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Topic: Islamic Banking in India: Prospects and Challenges

ABSTRACT

India being home to the world's second largest Muslim population has a great potential for a banking system which is as per the tenets of the faith (Sharia) in Islam. Interest which is prevalent in the Commercial Banking System is prohibited in Islam as per the Quran (the Noble book of Muslims). And the Indian Constitution gives freedom to all its citizens to practice their religion. Thus it is imperative that a financial system which does not force people to thrive on interest is required in India.

In this study the need for an interest free commercial banking system is acknowledged and the feasibility of Islamic banking and its working in the current regulatory framework of India is also explored. For this purpose it is also important to know about the end user of Islamic banking and their opinions. For fulfilling these objectives a sample of 311 respondents consisting of Muslims and people of other faith for knowing their attitude, awareness, motivation factors and application of Islamic banking practices and their views on implementation of Islamic banking in India was selected on the basis of convenience sampling. The questionnaire was developed on similar works in other areas of the world where either Islamic banking was already functioning or going to be a part of the financial system. The study focussed on exploration of level of awareness of interest free banking amongst different sections of the society in India, the impact

of education on the preference of Islamic banking methods, attitude of people towards adoption of Interest free bank in India, comparing the application of Islamic banking methods with other financial methods in India, treatment of interest being received from commercial banks by Muslim population in India, legal framework within which Islamic banking can prevail in India and also examine the challenges of interest free banking in India. A pilot study was conducted to check the reliability of the questionnaire and then the study was conducted on the sample. The data collected was analysed by using some of the statistical tools like t test and ANOVA for finding out the results of the study. The results of the study reveal that though awareness amongst Muslim respondents towards Islamic banking is higher as compared to other respondents but still the levels of awareness in terminologies is lower amongst Indian population. It has also been observed that respondents who are highly educated are more averse to interest as compared to respondents who are less educated amongst Muslim respondents, and there is also a significant difference in application of different methods of Islamic banking amongst Muslims and other religion participants also there is a significant difference in their attitude towards Islamic banking.

It is interesting to note that some sections of Indian society other than Muslims are ready to try interest free banking as they are attracted to the motivational factors of Islamic Banking like Cost of Borrowing not remaining fixed but depending on the outcome of the business. The study also shows that Muslims in India are trying to get rid of interest amount received through commercial banks and also investing in interest free schemes for saving and investment purpose. Thus it can be said that there is a huge scope of an Interest free banking system in India as there is a positive attitude towards Interest free banking in India.