

## Need of Interest Free Islamic Banking & Its Effectiveness in Indian Financial Sector

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### Abstract

Banking is a significant financial establishment in the present worldwide monetary framework. In spite of contacting every single piece of our lives, regular banks have still been seen exclusively as financial institutions, which should fret about just financial issues. Morals and ethical quality has not entered the condition. Premium which is the foundation of the ordinary banking framework isn't permitted in four significant religions of the world Judaism, Christianity, Hinduism, and Islam: This need is satisfied by the development of Islamic banking or participatory banking or premium free banking. Islamic banking: Islamic boycott I. g depends on the twin standards of Islamic law (Sharia'h) and Islamic financial matters. It grants transactions based on sharing of benefit and misfortune; and disallows the gathering of intrigue. In opposition to the prevalent view, Islamic banking isn't only for Muslims. As of now Islamic banking is available in excess of 75 nations around the world. Universally, Islamic financial resources came to \$1.8 trillion (NR 110 trillion) in 2013 and are said to develop twice as quick as customary financial resources. Egypt is seen as the pioneer of modern Islamic banking.

The spearheading exertion, drove by Ahmad Elnaggar, appeared as a reserve funds bank dependent on benefit partaking in the Egyptian town of MitGhamr in 1963. Islamic banks are neither philanthropy institutions nor some strict association they are the benefit making association doing same fill in as done by the conventional premium based banks however with as indicated by the Sharia'h. This is on the grounds that Islam prohibits loaning or obtaining of cash at a pre-decided rate (premium or riba). The methodologies of Islamic banking are unmistakably unique in relation to the ones of traditional banks. Islamic runs on transactions (known as Fi4h al-Muamalat) have been made to evade this issue. The essential strategy to maintain a strategic distance from the denial is the sharing of benefit and misfortune, by means of terms, for example, benefit sharing Mudharabah), care (Wadiah), joint endeavor (Musharakah), cost in addition to (Murabahah), securities and renting (Ijara), protection (Takaful).



**Keywords:-** financial, Islamic, performance, Regulation Act, credit, debit, financial ratio, established , consumers, marketing strategy, institutions, banks, India ,sector, framework, reservations.

**Introduction:** In India the advancement of Sharia'h consistent financial institutions had begun a long time before the foundation of a couple of most conspicuous ,financial institutions the around the world. In any case, because of certain lawful and different obstacles, these institutions couldn't develop past a specific utmost and those which developed couldn't support themselves at that level for a more extended time. Since the commencement of modem Islamic banking, there have been a few endeavors to set up a Sharia'h consistent financial sector in India, be that as it may, financial enactment and regulations have reservations concerning setting up Islamic banks in India. Over the most recent couple of years, the dialogs on the need and suitability for changes and revisions of existing lawful framework are raised, and particularly in regards to the Banking Regulation Act 1949.

Islamic banking, otherwise called non-enthusiasm banking, is a banking framework that depends on the standards of Islamic or Sharia law and guided by Islamic financial matters. Two basic standards of Islamic banking are the sharing of benefit and misfortune, and the denial of the accumulation and installment of enthusiasm by moneylenders and financial specialists. Islamic law precludes gathering interest or "riba."

#### **Literature Review in Brief:**

**Taylor (2002)** assessed that by 2002 Islamic banks represented around \$250 billion in resources, and that this figure was relied upon to develop in the resulting years. The Muslim populace frames the specialty showcase that Islamic financial targets and Zineldin (1996) reports this is an incredible market for altered merchandise and ventures as it has the most noteworthy salary outside the Western World, Australia and Japan.

**Abdus Samad (2004)** in his paper analyzes the similar performance of Bahrain's without advantage Islamic banks and the premium based traditional business banks during the post-Gulf war period 1991-2001. Utilizing nine financial ratios in estimating the performances as for (a) gainfulness, (b) liquidity hazard, and (c) credit chance, and applying Student's t-test to these financial ratios, the paper reasons that there exists a critical contrast in credit performance between the two arrangements of banks. In any case, the examination finds no significant contrast in productivity and liquidity performances between Islamic banks and ordinary banks.

**Haron et al. (1994)** likewise featured the distinctions in the support of Islamic and ordinary banks in their investigation of Muslims and non-Muslims in Malaysia. Two consequent thinks

about likewise inspected impression of Islamic banking in Malaysia — for the most part saw as the biggest place for Islamic money outside the Middle East.

**Hamid and Azmin (2001)** concentrated on the familiarity with Malaysian clients towards Islamic banking inside the setting of the more extensive advancement of Islamic instruction. They found that most Malaysians didn't separate among Islamic and regular bank items and administrations, however the larger part had adequate information of the presence and administrations offered by Islamic banks in Malaysia.

