

# Control of financial services of Islamic windows in the bank

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**Abstract:** Federal Law 417-FZ entered into force in 2023 in Russia, which opened the opportunity for banks to operate in accordance with the norms of Islamic law. The practice of international financial markets has shown that Islamic windows in commercial banks, whose basis is interest rate transactions, are able to harmoniously coexist with the traditional banking system, despite their complete conceptual difference from the practice of usury. This, in turn, gave rise to a number of theoretical issues that remain poorly studied in Russian science. One of these issues is the lack of a clearly developed methodology for assessing the products offered in Islamic windows of commercial banks. The main objective of this article is to develop an approach to monitoring and assessing individual financial services provided by Islamic windows of commercial banks. The study proposed key areas for assessing these products. It also identified the most important indicators that must be taken into account when checking their compliance with the requirements of Islamic law, which is a critical aspect for ensuring their legality and competitiveness.

## 1 INTRODUCTION

Russian banks received the opportunity to participate in the Islamic finance industry after the release of Federal Law No. 417-FZ, which may lead to the following trends in the future:

1. An increase in the number of players in the Islamic finance market;
2. Increased competition in the market;
3. A decrease in the price of the product due to an increase in their supply;
4. The departure of weak players from the market;
5. Increased awareness and increased demand from consumers.


This kind of process is typical for secular countries, where the proportion of Muslims is quite high [Alam, 2019; Randeree, 2019], especially when it comes to the Islamic finance industry against the background of increasing religiosity [Mahdzan, 2018]. However, these trends should be supported by theoretical developments so that the process is as effective as possible in terms of the result, which is the development of the market, given the prevalence of usurious transactions [Suharto, 2018]. Thus, today the topic of assessing the product of the Islamic

window, primarily from the standpoint of compliance with Islamic law, has been left aside, although there are a huge number of works on the halal market [Naeem, 2019]. Accordingly, the purpose of this article is to develop individual methodological provisions regarding the analysis of the feasibility of institutional restrictions in the implementation of financial products in the Islamic windows of commercial banks.

## 2 RESEARCH METHODOLOGY

The methodological basis of this scientific article is based on the use of institutional methodology, which provides powerful analytical tools for studying and assessing the influence of religious institutions, such as religious norms and values, on the development of financial markets and their individual segments. In the modern world, the financial system is becoming increasingly globalized, and there is an increasing need to take into account the specific requirements and features of various religious systems when developing financial products and services. In this regard, Islamic law, which strictly regulates financial

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transactions, plays a key role in creating special conditions for the functioning of banks seeking to operate in accordance with its standards.

Islamic windows in commercial banks are a clear example of how Sharia principles can be introduced into modern banking, while providing access to financial services for customers who want to follow religious norms. Thus, the use of institutional methodology allows for a deeper understanding of how religious institutions, both Islamic and others, can influence the development of financial markets on a global scale.

This article pays special attention to the development of a methodology for monitoring and evaluating financial products offered by Islamic windows of commercial banks. The institutional approach makes it possible to consider the interaction of religious norms and financial institutions in a broader context, including their mutual influence on economic development and competitiveness of banks. For the successful functioning of Islamic windows in commercial banks, it is important to understand how religious restrictions and regulations can be integrated into the general banking system without violating its principles, and at the same time taking into account the interests of clients who adhere to Islamic law.

In addition, the institutional methodology makes it possible to study how the interaction between religious institutions and financial markets affects the regulatory mechanisms existing in different countries. This is especially important for Russia, where the Islamic banking system is a relatively new phenomenon, and many issues related to its functioning require scientific justification and the development of effective solutions. The institutional methodology also helps to study the factors that contribute to or, conversely, hinder the introduction of Islamic financial products to the Russian market.

The use of this methodology allows for a comprehensive assessment of not only the products offered within the framework of Islamic windows, but also their compliance with religious and legal requirements. As a result of the analysis, key indicators are determined that must be taken into account when developing and implementing these products. These indicators include both financial and non-financial parameters, such as compliance with Sharia principles, competitiveness in the market, the degree of consumer confidence and the impact on macroeconomic indicators. The institutional methodology thus allows for a complete picture that helps not only to understand the influence of religious institutions on the market, but also to find ways for

the further development of the Islamic banking sector in Russia.

In conclusion, it can be said that the institutional methodology provides invaluable tools for analyzing the complex interaction between religious institutions and financial markets. It allows for the identification of not only superficial connections, but also deep structural changes that occur in the process of integrating religious norms into banking practice.

