

## **ISLAMIC BANKING**

Having started working since 3 decades ago, Islamic Banking system has had favorable growth and attracted the attention of many investors and bankers around the world.

Instead of paying "interest", which is forbidden in Islamic law, Islamic banking shares its profit and loss with customers. Based on this system, a bank has a close link with its clients and they make joint projects to sell to a third party. What is focused in Islamic banking is the efficiency of Usury Free Banking for establishing social justice. Islamic banking must provide social justice, which tends to be the first aim of Islamic economic system.

In fact, in usury-free banking system, the focus is the applicant's purpose. For each contract, a special technique is devised, in a way that firstly, the clients and bank are not forced to pay or receive interest and secondly the profitability level of the contract is also considered. In the Islamic banking system, the banking transactions have, therefore, been presented in the form of contracts.

The current Islamic contracts in Usury Free Banking are:

### **Modharebeh**

Modharebeh is a defined contract in the civil law under which the necessary facilities are granted to business people. In Modharebeh, one of the parties (owner) provides the funds, stipulating that the other party (agent) uses it for trading and both parties share the related profit.

### **Je'aaleh**

Je'aaleh is a contract based on which the customer is obliged to pay a certain sum plus a defined commission in return for a certain action, according to the contract. The acting party is called "agent" or "contracting party". This contract is applied in the fields of mine and industry, agriculture, housing, commerce and public services. When the bank acts as an agent, it accepts to carry out a particular work under a mutual contract with the applicant. Regarding the special conditions of the undertaking, the bank, then, embarks on assigning the executive operation of the accepted task, wholly or partly, to another party under a second contract in order to fulfill its obligation.

### **Legal Partnership**

Legal Partnership is a contract under which the bank provides part of the capital of new joint-stock companies or buys part of their stocks, hence sharing in the profit of these companies.

## **Civil Partnership**

Civil Partnership is a contract under which facilities for the development of productive, commercial and service activities are provided. This contract is the combination of legal or natural persons' shares in cash or kind and in common for profit making as per the contract. Regarding their applicability, the applicants can take advantage of these facilities.

To conduct this transaction, purpose of transaction, necessary capital for partnership, collaterals, the goods price, approximate expenses, total price, selling price and selling method, and profit sharing ratio of bank to applicant should be indicated.

## **Installment Sale**

A contract under which the bank delivers goods to the customer at a set price, a part or whole of the value would be received on predetermined maturity through equal or unequal installments.

## **Qardh Al Hassaneh**

Under this contract, the bank as a lender pays a specific amount to legal or natural persons as the borrower as per specified regulations. The borrower's repayment obligation is equal to the received amount plus its commission.

The portion of each bank to grant Qardh Al Hassaneh, the maximum payable amount (facilities) to each applicant, and the commissions are annually specified by Central Bank of Iran.

## **Mozare'eh**

Under Mozare'eh contract, the Bank gives a farmland to the customer for a specified duration. The customer works on the land and related profits are shared.

## **Lease to Own**

Under this contract, it is agreed that the lessee, if complying with the terms of the contract, will obtain the ownership of the leased upon completion of the contract.

## **Salaf**

Salaf is forward purchasing of produced goods for specific amount. According to Usury Free Law and to partly provide the working capital of production units, banks purchase the goods produced by the customer as per their request whether the owner is natural or legal.

Banks are allowed to purchase the goods, which are produced solely by the units, cannot be easily spoiled and can be quickly traded.

### **Discounting**

According to the discounting contract, banks discount the documents and drafts of production, trade and service units.

### **Mosaghat**

Mosaghat is a contract between a garden owner and another party who receives some of the product in return for maintaining and harvesting the garden.