**Metwally (2002)** thought about the job of financial and statistic characteristics during the time spent bank choice in Qatar. Two thinks about on the observations and comprehension of Islamic money merit unique note. In the first, Bley and Kuehn (2004) overviewed business understudies' learning of financial parts of Islamic and customary banks in the United Arab Emirates (Sharjah).

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**Akhtar and Akhter (2011)** is about the distinctions in the view of college representatives about Islamic banking in India. Contrasts were found in the degree of mindfulness about Islamic banking as an option in contrast to customary banking.

### **3. Research Objectives and Methodology**

Each exploration needs a procedure to coordinate its way towards a fitting and complete objective. Along these lines, an examination system is the strategy, game plan, procedure, or configuration lying behind the decision and utilization of specific techniques and connecting the decision and utilization of strategies to the ideal results (Crotty, 1998). This part subtleties the mission statement, extent of the examination, look into destinations, explore theories and work plan for meeting research goals. It likewise covers the basics like strategy for organizing determinants, poll advancement, testing technique and instruments utilized for examination.

#### **3.1 Statement of Purpose**

The examination basically means to evaluate the difficulties and open doors for Islamic banks in India. For an enormous number of Muslims premium free banking might involve their confidence, yet for the non-Muslims it needs to address main problems like security, chance minimization, productivity and so on. This examination means to find out the determinants of Islamic banking and prospects of Islamic banking in India. Further, it additionally expects to



distinguish the determinants forming the buyer frame of mind towards Islamic banking, which thus will assist the advertisers with deciding suitable marketing strategy for Islamic banking in a multicultural nation like India. The investigation additionally plans to gauge the disposition of forthcoming consumers towards Islamic Banking in India.

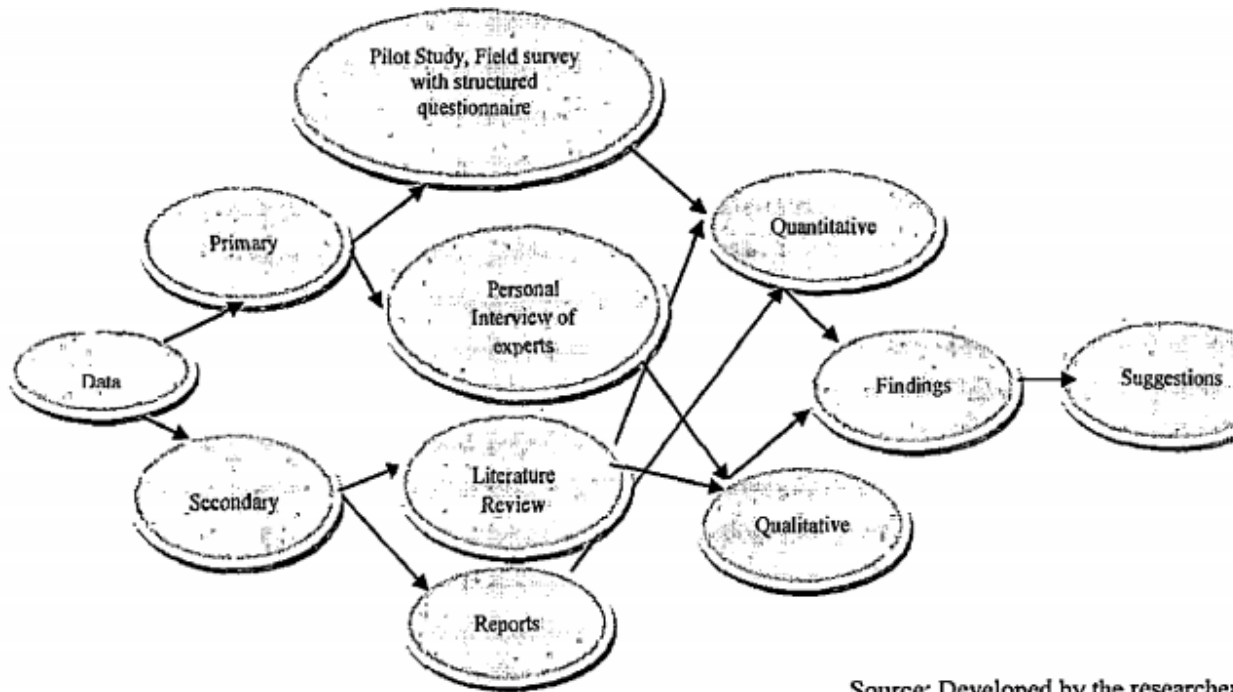
### **3.2 Scope of the Study**

The present investigation has been led keeping in see the ongoing advancements as for the Islamic Banking far and wide. On one hand new Islamic banks are being 61 arrangement while the current regular banks are likewise concocting Islamic financial windows to take into account the developing interest for Islamic financial items. This examination is limited to investigate the accompanying parts of Islamic banking. > Different factors influencing Islamic banking in India > Attitude of planned consumers towards Islamic banking in India > Determinants in the execution of Islamic banking in India > Acceptance level for Islamic banking in India

