



SWITCHING TOWARDS ISLAMIC BANKING SYSTEM BETWEEN INTEGRAL CONVERSION OR WINDOWS

Prof. Omar Ababneh¹

¹Assistant Professor of Economy and Islamic Banking, The Department of Islamic Banking, The Faculty of Economics and Administrative Sciences, Zarqa University, Zarqa, Jordan

ABSTRACT

Islamic banks are financial institutions with a distinct mission and approach as they exceed their concern from the quantity of financing transactions to their qualities, fields, and objectives. They also have a frame to work within by taking their fundamentals from values, ethics, and structures of Islamic rulings (Sharia). Consequently, Islamic banks working on to find out ways of capturing savings of the society people not only to increasing them but firstly and foremost to employing them consistent with Islamic perception and view. Indeed, it is by activating them and increasing their productivity for the benefit of the Islamic nati

KEYWORDS: *Islamic banks, financial institutions, Islamic banking.*

INTRODUCTION

Islamic banks are financial institutions with a distinct mission and approach as they exceed their concern from the quantity of financing transactions to their qualities, fields, and objectives. They also have a frame to work within by taking their fundamentals from values, ethics, and structures of Islamic rulings (Sharia). Consequently, Islamic banks working on to find out ways of capturing savings of the society people not only to increasing them but firstly and foremost to employing them consistent with Islamic perception and view. Indeed, it is by activating them and increasing their productivity for the benefit of the Islamic nation.

Consequently, several traditional banks hasten to presenting Islamic based banking products with different forms and entrances. This process extended to both the Arab and Islamic worlds and then it transmitted to the International banks in the West; particularly, Europe and America as a sequence of the immense success achieved by Islamic banking.

Hence, the problem of the present study apparently appears for many traditional financial institutions enter the field of Islamic finance by opening Islamic windows with maintaining their traditional products without completing the requirements and standard of switching towards the Islamic banking.

Therefore, the problem of this study focuses on the principles and requisites of converting traditional financial institutions into Islamic ones by explaining the types of integral and partial switching. For instance, Islamic windows and the related banks. It is whether they are considered as a conversion or just for attracting Muslim investors and customers.

Furthermore, the study pinpoints both positive and negative sequences of switching towards Islamic banking as an active tool to providing funds based on the Islamic Sharia rulings instead of the traditional transactions.



STATEMENT OF THE PROBLEM

The problem of the study apparently appears because of many traditional financial institutions entered the field of Islamic financing whether by the full conversion into Islamic financial system or improving their financial products coincided with the Islamic Sharia rulings. Or else, by opening Islamic windows in addition to their traditional products without meeting the conditions of converting into the Islamic financial system. Subsequently, there are many challenges facing the Islamic financial work and would create some deformations in applying different forms other than bringing about suspicions of Muslim costumes in general. Accordingly, I believe that it is important to discuss this critical problem thoroughly.

THE STUDY QUESTIONS

In the light of the above mentioned, this study attempts to answer the following questions:

- 1- What is the perceptible of the conversion? And what it does mean to the conventional banks?
- 2- What are the main reasons lead the conventional banks to the conversion?
- 3- What are the conversion types and features?
- 4- What are the required practical legitimate and organizing procedures to complete the process of conversion?
- 5- Are there previous experiences of conventional banks converting to work based on the Islamic rulings? And to what extent these experiences are helpful.

THE STUDY ASSUMPTIONS

There are some assumptions the study adopts attempting to interpret the phenomenon of some traditional banks switching towards Islamic financial system such as:

- 1- The traditional banks are switching towards Islamic financial transactions because customers like to have these products. Thus, the increasing demands on these products motivating the traditional banks to directing towards Islamic financial work and trying to capture this huge market, Consequently, the circle of the Islamic financial products suppliers will be broadened.
- 2- There are different motivations influence the traditional banks to turning towards the Islamic banking system. These motivations are varied between ideological and marketing reasons.
- 3- The possibilities of converting the traditional banks into Islamic banks working according to the Islamic Sharia rulings and principles.

THE STUDY OBJECTIVES

In the light of the study problem and assumptions, the study objectives are:

- 1- Studying and evaluating the phenomenon of traditional banks transition towards the Islamic banking.
- 2- Recognizing the conception of the conversion and showing its types and features.
- 3- Studying the requisites facing the traditional banks when they opt to the conversion.
- 4- Pinpointing both negative and positive consequences of directing towards the Islamic banking as an effective device of providing financial products based on the Islamic Sharia rulings instead of the traditional banks.

