Ishtar Journal of Economics and Business Studies (IJEBS), Volume 3 (3), 2021, ISSN: 2708-6186

The comparative role between commercial and Islamic banks in Iraq: Rafidain Commercial Bank, Tigris Bank and Islamic Euphrates - Case Studies

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ABSTRACT

Through our research, we try to identify the differences between commercial and Islamic banks. The research examined the differences between the commercial and Islamic banks using financial ratios and other means of measuring differences as this type of financial analysis aims to ascertain and verify the integrity of the financial bank's position, whether commercial or Islamic through financial statistics, profitability and liquidity ratio during the period (2013-2014) between these two banks and compare them, as it turns out that there is a significant difference between them through liquidity ratios and high pledged credit and cash in Rafidain Bank contrary to what is the case According to the annual schedules and reports of this period, the Islamic Bank of Tigris and Euphrates showed that there was a significant difference between these banks in terms of liquidity, profits and credit. The research recommended a range of recommendations, including urging Islamic banks to take advantage of Internet and communication technology for the purpose of sharing studies and ideas, as well as recommending Iraqi commercial banks to maintain the appropriate investment of their resources through the investment of their deposits, and the need for commercial banks to provide new and distinctive services to their customers for the purpose of employing their resources and improving their performance better when comparing them with Islamic banks through the use and application of advanced electronic systems.

Keywords: investment mechanisms, cash and pledge credit, financial instruments, guarantees in commercial and Islamic banks.

Introduction

The subject of the Commercial Bank and the Islamic Bank (comparative study) is an important topic that contains many thorny branches, and is of great importance to Muslims in general, and one of the most important topics that has caused a wide debate among the segments of society the subject of (interest of banks) whether on deposits or loans, that this topic is of great importance among individuals or institutions because of its relationship with religious issues (halal and haram), and because our beliefs prevent us from dealing severely with riba taking or giving And like this, the Holy Qur'anic verses end and warn against falling into the circle of riba.

" قال تعالى: الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَن جَاءهُ مَوْعِظَةٌ مِنْ رَبّه فَانْتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ * يَمْحَقُ اللهُ اَلرِّبَا وَيُرْبِي الصَّدَقَاتِ وَاللهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ (سورة البقرة، الآيات 275، 276)"

As a result of individual interest in this issue, the various institutions have taken care of this subject because of its connection to the banking and economic structure of all countries. Islamic banks have followed the policy of not dealing with interest in a bid, and from this point of view it seemed to talk about the comparison between Islamic and commercial banks. The work and practices of banks are new in the Arab countries, the first traditional banks were opened in the 1950s in Qatar, and the first private bank was established in the State of Jordan in 1930 in Malaysia, knowing that banks have existed since 1875 and is the first traditional bank in Bangladesh, Hedostan Bank, which was established in 1770 in Kolkata (Eid) 2014 , The importance of commercial and Islamic banks by acting as intermediaries between depositors and the bank is highlighted by investing these funds through various projects in exchange for the provision of different services, and contributing to economic development and when banks play this role (mediation), they are exposed to many risks, so banks put precautions to strengthen the financial position and face potential losses within certain laws and instructions.

Search problem

The problem with research is to know the differences between the two banks (commercial and Islamic) and which are better in terms of the banking services they provide and in terms of performance and through liquidity ratios and profitability and comparing them together and knowing the similarity and difference between them. The problem of research can be expressed with the following questions - :

1. What is the role of commercial and Islamic banks in achieving investment and economic development of the state?
2. Can Islamic banks compete with commercial banks in Iraq in terms of liquidity, profitability and credit?
3. How much do commercial and Islamic banks contribute to the promotion and development of banking services
4. What are the problems and difficulties facing the work of commercial and Islamic banks in Iraq?
5. Is the performance of commercial banks different from that of Islamic banks in Iraq?

The importance of research

The importance of research is highlighted by comparing Iraqi commercial and Islamic banks and this importance can be determined by:

1. Creating the role of cash and pledge credit in banks to reduce the negative effects of declining government spending rates.
2. Banks attract and employ funds and provide the necessary services to finance projects for economic development.
3. The correct banking deployment of the arrival of banking services to all members of the community.
4. Achieving profits in commercial and Islamic banks through the increase in the number of depositors.

Search goals

The research seeks to achieve the following objectives:

1. Banks attract and employ funds and provide the necessary services to finance projects for economic development.
2. The correct banking deployment of the arrival of banking services to all members of the community.
3. Achieving profits in commercial and Islamic banks through the increase in the number of depositors.

Identifying factors affecting the performance of commercial and Islamic banks in Iraq.

Search sample

These banks (Rafidain Commercial Bank, Tigris Bank and Euphrates Islamic Development and Investment Bank) have been relied upon as a research sample during the period) 2013-2014

The concept and definition of commercial banks

1. Commercial banks are profitable financial institutions that deal with credit and are also called deposit banks, as they differ from other banks in their acceptance of on-demand deposits and current accounts, i.e. the function of commercial banks receives deposits of all kinds and operates part of those deposits in a loan form while retaining the other part in the form of cash reserves. Commercial banks rely mainly on the deposits of

individuals and entities of various kinds, whether on demand, notice or for a period of time, investing them for short-term periods in credit facilities that are easily converted into cash without any significant losses in order to contribute to the financing of trade and examples of such investments (loans, advances, collection of commercial papers).

