International Journal of Research in Engineering, Science and Management
Volume-2, Issue-1, January-2019
www.ijresm.com | ISSN (Online): 2581-5792

Islamic Banking in India: Prospects and Challenges

Jahfar Puthan Peediyekkal
PG Student, Department of Commerce, Aligarh Muslim University, Aligarh, India,

***Abstract*: The Economy of India is a developing economy characterized by the co-existence both public and private participants. It is the world's sixth largest economy in terms of nominal GDP and third largest in purchasing power parity. Contradictory to the fact that, India May to become the country with the worlds' highest number of people living in extreme poverty, the state should address all society with justice, brotherhood, and social welfare. To cope with the global economy, India adopted a new economic policy, consisting of liberalization privatization and globalization. Subsequently banking sector in India also reformed by way of deregulations, opening of new banks, inward of foreign investment in the Indian banking sector. The present banking system prevailing in India is not sufficient to meet the requirements of all sections of society. Islamic banking (based on Islamic sharia) can play a key role in providing economic justice and eliminating disparities. The study examines the development, prospects, and makes an attempt to lay emphasis to adopt Islamic Banking in India because of its huge potential investments, and also examine the possible hurdles to be addressed for accommodating Islamic banking in India for inclusive development and wellbeing of the society.**

***Keywords*: India and Islamic Banking, prospects, challenges, Inclusive Development**

1. Introduction

Islam provides an economic outlook on the fundamental principle of social order, justice, and economic affluence. Islamic banking is based on the doctrine of shariah, also termed as Maqasid al Shari'ah (Objectives of Sharia'ah). Shari'ah encompasses the holistic view of Islam and integrates the code of conduct life of individual and society as a whole. Islamic banking forbids the payment and acceptance of interest (riba or usury) for providing equal and legitimate distribution of wealth and inclusive development of the society. The conventional system of banking is based on minimization of risk and maximization of profit. On the contrary, Islamic financing is performed as a social financial system so as it is highly attracted by Non -Muslim customers also, for them that stands as safe and connected to the real economy. Economic argument of traditional banking leads to the division among poor and affluent and economic indicator like inflation creates economic instabilities. Islamic banking is still in its Adolescence and growth of Islamic banking is tremendous and impressive.

Muslim countries and other western countries are adopted Islamic banking in their economic system.

Few countries like India still not implemented Islamic banking, it will result in too loose of huge potential investment.

A. Research Questions

- How to understand the conceptual principles of Islamic banking?
- What Islamic banking and how it distinct from conventional banking?
- What are prospectus and challenges in accommodating Islamic banking in India?

B. Purpose of the Study

The purpose of this study is to understand the concept of Islamic banking and to reveal the potential of

Islamic banking in India and paper checks the feasibility of operating Islamic banks with respect to the prevailing conventional banking system.

- To explore the insight of Islamic banking concepts and principles.
- To understand the feasibility of interest-free banking in India.
- To understand the modus operandi of Islamic banking.
- To evaluate the recent developments in Islamic banking in India.

2. Principles of Islamic Banking

Islamic bank is an institution conducting its business in compliance with the Shariah principles. Islamic banking provides interest-free banking. It mobilizes the financial resources and invests it in Islamic ally acceptable activities. Major principles of Islamic banking are discussed below.

1. Prohibition of Interest or Riba

Principles of Islamic banking are derived from the Holy Qur'an. Islamic bank prohibits the acceptance and payment of interest called riba in Arabic. The rationale behind it that, profit for the sake of profit does not create any sort of benefit to the society as a whole. Charging interest leads to the exploitation of poor and fewer fortune people and earning a profit without any risk also not legitimate. The shariah prevent any type of agreed and pre-agreed amount over and above the principal amount from the borrower.

2. Ethical standards Islamic bank invests their money only in those activities which are permissible by the

shariah. Conduct business of alcohol, gambling, and speculation are prohibited in Shariah. Those transactions which do not comply with the shariah haram.

3. Social and moral values

According to Sharia, Zakath is the best tool for attaining social equality and justice. As part of corporate social responsibility, an Islamic bank is obligatory to pay zakat. This will result in financial inclusion and economic growth of the country.

4. Liability and business risk

One of the important principles of Islamic bank is that Profit and loss gained from venture should be shared among the lender and the borrower. There no any prefix in terms of return.

3. Major financing instruments of Islamic banking

Shariah introduced a number of financing instruments for facilitating the economic need of the people.

Few of them which plays a pivotal role in replacing the conventional interest-based banking instruments are.