LITERATURE REVIEW

- 1- Mustafa, Mustafa Ibrahim (2006), in his MA thesis entitled (Evaluating the Phenomenon of the Traditional Banks Conversion into the Islamic Banking). A practical study shows the experience of some Saudi Banks in which the author talks about the initiation of the Islamic banking and its characteristics. He also points out some actual experiments of the traditional banks conversion into the Islamic banking in the Kingdom of Saudi Arabia
- 2- Khreis, Najeeb (2012) in his study entitled (The Islamic Branches for the Traditional Banks. A Sharia and Economical Views) he discusses the Islamic branches and concludes that these branches are not legitimate and opposing the Islamic Sharia objectives. Further, the study considers these branches to threatening the Islamic banking and causing its economic undermining. Indeed, the study recommends not to deal with these branches definitely and calling the traditional banks for repentance and to switching towards the full conversion into the Islamic banking.
- 3- Al-Shareef, Fahd (2003) in his study (Islamic Branches of Traditional Banks, a Study in the Light of Islamic Economy), he refers to the reasons of opening Islamic windows with discussing different view. Eventually, the researcher recommends that the traditional banks must be converted into the Islamic ones without using the doubling system.
- 4- The study of Said Al-Murtan, 2003 entitled (An Evaluation of the Institutions Applied the Islamic

Economy: The Islamic Windows of Traditional Banks). The researcher reviews the history of the Islamic banking and its significance. He also pinpoints the necessity of the Islamic windows as an entrance to the Islamic banking.

METHODOLOGY

The study applies the inductive, analyzing approach by understanding the related scientific topics to the pivots of the study and analyzing them to enrich the study views.

The Study Plan:

This study consists of three parts as follows:

The First Part: The Islamic Banking, its Conception and Characteristics.

The Second Part: The Conversion of Traditional Banks into Islamic Banking System.

The Third Part: The Fundamentals and Restrictions of Converting toward Islamic Banking System. And ultimately, the Results and Recommends.

First: The Islamic Banking, its Conception and Characteristics:-

The world knew several severe financial crises; absolutely hit large banking fields and increased the fears of economic sectors. Particularly, that of the poor societies as increasing the unemployment rate, inflation, and economic instability. The most important causes of this phenomenon is the lack of fair and stable banking and financial framework which consequently leads to the absence of the economic and social targets in these prevailed economic systems.

Then, it appears what is known the Islamic banking system applied by the Islamic banks and represented to the world as an Islamic alternative to the traditional banking. The latter was one of the financial crises causes and increased their effects by the defect solutions brought about new financial burdens. This part discusses Islamic banking conception and showing its characteristic as the best model of resources treatment and funds employment in a satisfied way in order to achieving the targets of economic and social development throughout the following two points:

1.1. The Conception of the Islamic Banking and its Objectives:-

The conception of the Islamic banking depends on the principle that all the human beings funds

are restricted to the rules enacted by the Creator of the universe. Particularly, it is related to the notion of succession based on the rule that the property is of Allah Almighty and the human being is a successor to inhabit the universe and this is the core of Allah enactment according to the Quranic verse "And to Thamud [We sent] their brother Salih. He said, "O my people, worship Allah; you have no deity other than Him. He has produced you from the earth and settled you in it, so ask forgiveness of Him and then repent to Him. Indeed, my Lord is near and responsive."¹ And His saying "Believe in Allah and His Messenger and spend out of that in which He has made you successors. For those who have believed among you and spent, there will be a great reward²."

Since the human being is a successor for properties, his ownership to these funds has an objective and restricted to the conditions of the real owner, Allah Almighty. Hence, the Human being is subordinated to Him and His consent and enacted ways of gaining, treating, and increasing funds. He has to use funds and properties in a good ways and not to forget Allah's right in them. These restrictions ensure the whole economic circle regulation from production to distribution.

To recognize the concept of the Islamic banking system we should first define the banking work. The Jordanian banking law defines it as "Accepting deposits from customers and using them fully or partially to granting credits or other services the Central Bank judges them as banking transactions in accordance with the instructions issued for this reason³." This definition shows that these transactions are relating to both giving and taking properties depends on the intermediation between investors and banking customers to attain specific interest gains.

For the banking services to be of Islamic style it should receive banking deposits from the customers according to legitimate principles and employing the available funds financial by financial tools and investments coincided with the Islamic Sharia rulings under any circumstances⁴

(Footnotes)

¹ -Hud Chapter, Verse 61.

² Al-Hadid Chapter, Verse 7.