2. Commercial banks can be defined as non-specialized credit institutions whose basis is to receive deposits from individuals and bodies that are withdrawn on request or on a short term and operate mainly in short-term credit and are called deposit banks (Awadallah and Guli, p. 99,100).
3. It is also defined as the institution that carries out its credit operations (borrowing and lending) when obtaining funds from depositors to open deposits with them, then the bank undertakes to make payments on request or for and provides them with loans (Al-Musawi, 1993).
4. It is also a capital project whose main objective is to achieve profits at the lowest possible expense and in the largest amount by creating money for deposits and providing them with banking services (Shiha, 1999).
5. These are institutions that accept deposits of various kinds that are paid on request or for a certain time and whose operations engage in external and internal financing activity for the purpose of achieving the objectives of the development plan and strengthening the national economy and start savings, development, financial investment at home and abroad and contribute to the establishment of projects and other banking operations, as decided by the Central Bank. (Hanafi, 2000)
6. These are the so-called deposit banks that deal with credit and are characterized by their acceptance of on-demand deposits and direct and indirect accounts and thus create the so-called "current money". (Abdullah, 2014)
7. An organization that uses money as a raw material, converting money into products and placing it at the disposal of the customer, an institution that operates under commercial bases and rules, owns private funds like other institutions, part of which is the minimum stock, and is distinguished from the rest of the institutions by always buying its raw material by borrowing and selling most of its products by lending. (Bouyacoub,1996)
8. The Commercial Bank is an intermediary whose work is focused on dealing with money, and its work is based on special principles and principles, so it is a broker obliged to establish, transfer, receive and grant money, subject to specific rules, standards and special laws, and uses products consisting of money-dealing techniques. (p24, Siruguet)

The emergence of commercial banks

The origin of the word bank is derived from the Italian word banco, which means terrace or table, which is the place of sale of money and was used for the first time by German traders working in Italy with the aim of selling and exchanging currencies. The first start of the establishment of commercial banks was due to the requirements and circumstances accompanied by economic, social and political developments ... Etc., the bankers in Europe and Italy were the first to come. The main function of banks is to deposit funds because traders and businessmen deposit their money there (Ramadan, 1996).

The first beginnings of all banking operations date back to the Babylonian era in ancient Iraq in 4000 B.C., while the Greeks recognized them four centuries ago and were the beginning of the operations of contemporary banks such as currency exchange, loan granting and deposit preservation. And the emergence of banks in their current form dates back to the last period of the emergence of paper money, so the first and primitive form of commercial banks was banking or the cashier who sells and buys foreign currencies and exchanges them in national currencies, Granting loans and keeping deposits. And the emergence of banks in their current form dates back to the last period of the emergence of paper money, so the first and primitive form of commercial banks was banking or the cashier who sells and buys foreign currencies and exchanges them in national currencies, For the purpose of saving deposits and transferring them on request from one deposited account to another depositor's account, but did not maintain the confidence of individuals, as they ceased payment and closed in 1814 (Abdul Haq,2000)

A new phenomenon began at the time: depositing money with a reliable and secure entity that is with the cashier for the purpose of keeping it from being lost and in return (Adel, 1996) issuing official certificates of deposit in the amount of the deposit and receiving a commission in return. The depositors do not apply to withdraw their deposits in the form of one payment but in certain proportions, and the rest of the deposits remain frozen at the bank, which made him think about lending them, and thus the bank became paying interest to the depositors in order to encourage depositors, as the main purpose of the deposit process became not only to save the deposit, but to obtain interest, and thus the development of the bank's activity in receiving deposits in exchange for interest, and the provision of loans based on these deposits for interest as well. (Juicer, 2000)

Over time, the bankers made receipts that received approval and general acceptance, and when the financial operations developed, the demand for funds became high, and the bank provided interest to depositors and lent them in very high proportions because the banks inherited these jobs from the bankers, and then the purpose of the banks was to save money from loss and depositors became looking for interest, and since then the number of banks has begun to increase, making their regulation a must, and the work of banks was limited to issuing money. The first government bank appeared in Venice in 1517 and then the Bank of Amsterdam in 1609, and the development and increase of production led to the flourishing of foreign trade and increased the need for loans.

When large industrial projects requiring large funds emerged, banks began to be an effective body that served capitalism by pooling savings and lending them to industry and thus becoming a financial intermediary between savers and investors. (Al-Qazwini, 1992)

Types of commercial banks

1-Individual banks

They are small enterprises owned by individual corporate members, operating in a small area and using their resources on highly liquid assets such as discounted business papers and securities. . . Other highly liquid assets that can be converted into money in a very short time and without loss, because they do not take the risk of investing their funds in long- or medium-term loans because of the small size of their resources. These are small enterprises owned by individuals or companies of persons, and their work is in a small area and is characterized by the rest of the types of banks that are limited to the use of their resources on highly liquid assets such as discounted business securities and securities, and other assets that turn into money in a short time and without losses, because they cannot afford to distribute their funds in medium or long-term loans due to the small size of their resources. (Habash, definition of banks and their types)

