INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES
Vol 14, Issue 4, (2024) E-ISSN: 2222-6990

The Relationship between Islamic Banks and Commercial Banks and its Impact on Banking Activities

Fatima Al Blooshi
College of Humanities and Social Sciences – Zayed University – Dubai
Corresponfing Author Email: Fatima.AlBlooshi@zu.ac.ae

To Link this Article: http://dx.doi.org/10.6007/IJARBSS/v14-i4/21473 DOI:10.6007/IJARBSS/v14-i4/21473

Published Date: 30 April 2024

Abstract
For the financial system, commercial banks function as primary principles. They provide various services for individuals and companies. On the other hand, Islamic banks serve to provide financial services that comply with Sharia laws, and focus on economic justice and general economic development. In global financial markets, financial foundations have been experiencing a continuous development. Among these foundations, Islamic banks play a significant role in the global banking system. They are dependent upon principles and regulations that are in compliance with Islamic law (Sharia). This makes these banks different, in their structure and perspectives, than to the conventional commercial banks. These two types of financial foundations have a common ground, where both commercial banks and Islamic banks have an interaction that significantly influences their banking activities. The present research seeks to uncover this complicated relationship, and to analyze the impact of Islamic banks on banking activities and general economy. In this respect, we should conceive the challenges and opportunities that may arise as a result of the integration of these two types of banking, and how these challenges and opportunities can contribute to stability and sustainable development in global financial markets. By our investigation, we expect to reveal the role of Islamic banks in enhancing Islamic funding and improving the financial performance of commercial banks. We also expect to understand how this relationship may contribute to the improvement of economic stability and sustainability.
Keywords: Islamic Banks, Commercial Banks, Banking Activities

Research Importance
It is very important to investigate the relationship between Islamic banks and commercial banks, considering the impact that this relationship may have on the financial and economic system in general. Below are some reasons for the importance of the present research:

1. **Sharia investment and funding:** Islamic banks, in their practices, depend on the principles of Sharia, which require them to provide funding and investment services that are in accordance with Sharia rules and regulations. Studying this relationship can

help to understand how to strike a balance between Islamic funding and conventional commercial activities.

2. **Financial stability:** Understanding the relationship between Islamic banks with commercial banks helps to analyze the stability of financial system. There might be mutual influences between these two types of institutions, and understanding this relationship can help to enhance the financial stability.
3. **Enhancement of financial innovation:** The investigation of this relationship can lead to the development of new, innovative financial services and productions in which Sharia prerequisites shall be taken into account and which actively fulfill the needs of individuals and companies.
4. **Economic development:** Islamic banks, moreover, adopt the concept of social funding and sustainable development. Thus, by shedding light on their relationship with commercial banks, it would be possible to analyze how financial foundations can contribute to economic development in ways complying to Islamic principles.
5. **Sharia arbitration:** Islamic banks and commercial banks may need a Sharia arbitration to resolve their potential conflicts. Thus, the investigation of this relationship can help to conceive how to apply the principles of Sharia judgement in times of conflicts.

In general, understanding the relationship between Islamic banks and commercial banks can help us better understand the interactions of financial system and economics, and can enhance the stability and sustainable economic development according to Islamic principles.

Research Method

The present study integrated the inductive method with the descriptive, analytical method.
Research plan: The research was divided into three themes:
- Introduction: It included research importance and research method.
First theme: Definition of the basic elements along with the following issues:
First issue: Elaboration on the definitions of relevant terms.
Second issue: Development of Islamic banks and their most important practices.
Third issue: Legal roots of Islamic banks.
Second theme: Commercial banks.
First issue: Development of commercial banks.
Second issue: Importance and functions of commercial banks.
Third theme: The relationship between Islamic banks and commercial banks, and its impact on commercial activities.
First issue: Forms of the relationship between Islamic banks and commercial banks.
Second issue: The cooperation between Islamic banks and commercial banks.
Third issue: The most important contributions of the conventional commercial banks and Islamic banks.

First Theme
Definition of the Basic Elements

In this theme, I shall elaborate on the following three issues:
First issue: Elaboration on the definitions of relevant terms.
Second issue: Development of Islamic banks and their most important practices.
Third issue: Legal roots of Islamic banks.

First Issue

Elaboration on the definitions of relevant terms

Definition of Islamic banks, commercial banks and banking activities

a) Linguistic definition of banking

There are various definitions for this concept, including:

1. Bank, an institution that deals in money and its substitutes and provides other money-related services. In its role as a financial intermediary, a bank accepts deposits and makes loans. It derives a profit from the difference between the costs (including interest payments) of attracting and servicing deposits and the income it receives through interest charged to borrowers or earned through securities. Many banks provide related services such as financial management and products such as mutual funds and credit cards. Some bank liabilities also serve as money—that is, as generally accepted means of payment and exchange (Al-Musavi, 2014).
2. An organization or place where you can borrow money, save money (Al-Zomur & Mahdi, 2005)
3. An establishment for the custody, loan, exchange, or issue of money, for the extension of credit, and for facilitating the transmission of funds Al-Darwish, 1989)

b) Terminological definition of banking.

There is no consensus over the definition of banking (in Arabic: صَرف) given that different religious branches have different points of view.

a) Hanafi School

Hanafi school offered many definitions for "banking" including:

1. Exchange of values, either gold for gold, silver for silver, one value for another, or some values for one value (Al-Ansari, 1989)
2. Selling some values for others (Al-Zamashkhari, 1982)

b) Maliki School

Selling cash for cash from another type (Gabr & Sabri, 1986)

c) Shafi'i School

Selling cash for cash from the same type or a different type (Khalaf, 2006).

d) Hanbali School

Selling values for other values (Atia, 1993)

Thus, it became clear that, as can be summarized from these definitions, banking concerns the selling of some values for others, such as selling gold for gold, silver for silver, gold for silver, or silver for gold.

