


THE ROLE OF FINANCIAL INCLUSION IN THE STABILITY OF ISLAMIC BANKS

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 31 January 2023</p> <p>Accepted 29 March 2023</p>	<p>Purpose: The purpose of this research is studying the role of financial inclusion on financial stability in the Islamic banks, Highlighting the role of Islamic law in promoting financial and banking inclusion.</p>
<p>Keywords:</p> <p>Financial Inclusion; Islamic Banking; Financial Stability.</p>	<p>Theoretical framework: Introduce financial inclusion and definition of financial inclusion, statement of financial stability, and the role of financial inclusion in the stability of Islamic banks, in which the concept of financial inclusion and its dimensions was reviewed.</p>
	<p>Methodology: The study was based on a qualitative research method, as it collected information from books, reports, journals, newspapers, and websites. The study adopted the descriptive analytical approach to study and analyze the various aspects of financial inclusion, its dimensions in Islamic banks, and its relationship in financial stability.</p> <p>Findings: The relationship between financial stability and financial inclusion in Islamic banks is a direct relationship and financial stability cannot be reached without achieving financial inclusion and vice versa. The financial sectors must develop two sectors in parallel to achieve the desired economic development.</p> <p>Research, Practical & Social implications: Central banks, Islamic banks (clients /staff), financial institutions, and small clients are the main beneficiaries of these ideas.</p> <p>Originality/value: This study contributes to determining the role of financial inclusion in financial stability, using Islamic banks, which is to determine the effect of applying financial inclusion on the financial investment of Islamic banks. The research is based on a lack of studies on research variables.</p> <p>Doi: https://doi.org/10.26668/businessreview/2023.v8i4.1214</p>

EL PAPEL DE LA INCLUSIÓN FINANCIERA EN LA ESTABILIDAD DE LOS BANCOS ISLÁMICOS

RESUMEN

Propósito: El propósito de esta investigación es estudiar el papel de la inclusión financiera en la estabilidad financiera de los bancos islámicos, destacando el papel de la ley islámica en la promoción de la inclusión financiera y bancaria.

Marco teórico: Introducir la inclusión financiera y la definición de la inclusión financiera, la declaración de la estabilidad financiera, y el papel de la inclusión financiera en la estabilidad de los bancos islámicos, en el que se revisó el concepto de inclusión financiera y sus dimensiones.

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Metodología: El estudio se basó en un método de investigación cualitativa, ya que recopiló información de libros, informes, revistas, periódicos y sitios web. El estudio adoptó el enfoque analítico descriptivo para estudiar y analizar los diversos aspectos de la inclusión financiera, sus dimensiones en los bancos islámicos y su relación en la estabilidad financiera.

Resultados: La relación entre la estabilidad financiera y la inclusión financiera en los bancos islámicos es una relación directa y no se puede alcanzar la estabilidad financiera sin lograr la inclusión financiera y viceversa. Los sectores financieros deben desarrollar dos sectores en paralelo para lograr el desarrollo económico deseado.

Investigación, implicaciones prácticas y sociales: Los bancos centrales, los bancos islámicos (clientes/personal), las instituciones financieras y los pequeños clientes son los principales beneficiarios de estas ideas.

Originalidad/valor: Este estudio contribuye a determinar el papel de la inclusión financiera en la estabilidad financiera, utilizando los bancos islámicos, que es determinar el efecto de la aplicación de la inclusión financiera en la inversión financiera de los bancos islámicos. La investigación se basa en la falta de estudios sobre las variables de investigación.

Palabras clave: Inclusión Financiera, Banca Islámica, Estabilidad Financiera.

O PAPEL DA INCLUSÃO FINANCEIRA NA ESTABILIDADE DOS BANCOS ISLÂMICOS

RESUMO

Objetivo: O objetivo desta pesquisa é estudar o papel da inclusão financeira na estabilidade financeira dos bancos islâmicos, destacando o papel da lei islâmica na promoção da inclusão financeira e bancária.