2-Banks with branches

It takes the form of joint stock companies in its legal form, and consists of multiple branches that provide its services in more than one shop, place or office, as it follows decentralization of its business policy and each branch can manage its affairs. The main position belongs to the Bank only in the necessary cases the important matters provided by the bank's policy. (Banking, 2006) It is the one that takes the form of joint stock companies as a legal form, and has multiple branches covering most of the country, especially important places, as it follows the principle of decentralization in the conduct of its work, as it is left to the branch to manage all its affairs, the main center of the bank is returned only regarding the important matters stipulated in the bank's regulations, and is characterized by the fact that it works on a national scale and is subject to the general laws of the state, not the provincial laws in which the branch is located, and does all the traditional works of commercial banks and provides loans Short-term and medium-term as you deal in the fields of foreign exchange. (Kahenea,2008-2009)

3-Group banks

It is similar to holding companies that establish several banks or financial companies, they own most of their capital and oversee their policy and guide them, and they have a monopolistic nature and are spread in the United States of America and western European countries. This type of bank is very similar to banks with branches but is different from ownership as it belongs to the holding company that handles its administrative operations, and differs from it according to the advantages as it follows the monopolistic nature. (Husseini and Al-Dory, 2003)

4- Chain banks

They are the ones that form an integrated series of branches, which have emerged as a result of developments in commercial banks, increased volume of activity and breadth of operation, and these banks are administratively separate from each other and are supervised by one major centre with the task of shaping policy. (Banking, 2006) These banks have emerged with a significant growth in the size of commercial banks, and the volume of businesses they finance in order to provide different services to all segments of society, and these banks are working to open a full series of branches, It is several banks that are administratively separate from each other and are supervised by one major center that draws up public policies that adhere to all units of the chain, and the work and activity between the units are coordinated with each other, and there are this type of commercial banks in the United States only. (Anwar, 2005)

Commercial bank targets

The objectives are as follows (Shiha, brief in the monetary and banking economy) - :

1. Profitability: - Profitability is one of the most important objectives pursued by the Commercial Bank, which is to achieve as much profits as possible for the purpose of satisfying all shareholders, and arises from the difference between the total expenses and total revenues of the bank is the main factor for the success of the management of the commercial bank is to achieve the largest possible profit and in order for the commercial bank to achieve these profits must exceed its costs.
2. iquidity: The bank's ability to hold as much money as possible for the purpose of meeting withdrawals in any capacity by shareholders is the ease of transferring the liquidity of the asset to cash as quickly as possible and at the lowest loss, namely, the bank's ability to meet its obligations, namely its ability to meet depositor withdrawal requests as well as to respond to credit and other financial requests.
3. Guarantee: - Is the bank's ability to meet its debt and all its obligations so that the bank invests its capital, making it more vulnerable to losses that it must bear rather than to depositors. Commercial banks seek to provide as much security as possible to all depositors by avoiding lending to high-risk projects, which is the work of management in order to achieve the main objective of the bank, which is to maximize the profitability of the bank, as commercial banks cannot absorb losses beyond the capital owned, because losses in excess of the owned capital mean devouring part of the depositors' funds and this means bankruptcy of the bank.

The concept and definition of Islamic banks

Islamic banks have become a reality not only in the lives of Islamic nations but throughout the world, and have spread in most countries, providing therefore an economic thought of a special nature, and this is what drives us to get to know a set of concepts to delve deeper into them: are banking institutions that do not deal with the benefit of their transactions (take and give) and are committed to their banking activity and various transactions on the foundations and provisions of Islamic law (Mustafa Naqeb Saleh damaged, (2012 and defined as financial

Ishtar Journal of Economics and Business Studies (IJEBS), Volume 3 (3), 2021, ISSN: 2708-6186

institutions) Cash attracts and employs cash resources effectively to ensure their growth to achieve the maximum possible return and provide financial and banking services in order to achieve the goals of development, social and economic within the framework of Islamic law. (Nihad Abdul Karim And Other, 2013, p. 184), banks that receive deposits from individuals without the obligation to give them interest, as they do not deal with interest in a bid, as these resources are used in their investment activities on the basis of participation in profit and loss, in accordance with Islamic law. . (Makawi, 2009) is a financial and banking institution that conducts its business and banking activity in accordance with Islamic law. (Al-Hiti, 1998) defines banks as financial institutions whose basis is to collect and accept funds from deposits and then lend them for the purpose of employing them and supplying projects with financial sources (Oni, 2001), but the definition of Islamic banks are financial, banking, social and development institutions, which follow in their work the foundations and provisions of Islamic law and islamic ideological logic and this is what they are characterized by other banks
It is an institution that adheres to the provisions of Islamic law in all its banking transactions, investment activity and management of all businesses in accordance with the foundations and rules of Islam and seeks to achieve the objectives of the Islamic community internally and externally. Zaatari, 2001 is a financial and banking unit that plays the role of financial intermediary between investors and savers (in accordance with the formula of legitimate speculation on the basis of the principle of participation in profit and loss and the sheep base in fines, and its banking services in accordance with Islamic law, and therefore contributes to the advancement of social and economic development in the environment in which it operates. Grace and Star, p. 2010,124) It is a financial institution that performs banking and financial services within the framework of Islam and conducts its financing and investment work in various fields on the basis and rules of Islamic law, to instill values and ethics in societies in the field of financial transactions, and to help achieve social and economic development by running funds in order to contribute to the achievement of a decent life for all Islamic peoples. (Sahnoun, 2003) It is clear from the above definitions that Islamic banks operate on the basis and rules of Islamic law and do not deal with interest in their services and seek social and economic development.

