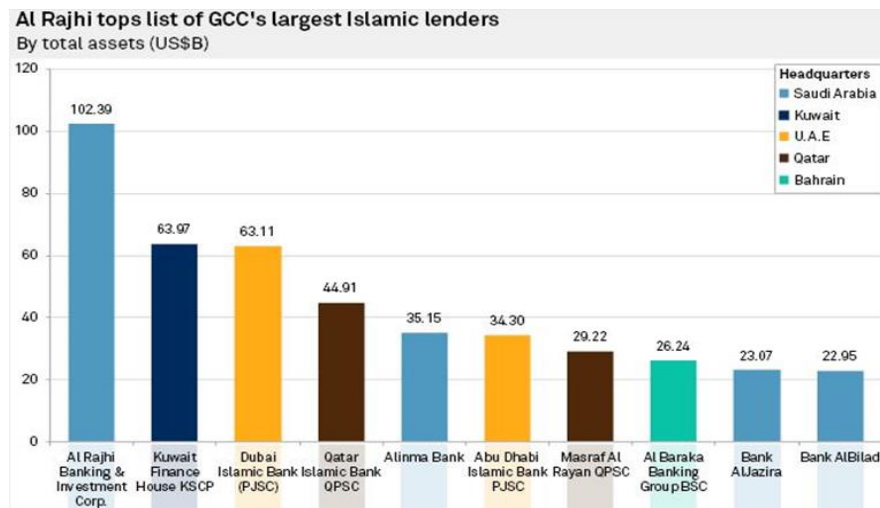


Figure 1

GCC's 10 largest Islamic banks rank Source: GCS



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Al Rajhi Banking & Investment Corp., a Saudi Arabian financial institution that ranks first among S&P Global Market Intelligence among the largest Islamic banks in the Gulf Cooperation Council (GCC).

According to a 2019 report by the Saudi Monetary Authority, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates account for 42.3% of total global Islamic wealth. (Anonymous, 2020)

1.7 Islamic banking transactions

Islam divides its banking transactions into two groups, one is the Profit and Loss Sharing (PLS) modes and the other is the Non-Profit and Loss Sharing (Non-PLS) modes.

PLS modes fully comply with sharia rules. Instead of demanding interest and collateral, it focuses on the risk community and customer relationships.

Non-PLS methods can be used to achieve goals that PLS cannot, such as reaching small-scale business customers and providing consumer credit.

Profit and loss sharing methods (PLS):

Mudaraba

In this case, the Islamic bank will provide the full amount of money needed for the project, and the contractor will provide the work and expertise given to the project. The profit is divided between both parties, the distribution is made in the proportion specified in the contract. The loss is borne solely by the financial institution, but it is liable to the extent of the collateral.

Musharaka

With this type of method, the amount of money needed for the project or tool comes from two sides. On the one hand, the bank and on the other hand the borrower. In proportion to the amount of money provided by the parties, they may participate in the management of the project or in the ownership of the asset.

Non-profit and loss sharing methods (Non-PLS):

Charity Loans - Qard al-Hasanah:

Donation and assistance. They are considered non-repayable loans, for those who are forced to do so. The bank is allowed to charge a service fee to cover the administrative costs, but it is a condition that the amount must be independent of the size and duration of the loan.

Sales with deferred payment - Bai'Mua'j:

The seller can sell the product, the price of which is determined at the time of sale. The sale can be deferred lump sum or installment.



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The price generated during the negotiation may include the bank's brokerage fee. You cannot include an additional fee for the possibility of deferred payment in the brokerage fee.

Buy with deferred payment - Bai'Salam or Bai 'Salaf:

The buyer buys a lump sum at the price specified at the sale (negotiated) and the seller assumes responsibility for the delivery of the product at a later, specified date. They are used when the quantity and quality of products can be determined at the time of sale and purchase, such as agricultural goods and goods to be manufactured.

Operating or financial leasing - Ijara or Ijara wa iqtina ':

We know about financial leasing in the case of conventional banks, this is a loan scheme, the course of which is regulated by the regulations of the credit institution. Here, the interest rate structure is allowed, as it does not involve the lending of money but the transfer of real assets.

Cost Plus - Murabaha:

The seller provides the customer with information about the product, be it the cost of purchasing or manufacturing it. The agreement includes a profit margin, which is not interest as this transaction does not depend on the duration of the contract and the contract itself is not for the purpose of borrowing money but for the transfer of an asset or assets. Typically, the purchase amount is made in installments.

Service fee - Jo'alah:

One person provides the other person with a certain amount described in the contract as a natural service fee. Such a transaction is consulting or asset management.