³ Samhan, Hussein Mohammad, *The Principles of Islamic Banking Processes, Al Maseera for Printing and Distribution, Amman (24), 2013.*

⁴ See : Matloub, Mustafa Nateq, *Obstacles of the Islamic Banking and ways of Solutions Development pp.296.*

The following are the most significant objectives of the Islamic banking⁵:

- 1- Presenting the Islamic option for the conventional banking transactions to eliminate Muslims' embracement.
- 2- Sticking to the Islamic Sharia rulings in their several activities and transactions with applying the rule of permissibilities and prohibition.
- 3- Providing the required funds for businessmen legally to support useful social and economic enterprises.
- 4- Upholding investments and preventing amassment of funds throughout creating opportunities and forms of investments appropriate for both persons and companies.
- 5- Achieving a real cooperation between those who have surplus funds and the owners of enterprises who investing these surpluses. This is by connecting the depositors' revenues with the income of funds employment for the users whether they are profits or losses and considering risks without bearing them by one part.
- 6- Developing the behavioral and ideological values during the transactions and settling them for both the dealers and customers.
- 7- Assisting customers to apply the duty of almsgiving (Zakat) for their prosperities and taking part in contributing the social and economic development.

1.2. The Characteristics of Islamic Banking Work:-

The Islamic banking is the outcome of the Islamic economy from where it acquires its attributes. Thus, it varies from the conventional banking work. The following are some of The Islamic Banking distinguished Characteristics⁶:

1.2.1 Applying the Islamic Sharia Rulings:-

The general basis the Islamic banking built upon is not to separate the life issues from the religious ones. In the first place, there should be keeping on Allah enactments in all transactions by allowing what He permits and avoiding what He prohibits. It is to consider Islamic

(Footnotes)

⁵ Mustafa, Ibrahim, *An Evaluation of the Conventional Banks Conversion into the Islamic Banking Phenomenon..2006.*, pp. 21.

⁶ See: Abu Ghodeh, Abdel-Sattar, *The Islamic Banking, Features, Mechanics, and its developments, The First Conference for the Islamic banks and Institutions, Syria, Damascus 13-14/3/2006.*

⁷ Al-Ma'ida Chapter, Verse 1.

⁸ Al-Nissa Chapter, Verse 5.

⁹ Held in Cairo 1965 and attended by 85 Scientists and Islamic Jurists represented 35 Islamic countries.

Sharia rulings as a principle of applying transactions to be Islamic ones. The instructions to this way are so many in Allah's statements in His Book:

"O you who have believed, fulfill [all] contracts. Lawful for you are the animals of grazing livestock except for that which is recited to you [in this Qur'an] - hunting not being permitted while you are in the state of ihram. Indeed, Allah ordains what He intends⁷." And He says "And do not give the weak-minded your property, which Allah has made a means of sustenance for you, but provide for them with it and clothe them and speak to them words of appropriate kindness⁸."

1.2.2 Boycotting Usury:-

According to the consensus of Islamic jurists, dealing with usury is prohibited as Allah Almighty in His Book banned it and the Prophet Muhammad (peace be upon him) did the same along with his companions, followers, and who came after. Islamic Research Academy goes to consider the bank interests prohibited according to its statement "All Banking interests for all types of loans are usury, it does not make any difference between consuming loans or productive loans because the Quranic and Prophetic traditions are decisively prohibited both types and stated that a small sum or a large sum of usury are prohibited. Indeed, lending money according to usury is prohibited and there is no necessity permits it from the Islamic view, the same it goes for borrowing with usury unless showing its necessity and everyone is left to his religion to evaluate its necessity⁹. This is agreed upon by the jurisprudence councils, scientific bodies, religious opinions (Fatawa) by Islamic scholars or the opinions of economic and banking work specialists in the Islamic World.

1.2.3. Customers dealing with the Islamic banks is based on receiving others' funds on the basis of speculation. Then, the bank invests these funds by different types of investments some by speculation or by contribution in profit and loss, and others based on legitimate delayed transactions. On the other hand, the conventional banks are based on the interest factor in lending and borrowing such as borrowing the others' funds on the usury interest basis and then lending them on the same basis.

1.2.4. There is a radical differences of functions between the Islamic banks and the conventional banks which adopted the Western model in their transactions. Whereas, the Islamic banks based on the notion that the life issues and religious issues are not separated from each other not separated from one another. It is to apply what Allah Almighty enacts in worships exactly as applying what He enacts in transactions to performing the permitted ones and avoiding what is prohibited¹⁰.

Second: Conventional Banks Conversion into the Islamic Banking:-

According to the great success achieved by the Islamic banks and increasing their shares in the banking market due to the growing demands on their products and their ability to achieve the traditional products in consistent with the Islamic Sharia rulings and religious restraints. Indeed, the religious tendency of the Islamic banks attracts the capitals owners and customers as these banks depend on the real assets in their financial transactions which reduces their affection by the successive financial crises. As a result, the conventional International and Arabic banks noticed this success achieved by declining their shares in the banking markets. Thus, these banks opt to enter this field to keep on their current dealers and to capture this growing market. This direction of the conventional banks comes either as full or partial conversion to joining the Islamic banking field. In this part, the researcher identifies the conception of this conversion, its basis, and types.

