



OUR HERITAGE

ISSN: 0474-903- Vol-67, Special Issue-9

“GRCF Dubai International Conference On Sustainability And Innovation In Higher Education, Engineering Technology, Science, Management And Humanities” Organised by
Global Research Conference Forum, Pune, India
November 23rd and 24th, 2019



Emerging Islamic Banking: Need and Scope in India

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Abstract:-

Muslim Started interest free banking under the Islamic law called sharia, and now we all call it Islamic banking. Today that Islamic banking industry showing an average growth rate of 15%-20% annually and comprises around 400 institutions with an asset under management in excess of US \$1 trillion, according to Standard & Poor's Ratings Services the potential market is \$4 trillion worldwide, therefore this can be a tool for enhancing economic development in India. India is prospering, but Indians are not. On an average, there has been one farmer's suicide every 32 minutes since 2002 because of heavy financial burden. Twenty richest Indians earn as much as what 30 crore poorest people are earning, writes Bimal Jalan, the former RBI Governor (RAQEEB, 2012). With these two issues, the growing Islamic banking and Indian economic problem, this paper is going to investigate the growth of Islamic banking worldwide and will try to find out how an Islamic banking can benefit Indian society. The paper will try to answer two questions, why Islamic banking is growing & its present status worldwide, how an Islamic banking is beneficial for India and how it can help India in boosting economic development in order to enhance India's world competitiveness.

Keywords : Islamic Banking, Growing Islamic Banking Indian Economic, Growth etc.

Introduction:-

Financial institutions like ABN Amro, HSBC, American Express, ANZ Grindlays Bank, Chase Manhattan, Deutsche Bank, Nomura Securities and Union Bank of Switzerland now all have in-house Islamic units (Beng, 2004). Islamic banking operations now exist in about 100 countries. In 1960s when the first Islamic bank was established in 1963, in MitGhamr, in Egypt but it did not last long.

The first bank explicitly based on Shariah principles was established by the Organization of Islamic countries (OIC) in 1974, called Islamic Development Bank (IDB). This bank was primarily engaged in intergovernmental activities for providing funds for development projects running into member countries. Its business model involved fees for financial services and profit sharing financial assistance for projects (Shiyuti, Khairat, Mourtada & Ghani, 2012). The biggest phase of development of Islamic financial institutions occurred in 1980s. In 1985, the High Council of OIC (Organization of Islamic Conference) declared takaful /Islamic insurance as Shariah compliant. The new, wider spectrum of Islamic finance covers not only banking activities but also capital markets, capital formation and other financial instruments and intermediaries.

The biggest change in terms of adaptability came in 1991 when the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established to advise on Islamic finance standards all over the world. Later, the development of uniform standards was supported by other organizations such as Islamic Financial Services Board (IFSB) in Malaysia in 2002. Since then, Islamic finance is spreading all over the world at a tremendous pace from virtual anonymity to becoming a powerful competitive force in the world today (Shiyuti, Khairat, Mourtada & Ghani, 2012)

Objective of the Study



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

Research Methodology

The research is basically based on secondary data, 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 bank reports and also the analyst organizations.

Concept of Islamic Banking

Western bankers have said many times before the global crisis that savings and investments would soon dry up if interest were not paid. But this is due to identifying "rate of interest" and "rate of return". The Qur'an says: "God has permitted trade, but forbidden riba (interest)" (2:275). Therefore, it is only the fixed, or predetermined, return on savings or transactions that is forbidden, not an uncertain rate of return, such as the making of profit. Islamic Banking is based on Shariah the Islamic code of conduct, and also an Arabic term that often is translated to "Islamic law." Shariah provides guidelines for aspects of Muslim life, including religion, politics, economics, banking, business, and law. Shariah-compliant financing (SCF) constitutes financial practices that conform to Islamic law. IMF indicated that Islamic banking appears to be a complement to conventional banks, rather than a substitute (Ilias, 2010). The three Major principles of Shariah that are applicable to finance and that differ from conventional finance area:

- Ban on interest (Riba)
- Risk-sharing and profit-sharing
- Ethical investments that enhance society

Investments in industries which are prohibited by the holy Quransuch as alcohol, pornography, gambling, and pork based products, is discouraged.

Some Prevailing Islamic Modes of Finance

Mudarabah

An Islamic contract in which one side provides capital and other side provides the labor. 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 a violation of the contract terms or neglect from the part of the working partner.

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.

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.

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, customers can get the right to use the service of assets and equipment, forexample, heavy machinery, plant, motor vehicle, etc. for the fixed price and tenure.