### 3 RESEARCH RESULTS

At the moment, 5 commercial banks are participating in the experiment, of which only one is regional (Table 1).

Table 1: Register of banks participating in the experiment to establish special regulation in order to create the necessary conditions for implementing activities on partnership financing.

Banks	Region
AK Bars bank	Tatarstan
Sberbank	Moscow
Metallinvestbank	Moscow
TBank	Moscow
Timer Bank	Moscow

Avtogradbank also participated in the experiment, but the Bank of Russia recently revoked its license. It is curious that at the time of writing, Zenit Bank issued an Islamic debit card, but had not yet joined the experiment.

It is known that the main functions of commercial activity analysis are:

1. Objective assessment of the current state;
2. Identification of factors and causes of the achieved state and the results obtained;
3. Identification of reserves for improving efficiency;
4. Preparation of management decisions.

At the same time, the analysis of commercial activity of any organization can include the following enlarged elements:

1. Analysis of the rationale and implementation of business plans;
2. Comprehensive analysis of performance;
3. Analysis of financial performance indicators;
4. Analysis of business activity indicators;
5. Analysis of solvency and liquidity indicators;
6. Analysis of financial stability indicators;
7. Analysis of financial products.

When analyzing the activities of a credit institution, the following is of particular importance:

1. Determining the optimal size of a credit institution, taking into account the requirements of regulatory authorities;
2. Analysis of the ratio of own and borrowed funds;
3. Analysis of capital adequacy;
4. Analysis of the structure and quality of assets and liabilities;
5. Analysis of liquidity, solvency, profitability;
6. Assessment of financial stability and reliability of the credit institution;
7. Analysis of the development strategy of the credit institution.

The following principles are important in the context of the analysis of the Islamic window product of a commercial bank:

1. A systematic approach to organizing the management of a financial product;
2. Continuity of management of the life cycle of a financial product;
3. Responsible behavior of a financial institution;
4. A risk-oriented approach to managing a financial product;
5. Client value of a financial product;
6. Completeness and accuracy of information about a financial product.

Let's highlight the key areas for analyzing Islamic windows of commercial banks:

1. Analysis for compliance with Sharia;
2. Profitability analysis;
3. Analysis of the volume of attraction;
4. Analysis of the volume of placement;
5. Analysis of the breadth of the line;
6. Comparative analysis of bank products.

It is known that there are a large number of financial Islamic products. In each conventional bank there are potentially acceptable products according to Islam:

- currency transactions;
- transfers;
- funds;
- account servicing.

However, let us focus on those that have gained the greatest popularity in the activities of banks around the world, and are also planned for implementation on the Russian market:

1. Debit card;
2. Murabaha (commodity installment);
3. Ijara (leasing).

Let us consider how debit cards can be analyzed for compliance with Sharia (Table 2).

Table 2: Methodology for analyzing debit cards for compliance with Sharia in the activities of Islamic windows of commercial banks.

Indicator	Yes	No
1. Availability of internal control		
2. Conducting an audit at least once a year		
3. Positive auditor's opinion		
4. Facts of accrual of interest on the balance		
5. Facts of penalties from the bank		
6. Facts of using funds in prohibited transactions		

As can be seen from the table, there is a small list of indicators of compliance with institutional restrictions on debit cards in Islamic windows of commercial banks. Any violation may lead to a violation of the requirements of Islamic law.

At the same time, it is possible to conduct an analysis of the profitability of issuing debit cards using the proposed methodology (Table 3).

Table 3: Analysis of the profitability of issuing debit cards.

Indicator	Last period	This period
1. Income from issuing debit cards		
2. Income from commissions from debit cards		
3. Expenses associated with debit cards		
4. Profit from issuing debit cards		
5. Profitability on debit cards		

Let us consider how the analysis of murabaha for compliance with Sharia can be carried out (Table 4).

Table 4: Methodology of analysis of murabaha for compliance with Sharia in the activities of Islamic windows of commercial banks.

