



A CONCEPTUAL STUDY ON ISLAMIC BANKING VERSUS CONVENTIONAL BANKING -A MULTIDIMENSIONAL ANALYSES

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ABSTRACT

In the early period Islamic merchants were indispensable middlemen for trading and business activities. Even. All the previous references of mercantile activities were in the motive of "interest-free" system. The Muslim population is expected to be over 2.6 billion or over 26% of the projected world population of 10 billion by the year 2050. In the 21st century every fourth people would be a Muslim, to explore the potential of economic system in line with Islamic laws where interest (Riba) is prohibited. The present study emphasizes the implementation of Islamic Banking in India. An attempt has been made to study the divergence between the operational aspects of conventional (Western) banking versus Islamic banking. The study identifies that the principles and concepts of Islamic banking which promotes the concept of entrepreneurship and eliminates the default risk in credit. In Islamic Banking entrepreneurs are getting beneficiaries by mutual relationship of risk sharing, financial support. It leads to better performance of entrepreneurs. Islamic banks are expected to be more ethical comparing to western banking, reason being investment methodology selection is subjected to the prohibitions of Islamic laws. Islamic banking seems to be a better management technique for inflation control in India. The study has also made suggestions for various important components like feasible financial structure instruments, the expert panel and advisory board.

KEYWORDS: Financial inclusion, Islamic banking, Riba, Shariah.

INTRODUCTION

Islamic banking emerged with concepts, techniques and instruments since very long back but the full fledged system came in existence recently in 1980s. Islamic banking is an era of interest free banking governed by the Shariah law in coherence with "The Quran". The Islamic law has developed specific forms of financial transaction as means of earning without resorting to income generation through interest (Riba). The main purpose of Islam is providing utmost welfare to the society and hence Islamic banking is not restricted to Muslims alone. The concept and operational application has been initiated by some Islamic countries like Iran and Pakistan. These countries have implemented Islamic Banking as the sole banking system in their country while others have permitted Islamic banking institutions to operate along with other traditional banks. For example, Malaysia, the first country to issue bonds on Islamic basis. In this way government permitted conventional banks to supply Islamic products along side conventional products. There are

more than 300 Islamic banks in 48 countries working on non-interest modes across globe. In the past years, Bahrain is recognised as the hub of Islamic Banking activities. The country with the largest concentration of Islamic Financial Institutions within the Middle East region, dealing in diversified activities including commercial banking, investment banking, offshore banking and funds management.

STATEMENT OF THE PROBLEM

Islamic banking is increasingly gaining the acceptance as an effective means to build an inclusive financial system. The central Bank of India and finance ministry should consider Islamic banking as a viable alternative to handle the economic problems as it has all the features of modern banking except interest charging. Islamic banking holds promising opportunities for fuller market operations. Moreover market itself are going to be the simplest judge for the efficiency and pitfalls of Islamic banking in Islamic banking is an ethical business model and works for the overall



welfare of the society, which is much needed for the development of the INDIAN ECONOMY.

OBJECTIVES OF THE STUDY

- To study the basic principles of Islamic law and concepts in Islamic Banking;
- To study Islamic banking by understanding various Islamic banking products.

RESEARCH METHODOLOGY

Research methodology is a way to solve the research problems systematically. Primary data- It is collected through questionnaire
Secondary data- collected from journals, magazines and websites

TOOLS USED IN THE STUDY

Conventional tools like percentage and descriptive tables were used for the purpose of analysis. Further, the following specific tools were used,

- ▲ Simple percentage analysis
- ▲ Chi-square analysis

LIMITATIONS OF THE STUDY

1. The data was collected from the respondents of Coimbatore district . So the findings of the study does not considered for other districts.
2. The information can be biased due to questionnaire. Time and Cost are the factors which have limited the size of sample as 120.

REVIEW OF LITERATURE

Raqeeb (2009) in his study titled 'Interest-free banking ideal for India' concluded that the implementation of Islamic finance in India would attract funds from Gulf countries (Gulf Cooperation Council) for developmental projects. It will also help the minorities and the marginalized to participate in the economy with micro-finance based on equity.

ISLAMIC BANKING –AN OVERVIEW

Islamic Banking is the banking method which is based on Shariah Law . The Shariah prohibits receipt and payment of interest based system and permits only profit sharing based system. The Holy Quran states that "Allah has allowed only legitimate trade and prohibits interest". It is against receipt and payment of the interest, as interest is leads to exploitation . The purpose of Islamic banking is same as the purpose of conventional banking except that it operates in accordance with the

rules of the Islamic law , known as Islamic rules on transactions (Fiqh al-Muamalat). Islamic Banking does not mean a mere lending institution extending interest-free loans, but a package of Shariah-compliant financial services like Islamic bonds (sukuk), Islamic insurance (takaful), Islamic mutual funds, Technology-driven services like ATMs and online banking, all of which have a tremendous market opportunities in India. In many modern countries mainstream banks are now opening interest free divisions to cater to Muslim clients who refuse to either give or earn interest. There is still a long way to go before the idea of interest-free banking is taken seriously by conventional bankers,customers of conventional banks and policy makers.

BASIC PRINCIPLES OF ISLAMIC BANKING

- Receipt and payment of interest (Riba) is strictly prohibited. The business is base on sharing profit and loss.
- Certain industries like entertainment for adults, drugs , and gambling are disallowed by Sharia and it has been prohibited for investment. That is why Islamic Banking is also referred to as Ethical banking.
- Banks may not lease or lend any product which they do not own wholly.
- Debt Trading is also not allowed, which is why Banks do not deal in traditional bonds rather they have their own version of such instruments called Sukuk (Islamic Bond).
- Interest free loans are also encouraged in Islamic banks to spread financial inclusion.