1. "Musharaka" (Equity Partnership)

"Musharaka" is an Arabic word which literally means sharing. In a business context, it means the joint venture or partnership. "Musharaka" is an agreement between two parties agreed to share profit and losses on an agreed profit sharing ratio carried on the business. It is the mutual contract between two parties backed by all essential elements of the valid contract. In "Musharaka" profit is distributed on the basis of actual profit and loss is shared according to the proportion of investment made by the parties.

2. "Mudarabah" (Joint Undertaking)

"Mudarabah" is another form of financing tool based on profit and loss sharing principle. Under "Mudarabah", one party give money to another party for investing in profitable ventures. The one who gives the money is known as the Rabb-ul-mal and the other who carried out the management and work is termed as Mudarib. The Rabb-ul-mal does not have any right to participate in the management of Mudarib. In case of any loss, the Rabb-ul-mal alone has to suffer, because the Mudarib has never invested any money in business. In "Musharaka" partners mix up their share of capital to one, and all assets of the "Musharaka" become in joint ownership on the basis of the investment. The actual profit of the "Mudarabah" shared among the Rabb-ul-mal and Mudarib on a predetermined ratio.

3. Combination of "Musharaka" and "Mudarabah"

The combination of "Musharaka" and "Mudarabah" states that Rabb-ul-mal and Mudarib both invest their money. Under this situation, both "Musharaka" and "Mudarabah" combined together. Mudarib himself allocate a portion of profit on his investments and also a portion for his active involvement of business activities in terms of management and work.

4. "Murabaha" (Cost plus Sale)

"Murabaha" is an important tool of Islamic banking. If a seller agrees with a buyer to provide him a specific commodity on a profit margin added to the cost incurred to the seller is called "Murabaha" transaction. In "Murabaha" seller disclose the actual value of the commodity and add some profit margin thereon. The payment made in "Murabaha" may be on the spot or maybe on a subsequent date prescribed by the parties. Therefore "Murabaha" does not consist the deferred payment.

5. Bai'mu'ajjal (Sale on Differed Payment)

Bai'mu'ajjal (Sale on Differed Payment) contract is valid if the due date of the payment is fixed in a clear cut manner. The due date can be fixed either with reference to a particular date or a particular period fixed which should be unambiguous. If the exact date is unknown or uncertain, the sale will be void.

6. Ijarah (Operating Lease)

Leasing is a contract whereby the owner of the property its usufruct to another person on an agreed consideration for a specific period of time. The ownership of the property will remain with the seller. Only the right to use the property move to the lessee. Thus anything which cannot be used without consuming cannot be leased out. Therefore, the lease cannot make any effect on money, eatable items, ammunition, and fuel.

7. Salam and Istisna (forward sales)

The validity of the sale in shariah is depended on the commodity which is intended to be sold, must be in a physical or in constructive possession of the seller. A valid sale should fulfill the basic three conditions.

1. The commodity (intended to be sold) must have physical existence, a commodity does not exist, cannot be sold.
2. The seller should have the ownership of the commodity.
3. Mere ownership of the property is not sufficient, they should have the possession either physically or constructively.

8. Salam contract

Salam is the sale whereby the seller undertakes to supply some specific good at a future date, but the payment is made fully at the spot in advance. In Salam, the supply of purchased good is deferred. Islamic bank use Salam contract for financing especially for the agricultural sector. Price of the Salam may be fixed at a lower rate than the price of the commodity delivered at the spot. The difference between the two parties may be the profit for the bank.

9. Istisna (Manufacture Contract)

Under Istisna, the commodity is transferred before it comes into existence. When a manufacturer places an order to another manufacturer to produce a certain product for the purchaser. If the manufacturer undertakes the production by using his own material, the transaction of Istisna came into existence. It creates a moral obligation on manufacturers to produce the goods. Price and necessary specification of the commodity (intended to be produced) should be fixed between the parties. Islamic banks apply this principle, especially in housing finance.

4. Global scenario of Islamic banking

Islamic banking is the value based banking aims at ensuring moral and ethical well-being of the society.