The place where a cash is sold out is called "bank" (Hasan, 1998)

e) Definition of Bank among Economists

Economists gave various definitions for bank, including:

1. It is a foundation which basically receives money from people, either as a deposit or a similar form. The money is used by the bank for deduction, borrowing, or other financial operations (Al-Tayyar, 1988)

2. It is a foundation for exchanging cash or borrowing. The deposited capitals are used for borrowing, exchanging and other forms of financial operations. This is done in return for a benefit (Taiel, 1988)
3. It is a foundation which takes a mediating role between debtors and creditors whose task is to provide cash capital (Al-Ba'li, 1996)
4. It is a foundation which typically and continuously receives money from the public either in the form of deposits or any other form. This money is used for borrowing and giving credit, as well as for financial, investment and economic operations. The bank is held fully accountable for the use of capitals deposited by investors in investments. Moreover, the bank is under monitoring by the central bank (Al-Hosseini et al., 1996)
5. It is a place specialized in trading money and securities (Al-Zi'aili, 1996)

Thus, the place where a cash is sold out is called "bank" (Al-Yaqubi, 2005)
From the above definitions, it can be clear that all the definitions offered by economists agree that banks deal with money and use it in the form of deposits, borrowing, giving credit, or other financial operations in return for a benefit.

f) Definition of Islamic Bank

Researchers have offered many definitions of Islamic bank such as:

1- A banking, financial foundation for collecting money and employing it within the domain of Sharia. This is done to help construct the Islamic society, reach justice in distribution, and investing the money in an Islamic manner (Al-Ajarima, 2005)
2- A banking foundation obliged, in all its investment activities and deals as well as its management of all practices, to Islamic Sharia and its purposes, and to the objectives of Islamic society (Jestinieh et al., 1992)
3- An Islamic organization which focuses on businesses with the aim of developing the Muslim individual and society, and to provide desired opportunities for this society in order to stand out based on Islamic principles that function according to Halal and Haram (religiously right vs. wrong) (Homoud, 1991)
4- Any foundation that performs banking practices according to Islamic Sharia and Islamic banks with all their jurisprudential codes (Al-Ba'li, 2005)
5- A financial foundation that performs banking and other activities under the umbrella of Islamic Sharia judgements with the purpose of preserving Islamic ethics and values and achieving the highest social economic return in order to provide a normal, esteemed life for the Islamic community (Ibn Duraid, 2010)

From what has been mentioned above, it can be understood that there is a consensus between these definitions, such that all of them agree that this foundation works in compliance with Islamic Sharia and its principles, that it does not work for an interest (usury), and that they serve the individual and society through their activities. In this bank, the individual contributes and performs an interaction. Thus, there is a relationship between the function of these banks with Islamic Sharia and its judgements and purposes, which in turn help serve the society, people and the economy in general. In a final word, Islamic bank can be defined as a banking, financial foundation offering banking and other services according to the Islamic Sharia judgements and principles.

Second: Definition of Commercial Bank

Article 87 of Federal Law No. (10) of 1980 Concerning the Central Bank, the Monetary System and Organization of Banking in the UAE defines commercial bank as follows: "Any foundation that typically receives money from the public in the form of deposits, or that employs the documents of borrowings to use them partially and completely in giving loans based on its own responsibility."

Third: Definition of Banking Activities
Banking activities include the services and practices offered by banks for their customers. There are various definitions for this concept, including:

1. Unobvious, fast-disappearing activities and practices that occur within a process aiming to fulfill the expectations and satisfaction of customers. In this process, it is not necessary to have an ownership (Al-Dimiati Al-Bakri, 2002)
2. A set of processes with intent to gain a profit, where unclear elements outnumber clear elements. These processes are conceived by individuals and institutions in their profitable value and significance such that they fulfill their current and future financial and credit needs (Al-Disufi, 2001)

Therefore, banking, and financial services include a set of services provided by banks for customers. These services are related to the basic functions of banks such as the process of putting a deposit, credit, investment, etc. Banking services include the commonly known conventional services, such as depositing, taking-out, managing the accounts of customers, transacting money, issuing checks, borrowing and giving credits, issuing guarantees, etc. The other form of investment services includes management of securities, provision of consultation, provision of sponsorship for properties, among others. There is also another form which includes the new services provided by banks using banking industry technologies, particularly the communication technology that includes credit card, ATM, phone banking services, and internet banking services. These services have been attached much importance given the services they provide for customers in a new and appropriate manner (Ahmad, 1990). Based on what has been mentioned, banking service is any activity provided by the bank for the customer. This service aims at satisfying the customer, either for a return or not.

Second issue: Development of Islamic banks and their most important practices
Banking is not a newcomer. Rather, many years have passed since the emergence of banking and it is now stable and integrated. Babylonians, Greeks and Romans have defined banking deals with various appearances and forms. In the Babylon region, ancient writings were found which go back to the 20th century BC. These writings helped identify some aspects of banking activity in those eras. The banking activity was performed by their holy temples because they were among the most appropriate places for people to preserve their money and deposits. Moreover, past writings indicated that ancient Babylonians were so advanced in the sphere of crediting that there was a necessity for advanced funding activities that included the agriculture sector (Al-Motrik, 1996).

The Greek civilization came to be, to a large extent, like what was the case in the Babylonian civilization. Put differently, temples took a leading role in performing the banking activities, where financial activities were performed in the fourth century BC. The practices include putting deposits, borrowings, giving loans, testing and exchanging the currency, and, in order to avoid transferring cashes, doing transactions between different cities.

Romans were pupils of the Greeks in the sphere of banking activity. Through the Greeks, the Greek banking principles were, considering their widespread influence, distributed throughout most of the ancient world. However, as a consequence of the disconnection in the communication paths and the disturbance of safety in the Roman civilization, banking practices suffered from a lack of an appropriate place for development. Then, the economic and civilization downfall occurred in the Roman empire, followed by the downfall of its political entity by the end of the fifth century. Thus, we can notice that, in ancient civilizations, banking practices resembled each other in terms of their development and revival (Al-Ba'li, 1996)

Over throughout the seventh century, before the Prophet Mohammad (may God's blessings be upon him) was sent, Macca was a safe place in a disturbed environment, where caravans commuted from and to it. This led to the emergence of new forms of simple deals of depositing capitals, on the one hand, and investing those capitals, on the other hand. Capitals were invested in two ways: 1. Giving the money for a profit and 2. Borrowing with an interest, which was prevalent in the ignorance era.

