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ISLAMIC BANKING & ITS SCOPE IN INDIA

Muteeb Sharique

Abstract:

Banking is the need of our time. It should be a continuous effort that maximum people involve themselves in the banking system. In this process, Interest Free Islamic Banking can play an important role, and recently the Kerala High Court has given an important judgment regarding this issue and now we may hope that a large number of people interested in interest free banking in India will involve themselves in the process of Islamic Banking.

The potential for Islamic Banking in India lies in these two points namely India could be a significant market for Islamic Banking Institutions due to its large Muslim population and however, it is still subject to a favorable change in regulatory environment and increased awareness among Muslims and India.

KEY WORDS:

Islamic banking, Islamic Law (Shariah), Riba.

1.INTRODUCTION:

Islamic banking seems an alien concept in India's conventional banking world. Despite its impressive growth in other parts of world such as the Middle East, South East Asia (which primarily include Malaysia, Indonesia and Iran) it is yet to find favor with the Indian authorities. The search for alternatives to conventional banking in the aftermath of the global financial crisis trained the spotlights on Islamic banking in many parts of the world. The purpose of this thought paper is to provide a quick roundup of the world Islamic banking scenario and highlight its potential and need in India as well as the accompanying challenges. Islamic banking, also known as interest free banking or finance, is a banking system which promotes profit sharing, but prohibits the charging and paying of interest. This system is based on the principles of Shariah Islamic Law, which are derived from the "Holy Quran" and the "Hadeeth", a compilation of the noted sayings of Prophet Mohammad. Islamic Banks everywhere follow these principles in their business. In Islamic banking, productive activities which promote entrepreneurship, trade, commerce and social development are supported, while those which earn income sans risk – such as interest (Riba) bearing transactions and unproductive activities like speculation or gambling are prohibited.

1.1 Objective of the Study:

- 1.1.1 To understand the concept of Islamic banking.
- 1.1.2 To highlight the present status of Islamic banking in India.
- 1.1.3 To Identify Islamic banking need and scope, its future potential in India.
- 1.1.4 To identify the size of market for Islamic banking products and services.
- 1.1.5 To find the ability of Islamic banking services for boosting entrepreneurship in India.

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1.2 Research Methodology:

The research is basically based on secondary data have been collected from the various web sites, and different journals, annual reports, periodicals magazines and weeklies published by the various research companies, Islamic Institutes & colleges and consultancies various Islamic banks reports and also the analyst organizations.

1.3 History of Islamic Banking and finance in India:

The RBI Governor D. Subbarao recommended introducing Islamic banking in India and wrote to the Government about amending the law to facilitate the same. In 2008, a high level Committee on Financial Sector Reform (CFSR) of the Planning Commission of India (2008) headed by Dr. Raghuram Rajan had recommended the introduction of interest-free finance and banking as part of mainstream banking in the interest of inclusive, innovative growth. Aligarh Muslim University has started a postgraduate program in Islamic Banking and Finance. The first times in 1969 Professor Mr. Nejatullah Siddiqui, though the business of Islamic banking flourished in west Asian countries like Malaysia, Indonesia & Iran the pioneers of the Islamic banking model.

Today, Islamic banking has a presence in India in the form of NBFCs and Baitul Mal (Islamic Treasury), but the business is small. These institutions mostly work at the regional level catering to a niche segment. Many Indian institutions, including some government-owned ones, have shown interest in this growing niche opportunity. For example, Kerala government-owned KSIDC has started Al-Barakah Financial Services Ltd (27 June 2002) GIC of India runs an Islamic re-assurance scheme & several mutual fund schemes invest explicitly in compliance with Islamic rules. TESIS, an index on the Bombay Stock Exchange representing only Shariah compliant stocks is the first of its kind in India. Bombay stock exchange (BSE) launched of its kind index for Shariah compliance companies 261 which market capitalization reached to 6424 billion INR on 1 July 2011 with the intention to increase the investment from Indian Muslim.