According to the Islamic financial service board (IFSB), total assets of the Islamic banking industry grew by 8% USD 1573 billion to USD1699 billion in 2018 Q1. S&P Global Ratings believes the global Islamic finance industry Will expanded by about 5% in 2017 compared with about 2% the previous year, accordingly, with strong support from the Sukuk market. Most of the growth stemmed from jumbo Sukuk issuances in some Gulf Cooperation Council (GCC) countries. However, sluggish economic conditions in certain core Islamic finance markets weighed on Islamic banking growth, with Malaysia, Indonesia, and Turkey being the main exceptions. Since the twentieth century started the development of the Islamic economy in the world. The journey of Islamic economy starts from the Middle East and subsequently it has scattered to neighboring countries. As a result of that, Islamic banking and finance become one of the most growing industries having Islamic finance over more than 60 countries. Data compiled by the Union of Arab Banks' research department shows that just 10 countries account for 95% of the world's sharia-compliant assets. Iran leads the way with 30% of the global total followed by Saudi Arabia (24%), Malaysia (11%), the United Arab Emirates (10%), Qatar (6%), Kuwait (5%), Bahrain (4%), Bangladesh (1.8%), Indonesia (1.6%) and Pakistan (1%). (Doamat 2018).The Islamic banking has found its way right from the developed western world like the United Kingdom to the Asian giants like Japan and China. The world is moving toward profit and loss sharing through recovery and resolution regime implementation. This is an outstanding feature of Islamic finance. Islamic finance holds enormous promise because of the growing demand from both Muslims and non-Muslims who are seeking ethical financial services. Despite challenging global economic conditions, Islamic financial institutions (IFIs) recorded with a huge amount of asset and growth for Islamic banks outpacing that of conventional banks, particularly in the key regions of the Middle East and Asia. In the Middle East financial and banking sector, IFIs achieved balance-sheet growth of 6%, compared with 4% for conventional banks. The difference was even greater in Asia, especially in the larger markets of Indonesia and Malaysia. Profitability for IFIs remains very good, with institutions improving their asset and liability management, thus widening their margins, reducing impairment costs and capitalizing on wider fee income. (STUBING, 2018). After the banking crisis in western world Islamic banking got much attention in global banking practice. Islamic banking despite its label is not limited to Muslim countries. It has shown potential growth globally including Europe, total worth Islamic banking asset worldwide predicted to grow to $3.5 trillion by 2021 from $2 trillion currently (Thompson 2016). There are 622 institutions providing Islamic finance courses worldwide and 201 provide Islamic finance degrees. Europe having 109 institutions providing Islamic finance education. 63 percent of them in the UK. Britain issued its first Islamic bond (Sukuk) worth £200 million (over $250 Million). The UK has 3 million Muslim population, The UK is a leading hub for Islamic finance industry in Europe consisting of fully shariah-compliant retails bank like al- Rayyan bank (earlier Islamic bank of Britain). The economic crisis all over the world leads to having an alternative banking system resulted in the idea of Islamic banking to the western world. The Conventional banking system was an utter failure in handling the crisis situation. Irrational exuberance, deregulated loan granting and illegitimate application of financial derivatives resulted in loose of consumer confidence. Therefore it drew the attention of Islamic banking.

5. Evolution of modern Islamic banking

Table 1
The most important historical aspects of Islamic banking

1940	Establishment of Patni cooperative credit society in Surat and Muslim fund in Baoli in Rampur. An early attempt to establishing an Islamic bank
1963	The establishment of Mit Gharm Savings Bank by an Egyptian Ahmed El Naggar in a small town of Egypt. which created great influence in the propagation of Islamic banking;
1963	The Pilgrim Saving Corporation of Malaysia was established. Modern principles of Islamic banking were applied.
1975	The Islamic Development Bank, the first international bank practicing on Islamic principles with the founding members of 22 countries.
1975	Establishment of Dubai Islamic bank
1977	Establishment of Kuwait finance house
1978	First Islamic bank in Europe, Luxembourg.
1979	The Islamic Insurance Company – it was the first Islamic insurance company;
1986	The first investment fund that invested only in companies working under the principles of Shariah was established in Indiana state (US);
1990	Shell MDS in Malaysia established an Islamic bonds equivalent, which is considered to be the beginning of the Islamic Stock Exchange Market;
1991	The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in 1991. The goal of the organization was to establish general accounting and auditing standards for all Islamic companies;
1996	The Citi Islamic Investment Bank (a subsidiary) in Bahrain was founded by Citibank; it provided services to its customers according to Shariah requirements. It was the first commercial Western bank that entered the Islamic market with specific products and services;
1999	The Dow Jones Islamic Market Index was introduced; this index is considered to be the first stock exchange market index and it tracked the return on Islamic investment funds;
2002	The Islamic Financial Services Board was established; it was the first Islamic organization that regulated the activities of Islamic financial companies;
2004	The Islamic Bank of Britain became the first Islamic bank, that expanded beyond the borders of the Muslim world

Source: Prepared by the author on the basis of past studies.