A common feature of the non-profit and loss sharing method (excluding the charity loan) and the profit and loss sharing method is that the yield is determined during the lease and lease and the bank may charge collateral.

In summary, the listed transactions are a trademark of risk aversion, not much different from the constructs used by traditional banks. The main difference can be seen in professional language and legal formalism. The methods can comply with Islamic standards in such a way that the rate of return can be linked to the transaction rather than its duration.

Nor should we ignore the fact that serial banking is not uniform, as it may restrict financial activities in different ways from country to country. (Varga, 2017)

1.8 Comparison of Islamic and European-American banking systems

If we can look at the main rates of great Islamic banks, we can see 35% point increase in total equity of weighted average and 22% point decrease of total



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deposits and 24% point in total investment, 19% point in total assets and 53% point in total revenue. We have to take account into the fact of depression of 1990's.

Bank	Total Equity			Total Deposits			Total Investment			Total Assets			Total Revenue		
	1990-94	1994-98	1990-98	1990-94	1994-98	1990-98	1990-94	1994-98	1990-98	1990-94	1994-98	1990-98	1990-94	1994-98	1990-98
Rajhi	7.7	7.5	7.6	13.9	7.7	10.8	12.0	7.3	9.6	11.8	7.1	9.4	0.5	11.2	5.7
KFH	14.4	21.0	17.6	2.7	3.3	3.0	9.9	6.2	8.0	4.2	6.2	5.2	11.2	11.8	11.5
BKBN	0.2	3.1	1.6	-12.2	5.5	-3.8	-10.5	3.8	-3.6	-9.3	5.1	-2.3	14.9	23.3	19.0
BIB	17.5	2.4	9.7	5.8	4.6	5.2	7.1	4.5	5.8	6.7	4.5	5.6	-2.0	11.9	4.7
FIBB	16.3	5.4	10.7	5.2	4.3	4.7	4.3	4.8	22.6	31.4	-8.8	9.5	23.9	2.8	12.8
FIBE	-15.2	12.2	-2.4	-2.4	5.6	1.6	4.5	9.3	6.8	-1.2	5.1	1.9	-13.8	17.1	0.4
DIB	8.0	34.1	20.3	17.0	6.9	11.8	12.2	9.7	11.0	13.8	9.2	11.5	14.4	8.6	11.5
JIB	32.2	6.4	18.6	22.0	5.2	13.3	21.2	6.5	13.6	21.9	5.1	13.2	17.8	0.6	8.9
QIB	-1.3	11.9	5.1	6.2	4.1	5.1	10.4	3.6	7.0	11.7	4.1	7.8	2.9	12.5	7.6
IBBG	12.1	25.2	18.5	18.5	13.4	15.9	21.4	9.3	15.2	18.8	13.3	16.0	12.0	14.0	13.0
BIM	24.1	30.8	27.4	21.1	-2.4	8.7	21.7	1.3	11.0	21.5	3.3	12.0	19.9	7.6	13.6
BKTFH	-12.1	35.4	9.1	20.1	9.8	14.8	14.8	12.0	13.4	10.0	10.7	10.4	49.9	-27.9	4.0
Simple Average	8.7	16.3	12.0	9.8	5.7	7.6	10.7	6.5	10.0	11.8	5.4	8.4	12.6	7.8	9.4
Standard Deviation	14.0	12.4	8.6	10.7	3.8	6.0	9.1	3.1	6.3	11.0	5.4	5.1	15.9	12.7	5.2
Weighted Average	7.9	12.6	10.2	8.8	5.7	7.2	11.3	6.9	9.1	9.3	6.4	7.8	11.2	3.7	7.3

Table 1

Annual Growth Rates of Islamic banks for Some Key Variables
Source: Iqbal, 2001.

If we can look at the main rates of the largest Islamic banks, we can see the developing in capital assets ratio and ROE, ROA. We can see a little decrease in the ratio of liquidity which means, that these banks thought in longer time, and made investments for the future. And there is a decrease in deployment ratios and cost income ratios which show less efficiency in these banks.

