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Research Paper

ATTITUDE FOR PROSPECTIVE ISLAMIC BANKING IN INDIA: AN ANALYSIS

Prof. A Aziz Ansari¹

¹Professor and Head of Department of Commerce and Business Studies,
Jamia Millia Islamia, New Delhi-25, India.

Ms. Hareem Tariq²

²Research Scholar, Department of Commerce and Business Studies, Jamia
Millia Islamia, New Delhi-25, India.

ABSTRACT

Islamic banking is gaining momentum among Indian population which shows its importance. There have been studies regarding the acceptability of Islamic banking among its users for the advent of the same thus this study in the light of the present situation will focus on the attitude of a particular community towards Islamic banking as they are going to be the end users of this facility if it comes in action. The proponents of Islamic banking have shown that there has been wide acceptability of Islamic banking in various countries. The present study is based on the attitude of various sections of the society specifically Muslims in India considering the feasibility of this system.

KEYWORDS: Islamic Banking, Attitude, Prospective, India, Acceptability.

INTRODUCTION

Islamic banking is the new buzzword in the world and people are trying to know the concept and practices of Islamic Banking as it is finding home in countries where there was no existence. Muslims as well as non Muslims are showing interest in Islamic Banking as it is considered the fairer, stable and transparent form of banking.

In discussion regarding India, Muslims are aware of the fact that interest is prohibited but they do not have any mechanism to avoid interest from their day to day financial dealings with the banks existing in India. As we have commercial banks which work on interest. It is important to know whether Indian Muslims are avoiding interest from daily financial transactions or not. Thus author has done a survey with the help of a questionnaire to find out Indian Muslims' attitude towards interest free banking and their treatment with the interest which they receive from their commercial

banks. 157 Muslims were asked a set of questions to know about their attitude towards interest free banking and their avoidance of interest which they receive from commercial banks.

LITERATURE REVIEW

There is a wealth of supportive argument in Western literature for Islamic scholars to exploit as western economists have identified linkages between interest rates and macroeconomic instabilities which afflict most capitalist economies, such as, inflation, unemployment and negative growth. (Mill, 1826; Smith, 1904; Keynes, 1931; Fisher, 1933; Wicksell, 1935; Hayek, 1933, 1939; Minsky, 1977; Greenwald and Stiglitz, 1988; Bernante and Gertler, 1990).

The abundant western literature that supports interest free loans should encourage Islamic scholars to take an empirical approach. Western economies have their foundation in classical economics based on a



perfect world but they have progressed by accepting uncertainty and imperfection, and testing empirically economic theories. Islamic theory describes “how people, groups or governments should act in a perfect Islamic community” and the reality is that people do not act in this manner, and empirical testing is needed to understand how Muslims behave in the real world towards Islamic Banking.

In a study between Islamic bank and commercial bank, empirical results showed that there were no significant differences in terms of profitability between both types of banking. However, Islamic banks proved to be profitable in all GCC banks except for UAE. That was due to high competition, and more diverse market. In markets where there are customers who are willing to deal with Islamic banks, such as, Kuwait, Bahrain, Saudi Arabia and Qatar, Islamic banks proved to be more profitable. As expected that Islamic banks tend to have high liquidity ratios relative to conventional banks and that was due to the fact that Islamic banks can not rely on borrowing money from central bank or any other sources. On the other hand, conventional banks are more leveraged compared to Islamic banks. This is partially explained by the nature of Islamic banking, they can not borrow money from central bank or other sources because of the interest. (Loghod Abu, 2011)

A new IMF study compares the performance of Islamic banks and conventional banks during the recent financial crisis, and finds that Islamic banks, on average, showed stronger resilience during the global financial crisis. (IMF Survey Online, 2010)

Friedman (1969) suggested that a nominal zero interest rate is necessary condition for optimal allocation of resource. It was found that zero interest rate is required and sufficient for allocative efficiency by investigation within general equilibrium models (Wilson, 1979; Cole and Kocherlakota, 1998). Literature also supported that interest-free (profit and loss sharing) system is viable and superior to an interest-based system (Chapra, 1985; Mirakhor, 1997).