History of modern Islamic banking can be traced from the seventh decade of the twentieth century, wherein 1963, in Egypt and Malaysia, the first edition of Islamic were established. The first shariah-compliant Islamic bank was established by the famous economist Ahmar al Naggar, Established Mit Gharm Saving bank in Egypt. Due to the non-compliance with the governmental policy of Egypt. The bank was closed, but in the same year, the Pilgrim Saving Corporation of Malaysia started its operation in the country although it was not a bank it was applied all principles of conventional banking. The main objective of this cooperation was the providing savings, advancing and remittance facilities to the Muslim believers for the journey to the holy city of Mecca. The pilgrim saving cooperation of Malaysia widened its scope of operation. If in the first year of functioning the bank had 1 281 depositors, after 22 years from its establishment, i.e., in 1985, the bank had 65 subsidiaries in the country, and the number of people who were saving money for their pilgrim journey to Mecca increased to 867 220. After several years, the corporation was renamed to Lerubaga Tabung Haji and is still functioning today (Çizakça 2011). The data about the most important Shariah banking aspects are represented in Table 1.

6. The organizational model of Islamic banking

The three organizational models that a bank can adapt according to their span of activities are; Universal Banking Model, the Bonafide Subsidiary Model where all the subsidiaries have their own capital and separate operations, and thirdly, the Bank Holding Company Model, where a bank holds separate organizations owned by it for different activities. Examples include investment banking, Murabaha, or trade transactions and commercial banking. The first two models, Universal Banking and Bonafide Subsidiary Models, may not be best suited for Islamic banks due to the nature of their operations. The best-suited model for Islamic Banks is the Fully Owned Subsidiaries Model. If they establish any number of subsidiaries for various types of operations like investment banking, commodity trade-based banking, lease-based banking, Istisna'a-based banking, and normal commercial banking. Islamic Financial Institutions can also have special branches for the industry, agriculture, commerce, real estate, and

Takaful businesses. The modes available to Islamic banks or their subsidiaries in order of preference would be, Musharakah or equity participation, Mudarabah, profit-sharing and loss-absorbing, three Ijarah, four, Bai Mu'ajjal or Liz'mnMu'ajjal which is a mode of trading in real goods and sale contracts with a deferred payment. And lastly, Bai' Salam and Istisna'a or deferred delivery of goods. The type of deposits in Islamic Banks. Islamic Banks must innovate techniques in order to mobilize deposits and safeguard depositors from loss. The two types of deposits offered by Islamic Banks are Current Deposits and Saving Deposits. The characteristics of Current Deposits are no return is given on current accounts because such deposits are like non-interest bearing loans given to the Islamic Banks. The loans cannot carry any return. They are kept as Amanah; but if the earnings of such accounts are used by banks in their business, they are treated as loans that have to be paid back without any increase or decrease. Banks shall guarantee the principal amount of the deposits, and banks and the depositors shall agree at the time of the account opening whether the bank is allowed to use the money in its business or not. The other type of deposit is the Savings Deposit which is also known as Investment Deposit or Term Deposits. The characteristics of this Saving Deposits in Islamic Banks are all remunerative deposits In Islamic Banks including saving deposits shall be accepted on a profit and loss sharing basis. The ratio of the profit distribution between the bank and depositor shall be agreed at the time of the account opening, subject to the conditions of Shariah. Deposits of longer duration shall be compensated through the assignment of higher weights. Regulators may notify a range within which these allocations could be made. The following are the other considerations that should be taken into account. Deposits of risk-averse clients are accepted either in the current accounts or by creating special pools or establishing Murabaha and leasing funds where they will be treated as Rabbul-mal, the capital providers. And they get a quasi-fixed return out of the profits or rentals earned by the respective funds. Risk-prone deposits are treated as part of the bank's equity and involve a weighting system on a daily product basis. Specific investment accounts can be managed according to the saver's instruction on a Mudarabah or Wakalah basis. And banks May set-up closed or open-ended mutual funds. Operation of Islamic banking is based on the principle of risk sharing between the lender and the borrower. Acceptance and payment of the deposit of interest are prohibited under Islamic banking and all business transactions are backed by real assets. In conventional banking, money is treated as a commodity whereas Islamic banking treats money as a medium of exchange. Islamic banks cannot perform certain transactions which are prohibited by shariah like the business of alcohol, speculation, and gambling. The conventional way of the trading system still have relevance in Islamic banking transactions which are classified as trade-based (buyer-seller relationship and Co-partnership), rental based (lessor-lessee relationship), and equity-based (partnership and joint venture relationship), and Islamic bond (Sukuk), and Islamic insurance (Takaful).

