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Safety finance – a different approach – Conventional versus Islamic

[Narcisa Roxana M. Mosteanu]

***Abstract*—**The article aims to underline the distinguish approaches between Islamic and Conventional financial system, and to show the healthy approach of finance, from all beneficiaries‟ perspectives – individuals, financial institutions and governments. The author intentions are to find out which system can sustain a healthy economy, resist to financial turbulences, and help individual and businesses to develop themselves and the entire society. In addition, yes, through this paper, the study found out why Islamic financial system is more sustainable, secure and pass successful the financial crisis from 2008. Furth more, the research paper concludes that for an economic sustainable development these two-financial systems can come together, learn from each other. The current dynamic movement of the world‟ economy finances, it creates the framework for Conventional financial system to be able to develop and offer Islamic finance products and services. Even more, in the present time, banking system starts to operate Conventional Banks with Islamic Windows. During the research paper, the finds are very informative and presented a different way of approaching trade, financial transactions, risk, profit and economic development. The investigation invites the readers to discover that Islamic finance is healthier (not harmful) and much closer to citizens, based on profit-loss-and risk sharing, real assets backed, coming from the principles of life preached by Islamic principles of life. The Conventional finance are based strictly on financial, banking, commercial laws, on economic flows, based on debtor-creditor and profit principles, leaving the whole risk on the customer side and not all the time financial transactions are real assets backed. Research has revealed and comes to present and stand that, in the last decade, Islamic finance and bank' efficiency was better than Conventional finance and banks‟ one, especially during a crisis period. This efficiency of Islamic finance comes from their unique and special principles of life, which is risk-averse and anti-speculation, and only healthy financial activity and transactions should be conducted, compared to Conventional one, which are profit oriented, and give more attention to business than healthy and non-risky financial transactions. These Islamic principles of life drove and lead to the capacity of resisting to the financial turbulences. Islamic finance appears to be more helpful healthy and have realistic approach. The author conclude that this can be the one of the main reason that Conventional finance is open oriented to have Islamic windows.

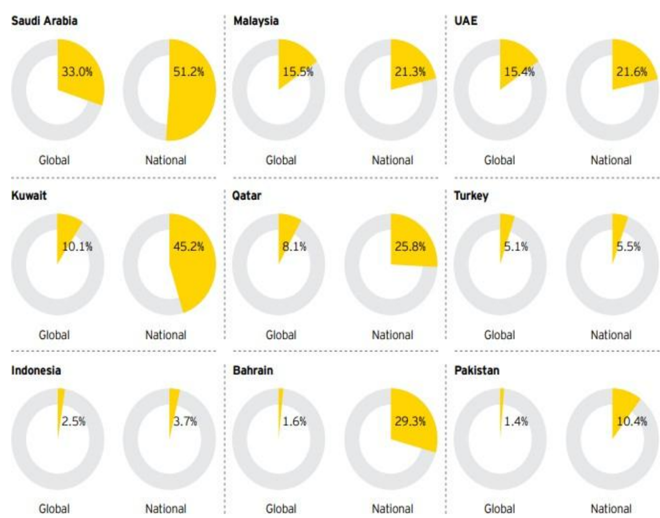
***Keywords*—**conventional finance; islamic finance; banking system; taxation; financial and banking products; finacnial crisis.

Prof.Asoc.Dr.Narcisa Roxana Mosteanu
American University in the Emirates
United Arab Emirates

I. Introduction

This paper rises from the author experience in Arab countries. Coming from Western countries, the author faced the different approach to the banking system. Along with a long practical experience in finance banking and taxation industry, conventional system, through this work paper the author noticed that there are distinguishes between Islamic and Conventional finance. From outside, many people believed that the Islamic finance is a closed one and the products and services offered are 100% different. Some other people claims that Islamic finance approach only changes the finance and banking terminology (*interest rate* against *profit rate*) [1]. During the journey of finding the differences of approaching the finance and banking industry, the author understands that Islamic approach is much closer to people and business, more correct in their approach, emphasizing certain and realistic products and services. The Islamic finance system revolutionized the relationship between the client and the financial institutions.