2.1. Conversion Understanding:-

Conversion in language is switching from place to another place and from a case to another one and the point of conversion is the borderline between two cases where the second one is better than the first¹¹. As Allah Almighty says **“Wherein they shall dwell forever, No desire will they have for removal there from¹²”**, it means conversion, change, and transition. Thus, conversion means change and transition from one position to another one and this transition is usually to a better position. The bad case in conventional banks is dealing with usury and impeding this dealing is targeted switching by enchanting it with the permitted transactions and what Allah Almighty approved¹³.

(Footnotes)

¹⁰ Abu Ghoddeh, Abdul-Sattar, *The Islamic Banking, Features, Mechanics, and Development The First Conference for the Islamic Banks and Institutions, Syria, Damascus: 13-14/3/2006.*

¹¹ Ibn Manzur, Muhammad bin Mukarram, *Lisan Al-Arab, Sader House, Beirut (2) 1400.*

¹² Al-Kahf Chapter, Verse 108.

¹³ Al-Jraidan, Nayef. *The Conventional Banks Conversion to Working in accordance to the Islamic Sharia Rulings, The Journal of Sharia, Law, and Islamic Studies. (23), pp 150. 2014.*

¹⁴ Al-Ateyyat, Yazan. *The Effect of Switching towards the Islamic Banking on Developing the Mechanics and Tools of Attracting the Financial Resources and Employment Funds. A paper presented to The Second Conference on The Islamic Financial Services.*

Sometimes the decision makers of the gradual conversion into the Islamic banking could decide to go on towards full conversion into Islamic bank (administrations and branches) which is called the full conversion. However, it could be a conversion in some branches and administrations or presenting some Islamic banking products without the intention of reaching the full conversion which is called the partial conversion.

The conversion concept here means the switching of conventional banks from the prohibited transactions according to the Islamic Sharia rulings to the permitted ones. It is by altering the prohibited transactions with the permitted and consistent with the Islamic Sharia. It is for all the transactions or activities of the bank to become subjective to the rules and principles of Islamic Sharia¹⁴ Al-Ateyyat, Yazan. *The Effect of Switching towards the Islamic Banking on .* Actually, this conversion varies from one bank to another according to the different, inherent motivations and the source of conversion which leads us to apprehend the emergence of the conversion, its types by different shapes or styles.

2.2. The Emergence of Converting Towards the Islamic Banking:-

The Islamic banking work started to emerged in the conventional banks with independent Islamic branches. Actually, the idea of establishing Islamic branches attached to the conventional banks existed since the emergence of the Islamic banks. When the idea of establishing the Islamic banks come true in the early 1970s of the last century, the conventional banks started to presenting Islamic products coinciding with the Islamic Sharia rulings.

When the conventional banks recognized the growing demand on the Islamic banking products from different members of the society, some of them decide to create branches presenting the Islamic banking services.

The increasing demand on the Islamic banking services stimulates several conventional banks in the Arab countries and even though in Europe and the United States to establishing units in addition to creating and managing investment funds coincided with the Islamic Sharia rulings. Then it becomes visible the conversion

towards the Islamic banking by these conventional banks according to different motivations and causes. In this section the researcher will define the conversion types added by these banks to their work.

2.3. TYPES OF CONVERSION

The conversion could take several types according to the causes and motivations behind it. Some of them were related to religious causes and the incentive motivation to getting rid of the conventional banking work and directing towards the integral conversion.

2.3.1 The Integral Conversion:-

It is meant by the full conversion to substitute the conventional transactions with these coincided with the Islamic Sharia rulings. It also means to stop dealing with works or transactions in contrary to the Islamic laws; particularly, the usury treatments. Hence, this shape of conversion is considered the most credible as it is based on avoiding the prohibited works or treatments according to the Islamic Sharia rulings. Subsequently, some conventional banks switching to this type of conversion such as: Al-Jazeera Bank, Bank of Sharjah, Emirates, and Kuwait International Bank.

The integral conversion could be issued by political or financial authorities as in Sudan, Pakistan, and Iran. It also could be applied gradually by putting an announced, temporal plan through which the bank gets rid of the prohibited products according to the Islamic Sharia rulings and replaced by those coincided with the Islamic Sharia principles.

An Accounting and Auditing Organization for Financial Institutions (AAOIFI) issues the Criterion No. (6) concerning the conversion of a conventional bank into an Islamic bank and it is approved by the Legitimate Committee in its eighth meeting in Al-Madeena Al-Munwarra in 4-28 Rabi' al-awwal 1424AH. and it comes into force since beginning of the Financial Year 1424 AH/ 2003 AD.