7. The major distinction between conventional banking and Islamic banking

Islamic bank prohibits the acceptance and payment of interest called riba in Arabic. The rationale behind it that, profit for the sake of profit does not create any sort of benefit to the society as a whole. Charging interest leads to the exploitation of poor and fewer fortune people and earning a profit without any risk also not legitimate .usually people approach conventional banks for getting a loan to invest in productive purposes. Due to the unfavorable condition, the borrower makes default in repayment will lose the valuable collateral. Islamic bank provides loans and advances to the client on the basis of risk sharing and conventional bank, on the other hand, on the basis of collateral security pledged by the client. Islamic banks treat the borrower as a partner to their business whereas conventional bank considers the borrower as a potential source of profit. After the careful evaluation of proposed financing project, to the consumer. Conventional banks look towards the creditworthiness and reliability of consumer. There is no predetermination of return on capital in terms of interest. It is based on the sharing of gained profit and loss. Islamic banking devotes more emphasis to the viability of the project, not to the collateral pledged by the customer. This will result in the rapid development of Micro- Small and Medium Enterprises. Shariah law prohibits the lotteries and bets because the parties included in the deal, one party gain the profit on the cost of other. Shariah gives a holistic view of Islam, it forbids the gambling and speculation business. Gambling and speculation make some people rich and economic welfare is not created.

Table 2
Conventional banking vs. Islamic banking

Conventional banking	Islamic banking
The functions and operations are based on the capitalistic principles which are fully man-made.	The functions and operations are on the basis of Shariah principles.
The basic function is the advancing loans and gets back the principle and compound interest after a certain period	The basic function is a partnership in the business of customer by evaluating the productivity and profitability of the business.
A fixed rate of interest is charged on the user	Sharing risk-return between investor and user of the fund.
In case of default, additional money is charged in terms of penalty	No any extra charge from defaulters, bank charge a small compensation which is used for charitable activities.
More emphasis is given to the growth and popularity of the bank. No effort is made for ensuring equity and justice in the society.	Emphasis goes to the public interest. The main objective is to ensure the equity with inclusive growth
The money borrowed from the bank can be used for any sort of activities.	The money borrowed from the bank only used for shariah-compliant purposes.
Income by way of providing loan is fixed by a specific rate of interest.	Income from the loan is not predetermined, because of profit-loss sharing principle.
For sanctioning the loan, the bank gives more emphasis to the creditworthiness of the customer.	Bank gives emphasis to the viability and profitability of the project and public interest.
The relationship between the parties is the creditor-debtor.	The relationship lies in the form of buyer and seller/partners.
All deposits are guaranteed by repayment of principle.	The deposit based on the principle of AL-Wadiah is guaranteed for repayment, whereas the principle of Mudarabah is not guaranteed.

8. Rationales for implementing Islamic banking in India

India over the last centuries, is the country of different religions, cultures, beliefs, linguistic heritages, castes, and socio-economic backgrounds. The prominent rulers of India were successful in accommodating these differences and people use to live on the principle of unity in diversity. Even after the independence, India sticks on to the secular, democratic principles to bridge the gap between the citizens and provide the equal right to all, irrespective their religion cast creed and their economic status. Islam is the second largest religion in India with 14.2 % of the country's population or roughly 172 million people identifying as adherents Islam (Census 2011). The population of Indian Muslims projected to rise to more than 311 million by2050 (11% of the global total), making it the country with the largest population of Muslims in the world. (Pew research center, 2015). Current situation of Indian Muslims is very vulnerable with the highest percentage of illiteracy, higher unemployment and low level of income and higher poverty rate than the majority Hindus. By accommodating of the full-fledged Islamic banking system in India will be a gigantic leap forward towards the minimization of economic disparity between Indian Muslims and rest of the religion. India has never implemented Islamic banking but Islamic finance has been experienced from time to time under non-banking financial companies and Shariah-compliant products are offered by certain companies. However, in the recent past, some remarkable initiative is taken by certain people to propagate the idea of Islamic banking in India. There are several benefits in developing Islamic banking in India. Those benefits include financial inclusion of the country’s largest minority community. Introduction of Islamic banking not only deal with the issues of interest rate but also improve the participation of in the banking related banking activities. Thus there seems to be an enormous potential for banks to introduce Islamic banking under Pradhan Mantra Jan Dan Yojana (PMJDY), (Charan Sing.2015). Islamic banking will also facilitate the entrepreneurship development for all entrepreneurs who had the sound proposal for starting business operation, but the scarcity of collateral security. By providing economic aid to economically backward Muslims for the promotion of their own ventures will result in greater employment opportunity and higher living standard to the Muslim community

9. Benefits of introducing Islamic banking in India

A. Efficiency

Conventional banks provide loans to those who are more creditworthy, banks charges a predetermined rate of interest on the loan, also need collateral security to get sanction the loan. In contrast, Islamic banks provide project finance to more productive and profitable investment avenues. Islamic banks never charge interest from the borrower, instead of that bank become the partner to the business on the basis of profit loss sharing principle. Thus conventional banks give much importance to the creditworthiness of the borrower Islamic bank gives importance to the profitability and viability of the project. Islamic banking is more efficient because the funds are directed towards the high yield investment avenues.