Figure no.1: International participation of banking assets in Gulf Region



Source: [2]

Can Islamic finance system be applied in Western countries? Yes. Would Islamic finance system will help Western countries to develop a healthy economic environment? Yes. Can be conventional finance be applied in

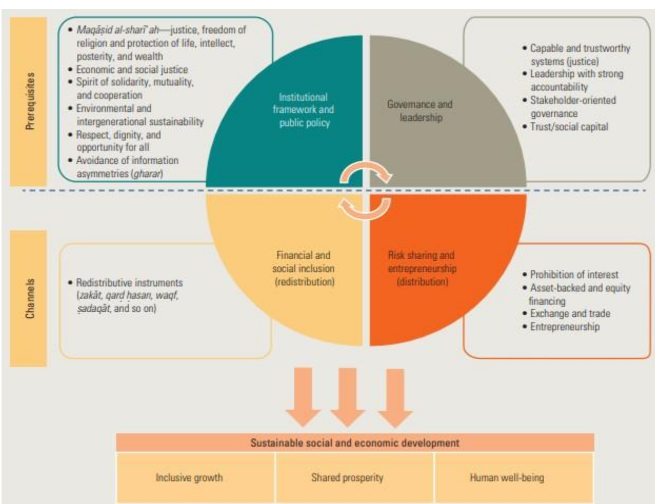
Gulf Region? Yes, and it is applied nowadays, however it might be asked to respect some *fair* rules.

The dynamics of the process of globalization, both economically and socially and financially, has led to substantial changes in the structure of the country's population, development needs as well as the reorientation of the foreign direct investment approach. Therefore, Conventional and Islamic finance intertwined in their investment process. In Gulf region, approximatively 93%of international participation banking assets are based out of nice core markets, as it is represented in figure no.1.

II. Literature review

After the recent financial crisis, many international organizations have begun to pay more and more attention to the Islamic finance approach. And this because the Islamic finance and banking system was least affected by the financial crisis [3]. The Islamic finance and banking system experienced global growth rate of 10-15% per annum (over 10% in 2016 - According to World Bank Report, 2016, the Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually).

Figure no.2: Islamic financial framework



Source: *Islamic Finance: A Catalyst for Shared Prosperity?* Global Report on Islamic Finance, World Bank Group, Islamic Development Bank Group, 2016

In 2009, there were more than 300 Islamic banks and 250 Islamic mutual funds, around the world; Standard and Poor's reports that, while many of the world's financial systems were deleveraging, assets of the top 500 Islamic banks expanded by 28.6 per cent to total $822 billion and has been moving into an increasing number of conventional finance and banking system at such a rapid place that Islamic finance and banking are present today in over 51 countries. Despite this consistent growth, many supervisory and finance practitioners are still unfamiliar with the process of how Islamic finance and banks really works, and how conventional finance and banking system can merge and work with Islamic one.

One of the most important objective of Islam is to greater justice in human society. Islamic finance comes to help to rise substantially the share of equity and profit-and-loss sharing in business [4]. Islamic banks have powerful strength to attract a huge number of customers mainly due to their religious orientation [5]. The Islamic banking is a banking system that complies with *Shari'ah* (Islamic law) and its practical application through the development of Islamic economies. Application of principles and rules of *Shari'ah* in financial and economic field can stop the disorder and financial turbulences which shaking the financial world markets because of manipulating the rules of fictitious and illegitimate speculations (as can be seen from figure no.2).

Shari'ah bans interest (*Riba*), products with excessive uncertainty (*Gharar*), gambling (*Maysir*), short sales, as well as financing of prohibited activities as considered harmful to society. Transactions must be underpinned by a real economic activity, and there must also be a sharing of risks in economic transactions [6].