Bank	Cap/Asst Ratio		Liquidity Ratio		Deployment Ratio 1		Deployment Ratio 2		Cost/Income Ratio		ROA		ROE	
	1990-94	1994-98	1990-94	1994-98	1990-94	1994-98	1990-94	1994-98	1990-94	1994-98	1990-94	1994-98	1990-94	1994-98
Rajhi	14.3	14.5	15.0	13.5	99.2	97.7	84.5	84.4	36.6	34.2	3.8	3.7	25.9	25.6
KFH	4.2	7.3	19.3	8.1	89.8	105.0	81.7	90.6	83.8	61.6	0.4	2.2	6.6	29.3
BKBN	37.5	33.2	8.9	12.3	90.6	91.1	84.8	81.6	62.1	69.7	1.2	2.4	3.6	7.3
BIB	8.1	9.8	5.1	4.4	96.7	97.2	94.4	95.1	80.7	78.8	0.9	1.1	10.8	11.1
FIBB	31.8	31.8	9.0	7.2	54.6	91.8	33.9	54.1	43.1	47.1	5.4	4.9	16.8	15.9
FIBE	4.3	3.4	31.2	17.9	80.3	98.9	68.9	83.1	91.1	87.4	0.2	0.1	3.7	1.3
DIB	5.8	8.1	16.3	15.6	96.9	89.2	84.7	84.3	70.3	74.6	0.5	0.6	8.7	8.5
JIB	5.2	7.0	39.4	31.5	69.0	76.9	62.5	69.9	75.4	76.7	0.9	0.8	19.2	11.3
QIB	6.8	6.8	6.5	10.2	105.6	100.0	90.4	85.7	65.4	69.3	0.4	1.1	-2.3	16.4
IBBG	4.0	5.3	36.3	32.8	70.5	77.8	61.4	68.6	81.9	80.0	1.4	1.4	32.9	28.8
BIM	8.6	9.2	10.2	20.6	91.4	87.5	86.1	80.6	79.4	78.5	1.1	0.9	13.2	13.2
BKTFH	3.9	3.3	13.7	12.8	96.7	91.7	81.3	84.4	40.0	59.4	1.8	1.3	42.9	38.3
Simple Average	11.2	11.6	17.6	15.6	86.8	92.1	76.2	80.2	67.5	68.1	1.5	1.7	15.2	17.3
Standard Deviation	11.4	10.2	11.8	8.9	15.1	8.5	16.9	11.0	18.5	15.3	1.5	1.4	13.2	10.9
Weighted Average	9.3	10.4	17.6	13.6	92.2	96.5	80.7	84.2	55.9	53.4	1.9	2.3	19.9	22.1

Table 2

Period Averages for Some Key Ratios: 1990-94 And 1994-98 Source: Iqbal, 2001.

As ROA and ROE can show increase in the largest banks, we can say that there is a development in the return on these banks, but we have to be careful because we can see some decrease examples in smaller banks, so it is not generous that these corporations make a better output.

Bank	ROA			ROE		
	1990-94	1994-98	1990-98	1990-94	1994-98	1990-98
Rajhi	3.77	3.72	3.78	25.89	25.65	25.97
KFH	0.43	2.16	1.30	6.65	29.34	17.38
BKBN	1.24	2.42	1.81	3.60	7.29	5.36
BIB	0.87	1.09	0.97	10.80	11.15	11.05
FIBB	5.37	4.92	5.31	16.84	15.87	16.36
FIBE	0.22	0.06	0.15	3.68	1.26	2.74
DIB	0.52	0.63	0.58	8.70	8.47	8.57
JIB	0.92	0.79	0.84	19.24	11.31	15.37
QIB	0.38	1.12	0.69	-2.27	16.36	5.33
IBBG	1.38	1.40	1.34	32.88	28.82	28.94
BIM	1.10	0.94	1.01	13.21	13.19	13.00
BKTFH	1.77	1.34	1.68	42.86	38.30	43.03
Weighted Average	1.86	2.29	2.09	19.90	22.14	21.05
Simple Average	1.50	1.71	1.62	15.17	17.25	16.09
Standard Deviation	1.54	1.39	1.48	13.22	10.94	11.64

Table 3

Performance Ratios for the Islamic banks Source: Iqbal, 2001.

If we can compare the two types systems we can see that capital assets is similar. But in liquidation and in deployment the conventional banks are stronger. Cost and income ratio is similar but in ROA and ROE we can see that islamis banks are stronger in 1990's and weaker in 2000's.

Ratios	1990-94		1994-97		1990-97	
	Islamic Banks	Conventional Banks	Islamic Banks	Conventional Banks	Islamic Banks	Conventional Banks
Capital Asset Ratio	9.3	9.0	10.0	9.0	9.6	9.0
Liquidity Ratio	20.2	27.7	15.7	39.3	18.5	31.9
Deployment Ratio 1	92.2	75.8	96.0	69.0	93.7	73.3
Deployment Ratio 2	80.7	72.3	84.0	63.1	82.0	68.9
Cost/Income Ratio	55.9	NA	52.4	60.3	55.4	NA
ROA	1.9	NA	2.3	1.4	2.0	NA
ROE	19.9	NA	22.6	15.0	21.2	NA

Table 4

Comparative Ratios (%) Source: Iqbal, 2001.