This Criterion stated that:

“This Criterion involves the basics of converting a conventional bank into the Islamic one according to a decision for an instant, integral conversion in a specific time to be announced. Whether this decision is within the bank to be converted or from the outside, the

decision maker has to be responsible for its impacts. For instance, its time range, the conversion effects on the ways of receiving funds or employing and dealing with the bank duties and rights of the pre-conversion time. Mainly, whether these duties are paid or received or however, they are unpaid or un-received, in addition to the illegitimate assets before the conversion process¹⁵.”

2.3.2. The Partial Conversion:-

This could be whether by converting the conventional bank entirely to an Islamic bank throughout gradual substitution of conventional banking products with the similar Islamic banking ones consistent with the Islamic Sharia rulings in all the bank branches and departments. This entrance studies the conventional banking products and the procedures of the required modifications to be coincided with the Islamic Sharia rulings. Or else, by creating and developing the Islamic banking products as an alternative to the traditional ones.

The significance of this entrance is to push the development of products and promptly finding out their alternatives in accordance with Islamic Sharia rulings. Further, directing the physical and human energies towards joint objective of the full conversion into the Islamic banking. Nevertheless, the most important defects of this conversion type is the difficult of financial and administrative separation between traditional and Islamic products during the implement stages of the conversion plan. It is because applying the products development in all departments, administrations, and branches of the converted bank at the same time. In addition to the traditional products which are not improved yet and others the bank cannot find an Islamic alternatives for them which undermines the bank credibility and slowing down the conversion process.

Sometimes the conventional bank suffices with presenting the Islamic banking services and products in addition to its traditional ones. It is to capturing the available market opportunities of the bank customers who demand the Islamic banking transactions. Under this sector there are several international and regional conventional banks started to develop some Islamic

(Footnotes)

¹⁵ Accounting and Auditing Organization for Islamic Financial Institution, Bahrain. *The Legitimate Criterion No. 6*. pp. 81-95, 2004

investing funds or presenting enormous number of Islamic financial transactions; while others are resorting to open windows or units specialized in the Islamic banking

However, this dualism in presenting banking services faced by many criticisms and doubts from those who interested in the Islamic banking and the clients alike; as there were no satisfied, practical restrictions to the Islamic rulings. Instead, they presenting the Islamic services and products according to the open dualism policy which is not coincided with the required conditions to this regard.

There is another shape for the partial conversion as starting with a conventional branch or more to present the Islamic banking products only or products coincided with the Islamic Sharia rulings throughout conventional branches or administrations with the intention of switching towards the conversion according to an announced, scheduled plan.

The converted branches could be supervised by a department of the center such as branches or credit departments. Actually, this type is adopted by The Egyptian National Bank which has 90 branches work according to the Islamic Sharia rulings and they are successful as gaining profits to the center¹⁷.

2.3.3 The Islamic Branches of the Conventional Banks:-

This idea appears since the emergence of the Islamic banking and its entrance to the banking field as it attracts the capitals of Muslims' businessmen along with other dealers. Consequently, some conventional banks went to establish some branches presenting the Islamic banking services.

For instance, Banque Misr held the first branch in 1980 to present the Islamic banking services called (Al-Hussein Branch for Islamic Transactions). This step is followed by some banks in Saudi Arabia and other Arabian Gulf countries. The main reason for this pace is the desire of these conventional banks to increase their profits and attracting more funds in addition to capture the growing market of the Islamic banking which attracted many dealers from the conventional banks in addition to the other causes¹⁸

(Footnotes)

¹⁶ Al-Martani, Said, *An Evaluation of the Institutions Applying the Islamic Economy: Islamic Windows of the Conventional Banks*, pp.5.

¹⁷ Al-Sarhi, Lutfi M. *The Islamic Branches in Conventional Banks, The Establishing Restrictions and the Factors of Success. A paper presented to the Conference on (The Islamic Banks in Yemen, the Reality and Future Horizons. 20-21 of March, 2010*, pp. 3.

¹⁸ See: Al-Sharif, Fahd. *The Islamic Branches of the Conventional Banks in the Light of Islamic Economy. The Third International Conference on the Islamic Economy, Umm Al-Qura University*.

¹⁹ Al-Sharif, Fahd. *The Islamic Branches of the Conventional Banks in the Light of Islamic Economy*, pp. 10.

²⁰ Al-Martani, Said. *An Evaluation of the Institutions Applying the Islamic Banking, Islamic Window of the Conventional Banks*, pp.6.

2.3.4. The Islamic Windows:-

The Islamic windows in general indicate that a conventional bank or part of it specifies a place of the conventional branch to present the Islamic banking products in addition to the traditional ones¹⁹.

Some conventional banks adopt this type of banking work as a response to the increasing demands for the Islamic banking products by their dealers without any administrative decision to stop the conventional banking work and switching towards the Islamic banking. It is only to retain their dealers and responding to their demands for the Islamic banking products according to the Islamic rulings in addition to prevent their customers' switching to other Islamic banks.