III. Research methodology

The study was conducted on 2 banking systems: Conventional banking system and Islamic Banking system. The purpose of the research was to discover the reasons why more and more economists now claim that the Islamic banking system is more suitable for a balanced and lasting development. For this reason, the analysis focused on finding the principles of operation and on the banking operations that these two systems offered, find where the differences are, and whether it can be implemented in countries other than those in the Arab world. The database necessary to the research was provided by the International Monetary Fund, World Bank, Arab Monetary Fund, Central Banks, and another international financial organizations website and many dedicated articles and reports.

IV. Research Findings

The research undertaken has found, from the outset, that in recent years there has been a significant increase in the number of Muslim populations in the Western and Eastern countries. This incensement, as well as the increase in the number of investors from the Arab countries (the majority from GCC) that want to diversify their investment portfolio, it has made the banking system in Western and Eastern countries to open the door and offer the Islamic banks the possibility to run in this part of the world. On the other hand, the conventional banking system has received the Islamic banking system as a threat to reducing its market share and profit, and, in the same time as an opportunity, becoming more and more interested in cooperating with Islamic banks and offering Islamic banking products and service.

Table no.1: Main differences between Conventional and Islamic banking system

Conventional finance approach	Islamic finance approach
Money = a product besides medium of exchange and store of value; Time value is the basis for charging interest on capital and making profit; Interest is charged no matter what the organization having profit or suffering loss. There is no concept of sharing loss; During the finance process, there is no agreement for exchange of goods & services; Using money as a commodity, the inflation is created; the inflation will lead to the incensement in the cost of products and services; Government can make loans from the Central Bank through Monetary Market Operations without initialing capital development expenditure; The failure of the projects financed are written off as non-performing loans;	Money = just a medium of exchange; is not a product (cannot be sold for a higher price); Profit is made on exchange of good and services; The investments/loans are fulfilled differently: through profit sharing agreements (Mudharabah), joint venture (Musharakah), cost plus (Murabahah). The execution of agreements for the exchange of goods & services is a must, from the very beginning of the finance process; Using money as a medium of exchange, no inflation is created; doe to the control over inflation, no extra costs, prices will be created; Government cannot obtain loans from Monetary Market Operations without making sure the delivery of goods and services; The failure of the projects financed can been taken over by the bank to hand over to a better management;

Source: based on Moşteanu, Narcisa Roxana, (2017), [7]