Basainey Ebrahima Jammeh (2010) found that despite the continuing decline in consumer confidence within U.S. financial institutions during the post crisis period, the future of Islamic financial intermediation in U.S. appears to be promising due to strong performance manifested by Islamic housing mortgages during the recent financial crisis. This is the major reason why Islamic banking has become a buzzword.

OBJECTIVES OF THE STUDY

1. To find out whether Muslims in India avoid interest which they receive from interest based commercial banks.
2. To find out whether Muslims in India give preference to interest laden schemes meant for investment.
3. To find out the difference in the level of motivation between Muslims and Non Muslims towards Islamic banking.

RESEARCH METHODOLOGY

A rational research approach is required for the validity of any social research. In order to test the awareness, preferences, willingness, perception, opinion of people towards Sharia banking system a survey was conducted on respondents in NCT of Delhi.

Research design

For this purpose convenience sampling was used for 311 respondents in NCT of Delhi. The pilot study was done for 60 respondents to judge the reliability of the questionnaire.

Questionnaire construction

On the basis of instruments designed by Mir, 2014, Yusuf, 1999 & Loo, 2010, Gerrard and Cunningham, 1997, Ahmad & Haron, 2002, Ansari Rehan, 2009 a questionnaire consisting 52 questions measuring the variables of the study was developed as an instrument for survey. For factor analysis questions on demographic profile were also included. In order to test the reliability of the questionnaire it was tested on 60 representative respondents during the pilot study.

Data Collection Method

Based on previous researches the factors responsible for the success of Sharia based Islamic banking system were identified and thus were used in taking the survey through primary sources by distributing the questionnaire online and offline. Published data from national journal and international journal was also used for the study after testing its reliability.

Sample Size

Sample size was taken as 311 consisting of 157 Muslims and 154 Non Muslims amongst the parts of Delhi & NCR.

Sampling Design

To carry out the present study convenience sampling method was used for drawing the sample out

of the defined population. The sample consisting of 311 people was used amongst which people had different occupations businessmen, students, private and public servants. All of them were having their accounts in conventional banking system. They were administered questionnaire through survey method.

Hypotheses

- H01: Muslims are not avoiding interest which they receive from banks.
- H02: Muslims are not avoiding interest and invest in interest laden schemes.

H03: There is no difference in getting affected by motivating factors of Islamic Banking in India amongst Muslims and Non Muslims.

Reliability

Analysis of the Study

The hypotheses formulated were tested using t-test and results drawn in the following section.

Test of Hypotheses

The above hypotheses are tested and have shown the following results.

H01: Muslims are not avoiding interest which they receive from banks.

Table: 1.1 To test whether Muslims are utilizing the interest received from the banks or not.

Category	N	Mean	SD	t-Value	Sig.(2-tailed)
Using Interest	157	2.0828	1.32	19.84	0.000*
Giving in charity	154	3.4268	1.46	29.50	0.000*

*Significant at 0.000 level. Source: Computed by researchers from primary data collected

Muslims in the group were asked about how they have been utilizing interest which they receive from commercial banks most of them mentioned of giving in charity the amount of interest with the t value of 29.50

which is significant at 0.000 levels. Thus hypothesis 4 is accepted that Muslims are giving in charity the interest received from banks.

H02: Muslims are not avoiding interest and invest in interest laden schemes.

Table: 1.2 Muslims are not investing in interest laden schemes.

Responses	Frequency	Percent
Strongly Disagree	21	13.4
Disagree	9	5.7
Neutral	27	17.2
Agree	36	22.9
Strongly Agree	64	40.8
Total	157	100.0

Source: Computed by researchers from primary data collected

H03: There is no difference in getting affected by motivating factors of Islamic Banking in India amongst Muslims and Non Muslims.

Table: 1.3 Difference of getting affected by motivating factors of Islamic banking in Muslims and Non Muslims.

Category	N	Mean	SD	t-Value	Sig.(2-tailed)
Muslims	157	55.49	8.74	13.42	0.000*
Others	154	40.34	11.04		

Source: Computed by researchers from primary data collected, *Significant at 0.000 level.

Muslims and Non Muslims were compared using t-test to know the difference of effect of motivating factors of Islamic Banking. From the above table it was observed that Non Muslims (Mean=40.34; SD=11.04) and Muslims having (Mean=55.49; SD=8.74) have significant difference at 0.000 levels with t-value of 13.42. Thus ,the hypothesis 6 there is no difference in effect of motivating factors of Islamic banking among Muslims and Non Muslims has been rejected.