Estrutura teórica: Introduzir inclusão financeira e definição de inclusão financeira, declaração de estabilidade financeira, e o papel da inclusão financeira na estabilidade dos bancos islâmicos, na qual o conceito de inclusão financeira e suas dimensões foram revistos.

Metodologia: O estudo foi baseado em um método de pesquisa qualitativa, pois coletou informações de livros, relatórios, revistas, jornais e websites. O estudo adotou a abordagem analítica descritiva para estudar e analisar os vários aspectos da inclusão financeira, suas dimensões nos bancos islâmicos, e sua relação com a estabilidade financeira.

Conclusões: A relação entre estabilidade financeira e inclusão financeira nos bancos islâmicos é uma relação direta e a estabilidade financeira não pode ser alcançada sem alcançar a inclusão financeira e vice versa. Os setores financeiros devem desenvolver dois setores em paralelo para alcançar o desenvolvimento econômico desejado.

Pesquisa, implicações práticas e sociais: Bancos centrais, bancos islâmicos (clientes/pessoal), instituições financeiras e pequenos clientes são os principais beneficiários destas idéias.

Originalidade/valor: Este estudo contribui para determinar o papel da inclusão financeira na estabilidade financeira, utilizando bancos islâmicos, que é determinar o efeito da aplicação da inclusão financeira sobre o investimento financeiro dos bancos islâmicos. A pesquisa é baseada na falta de estudos sobre variáveis de pesquisa.

Palavras-chave: Inclusão Financeira, Bancos Islâmicos, Estabilidade Financeira.

INTRODUCTION

The interest in the concept of financial inclusion began to a large extent with the beginning of the year 2000, as many governments at the global level sought to define policies that regulate financial inclusion in developing countries, and at the beginning of the emergence of this term it was mentioned as a process that can be identified and represented by providing a set of financial services to The less fortunate groups in society with low, low incomes so that they can be afforded at a reasonable cost (Mirakhor& Iqbal, 2012), however, interest in financial inclusion has emerged on the international scene after the outbreak of the global financial crisis in the year 2008 AD, where it became clear the global interest by international financial institutions Central banks and monetary institutions on the subject of financial

inclusion, along with other issues of no less importance, such as the interest in strengthening the capabilities and capabilities of the small and medium enterprises sector, establishing credit bureaus and exchanging data of investors and borrowers across borders to protect the economies of countries (MA.2014).

Since the late 1990s, financial inclusion has attracted growing attention owing to evidence of its significant effects on improving economic development, reducing poverty (Boukhatem, 2016) and financial stability (Han & Melecky, 2013, Ouechtati 2020).

The Islamic banks, face the problem of financial fluctuations because of their exposure to various financial crises, which leads us to search for different ways to maintain the stability of their financial work. Many studies have shown that 59% of adults do not have any bank account Because they do not have enough money, this means that financial services are not yet accessible to low-income users. This is due to other obstacles that prevent them from opening a bank account due to debt, distance factor, lack of access to financial service providers, lack of necessary documents, and lack of confidence in financial service providers (WBG, 2016).

Inclusive finance boosts the development process as well as economic objectives by giving the unbanked and underbanked inclusive access to financial services – the key to growth, in gender equality, poverty alleviation, growth equality, etc. Different methods of measuring financial inclusion have been developed such as the Global Findex and the Financial Inclusion Index (FII) for understanding its key different aspects and comparing the levels of development among countries and regions (Sarma, 2008; Kumar, 2013; Onaolapo, 2015; Demirgüç -Kunt et al.,2018).Several studies were carried out analyzing and comparing the determinants of financial inclusion among regions (Sarma and Pais, 2011; Gupte et al., 2012; Akudugu, 2013; Camara and Tuesta, 2014; Hassan, 2015; Naceur et al., 2015; Park and Mercado, 2015; Evans and Adeoye, 2016; Soumaré et al., 2016; Zins and Weill, 2016; Uddin et al., 2017; Abel et al., 2018; Neaime and Gaysset, 2018, Le, et al,2019).

DEFINITION OF FINANCIAL INCLUSION

Financial inclusion was defined in its early appearance as the process of providing financial services to the low-income groups in society at a reasonable cost (Agouz 2019).