1.4 Banking with Religions on Perspective:

1. Interest in Islam:

Allah will destroy Riba (usury) and will give increase for Sadaqat (deeds of charity, alms etc.) And Allah likes not the disbelievers, sinners. [Al-Quran, Chapter 2, Verse 276]

You who believe! Be afraid of Allah and give up what remains (due to you) from Riba (usury) (from now onward), if you are believers. And if you do not do it, then take a notice of war from Allah and His Messenger (PBUH) but if you repent, you shall have your capital sums. Deal not unjustly, and you shall not be dealt with unjustly. [Al-Quran, Chapter 2, Verse 278-279]

And if the debtor is in a hard time, then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know. [Al-Quran, Chapter 2, Verse 280]

2. Interest in Hinduism:

Lord Manu stated, "Stipulated interest beyond the legal rate being against (the law), cannot be recovered: they call that a usurious way (of lending). (Manusmriti (Chapter 8, Verse 152)

Lord Manu discouraged the charging of interest and stated, "Defiling a damsel, usury, breaking a vow, selling a tank, a garden, one's wifeare declared to cause the loss of caste (Gatibhramsa). (Manusmriti (Chapter 11, verse 62-68).

One of the Saptarishis and a well known Hindu Law maker of his times, made a special law which forbade the higher castes of Brahmanas (priests) and Kshatriyas (warriors) from being usurers or lenders at interest. (During 700 to 100 BC Vashishtha (Jain 1929)

3. Interest in Judaism:

Do not charge your brother interest, whether on money or food or anything else that may earn interest (Deuteronomy 23:19).

Hath given forth upon interest, and hath taken increase: shall he then live? He shall not live: he hath done all these abominations; he shall surely die; his blood shall be upon him (Ezekiel 18:13)

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1.5 Conventional Banking versus Islamic Banking

Table show that how the Islamic Banking is different from Conventional Banking. In this Table there are few points which distinguish Islamic Banking with Conventional Banking.

Sr. No	Conventional Banking	Islamic Banking
1	The functions and operating modes are based on fully man made principles	The functions and operating modes are based on the principles of Islamic Shariah.
2	It aims at maximizing profit without any restriction	It also aims at maximizing profit but subject to Shariah restrictions.
3	It can charge additional money (penalty and compound interest) in case of defaulters	This type of banking has no provision to charge any extra money from the defaulters. Only small amount of compensation is charged and these proceeds are given to charity.
4	Lending money and getting it back with compound interest is the fundamental function of the conventional bank.	Participation in partnership business is the fundamental function of the Islamic banks
5	The investor is assured of a predetermined rate of interest.	It promotes risk sharing between provider of capital (investor) and the user of funds (entrepreneur).
6	Since income from the advances is fixed, it gives little importance to developing expertise in project appraisal and evaluations.	Since it shares profit and loss, the Islamic banks pays greater attention to developing project appraisal and evaluations.
7	The status of a conventional bank, in relation to its clients is that of creditor and debtors.	The status of Islamic Bank in relation to its clients is that of partners, investors and trader, buyer and seller.
8	It does not deal with Zakat (Islamic Tax)	In the modern Islamic Banking system, it has become one of the service-oriented functions of the Islamic Banks to be a Zakat Collection Centre and they also pay out their Zakat.
9	When conventional banks involve in transaction with consumer they do not take the liability only get the benefit from consumer in form of interest.	Islamic banks bear all liability when involve in transaction with consumer. Getting out any benefit without bearing its liability is declared Haram in Islam

1.6 Some Prevailing Islamic Modes of Finance:

Following the scope of Islamic Banking in India.

1.6.1 Mudarabah

An Islamic contract in which one side provides capital and other side provides labour. The profits are to be shared in proportions agreed upon before implementation of the contract. Providers of the capital bear all net loss according to the contract unless there has been violation of the contract terms or neglect from the part of the working partner.

1.6.2 Musharakah

Partnership or more than one party subscribe to the capital of a business undertaking and share profits and losses according to their respective share.

1.6.3 Istisna

A contractual arrangement whereby one party (purchaser) orders a specially defined product to be produced for him by the other party (seller) in the future against the specific price raw material to be supplied by the producer.

1.6.4 Ijarah

The meaning of ijarah includes lease, wage and rent. This basically includes the selling of use and service against a fixed price or wage. Therefore under this, customer can get the right to use the service of

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assets and equipments for example heavy machinery, plant, motor vehicle, etc. for the fixed price and tenure.

1.6.5 Murabahab

Murabahab is the most popular form of Islamic financing techniques used by the Islamic financial institutions in many non Muslim countries like Australia, USA. Within a murabahah contract the financial institution agrees to fund the purchase of a given asset or goods from a third party at the request of its client & then re-sell the assets or goods to its client with a mark-up profit. The client purchases the goods either against immediate payment or for a deferred payment.

1.6.6 Salam

Salam is very useful in reducing agricultural sector poverty easily, by enabling the banks and farmers to contract with each other of the crops and to get finance at appropriate time, instead of usurious loans, which ultimately deteriorate through compounding of interest and farmer, will not pay it easily.

