

PROSPECTS OF ISLAMIC FINANCIAL SERVICES IN INDIA -A Perceptive view of Service Class Persons

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ABSTRACT: India is a developing country which not only accepts the diversity in faith as its strength but also strives hard for social welfare for all. Even in the time of economic crisis of 1991 India has stood up and accepted the challenges and New Economic Policy was formed. Liberalization, Privatization and Globalization were the need of the hour at that time. The New economic policy helped India to achieve new heights in economic development of the country. The Islamic finance has helped many countries to increase the development pace of their economy. Since Islamic finance is based on the principle of risk sharing rather than interest therefore it is gaining quite a popularity among many nations including U.S and U.K. The paper will throw a light on the detracting factors that are affecting the growth and development of Islamic financial services in India.

Key Words: Islamic Finance, Financial Services, Service Class People.

Introduction

Islamic finance is a system of finance in which risk is shared among the parties involved and the profit is shared rather than any kind of interest on the capital amount. Islamic finance is based on the principle of HOLY QURAN (Devine teaching from the GOD) and SUNNAH (teachings and actions of Prophet Mohammad (S.A.W.)). This system is considered as the safest system for financing by the countries in which it is operating.

Islamic Banking

Islamic banking includes activities of the banking in a Shariah compliant way. The differentiating factor is the Interest which is included in conventional banking while in an Islamic bank Interest is prohibited while profit and risks are shared. The Islamic banking system focuses on the profit and loss sharing system

OBJECTIVE OF STUDY

- To study the conceptual framework of Islamic Banking in India
- To find out the perception of service class people regarding Islamic banking in India
- To identify the issues and challenges of Islamic banking in India.
- To study the measures under which Islamic banking can be initiated in India.

RESEARCH METHODOLOGY

This research is primarily based on both Primary and Secondary data. The secondary data is collected from various Journals, Periodicals, Annual Reports, Websites, Islamic bank reports. Primary research is done to know the perception of people regarding Islamic banking.

CONCEPT OF ISLAMIC BANKING

Islamic banking is ethical form of banking which does not take interest on financing projects but instead shares the risk of investment with the customer and takes the share in profits instead. As the risk of financing the project is shared by both the bank and the customer this concept creates a legal bond like partnership between a Bank and it's customer. The bank do look at the feasibility. This concept promotes people to take interest in thrives on sustabile

Modes of Financing by Islamic Banks

1. Mudarabah : This is a Contact between the Bank and the Customer where the bank finances the cost of the project and the Customer provides for the labour. The profit thus generated by the project/enterprise is shared by both the parties.
2. Musharaka:It is a partnership deed between bank and number of customers/partners. The Capital investment is done partly by all the parties and the profit is shared with the same ratio.

3. Istisna: It is a contractual arrangement where the goods are to be manufactured and sold to a particular party in future. The profit thus generated is shared by all the parties.
4. Murabahah: It is a contract between the bank and the customer which is similar to hire purchase contract. In Murabahah the bank buys the asset instead of financing it and lends it to the customer on rental basis. It is when the rent recovered becomes more than the cost of the asset it can be given to the customer.

Benefits of Islamic Banking if adopted in Conventional banking

1. Instead of looking at sales figures the bank focuses on the feasibility report of the investment project.
2. Non Performing Assets will decrease as the financing will be based on strict compliances.
3. Not only the Entrepreneur/ Customer will be interested in the growth of the project but equally bank will also be interested.
4. Business Consultancy Services can be given to the Customer on demand upon a nominal fees which could increase the revenue of the bank.
5. Islamic banking will help in creating an Sustainable society by encouraging investments in Business enterprise.
6. Islamic banking concept will bridge the gap that exist between the customer of a bank and the Conventional bank.
7. Interest free banking products will encourage more customers to take risk.
8. Poor sections of the society will also be benefited as there is no RED Lining Area in Islamic banking concept and finance is based solely on the feasibility project report only.

Research Methodology

TYPES OF RESEARCH :Empirical Study

Sampling Frame : Salaried class of Educational Institutions.