Financial inclusion is alternatively defined to include the process through which all consumers enjoy the ease of accessing and utilizing the services offered in the formal financial system (Rajeev and Vani, 2017)

The world bank defined financial inclusion in its 2014 report under the title “global financial development report” as “the percentage of people or companies that use financial services.” Financial inclusion, according to the joint report of the Arab monetary fund and the consultative group to assist the poor issued in January 2017, under the title (measuring financial inclusion in the Arab world) refers to (individuals, including low-income earners, and companies, enjoying effective access and benefit (for reasonable prices). From a wide range of high quality formal financial services (payments, transfers, savings, credit, insurance, etc.), provided in a responsible and sustainable manner by a variety of financial service providers operating in an appropriate legal and regulatory environment), it has developed definition and measures of financial inclusion and move from simple classification of individuals and institutions as included or not, to multi-dimensional definitions and measures.

As for the definition of the group of twenty (g20), the global alliance for financial inclusion (afi) states that: (the measures taken by regulatory bodies to enhance the access and use of all segments of society, including marginalized and affluent groups, for financial services and products that suit their needs, and to provide them in a fair and transparent and at reasonable costs) (Nama & Ahmed, 2018).

As for the consultative group to assist the poor (cgap), financial inclusion is defined as: (the access of households and companies to appropriate financial services and their effective use, and the need to provide those services responsibly and sustainably in a well-regulated environment). (2011, CGAP)

From the previous definitions, it can be noted the main axes on which financial inclusion is based, namely:

1. 1.access to financial products and services through the provision of formal and regulated financial services, proximity, and affordability.
2. 2.in terms of promoting macroeconomics, openness, and transparency, breaking monopoly, benefiting from international trade, and the desire for mutual human benefit, based on: supply and demand, and the exchange of experiences, which enhance human development.
3. 3.financial ability through managing money effectively, planning and dealing with financial hardship.
4. 4.use of financial products and services through regularity, frequency, and duration of use.

5. 5.the quality of banking services and products as they are tailored to the needs of customers, and the segmentation of services to develop them for all segments of society.

6. 6.effective regulation and control to ensure the provision of financial products and services in an environment of financial stability.

And to clarify the generality of what was mentioned by the world bank in its statistics for financial inclusion (Union of Arab Banks):

1. Half of the world's adult population (about 2.5 billion people) does not have access to financial services.

2. And 75% of the poor do not deal with banks because of the high costs, the distance, and the often-burdensome requirements to open a financial account.

Therefore, the call for financial inclusion aspires to win over these groups and push them to deal with banks, financial institutions, financial and monetary services, and electronic means of payment...etc. This is done by opening simplified bank accounts, ensuring ease of costs and related procedures, encouraging electronic trading, expanding the financial services network to cover poor and remote areas, and transferring payments to individuals through bank accounts through widespread bank branches and modern trading methods.

Dimensions of Financial Inclusion

During the past decade, the concept of financial inclusion has developed into main dimensions: easy access to finance for all families and companies, institutions being guided by regulations and financial supervision, financial sustainability for companies and institutions, in addition to competition between financial service providers to achieve the best alternatives for customers. In the past, financial inclusion was measured by calculating the percentage of beneficiaries of commercial banks and ATMs, and the volumes of deposits and loans that were covered by low-income families and small and medium enterprises. But the availability of financial services does not equal the concept of financial inclusion because the individual may exclude himself from financial services for religious or cultural reasons despite the availability of access to these services (GPII, 2012).

First: Customers' Access to Financial Services:

It means the ability of government institutions to use and access financial services, and this depends on a set of requirements that identify and analyze the obstacles that occur to

customers' lack of access to financial services, and their inability to create a bank account such as cost and distance from financial services locations. Access to financial services at a set of points (AFI, 2013):

Second: Customers' Use of Financial Services:

This indicates the extent to which individuals use and benefit from the financial services provided by the centers and points approved by the central sector, and to determine and know the extent of use of financial services, it is necessary to collect data related to the regularity and frequency of customers' use during a specified period (Jameel, 2015).