B. Stability

The conventional banks believed to be unstable because of the borrower subject to payment of a specific rate of interest at regular intervals. It is not considered whether the revenue is generated or not. Islamic banking overcomes this drawback in the form of profit loss sharing. The global financial crisis witnessed during 2007-09. Redefined the global financial market in favor of Islamic banking.

C. Inclusive growth

Introduction of Islamic banking in India will result in balanced economic development and termination of economic disparities. Interest-free based banking not only beneficial to the Muslim population in the country but also for non-muslim by way of diversified investment avenues which are based on equity and interest-free. It an ultimate solution for the poor and socio-economic conditions of the Muslims in India which is highlighted in the Sachar committee report. Islamic Banks can also provide cheap credit without any collateral which helps to penetrate banking function to grass root level. It is an effective tool for providing banking access to the unbanked population which is ignored by the conventional banks.

D. Growth of foreign direct investment

Successful implementation of Islamic banking will result in inward of foreign direct investment as well as the foreign institutional investment in India, especially from GCC Countries.

E. Free from exploitation

Islamic banking prohibits those investment avenues which are considered to be haram under Islamic shariah. Those transactions include alcohol, gambling, weapon, pornography, speculation etc. Islamic banking promotes investment in real assets which will lead to zero exploitation in financial transactions.

10. Difficulties in implementing Islamic banking in India

Indian Banks are regulated by the Indian Banking Regulation Act (1949), The Reserve Bank of India Act (1935), The Negotiable Instruments Act and the Cooperative Societies Act (1866). The significant amendment is required in banking laws prevalent in India due to the non-acceptance of interest-free banking. Amendments will have to give specialized to admit such a possibility and to evolve a different system of regulation and control. In order to allow the establishment of Islamic Banks operating without interest, all of the relevant banking laws regulatory authority to frame the regulatory measures for the interest-free operation of Islamic banks. That newly-created regulatory body would assist in establishing and enforcing auditing and accounting standards, ensuring transparency in the dealings of interest-free banks and ensuring compliance with liquidity standards

A. Amendment in legal framework of both banking and tax

As Islamic banking prohibits the give and takes of interest, the amendment in banking regulation act 1949 is required to adopt Islamic banking in India. The act does not permit the operation of the interest-free bank in India.it also requires modifications in the tax law for adopting Islamic banking. India needs to develop a separate rule and regulations which are compliant with shariah for inducting Islamic banking system in India.

B. Threat to the secular fabric of the nation

Some people argue that the introduction of Islamic banking is against the secular fabric of the nation. By amending banking regulations and tax regime of the nation a separate section of the society will be benefitted.

C. Used as a political weapon

The concept of Islamic banking used a political weapon by way of pleasuring Muslim community.

D. Mis-understanding that Islamic banking only benefits for Muslims

The major barrier in introducing Islamic banking in India is that there is a misconception prevailing in the society that Islamic banking only give the fruitful result for Muslims only. Alternative conventional banking is treated as for all religion. There is a need for creating awareness among the people about the alternative banking is highly required.

Table 3
Recent developments

Year	Plan of action
2005	RBI constituted Anand Sinha committee to examine the financial instruments used in Islamic banking.
2008	Planning commission of India appointed to recommend the interest-free banking for financial inclusion.
2009	SEBI Allows the Shariah-compliant mutual fund business for the first time.
2009	SEBI permits India's shariah compliant venture capitals.
2009	General insurance corporation (GIC) entered Retakafuk (Islamic Reinsurance) in the global insurance market.
2009	The government of Kerala initiative Islamic banking through non-banking finance company(NBFCs)
2010	Bombay stock exchange and Taqwaa Advisory and Shariah Investment Solution (**TASIS**) launched TASIS Shariah 50 Index
2011	The high court of Kerala dismissed the petition filed against Al-Baraka Financial Services, A Kerala based Islamic finance company.
2012	SBI, India's largest public sector bank introduced Shariah Equity fund.
2014	Finance ministry recommended to RBI to formulate a high-level inter-departmental group (IDG) for examining the technical, legal, and regulatory issues regarding the feasibility of introducing Islamic banking in India.
2016	RBI Suggested conventional banks open "Islamic Window" and gradual implementation of shariah-compliant banking.
2017	An interest-free cooperative bank initiated, based on shariah principles launched in Kerala with the support of the communist party of India (Marxist)

11. swot analysis of Islamic banking in India

SWOT Analysis is an effective tool to evaluate the internal and external prospects in accommodating Islamic banking in India. The internal factors include the strength and weaknesses and the later include the potential opportunities and possible challenges.

