

Islamic Banking in India: Need of the Hour

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The development of Islamic banking in India is a realization of the needs of the public seeking an alternative banking system that is both capable of delivering sound banking/ financial services and compliant with Shariah (Islamic creeds). As a matter of fact, in India the development of Shariah compliant financial institution had started well before the establishment of few most prominent Islamic financial institutions the worldwide. But due to certain legal and other hassles, these institutions could not grow beyond a certain limit and those who grew could not sustain themselves at that level for a longer time. Therefore there was always felt a need to regulate financial institutions catering to the religious, financial and social requirements of Indian Muslims in a way that depositors of these institutions are assured of the viability and stability of these institutions besides it also helps bring more and more of their money into formal banking institutions of the country. No doubt religious reasons are one of the biggest hurdles for Indian Muslims to avoid keeping their money in the formal banking institutions that are perceived to be usurious and so irreligious. A huge chunk of Indian Muslims even avoids serving in financial institutions of the country. That is why we see that Muslims participation in banking services is even less than Muslims selection in Indian Administrative Services (IAS) that is considered to be most prestigious competition in India. Muslims non-participation in country's formal banking institutions has not only hampered their economic prospects but also blocked a huge chunk of money belonging to Muslim community to participate in the National Development. Some times this is construed as Muslim unwillingness to participate in the economic development of the country. It is the responsibility of the policy makers in the country to understand the real cause of the problem. Ministry of Finance's advice to RBI to draw a roadmap for Islamic banking in the country (as reported in certain sections of the media) is a right step in the right direction. This, apart from bringing Indian Muslims into country's financial stream will also bring a lot of big financial players from the middle-east to participate in the developmental efforts in India, particularly the infrastructure sector.

No doubt this may require some changes in country's present banking regulation but the large economic and social benefit that will accrue will serve in our national interest. The nature of Islamic banking and finance is such that it automatically avoids speculation, gambling and other such unethical practices. In addition there are other goals and objectives which will subserve the national aim to achieve growth with social justice.

Throughout the world Islamic banking has shown rapid development in terms of total assets. Not only in the countries that are predominantly Muslim but also in the countries that are strictly secular like USA, UK, Germany, Sweden, Luxemburg etc. and with meager Muslim population.

It is an established principle that the government wishes to help in the development of the economically backward sections. Muslims are extremely backward socially as well as economically. The main reason for this is their reservations about interest dealings. Since they form an important part of the nation, it is necessary to provide them as well as other interest averse sections with an alternative to the present banking system. This will lead to speeding up of the development process for the country as a whole.

If an interest-free bank is allowed to be established in India, it can operate viably. It can attract sufficient deposits and grow at respectable rate. It could also be able to make ends meet. The ends of government policy in respect of control of credit and direction of the economy will also be easily achieved by resorting to slightly different instruments and methods of control.

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