Banking is not something new in our current culture, such that Muslims in various Islamic eras made use of exchange, deals with written papers, transactions, and other forms like bills, delegations, borrowings, guarantees, mortgages, etc. It is referred from Ibn Abbas (may God be pleased with him) that he took papers (i.e. Dirhams made out of silver) from Macca to Kufa (Ershid, 2001). Moreover, Abdullah bin Zubair is said to get Dirhams from a group in Macca and send them to his brother Misab in Iraq (Al-Moflih, 1980)

The Holy Quran was the first source for the jurisdiction of financial and banking transactions. That is, there were judgements regulating all deals, such that there are direct judgements about financial and cash issues. The Verses related to the judgements of religion, usury, borrowing, cash, and other judgements are examples of great legislations which promoted human thinking to an unprecedented level. Then the holy Sunna came into being as a second source to complement the intellectual and practical spheres. Next could be seen the efforts of the companions and followers, which were an intellectual heritage (Al-Sarkhasi, 1989).

After that, banking thrived in the Islamic civilization because of the flourishment of trading and its expansion to the Islamic world. The flourishment of banking can be observed as a result of the following acts:

a) Banks performed conventional activities that were commonplace among previous civilizations, such as weighing cash, determining its value when dealing with it, or preserving it by depositing it.
b) Banks occasionally collaborated with governments in giving salaries to workers and employers.
c) Banks performed unprecedented banking activities such as issuing checks and bills. The activities of banks contributed to the facilitation of business activities by simplifying the transfer of money between business centers in Islamic lands and other places.

In our time, Islamic banks appeared primarily during the middle of the fourth and fifth decades in Malaysia and Pakistan, however, they did not last for a long time (Al-Bukhari Al-Hanafi, 2004). Then, Savings Bank appeared in Egypt in the 60s. It was the first Islamic bank established in Egypt, though it faced obstacles and thus did not last for long either (Homoud, 1998). Next, the Islamic Bank of Dubai was established in the Emirates, marking the world's first Islamic bank which observed persistence, development and flourishment. In the same year, the Islamic Development Bank in Jidda in 1975 also came into being as the primary Islamic bank. Following this bank, other banks appeared (Babeli, 1989).
Islamic banks aim at the following:

1. Application of Islamic Sharia judgements in common deals, particularly in banking deals that have to do with money and products, and that avoid giving and receiving usury. This is considered something valuable for the Islamic community, from which those judgements emerge and cover all aspects of life. Furthermore, these judgements reconnect the poles of religion and state.
2. Development of economy and community through banking services and investment practices of the actual project, as well as encouragement of savings, provision of sponsorship for Islamic projects for a fair return, consideration of growing groups and those in need by providing them with zakat, and contribution to the marriage of needy singles and provision of appropriate housings for them.
3. Achievement of a profit shared between the bank and the customer by investing Muslims' money. This may be done directly by the bank's investment or by paying the money to other experts, in which case the money annually increases. The zakat is paid from this profit and, in case a loss occurs, only the person who deposited the money shall lose, and the bank's efforts and strivings for the investment shall go awry.
4. Provision of the Islamic alternative for all banking deals in order to free Muslims from accountability (Khasawna, 2008)
5. **Third: The most important practices of Islamic banks**
   The practices of Islamic banks pivot around the following: (Al-Za'tari, 2006)

1. Acceptance of deposits, creation of checking accounts that are in fact a service for the customer, giving the value of checks, receiving commercial papers out of bills of exchange, granting guarantees within the permitted limit, giving credit cards after purifying them from what is taboo (usury), among other banking practices. The bank also offers banking services such as transactions, management of checking accounts, checks, agencies, import processes through an agency for a wage, etc.
2. Dealing with foreign currencies by selling and purchasing with the current price, executing the transaction orders, providing the customer with account clearance, providing ATMs, etc.
3. Management of possessions and legacies through an agency for a wage, executing wills, management of endowments, and management of orphans' money and private funds.
4. Offering information and consultations to customers.
5. Offering interest-free borrowings for productive and social purposes such as marriage, establishment of private funds for those purposes, and provision and distribution of zakat. However, the activity of borrowing in Islamic bank is narrow and limited to the following three areas: Borrowing bank customers usually short-term money, and borrowing for such banking services as guarantee services, document-based funds, accepting commercial papers for a wage, and some necessary consumer debts.
6. Investment of money of those wanting to do so in various economic projects (agricultural, industrial, commercial and utility) through participation, etc.
7. Provision of the necessary sponsorship for economic projects in various ways, and the bank funds businesspersons by giving them products and materials, and postponing the value mentioned in the contract based on certain conditions.

The bank helps entrepreneurs of agricultural and industrial businesses in receiving the raw materials and tools in a convenient manner, where it purchases their products, postpones the receipt of them, and pays the proposed money beforehand so the entrepreneurs can receive the money needed for the continuity of their activities. The bank, furthermore, provides entrepreneurs of industrial activities with fixed amounts of tools and machines through a renting that will finally lead to ownership.

Other banking activities include funding the establishment of constructs, manufactories and real estate items through contract, where the bank establishes them with certain qualities and for a delayed payment.

Moreover, the bank may fund a project or residence construction for a person or party through participation. The participation may be either fixed, such that the profits and potential losses are distributed, or it may be degraded where the bank gradually loses its share in the project and the ownership of the bank as well as its profit shall simultaneously decrease along with the decrease of its share.

Among the most popular investment activities and projects is the speculation contract in which the bank offers the capital and assigns experts to invest in the activity or the project. The profit will then be distributed as agreed upon. Should any loss occur, the bank shall fully be responsible and the speculator's efforts shall go awry.

In conclusion, the Islamic banks function according to the following three principles:

1. Avoidance from dealing with usury, interest and deception.
2. Dependence on work as a source of income, rather than considering money as the only source of income.
3. Avoidance from spoiling the capital and instead associating the economic development with social development.

