
INTEREST FREE ISLAMIC BANKING: A STUDY ON ITS SCOPE OF INCLUSION IN THE INDIAN FINANCIAL SECTOR

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Introduction

Banking is a financial organization that uses money placed by customers for investment, pays it out when required, makes loans at interest, and exchange foreign currency. The basic services a bank provides include receiving, collecting, transferring, paying, managing, exchanging, lending, investing, or safeguarding money for its customers. Now banking is not limited to supports business or commercial duties it also have social obligations towards society for development of any nation.

In India, A large part of Muslims has not been able to access the banking service because they cannot believe in the conventional banking system. For the participation of Muslims in banking system, Interest free banking system plays a very important role. Interest free banking is similar to Islamic banking. Islamic banking is based on the group principles of Islamic law (sharia) and guided by Islamic economic system. Interest free banking based on the two basic principles that are sharing of profit and loss. Interest free banking prohibited collection of interest, which is not permitted under Islamic law. Islamic banking is not just for Muslims. This system does not have any religious importance. It is designed to lay basic principles of an ethical and affordable economical system, which consequently effects the social-economic on the market it is used in. Islamic banking can provide tremendous possibilities to motivate the native Indian economic system with the contribution of previously omitted Muslims in Shariah complaint finance and at the same time could lead to significant inward investment to increase Indian future growth. Islamic banking would play a role in our economic development and growth of the country.

Literature Review:

There are good number of literary works are available which supporters about improvement of interest free banking in India, falling to remember its technical and governmental difficulties.

Because Muslims comprise over 15% of the individuals in this country of Native Indian, but they keep only 12% of records in 27 community industry, economical institutions and privately industry economical institutions Muslim keeps only 20% of all records¹. This clearly shows how the Muslims group are financially omitted in the society and perhaps the economical exemption of Muslims has far reaching effects for their socio-economic and academic uplift. Furthermore, even in this regard we would like to give reference of Sachar committee review in 2005; in his review he says that the possible purpose for economical exemption of Islamic group is due to a certain attitude existing in the economical industry, which has described Muslims and Islamic taken over area as “Negative Zone” and therefore, such economical institutions do not provide economic aid to this financially deprived strata.² Furthermore, even nationalized economical institutions think twice to sanction loan under government subsidized techniques to Muslims. May be because of this purpose there is an absence of community, personal and supportive economical institutions in Muslims taken over areas. Hence there social, economic and academic development are lacking and probably because of their faith also to the extent avoiding them to be a part appealing based program. We have also to consider that even after more than 40 years of nationalization of Indian banking system, 60 % of the individuals don’t access to official bank services and only 5.2 % of the towns have bank divisions. Minor farm owners, small investors, landless laborers, self-employed and disorganized areas enterprise, cultural community and women the common individuals of India keep falling in the financially omitted class.³ Here we can see the opportunity for interest free banking because this all we know that attention centered financial climate is generally beneficial for wealthy and you can say naturalist. If we believe in new as an alternate financial climate and provide opportunity to operate in our nation definitely the situation will be different, because interest free banking guarantees the wellbeing of the community through its brilliant idea. That is why Poornima (2009) says that unfortunately Muslims in India having a disproportionately small presence in economic activity⁴. So interest free banking is permitted in our nation, then job and job opportunities will increase that provide to opportunity to Muslims to uplift their lives. According to RBI former Governor Bimal Jalan, India is booming but Indians are not, because top 20 rich Indians earn as much as 30 crore people in the

¹ Salahuddin, Sajid(2014). Potential of Interest free banking system in India: An exploratory study. Global Journal of Business Management vol.8 No.2.

² Raqeeb, H Abdul(2008). Problem and prospectus of Islamic banking in India. Journal of Islamic finance and business.

³ Islamic Banking could be just what India needs, (2017). May 21 The Sunday guardian retrieved from www.sunday-guardian.com/analysis/Islamic-banking-could-be-just-.