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Therefore we can see that islamic banks can be competitive.

Year	Nb. of obs.		Av. TA (\$ mil)		L/TA		E/TA		ROA		ROE	
	Isl.	Conv.	Isl.	Conv.	Isl.	Conv.	Isl.	Conv.	Isl.	Conv.	Isl.	Conv.
2000	27	85	4857	5422	0.5273	0.4503	0.1319	0.1122	0.0315	0.0129	0.1547	0.1090
2001	28	102	2586	4429	0.5119	0.4478	0.1325	0.1189	0.0170	0.0133	0.1202	0.1234
2002	30	120	3077	5419	0.5103	0.4332	0.1439	0.1287	0.0163	0.0167	0.1275	0.1368
2003	35	142	3846	5684	0.5070	0.4451	0.1442	0.1256	0.0176	0.0187	0.1280	0.1428
2004	37	159	4925	6146	0.5369	0.4714	0.1392	0.1349	0.0252	0.0188	0.1475	0.1490
2005	38	160	4772	7203	0.5238	0.4752	0.1421	0.1278	0.0312	0.0225	0.1631	0.1696
2006	36	174	3717	8764	0.4942	0.4835	0.1453	0.1329	0.0309	0.0205	0.1529	0.1520

Table 5

Summary statistics by year, Islamic vs. conventional banks Source: Ariss, 2010.

Conclusions

Advantages and disadvantages of Islamic banks:

Advantages of Islamic banks:

- The rate of loss of solvency is low. The principle of Islamic banks is profit and loss sharing. Their applied principle protects solvency, but liquidity disturbances persist in the event that assets and liabilities mature differently.
- Due to the profit and loss distribution system, both banks and depositors pay due attention to the efficiency of borrowers, ie what and how, how efficiently they use the given loan amount. When choosing a bank, depositors take great care to ensure that the given bank makes as high a profit as possible, but the information available to them is quite incomplete. The lack of information is also present in traditional Hungarian banks.
- It can also provide services to customers who, for some reason, such as religion, do not or cannot take advantage of what traditional banks have to offer.
- Islamic finance is based on the financing of physical assets, usually of a material nature (finished product or service), which reduces the scope for speculation, but it is also bad because the Islamic banking sector does not use the entire range of financial instruments and hedging methods. benefit is also reduced. (Ligeti, 2007)

Disadvantages of Islamic banks:

- True, the risk of insolvency is reduced due to the Islamic banking principle, but because of this, the loss is passed on to depositors.
- Higher costs are incurred compared to traditional banks. Compliance with the sharia funds is monitored by the Saria Commission, which also has costs. Islamic banks hold more liquid assets than conventional banks due to the lack of interbank lending facilities.
- Because of Saria, the customer has fewer options for compensation.



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- Murabaha and ijara deals are more expensive than consumer credit schemes at traditional banks.
- Prohibiting forward transactions reduces the level of risk, but also limits the expansion of banks and the growth of the economy. (Ligeti, 2007)

Problems of Islamic banks:

Problems:

- There is no fully regulated regulatory and legal system for banking transactions.
- There is no collateral system for interest rate bans that is known to conventional banks, as its existence would reduce the number and development of risks.
- The deficiencies and limitations of the interbank market make it difficult for Islamic banks to operate.
- There is a lack of accounting rules based on Islamic principles, which entails the adoption of accounting standards used in the West, but we can also conclude from this that this does not lead to good, because if you no longer adhere to this kind of principles .
- There are also some differences between Islamic countries, which view the principle of operation of banks because they interpret religious principles differently. To remedy this, they use a religion legal committee, but neither do all Islamic banks. The Religion Legal Committee may analyze and evaluate the same products and services in different ways, resulting in no single concept of being an Islamic banking product or an Islamic banking activity.
- Another disadvantage is that the central bank has no “ultimate lender” function and there is no secondary market for Islamic banking products.

The practice of the Islamic banking system may be hampered by the profit and loss sharing system, namely that it is difficult to finance short-term transactions due to the complexity of yield calculation.

Another problem is the financing of the state budget, in the western part this kind of problem does not exist, because there the state is considered a significant borrower, but here the interest ban makes it difficult to take advantage of this opportunity. (Vahid and Kóbori, 2013)

Match

Personally, what is the same and emphatic factor in the two banking sectors is that they are based on some kind of legal system, have a central bank, are supervised by banking supervision, and have an incomplete information service to customers in both of them.