Third issue: Legal roots of Islamic banks

When we take a look at the history of modern banking activity, Islamic banks, as institutions, turn out to be modern entities. The first modern, official record for the concept of Islamic bank can be observed in the agreement of the establishment of Islamic Development Bank back in 1974. This agreement was reached by a shared participation of the Organization of Islamic Conference countries to establish this international institute. The organization aims to support the economic development and social advancement of the participating countries as well as the Islamic societies, either on an individual or a collective basis, in compliance with Islamic Sharia judgements (Jamal, 1978).

In relation to the establishment of these Islamic banks, there are various starting points, where there are banks established according to a specific law, such as Faisal Islamic Bank of Egypt which was established according to Law No. (48) of 1977, or Bank of Jordan by Law No. (13) of 1978. Other banks, however, were established according to a particular decree or law, such as Dubai Islamic Bank that was established by Decree of 1979/3/12, Kuwait Finance House by Law No. (72) of 1977, and Bahrain Islamic Bank by Decree No. (2) of 1979.

There are also Islamic banks that conform to the customary judgements of corporations' laws as well as the ongoing laws of the respective country. Examples include the International Bank of Luxemburg in 1978/10/12. This corporation contributed to the establishment of the International Islamic Bank in Denmark in 1982/9/10, in which time an initial declaration was issued, followed by a final declaration in 1983/2/17. The bank started its practices in 1983/4/18 with a full compliance to Danish laws.

The establishment of the International Islamic Bank in Denmark was a successful step in buying a closed contributing company in Britain in 1981/3/11. The basic system of this bank was amended and this amendment included performing all activities of the company in compliance with Islamic Sharia and in such a way that does not contradict the local laws and regulations. However, the practical activity proved that neither of the institutions in Denmark and Britain could appropriately cooperate with each other.

In relation to the legislative aspect of the Islamic bank, there were attempts made by the Pakistani government where the former president of the country, Zia-ul-Haq, tasked the Council of Islamic Ideology with conducting a study on the Islamic economic system in 1977/09/29. The Council depended on the report of the Committee of Experts in 1980/06/15. Moreover, the Central Bank formed several committees, and a committee was also set up that included primary parties of five national banks. They were tasked with preparing the practical steps of applying the Islamic banking system.

As a consequence, amendment was made to the relevant laws, such as the law of banks and that of companies. Moreover, various laws were issued in an attempt to expand the banking activity relating to usury. Practically, however, a deviation was also observed where debts and discounts were offered for a return, in compliance with what was stipulated by Sharia scholars. It is argued that the ways investments were used for PTC, buy-back and markdown do not conform to Islamic Sharia judgements Birnar & Kuli, 1995)

In Malaysia, however, a national committee for the Islamic Bank was set up in 1981/07/30 and a report was given by the committee in 1982/07/01. The report included a number of recommendations among which are that it is necessary to establish a bank functioning in compliance with Islamic Sharia, and that it is necessary to issue a law for Islamic banks in order to issue a license, provide supervision, and amend some laws for the Islamic banks. The other recommendation is that it is necessary to form a Sharia-based monitoring council in order to make the Islamic Bank comply with Islamic Sharia. Accordingly, the Islamic Banking Act No. (276) of 1983/04/07 was issued.

Furthermore, the constitution of Islamic Republic of Iran, in Article 43, included certain economic regulations such as the prohibition of usury and monopoly (paragraph No. (5) of Article No. (43)). According to that constitutional provision, the Islamic Banking Act was issued at the beginning of September 1983, which was due in 12/03/1984.

Also, in Turkey, a law was issued to regulate the activity of usury funding. The law was called "Private Funding Houses" and was issued following Decree No. (7506/1983) in 1983/12/16 as well as Decree No. (7833/1984) in 1984/03/15 made by the Council of Ministers.

The UAE government decided to have an inclusive private law for the function of Islamic bank. Consequently, the Federal Law No. (6) of 1985 Regarding Islamic Banks, Financial Institutions and Investment Companies was issued.

In addition, the Republic of Sudan issued the inclusive Act No. (2) of 1993 for regulating the Islamic bank. Similarly, Republic of Yemen issued Act No. (2) of 1996 regarding the Islamic banks in 1996/07/29.

Thus, we can notice that Islamic banks took positive steps in establishing Islamic banks by issuing laws and legislations that regulated the function of these banks in such a way to benefit people, society and countries. These laws also regulated the relationship between Islamic banks and other banks.

Second theme: Commercial banks

First issue: Development of commercial banks

In the previous theme, the origins of commercial banks were discussed. These banks took control over economy and money. Then, the practices of these banks expanded, such that they were obliged to regulations and laws that led some of them to transform into Islamic banks. Moreover, new Islamic banks were established that were far from usury. These banks were highly welcome by people for they did not give or receive money for an interest.

Second issue: Importance and functions of commercial banks
Commercial banks are among the most important and the most active banks, where the majority of deposits are centered in them, the majority of borrowings are made by them, and most of services are provided by them, particularly in developed countries that include Islamic countries, too. Henceforth, commercial banks are considered among the most important banks in terms of performing functions in modern economics. These banks manifest what used to be done especially by money borrowers, traders and jewelers. Those past practices, however, evolved in respect to their functions and made important changes in their approaches and ways in performing these functions. Moreover, those functions witnessed an expansion in their domain, became more various, and experienced new additions that are following the development of economic activities. Other changes include an expansion in granting banking credits and proving further banking services (Karam, 1996)

Functions
Based on what was mentioned above, it can be concluded that commercial banks are among the financial institutions with the greatest importance in economy since they perform the majority of functions generally performed by banks. Still these banks perform many other functions that distinguish them from other kinds of banks (Ibn Faris, 2002). Of the most important of these functions are the following

1. **Receipt of Deposits**

Receipt of deposits is regarded as one of the most important activities of commercial banks. This activity primarily distinguishes these banks from all other financial institutions. The bank receives deposits from individuals and companies whose accounts are different in terms of the ease with which the customer can take out his money and in terms of the amount of the return (Anis et al., 1982). The bank turns these deposits into cash once they are turned into checks or records from one account to another. This may also occur when the bank wants to pay a debt for clearance (Shubair, 1996)

2. **Borrowing**

The bank receives savings from individuals and then forwards those savings to investors and other parties in the form of debts. Banks offer a number of different debts each of which fulfilling the needs of a certain group of customers. Some of these debts are dedicated on certain activities whose source comprises the deposits of customers and the capital of the bank. Thus, those debts are the primary source of income of the bank. Note that the average return requested from lenders shall be higher than that paid by depositors. The difference between the two amounts shall be the return of the bank. Also note that the main element in borrowing concerns the ability of the customer to pay the borrowed money (As-Salus, 1986).

