

An Analysis of Awareness & Prospects of Islamic Banking in India

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ABSTRACT

Islamic banking is system of banking that operates as per the principles of Shariat or Islamic Law that prohibits the use of interest in banking transactions. The Shariat prohibits the lending and borrowing of money on interest that is considered to be Haram. As per Shariat the banking transactions can be done on the basis of profit & loss sharing rather than interest (Riba) payments. The Islamic banking system is gaining its popularity in Muslim Countries and in some of the Non-Muslim countries have also adopted this banking system such as China & UK. Therefore this study has been undertaken to study the awareness of the people about the Islamic banking and prospects of Islamic banking in India. The study has been conducted in district Rajouri of J&K by collecting data from 100 respondents and results revealed that most of the people have basic awareness about the Islamic banking and they believe that if they get an opportunity of investing in Islamic banking window, they will surely invest their money through that window.

1. Introduction

The concept of Islamic banking is a system of banking as per the rules of Shariat. As per Islam, the money has no intrinsic value and is not permitted to be sold at profit. The money can be used only as per the guidelines of Shariat. (Seema Rao, 27, Nov. 2016, scroll.in). The Islamic banking refers to the banking transaction that doesn't involve interest rate. The Interest rate as per Shariat or Islamic law is known as "Riba" The Islamic law prohibits the payment of any fee for renting out the money. The transactions that involve the payment of interest rates are considered as against the Islamic law and are referred as *haraam*. It also prohibits the any kind of investment in the businesses that are against the principles of Islam or Shariat.

The concept of Islamic banking is not very new and is believed that Islamic banking is based on the principles that have been taken from Quran. And in the current time the Islamic banking is very easily getting recognition in the market from Muslim as well as Non-Muslim people.

The Islamic banking system works on the principle of interest free banking and believes in the principle of sharing of profit & loss among the investors instead of interest. The interest is considered as undue profit, that may be the hard earned money of others collected on account of some exigencies or emergency. Therefore the Islamic banking system offers accounts to the investors where the risk of the investors is well calculated and is offered profit or loss instead of interest rate. Thus the Islamic banking system is acting as an agent who is collects the money from the people who don't want to invest in traditional banking system and invests that money in the businesses that are considered to be Shariat compliant, and doesn't involve high risk. Finally the profit or loss whatever be the result of this investment will be shared equally by the customers of the Islamic bank as per their respective investments. These banks provide various kinds of

banking products that cater the various needs of the customers. The some of the important products are as:

1. Mudarabah
2. Musharaka
3. Murabaha
4. Ijara
5. Istisna

2. Islamic banking & India

It has been found that Islamic banking is operational mostly in Islamic countries such as Malaysia. Then why India should go for it as it is not an Islamic country? The answer to this question has been discussed by various scholars differently by saying that opening up of Islamic window in the conventional banking system will encourage the those people of Muslim community who are not ready to put their money in conventional banks as well as India stock market. This will help in increasing the capital inflow towards banking system and will also help in achieving the objective financial inclusion in India. Raghuram Rajan in his report in 2008 on financial sector raised the voice for the introduction of Islamic banking in India and suggested that Islamic Banking should be initiated in India so that banking access can be given to the unprivileged & economically backward sections of the society. Now a day's many non-Islamic countries such as Germany, China, UK are offering the Interest free banking.

3. Review of Literature

The number of studies undertaken on the concept of Islamic banking has been studied to get an insight about the type of researches that has already been done on the Islamic banking. Few of the important studies have been represented in the form of review of literature.

Sultana, Asma & N V Kavitha (2014) Concluded that Islamic banking has the huge potential in India but it needs some strong policy recommendations to make it reality. In spite

of having huge potential, India still have no Islamic banking window in India. They further concluded that it will give an opportunity to the people to invest their money in banking system who otherwise hesitate to invest in conventional banking system.