Third: The Quality of Financial Services:

The process of defining indicators in measuring quality is one of the challenges that fall into the transition to the concept of financial inclusion during the past fifteen years, as the concept of financial inclusion in developing countries has moved to the stage of improving and facilitating the process of financial inclusion, but there is still the problem of some individuals not having access to financial services, and this varies from one country to another and varies according to the different financial services provided. However, the effective, continuous, and serious endeavor to ensure the quality of financial services provided to clients is still considered a challenge as it needs measurement and study by the people of expertise and competence and considering that take necessary actions based on clear evidence. The dimension of determining quality is not a clear and direct dimension, as there are many factors affecting the type of financial services, such as cost, consumer awareness of customers, as well as services provided by consumer protection, in addition to invisible and intangible services such as consumer confidence (Al-Nubani, 2016).

The Importance of Financial Inclusion:

About 1 billion people go hungry every day, about 1.2 billion people struggle to live on less than \$1.2 a day per capita worldwide, about 600 million jobs must be created over the coming years to absorb young people entering the labor market, the world bank global financial database indicates (global index) that 2.7 billion adults worldwide, about half of the total adult population, do not have access to financial services provided by formal financial institutions, while in high-income countries about 89% of adults have an account in a formal financial

institution, while only 41% are in developing economies (International Finance Corporation, Annual Report, 2013).

Hence the importance of educating clients about the importance of obtaining financial services, and how to have better financial options, for example, clients will realize the type of financial service that meets their personal needs, and this will help improve the overall growth of the country. Thus, the process of obtaining financial services at an affordable cost will improve the lives of the poor. Thus, financial exclusion has a significant impact on economic growth.

Financial inclusion has become the focus of attention for many governments and supervisory authorities, especially central banks. It has been proven that there is a close relationship between financial inclusion on the one hand, and financial stability and economic growth on the other. It is difficult to envisage the sustainability of financial stability, while a large proportion of the population or institutions are still financially excluded from the economic system. Also, financial inclusion enhances opportunities for competition between financial institutions by working on the diversity of their products and attention to their quality to attract the largest number of customers and transactions, thus legalizing informal channels.

Financial inclusion, on the other hand, affects the social aspect in terms of attention to low-income people on the one hand, and specific groups on the other hand, such as women and youth, as well as Focus on accessing and integrating small, medium, and micro enterprises.

The formal financial sector by providing the appropriate financial services to it. In addition to the above, the positive repercussions of improving financial inclusion indicators on issues of creating new job opportunities, Which serves to achieve sustainable economic and social growth and thus reduce rates. Unemployment, poverty, improving income distribution and raising the standard of living.

Financial Inclusion Goals

Given the global interest in expanding financial inclusion, and creating alliances between global financial bodies and institutions to coordinate and work, within common and unified mechanisms, the benefits of financial inclusion are growing, cgap / world bank believes that building an inclusive financial system is the only way to reach the poor and limited income, to achieve the following financial inclusion goals:

1. Enhancing the access of all segments of society to financial services and products, to inform citizens of the importance of financial services and how to obtain

them and benefit from them to improve their social and economic conditions.

2. Facilitating access to funding sources with the aim of improving the living conditions of citizens, especially the poor.
3. Promote economic development projects.
4. Enabling small and medium companies to invest and expand.
5. Reducing poverty levels and achieving prosperity and economic well-being.

(Shanbe And Khader, 2019)

The Concept of Islamic Banking

The Islamic bank is defined as every institution that engages in banking business with its obligation to avoid dealing with usurious interest because it is a prohibited transaction (Ghareeb 1978).

This concept of the Islamic bank makes it a non-interest-based bank, and although it is a necessary condition that must be met in Islamic banks, it is not considered a sufficient condition for the bank to be truly Islamic, as it is possible that non-interest-based credit activities may be practiced by banks that may be committed to the teachings of Islamic law and may not be .