3. **Initiation of a Letter of Credit**

Indeed, one of the most important distinctions between commercial banks and other banks is the former's ability to initiate a credit. These may be either called debts or that they are offered under other names that reflect the nature of the respective activity. Initiation of credit is among the most important banking activities having to do with foreign commerce (Al-Motrezi, 2007).

4. **Discounting Commercial Papers**

Through this activity, the bank offers credit to its customers. In other words, businesspersons who sell their commodities at a postponed time may in return get commercial papers that space out the proposed money on different payments with certain dates. The difference between the current value and later value will also be added to the total amount. The businessperson may want to receive those amounts of money at a sooner time, in which case he or she discounts those papers in the commercial bank. Thus, the person receives the money with a certain discount as a return for the bank in return for paying that amount of money to the businessperson (Al-Maqdasi, 1980).

5. **Exchange of Currencies**

Banks are a place where foreign currencies are exchanged, sold out or purchased (Abdul Mahdi & Al-Hamundi, 1980).

6. **Issuance of Credit Cards**

In many countries, banks are responsible to issue credit cards, which is one of the lending processes. This card shall allow its holder to borrow money from the bank at any moment. This is done by his signing on a selling document when he purchases a commodity or service from a commercial store that accepts this card. Then the seller receives the value from the bank, thereby the bank shall grant the holder of the credit a borrowing that equals the amount mentioned in the document. This amount includes the value of those purchases in addition to an interest (Abdul Kafi, 2005).

7. **Transfer of Money**

Banks perform money transfer processes from one place to another by writing checks that can be paid by other banks. Transfer may also occur using modern technologies such as telex, fax, etc. In return, for that service the bank receives a fee that forms part of that amount of money (Ibn Mandur, 2005).

8. **Provision of Financial Consultation to Customers**

Banks gather basic information regarding economy, businesses and the available investment opportunities. The information is gathered in such a way that the bank can benefit from it in making appropriate decisions in the amount of the credit it provides to customers. Then the bank offers a specialized technical consultation to its customers and dealers either for a return or without it (Sano, 2005).

Furthermore, banks in many countries supervise some of the investment projects, manage endowments, regulate charities, and rent safe boxes for protecting money and important documents in return for a service fee (Allia & Rizq, 1985).

Thus, banks offer important practices, as well as banking services that are necessary in this age such as facilitating debt payment, transfer of money from one area to another (Al-Kafrawi, 2006), among other services.

Third theme: The relationship between Islamic banks and commercial banks, and its impact on commercial activities

It is acceptable for Islamic banks to deal with other conventional banks in deals which do not contain violations to Islamic Sharia judgements. It is mandatory to be obliged to Sharia judgements and principles in contracts and deals (Za'ir, 2005).

Islamic banks are assertively present in the banking activity both locally and globally. They also have a strong presence in the global economic system, and they may even be "the banks of the future" considering their comprehensive spread, where there are over 250 foundations as a consequence of the system they adopted. This is indicated in the study performed by International Monetary Fund.

First issue: Forms of the relationship between Islamic banks and commercial banks

Despite all this, there are people who cast doubt about the practices of Islamic banks. Still there are others who do not distinguish between these banks and commercial banks arguing that there is no difference in the deals of Islamic banks with those of conventional commercial banks in terms of wrong-doing where both kinds function according to usury. However, we believe there are numerous similarities and differences between Islamic banks and conventional banks, which shall be discussed below: (An-Najjar, 1981).

*** Similarities**

1. Islamic banks and commercial banks are similar in terms of title where both of them are called "bank". Moreover, both of them perform activities that have to do with banking and financial aspects. These aspects may be in relation to receiving funding resources or using those resources (Az-Zuhaili, 1986).
2. Both Islamic banks as well as commercial banks work under the monitoring of the central bank (financial monitoring only), and they are both obliged to perform the orders and instructions given by the central bank regarding the banking activities.
3. Both kinds of banks have fluidity and adventure and seek profit in performing their practices and activities; however, this tendency is stronger in conventional banks so they can achieve their economic and social objectives, which includes the contribution to economy and service to society.
4. Islamic banks and commercial banks perform banking activities that do not include an interest, and that do not contradict Sharia judgements. Such activities include checking accounts based on borrowing in which the banks are committed to pay the amount as they were, receipt of checks and cash transfers, exchange of currencies, renting safe boxes, receipt of commercial papers for the accounts of debtors, etc.
5. Islamic banks and commercial banks are similar in terms of performing some investment aspects that aim to achieve economic development in society.

Differences

Islamic banks differ from commercial banks in several respects, the most important of which are the following:

1. Islamic banks function based on the profit-loss principle that is stipulated by Islamic Sharia, and also avoid dealing with usury. This is while commercial banks perform their activities according to the global banking system in which interest (usury) is given and received.
2. Islamic banks are not permitted to make violations to Islamic Sharia rules. An example of such violations is overdraft which includes usury.