The researchers has made further observations as to how Muslims have been utilizing interest from commercial banks. To see the percentages of Muslims who are utilizing interest from commercial banks in the survey it was found.

Table 1.4 Utilization of Interest

Responses	Frequency	Percent
Strongly Disagree	80	51.0
Disagree	24	15.3
Neutral	22	14.0
Agree	22	14.0
Strongly Agree	9	5.7
Total	157	100.0

Source: Computed by researchers from primary data collected

It can be observed from the above table that approximately 66.3 % deny of utilizing the interest which they receive from the banks in their savings account.

Table 1.5: I have been taking out the interest from commercial banks or investments and giving it in charity

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	28	17.8	17.8	17.8
Disagree	13	8.3	8.3	26.1
Neutral	29	18.5	18.5	44.6
Agree	38	24.2	24.2	68.8
Strongly Agree	49	31.2	31.2	100.0
Total	157	100.0	100.0	

Source: Computed by researchers from primary data collected

i have been taking out the interest from commercial banks or investments and giving it in charity

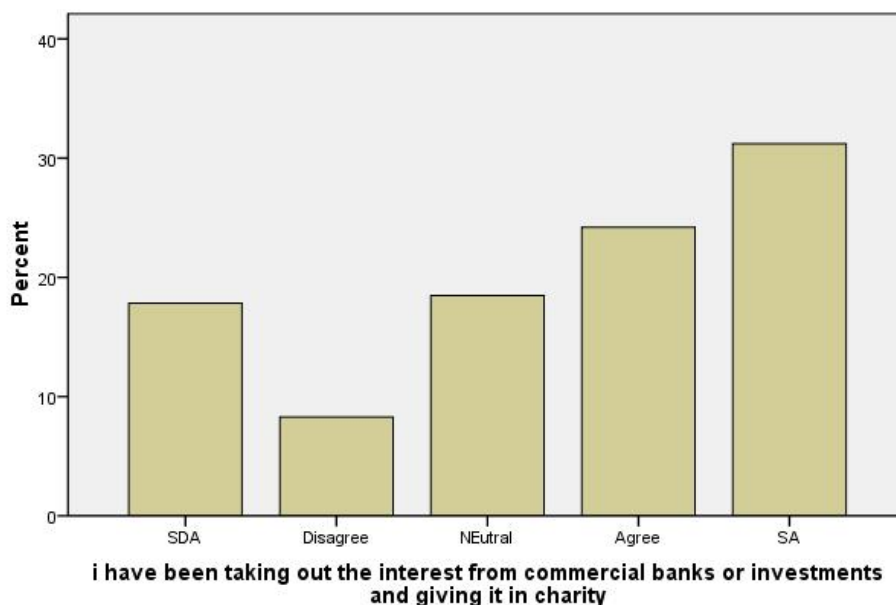


Figure: 1.1

Muslims numbering 157 were asked about their treatment of interest from commercial banks and the results reveal that 55.4% Muslims are taking out interest and giving in charity, 18.5 are neutral and 26.1% people

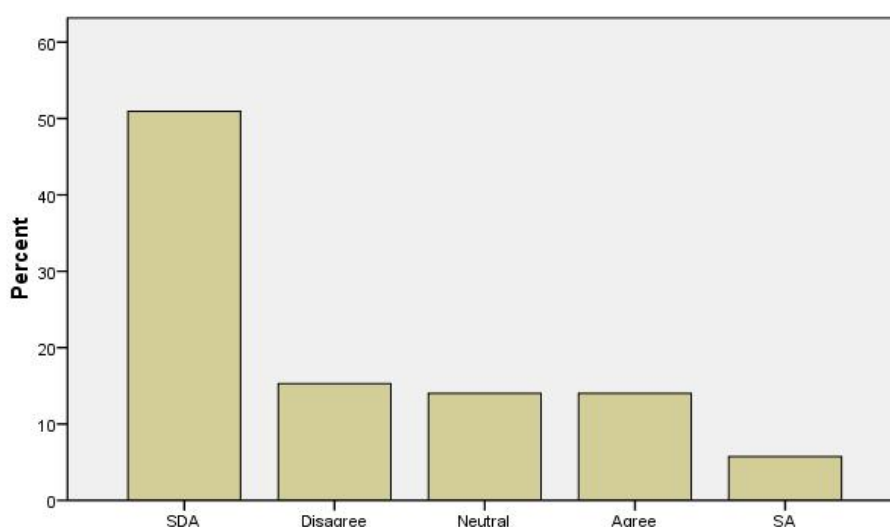
disagree of giving interest in charity. So a major part of the Muslim population are not utilizing the interest from their commercial banks and giving away in charity.