Both conventional banks and Islamic banks have emerged to meet the financing needs that individuals and investors have for improving their living conditions or developing their businesses. Before presenting the differences between the conventional banking system and Islamic banking system it is better to underline on what these both systems are based on. Conventional banking system is based on a pure financial intermediation, whereby banks mainly borrow from servers and then lend to enterprises or individuals. They make their profit from the margin between the borrowing and lending rates of interest. Conventional banks provide a variety of products and services, starting from different types of deposits and loans, to letter of credits and guarantees. Islamic banks play as an investment manager, it has the same purpose as conventional banks but adhering to Islamic law. The basic principle of Islamic banking is based on risk-sharing which is a component of trade rather than risk-transfer which is seen in conventional banking. Islamic banking introduces concepts such as profit sharing – Mudharabah [According to http://www.mib.com.mv/blog/guide-to-islamic-banking/what-is-mudarabahbn, *Mudharabah* is a form of partnership where one party provides the funds while the other party provides expertise. The people who bring in money are called "Rab-ul-Maal" while the management and work is an exclusive responsibility of the "Mudarib". The profit-sharing ratio is determined at the time of entering the Mudarabah agreement whereas in case of loss it is borne by the Rab-ul-Mal only. In case of Islamic banks, the depositors are called Rabb-ul-Maal and the bank is called Mudarib], safekeeping – Wadiah [According to https://www.islamicbanker.com/education/wadiah, *Wadiah* corresponds to safekeeping, custody, deposit and trust. In Islamic finance, *wadiah* refers to the deposit of funds or assets by a person with an Islamic bank. In this arrangement, the depositor deposits his funds or assets with the bank for safekeeping and in most of the agreements the bank charges a fee for the safe custody of the depositor"s funds], joint venture – Musharakah[According to https://www.islamicbanker.com/dictionary/s/shirkah-al-amwal, *Musharakah* is a type of *Shirkah al-Amwal* (partnership where each partner brings in some capital in the form of money and all partners contribute their labor and skill, agreeing to share profit or loss) which literally means sharing. In the context of business, it refers to a joint enterprise in which parties share the profit and loss of the enterprise. It plays a vital role in financing business operations based on Islamic principles, which prohibit making a profit on interest from loans. Musharakah may sometimes include Shirkah al-Amal, where a partnership is formed to render some services without requiring any capital investment], cost plus – Murabahah [According to http://www.mib.com.mv/blog/guide-to-islamic-banking/what-is-murabaha, *Murabahah* is one of the most common modes used by Islamic Banks. It refers to a sale where the seller discloses the cost of the commodity and amount of profit charged. Therefore, Murabaha is not a loan given on interest rather it is a sale of a commodity at profit. **The mechanism of Murabaha is that the bank purchases the commodity as per requisition of the client and sells him on cost-plus-profit basis**. Under this arrangement, the bank is bound to disclose cost and profit margin to the client. Therefore, the bank, rather than advancing money to a borrower, buys the goods from a third party and sell those goods to the customer on profit. A question may be raised that selling goods on profit (under Murabaha) and charging interest on the loan (as per the practice of conventional banks) appears to be one of the same things and produces the same results. The answer to this query is that there is a clear difference between the mechanism/structure of the product. The basic difference lies in the contract being used. Murabaha is a sale contract whereas the conventional finance overdraft facility is an interest-based lending agreement and transaction. In case of Murabaha, the bank sells an asset and charges profit which is a trade activity declared halal (valid) in the *Shari'ah*. Whereas giving loan and charging interest thereupon is pure interest-based transaction declared haram(prohibited) by *Shari'ah*], and leasing (Ijar).

To make clear what are the differences between these two financial systems, the research has found that, over the last few years, due to the proven stability of the Islamic banking system, many economists have tried to emphasize the main differences and similarities. Analyzing all these research papers and representative materials from Islamic institutes, the present paper structures these differences into three categories: general characteristics; operating principles; products and services offered.

A. *Characteristics of Conventional and Islamic financial system*

The Islamic finance has been making headway into an increasing number of Western countries. Easter countries faced a less success with conventional banks in the recent years, due to reduction of the level of own funds caused by the deteriorating the quality of loan portfolio. However, if conventional banks what to approach the Islamic banking system, from the very beginning they need to know the following main differences (table no.1.)

Operating principles in Conventional and Islamic Banking

Although many products offered by Islamic banks look like those offered by Conventional banks, however these two entities differ conceptually, and both have different business operating principles (table no.2). Two major differences are in how the price in setting for using the money (Conventional banks cannot exist without dealing in interest while Islamic banks prohibit interest-based dealings), and the way that the risk is taken in the event of a failure.