The emergence of Islamic banks

The biggest reliance on banks since their inception has been to deal with benefits in a bid, so a number of Muslim economists and sharia have decided that there should be no denial of development and investment because of the inviolability of interest (riba). And with the jurisprudence of many Muslim scholars and intellectuals that showed the concept of Islamic banks that play the role of financial intermediary without the need for benefits in giving and giving as Allah said in the holy verse:

" قال تعالى: الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللهُ الْبَيْعَ وَحَرَّمَ الرِّبَا فَمَن جَاءهُ مَوْعِظَةٌ مِنْ رَبّه فَانْتَهَى فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللهِ وَمَنْ عَادَ فَأُولَئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ (البقرة اية275)".

The idea of Islamic banks was based on the principle of sheep in love and also took the principle of abscessing with security and the principle that money does not give birth to money but grows by investing and participating in the risk of profit and loss and finally based on the fact that profit is a protection of capital. The first appearance of Islamic banks was in 1940, when savings funds were established in Malaysia, which operates without interest, and systematic thinking began to emerge in 1950 in Pakistan for the purpose of developing financing techniques following Islamic teachings, and attempts to get rid of riba-based transactions began in Egypt in 1963.

Local savings banks were established in Daqahliya governorate in Egypt and represent savings funds for small farmers, after which Nasser Social Bank was established in 1971 in Cairo with the aim of collecting and disbursing zakat and a good loan, but Islamic banks did not put their own character as financing and investment institutions except in the 1970s. In 1974, when the second conference of finance ministers of Islamic countries held in Jeddah approved the establishment of the Islamic Development Bank

The Islamic Development Bank, which was established in 1975 to become the first International Islamic Finance Corporation in the world, is characterized by being a government bank that does not deal with individuals in banking aspects, followed in 1975 by Dubai Islamic Bank, to become the first Islamic bank to be established to deal with individuals, and then in 1977 the establishment of Faisal Sudanese Bank and then spread Islamic banks throughout the world. The world, and even the opening of branches of Islamic transactions such as Lloyd's and Citibank others (Haidar Younis Al-Musawi and Another, 2009) There are many institutions that contributed to the emergence of Islamic banks and this reflects the importance of these institutions in the development and development of these banks in order to reach and compete with traditional banks at all levels, and this importance came through the presence of these Islamic banks in more than 60 countries around the world where there are currently more than 300 Islamic banks and financial institutions with financial assets of approximately US$ 400 billion and the volume of transactions between 120 to 170 billion U.S. dollars,

The Islamic countries were divided into two parts and the first section was the traditional banking system and the second section was the Islamic banking system and the first section includes Egypt, the United Arab Emirates and Jordan, where the first Islamic commercial banks such as the Islamic Bank of Jordan for Finance and Investment, Faisal Islamic Bank of Egypt and Dubai Islamic Bank were established, while the second section includes Iran, Pakistan and Sudan. (Malaqi, 2000)

Islamic banks' objectives

There are several objectives, including :

1. Financial objectives including (attracting and developing deposits, investing funds, making profits)
2. Internal objectives (human resources development, growth rates, social and geographical spread)
3. Objectives for bank customers (providing banking services, providing financing to investors, providing security for depositors)
4. Innovative objectives and means improving the performance of banking and investment service provided to customers and depositors and thus maintaining its presence efficiently and effectively and keeping pace with the development of work in the banking market, including (creating formulas for financing, innovation and development of banking services)
5. Non-economic objectives, including development, social, humanitarian through which it seeks to follow (establishing a fair and comprehensive economic system, creating a free and independent economic system, applying Islamic law in banking transactions common in money and goods, developing the economy and society through financial services, investing, encouraging savings and providing financing for Islamic projects with a fair profit return." Al-Musawi, 2011)

Investment mechanisms in Islamic banks

Islamic banks differ from traditional banks in their activity and investment methods, where traditional banks use interest in their activity where deposits are accepted in exchange for interest and lend investors for greater interest, so the bank is a borrower and a debtor to the depositors and a credit lender to the investors financed by them lend it in exchange for greater income and guarantees and thus the traditional banks get profits from the difference between interest owed and creditor and since Islamic banks are based on fatwas where the interest is considered by riba and thus the methods of financing are [speculative] Participation, the murabaha , where these methods do not depend on profit and through this we will address these methods and build them and how different they are from traditional banks.

1-Speculation

The term is (a partnership in profit with money on the one hand and work on the one hand) and this is the definition of the hanifa for it, but the Malikis are called speculative in lending and they have provided them with definitions, the most important of which is (lending is to pay a man money to the other to be dragged and the profit between them as agreed by half, third, quarter or other after the capital is taken out).) (Hadawi, 2007)

2-Participation

Islamic banks invest their money by participating in it and in order to do so use it and invest it in various and multiple ways, most notably fixed participation and decreasing participation. (Sheikhoun, 2002)

3-Murabaha

Murabaha is a formula for mediating through the madaine and murabaha has also been defined as the bank's mediation to buy a commodity at the request of a process. Then sell it to him in the term at a price equal to the total cost of the purchase plus a known profit agreed between them. (Hadawi, 2007)

4- The ististan

Goods are made according to demand using materials from the manufacturer and are in certain descriptions at a specified price as payment is made immediately or later or in installments (fixed and fixed, 2015, p5).