### **3.3 Research Objective**

Principally this exploration plans to investigate and consider the difficulties and open doors for Islamic banking in India for picking up lucidity regarding the matter the examination has been has been separated into in two sections. Part I: Qualitative investigation to distinguish the determinants of Islamic banking in India Part II: Empirical examination to measure the mentality of Indian consumers towards Islamic Banking.

### **3.4 Methodology**



Source: Developed by the researcher

### 3.4.1 Qualitative Study to find the Determinants of Islamic Banking in India

A. key task for the advertisers is to analyze those drivers and obstructions for Islamic banking which would be essential to the presentation and endurance of Islamic banking in India. Numerous determinants restrain the reception and usage of Islamic Banking in India Because of these hindrances, associations are hesitant to present Islamic Banking in India. Then again, there are sure empowering agents which are useful in the initiation of Islamic Banking in India.

### 3.5 Hypotheses Based on Demographics

One of the significant arrangement of factors identifying with shopper's frame of mind towards Islamic banking is the customer's statistic characteristics (Omer, 1992, Haron et. al 1994, Zainuddin and Ramayah, 2004, Gerrard and Cunningham, 1997). Various theories were created with identified with shopper's frame of mind towards Islamic banking and their statistic qualities. These speculations are additionally separated into four sub theories, in view of four factors of consumers' mentality. Every one of the four sub theories are tried for noteworthiness utilizing proper factual devices and in the event that in excess of two sub speculations are acknowledged, at that point the principle theory is acknowledged.

So as to investigate contrasts in mentality opposite shopper socioeconomics, the accompanying theories were confined, where 'Ho' alludes to the invalid theory; 'G' represents sexual orientation, 'AG' represents age gathering, 'O' represents occupation, 'E' stands most elevated scholastic



capability, 'IN' represents level of pay, 'R' represents religion 'C' represents present city of home, of respondents. 'A' represents respondent's disposition towards Islamic banking, and 'T', 'F', 'B' and 'P' mean Ideology, Features, Benefits, and Prospects separately.

## **4 DATA ANALYSIS AND INTERPRETATION**

### **4.1 ISM Analysis**

In this area, the relationship among different determinants of Islamic banking is broke down. Further, the determinants are sorted as driving and ward determinants through ISM method. Interpretive Structural Modeling (ISM) can be utilized for distinguishing and outlining connections among explicit factors, which characterize an issue or an issue. It gives us a methods by which request can be forced on the intricacy of such factors. Along these lines, in this piece of research, the determinants of Islamic Banking in India have been examined utilizing the ISM, which shows the interrelationships of the determinants and their levels.

#### **4.1.1 Identification of Determinants**

The organization of Islamic banking relies on specific factors. These factors not just influence the presentation of Islamic banking in India yet in addition its operations and future possibilities

Marketing Islamic banks are battling against ordinary banking and non-banking financial institutions, existing pool of Islamic business banks and insurance agencies. To make due in this key competition, Islamic banks must comprehend and utilize the buyer satisfaction issues under existing benefits given by Islamic Sharia'h (McIver and Naylor, 1986). Marketing is one of the most significant determinant for the improvement of Islamic banking.

Numerous great Islamic financial items have not been fruitful in the past as a result of absence of legitimate marketing. It is beside difficult to make due in the market without legitimate marketing in this time. The Indian Islamic financial advocates need to consider locally "rebranding" or repackaging Islamic money to its quintessence through business advertising.

Financial Inclusion Half of the nation's populace still doesn't approach formal financial benefits and is reliant on casual cash banks. Both the legislature and RBI are elevating financial incorporation projects to bring the unbanked populace into the conventional framework. In any case, for certain Muslims, a financial framework not consistent with the Sharia'h might be an issue.

Apportioning the Final Reachability Matrix After making the last reachability framework, it is handled to get the basic model (digraph). Warfield (1974) has displayed a progression of parcels which are incited by the reachability network on the set and subset of various factors. From these





parcels, one can distinguish numerous properties of the auxiliary model (Farris and Sage 1975). The reachability set and forerunner set for every determinant are found from the last reachability lattice.