## **STRATEGIC PLANNING IN BSI**

Strategic management, the art and science of planning, execution and evaluation of systematic and idealistic decisions is a multiple task, which enable an organization to achieve its long-term goals. Strategic Management process consists of three stages: planning strategies, executing the regulated strategies and evaluating the plans. Planning strategies is defined as determining the mission of organization and identifying the factors, which threaten the organization at an external setting or creating new opportunities. Identifying the strong and weak points within an organization and setting long-term goals, considering various strategies and selecting specific strategies regarding the government policies for ever-increasing interaction with global markets and intention for joining in the World Trade Organization (WTO) have all necessitated strategic management for the bank survival in order to move towards the competitive business atmosphere.

### **The Bank Strategic Goals**

- Designating the long-term horizons and role of the organization
- Designating the bank mission
- Analyzing the organization to show its internal strong and weak points
- Evaluating the external environment of organization in a competitive industrial atmosphere
- Recognizing the practical alternatives, which are assessed in coordination with the facilities and mission of the organization

- Selecting a set of long-term goals and basic strategies essential to attain a favorite choice
- Establishing yearly goals and short-term strategies compatible with long-term goals and the main strategy
- Preparing operational plans based on resource allocation with an emphasis on the coordination among the staff activities, organizational structure, technologies and other related factors
- Evaluating the success of strategic process as a feedback for the future decisions

**The bank strategic plan consists of:**

- Human Resources Management development
- The bank quota in the market
- Increase in profitability
- Increase in efficiency

One of the ongoing projects since the end of March 2007 in BSI is the Management and Market Divisions Project, which consists of the followings:

1. The Customers' Satisfaction Assessment Plan
2. Classifying the Iranian banking services market for BSI based on the principal goals of the bank
3. Analyzing the strategy of employing the customer relationship management system and designing a pattern for evaluating the contractors and software for Customer Relationship Management (CRM)

**Mission and objectives of the bank**

- Planning for management and market research project and preparing its comprehensive methodology
- Setting the objectives and missions of CRM
- Preparing a strategic pattern for CRM analysis
- Interviewing and collecting information, project analysis and concluding
- Projects to enhance BSI efficiency in 2007

In order to increase the efficiency in BSI, Business process Re-engineering Project is now under operation. In this project, fundamental rethinking and basic redesigning of the processes are taken into consideration to achieve a remarkable improvement in the significant functional criteria such as cost, quality, speed and service. This project includes:

1. Recognizing and analyzing the status quo
2. Patterning and optimizing
3. Process engineering and preparing
4. Developing the processes and evaluating the impacts of their improvement
5. Standardizing the processes.

## **HISTORY**

Banking in Iran began in the early 1921 due to economic and political necessities. The founders of Bank Saderat Iran (BSI), for the very first time in the country, decided to establish a bank on a customer-oriented basis to raise maximum amount of liquidity and boost economic prosperity. Bank Saderat Iran was, then, established around the middle of 1952 with Rials 20 millions in share capital- 50% of which was paid in cash- as a private bank and a joint-stock company and launched its operation on November 13, 1952 with a staff of thirteen.

BSI initial goals included granting banking facilities to clients, developing a widespread banking network across the country, attracting internal investments and savings- no matter how little they may be, and investment in almost all economic activities.

From early on, BSI considered "innovation in presenting the bank's products and services and respect for clients" as an essential principle and managed to attract a great amount of liquidity in a short period of time and, more importantly, to reconcile people to banking system by fulfilling its chosen mottos i.e. "BSI at people's service" and "customer is always right".

After the Islamic Revolution in Iran (1979), BSI was nationalized after passing a bill by Parliament of Islamic Republic of Iran on May 28, 1979 and became a commercial state bank.

With 3273 branches and a paid-up share capital of RIs 16,803 billions, BSI runs the largest banking network in Iran and pioneers the number of online branches, ATM machines, POS machines, and issued debit cards, being number one in Iranian banking system. BSI first introduced its SEPEHR online payment system in 2000.

With more than half-a-century of banking experience and a deep sense of obligation to its basic principles and a full implementation of Usury Free Islamic Banking, BSI attempts to maintain its top position among other rivals through following the lead of international banking and customer-centered principles and offering quality banking services. In addition, BSI has a leading role in getting people's satisfaction and developing our Islamic country.