3. Investment forms a significant part of Islamic banks' deals. That is, they profit from the buyer and offer rents that later lead to ownership; whereas commercial banks attach much value to borrowing and do not resort, except in a narrow domain, to investment in their practices.
4. In addition to financial monitoring, Islamic banks are under Sharia monitoring in their practices and activities. This is done to ensure that the banks adhere to Islamic Sharia judgements. This is while commercial banks do not adhere to Sharia monitoring and are limited to financial monitoring only.
5. The investments of Islamic banks often have fixed or movable rules both in participation and profiting. However, this form of dealing is, according to the laws of fund institutions, banned in commercial banks. This is because the latter banks fear from freezing their money and want to protect its fluidity. In fact, the relationship between the bank and its customers is a debtor-borrower relationship, whereas the relationship between Islamic banks and its depositors is in that the latter make use of the banks for financial investment.
6. Islamic banks rely on numerous Sharia-based tools to fulfill the needs of all classes of society in compliance with Sharia judgements. These tools may include speculation and participation without making a profit. This is while commercial banks offer their customers borrowings and credit facilitations in return for an interest (usury) which is wrong in Sharia.
7. Islamic banks make use of such tools as participation, speculation, etc. where there is no compensation in case of loss (loss is likely). This is while commercial banks offer borrowings with guarantees.
8. Islamic banks, in addition to their banking and economic role, play a distinctive role in society. They also offer interest-free borrowing for marriage, treatment, calamities, etc. as well as initiating zakat box and distributing the money to those who deserve it. Commercial banks, on the other hand, are not concerned with these aspects except in cases where these practices benefit them financially and commercially.
9. Islamic banks adopt the mercy, tolerance and facilitation principle in which there are humanistic aspects related to Islamic Sharia. Thus, the borrower who faces tough circumstances is helped out in compliance with All-Powerful Allah's saying that: " If it is difficult for someone to repay a debt, postpone it until a time of ease (Al-Baqara: 280)." The borrower who delays payment shall be penalized by a penalty that does not reach the point of usury. Commercial banks, on the other side, are not merciful with the debtor and, in case he does not pay the debt within the proposed period of time, they do not take his circumstances into consideration and thus he shall burden usury losses as a result of the delay.

Second issue: The cooperation between Islamic banks and commercial banks

Apart from usury deals, Islamic banks cooperate with conventional commercial bank in many areas such as:
1. Mutual checking accounts, where the checking account of Islamic banks are funded by the conventional bank. This is done for the purpose of transferring money from and to these accounts according to the following rules:
a) Exemption of interest for both parties.
b) The checking account of the Islamic bank is funded by conventional banks through legitimate ways such as purchasing foreign currencies and recording this purchase in its checking account in the conventional bank, or taking out cheques from foreign banks in which the Islamic bank has credits.

2. Conventional banks are responsible for correspondence for Islamic banks.
3. Both types of banks make use of each other's experience in the modern technology for serving customers and performing the banking work functions in general.
4. Cooperation with each other as agencies in deals that are free from usury.
5. Exchange of cheques and initiation of letters.
6. Presence in joint banking meetings of each other.
7. Exchange of banks' information and data that are related to the debts of customers and credit facilitations considered for them. This is done to the extent that ensures the secrecy and provision of the necessary data for granting banking credits.
8. Banking funding.
Islamic banks fund major international operations by participating with each other or with other conventional banks in compliance with Sharia regulations stipulated by fatwa committees. That is, the Islamic bank plays the role of coordinating and organizing the funding operations. Moreover, it takes the role of an agency and speculator and takes into consideration that this funding activity has its own financial entity that separates it from other independent banks so religiously wrong versus right (Halal versus Haram) remain considered.
9. Compensative credits are offered in the number method
For this deal, a fatwa was stipulated in the 11th Baraka meeting in 1996 in Jidda in which the following was provided:
"It is permissible to reach an agreement between the Islamic bank and a bank dealing with an interest provided that the Islamic bank has credits in the usury bank. Thus, the Islamic bank is not obliged to make a payment to the usury bank with an interest. Instead, the Islamic bank deposits money in the number method in order to avoid paying interests beside the proposed amount of money.

In this case, the rule that "every borrowing that leads to an interest hall be regarded as a usury" will be rejected because religiously wrong profit is that which does not lead to a harm or loss to the other party, and this deal has a profit for each party and there is no harm for neither parties. Assuming that it is wrong to perform this practice, it remains necessary to perform this activity with the usury banks. However, this agreement shall justify this deal and, according to this agreement, getting an interest shall be avoided.

It is necessary to have the least possible amount of credits in usury banks. In case there remain interests for the Islamic bank as a result of dealing with the usury banks, the former bank shall spend it on charity issues and shall not deposit in the banks."

Third issue: The most important contributions of the conventional commercial banks and Islamic banks

Global Western financial foundations, as a result of their accumulated experiences and expertise and with the help of their consultants and lawyers in their centers, could play an active role in enhancing the Islamic banking and financial activity inside and outside Islamic countries. The most important contributions of these foundations include:

1. Global accumulated sponsorships for major projects (Syndications).
2. Promoting and marketing global cheques (e.g. HSBC issued the first global Islamic cheques for Malaysia and City Bank Group issued the first global cheques for Islamic Bank Development in Jidda).
3. Establishment of investment boxes for global stock market (e.g. Wellington company in Boston, United States, which is globally among the most active Western financial companies in this area).

4. Establishment of real estate boxes (e.g. Islamic Investcorp boxes that are among the premier Islamic real estate boxes).
5. Establishment of direct investment boxes (e.g. Islamic Bank Banks whose name has recently changed in cooperation with global financial companies in America and other countries).
6. Cooperation in international commodities and global deals (e.g. Dawny Day and Engelehard companies that are among the most important companies in this area. However, the latter company stopped performing this activity).
7. Provision of Islamic funding for housing in Western countries (e.g. HSBC in the UK and the US, and Cuidance Capital in America).
8. Provision of some Islamic financial services in Western countries (e.g. checking accounts in Lioyds group, which were recently designed in British markets and which adhere to Islamic judgements).

Thus, Islamic banks are part of the local and international banking system which in turn impacts the local and international economics. Therefore, Islamic banks and conventional banks continuously cooperate to perform their national objectives.

Some believe that it is impossible for the two banking systems to cooperate with each other since they are different in terms of their intellectual bases and belief principles. Nonetheless, a Malaysian example proved that in order to transform a conventional bank into an Islamic bank, it is best to allow the two systems to cooperate with one another. Moreover, the best way to promote Islamic banks is to allow conventional banks to develop Islamic competitors.

