

ISLAMIC BANKING: A CASE FOR INDIA?**N. Dixit¹ and T. Sahu²**¹R.B.Mundada College of Arts, Commerce and Science, Pune²International Institute of Management Studies, Pune¹drnalindixit@gmail.com**ABSTRACT**

Islamic banking is a banking system as per the Shariat. The Islamic Law or Shariat prohibits paying any fee for renting of money (called riba) for explicit timeframes. So, the Islamic banks essentially offer accounts which share profit and loss from the investments rather than interest. These investments avoid certain sectors such as alcohol, drugs and weapons and other high risk and speculative activities. There are several advantages for India to start Islamic banks such as financial inclusion, increased participation of Muslim community and increased investments from West Asia. That said, Islamic banking needs to clear a few hurdles such as amendment of banking laws and opposition from sections supporting uniform civil code. It will be interesting to see if India can get past these hurdles and benefit from Islamic banking.

Keywords: Islamic banking, Shariat, Interest, Investments.

Introduction

Islamic banking is a banking system as per the Shariat. In Islam, money has no intrinsic value – money, therefore, cannot be sold at a profit and is allowed to be utilized according to Shariat. The Islamic Law or Shariat prohibits paying any fee for renting of money (called riba) for explicit timeframes. It also prohibits any kind of interest in organizations that are considered haraam or against the standards of Islam. It is largely accepted that these standards have been gotten from the Quran and have been in practice since then (Rao, 2016).

Islamic Banks work on the standards of an interest free banking. Riba or interest under Islamic Law basically means anything in "excess" – the investor ought not make an "undue" profit from the hard work of the other. In any case, it is allowed to follow a system of reasonable profit and return from investment where the investor takes a risk that is very much calculated. Accordingly, Islamic banks make available accounts which give profit or loss instead of interest rates. The banks utilize this money gathered by them and put resources into something that is Shariat compliant, that isn't haraam and doesn't imply high risks. In this way, organizations including alcohol, drugs, war weapons and so on as well as all other high risk and speculative activities are denied. Islamic Banking, therefore, acts as an agent by gathering the money on behalf of its customers, putting them in Shariat compliant

projects and sharing the profits or losses with them. The Dow Jones Islamic Market Index came into being in the year 1999 for investors willing to put resources into Shariat compliant projects.

There are different items in Islamic Banking that cover the necessities and prerequisites of the consumers. Some of them are Mudarbah (profit sharing – one party provides finances, the other provides expertise), Musharaka (joint venture – both parties share everything equally), Murabaha (cost plus profit), Ijara (letting on lease), Istisna amongst others.

Literature Review

There is considerable research on the topic of Islamic banking. Below are a few abstracts from the recent literature.

Rasulev et al. (2020), have posited that, modern globalization actuates numerous exercises that expand the effect of globalization on the actual idea of human civilization. The contemporary world has steadily fostered the attributes of a sort of global self-regulation, which is as yet restricted in scale. International corporations that utilize Islamic banking are joined into the global processes of world civilization, keeping up with socio economic equilibrium on a worldwide scale. The incorporation of the confessional factor in the cycles of globalization, the making of a single connection of the planetary scale shows the development of another circumstance in world society, which in the twenty-first century

started to address a novel global economic system with self-regulation, in view of universal feedback mechanisms.

Biancone et al. (2020), have argued that, Islamic banking and finance (IBF) have been the subject of central scientific interest, as shown by the huge expansion in publications regarding the matter lately. In the current paper, the utilization of the bibliometric analytical technique is proposed to look at the exploration on IBF. The motivation behind this investigation is to do a bibliometric analysis of the multitude of publications on Scopus comparative with IBF. This investigation shows that the writing on Islamic finance centers around banking, rates, comparisons with traditional banks and portfolios, analysis of governance and control structures. In the journals thought about in this paper from which the example of chose articles comes, it very well may be concluded that the ethicality of the finance and the bank is placed in second place.