This type of banking work creates administrative and financial dependency between the Islamic work and conventional work in a bank in addition to the distrust of dealers and the society to a great extent. Frequently, there is no intention to the decision makers in the bank towards the full conversion to the Islamic banking because the main target for them is of marketing aims and not ideological. In fact, these Islamic windows or nits in the conventional banks are specialized in selling Islamic services and products exclusively and the following are some examples of these banks²⁰:

- Dresdner (Kleinwort Benson) Bank sets up a specialized unit for Islamic banking in 1980.
- ANZ Australian and New Zealand Group established a specialized department for the Islamic financing.
- Citibank found the specialized Islamic finance unit in 1980 before opening the Islamic branch with independent capital in Bahrain in 1996.
- The Saudi British Bank (SABB) created a semi-independent administration for the Islamic banking.
- The Saudi American bank established an independent unit for Islamic financing.
- The United bank of Kuwait found a specialized unit for Islamic investments in 1991.
- The Arab National Bank in Saudi Arabia and others. To achieve more credibility some of these banks and financial establishments appoint a supervisor or establishing Islamic Sharia control organization to observing the right application and its coincidence with Islamic Sharia rules.

To achieve more credibility some of these banks and financial establishments appoint a supervisor or establishing Islamic Sharia control organization to observing the right application and it coincidence with Islamic Sharia rules.

2.4. Establishing New Banks Consistent with the the Islamic Sharia Rulings.

Some conventional banks found new Islamic branches in specific places to capture the most choices of success by a shape of legitimate dualism to presenting the conventional and Islamic banking services simultaneously. For assuring the accurate applying and obtaining customers' trust, the administration of these banks established independent foundations for legitimate controlling on their transactions which involves some members of scientists gathering the Islamic rulings and economic knowledge which creates positive impacts for the rapid Islamic banking development and its ability of competing other commercial, conventional banks. The following are some instances of this type of banks²¹:

- The Saudi National Commercial Bank is considered the main working bank in the Arabian Gulf and the Middle East.
- Banque Misr opened many Islamic branches not for the integral conversion towards the Islamic banking for its other branches or works.

As a result, some banks in Malaysia, Pakistan, and Egypt start to applying this type by opening some Islamic branches. Further, there is a strong demand for adopting this form in Kuwait and other countries. In this form, the conventional bank presents banking services and transactions throughout an independent bank with its administration and work from the conventional bank. Indeed, all its transactions are coincided with the Islamic Sharia rulings; however, its ownership or part of it goes to the conventional bank. In fact, this shape of banking work is the least common one²².

Third: The Basics and Standards of Converting into the Islamic Banking.

Both the integral and partial conversion into the Islamic banking requires achieving some standards and legitimate fundamentals by the institutions to be

(Footnotes)

²¹ Al-Martani, Said. *An Evaluation of the Institutions Applying the Islamic Banking, Islamic Window of the Conventional Banks.* pp.6.

²² Al-Jraidan, Nayef. *The Conventional Banks Conversation to Working in Accordance with the Islamic Sharia Rulings. The Journal of Sharia Law, and Islamic Studies.* (23). 2014, pp.158.

²³ Mustafa, Mustafa Ibrahim. *The Evaluation of the Conventional Banks Conversion into the Islamic Banking.* MA. Thesis, Arab Open University, K.S.A. pp.85.

²⁴ See: Mustafa, Mustafa Ibrahim. *The Evaluation of Conventional Banks into the Islamic Banking Phenomenon. A paper presented to the Conference on : The Yemen Islamic Banking, The Reality and Future Horizons.* 20-21/3/2010. pp.10. And see: Khouja, Ezzeddin. *The Legitimate Restrictions of Converting into the Islamic Banking Process. The General Council of Islamic Banks.*

converted. It is to peruse the specific nature of the Islamic banking whether in the preparatory stages or while practicing the Islamic banking transactions. These standards are, in the first class considered the legitimate restrictions and the other accounting, financial, and administrative restrictions are in the second class. The following is an explanation of this conception²³.

3.1.THE LEGITIMATE RESTRICTIONS

There are many legitimate restrictions which applying them is considered the main factor of its success as follows²⁴

- 1- There should be an actual intention to the highest ranking body in the conventional bank represented by the board of directors in practicing the Islamic banking in accordance with the Islamic rulings. This will apparently emerge throughout the readiness to bearing any cost of applying the Islamic rulings as long as strictly validating these rulings and do not violating them; otherwise, it would distort the Islamic branches and its credibility. This will not be achieved unless recognizing, applying, and sticking to the basis of the permissible and prohibited issues according to the Islamic law. Consequently, it will bring about the conviction that the Islamic branches are considered a distinct step of the integral conversion into the Islamic banking.
- 2- Appointing permanent and active Sharia Control Board consist of the reliable scientists of their science and experiments in the Islamic banking. In addition to permanent inspecting the transactions of the Islamic branches as forming the investment contracts and making sure that these contracts and the forms of investments are properly applied according to the Islamic rulings upon which the Islamic branches are found. Ultimately, this will increase the customers' trust in the Islamic products and turning to dealing with these Islamic branches.