Table: 1.6 “I have been utilizing the interest from commercial banks or investments for personal use”

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	80	51.0	51.0	51.0
Disagree	24	15.3	15.3	66.2
Neutral	22	14.0	14.0	80.3
Agree	9	5.7	5.7	94.3
Strongly Agree	157	100.0	100.0	100.0
Total				

Source: Computed by researchers from primary data collected

i have been utilizing the interest from commercial banks or investments for personal use



i have been utilizing the interest from commercial banks or investments for personal use

Fig. 1.2

Muslims numbering 157 were asked whether they are using the interest from commercial banks for personal use, the results reveal that 66.2% Muslims disagreed, 14% are neutral and 19.7% people agreed of

utilizing interest. So a major part of the Muslim population is not utilizing the interest from their commercial banks.

Table: 1.7 Preference for Interest free Schemes for investment purpose

Responses	Frequency	Percent
Strongly Disagree	21	13.4
Disagree	9	5.7
Neutral	27	17.2
Agree	36	22.9
Strongly Agree	64	40.8
Total	157	100.0

Source: Computed by researchers from primary data collected

157 Muslims were asked whether they ensure that the schemes they choose for investment should be interest free 63.7% Muslims agreed that they choose only interest free schemes for investment and 19.1% disagreed and 17.2% had no opinion.

This again implies that majority of Muslims are interest averse and they are making choices through which they can avoid interest.

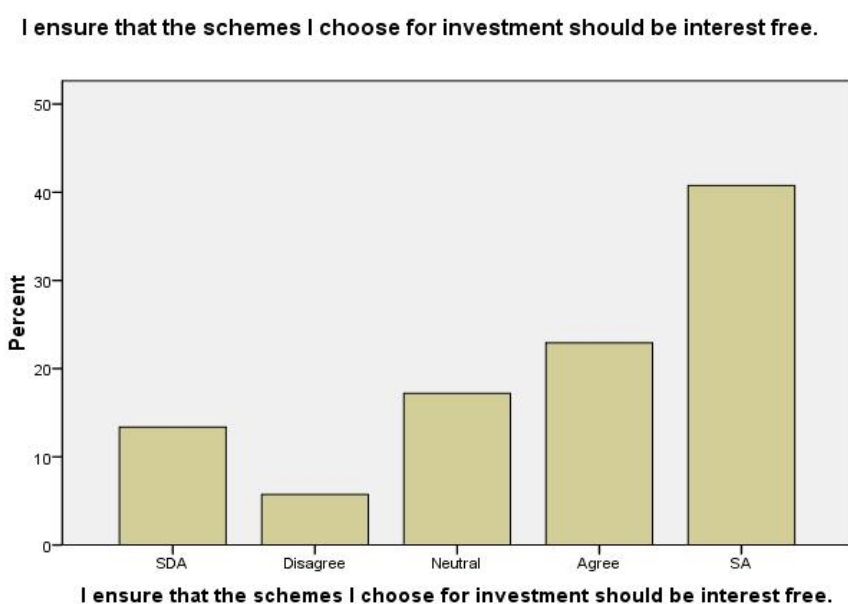


Fig. 1.3 Choice of Interest free schemes for Investment

CONCLUSION

By observing the above facts it can be concluded that there is a void for Islamic banking in India and people are avoiding interest being received from commercial banks and look for solutions which does not conflict with their faith by choosing interest free schemes for investment purpose. These observations clearly tell that Muslims have been denied their fundamental right and they are just using commercial bank as they do not have the desired option. The data analysed in the study clearly points out the need of a mechanism which helps the community in establishing their faith freely and thus contributing to the economy whole heartedly without any hindrances. This will also open doors for investment from the Islamic countries which are hesitant in investment in India due to reasons of faith.

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