ISLAMIC BANKING PRODUCTS

- Mudarabah
- Murabaha
- Musharaka
- Takaful
- Ijarah

DATA ANALYSIS AND INTERPRETATION

- The analysis and interpretation of the study is based on the information supplied by a sample of 120 respondents.
- Simple percentage analysis of collected data
- Chi-square Analysis



SIMPLE PERCENTAGE ANALYSIS

TABLE 1
AGE OF THE RESPONDENTS

S.NO	AGE IN YEARS	No. OF RESPONDENTS	PERCENTAGE
1	18- 30 years	62	51.70%
2	31-40 years	33	27.50%
3	41- 50 years	18	15.00%
4	51-60 years	7	5.80%
5	Above 60 years	0	0%
	TOTAL	120	100

Source: Questionnaire

INTERPRETATION

The above table reveals that the age of the respondents. It is clear that 51.70% of them are between 18- 30 years, 27.50% of them are between

31-40 years, 15.00% of them are between 41- 50 years, 5.80% of them are between 51-60 years, 0 of them are above 60 years

TABLE 2
HAVE YOU HEARD ABOUT ISLAMIC BANKING

S.NO	HAVE YOU HEARD ANOUT ISLAMIC BANKING	NO.OF.RESPONDENTS	PERCENTAGE
1	Yes	59	49.20%
2	No	61	50.80%
	TOTAL	120	100

Source: Questionnaire

INTERPRETATION

The above table reveals the number of respondents heard about Islamic banking. 49.20% of the respondents have heard about Islamic banking, 50.80% of the respondents have not heard about Islamic banking.

CHI-SQUARE ANALYSIS

In this chapter an attempt is made to analyse the main factors influencing the satisfaction level of the customers while using the products of banks. For the purpose of this analysis, variables are classified into two important strata viz.,
 Dependent variables and
 Independent variables.

TABLE 1- RELATIONSHIP BETWEEN GENDER AND SATISFACTION LEVEL ON TYPE OF BANK

GENDER	TYPE OF BANK		TOTAL
	ISLAMIC BANKING	CONVENTIONAL (WESTERN) BANKING	
FEMALE	17	54	71
MALE	12	37	49
TOTAL	29	91	120



To find out the association between age and satisfaction level of respondents on type of bank, chi square test is used and the result is given below.

HYPOTHESIS

There is significant relationship between age of the respondents and satisfaction level given by them on type of bank.

CHI-SQUARE TEST

FACTOR	CALCULATED VALUE	D. F	TABLE VALUE	REMARKS
GENDER	.005 _a	1	3.84	ACCEPTED

INTERPRETATION

It is clear from the above table show that, the calculated value of chi-square at 0.05% level is more

than the table value. Hence the hypothesis is accepted. So there is a relationship between gender and satisfaction level of respondents on type of bank.

TABLE 2- RELATIONSHIP BETWEEN RESIDENTIAL AREA AND SATISFACTION LEVEL ON AWARE ABOUT ISLAMIC BANKING

RESIDENTIAL AREA	AWARE ABOUT ISLAMIC BANKING		TOTAL
	YES	NO	
URBAN	50	5	55
SEMI URBAN	38	1	39
RURAL	19	3	22
SEMI RURAL	4	0	4
TOTAL	111	9	120

To find out the association between residential area of the respondents and satisfaction level on awareness about Islamic banking, chi-square test is used and results is given below.

HYPOTHESIS

There is a significant between residential area of the respondents and satisfaction level on awareness about Islamic banking.

CHI-SQUARE TEST

FACTOR	CALCULATED VALUE	D. F	TABLE VALUE	REMARK
RESIDENTIAL AREA	3.089 _a	3	7.82	ACCEPTED

INTERPRETATION

It is clear from the above table show that, the calculated value of chi-square at 0.05% level is more than the table value. Hence the hypothesis is accepted. So there is a relationship between residential area and satisfaction level of respondents on aware about Islamic banking.

area of the respondents and satisfaction level on awareness about Islamic banking.

SUGGESTIONS

- As the system has great potential for our country, a survey is required to be conducted to know the voice of masses about the implementation of this system leading to awareness campaign at larger level.
- Mobilization of resources can be enhanced by channelizing the savings of Muslim community in the financial system of the country.
- The parallel implementation can be done by having strong guidelines on this system The provisions should be designed in such a way, which will give a positive correlated growth for both the systems.

FINDINGS

SIMPLE PERCENTAGE ANALYSIS

- Majority (51.70%) of the respondents are between 18- 30 years
- Majority (50.80%) of the respondents have not heard about Islamic banking .

CHI-SQUARE ANALYSIS

- There is a significant relationship between age of the respondents and satisfaction level given by them on type of bank.
- There is a significant between residential



CONCLUSION

Islamic banking system has a great potential for our country and for the entire world. It will rise with the times to come. In this way it becomes important to pave a way for those sections which are away from the banking industry. As banking is the backbone of the economy, a definite support is required from all the sections of the community and of course a significant growth of the community too. This system has a lot of benefits and it is based upon Islamic laws. That's why this banking system can be implemented in a very successful manner. The need is only to understand the concept and to create awareness of this system.