⁴ Poornima, Tripathi(2010). New Delhi, Monday October . Inclusive banking

country.⁵ So, this is generally increasing the gap between inadequate and wealthy just because of imbalanced income submission that leads to power in few hands (capitalists) who seek always attention only. According to Chavli Rao, 2011 they says that due to non-accessibility to interest free banking in India kept away some team who are recognized as economically deprived to access economical facility. ⁶As for as its characteristics and opportunity are issue Islamic financial institutions have wide prospective and very good possibility estimated in recent report by Standard and Poor rating agency which revealed that the growth of Islamic financial institutions has outpaced that of conventional banking during the past several years making it one of the most powerful areas in international fund.⁷ Singh (2013) says that no question interest free banking has huge prospective and better performance ability globally, but as far as India is issue it still needs some strong policy decision to make it reality.⁸ A very interesting question always asked that if anti-Muslim countries can open the doors for Islamic banking which is multibillion businesses then why India is keeping away itself? The answer of this question, the offering of Islamic economical solutions requires a review of regulating structure, which is very typical task to change the law according to Shariah idea to allow the methods of Islamic economical in India. For that the views of Ben Frumin, simple regulatory changes could transform India into a religious hub for Shariah Complaint finance and clear the way for a much needed wave of investment into its infrasture.⁹ Therefore, after going through the above available literary works in this respect we would again say that Islamic banking has a huge prospective and very good possibility ahead in India. Everyone knows that mostly Muslims are economically marginalized and omitted not just of unavailability of interest free banking but because a number of them are inadequate. Hence the essential credit score to engage in modern economical and financial actions.

Objective:

Muslims in India are financially excluded and they are economically weak and backward. Shariah law is against conventional banking system and introduction of Islamic banking system can improve their economic condition.

⁵ Acheving Financial inclusion for Muslims in India: How can Islamic finance help? Retrieved from <http://www.ethicainstute.com>>webinar

⁶ Tiwari, Shriya(2012). Future of interest free banking India

⁷ Report shows growth in Isamic banking, Global trade review. retrieved from www.gtreview.com/news/asia/report-shows-growth-in-islamic-banking.

⁸ Singh. Pragma(2010). Islamic banking in India

⁹ Ben Frumic , The Dawn of Islamic Finance in the Prestigious India. Business Law Journal

1988 National Survey Report¹⁰

1. 57.3 % of Muslims live below poverty line with a monthly income of Indian Rupees 150 or less.
2. Only 4.4% of Indians in government jobs are Muslims.
3. Only 3.7 % of Indians who received financial assistance from the government for starting business are Muslims.
4. Only 5% of Indians who received loan from government owned bank are Muslims.
5. Only 2% of Indians who received loans from the government are Muslims.

2001 Sachar Committee Report: According to this, 2001 Census of India's Muslim population was about 138 million (about 13.4) of the total population and 2006 the Muslim population would be over 150 million. The report states "In Indian population of all major religious have experienced large growth among Muslims has been higher than average."¹¹

Age Sex Distribution of all population and Muslim population (Table 1.1)**India -2001****All religious****Muslims**

Age	Male	Female	Male	Female
0-9	23.2	23.1	27.1	27.4
10-19	22.4	21.2	24.8	23.8
20-29	16.5	17.2	15.9	16.4
30-39	13.8	14.4	12.4	13.0
40-49	10.3	9.7	8.8	8.3
50+	13.4	14.0	10.7	11.0

¹⁰Amrit Bazar Patrika, Calcutta, 11 may 1994 Muslims in India :past and present retrieved from islamawareness.net/Asia/India/muslims_in_india.html

¹¹ Summary of Sachar committee report, retrieved from sacharcommittee.co.in/sachar_report_summary.html.

Age not stated	0.3	0.2	0.3	0.2
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The Sachar committee estimates the proportion of Muslims to rise to 18% to 21% by 2101.