The main pillars of Islamic banking

The Islamic Bank has a set of pillars (Amara, 1996) as follows - :

•The source of money and its employment must be halal.

•The use of money should be away from riba suspicion

•Distribution of returns and risks must be done between the owners of the money and those who manage and employ it

•Shariah control is the basis for review and control in the work of Islamic banks

•For those in need the right to the money of the able- bodily through zakat

•Adherence to the halal and haram rule in Islamic law

•The spiritual, moral and material aspects must not be separated

Dual ownership (private and public)

Restricted economic freedom

Social integration and balance in human society (Muslims and non-Muslims).

Philosophy of the work of Islamic banks

There are many bases and rules carried out by Islamic banks as follows (Abu Obeid, 2006) :

1. Preventing the treatment of interest (riba) taking or giving
2. The principle of sheep in fines, i.e. participation in profit and loss
3. The principle that money grows only by investing it, and that such investment is at risk, as a result of investment may be profit or loss
4. .Dealing with Islamic financing formulas from participation, speculation, profiteering, peace sale, and other financing formulas .
5. Directing savings to areas that serve economic and social development
6. Linking economic development goals to social development and the Islamic Bank has a role to play in achieving this development

Roles played by The Islamic Bank

1. The media role: The Islamic Bank should carry out cultural publishing whenever possible in the various media, and studies and brochures must be issued, and it must hold seminars in order to clarify the true picture of the Islamic Bank and deny any suspicions raised about it, and inform the people about the foundations of the Islamic Bank and its concepts and obstacles.
2. The development and social role: The need for Islamic banks to rely more on the participation system and direct part of the savings to important sectors in the national economy, as well as to play the social role through zakat and social security
3. The innovative role: by creating new investment savings tools and awareness of an Islamic nature and those risks require the willingness to face them by possessing the tools of the times and developing islamic innovations and tools appropriate not to satisfy the desires of multiple investors and variety, as well as the interdependence between Islamic institutions and mergers as we indicated, as well as the development and dissemination of investment opportunities in multiple financing formats, especially in the long term, which contributes efficiently to the global economy
4. Cooperative role: accepting cooperation with traditional banks within the framework of a single banking system in banking activities that do not fall under the likeness of riba such as correspondent services and investment of cash surplus or cash flow in the short term ... Etc., and to reach appropriate formulas to overcome obstacles and cooperate with the responsible authorities to achieve the message of the Islamic Bank in the best way.

The nature of risks in Islamic banks

Islamic banks are exposed to several types of risks that share with traditional banks and are unique in others as a result of differences in the nature of the activity or as a result of external factors that pose external pressure on them and can be defined risks in Islamic banks (the possibility of falling into direct or indirect losses or deviation of returns from the amount to be achieved and affecting the bank's successful achievement of its objectives) which is the most important risk to which Islamic banks are exposed

1. Credit risks are the risks arising from the possibility that one of the parties may not meet its obligations, leading the Bank to fall into danger. Taharawi and Ben Habib, no date, 61.
2. The risks of investing in capital are risks arising from partnering for the purpose of financing or participating in specific financing or public activity as described in the contract in which the financier participates in taking business risks with the other party .
3. Liquidity risk is that the bank is exposed to a potential loss resulting from its inability to meet its obligations or finance the increase in assets upon maturity without incurring unacceptable costs or losses .
4. Market risk: these are the potential effects on the economic value of an asset due to negative fluctuations in comparative prices, foreign exchange rates, stock prices and commodity prices. Khadija and Rifai, no date, 20.
5. Rate of return risk: The risks arising from the failure to achieve the expected returns of the owners of investment accounts from their investments if compared to other banks .
6. Operating risks: Operational risks known to the Basel Committee (losses resulting from failure or inefficiency of internal processes, external events or poor information systems.

Comparison between commercial and Islamic banks

Investing in commercial banks

Commercial banks carry out many investment processes through which they seek to achieve many objectives, including :

Achieving an additional return for banks:

1. Banks employ a portion of the surplus funds rather than not operate them, and through this work they have achieved an additional return that gives them the opportunity to cover some of the costs they incur and expand the performance of the banking services developed.
2. Strengthening liquidity in banks: Banks are working to secure their liquidity situation through ready-made cash balances called primary reserves, in addition to secondary reserves divided into five components, namely cash in the Fund and includes the total banknotes in foreign and local currency, and secondly the balances held by the Central Bank, which is the deposit of the bank in a percentage of its funds in the form of liquid cash with the Central Bank. Thirdly, the balances held by other banks are intended for funds deposited by the Commercial Bank with other local banks for the purpose of clearing instruments and collecting other paragraphs of debt. Fourthly, they are instruments withdrawn from other banks and are in the process of being collected and temporarily retained by the bank. Fifthly, the balances held by banks outside the country mean the funds that the bank deposits with other banks outside the state banking system due to the bank's external dealings.
3. Facing the risk of crisis for banks By retaining portfolios, banks can face the risk of crisis, as they can sell some of these securities as soon as possible if the bank is in financial crisis, thereby compensating for part of the loss.
4. Achieving the interest of the national economy: Banks are a key supporter of the local economy, providing financial solutions by financing economic projects and working to meet the needs of government spending, by underwriting government papers as well as in the shares of new companies that go public.

