



A STUDY OF ISLAMIC BANKING AND SHARIAH FUNDS AND THEIR POTENTIAL IN INDIA

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ABSTRACT

Islamic bank is based on interest free banking and permits only profit sharing based banking. In India Islamic banking institutions will play a significant role in the market due to its large Muslim population lest they are made aware of it. Islamic banking is growing at a faster rate in other parts of the world. The paper is based on secondary data. This paper will explore importance of Shariah funds and potential in Indian point of view. This paper tries to find out status of Islamic Banking and Shariah fund in India. It concludes with highlighting potentials of Shariya fund to boost the economic development of the India.

Keywords: *Islamic banking. Shariah Funds Principles.*

INTRRODUCATION

The global market for Islamic financial services topped \$2 trillion in 2014, up 12 per cent on the previous year, and has tripled since the start of the economic slowdown in 2007. This rapid expansion in just three decades has not only attracted the interest of conventional bankers and borrowers, but also increasingly of investment fund structures and promoters.

The growth of Islamic Banking and Finance as a new discipline, particularly in the context of the global economic recession that is in force today, has been, to say the least, quite remarkable. It is worthwhile noting that Islamic finance is not confined to Muslim countries but is spread over Europe, the United States and the Far East; nor is it limited to Islamic borrowers, but is also used by many companies as an alternative source of funds.

ISLAMIC BANKING

Concepts used in Islamic banking

1. Profit sharing (mudarabah)
2. Non-interest bearing demand deposits (checking accounts)
3. Joint venture (musharakah)
4. 4. Cost plus (murabahah)
5. 5. Leasing (ijarah)

OBJECTIVES OF THE PAPER

- To explore the basic principles and concepts in Islamic Banking
- To study the status of Islamic Banking Shariah Funds in India
- To review the need of Islamic Banking and Shariah Funds in India

RESEARCH METHODOLOGY

The finalizations of views of this paper are based on the basis of secondary data available in business journals, periodicals and websites etc.

ISLAMIC FINANCE

Islamic finance is the application of the Shariah to the finance sector. Although it is most well known for its prohibition of interest, Shariah is, in fact, a wholly different “philosophy” from the conventional western outlook of finance. The Shariah explains in detail the Islamic concepts of money and capital, the relationship between risk and profit, and the social responsibilities of financial institutions and individuals. Based on this philosophy, Shariah -compliant instruments and techniques have been developed and successfully used by Islamic finance units and customers worldwide in the funding of items such as property, ships, hotels and power plants.

CONCEPT OF SHARIAH FUNDS

Islamic Investment Funds Structures

Islamic instruments can be used in many types of fund structures. Shariah -compliant property funds, in particular, are increasingly being used in the U.K. and are promoted by many institutions. Islamic investment funds operate by investors contributing money that is then invested so that profit can be earned in a manner compliant with Shariah. A Shariah compliant fund is an investment vehicle fund structured in accordance to Shariah rules. Shariah funds can be managed as mutual funds, ETFs or hedge funds. They are in essence common funds with an extra layer of Islamic rules integrated in the investment policies of the fund. While the funds are required to be fully compliant with Shariah rule, the companies

structuring, managing and promoting the funds do not have to be necessarily Shariah compliant.

ISLAMIC BANKING CURRENT STATUS IN INDIA

Islamic Banking is not allowed as per the current regulatory system, but these financial institutions claim that they are working as per Islamic principles

- **Seyad Shariat Finance**
- **Al-Barr Finance House Limited (India)**
- **Al-Ameen Finance & Investment Corporation**
- **Parsoli Corporation**
- **Idafa Investments**

SHARIYA FUNDS CURRENT STATUS IN INDIA

In the mutual fund space, we currently have 3 Shariah compliant funds, one of which is a passively managed fund, while the other two funds are actively managed. Benchmark Mutual Fund (recently acquired by Goldman Sachs group) was the first to launch a Shariah based ETF called the Shariah BeES (now renamed as GS S&P Shariah BeES) in March 2009. This was followed by Taurus Mutual Fund, which launched an actively managed Shariah Compliant fund 'Taurus Ethical fund' in the same year. After this, there was a repositioning of a 15 year old equity diversified fund from the Tata stable called Tata Select Equity Fund, which has been renamed as Tata Ethical Fund in September 2011.

POTENTIALS OF ISLAMIC BANKING AND SHARIYA FUNDS IN INDIA

1. Islamic Banking And Agricultural Development

Many Indian farmers commit suicide, because they take loans from conventional banks to finance their grape crop, but due to unseasonal rain they are not in a position to repay the principal amount with interest. Farmers' suicides are increasing due to a vicious circle created by money lenders. Had there been a fully-fledged Islamic banking system in India, this may not have taken place.

2. Islamic Banking And Inclusive Growth

Islamic banking operations could enable inclusive growth that the Indian government is relentlessly trying to achieve. Easier access to credit, little or no collateral requirements could help in penetration of banking facilities to even the lowest strata. Though it is criticized that

Islamic banking credit comes at a larger cost, one could still argue that it is better to charge larger costs through profit sharing agreements than to totally deprive one of credit.

3. Islamic Finance Can Promote Stability

The fast growing, Shariah-compliant Islamic finance industry has the potential to promote financial stability because of its risk-sharing and asset-backed features. Islamic finance has, in principle, the potential to promote financial stability because its risk-sharing feature reduces leverage and its financing is asset-backed and thus fully collateralized, Islamic banks also offer profit-sharing and loss-bearing accounts that can help mitigate losses and contagion in the event of banking sector distress, she said. This leads to higher total loss-absorbing capital, one of the key objectives of the new global regulatory reform.

4. Islamic Banking Can Be A Crucial Alternative For Smes

Islamic finance can play a critical role in the handling of SMEs' funding problems. This type of finance might help SMEs diversify their risks based on its risk-sharing and asset-based financing principles. This modern alternative has the potential to increase the diversity of SMEs' financing tools.

5. Shariya Funds

Shariah-compliant fund will give Muslims – and also, investors from other community – more ways to invest conscientiously.

CONCLUSION

The global Islamic finance industry is a vibrant, dynamic and rapidly expanding part of the worldwide financial system. It also boasts considerable growth potential. It should be well kept in mind that Islamic bank is not related to Muslims only it is related to all. It is not related to any particular religion but the fruits of Islamic banking can be enjoyed in India too which shall result in social well being and wealth generation activities in the society. Islamic banking can provide immense opportunities to energize the Indian economy with the participation of previously excluded Muslims in Shariah-compliant banking and at the same time could lead to substantial inward investment to boost India's further development. It would also contribute in the economic development of country.



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