A banking financial institution that collects and employs money and provides banking services in a manner that does not violate Islamic sharia and its purposes and in a manner that serves the community and fair distribution by placing money in its proper Islamic path. (Al-Riyadh Newspaper)

Financial, investment, development and social institution that derives its ideological logic from Islamic sharia. This definition may be the most comprehensive of the characteristics of the credit activities of Islamic banks and the most expressive not of the necessary condition, but rather of the sufficient condition for the bank to be Islamic.” (Al-Hawari, 1980)

Islamic Banking and Financial Inclusion

The development of financial institutions is crucial for the country to support strategic sectors of the economy and financial institutions need to effectively ensure that the economy strongly supports financial sustainability in the long term. Therefore, developing financial institutions requires proper regulation, supervision and monitoring of business activities, and measurement of the impact of the institutions in the economy. (Beck, De Jonghe, and Schepens, 2013) reported that Islamic banks are better capitalized than conventional banks. They have

higher asset quality and are less likely to disintermediate during crises. This argument is supported by (Pappas, Ongena, Izzeldin, and Fuertes 2017, Budiman, Teguh et al,2021),

The Arab monetary fund issued a report on the role of the Islamic financial services industry in financial inclusion in recent years; the industry has received increasing attention in the context of policies to enhance financial inclusion, as these services represent an important window through which access to finance can be expanded.

The report added that there is no doubt that there is a need for surveys to realize the opportunities offered by Islamic banking operations in enhancing the access of families, entrepreneurs and micro, small and medium enterprises to the formal financial system. (Arab Monetary Fund Website)

The expansion of Islamic banks in the Arab region provides enormous potential to enhance financial and banking inclusion in Arab economies, as the Islamic banking sector has a great capacity to absorb more unbanked dealers. In recent years, international institutions such as the international monetary fund and the world bank have recognized the Islamic financial industry as one of the most prominent tools for facing the challenge of financial and banking exclusion estimates indicate that the Islamic financial and banking industry is on the verge of further development, especially with regard to improving the quality of services and innovating new products to reach a broader base of customers and enhance financial and banking inclusion in Arab economies.

The role of Islamic finance in promoting financial inclusion has emerged, as it provides a solution for groups that have refrained from dealing with the traditional banking sector for various considerations. It is known that designing financial products and services that meet the needs of individuals and companies is an important element to enhance financial inclusion in various countries of the world. And financial services compliant with the provisions of Islamic law will lead to attracting a segment of society that wants to obtain these services and products. In addition, the use of risk-sharing contracts is a viable and effective alternative to conventional debt-based financing. These financing tools, in which risks are shared, can provide services and products designed in accordance with the provisions of Islamic sharia, for example, insurance (takaful), microfinance and financing for small and medium companies, which will enhance opportunities for obtaining financing. The Islamic financial system also contains unique wealth redistribution tools such as zakat, Sadaqat, waqf and Qard Hasan. These tools would integrate with risk-sharing tools to target low-income earners of society, and thus their participation in the formal financial system.

In this context, many studies have highlighted the importance and role of Islamic finance in raising and enhancing economic growth rates by increasing access to banking services for the population who lack them, especially since traditional financial services are still not able to reach a large segment of the population who desire compatible financial services. With sharia. In addition, considering Islamic finance's reliance on risk sharing, Islamic finance is considered suitable for financing micro, small and medium enterprises and emerging companies.

From this point of view, the supervisory authorities in the Arab countries are studying the expansion of the Islamic banking services sector as part of the national strategies and programs for financial inclusion, especially that the Islamic finance sector has shown great resilience and resilience in facing various financial crises, due to the nature and characteristics of Islamic finance that avoid excessive indebtedness and unproductive speculation, in addition to the fact that Islamic banking services and products contribute to diversifying systemic risks. (Obeid 2019)

Pillars of Financial Inclusion for Islamic Banks:

Most Islamic banks are trying to develop a strategy at the banking level to expand financial and banking inclusion, and this requires five main pillars:

1. Studying the gap between the supply and demand sides of financial services and products to be the starting point in formulating future goals for financial and banking inclusion.
2. Providing a strong financial infrastructure, by enhancing the geographical spread of financial institutions, developing payment and settlement systems, and providing comprehensive databases, by activating the role of credit reporting companies, and providing an appropriate legal environment that supports financial and banking inclusion.
3. Availability of financial services and products through the development of financial services and products to meet the needs of all segments of society, and the creation of new financial products.
4. Consumer protection by setting supervisory instructions to treat customers fairly and transparently, establishing a mechanism to deal with their complaints, and providing them with adequate information and advisory services.
5. Strengthening and developing the financial education and education system through the preparation of a national strategy for financial education and education that

enhances financial awareness and knowledge among various segments of society, especially youth, women and small and medium enterprises. (Gharib, 2018)

Financial Inclusion and Financial Stability in The Islamic Banking Sector:

Studies have proven that there is a close relationship between financial inclusion, financial stability, and economic growth, as the increased use of financial services and the availability of financing for small and medium-sized companies contributes to increasing deposits with banks, which supports economic growth and achieves financial stability (Kabiraj & Siddik, 2018).

The European central bank defines financial stability as: “the financial system that includes financial intermediaries, markets and market infrastructure is able to withstand shocks and financial imbalances, which reduces the possibility of obstacles preventing the completion of the financial intermediation process and greatly weakens the allocation of savings to opportunities profitable investment. Hence, financial stability in the financial system is resistant to economic shocks due to its ability through it to fulfill mediation functions such as payment arrangements. Studies emphasize the difficulty of achieving financial inclusion without the presence of stability in the financial system, while it is difficult to achieve financial stability for a system that includes financially excluded segments of the population. Financial inclusion helps to improve financial conditions and raise the standard of living of the poor and leads to a family sector or a small business sector. More robust through financial development that supports social and political stability, which in turn leads to greater stability of the financial system. Financial inclusion allows to improve the efficiency of the intermediary process between deposits and investments. In addition to increasing the share of the formal financial sector at the expense of the informal sector, which supports the effectiveness of monetary policy. It is noted that the diversification of portfolios of assets and liabilities enhances the distribution of risks and avoids their concentration. It has been demonstrated that financial inclusion may further change the structure of the financial system and enhance its efficiency in terms of products and transactions being created, customers using different services, new emerging risks as well as institutions that have established or expanded into new markets. The financial action task force (FATF) also realized that financial exclusion is one of the most important risks facing efforts in combating money laundering and terrorist financing. (Arab Monetary Fund, 2015).

Governments around the world view financial inclusion as having a significant role in economic development and sustainable development. This has been observed in more than 90 developing countries where more than 75% of the world's unbanked population signed the maya declaration of ad. On the other hand, financial inclusion has achieved very meaningful social and economic results as 2011 financial inclusion has been increasingly implemented in a few countries around the world. For example, the world bank's global financial development report documented that more than two-thirds of regulatory and supervisory agencies have been mandated to encourage the application of financial inclusion, as more than 50 countries have set official financial goals to achieve financial inclusion due to its economic effects and achieving the desired financial stability (Report. Marketplace finance Islamic world's 2015).

The report of the Arab monetary fund indicated that it may be difficult to achieve financial inclusion without the presence of stability in the financial system, and it is also difficult to imagine the continuation of financial stability with an increasing proportion of society and the economic sector that is still excluded from financial services (such as residents of rural areas, a group of least fortunately in poor urban areas, the poor. This suggests that there is a close correlation between financial stability and financial inclusion in both directions).

In the same context of the same report, financial inclusion helps to improve financial conditions and raise the standard of living of the poor. It also leads to a stronger family and small business sector through financial development that supports social and political stability, which in turn leads to increased stability of the financial system. Financial inclusion can improve the efficiency of the mediation process between deposits and investments, as well as increase the share of the formal financial sector at the expense of the informal sector, in a way that supports the effectiveness of monetary policy, as it is noted that the diversification of portfolios of assets and liabilities enhances the distribution of risks and avoids their concentration.