Investing in Islamic banks

There are many advantages that characterize investing in Islamic banks, including :

1. To do diversity in order to provide methods that suit all needs.
2. You should stay away from using interest rates.
3. The management of the Islamic Bank must adhere to the true concept of money as a means of investment and not a commodity.
4. Investment projects must be linked to the real needs of society for the purpose of introducing priorities for investing in sharia necessities, needs and improvements.
5. The strictness of Islamic law must be adhered to, whether permitting or preventing the bank's various investment activities
6. All methods must ensure that financing is used in the real economy for the purpose of directing it to distribute and produce goods and services. Justice must be done for each of the parties to the investment transaction.

Guarantees for commercial and Islamic banks

Guarantees in commercial banks

They include real guarantees, personal guarantees and tabu guarantees (meaning land or home), and the basis of all the investments of the bank's funds is the confidence that the money loaned by the bank will return to it on time. Etc.) and the fact that the bank's capital is small, as its ratio to net assets does not exceed ten percent, which means that the edge of safety for depositors is small, and the bank relies on their money as a source of investment. The bank is unable to absorb capital losses and if the losses exceed the required limit, they may target part of the depositors' funds and the result is the announcement of the bank's bankruptcy. Indian, 1996.

Guarantees in Islamic banks

His dealings with the tabo contract (i.e. land or home) are guaranteed, as there is no difference in principle and other banking aspects between the nature of the guarantees in the commercial bank than in the Islamic bank except in the extent to which the Islamic law is adhered to and also in the extent to which the nature of the formulas and mechanisms is understood by the customer and the official authorities that document the guarantees. The guarantees are legitimate in the Book and Sunnah and the consensus of jurists and their concept in Islamic transactions is not to protect against the loss to which the customer may be exposed as a result of investing the bank's money, but is only to fortify from default or failure to fulfil a commitment arising from indebtedness in the sale or other obligation.

The difference between commercial and Islamic banks

There are many differences between commercial and Islamic banks as follows:

Commercial banks

1. Gives a fixed interest rate and is already known about the funds deposited regardless of anything else.
2. Trades the money, i.e. takes it from a party and gives it to a party and its profit is from the interest difference.
3. In the event of delay, he does not give payment of the loan installments and sees interest on him immediately.
4. The cost of borrowing from it is lower than the cost of obtaining financing from an Islamic bank for the purpose of establishing a project or purchasing a commodity, for example.
5. A debit current account (i.e. gives you money even if you do not have enough money in your balance to make urgent current payments, usually a month at most).
6. Does not give interest-free loans.
7. The customer's capital guarantees any amount deposited.
8. It is not allowed to buy anything except what it needs, for example, to buy a property to open its office.
9. Commercial Bank has a board of directors and supervision of all its operations carried out by the Central Bank.

Islamic Banks

Islamic Banks Gives advance profit consistently and this depends on making profits from the recruitment of funds. He trades goods, projects and others, which means that he takes people's money, employs them with goods and projects and adds profit over them . Gives a time out if the customer is insolvent and has a good record with him previously. The cost of obtaining financing from an Islamic bank is greater than a commercial bank for the purpose of establishing a project or purchasing a commodity, for example . No debit current account is provided and no funds are given. He can make good interest-free loans in very certain cases out of his own money. Bear the loss if the financier is speculative. He can buy anything to speculate about as goods, real estate, goods, cars, computers and anything. It has a legitimate oversight board through which to oversee its operations and services and must obtain its approval for everything. It abides by the provisions of Islamic law in all its work and operations.

Case studies

Sectoral distribution of Iraqi bank credit to commercial and Islamic banks

In this research, two types of sectoral distribution of Iraqi bank credit were studied: cash credit, which is one of the short-term credit facilities provided by financial institutions, the cash credit account works, such as a current account containing a temporary cheque book, which is the main focus of the work of banks, which represents the function corresponding to the deposit acceptance function, because the bank's lending to its customers means that it has placed balances that have already been deposited with it, .Thus, he has resurrected life and turned it from idle money into money that produces revenues (al-Sabek, 2011, s8). Cash credit is granted to customers on their pledge or stock hypothesis. Cash credit facilities are provided to maintain the working capital that the company may request. The maximum cash credit must be equal to the working capital required for the company.

Pledged credit: Is all the existing balances for all types of pledged credit facilities (credits and letters of guarantee) provided by commercial banks for all economic sectors, and there is a set of controls that determine the bank's ability to grant credit as it grants cash and pledge credit by a competent committee and gives powers to the lower levels, taking into account the requirement to grant credit in exchange for sufficient guarantees and also setting a ceiling on the total credit granted by branch departments as it can only be exceeded by reference to the lower levels. Credit Committee with note of the following: - (Tawfiq and Sheikhli, 2002, p. 23)

I- The financial estimate of the borrower and the determination of credit ratios granted to the guarantees provided, as exceptions must be considered on the basis of the bank's policies and procedures in the event of exceeding the credit limits, as the bank's reports must be provided adequately to credit officials and investors and give accurate information regarding exposure to credit risks as well as credit approval lines in the appropriate time period. (Flayyih et al., 2019).