Deviation

Among the factors showing the discrepancy, the following are considered to be the most significant. These include the ban on interest payments, compliance with religious standards, the level of costs, the trademark of transactions, the applicability of forward transactions and the extent of the impact of the 2008 crisis.

	Islamic bank system	Hungarian Bank system
Legal system	Islamic legal system	Chapter - Civil Code
Accounting standards	They are incomplete	Established and appropriate
Religious background	The basis	No
Operation according to principle	Profit and loss sharing principle	There is no specific principle, the primary factor is to achieve maximum profit
Prohibition of interest collection	Yes	No
Central bank	Islamic Bank	Hungarian National Bank
Organization supervising banks	Islamic Advisory Board, Saria Commission	State banking supervision
Specific scope of activity	Yes	No
Clientele / potential clientele	Whatever your religion	Anyone except those of Islam
Customer Circuit Terms	Religious standards, level of costs, product quality	Rate of costs, product quality
The degree of trust	Large	No or a small percentage
Lack of information for the customer	Yes	Yes
Expenditures	Tall	Low
Financing of public expenditure	Not allowed (interest ban)	State is a major borrower
Trademark of transactions	Risk aversion	Maximum profit
Administration fee, Service fee	Charity Loans (Non-PLS)	All services
Possibility of compensation	Low	It is possible
Murabaha, ijara <-> consumer loans	More expensive	Cheaper
Forward transactions	They are forbidden	They can apply
Number of liquid assets	Tall	Low
Impact of the 2008 crisis	Less	Significantly

Table 6
Comparison of 2 banking systems Own edition

In the comparison, four types were distinguished, European banks, European alternative banks, Turkish banks, and Islamic banks.

By comparing the four banks, I primarily wanted to illustrate that, as an Islamic country, the functioning of Turkey's banking system is more like a Western scheme than an Islamic one.

	European banks	European alternative bank	Turkish bank	Islamic bank
Central bank base rate	yes	Yes	Yes	No
Premium interest	yes	Yes	Equivalent to the central bank base rate	No
Taking risks	No	No	Part	Yes
Carrying loads together with the partner	No	Part	Part	Yes
Following religious principles	No	Part	Dual	Yes

Table 7

Comparison of 4 banking systems Own edition

Because of the above, Turkey is considered a cuckoo's egg as it does not follow religious standards to the same extent as other Islamic countries. This is strongly reflected in the operation of banks, because they charge interest, equal to the value of the interest rate set by their central bank. Of course, those who fully comply with religious standards, also have the opportunity in this country to provide banking services to such a financial institution in Turkey Asya Bank. Asya Bank provides services in compliance with the rules of the Islamic religion. (Varga and Ary, 2018)

I compared the operation of MagNet Bank, which is also present in Hungary at European alternative banks, to the other types.

MagNet Bank is a community bank established in 2010 with an organic organizational structure by its owners and managers. The new strategy is designed to uphold traditional banking principles and goals. This bank is different from the others and differs slightly from traditional banks in that it is 100% Hungarian-owned, customers can choose to receive 10% of its profits from a social organization ("Community Donation Program"). retail customers can decide on the amount of the account management fee ("Honest Collection Account Management"), during card purchases customers can support social initiatives with bank money ("Help Card"), the amount of money placed in the deposit by the customer can be determined by the bank. (Bajkó, Varga, 2013), (<https://www.magnetbank.hu/>)

MagNet Banks have a view, also known in ancient Christianity, that it is important to help others, and this extends to other areas of life (economy). Over time, this view has become increasingly worn out in Christianity, and perhaps the banks based



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on Islamic principles, and the MagNet Banks just presented, still maintain this view to this day.

The Islamic banks for which they were created and formed carry out their business in compliance with it and without deviating from it. I think this is exemplary in the world or the economic situation we live in, because it is even factual that if we provide something to someone, we get a benefit (“interest”). These types of banks act according to their faith, provide, and provide assistance to Islamic believers.

The proposal to stay that way, to maintain what has been developed so far, as effective and stable, was a living example of this in the 2008 world crisis. And my advice is to spread and promote their services, as they can also provide products and services to non-Islamic believers, so that they can expand in the market ourselves and grow their customer base.

My advice and suggestion to the Hungarian banks would be that, in addition to their scope of activities, they could develop some banking schemes for Muslim believers, with which they could increase their customer base. Of course, this is worth knowing after a market research, because there are no unnecessary costs if it does not bring profit or profit.

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