Also with regard to obligations, the comprehensive financial sector is usually characterized by a stable deposit base if it is more diversified, as it has been proven that an increase of 10 percent in the share of individuals able to obtain bank deposit service may lead to easing or reducing deposit withdrawal rates by about three to eight percent points. It was also found that low-income savers tend to maintain deposits during periods of systemic crises. Therefore, low-income clients' deposits are usually considered a stable source of funding in the event that other sources run out or access is difficult, but in times of hardship or financial crises savers, especially large savers, may withdraw their deposits from banks, which negatively

affects the liquidity conditions in the banking sector in general, and this can be reduced if the deposits are more diversified. This diversity is achieved by obtaining bank deposits from a larger number of individuals, which in turn, this leads to an increase in the achievement of financial inclusion. Thus, achieving a broader scope of financial inclusion in bank deposits leads to the stability of the deposit base and thus improves the flexibility of financing and investment in the Egyptian sector in a way that positively affects liquidity conditions and thus supports financial stability in a way.

Moreover, financial inclusion leads to directing dormant balances to more productive uses and converting them into deposits that generate a return.

Also for assets, losses on small loans pose less systemic risk than realized losses on large loans. Thus, increasing financial inclusion in terms of facilitating the granting of microcredit credit leads to greater stability at the level of financial service providers, and it has been proven that financial inclusion may lead to changing the structure of the financial system and support its efficiency with regard to the products and transactions that are created, and the customers who use the services different risks, new emerging risks as well as institutions established or expanded in new markets.

Also, in countries with high levels of financial exclusion, informal financial services on which the family sector and companies depend are not viable alternatives to formal services, and informal financial services in themselves may be a source of financial instability.

Central banks and other regulatory authorities such as capital market authorities play an important role in promoting financial inclusion, through:

1. establishing rules and legislation aimed at facilitating the procedures of banking transactions in all their forms, and overcoming obstacles from the supply and demand sides to ensure that financial services reach their users.
2. working on legalizing unofficial channels and subjecting them to the control and supervision of the regulatory authorities.
3. work to encourage the establishment and development of additional channels for traditional financial services, using modern technologies, while following up on the risks that may arise from them to reach all segments of society.
4. improving the financial infrastructure through establishing credit bureaus and developing payment, settlement, and financial intermediation systems.
5. stimulating the financial sector to enhance awareness and spread financial culture, especially among the youth.

However, it may be difficult to achieve financial inclusion without stability in the financial system, and it is also difficult to envision continued financial stability with an increasing proportion of society and the economic sector that is still financially excluded (such as the rural population, a group of the less fortunate in poor urban areas, the poor). This suggests that there is a close correlation between financial stability and financial inclusion in both directions.

Some studies confirm that financial inclusion helps improve financial conditions and raise the standard of living of the poor. It also leads to a more robust family sector and small business sector through financial development that supports social and political stability, which in turn leads to an increase in the stability of the financial system. Financial inclusion can also improve the efficiency of the intermediation process between deposits and investments. In addition to increasing the share of the formal financial sector at the expense of the informal sector, which supports the effectiveness of monetary policy. It is noted that the diversification of portfolios of assets and liabilities enhances the distribution of risks and avoids their concentration.

As for the commitments side, some studies assume that the comprehensive financial sector is usually characterized by a stable deposit base if it is more diversified, as it has been proven that an increase of 10 percent of the share of individuals able to obtain bank deposit service may lead to mitigating or limiting deposit withdrawal rates by about three to eight points per cent. It was also found that low-income savers tend to maintain deposits during periods of systemic crisis, and therefore the deposits of low-income clients are usually considered a stable source of funding if other sources run out or are difficult to obtain.

However, in times of hardship or financial crises, savers - especially large savers - may withdraw their deposits from banks, which negatively affects the liquidity conditions in the banking sector in general, and this can be reduced if deposits are more diversified. This diversity is achieved by obtaining bank deposits from a larger number of individuals, which in turn leads to an increase in the achievement of financial inclusion. Accordingly, achieving a broader scope of financial inclusion in bank deposits leads to the stability of the deposit base and thus improves the flexibility of financing and investment in the banking sector, which positively affects liquidity conditions and thus supports financial stability in general. Moreover, financial inclusion leads to directing dormant balances to more productive uses and converting them into deposits that generate a return.