II- The borrower must be verified for one of the economic activities, which ensures that he or she will make a payment in the future.

Thirdly, it must examine the loan granted to the borrower and whether it will be spent on unproductive matters or within its normal activity.

Quarterly - The credit department of the Public Administration must conduct direct inspection and verification of the information in the forms submitted by the branches, particularly the validity of the guarantees and the financial assessment.

V. Granting powers and granting credit if branches see after a period of time when branch management shows accuracy in borrowers' information and the proposed credit estimate.

After recognizing the credit in both the pledging and monetary types and the controls that determine the bank's ability to grant credit, it is possible to compare the credit granted by commercial banks and Islamic banks and table 1 shows this

Table (1) Credit granted by Iraqi commercial and Islamic banks (2013-2014) (1 million dinars)

Total credit granted by banks	Credit granted by Islamic banks	Credit granted by commercial banks	Years
6,565,091	1,554,203	5,010,888	2013
10,912,953	1,453,101	9,459,852	2014

Source: Central Bank of Iraq Directorate General of Statistics and Research, Annual Statistical Bulletin (2013-2014) and annual reports of the banks of Tigris, Euphrates and Rafidain.

Table (1) shows that the contribution of Islamic banks to the volume of credit prohibited to commercial banks was weak, due to the recent experience of Islamic banks, as they, like other private banks, were not established after 1991 when private banks were allowed to operate and the Government was at that time the only controlling of economic activity, as the role of the private sector was very weak.

About Rafidain Commercial Bank, Tigris Bank and Euphrates Islamic Bank

Rafidain Bank

1-Profile of Rafidain Bank

Founded by Law No. (33) of 1941, Rafidain Bank began its work on 19/5/1941, with a paid-up capital of (50) fifty thousand dinars, and then went through multiple merger stages starting in 1964, including commercial banks operating in Iraq. In 1974 it was consolidated with Rafidain Bank, and became the only commercial bank in Iraq at that time, where it continued to work alone in the field of banking until 1988, which saw the establishment of a government bank, Al-Rasheed Bank, and in 1998 it was transformed To a public company owned by the state in accordance with the provisions of the Public Companies Act No. (22) of 1997, with the

aim of contributing to supporting the national economy in the field of commercial banking, investing funds, and providing financing to various sectors in accordance with development plans and within the framework of the economic, financial and monetary policies of the state.
The bank accepts deposits of all kinds and invests funds and cash surpluses in various aspects of investment as determined by law. In addition to the granting of loans, the granting of facilities in the current account and the deduction and follow-up of commercial papers are one of the main types of cash security granted to the bank's customers and customers, and within the framework of the economic, financial and monetary policies of the state.
The Bank is at the forefront of government institutions in the use of modern mechanization in Iraq, namely the electronic calculator project, which is a huge project, as it currently has effective systems, covering all the bank's activities.
Systems are constantly developed and information updated, and contributes effectively to the development of government and private banks in the field of banking, investment and technical systems, the number of branches of the bank currently (164) branches inside Iraq, as well as (7) branches abroad.

2-The sectoral distribution of credit to Rafidain Bank

The sectoral distribution of cash and pledge credit has reached a very large amount higher than the Tigris and Euphrates Bank for Development and Investment and the following table shows this:

Table (2) Sectoral Distribution of Credit to Rafidain Commercial Bank of Iraq for 31 December 2014

Table (a) Sectoral distribution of cash credit table (b) sectoral distribution of pledge credit					
1	Agriculture Hunting and forests	282,218	1	Agriculture Hunting and forests	0
2	Mining and coal mining	10	2	Mining and coal mining	50
3	Manufacturing	15,554	3	Manufacturing	177
4	Electricity and gas	40	4	Electricity and gas	0
5	Wholesale, retail, restaurants and hotels	178,115	5	Wholesale, retail, restaurants and hotels	4,789
6	Transport, storage and transportation	712,170	6	Transport, storage and transportation	3,273
7	Finance, insurance, real estate and services	559,747	7	Finance, insurance, real estate and services	162
8	Community Services	9,842,054	8	Community Services	16,796
9	The outside world	657	9	The outside world	5,588,044
10	Construction and construction	2,773,463	10	Construction and construction	2,726
	Total	14,364,028		Total	5,615,917

Source: Official books of all banks operating in Iraq for December 2014 and cash credit including centrally funded credit

3-Liquidity ratios

The ability of Rafidain Bank to cope with depositors' withdrawals and the ability to give loans in other words is the ability of commercial banks to meet their obligations imposed on them and the following table shows that the liquidity ratios of this bank are much higher compared to the Bank of Tigris and Euphrates for Islamic Development and Investment

4 -The full statistics of Rafidain Bank

This statistic includes capital, reserves, deposits and other assets in this bank, with a total of 95,879,344 assets, which is a very large amount compared to the assets of The Tigris and Euphrates Bank and the following table shows these amounts: Capital 125,000, Reserves 65,037, Total capital +reserves 190,037, Deposits 31,702,051, Balance of profits and losses Current year 337,489, Cash credit 13,067,249, Pledged credit 6,064,185, Late debt 622,688,Investments 2,029,664.