Arshed and Kalim (2020), have opined that, the motivation behind the investigation is to survey the market of Islamic banking deposits. As banking intermediation guarantees efficient allocation of excess capital, yet stable accessibility of deposit resource assists banks with overseeing long term capital structure portfolio. In contrast to ordinary banks, Islamic banks likewise need to meet the Shariah prerequisites. This examination works under the area of Islamic economics and means to investigate the demand and supply model of deposits of Islamic banks utilizing information from financial articulations, World Development Indicators and Thomson Reuters. The outcomes utilizing panel feasible generalized least squares model with two-way fixed effect showed that deposits are supply elastic and demand elastic concerning returns on deposits. While different factors like inflation, money market rate and information essentially influence supply of deposit and banking profitability and Islamic financial development fundamentally influence demand for deposits. This investigation reasons that the global Islamic banking deposit market is stable and converging consequently, banks should guarantee their relationship with price while contriving a strategy to draw in deposits.

According to Istan and Fahlevi (2020), macroeconomic factors and internal factors are factors that influence sharia banking. These factors are GDP, inflation, and interest rates, FDR, OER, which can influence straightforwardly or in a roundabout way, the financial performance of sharia banks in Indonesia. The result has shown GDP has a significant positive effect on ROA, it is matching with a few past research. Inflation has no significant and adverse consequence on ROA, in light of the fact that when inflation central bank will offer arrangement to build BI rate, and sharia bank doesn't influence with interest rate since interest is riba, interest rate has no significant effect on ROA on the grounds that sharia bank doesn't effect with interest yet use profit and loss sharing to financing, so in macroeconomic the result just GDP has significant and positive effect on ROA. The result has shown FDR has no significant effect on ROA except for has positive effect and the result match with past research in relationship FDR and ROA, OER has a significant adverse consequence on ROA. According to Bruin et al. (2020), this study aims to investigate the degree to which internal marketing influences employees' perceived ability to deliver service quality in the Islamic banking industry in Oman. Moreover, the influence of perceived service quality on perceived customer satisfaction is set up. The discoveries show that internal promotion, internal process and internal purpose are enablers of employees' perceived ability to deliver service quality in the Islamic banking industry of Oman. Moreover, service quality was found to affect perceived customer satisfaction in Islamic banks.

Moreover, Zafar and Sulaiman (2020), Nomran and Haron (2020), Mensi et al. (2020), Sobarsyah et al. (2020) have dealt with various aspects of Islamic banking.

How does India benefit from Islamic banking?

Introduction of Islamic Banking was mooted by Raghuram Rajan in his report on the Financial Sector in the year 2008 where he suggested that interest-free banking procedures ought to be worked on a larger scale to offer admittance to the individuals who can't get to banking services, including those belong to

economically disadvantaged section of the society.

There are many benefits in introducing an Islamic window in the banks. For instance, larger part of organizations in the Stock Exchange are Shariat compliant (this number is more than the Shariat complaint organizations on the Stock Exchange in Malaysia), subsequently this would bring about attracting huge funds in the domestic market alone.

An Islamic Banking window will empower numerous from the Muslim community to approach and invest in projects thereby mobilizing huge measure of capital which they may not be willing to place in the banks. This additionally implies that India will actually want to draw in huge investments from West Asia and from the individuals who invest only in Shariat agreeable projects.

However, the Indian banking laws should be amended to incorporate the provisions relating to Islamic banking. For instance, the Banking Regulation Act requires installment of interest which is against the principles of Islamic Banking. The Act likewise determines "banking" to mean accepting deposits of money from public for lending or investment, subsequently excluding within its ambit the instruments of Islamic banking that advance profit and loss.

The proposition of RBI for opening of an Islamic Banking window has gotten blended

reactions from numerous particularly in the light of the Uniform Civil Code debate and is probably going to take a political point instead of a financial one.

Conclusion

Islamic banking is a banking system as per the Shariat. The Islamic Law or Shariat prohibits paying any fee for renting of money (called *riba*) for explicit timeframes. It also prohibits any kind of interest in organizations that are considered *haram* or against the standards of Islam. So, the Islamic banks essentially offer accounts which share profit and loss from the investments rather than interest. These investments avoid certain sectors such as alcohol, drugs and weapons and other high risk and speculative activities. There are several advantages for India to start Islamic banks. First, it will help the financial inclusion cause. Second, the Shariat compliant companies will attract investments. Third, Muslim community will likely participate the Islamic banking. Lastly, India will attract huge investments from West Asia. That said, Islamic banking faces certain hurdles before it starts in India. For Islamic bank to become functional, Indian banking laws need to be amended. The other opposition is from the sections which support uniform civil code for India. It will be interesting to see if India can get past these hurdles and benefit from Islamic banking.

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