1.7 Scope of Islamic banking for India:

1.7.1 Potential to contribute substantially in economic growth.

1.7.2 Potential to boost entrepreneurship in India.

1.7.3 Potential to provide low cost easily available capital to small poor entrepreneurs in India.

1.7.4 Potential to contribute with their services to accelerate growth of micro small & medium enterprises.

1.7.5 Potential to contribute specially in the growth of weaker section in the society.

1.7.6 Potential of Islamic banking includes loans to businesses ethically, morally and beneficial to the society causing speculative businesses to starve from financial point of view (SALEEM, 2008).

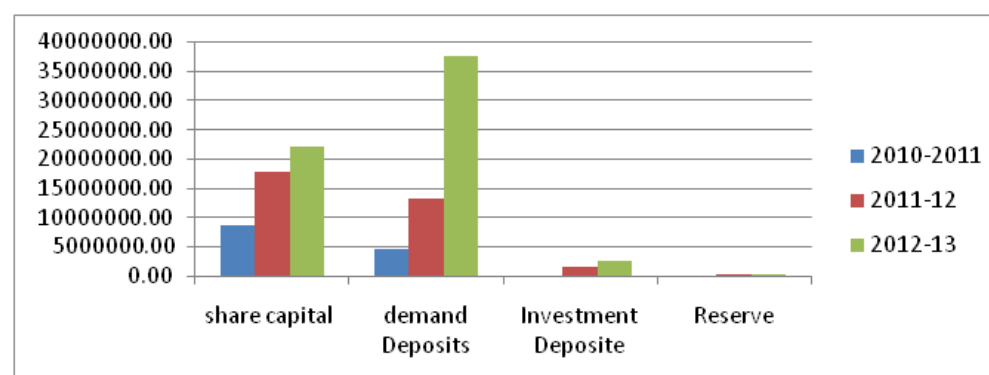
1.7.7 Potential to reduce unemployment by providing SME sector loans, provide QARD E HASSAN schemes but taking into consideration all security factors (SALEEM, 2008).

**Table No. 1 Financial statement for the year.
2010-11, 2011-12, 2012-2013
Shows the figure of Janseva Bank (Multi State Society)**

Financial Highlights	2010-2011	2011-12	2012-13
Share Capital	8735300	17868800	22216700
Growth in Percent	-----	105	24
Growth in Times	-----	1 Times	2 Times
Demand Deposits	4580057	13189564	37590741
Growth in Percent	-----	188	185
Growth in Times	-----	1 Times	3 Times
Investment Deposited	37500	1574922	2504331
Growth in Percent	-----	4100	59
Growth in Times	-----	1Times	2 Times
Reserve	46979	198316	375476
Growth in Percent	-----	322	89
Growth in Times	-----	1Times	3 Times

(Source: Annual Report Janseva Co-operative society LTD.)

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1.8 INTERPRETATION:

The Table No.1 show finance statement of Janseva bank statistics given in the table there is vast growth in Share capital in the year 2011-12. It is 105% it is due to opening of new branches & enrolment of new members while in the year 12-13 it is 24% which show a more than a normal growth in Share capital. In case of demand deposit it is seen that there is a tremendous growth in the year 11-12 that it is 188% the same is maintain 12-13 which is 185%. Investment deposit in the year 11-2 there is a large amount received from the members its investment deposit the growth in this head 4100% which show that peoples are king to investment there deposit in interest free banking, societies came forwards in India in the year 12-13 the growth is continues & it is 59%. The Reserves of the society show its growth 322% in 11-12 & 89% in 12-13.

1.9 CONCLUSION:

There is need of Islamic banking and also there is a huge scope of Islamic banking, this shows that future prospect of Islamic banking is good. Islamic banking not only covering the needs of Muslim population but it is fulfilling the need for the development of all the community. Considering the present status, Islamic banking is not possible in India as per the present banking regulation. But with the effort from government and reserve bank of India it is possible. 'Islamic Banking' should be looked as "Interest Free Banking" through the broad economic kaleidoscope and not a narrow religious prism. Area which can directly affect the growth and development of Islamic banking in country like India is the role of Government participation and intervention in providing necessary arrangements for legislation and legal framework. Last but not the least, Islamic banking institution should research in Training and Development of people to make sure that they promote Islamic banking properly.

It shall be in the interest of India to allow Islamic banks to operate and expand their network in the country along with traditional banks as their main focus is on social well being and wealth generation activities in the society. It is hoped that their participation in Indian banking will lead to further infrastructural development in India.

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