



ORIGINAL RESEARCH PAPER

MANAGEMENT

ISLAMIC BANKING IN INDIA IN PRESENT BANKING SCENARIO; POTENTIAL AND PROBLEM AHEAD;

KEY WORDS: Islamic banking, convention banking, swot analysis, financial inclusion, economic growth.

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ABSTRACT

Islamic banking is the fastest-growing sector in the financial services industry, with plenty of opportunities. Islamic banking is presently one of the most rapidly increasing segments of the global banking and capital markets. Many countries around the world employ Islamic banking. Also India has a significant Muslim population; there is a lot of potential for Islamic banking within the country. India has the world's third-largest Muslim population. Basically, Islamic banking refers to a system of banking that complies with Islamic law also known as sharia law. The underlying principles that govern Islamic banking are mutual risk and profit sharing between parties, the assurances of fairness for all and that transactions are based on underlying business activity or assets. The paper highlights issues regarding Islamic banking in India.

INTRODUCTION

The term Islamic banking became common in 1960, but the mechanism and concepts of the system were implied and used since the birth of Islam. Firstly, Islamic banking was introduced in Mit Ghamr Egypt in 1963. This banking system was fastly used after establishment of Islamic development bank (1975). The first Islamic bank in India opened in Kerala (2013). The earlier claims (Khan, 1986) characterizing the Islamic financial system as a superior one that operates more efficiently and with greater stability, thereby generating more effective policies than its conventional counterparts, have been empirically proven. In a nutshell, Khan (1991) claimed that Islamic economics and financial institutions have the potential to provide solutions to socioeconomic problems that have failed to be solved through the conventional paradigms of neoclassical economics. Although some scholars argued that the theoretical aspirations of Islamic economics and finance are not realized in practice, and fail to fulfil the required needs of the (maqasid) higher objective of Sharia (Ashtray, 2008; Zama and Ashtray, 2009). The investment in Islamic financial institutions provide potential opportunity for profit in proportion to the risk assumed to satisfy the different demands of participants in the contemporary environment and within the guideline of the Sharia. (Noor amid 2013). Islamic institutions want to work for the welfare of the people, it doesn't want to work for particular Muslim community, it wants to work for the entire human community. Ahmad (1984) Ahmad (2000), Siddiqui (2001), Huron and his an (2003), Rosy and Baker (2003), Haran and, Naqvi (2003) and others, who see Islamic banks as organizations that are not solely profit oriented, but aim to promote Islamic norms and values as well as protecting the needs of Islamic society as a whole. Also another study says that it is difficult to Islamic banking to develop a model that strikes a balance between both profit orientation as well as social welfare activities. Therefore the government and policy makers should use a model that can make both of these objectives full (Ashraf Wajdi Dusuki). Another study says that Indian government should allow conventional banks to open Islamic banking windows, which develop Islamic banking systems. Islamic windows with the help of conventional banks can provide Sharia-compliant products to the banking customers (MANZAR ALI KHAN). According to Khan and Ahmad (2003), banks must meet international criteria in order to function in a globalized economy. Islamic banks have a lot to learn from traditional banks, particularly in terms of managerial skills, financing mechanisms, and transparency norms. Another study says that Islamic banking has a great scope in India because 180 million Muslims live in India, it is approximately 15% of the rest of the world. If conventional banks introduce Islamic banking windows, it will help to inclusive growth in the Indian economy. It will help to reduce the Indian economy's fiscal deficit (Gorham Bashir A Hangar* Mohd Umar Jan Pander** Aisha Hussein Janie*) (Sana bag, 2017) it is said that it is a great time for India to adopt a dual financial system combination of Indian conventional banking system

and Islamic banking systems. Another study says that through Islamic banking India is able to achieve millennium development goals that were established in 31 Dec 2015 that have set 8 goals and 21 targets. Islamic banks are helpful to the Indian economy to achieve these objectives like poverty eradication, improve financial inclusion, development of capital markets, health programmes, improvement of education level. Basically, it is helpful to the sustainable development of the Indian economy. (Habib Ahmed Mahmoud Mohieldin, 2015). Another study did a SWOT analysis, after analysis of strength, weakness, opportunity and threat points related to Islamic banking, the results suggest India should open the door of Islamic banking because it gives strength to the Indian capital market and opportunity for boost Gulf investment into the Indian economy (MOHAMMED SHAHID, Jeevan Raj 2019). After doing the review of literature, we found that some studies suggest Islamic banking should be introduced in India, some others say it creates a hurdle for the Indian economy.