Faisal (2012) in his study on Inclusive growth in India through Islamic banking concluded that though Indian economy is growing t good growth rate but paradoxically, the growth of poor people is Iso on the rise. He emphasized that present Indian banking system is not conducive for the poor people of the country and Islamic banking system that works on the principle of profit and loss sharing (without Riba) has the potential to attract the maximum number of such sections of the Society irrespective of the religion who are still unbanked. It also has the potential of attracting huge capital from the Gulf Countries.

Faisal, M., Akhtar, A., & Rehman, A. (2012) conducted a survey to understand the awareness of Islamic banking among the common masses and found that majority of the respondents are not aware of the Islamic Banking and the Islamic terms included in the Sharia law. For establishing Islamic banking in India, there is a need to develop a new marketing model and it should be portrayed as alternate banking system instead of Islamic Banking System.

Abdullah, A. A., Sidek, R., & Adnan, A. A. (2012) did a survey to study the perception of Non- Muslims towards Islamic banking in Kuala Lumpur of Malaysia and found that majority of the non- muslims have knowledge about the Islamic banking and believe that it is going to dominate the conventional banking in near future. But more efforts need to be taken to increase its awareness among the non-muslims.

Bashir, U Ahmed & Roshif, Mohammad (2014) concluded that if India wants to survive in the volatile market environment, it should go for finding some alternative financial policies. He also emphasized that Indian banking system is not able to attract the funds form majority of Muslim Community and Middle East. Now the time has come when Indian Govt. should think about opening up of Islamic windows in the conventional banking system.

4. Objectives of the study

The following objectives have been set for conducting the research study:

1. To know about the awareness of Islamic banking among common people.
2. To know the relationship between religion & Islamic banking
3. To find the current status of Islamic banking in the concerned area
4. To find the future prospects of Islamic banking in India.

5. Research Methodology

The sample size of hundred respondents was selected for undergoing the research study and the target area was district

Rajouri of the J&K. Simple Random sampling has been used for collection of the data. The simple descriptive statistical techniques such as frequency, mean, standard deviation has been used for analysing the data.

6. Data Analysis

The data was collected from the 100 respondents of the District Rajouri belonging to all the religions. The data has been analysed to understand the awareness & perception of respondents towards the Islamic banking. The various questions related to its awareness and possibility of its existence in India has been posed to the respondents and the responses have been recorded and analysed accordingly.

Awareness of Islamic Banking

		Total Respondents	Percentage
Valid	Yes	100	100.0

Table: 1 (Source: Primary Data)

The table 1 shows the no. of people who are aware about the Islamic banking and 100% of the respondents has given the response that they have heard about the Islamic banking. The reason behind the 100% percent reason can be the demographical characteristics of the sampled area as area is having majority Muslim population.

Having knowledge that Islamic Banking is compliant to Islamic Law?

		Total Respondents	Percentage
Valid	Yes	75	75.0
	NO	25	25.0
	Total	100	100.0

Table: 2 (Source: Primary Data)

The table 2 shows the awareness of the people about the operations of the Islamic banking and 75% of the respondents were found to be having the knowledge that Islamic banking does its operations as per the Islamic law. This shows that people do have the knowledge about the Islamic banking. The table 3 below shows that about 89% of the respondents are aware of the fact that Islamic Banking is different from the traditional banking. This is helping us to understand that the respondents are having good amount of the knowledge about the Islamic banking and they may not having the option of Islamic banking in their locality or region because of which they are not investing in such type of investments.

Islamic banking is different from Conventional banking?

		Total Respondents	Percentage
Valid	Yes	89	89.0
	NO	11	11.0
	Total	100	100.0

Table: 3 (Source: Primary Data)

Islamic banking products and services are beneficial to Muslims and non-Muslims

		Total Respondents	Percentage
Valid	Yes	83	83.0
	NO	17	17.0
	Total	100	100.0

Islamic bank do not involve Riba (Interest), and instead of it use the method of profit loss sharing (partnership). Do you think it is better than western banking?