**Iteration I**

	<b>Interaction</b>	<b>Antecedents</b>	<b>Intersection</b>	<b>Level</b>
<b>Development in Global Economy</b>	1,2,3,4,6,7,8,9,10,11,12	1,2	1,2	
<b>Political &amp; Social Factors</b>	1,2,3,4,6,7,8,9,10,11,12	1,2,5,6	1,2,6	
<b>Legal &amp; Regulatory Factors</b>	3,6,7,8,9,10,11,12	1,2,3,4,5	3	
<b>Mind-set of Regulator</b>	3,4,5,7,8,9,10,11,12	1,2,4,5	4,5	
<b>Ideology</b>	2,4,5,7,8,9,10,11,12	4,5	4,5	
<b>Needs &amp; Benefits</b>	2,6,7,8,9,10,11,12	1,2,3,6,8	2,6,8	
<b>Sharia'h Certification</b>	7,8,9,10,11,12	1,2,3,4,5,6,7,8	7,8	
<b>Nomenclature</b>	6,7,8,9,10,11,12	1,2,3,4,5,6,7,8	6,7,8	
<b>Modification</b>	9,11,12	1,2,3,4,5,6,7,8,9,11	9,11	
<b>Manpower</b>	10,11,12	1,2,3,4,5,6,7,8,10	10	
<b>Marketing</b>	9,11,12	1,2,3,4,5,6,7,8,9,10,11	9,11	
<b>Financial Inclusion</b>	12,	1,2,3,4,5,6,7,8,9,10,11,12	12	1

The determinants for whom the reachability and the intersection sets are the same, occupy the top level in the ISM hierarchy. The top level determinants are these determinants which will not lead the other determinant s above their own level in the hierarchy. Once the top level determinant is identified, it is removed from consideration and other top level determinants of the remaining sub-group are found.

**Iteration 2**

	<b>Interaction</b>	<b>Antecedents</b>	<b>Intersection</b>	<b>Level</b>
<b>Development in Global Economy</b>	1,2,3,4,6,7,8,9,10,11	1,2	1,2	
<b>Political &amp; Social Factors</b>	1,2,3,4,6,7,8,9,10,11	1,2,5,6	1,2,6	
<b>Legal &amp; Regulatory Factors</b>	3,6,7,8,9,10,11	1,2,3,4,5	3	
<b>Mind-set of Regulator</b>	3,4,5,7,8,9,10,11	1,2,4,5	4,5	
<b>Ideology</b>	2,4,5,7,8,9,10,11	4,5	4,5	
<b>Needs &amp; Benefits</b>	2,6,7,8,9,10,11	1,2,3,6,8	2,6,8	
<b>Sharia'h Certification</b>	7,8,9,10,11	1,2,3,4,5,6,7,8	7,8	
<b>Nomenclature</b>	6,7,8,9,10,11	1,2,3,4,5,6,7,8	6,7,8	
<b>Modification</b>	9,11	1,2,3,4,5,6,7,8,9,11	9,11	II
<b>Manpower</b>	10,11	1,2,3,4,5,6,7,8,10	10	
<b>Marketing</b>	9,11	1,2,3,4,5,6,7,8,9,10,11	9,11	II

## 5. Conclusions:

Determinants of Islamic banking in India have its criticalness as a result of the fact that Islamic banking in India is rising as a political and social issue. This is fundamentally because of the fact that Islamic banking is viewed as a strict/philanthropy framework in the mentalities of the controllers and approach producers. The different degrees of determinants, are basic for better understanding and bear suggestions for the effective presentation of Islamic banking in India.

Islamic banking framework can be presented in India by creating factual philosophy about Islamic Banking and its operational angles. This can be additionally encouraged by a shared association with administrative approaches and regulations. Appropriate mindfulness creation about Islamic banking is the essential issue which should be engaged upon. The administration of India has perceived the advantages of items and administrations offered by Islamic banking to the huge undiscovered Muslim populace. A few activities were acquainted with cultivate similarity of the highlights like classification and prerequisite of Sharia'h accreditation with Indian financial framework. Notwithstanding, these improvements are in their beginning stage





right now. With the end goal of financial incorporation of Muslims just as non-Muslims, a marketing plan is required by the Islamic banks to offer changed financial items on the standards of Islamic banking. The issues of lawful and administrative factors should be maneuvered carefully and legitimate gelling is required between the highlights of Islamic financial items and current financial regulations in India. So as to make sans interest Islamic banking a reality in 23 India, a multi-dimensional strategy is required. This action plan ought to include mindfulness crusade, mediation of controllers, political will, improvement of educated labor, financial consideration and backing to the endeavors embraced by different people and institutions.

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