Tigris and Euphrates Bank for Islamic Development and Investment

1-An overview of the Tigris and Euphrates

The Tigris and Euphrates Development and Investment Bank was established in 2005 and opened its doors as approved by the Central Bank of Iraq on July 1, 2007 and operates in accordance with investment standards and not in accordance with the principle of fixed profits (conforming to Islamic standards and foundations).

The Tigris and Euphrates Development and Investment Bank aims to contribute to the support and development of the national economy and its reconstruction through financial investment in various aspects of banking in accordance with the provisions of Islamic law and in order to achieve development in the world and works to publish the banking material that stimulates savings and bring them to provide the necessary financing for the development of different economic sectors and contribute to the consolidation of social development by contributing financial to the coverage and filling of some social needs business overview providing commercial banking services.

Including deposits, loans and credit cards, asset management services including fund management, wealth and investments; banking investments including corporate finance, merger and acquisition advisory investment, first IPO and underwriting; and private equity investments in various sectors, each in accordance with Islamic principles.

2-Sectoral distribution of credit to The Tigris Bank and the Islamic Euphrates

The sectoral distribution of cash credit and the sectoral distribution of pledge credit have amounted to very little less than Rafidain Bank and this can be found in the following table:

Table (5) Sectoral Distribution of Credit to Tigris Bank and Euphrates Islamic Bank for 31/12/2014

Table (a) Sectoral distribution of cash credit table (b) sectoral distribution of pledge credit					
1	Agriculture Hunting and forests	337	1	Agriculture Hunting and forests	0
2	Mining and coal mining	0	2	Mining and coal mining	0
3	Manufacturing	12,897	3	Manufacturing	0
4	Electricity and gas	61,418	4	Electricity and gas	0
5	Wholesale, retail, restaurants and hotels	93,080	5	Wholesale, retail, restaurants and hotels	192,130
6	Transport, storage and transportation	0	6	Transport, storage and transportation	0
7	Finance, insurance, real estate and services	3,605	7	Finance, insurance, real estate and services	0
8	Community Services	0	8	Community Services	0
9	The outside world	3,605	9	The outside world	0

10	Construction and construction	43,138	10	Construction and construction	0
	Total	218,080		Total	192,130

Source: Official books of all banks operating in Iraq for December 2014 and cash credit including centrally funded credit

3-Liquidity ratios

It can be said that the Bank of Tigris and Euphrates is unable to cope with depositors' withdrawals and the ability to give loans as liquidity ratios are very low, i.e. it is unable to meet its obligations

4- The full statistics of the Bank of Tigris and Euphrates

Through this statistic, it can be found that the total assets of this bank are very small, with a total asset of 936,017 during 2013 and very few that do not compare with the amounts in commercial banks and the table shows the amount of amounts for all assets as follows: Tigris and Euphrates Bank Statistics,Capital 100,000,Reserves 5,276,Total capital +reserves 105,276,Deposits 81,211,Balance of profits ,This year's losses are 6,440.,Cash credit 240,902,Pledged Credit 229,188,Total credit,Cash and pledge 470,090,Late debt 173,Investments 100,Total assets 936,017.

Conclusions

1. Through the above research, it can be said that the comparison between commercial banks and Islamic banks continues to occur and an important point has been reached, namely that the problems suffered by the Iraqi banking system are very old and have been going on for decades, as Iraqi banks have not kept pace with the great progress in the world, and have not yet turned to electronic banking, and many decades have passed since Iraq's openness to the world economy, but all Iraqis are still dealing in currency Paper without electronic credit card dealing.
2. Any banking activity in Iraq, whether commercial or Islamic, is exposed to many risks, including (credit risk, liquidity risk, interest rate risk.... etc.) and other risks. The Islamic banking system is exposed to risks arising from Islamic financing formulas and their implementation mechanisms .
3. Through the study of the research sample, namely Rafidain Commercial Bank, Tigris Bank and Islamic Euphrates during the period 2013-2014, reports and financial tables in the research showed that commercial banks have the highest profit rate and the highest ratio of liquidity and cash credit and pledge is much higher compared to Islamic banks, whose profit and liquidity ratio was very small.
4. Monetary and pledge credit activity is the best tool for achieving the credit policy of all banks in Iraq.
5. Commercial banks should work to find simplified and sophisticated mechanisms to simplify withdrawals and deposits, such as increasing the number of branches, to deliver banking service to points far from city centers or so-called financial depth and interest in electronic banking.

Recommendations

1. Islamic banks should take advantage of internet technology and communications for the purpose of sharing studies, ideas and others.
2. More sharia-compliant financial products must be expanded and invented for the purpose of developing legitimately accepted products in order to compete with commercial products.
3. The application of economic financing formulas (participation, profitability, speculation, etc.) in Islamic banks is a source of profit and wealth.
4. Iraqi commercial banks must maintain appropriate investment of their resources through the investment of their deposits, taking into account their ability to meet short-

term obligations without having to disburse their forward deposits with other banks when investing funds.

5. -Commercial banks should seek to provide new and distinctive services to their customers for the purpose of employing their resources and improving their performance in a better way when comparing them with Islamic banks through the use and application of advanced electronic systems.
6. Facilitating the procedures for granting loans by banks and in a manner that does not conflict with the instructions of the Central Bank of Iraq and the bank's policy.

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