- 3- The necessity for a complete division between the funds of the Islamic branches and those of the conventional bank and its branches. It is for the bank directors to take into consideration that this division is a vital criterion for the Islamic banking credibility which is applied throughout the Islamic branches of the conventional banks.
- 4- Avoiding the prohibitions; chiefly, the usury in the deposit and investment attraction in addition to avoiding deception and ignorance in forming contracts. Further, not to sell what are not possessed as the rule of the actual possession before make others possess, in other words buying before selling. Here it comes the importance of establishing the Sharia Control Body and applying the legitimate inspection to avoiding committing these prohibitions.

3.2. Administrative, Accounting, and Financial Restrictions:

To control the process of the conventional banks conversion into the Islamic banking and separated from the previous conventional work, there are some restrictions to be observed as follows²⁵.

- 1- Accounting and financial independence: it is for the Islamic branches accounts to be separated from that of the mother bank; in addition to a real separation between the resources funds for both of them by applying a computerized systems, accounting system, and accounting documentation system with assuring that the resources of the Islamic branches and that of the mother banks and its branches are completely separated. Thus, there must be a financial administration within the Islamic branches structure to preparing the financial records and a separate budget of assets, liabilities, revenues, and expenses as long as managing the documentation circles of the branches.
- 2- Specifying a capital for the Islamic branches: for these branches to have a juridical body and to meet the businessmen needs of investments

in the preparatory stages of establishing the Islamic branches. Moreover, to creating the fixed assets of furniture, systems and stationeries in order to performing as an integral Islamic bank.

- 3- Administrative independence as it is a financial body owned by the conventional bank; thus, it has no independent legal body because it has a share capital as it controlled by the mother bank. However, the subordination in this conception does not contradict giving the Islamic branch an administrative independence by creating a general department or sector within the original structure to managing the Islamic branches separately. It is by a partial organizational chart independent from that of the mother bank and of administrative instructions different from those of the mother bank as consistent with the basics and restrictions of the Islamic banking²⁶.
- 4- Defining the apparent relation between the Islamic branches and the conventional mother bank according to the legitimate restrictions. This relation is represented by opening the opportunities for the Islamic branches to get benefit from the banking services of the mother bank such as covering the expenses of the correspondent networks for agreed upon fees between the two parts. In addition to preventing the employment of the overabundant funds of the Islamic branches in the mother bank whether by direct or indirect interest. Though, it is permitted to employ the overabundant funds of the mother bank in the Islamic branches by the Islamic interest types. Particularly, it enables the Islamic branch to running this employment itself without the intervention of the mother bank by formulating conditions that inconsistent with the Islamic Sharia rulings.
- 5- Preparing the qualified and energetic staff who trusts the Islamic banking rulings throughout

(Footnotes)

²⁵ See :Al-Sarhi. *Previous Reference*. pp. 12. And see: Sole, Juan. *Four Steps of the Soft Conversion into Integral Islamic Banking*. Translated by Fadel, Faima Abdul- Hakim. http://www.aleqt.com/2011/01/01/article_486931.html

²⁶ See: Abu Hamairah, Mustafa. *The Conversion of Conventional Banks in Libya into the Islamic Banking*. A paper presented to The Second Conference of Islamic Financial Services. pp. 23.

selecting and appointing them properly. It is by arranging intensive training programs about the Islamic banking, mainly, those of the legitimate restrictions and the applicable procedures of the Islamic financial forms²⁷.

- 6- Creating clear work indicators and procedures of the Islamic investment banking to be applied throughout specific consultant offices of Islamic banking.

RESULTS AND RECOMMENDATIONS

This study finds out the following results:

- 1- The Islamic banks derive their legalization from their sticking to the Islamic Sharia rulings in all their banking and investment transactions. Chiefly, to avoid dealing with banking interests giving or taking; in addition to their contribution in the social and economic life.
- 2- The sound success achieved by the Islamic banking and its spreading in many Islamic and Arabic countries leads many conventional banks to enter the Islamic banking field in many ways or shapes to keep their agents and aiming at taking part of the Islamic banking shares.
- 3- The financial abundant plays the major role in the conventional banks switching towards the Islamic banking and investing by establishing branches presenting the Islamic financial products and managing investment funds in accordance with the Islamic Sharia rulings.
- 4- The switching of the conventional banks into the Islamic banking is not for ideological reasons but to seizing the opportunities of better investment chances.
- 5- There are several shapes of converting conventional banks into the Islamic banking whether by a full switching of all their banking systems and sets to working under the Islamic banking rulings. Otherwise, the partial switching according to a temporary plan for converting some of their traditional branches into Islamic ones gradually, in addition to establishing new branches dedicated to presenting the Islamic banking products.

