

The law of international finance



EduFrogs

Loans in the Islamic Banking System Research Problem The development of financing worldwide currently faces significant delays mostly because of the global recession. The loans provided by the Islamic Banks can be considered as a valuable alternative for individuals and enterprises in order to respond to their financial needs. The potentials of this mode of financing to be expanded seem to be significant however this is a fact being depended on the market response and the potentials of the Islamic Banks to align their strategies with the changing economic conditions.

2. Aims and Objectives

The aims and objectives of this study could be described as follows: a) to identify the key forms of loans available in the context of the Islamic banking system, b) to evaluate the performance of loans provided by the Islamic Financial Institutions; suggestions are also made for the potential increase of the performance of the specific financial products c) to compare these loans with the loans provided by the Western Banks, d) to locate the advantages and disadvantages of loans in the Islamic Banking System, e) to identify the effects of the global financial crisis on the rate of financing by Islamic Banks and f) to identify and analyze the role that Islamic banking can have in the limitation of the effects of recession.

3. Research Methodology

The research methodology employed in this study will have two different forms: the literature review will be used in order to identify the views of academic researchers on the study's subject; on the other hand, the empirical research will be used aiming to retrieve information on the current aspects of the study's issues. The empirical research developed in the context of this study can be distinguished in two categories: a) qualitative

research, i. e. reference to case studies; the modes of financing provided by specific Islamic banks will be presented and analyzed; b) apart from the case study analysis, a survey will be conducted in order to retrieve the views of the public on the loans provided by Islamic banks worldwide; employees in Islamic banks worldwide will be asked to state their view on the performance of loans provided by their Banks; the survey will be conducted through the Internet.

4. Literature Review

The types of loans available in the context of Islamic Banking System are specific; Iqbal et al. (2002) refers to the following types of loans: ' a) educational loans, b) gold loans – for securing gold, and c) surety loans, which are loans against personal security of two signatories' (Iqbal et al., 2002, p. 176). In accordance with Schoon (2009) the main difference between the loans provided by the Islamic banks and those provided by the Western banks is the fact that the loans provided by Islamic banks are always secured by assets on which the bank has ' some form of ownership during the transaction' (Schoon, 2009, p. 167). On the other hand, Saeed (1996) notes that Islamic banks should provide interest free loans to their customers using the deposit funds – on which Islamic banks are not obliged to pay interest (Saeed, 1996, p. 100). The terms of loans in Islamic banks seem to be differentiated in accordance with the ' regulatory requirements in different jurisdictions' (Hassan et al., 2007, p. 156).

5. Plan of the study

The study is expected to take 6 weeks for its completion; in the first week the questionnaire will be prepared and distributed; in the second and the third week the literature published on the specific issue will be reviewed –

relevant material from governmental and non-governmental organizations will be also retrieved, at the level that it helps to examine the study's issues. In the fourth and the fifth week, the completed questionnaires will be categorized; moreover, their findings will be analyzed and critically discussed – referring also the literature published on this issue. In the sixth week the conclusion and the recommendations section of the study will be developed; also, the study will be reviewed – in case that amendments are required, especially regarding its format/ presentation.

Works Cited/ Bibliography

Abdul-Rahman, Y. (2010) *The Art of Islamic Banking and Finance: Tools and Techniques for Community-Based Banking*. John Wiley and Sons

Hassan, K., Lewis, M. (2007) *Handbook of Islamic banking*. Edward Elgar Publishing

Iqbal, M. (2002) *Islamic banking and finance: new perspectives on profit sharing and risk*. Edward Elgar Publishing

Iqbal, Z., Mirakhor, A. (1987) *Islamic banking*. International Monetary Fund

Saeed, A. (1996) *Islamic banking and interest: a study of the prohibition of riba and its contemporary interpretation*. BRILL

Saeed, A. (1996) *Islamic banking and interest: a study of the prohibition of riba and its contemporary interpretation*. BRILL

Schoon, N. (2009) *Islamic Banking and Finance*. Spiramus Press