A. Internal factors

1) Strength

1. The demographic dividend of the Muslim population in India.

2. Demand for interest banking is very high.

2) Weaknesses

1. Lack of awareness among people.
2. Huge shortage of expert in the field.
3. Required the amendments in the regulatory framework.

B. External factors

3) Opportunities

1. The attraction of Gulf money into the Indian economy.
2. Financial inclusion of large Muslim population.
3. Boost to agrarian economy.
4. MSME Financing & inclusive development.
5. Bridging the gap between rich and poor.

4) Threats

1. Expected to be used a political weapon.
2. The threat to the secular fabric of the nation

12. Porter's five force model in accommodating Islamic banking in India

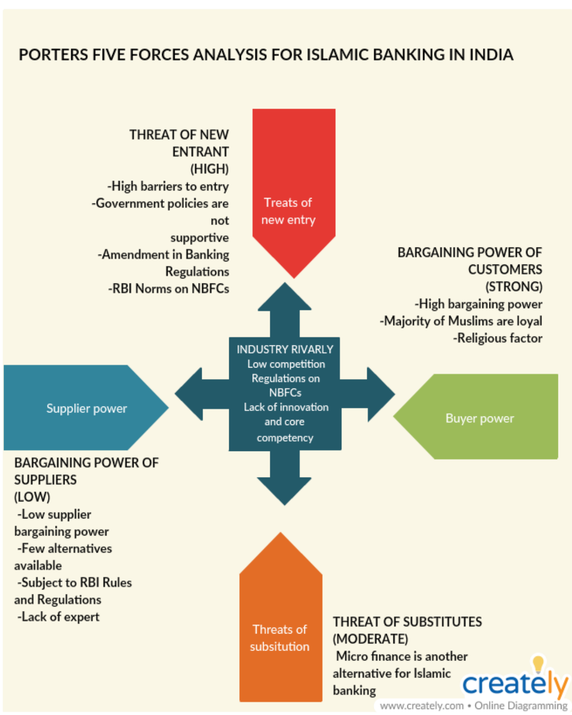

Fig. 1. Porter's five forces analysis for Islamic banking in India

Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level.it is propounded by M. Porter in 1979 to understand how five important factors that are affected by any industry. These forces determine an industry structure and the level of competition in that industry. The stronger competitive forces in the industry are the less profitable it is. An industry with low barriers to enter, having few buyers and suppliers but many substitute products and competitors will be seen as very competitive and thus, not so attractive due to its low profitability. Islamic banking industry potential in India is analyzed below using Porter's five force model.

A. Rivalry among the industry

Conventional banking in India has a variety of products for accepting deposits advancing loans. The network of Indian commercial banks are deployed globally, hence they get a comparative advantage and economies of scale in operation. Current scenario of Islamic banking in India is operating through NBFC modes. India needs to develop core competency and operational efficiency, and innovative product development will lead to a competitive rivalry within an industry.

B. Bargaining power of suppliers

Suppliers of Islamic banking product and services in India is not progressed to becoming an active market because of the legal framework. In India, commercial banks play a pivotal role and it has geographically spread network of branches all over India. For increasing the bargaining power of Islamic banking, it is easy to start a shariah compliant "Islamic bank window" in all commercial banks. Lack of expert in this field also the big drawback of Indian Islamic banking scenario.

C. Bargaining power of customers

The loyal Muslims in India may accept the concept of Islamic banking. Because it is in the name of religion. The Muslim population in India highly demands the Shariah-compliant banking solution. The identity of Muslim becoming stronger, Muslims follows Islam as the way of life and it will affect the spending habit of the Muslim population. Muslims are induced to purchase halal products and invest in accordance with Shariah rules. Liberal Muslims would go for conventional banking.

D. The threat of new entrant

The entry of new players in the market is based on the profitability and sustainability of the market. In relation to the Islamic bank. The new entrant will analyze the cost and benefit and economies of scale in operation. New players are attracting Islamic bank in India. Islamic banking in India has the prospect of high potential. Amendment in Indian banking regulations, Pro-liberal policy of Reserve Bank of India will play a key role in the development and progress of the Islamic banking industry in India.

E. Threat of substitutes

Islamic banking provides an enormous number of Islamic banking products, the product, and services provided by commercial banks are not compliant with the shariah. Fundamental principles in conventional banking are the predetermination of return. Islamic banks prohibit the use of derivatives like futures, forwards, swaps, for speculative gain and arbitrage. Microfinance is an alternative method for Islamic banks in India.