OBJECTIVES OF THE STUDY

1. To have a better understanding of the problems that Islamic banking faces in India.
2. To determine whether interest-free banking is feasible in India.
3. To identify the variable that influences acceptance level of Islamic finance.
4. To identify the opportunity available to Islamic finance to progress in the Indian economy.
5. To provide some suggestions for the development and improvement of Islamic finance.

SOME PRINCIPAL OF ISLAMIC BANKING

- (1) Mudarabah (profit and loss sharing partnership) - it is a partnership in profit whereby one party provides capital and the other party provides skill and labour.
- (2) Musharakah (from a joint venture) - all the partners share the profit or loss of the joint venture equally.
- (3) Ijara - a lease contract between bank and clients, the bank would purchase an asset for the client and grant them the right to use it. These assets have a specific time period and the ownership of the banks as such remains.
- (4) Halal activities - banks prohibit investment in sinful activities like alcohol production, gambling business, weapon production, speculative business.
- (5) Qard Hassan - it is an Islamic finance term that essentially refers to a loan that is interest free.

(6)Wakalah –a contract in which a person who has complete legal capacity authorize another to conduct a certain well defined permissible contract on behalf of that person.

(7) Hawalah –it means transfer or change .the liability of settlement of a debt is transferred from principal debtor to a transferee.

RESEARCH METHODOLOGIES - Most of study that are conducted in western countries ,middle east ,east Asia used primary data because this concept has already been used and many Islamic institute establish here .but in India most of study is based on descriptive and exploratory in nature and used secondary data through various business magazine ,journals internet ,website ,newspapers and research papers . Also this research study is descriptive and exploratory investigations the current framework and determine the requirement of Islamic banking in India.

CONCLUSION -we conclude that the Islamic banking system is inspired by the Quran, which forbids both taking and paying interest .it is fastly growing segment which is continually used in international banking and capital market .many countries used Islamic finance as an alternative to the conventional banking .these countries amendment of banking regulation act to accommodate Islamic banking. In India, (The Raghu Ram Raj Raghu Ram Rajan Committee on Financial Sector Reforms in 2009, and the Deepak Mahanoy Committee, on the Medium-Term Path to Financial Inclusion in 2015 both strongly advised the government to alter Indian banking legislation to incorporate Islamic banking. Under the direction of professor Nejat ullahsiddqui, the founder of the Islamic banking paradigm, Aligarh Muslim University launched a postgraduate programme in Islamic banking and finance. Even after all these recommendations ,RBI has not yet started Islamic banking .however it is observed that some sections of the Indian society exclude religious reasons that prevent them from using banking products with an interest element . As a result, the government must give the tools that the poor need to improve their situation. In the last decade the banking sector has opened up significantly, with interest-free banking being one option to help the less fortunate. As a result, legalising Islamic banking has the ability to reduce economic inequity, improve integration, and accelerate economic growth. So Indian government should take initiatives to reform banking sector and allowing the establishment of Islamic banks

FUTURE RESEARCH SCOPE – The future growth and development of Islamic financial system will depend on the nature of innovations introduced in markets. Future research scope should be

(1) How to create awareness about Islamic banking instruments including landing based products, and investment based products.

(2) How to develop dual banking system in India.

(3) Further research is needed as to whether functional Sharia advisory board and governance can influence Islamic banks' efficiency, thus improving their stability.

(4) Investigation the Basel III relations to Islamic banks' insolvency risk will guide the policymakers and practitioners on its implication.

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