As a consequence, some banks completely shifted from the conventional usury system to an Islamic system and therefore conformed to the following order of All-Powerful Allah: "But if you repent, you may retain your principal—neither inflicting nor suffering harm (Al-Baqara, 279)." Examples include the following banks:

1. **National Bank of Sharjah:**

In the sixth of March 2002, the extraordinary general meeting (EGM) of the National Bank of Sharjah agreed to change the bank into an Islamic bank. To this end, it made use of the amended principal system which prohibits the bank from dealing with an interest. Thus, the Management Council specified 1/7/2002 as an official date to start dealing with the Islamic system.

2. **Saudi Egyptian Finance House:**

This usury bank was changed in terms of form and content. Thus, its name changed into Ahram Bank in the 1990s. This idea was developed when the bank faced major losses that could lead into its downfall. Therefore, Islamization was chosen as a solution to save the bank from an otherwise certain downfall.

3. **Emirates Islamic Bank:**

Middle East Bank was changed into an Islamic bank in 2004 and was called Emirates Islamic Bank. The bank started its activity in late 2004.

4. Numerous banks in the Emirates and the Gulf countries took serious steps to shift into Islamic banks. They also made serious attempts to get the permission of the specialized parties of their country.
5. **Western Banks:**

Some Western countries established branches for Islamic deals. For example, City Bank established a bank for such deals in America and Bahrain.

Conclusion

For over 25 years of their establishment, Islamic banks had activities and practices that were either admired or opposed. Despite the criticisms these banks encountered, they nevertheless could play an active role and could bear the responsibility of applying Islamic Sharia in their financial deals.

Indeed, the contracts adopted by Islamic banks need to be improved and updated in order to make use of updates and conform to Islamic Sharia judgements. This requires the effort and jurisprudence of the religion's jurists as well as the responsible parties of Islamic banks.

According to the available information regarding the Islamic banking, we can reach some results. For this purpose, it is necessary to accurately evaluate and actively make use of experiences in order to ensure the continuity of development and renewal in this area:

Development of Islamic funding tools opened new doors to small- and middle-size projects to receive funding resources that were unavailable within the framework of conventional banking. Some Islamic funding tools allow the customer to purchase or rent and then own something. Such tools, despite the criticisms they faced, are generally highly admired, especially when compared to usury funding.

As can be inferred from what was pointed out, the conventional tools of the Islamic funding have achieved a major success after their improvement. That is, some Islamic banking objectives were actively achieved. The success of Islamic banks is reflected in their increased number as well as their expansion in terms of funding resources and investment activities. Thanks to this success, Islamic banks were able to persist despite all the many challenges they faced both locally and internationally. These banks were also successful in overcoming the challenge of getting rid of monopoly that used to be present in usury banks. Monopoly was present globally and, in the banks', active competition.

Recommendations

1. Obligation to Sharia regulations when dealing with advanced Islamic funding tools.
2. Avoidance of invasion to the ethics of Islamic practices, most importantly honesty and goodness.
3. Obligation to funding investments and activities within the framework that was stipulated by Allah.
4. Prioritization of modern investments funding and projects that serve the general benefits of Muslims.
5. Consideration of conditions and tools in order to ensure that the money is not used in an inappropriate manner.
6. Crediting is a primary banking activity for Islamic banks. Hence, it is necessary to consider conditions and regulations for granting a credit.
7. Exploration of practical procedures and strong mechanisms which are built upon objective rules and then on real indicators in order to ensure that the respective behavior is right.
8. In case there are new funding tools, it is necessary for the jurist user to be an economist with sound knowledge of Islamic economic rules and banking and funding aspects. Then the jurist shall explain his jurisprudence to an Islamic jurisprudent or to more individuals who have an understanding about financial deals. It is also preferable that the jurisprudent has studied the modern economics of banks and funding, which is necessary in our era.

9. Banks and Islamic financial institutions must have a strong cooperation with committees and institutions that support Islamic banking industry, such as the general council of banks and Islamic institutions and Sharia council for the committee of Islamic accounting and reviewing. This should be done through an integrated process which brings together the three parties and organize them in a scientific method that gives benefits to each financial institution without hampering this industry or impacting it negatively.
10. The general council should prepare the list of proposed products and determine priorities for their improvement in coordination and consultation with various financial institutions. Then an attempt should be made to set up educational committees with each having diverse expertise and the exclusive task of deeply studying and improving a certain financial product project. These committees function with the support of institutions that are concerned with the product and with the supervision of the general council. Once completed, each product will be discussed and accredited by the Sharia council of the Islamic reviewing and accounting council. Then, the product will be available to the respective institution that has strength, support and priority.
11. The role of the current jurisprudential parties should be activated. All recommendations and decisions of these parties should be taken into account.

References

Al-Musavi, A. D. (2014). The major impact of e-banks in improving banking services and achieving competitive privileges. Kut Journal of Economic and Management Sciences, (16).

Al-Zomur, H. H., & Mahdi, A. H. (2005). The impact of service marketing elements of five-star hotels in Jordan on the perceived image of visitors: A comparative study. Jordanian Journal of Business Administration, 1(1).

Al-Darwish, A. Y. (1989). Judgements of market in Islam and its impact on the Islamic economy. Book World for Publication and Distribution.

Al-Ansari, O. (1989). Modern methods for managing commercial banks: A quantitative, administrative introduction with a presentation on the financial and banking system in the UAE. Dar Al-Qalam – Dubai.

Al-Zamashkhari, A. Q. M. (1982). Principle of eloquence. Edited by A. R. Mahmoud. Al-Marifa Publication.

Gabr, M. H., & Sabri, N. (1986). The administrative and accounting principles of Islamic banks. Accreditation and Research Center of Nablus.

Khalaf, F. H. (2006). Islamic banks. The World of Modern Books.

Atia, J. (1993). Islamic banks: From freedom to organization (2nd ed.). The University Institution for Studies, Publication and Distribution.

Hasan, O. O. (1998, June 7). Islamic banks from freedom to organization, convention and jurisprudence: Theory and practice. Retrieved from www.islam.gov.qa and www.aljazeera.net

Al-Tayyar, A. M. A. (1988). Islamic banks from theory to practice. Al-Qaseem Club.