Indicator	Last period	This period
1. Availability of internal control		
2. Conducting an audit at least once a year		
3. Positive auditor's opinion		
4. Facts of penalties (as income)		

5. Affiliation of the seller and the buyer		
6. Availability of the fact of sale of the asset before the transfer of ownership		
7. Transfer of funds to the client acting as an agent		
8. Facts of the bank using hamish jiddiyya before the transfer of ownership		
9. Sale of collateral not at market price		

As can be seen from the table, there are many nuances in the implementation of institutional restrictions on murabaha in the Islamic windows of commercial banks. In general, the issues of purchase and sale are widely known in the scientific literature on muamalat [Sabuni, 2014], but the nuances are often not analyzed in detail. Thus, checking the affiliation of the seller and the buyer should help to avoid a prohibited transaction when a buyer of an asset applies to the bank, who indicates a need for property from a specific seller. In this case, the seller and the buyer are in collusion that after the bank purchases the asset and sells it to the buyer, the property itself will be returned to the seller at a lower price. That is, the essence of such a conspiracy comes down to the buyer's need for liquidity, which he receives from the seller, and he remains in debt to the bank, which will be systematically closed within the agreed period. Such a scheme is prohibited, being a disguised loan.

At the same time, it is possible to analyze the profitability of murabaha as a bank product using the proposed methodology (Table 5).

Table 5: Analysis of the profitability of murabaha.

Indicator	Last period	This period
1. Income from Murabaha in the form of payments		
2. Cost price of Murabaha		
3. Profit from Murabaha		
4. Profitability from Murabaha		

Let us consider how the analysis of Ijara for compliance with Sharia can be carried out (Table 6).

Table 6: Methodology of analysis of Ijara for compliance with Sharia in the activities of Islamic windows of commercial banks.

Indicator	Last period	This period
1. Availability of internal control		
2. Conducting an audit at least once a year		
3. Positive auditor's opinion		
4. Facts of penalties (as income)		
5. Shifting responsibility to the tenant for major repairs		
6. Shifting responsibility to the tenant for taxes and insurance		
7. Having two contracts in one: lease and sale		

As can be seen from the table, there are many nuances in the implementation of institutional restrictions on ijarah in Islamic windows of commercial banks. A sham transaction is also possible here, which requires careful control. However, the most common is the shifting of responsibility to the lessee for insurance, taxes, and major repairs, which is unacceptable in such contracts.

At the same time, it is possible to conduct an analysis of the profitability of ijarah as a bank product using the proposed methodology (Table 7).

Table 7: Analysis of the profitability of ijarah.

Indicator	Last year	This year
1. Amount of the asset acquired		
2. Income from Ijarah in the form of rental payments		
3. Level of coverage of the initial cost (2:1)		
4. Capital expenditure on repairs		
5. Taxes and compulsory insurance		
6. Profit for the current period		
7. Profitability on Ijarah		

The proposed methodology will allow identifying violations in the services provided from the point of view of Islamic law.

## 4 CONCLUSIONS

At the final stage, all activities of the Islamic window in the bank are studied. The key issue of the Islamic window in a conventional bank is the parity of attracted and placed funds that are not mixed with the total capital, for which the following methodology can be used (Table 8).

Table 8: Analysis of the dynamics and structure of attracting and placing liquidity in Islamic windows of commercial banks.

Indicator	Last period	This period
1. Raised funds		
1.1. Debit cards of individuals		
1.2. Funds of legal entities		
1.3. Sukuk (securities)		
1.4. Mudaraba (trust management)		
1.5. Wadia (storage)		
1.6. Other areas		
2. Placed funds		
2.1. Murabaha		
2.2. Ijara		
2.3. Istisna (custom-made)		
2.4. Musharaka (partnership)		
2.5. Mudaraba		
2.6. Other areas		

It is important to note that in this context, the issues of brand and risk management are not analyzed [Benaicha, 2020; Hanefah, 2020], which can be considered in separate articles. The decisive issue is the equality of assets and liabilities, as well as the independence of the liquidity pool of Islamic assets and liabilities from conventional ones.

At the final stage, a comparative analysis of the products of the Islamic window of a commercial bank can be carried out (Table 9).

Table 9: Comparative analysis of products of the Islamic window of a commercial bank by products.

Indicator	Bank 1	Bank 2

1. Mudaraba yield		
2. Fund yield		
3. Murabaha markup		
4. Ijara markup		
5. Other indicators		

The assessment for mudarabah and funds will be carried out in the amount of profitability: the more, the better. As for idajara and murabaha, the situation is ambiguous: on the one hand, a low level is beneficial to the buyer, on the other hand, an increase in the markup leads to an increase in profit, perhaps not in the long term. Thus, the proposed methodology will help Islamic windows of ordinary usurious banks to screen their financial products for compliance with the implementation of institutional restrictions of a religious nature. Of course, these proposals are only the first step in the development of theoretical and methodological provisions concerning Islamic windows in commercial banks in Russia.

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