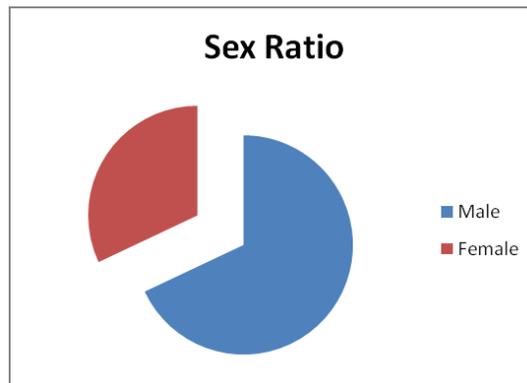
Sampling Technique: Convenient Sampling

Sample Size : 50

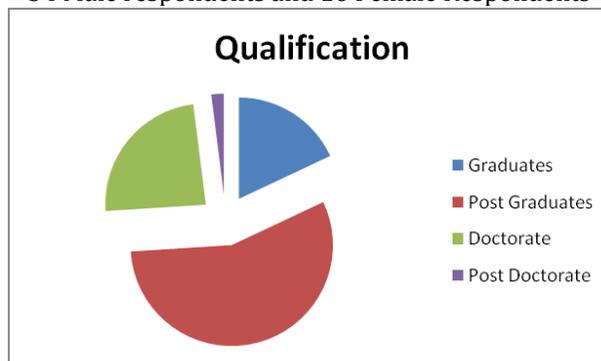
Sample Area : Lucknow region

Time of Study : Oct – Dec, 2018.

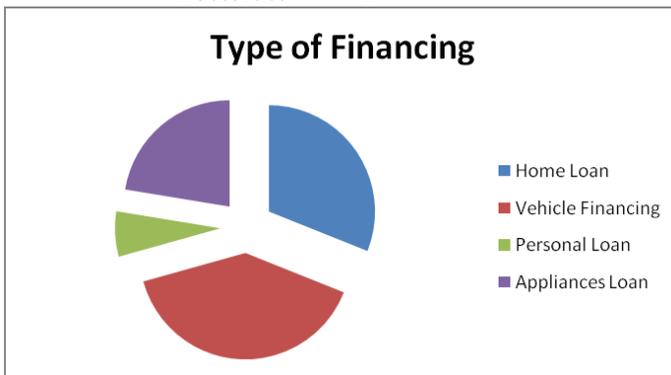
Analysis



34 Male respondents and 16 Female Respondents



	Qualification
Graduates	9
Post Graduates	28
Doctorate	12
Post Doctorate	1



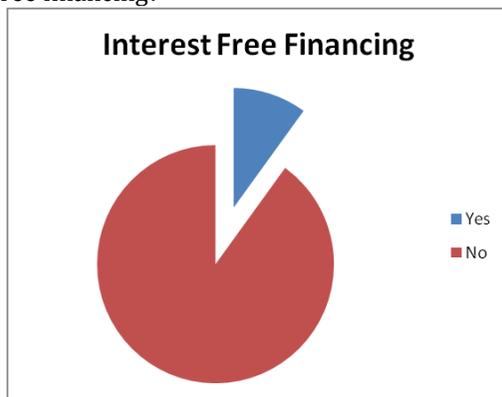
Home Loan	18
Vehicle Financing	23
Personal Loan	4
Appliances Loan	13

Are they satisfied with the rate of Interest?

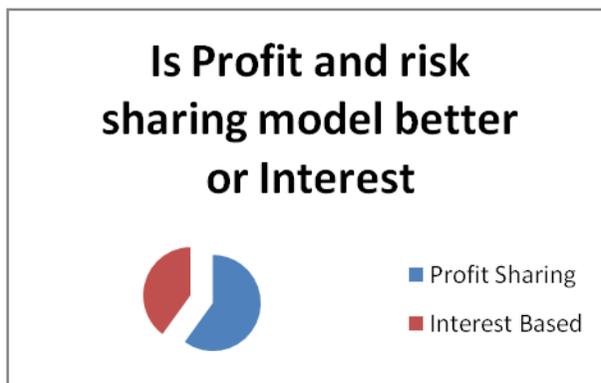


Satisfied	Count
Yes	20
No	80

Have you heard about Interest free financing?



	Interest Free Financing
Yes	10
No	90



Is Profit and risk sharing model better or Interest

Profit Sharing 60%

Interest Based 40%

Recommendations:

1. Most of the people did have some idea about the product and Profit and Risk bearing model. This model is not much known to common people so the concept should be propagated and awareness about the model should be made public.
2. The term 'Ethical Financing' should be used instead of Sharia complaint because it creates an religious specific image of the product rather.
3. Ethical financing has a vast scope of growth since the Government is also keen in providing cheap loan to farmers.
4. New financial laws should be passed permitting the use of such instruments as the present legal laws doesn't allow such practices.
5. Subject specific courses must be introduced in various universities of the country so that industry ready professionals are readily available for the ethical financing industry.

Conclusion:

The Ethical financing will only compliment the 'Jan Dhan Yojna' of the Government of India providing cheap source of financing to every individual of the country. Recently RBI has not allowed to open an sharia compliant financial window seeking wider and equal opportunities to common people but it should consider revising it's decision. There are alot of individuals who belong to economically weaker section of the society and are denied financial services by financial organizations by the concept of RED Lining Area or other. Ethical Financing will not only help the weaker sections of the society to elevate their living standards but will help the Government to make a reality of it's concept of SABKA VIKAS. If India wants to develop then the financial needs of the weaker sections of the society can't be ignored. Ethical financing can give pace to the development of our Nation.