2001-2005, Bank Credit (Amount outstanding) %¹²

Parameters all districts in India	Public Sector banks			Private sector banks		
	Muslims	Other minorities	Others	Muslims	Other minorities	others
No.of accounts (%of total)	12.2	8.1	79.7	11.3	10.5	78.2
Amount outstanding(% of total	4.6	6.3	89.1	6.6	7.9	85.5
Amount outstanding per account(rs/account)	19837	40686	59055	111634	201840	274911
Share of population	13.4	5.6	80.9			

According to this report, it is clear that the other minorities share of Muslims in the amount outstanding is only 4.6% compared to as a high share of 6.3%.

The committee report state:-“The financial exclusion of Muslims has for reaching implication for their social –economic and educational upliftment. Step should be introduced to specially direct credit to Muslims, create transparency in reporting of information.”

2016, Ten years after Sachar report Population of Muslims in India ¹³

	Muslim	Overall	% of Muslims
2001	13.81cr	102.8 cr	13.4%

¹² ibid

¹³Sheikh, Z. (2016),”Ten years after Sachar Report,” retrieved from <http://indianexpress.com/article/explained/ten-years-after-sachar-report-no-majorchange-in-the-condition-of-indias-muslims-4444809/> on December 27, 2016.

2011	17.22 cr	121.08 Cr	14.2%
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2009, According to RBI annual report, deposits/ credit ratios by Schedule commercial banks (SCBs)¹⁴

Total aggregate deposit with SCBs	Estimated Aggregate deposits with SCBs by Indian Muslims	Total credit extended By SCBs	Estimated credit extended by SCBs to Indian Muslims	National average credit Deposit ratio at SCBs, for all communities	Desired extended amount of credit by SCBs, to Indian Muslims	Average credit deposit ration by SCBs to Indian Muslims	Estimated credit loss to Indian Muslims as percentage of their deposits	Estimated amount of credit loss by Muslim Community
3,834110 Cr.	2,91,392 Cr.	27,75,549 Cr.	1,30,451 Cr.	72.39%	2,10,942	44.77%	22.62%	80,491cr.

According to RBI record 2009, approximated amount credit damage 80,491 crores because they don't really have confidence in formal bank operating system.

Community wise estimated proportion of household having Bank Account , Post office Account Other Deposit Account and Kisan Credit in India (Jan –Dec 2013)¹⁵

Percentage of household saving

Religion	Bank Account	P/O Account	Other Deposit Account	KC Account
Hindu	73.57	14.11	9.65	5.25
Muslim	62.69	8.72	9.66	3.05
Christian	80.26	16.50	16.60	0.98

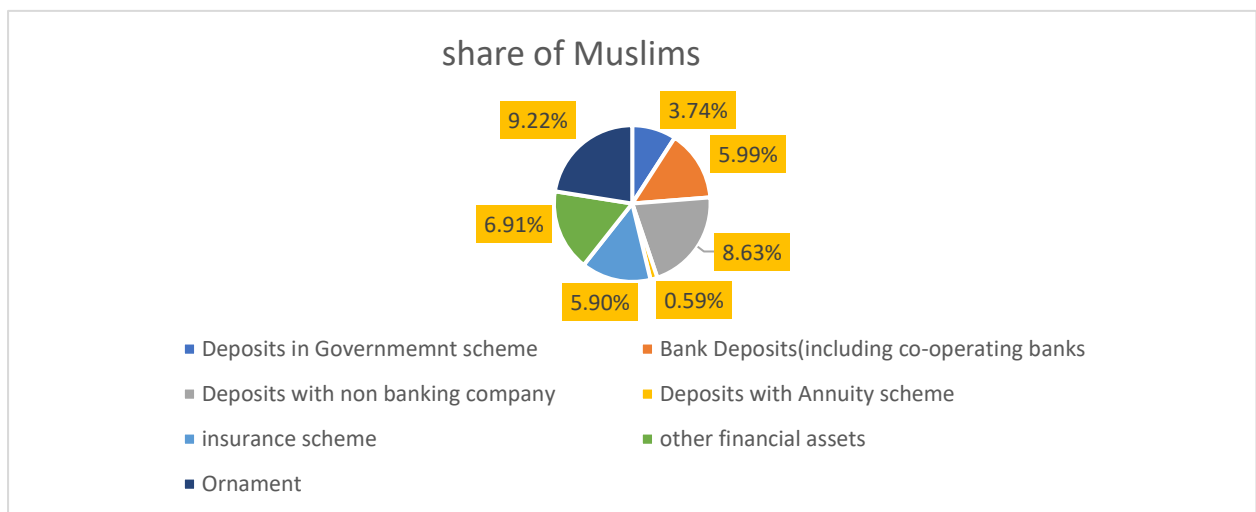
¹⁴ Reserve bank of India and financial exclusion of muslims, www.radianceweekly.com>story-details

