Banks

Definition:

An institution, joint-stock company, or commercial establishment established for the purpose of dealing in money and credit.

Types of Banks and Their Functions:

Banks are divided into many types, the most prominent of which are:

First: Issuing Banks:

This is called the state bank or the central bank. It is at the head of the entire banking system and is responsible for issuing paper money. It performs three types of functions:

1- Banking Function: This consists of providing banking services to the state, the most important of which is collecting what is due to the state from others and paying what it owes to others.

2- Monetary and Credit Function: This consists of supervising the implementation of the state's monetary and credit policies.

3- Supervisory Function: This consists of supervising other banks, which helps stabilize money and credit in accordance with the state's general economic plan and supports the national economy.

Second: Specialized Banks:

These are banks whose main activity is financing, and accepting deposits is not one of their core activities. The most important of these are:

Real estate banks, agricultural banks, and industrial banks.

Third: Commercial Banks:

These are banks that accept demand deposits or fixed deposits. Time is used to grant loans and credit to customers and to invest in securities.

<u>Functions of Commercial Banks:</u>

First: Accepting Deposits:

There are two types:

1- Current (Demand) Deposits: These are funds deposited by depositors with banks, available for immediate circulation and withdrawal at any time.

2- Time Deposits: These are funds deposited by depositors with banks for a specific term, and they do not have the right to withdraw them until the agreed-upon period has passed. This type is more beneficial for banks because they can use the funds throughout the period. Therefore, the bank pays interest in this type of product.

Second: Banking Services Related to Loans:

1- providing Regular Loans

2- Providing Letters of Credit

It is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. If the buyer is unable to make payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase and retrieve the money from the buyer plus the interest

Third: Other Banking Services (Non-Interest-Based):

1- Domestic and International Money Transfers

2- Buying and Selling Foreign Currencies

3- Renting Safe Deposit Boxes

4- Paying bills such as Electricity, Telephone, and Others

Key roles and functions of commercial banks:

- Accepting deposits: Providing current accounts, savings accounts, and time deposits for individuals and businesses, ensuring the security of funds.
- Providing loans and credit: Financing investment projects, offering personal and real estate loans, and providing credit facilities to promote economic development.
- Payment and transfer services: Facilitating domestic and international transfers, issuing checks and credit cards, and managing payroll services.
- Financing foreign trade: Supporting importers and exporters through the opening of letters of credit and letters of guarantee.
- Providing advisory and investment services: Managing financial portfolios, providing investment advice, and acting as trustees.

Islamic Banks

Importance of Islamic Banks:

1- They help Muslims avoid the prohibited practice of usury (riba) according to the Quran and Sunnah. The consensus, which is a war against God and His Messenger, is as God Almighty says: "O you who have believed, fear God and give up what remains [due to you] of interest, if you should be believers. But if you do not, then be informed of a war [against you] from God and His Messenger. And if you repent, you may have your principal – [thus] you do no wrong, nor are you wronged."

2- Attracting the funds of Muslims who are reluctant to deal with interest-based banks, to utilize them in the economic and social development of Islamic societies.

3- Presenting the appropriate Islamic solution to the demands of the times and inviting non-Muslims to witness the power of Islam, the flexibility of its legislation, and its capacity to accommodate all economic developments.

Advantages of Islamic banks over conventional banks:

1- Exclusion of dealing with interest.

2- Islamic banks focus on investment, while conventional banks focus on lending.

3- The difference in the function of capital.

Conventional banks operate on the principle of equity trading, which involves using other people's money with a limited and fixed return (interest). Islamic banks, on the other hand, operate on the concept of investment trading by combining their capital with the funds of investment depositors and seeking investment opportunities through partnership, with everyone bearing the results of this investment.

Functions of Islamic Banks:

1- Accepting deposits (opening accounts)

- Current Account

- Investment Account

2- Providing all other banking services, but in a manner free from interest (riba), such as opening letters of credit and providing bank guarantees, conducting domestic and international transfers, buying and selling currencies, renting safe deposit boxes, paying utility bills, and more.

3- Providing specialized banking services such as:

1- Offering interest-free loans (Qard Hasan)

2- Collecting and distributing Zakat (alms).