Table no.2: Operating principles in Conventional and Islamic banking system

Conventional finance approach	Islamic finance approach
The basic operating principle	
Conventional finance is built upon the fundamentals of debtor-creditor relationship with interest being the price of credit and reflecting the opportunity of cost of money.	Islamic finance is built upon the fundamentals of partnership and participatory in nature. The risk and reward relationship is guided by socio-economic principles.
Main purpose of activity	
Focused on intermediation activity and income from investments/loans.	Focused on debtor investment projects, assessments and valuations.
Sanctity of contract	
In many cases the conventional finance accepting transactions without a real and valid proof of existence of capital goods and services/ real assets. Sometimes the credibility of entrepreneur/ investor makes the project feasible.	Before executing any Islamic finance transaction, the counter parties must satisfy whether the transaction is halal (healthy/valid) per Shari‟ah. That means that all operations must not be invalid or voidable. If there are any invalid components in the contract and unless these invalid components are eliminated, the contract will remain voidable. All terms must be clear without any gate of interpretation.
Price of using the money	
Money are a commodity. For all operations between conventional finance and clients, the interest (price for using money) it is collected.	Money are just a medium of exchange. Collection and payment of interest (Riba) is prohibited. Islamic finance cannot lend money to earn additional amount.
Risk sharing	
The risk is totally on the client side.	Any Islamic finance transaction take into consideration and share the risk of ownership of the tangible asset, real services or capital before any earning and profit there from.
Finance/Banking transactions are backed by tangible assets	
No. Only mortgages, and any other products backed by tangible assets.	Yes, all of them.
Economic purpose/activity	
Not all the transactions have a certain economic purpose and not all of them are backed by tangible assets.	Every transaction has certain economic purpose/activity. All transactions are backed by tangible asset or real service.
Taxes	
For its profit, Conventional finance is paying taxes. For the profit earn from interest rates on deposits, the clients also must pay taxes.	There is no income tax or corporate tax (some exceptions). However, Zakat is an amount that, per the pillars of Islam, it must be paid to the poor and needy. All Islamic business are paying zakat. Clients of Islamic finance don‟t have to pay zakat. (depend on the business or individual earning, there is a different approach.)
Penalties	
For any delay in complying with the contractual conditions, a penalty is charged. Penalties are part of the financial institution's profit.	As a rule, there is no penalty, because the contract is profit-loss-risk-share based. It can be an additional charge, but these amounts will go automatically for charity and not for financial institution‟s profit.

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B. *Different approach on banking products and services*

As the research showed above one of the main difference between these two banking systems is that Conventional banking is based more on financial and banking laws, rules and regulations while Islamic banking is following also Shari"ah (Islamic law) which promote profit and loss sharing.

To be able to compare these two banking systems, the research has taken into account the banking products that can be comparable (see table no.3), at least in terms of covering individual and business needs. For any banking transaction, both of two systems conclude agreements with clients. Conventional banks make agreements as debtor-creditor, while Islamic Banks make agreements as seller-buyer.

Table no.3: Products and services offered by Conventional and Islamic banking system