		Total Respondents	Percentage
Valid	Yes	67	67.0
	NO	33	33.0
	Total	100	100.0

Table: 4 (Source: Primary Data)

The data in the table 4 have analysed the preference of respondents about the rating of the two banking systems and the data shows that 67% respondents of the view that interest free banking as per the Islamic law is better than the traditional

banking that works on the basis of lending and borrowing on the basis of interest rate. Out of the total 33% people (Table: 4) have gone with the option that traditional banking is better than the Islamic banking. When asked about the benefit of Islamic banking (Table 5) 83% respondents said that Islamic banking products are beneficial for Muslim as well as non-Muslim but 17% were of the view that Islamic banking is beneficial only to Muslims.

Islamic banking & Religion:

Few questions were also posed to know about the relation between Islamic banking & religion. The three statements were made to know and it was found that mean score for the first statement that talks about the choice of Islamic banking products and services is only due to religious responsibility is more than three that depicts that people agree with the statement that they go for it or would like to go for Islamic banking because of religious responsibility. It is also very close to 3 that show that respondents are neutral about this statement. The second statement asks for the ethical responsibility as the base for choice of Islamic banking and means score of 3.08 shows that respondents agree with the statement that they go for Islamic banking because of ethical responsibility.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Religion has the influence on the choice of Islamic banking	100	1	5	3.26	1.284
Ethical responsibility force people to choose Islamic banking	100	1.0	4.0	3.080	1.1342
My personal background & religion have no effect on my decision of choosing Islamic banking.	100	1	5	3.31	1.300

Table: 5 (Source: Primary Data)

The third question was asked to know whether the personal background & religion are the reasons that make their base for choosing Islamic banking. The mean score of 3.31 depicts that most of the people agree that they don't base their decision of choosing Islamic banking products and services just on the basis of religion and personal background.

The next statement enquired about the reason behind the encouragement of the people towards Islamic banking and it was found that majority of the people responded that interest free nature of Islamic banking that works on the basis of profit & loss sharing is the main factor that encourages them to go towards Islamic banking. The mean score for the same statement was found to be 3.98 as shown in the table 6

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The rule of profit & loss sharing encourage me to go for Islamic banking	100	2	5	3.98	.953

Table: 6 (Source: Primary Data)

Future Prospects of Islamic banking:

In order to study the future prospects of Islamic banking in India few statements were made in front of the respondents are their responses were recorded. It was asked to the respondents that if platform of Islamic banking is made available to them, then what will be their decision related to the use of Islamic banking. The majority of the respondents agreed with the men score of 4.12 on 5 point scale that if they

get such an opportunity in near future, they will definitely go for using the Islamic banking. The next question was put to find the reason of financial exclusion in India and again the respondents agreed with the mean score of 4.07 that absence of Islamic banking is one of the major reasons behind the financial exclusion. (Table 7)

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
If I get an opportunity to invest in Islamic Banking, I will go for it	100	2	5	4.12	1.018
Absence of Islamic Banking is one the major reason for financial exclusion of the Muslim Investors	100	2	5	4.07	.913
Valid N (listwise)	100				

Table: 7 (Source: Primary Data)

Do you think Islamic windows should be opened by Indian bank too?

	Total Respondents	Percentage
Valid Yes	100	100.0

Table: 8 (Primary Data)

The Table 8 also shows that 100 percent of the respondents said that Indian Banking system should also start the Islamic banking window long with the conventional banking system so that an opportunity can be given to that section of the Muslim community or other unprivileged people who cannot afford to deal with conventional banking system or the individuals who restrict themselves to put their hard earned money in conventional banking system.

7. Conclusion

Islamic banking can be the future prospective banking system that can be called as an alternative banking system.

The data analysis shows that most of their investors are aware about the Islamic banking and will be willing to go for it if any such option is offered to them. The data also shows that customers prefer to go for Islamic banking because of religious association. The Islamic banking can emerge as one of the best alternatives investment option for the customers including non-Muslims but more efforts need to be taken to increase the awareness of Islamic banking. The few terms related to Islamic banking should be replaced with some simple terms that are easily understandable and it should be marketed as an Alternative Banking instead of Islamic Banking.

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