Middle East and North African countries (MENA)

Islamic finance in the Middle East and North African (MENA) countries has now become an important element in their society's development agendas and it is also gaining ground in the financial landscape of the region as well as in the individual countries. It is also a growing business as it caters



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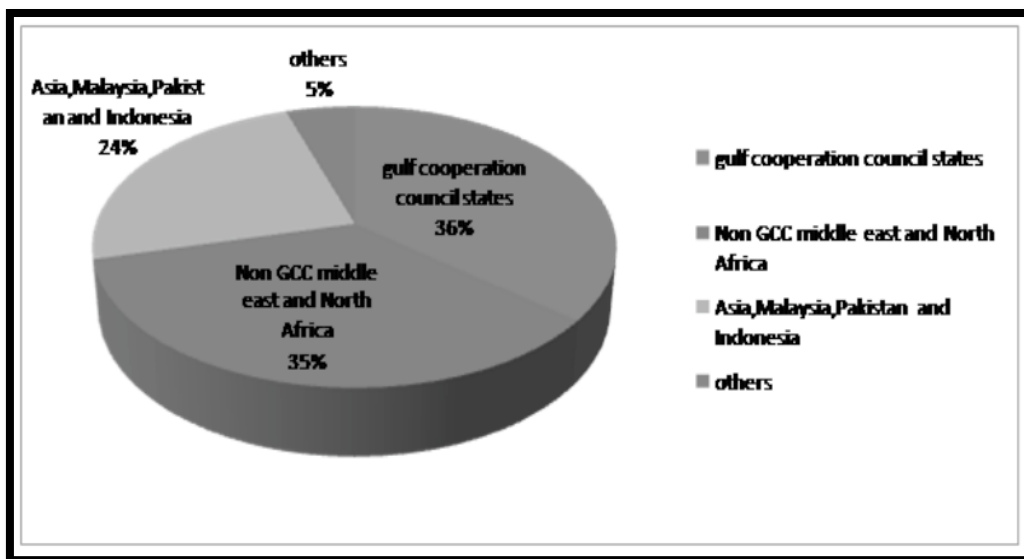
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to the financial needs of the people without conflicting with their social and religious values (Ali, 2011). Several banks are in race to unveil its new customer offerings for MENA customers, in response to growing interest in and customer demand for Islamic finance in the countries and across the regions.

In a report from **Ernst & Young**, Islamic banking assets with commercial banks globally would reach \$1.1 trillion in 2012, a jump of 33 per cent from the 2010 level of \$826 billion. In the Middle East and North Africa, Islamic banking assets increased to \$416 billion in 2010, representing a five year compound annual growth rate of 20 per cent compared to less than nine per cent for conventional banks, Ernst & Young said in a report. “As new geographies open up to Islamic banking, the Mena Islamic banking industry is expected to more than double to \$990 billion by 2015,” (John , 2011).



“The market of Islamic finance has reached \$1.3 trillion mark, in which the share of Islamic banking is 77 percent (\$1trillion), share of Sukuk is 14 percent (\$180 billion), share of Islamic funds 5 percent (\$64 billion) and share of Takaful is 1percent (\$12 billion) whereas the share of other Islamic financial products like Islamic Leasing, Mudarabah Companies, Islamic Microfinance and Islamic REITs is 3percent (\$44 billion).” Published in first International Forum of Islamic Banks hosted by Jordan 10/07/2012. (Mughal, 2012)

Scope of Islamic banking in India

- Potential to contribute substantially to economic growth
- Potential to boost entrepreneurship in India
- Potential to provide low cost, easily available, capital to small, poor entrepreneurs in India
- Potential to compliment conventional banking as well
- Potential to bring FDI in India
- Potential to contribute to their services to accelerate growth of micro, small and medium enterprises
- Potential to contribute specially to the growth of weaker sections of the society
- Potential of Islamic banking includes loans to businesses ethically, morally and beneficial to the society, causing speculative businesses to starve from a financial point of view (SALEEM, 2008).
- Potential to contribute in the poverty eradication through SME financing, rural and agricultural growth and their operational expansion. Through Individual and corporate zakat accounts, it can help in bringing social equality and social welfare in India.



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- Potential to reduce unemployment by providing SME sector loans, provide QARD E HASSAN schemes but taking into consideration all security factors (SALEEM, 2008).
- Potential to provide loans to those who do not have securities at disposal and better credit rating. (SALEEM, 2008)
- Potential to reduce the rocketing inflation through less artificial money creation and less funding of speculative businesses. (Saleem, 2008)

Conclusion

There is need of Islamic banking and also there is a huge scope of Islamic banking, this shows that the 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 communities. 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 at 'Interest Free Banking' through the broad economic kaleidoscope and not a narrow religious prism. An area which can directly affect the growth and development of Islamic banking in a country like India is the role of Government participation and intervention in providing necessary arrangements for legislation and legal framework (Ahmad, 2008). Last but not the least, the Islamic banking institution should research in Training and Development of people to make sure that they promote Islamic banking properly.

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