Taiel, M. K. A. S. (1988). Islamic banks – method and application. Ghabashi Presses.

Al-Ba'li, A. H. M. (1996). Islamic banks and their commercial and investment role in the era of globalization and freedom of trading.

Al-Hosseini Al-Wasiti Al-Zubaidi Al-Hanafi, M. M. A. (1996). The crown of the bride. Edited by A. Shiri. Al-Fikr for Publication and Distribution.

Al-Zi'aili Al-Hanafi, F. A. (1996). Explanation of facts. Islamic Books Publication.

Al-Yaqubi, N. (2005). Experience of Islamic work in Western financial institutions. In Proceedings of the 14th Annual Scientific Conference of the College of Sharia and Law at UAE University.

Al-Ajarima, T. (2005). Banking marketing. Hamid Publication.

Jestinieh, D. S., Al-Qarri, M. A., Sadiqi, M. N. A., & Al-Sa'ati, A. (1992). Application of laws inspired by Islamic Sharia on banking practices: An applied study on the Pakistani system. King Abdul Aziz University.

Homoud, S. H. A. (1991). Development of banking practices in compliance with Islamic Sharia. Dar Al-Torath Publication.

Al-Ba'li, A. H. M. (2005). Organization of the relationship between Islamic banks, central banks and other conventional banks. Presented at the 14th Annual Scientific Conference on Islamic Financial Institutions – Perspectives of the Reality and the Future, Dubai Chamber of Commerce and Industry.

Ibn Duraid. (2010). Publicizing the language (New offset ed.). Sadir Publication.

Al-Dimiati Al-Bakri, A. B. O. M. S. (2002). Hashiat I'anat Al-Talebin. Edited by M. S. Hashem. Scientific Books Publication.

Al-Disufi, M. A. A. (2001). Hashiat Al-Desoqi ala Al-Sharh Al-Kabir. Isa Al-Halabi Press.

Ahmad, A. R. Y. (1990). The role of Islamic banks in financing the financial resources of development. Presented at the conference on Islamic Banks and their Role in the Development of the Economics of Arabian Morocco, Islamic Development Bank.

Al-Motrik, O. A. A. (1996). Usury and banking deals from the viewpoint of Islamic Sharia. Dar Al-Asima for Publication and Distribution.

Al-Ba'li, A. H. M. (1996). Sharia monitoring of the activity of Islamic financial institutions.

Ershid, M. A. K. (2001). The collection on Islamic banks dealing processes. Dar An-Nafaes for Publication and Distribution.

Al-Moflih, A. I. B. M. I. (1980). Al-Mobdi' fi Sharh Al-Moqni'. The Islamic Office.

Al-Sarkhasi, S. A. D. (1989). Al-Mabsut. Mostafa Ahmad Al-Baz.

Al-Bukhari Al-Hanafi, A. M. M. A. A. M. (2004). Al-Mohit Al-Borhani fi Al-Fiqh Al-No'mani. Edited by A. K. S. Al-Jondi. Scientific Books Publication.

Homoud, S. (1998). The future of Islamic banks in light of the global banking system. Presented at the Islamic Banks Conference "Its Developments and Future Orientations", Wednesday, 25th of March, 1998.

Babeli, M. M. (1989). Islamic banks are an inevitable necessity. The Islamic Office.

Khasawna, A. S. (2008). Islamic banks – Bazel Committee Courses – Globalization challenges – The strategy for facing it. The Wall of Global Book.

Al-Za'tari, A. A. D. (2006). Islamic banks and what should be known about them. Ghar Hara' Publication.

Jamal, G. (1978). Islamic banks and financing houses. Dar Ash-Shorouk for Publication and Distribution.

Birnar, E., & Kuli, J. C. (1995). The dictionary of economic and financial terms – Arabic – French – English – Dutch – Spanish. First Arabic Publication.

Karam, A. W. (1996). Dictionary of Sharia and legal terms – Arabic – English – French. Culture Publication.

Ibn Faris, A. A. (2002). Dictionary of language measures. Edited by A. S. M. Haroun. Arabic Book Union Press.

Anis, I., Al-Montasar, A. H., Al-Sawalhi, A., & Ahmad, M. K. A. (1982). Al-Wasit Dictionary. Amwaj Publication and Distribution.

Shubair, M. (1996). Modern financial deals in light of Islamic Sharia. Dar An-Nafa'es.

As-Salus, A. A. (1986). Modern financial deals in light of Islamic Sharia. Al-Falah Library.

Al-Motrezi, A. A. F. (2007). Maghrib fi Tartib Al-Mo'reb. Religious Culture Publication.

Al-Maqdasi, A. A. Q. (1980). Al-Moghni fir Fiqh Imam Ahmad bin Hanbal Ash-Shibani. Dar Al-Fikr.

Abdul Mahdi, A., & Al-Hamundi, H. (1980). The Economic Collection. Dar Ibn Khaldun for Publication and Distribution.

Abdul Kafi, I. A. F. (2005). Economic and social collection "Arabic - English". Alexandria Center for Book.

Ibn Mandur (2005). Lisan Al-Arab (4th ed.). Dar Sader.

Sano, Q. M. (2005). Perspectives of the adaptation between conventional banking and Islamic banking "Malaysian experience as an example". Presented at the 14th Annual Scientific Conference Studies, College of Sharia and Law, UAE University.

Allia, M. B., & Rizq, A. (1985). The Economic Dictionary which contains the most important and the most up-to-date economic, financial, banking, and commercial terms with an explanation about the primary terms and the history of their evolvement. Arabic Institutions for Studies and Publication.

Al-Kafrawi, O. M. (2006). Money and banks in the Islamic System. Egyptian Universities Library.

Za'ir, M. A. H. (2005). The reality of the relationship between Islamic banks and commercial banks. Presented at "The Meeting for Facilitating the Path of Islamic Banks", UAE Government.

An-Najjar, A. (1981). "Islamic banks and their impact on the national economic development." Journal of Modern Muslim, 24.

Az-Zuhaili, M. (1986). "Islamic banks." Islamic Economic Journal, 198, 167.