Conventional finance/banking approach	Islamic finance/banking approach
Deposits/ Safekeeping (Wadiah)	
Deposits = In this arrangement, the depositor deposits his funds or assets with the bank for safekeeping. Bank is charging opening account fee and maintenance fee. For these safekeeping of funds, the bank will pay an interest rate. The percentage of the interest rate different, depending on the maturity of deposits, but it is fixed from the very beginning in the agreement. The risk is born by the bank and total rewards belong to it after servicing the depositors at the rate fixed in the agreement.	***Wadiah*** = Safekeeping or deposit of funds In this arrangement, the depositor deposits his funds or assets with the bank for safekeeping and in most of the agreements the bank charges a fee for the safe custody of the depositor"s funds. The fee is charged only once. The bank is not offering interest rate of these safekeeping. For these safekeeping, can be a reward. This reward is variable. The risk and reward both are shared with depositors. Reward of depositors is linked with outcomes of investments made by Islamic bank.
Investments	
Investment account = financial account that contains a deposit of funds and/or securities that is held at a financial institution. The typical objectives of an Investment Account are to achieve long term growth, income or capital preservation from the deposited asset portfolio. Client will receive an interest rate (as a percentage). The income is subject to income tax.	Profit sharing agreements - (Mudharabah). Under Shari"ah based financing system firms must prove the viability/profitability, because the financial institution will become the part of the project and will share the risk and the profit with the customer. Being a risk-profit-share agreement, there is no interest rate charge, and no penalty charged for the delay in fulfilling loan agreement. There will be two Mudharabah agreement: client-financial institution; financial institutions-investment fund. No income tax is applied for individuals… follow the zakat principle. Client comes with the money/capital and the financial institution take the money and go through another Mudharabah with an entrepreneur
Financial institutions can make any type of investments. Investment in stocks and bonds are allowed.	Financial institutions cannot invest in government securities; short term loans, bond and money at call and short notice because of interest based transactions. Islamic finance can invest only in sukuk, which combine characteristics from bonds (maturity) and from stocks (ownership), with the specification that it is asset-backed and represents proportionate beneficial ownership in the underlying asset.
Financial institutions can invest in any type of assets, issued and managed by any kind of institution	Islamic financial institutions invest only in Islamic funds. Islamic funds conduct only halal transactions (infrastructure, assets-backed, no excessive risk, no gambling or other non-Sharia allowed activities)
Any financial institution (according to their status) can act as an investment one, on behalf of clients.	Wakalah is an agent which invest in clients" behalf. Wakalah is a term in Islamic finance that denotes an agency contract, where one party appoints another to conduct a defined legal action on his behalf, for a specified fee or commission. The agency contract refers to providing any service on behalf of another, where the principal does not have the time, knowledge or expertise to perform the task himself. Wakalah is a non-binding contract and the agent or the principal may terminate this agency contract at any time, as mutually agreed by both parties. All the services provided has to be halal.
Overdraft/Credit cards	
Conventional banks offer the facility of overdrawing from account of customer on interest. The limit of overdrawing is set by the bank. Credit card gives dual facility to customer including financing	Islamic banks offer the facility of debit card whereby the customer can use his account carries credit balance. No credit cards. Extra charging is not allowed.

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as well facility of plastic money whereby customer can meet his requirements without carrying cash. In case of default customer is charged with extra interest.	
Short term loans	
Banks grants short-term loans for individuals or for businesses, under interest rate reward, based on debtor-creditor agreement. In case of fault, the bank is not taking any risk.	Short term loans for individuals and businesses are allowed, under the Murahabah agreement. It refers to a sale where the seller discloses the cost of the commodity and amount of profit charged. Therefore, Murabahah is not a loan given on interest rather it is a sale of a commodity at profit. The mechanism of Murabahah is that the bank purchases the commodity as per requisition of the client and sells him on cost-plus-profit basis. Under this arrangement, the bank is bound to disclose cost and profit margin to the client. Therefore, the bank, rather than advancing money to a borrower, buys the goods from a third party and sell those goods to the customer on profit.
Medium and long term loans	
Banks give medium and long term based on the project/business plan, sometimes require the collateral deposit or a real asset as a guarantee. For the loan, the bank is asking for an interest rate. In case of delay in complying the agreement conditionality, the customer is subject to a penalty. The risk is totally in charge of the customer (debtor).	These loans are fulfilled through profit sharing agreements (Mudharabah), joint venture (Musharakah), cost plus (Murabahah). Under Shari"ah based financing system firms must prove the viability/profitability, because the bank will become the part of the project and will share the risk and the profit with the customer. Being a risk-profit-share agreement, there is no interest rate charge, and no penalty charged for the delay in fulfilling loan agreement.
Leasing	
Banks give medium and long term based on the project/business plan, sometimes require the collateral deposit or a real asset as a guarantee. For the loan, the bank is asking for an interest rate. In case of delay in complying the agreement conditionality, the customer is subject to a penalty. The risk is totally in charge of the customer (debtor).	These loans are fulfilled through profit sharing agreements (Mudharabah), joint venture (Musharakah), cost plus (Murabahah). Under Shari"ah based financing system firms must prove the viability/profitability, because the bank will become the part of the project and will share the risk and the profit with the customer. Being a risk-profit-share agreement, there is no interest rate charge, and no penalty charged for the delay in fulfilling loan agreement.
Insurance and Pension Funds	
Health security is mandatory, by law – citizens and residents are contributed to the state budget for health insurance. Employer is paying on employees" behalf.	Health security is mandatory, by law – citizens and residents are contributed to the authorized Insurance companies for health insurance. Employer is paying on employees" behalf.
Insurance and private pension plans are offered by: insurance companies; banks, investments funds…	Insurance and Private Pension Funds are offered by Takaful Insurance or other Islamic finance institutions (banks)
All king of insurance is offered, including life insurance and private pension plans.	Today all type of insurance and pension/retirement plans are offered