¹⁵Financial inclusion of Muslims, IndianTomorrow.Net,24May2015.11.05 Am IST, www.indiantomorrow.net/eng/financial-exclusion-of –Indian-Muslims

Sikh	83.23	10.05	3.40	7.19
Jain	96.99	21.88	12.93	2.22
Buddhist	72.06	10.44	15.71	0.98

Indian government taken many steps for solving the problem of financial exclusion. Government launched many schemes like Pradhan Mantra Jan DhanYojan and Mahatma Gandhi National Rural Employment Guarantee Act 2002 etc. which makes the good world record to open the highest number of bank account. But Muslims are largely excluded from mainstream financial service so for due to their internal and external reasons. Therefore the participation of Muslims in banking is very low in comparison to other communities as in the given table.

Estimated share of Muslim households in total value of selected Financial Assets ¹⁶



Source: Estimated from All India Debt and investment Survey, 2013, NSSO

Muslims investment more than in the form of ornaments while their ration in banking, insurance and other conventional form of assets low as compared to their population ration mention in the above chart.

Kundu committee report (2014)¹⁷ : The committee notes: “Ministry of Minority Affairs

¹⁶ Islamic banking in India, Business Islamica, March 20,2016 retrieved from <http://www.zawya.com/mena/en/story/Islamic-banking-windows-in->.

¹⁷<http://indianexpress.com/article/india/india-others/8-yrs-after-sachar-muslims-still-out-of-g0...>

reports that the share of priority sector lending to minorities increased to 16.09% in 2013-14 of total PSL by banks in the country. However, Muslims could get only 44.31% while Sikh had 24.58%, Christian 21.87%

According to World Bank CGAP report (2015)¹⁸ finds that the national average of households with a bank account is 68% in urban area, while it is only 53% in towns where the Muslim population is above 50%.

Muslim population in India 2016, 184 million. Population in 2015, 180 million and 2011 population of Muslims 172.2 million. Expansion of Muslim populace in India-Regarding to statistics provided by census of India, Muslims have observed a descent progress in their society previous 50 years when compared with Hindu. In 1961 Muslim people 10.7 ratio of total populace whereas Hindu human population 83.4. In 2001 Muslim inhabitants 13.4 ratio whereas Hindu population reduced 80.5 of the total population. Based on the census of India, approximated advised that Muslims population has truly gone up to 14.5 by 2015 whereas Hindu populace drop below 80 ratio.¹⁹

SCOPE

In India the scope of Islamic banking is very large because 140 million Muslims live in India which is around 15 percent of the Islamic population. According to Standard & Poor's (S&P) rating services the potential market is \$4 trillion worldwide; therefore this can be a tool for enhancing economic development in India. This will provide opportunities to the laborers and the working class belonging to the community. There are several foreign banks operating in India, like Citi bank, Standard chartered bank, HBSC are operating interest free windows in several west Asian countries, USA and Europe. The growing awareness about the concept among Indian banks and it is generally felt that there is a huge potential market in India for Islamic banking. Several banks in the country have shown an inclination to undertake this form of interest free banking. However, unless proper regulations are in place to oversee this form of banking it will not be possible for scheduled commercial banks to follow the Islamic banking has been approved by RBI in India.

¹⁸Barrister Asaduddin Owaisi, pointing out lack of money in ATM IN Muslim areas is not communal , December 15, 2016, www.ndtv.com> opinion

¹⁹ Muslim population in India –Muslims in Indian states, retrieved from www.indiaonlinepages.com>population of India.

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14. Ibid
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