13. Conclusion

Islamic banking experienced tremendous growth in the recent decade and increasing its acceptance all over the world. It emerging as a solution to the interest-based conventional banking. In order to address the changing pattern of the global economy, Indian policymakers also understand the high potential of Islamic banking in India and need to take necessary actions to accommodate Islamic banking in Indian financial system. Introduction of Islamic banking in India does not just provide an alternative banking solution, but it would be a leap forward to the integration of Indian economy with the global economy. A multi-dimensional cause of action is required to become the interest-free banking into reality. The issues relating to regulatory and legal framework are addressed with the utmost care and caution. Lack of awareness is one of the leading hurdles in implementing Islamic banking in India. Various committees appointed by the government realized benefits of accommodating Islamic banking in India for providing the banking services to the large untapped Muslim population.

References

[1] Aksak, M. A. (2017). Does Islamic Finance Make the World Economically and Financially Safer?
[2] Islamic Finance and Its Implications on Sustainable Economic Growth. https://www.researchgate.net/publication/265317501, 1-7.
[3] Baltušytė, V. L. (2017). Islamic banking as an Alternative to Banks in Western Countries, ekonomika 2017 Vol. 96(3), 1-17.
[4] Banu, S. (2014). Islamic Banking in India. Global Journal Finance and Management, Volume 6, Number 3 (2014), 259-264.
[5] Beg, S. (2016). "Prospects, problems, and potential of Islamic banking in India," in International Journal of Accounting and Financial Management Research (IJAFMR), vol. 6, no. 3, Oct 2016, 9-20.
[6] Bhat, Z. A. (2013). Nature, Scope, and Feasibility of Islamic Banking in India. Abhinav International Monthly Refereed Journal of Research In Management & Technology, vol. 2, May'13, pp. 1-6.
[7] F. Fasih, "Inclusive growth in India through Islamic banking. Procedia - Social and Behavioral Sciences 37 (2012) 97 – 110, 97-110.
[8] Hussin, M. A., "Islamic Banking in India: Developments, Prospects, and Challenges," in International Journal of Research in Commerce & Management, vol. 4, no. 1, pp. 1-8, January 2013.
[9] K. M. S. (2015). Application of Islamic Economic Principles to Indian Financial Sectors: Prospects and Challenges. International Journal of Management, Innovation & Entrepreneurial Research (IJMIER), Vol. 1 (2) (Nov 2015), 37-42.
[10] Khan, K. A. (2013). Emerging Islamic Banking: Its Need and Scope in India. Pacific Business Review International Volume 5 Issue 7 (January 2013), 1-8.
[11] Khan, M. (n.d.). Banking Regulations and Islamic Banks. International Journal of Islamic Financial Services Vol. 2 No.4, 1-7.
[12] Khan, O. (n.d.). A Proposed Introduction of Islamic Banks in India. International Journal of Islamic Financial Services Vol. 5 No.4, 1-10.
[13] P. Ponraj, D. Amirtha Sweety, andS. Sriram. (2016). A Study on Islamic Banking System with Reference to Seyad Shariat Finance Limited, Tirunelveli. , 136-135.
[14] Mushtaq, S. (2017). Islamic Banking: Concept and Future Potential in India. International Journal of Emerging Trends in Science and Technology, pp. 1-9.
[15] P.T, M. (2012). Application of Shari'ah Tools in Ribā-Free Banking. PG Dissertation submitted to Darul Huda Islamic University In fulfillment Moulavi Fadhil Al-Hudawi, 1-129.
[16] Samir, D. A. (2015). Islamic Banking: An Opportunity for India. Intl.J.Adv.Res.Comm. & Mgmt., vol. 1, no. 1, pp. 22-27, March 2015.
[17] Sehrawat, U. D. (2015). Islamic Banking in India: An Alternative Banking System, International Journal of Research Granthalayah, pp. 1-10.
[18] A. Sharma and D. J. Singh and D. P. Yadav, "Islamic Banking in India - Growth, And Potential," in International Journal of Marketing, Financial Services & Management Research, pp. 1-19, 2013.
[19] P. C. Singh, P. C., "Jan Dhan Yojna: Analysis of the One-Year Journey, pp. 1-22.
[20] Thakur, P. I, "Islamic Banking in India: What More Needed? SSRN Electronic Journal, January 2017, pp. 1-11.
[21] M. Tripathi, "Islamic Banking: Inclusion in the Indian Banking Sector. IOSR Journal of Business and Management (IOSR-JBM), vol. 12, no. 6, pp. 1-7, Sep./Oct. 2013.