Source: adapted from [8] and [9].

V. Conclusions

The research undertaken in this paper was focused on finding the differences and similarities between the Conventional finance and the Islamic finance system. Many economists – Garbois C., Gourp C., Pock A., Bhatnagar M., [10] argue that the Islamic finance has managed to face much better with the financial crisis, it does not lead to inflation and, furthermore, it also helps the socio-economic development of the country [they sustain that *Islamic banks that takes the time now to consider strategic choices and address operational fundamentals will be in a stronger position to capture untapped market opportunities and master the changing dynamics of their industry*]. The purpose of the research was to discover the reasons why more and more economists now claim that the Islamic finance is more suitable for a balanced and lasting development. For this reason, this analysis focused on the principles of operation and on the banking operations that these two systems offer, to see where the difference is, and whether it can be implemented in countries other than those in the Arab world. Recent banking scandals (financial crisis) that outrage citizens, has increased interest in *healthy finance*, which seems to have benefited Islamic banks [11].

The research comes to underlines that the most important different approaches between Islamic and Conventional finance, based on the principles of operations (especially in the banking system):

1. For Islamic finance *money* are just *a medium of exchange*; for Conventional finance *money* represent a commodity which can be trade;
2. In Islamic finance, the profit is made based on *seller-buyer* of goods and services. Collection and payment of interest (*Riba*) is prohibited; in Conventional finance, the profit comes from the *interest rate* and *fee* charged on using any banking products and services;
3. Islamic finance operates based on the principle *profit-and-loss sharing* agreement, compare with Conventional finance which operates based on principle *debtor-creditor* agreement;
4. In Islamic finance, funding must be linked to real assets (materiality) and all banking operations must be moral and ethical;
5. Islamic finance *shares the risk* of ownership of the tangible asset, real services or capital before any earning and profit there from; Conventional finance lives the whole risk to the customer.

From finance and investment approach perspective, the research revealed that there can be five substantial factors which are really make the difference between Conventional and Islamic finance and make this one to growth faster:

1. *Healthy investments* – Targeting funding for extraordinary growth opportunities in: healthy food, healthy tourism, healthy and cosmetic treatments, classical and conservative fashion, entertainment, digital services through applications or data, and so on. These sectors are constantly growing, providing their funding with a guaranteed opportunity to increase capital and wealth;
2. *Financing new opportunities on the global markets.* Islamic finances are targeted at sectors with high potential for identification in the top countries, but they are excited in new markets to meet the global demand for investment financing and the expansion of the Islamic banking and insurance sectors. Demand for the Islamic finance and its products is rising (because of their risk-sharing profit and because all transactions are backed by tangible asset or real service), and this is an opportunity to raise Islamic capital by expanding its markets and reaching new consumer segments;
3. *Support SMEs* – Islamic finance supports and finance Small Enterprises, SMEs and Start-ups to enter and develop in global market. Healthy principle of financing helps new enterprises to start and develop innovative activities (financial and fiscal facilities are credited, especially for local new entrepreneurs);
4. *One step ahead with market trends* – Islamic finances are steadily on the rise, they keep up with the changes in the global economy, they are always in line with the latest changes and trends on the financial, economic and social market;
5. *Islamic financial products and services are 100% healthy and their electronic trading platforms is financed also by Islamic institutions.*

Financial institutions activity, in general plays a role as intermediary, bringing together people or business which are in need on money with people which have surplus of money and are willing to make investments. Banking system is also largely responsible for the payments system. The research finds out that there are significant differences in approaching finance, between Islamic and Conventional systems.