- 6- The switching towards the Islamic banking should be under legal restrictions manifested in a real tendency of these banks administrations to converting into the Islamic banking and appointing Sharia Control Body to inspecting this process and avoiding all prohibitions in the Islamic Sharia, especially usury.
- 7- There must be an administrative, accounting and financial controls arranging the conversion of conventional banks into the Islamic banking work. Particularly, in their gradual stages such as administrative, accounting, and financial independence from the mother bank and preparing qualified staff who believes in the conversion necessity.

The Following are some Recommendations:

- 1- Inviting specialists in the Islamic jurisprudence and Islamic banking to define the legitimacy of conventional banking works to the decision makers, aiming at eliminating their mental suspensions and ambiguity of practicing the conventional financial works.
- 2- Pinpointing the most Islamic forms and contracts of achieving profits compared to those of the conventional banks. In addition to developing and renewing them according to the financial markets need.
- 3- The need of modifying banking laws and rules to allow spreading the Islamic banking and make it possible to converting the conventional banks into the Islamic ones.
- 4- The academic and scientific institutions have to provide the banking markets with trained, qualified staff who has the ability to fulfill the requirements of the Islamic banking work.
- 5- Giving the priority to training the qualified staff in order to achieve this task properly; in addition to separating the administrative, accounting and financial entities of the Islamic banking from other banking tasks.

(Footnotes)

²⁷Al-Martani, Said, *An Evaluation of the Institutions Applied the Islamic Economy: Islamic Windows of the Conventional Banks*. pp.10.

REFERENCES

- 1- *The Holy Quran.*
- 2- Samhan, Husseing Muhammad, *The Principles of the Islamic Banking Processes.* Al Maseera for Publishing, Distribution, and Printing, Amman, 2013.
- 3- Matloub, Mustafa Nateq, *The Obstacles of the Islamic Banking and the Ways of Solutions and Development.*
- 4- Mustafa, Mustafa Ibrahim. *The Evaluation of the Conventional Banks Conversion into the Islamic Banking.* Cairo, 2006.
- 5- Abu Ghoddeh, Abdelsttar, *The Islamic Banking, Characteristics, Mechanics, and its Development. The First Conference for the Islamic Banks and Financial Institutions.* Syria, Damascus: 13-14/3/2006.
- 6- Ibn Manzur. *Mohammad Ibn Mukarram, Lisan Al-Arab, Dar Sader, Beirut, (2), 1400.*
- 7- Al-Jraidan, Nayef. *The Conventional Banks Conversation to Working in Accordance with the Islamic Sharia Rulings. The Journal of Sharia, Law, and Islamic Studies.* (23). 2014.
- 8- Al-Ateyyat, Yazan. *The Effect of Switching towards the Islamic Banking on Developing the Mechanics and Tools of Attracting the Financial Resources and Employment Funds. A paper presented to The Second Conference on The Islamic Financial Services Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain. The Sixth Legitimated Criterion.* 2006.
- 9- Al-Martani, Said. *An Evaluation of the Institutions Applying the Islamic Banking, Islamic Window of the Conventional Banks.*
- 10- Al-Sarhi, Lutfi. *The Islamic Branches of Conventional Banks, Restrictions of Establishment and Factors of Success. A paper presented to the Conference of Islamic Banks in Yemen. The Reality and the Future Horizons.* 20-21/3/2010,
- 11- Al-Sharif, Fahd. *The Islamic Branches of the Conventional Banks in the Light of Islamic Economy.*
- 12- *The Third International Conference of Islamic Economy, Umm Al-Qura University. Khawaja, Ezzeddin, The Legitimate Restrictions of the process of Converting into the Islamic Banking System. General Council for the Islamic Banks and Financial Institutions.*
- 13- Sole, Juan. *Four Steps of the Soft Conversion into Integral Islamic Banking.* Translated by Fadel, Faima Abdul-Hakim. http://www.aleqt.com/2011/01/01/article_486931.html.
- 14- Hamira, Mustafa Ali, *The Conversion of Traditional banks towards the Islamic Banking in Libya, A paper presented to The Second Conference of Islamic Financial Services.*
- 15- Khrais, Najeeb S., *The Islamic Branches for the Traditional Banks: A Shari'a and Economical Views, The Deanship of Scientific Research and Graduate Studies, Zarqa University.*