On the asset side, the results of some studies indicate that losses on small loans pose less systemic risk than losses on large loans. Thus, increasing the inclusion of the secretariat of the board of governors of central banks and Arab monetary institutions the interrelationship between financial stability and financial financial inclusion in terms of facilitating the granting of credit for small loans leads to greater stability at the level of financial service providers.

Exclusion Financial, informal financial services that the family sector and companies rely on are useless alternatives to formal services, and financial services may be The official in itself is a source of financial instability.

The Financial Action Task Force (FATF) has realized that financial exclusion is one of the most important risks facing efforts made in combating money laundering and terrorist financing.

We can summarize the relationship between financial stability and financial inclusion, as the discipline of one provides stability and peace for the other, so we find the following:

1. Financial inclusion aims to provide all residential segments with access to financial services at low costs, which increases bank accounts and deposits, which in turn achieves stability in the financial sectors.
2. Financial inclusion improves the living conditions of individuals in addition to creating a more robust financial sector through financial and economic development, which enhances social and political stability, which in turn achieves financial stability.
3. Financial inclusion improves the efficiency of operations between investments and deposits, in addition to increasing official banking transactions at the expense of informal ones, which diversifies the asset portfolios and stimulates the distribution of risks, making financial sectors resistant to crises and shocks, thus achieving financial stability.
4. In the event of achieving financial inclusion and enabling a large number of individuals to open accounts and small deposits, this guarantees the financial sectors in the event of crises for large savers, and the withdrawal of your deposits that there will be different accounts and deposits that limit the negative impact on the liquidity position in the banking sector, thus maintaining on financial stability.(Vapadmin 2019).

Mechanisms for Developing Financial Inclusion in Islamic Banks:

It is optimal to apply the principle of financial inclusion in Islamic banks, after studying the gaps surrounding the supply and demand sides of Islamic financial services. This is the

cornerstone on which a national strategy for financial inclusion is developed, with the participation of all concerned parties. In all cases, the objectives must be within a specific and measurable strategy, in a way that enables them to be achieved on time, and to succeed in covering as many categories as possible. Age, social groups, and economic sectors targeted.

The development of Islamic financial services and products that meet the needs of all segments of society is one of the most important pillars of achieving financial inclusion by facilitating access to and access to financial services and providing them to individuals and micro, small and medium enterprises.

1. Therefore, it is the responsibility of Islamic financial service providers to develop financial services and products, taking into consideration the following:
2. Considering the needs and requirements of the target customers when designing the services and products that target them before offering and marketing them, in addition to creating new financial products that depend on savings, insurance and means of payment and not only on financing.
3. Encouraging competition between providers of Islamic financial products and services, enabling customers to access a variety of high-quality products and services, easily, at reasonable costs, and with transparency.
4. Reducing unjustified fees and commissions imposed on Islamic financial services.
5. Studying the circumstances and needs of customers when dealing with them, so that service providers or financiers can provide services appropriate to their needs and capabilities.
6. That the regulatory authorities review the existing instructions to consider the requirements of Islamic finance and their suitability for all segments of society.

CONCLUSION

In conclusion, we can say that relationship between financial stability and financial inclusion is a direct relationship and financial stability cannot be reached without achieving financial inclusion and vice versa. It also indicates that the financial sectors must develop the two sectors in parallel to achieve the desired economic development. The study also showed necessity of developing a clear definition of financial inclusion in Islamic banks and the mechanisms for its measurement the necessity of developing Islamic banks inclusive of Islamic

financial and banking. The study showed need for cooperation between the economic and banking sectors with the central bank to build a clear strategy for financial inclusion.

The study recommends the importance of holding educational and awareness sessions regarding financial inclusion, The necessity of holding seminars that address the challenges facing Islamic banks in their application of financial inclusion. And the necessity of promoting the concepts of financial inclusion with its various indicators in society. And The administrations of Islamic banks should work on employing financial inclusion tools so that they adapt and respond quickly to the changing environmental conditions surrounding the banking work environment by achieving the changing desires of customers by means of advanced technical methods that are introduced into the banking business in a way that reduces the costs of providing the service, and ease of access to it. And Involve students in practical issues of financial inclusion to be addressed in studies.

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