Regarding the economic and social impact that the financial crisis of 2008 left and studying the operating principles of these two financial systems, the research concluded that, without discussion, the Conventional finance also helps to develop the economic development in any country, however the Islamic finance is much more secure for the economic and social perspective of any country, in one word *it is more healthy*. And the main explanations may be the followings:

1. The Islamic finance offers benefits for economic growth, it can significantly contribute to economic development, *given its direct link to physical assets and the real economy*. The emphasis on tangible assets ensures that the industry supports only transactions that serve a real purpose, thus discouraging financial speculation.
2. Islamic finance *emphasizes partnership-style financing and risk-sharing agreements*, which could be useful in improving access to finance for the poor and small businesses. As the 2008 global financial crisis ravaged financial systems around the world, Islamic financial institutions were relatively untouched, protected by their fundamental operating principles of risk-sharing and the avoidance of leverage and speculative financial products.

Islamic finance has appeared as an effective tool for financing development worldwide, including in non-Muslim countries. Major financial markets are discovering solid evidence that Islamic finance has already been mainstreamed within the global financial system – and that it has the potential to help address the challenges of ending extreme poverty and boosting shared prosperity. Nowadays, The World Bank Report comes with a very precise conclusion, and our research is fully agreed with this: *Islamic finance is equity-based, asset-backed, ethical, sustainable, environmentally-and socially-responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare* [12].

The Western and Eastern Conventional finance becomes less successful in the recent years based due to reduction of the level of own funds caused by the deteriorating quality of loan portfolio, while the Islamic banks managed to remain stable, because their financing activities are more focused with the real economic activities and backed by real assets. It can be hard to change and the Conventional system to Islamic banking one, however at least gradually, they can implement one by one the Islamic banking principle. This will can bring the economic stability, avoiding inflation, and encourages the provision of financial support to productive enterprises that can increase output and generate jobs. Conventional finance can adapt and offer also Islamic financial products and services. Once a Conventional finance will start to operate an Islamic window and creates confidentiality and recognition among clients, it may decide to establish an Islamic subsidiary. In this way, the Conventional finance will be able to offer, under the same umbrella, a wider range of Islamic banks products.

The research concludes that, generally in the last decade, Islamic finance and banks' efficiency was better than Conventional finance during a crisis period. The efficiency of Islamic banks, which is risk-averse and anti-speculation, compared to conventional ones gave and gives the capacity to resist to the financial turbulences. Islamic finance has more *helpful, and realistic* approach, and from risk and real assets baking all transactions perspective makes this financial approach healthier for entire economy and for its individuals and business too. Conventional finance could analyze and implement some of the operational principles practiced by the Islamic finance, in order to make a healthier economic development environment, supporting in the same time innovation and creativity at entrepreneurship level.

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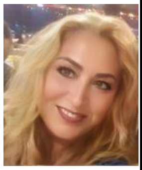
About Author:

Prof.Asoc.Dr. Narcisa Roxana M. Mosteanu

- *Doctor in Economic Philosophy of Finance*
- *Top management positions in Finance, Taxation and Banking System (Director/Counselor/Manager)*
- *Professor of Finance, Taxation, Banking system*
- *Author of 17 books on different economic topics*
- *Co-author of 5 books on different economic topics*
- *Author of more than 25 research articles on economic, finance, banking and taxation topics*



The Islamic finance offers benefits for economic growth, it can significantly contribute to economic development, *given its direct link to physical assets and the real economy*. The emphasis on tangible assets ensures that the industry supports only transactions that serve a real purpose, thus discouraging financial speculation.