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"Perception of NRIS Towards Islamic Banking With Special Reference To Dubai"

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Abstract: *Banking is an important financial institution in the present global economic system. Despite touching each and every part of our lives, conventional banks have still been viewed solely as financial institution, which should concern themselves with only financial matters. Ethics and morality have not entered the equation. Interest which is the backbone of the conventional banking system is not allowed in religion of Islam. This need is fulfilled by the evolution of Islamic banking or participatory banking or interest free banking. This paper attempts to analyze perception of NRIs towards Islamic banking with special reference to Dubai.*

Keywords: *Islamic Banking, Perception, Non Resident Indians*

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I. Introduction

Islamic banking refers to a system of banking activity that is consistent with the principle of Islamic law (shariah) and its practical application through the development of Islamic economics. Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of shariah. Shariah prohibits the payment of acceptance of interest fees for the lending and accepting of money respectively (riba, usury) for specific items as well as investing in business that provide goods or services considered contrary to its principles (haram, forbidden). Islamic banks are seen to involve themselves as financial intermediaries and investment-oriented institutions in bringing about well-being of the community society and the economy in the light of shariah. The economic philosophy of Islam has no concept of riba because according to Islam, riba is that cars in society, which accumulates money around hand full of people and results in creating monopolies, selfishness, greed ,injustice and oppressions. Islam primarily encourages highest moral ethics such as universal brotherhood, collective welfare and prosperity, social fairness and justice. Islamic banking is a growing sector with its diversity in different segments. It caters no Muslim as well as in countries where Muslims live.non Muslim communities that seek ethical financial solutions have also been attracted to Islamic banking conference (OIC)defined Islamic banking as a financial institution whose states, rules and procedures expressly state its commitment to the principle of Islamic shariah and to the banking of the receipt and payment of interest on any of its operation.

Principles of Islamic banking:-

> Absence of interest based (riba) transactions.
> Introduction of an Islamic tax/zakat
> Sharing of profit and loss.
> Prohibition of investing in unlawful businesses.

In India the development of shariah compliant financial institutions had started well before the establishment of a few most prominent Islamic financial institutions the worldwide. But due to certain legal and other hurdles, these institutions could not grow beyond certain limit and those which grew could not sustain themselves at that level for a longer time. Since the inception of modern Islamic banking, there have been several attempts to establish a shariah complete banking sector in India; however, financial legislation and regulation have reservations with respect to setting up Islamic banks in India. In the last few years the discussion on the need and advisability for changes and amendments of existing legal framework are raised especially regarding the Banking Regulation Act 1949.

An interest-free cooperative bank modeled on the lines of Islamic banking system possibly the first of its kind in India – was launched in Kerala in 2017 with the support of community party of India. The bank, in Kerala's kannur district, hopes to attract investments from devout Muslims who had kept away from the formal interest based banking system as it went against their religious laws. The Islamic banking system also prohibits investment in any business that is deemed haram, such as activities related to pork, alcohol or gambling. The cooperative bank will thus only invest in ventures that are permissible under Islamic law. The cooperative institution has been named 'Halal Fayidah', meaning profit made from permissible businesses. "The bank will invest only in Halal business ventures," said M Shajar, the chief promoter of the bank. At present the bank plans to invest in meat processing unit, construction and contracting businesses." The profit accruing from the investments will be shared between the shareholders and customers of the bank. Once the bank starts making profits in few years, it will offer interest free loans.

The concept of Islamic banking is yet to take off widely in India. In 2016, the Reserve Bank of India had suggested that conventional banks open "Islamic windows" to gradually introduce shariah - compliant banking. However, no deadline has been set for this. In 2008, Raghuram Rajan (who went on to serve as RBI governor from 2013 to 2016) had suggested the introduction of Islamic banking in India, arguing that it would encourage financial inclusion.

Statement of the problem

The fundamental operations of most of banks in the country are based on interest charged on loans and interest paid on deposits. Islamic bank on the other hand age-old mode of banking. Based on shariah principle according to which interest in any form is unlawful. India's first Islamic bank starts in Kerala as a non banking financial institution.

The purpose of this study is to gauge the level of respondents' awareness and perception towards Islamic banking, and additionally this study investigates the opinion of respondents as regards to implementation of Islamic banks in Kerala.

Objectives of the study

- To understand the concept of Islamic banking.
- To study the respondents awareness of Islamic banking.
- To examine the factors lead to adopt Islamic banking
- To discriminate analysis on perception on educational level basis.

Hypothesis of the study

Ho: There is no significant difference between Educational level and awareness on Islamic banking.
Ha: There is significant difference between Educational level and awareness on Islamic banking.

II. Research Methodology

Descriptive Research is selected as research design. The main objective of research design is to depict accurately the distinctiveness of particular group or situation. The people from Kerala who are working in gulf countries are the main source of primary data collected by administering 50 questionnaires to the respondents through online.Secondary data required for the study was collected from various books, journals, magazine, internet etc. For the purpose of this study, the people from Kerala who are working in gulf countries are chosen. The reason why these people were chosen is two-fold. Firstly, the Islamic banks are successfully running in gulf countries and secondly, a large part of people from Kerala working abroad, especially in Dubai. The samples were collected by using convenience sampling method. The sample size for the study is 30 respondents who are working in gulf countries. The data gathering tool used consisted of a self-monitored questionnaire. The questionnaire was made up of twenty two questions designed based on the research objectives. It includes both open-ended and close-ended questions. The percentage analysis tool is used for analyzing the data collected from the respondents. Five point scale of 'Not at all aware' to 'extremely aware' is used for measuring awareness level and 'strongly disagree' to 'strongly agree' is used for measuring satisfaction level with various factors. The hypotheses are tested by using ANOVA.

III. Theoretical framework

islamic banking – an overview

Islamic Banking refers to a method of banking that is based on Islamic Law (Shariah) which prohibits interest based banking and permits only profit sharing based banking. The concept is based on a verse of the Holy Quran that says ―Allah has allowed only legitimate trade and prohibits interest. It is against the interest, as interest is believed to lead to exploitation and unproductive income. Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of the Shariah, known as Fiqh al-Muamalat (Islamic rules on transactions). So, today, by Islamic Banking one does not mean a mere lending institution extending interest-free loans, but a package of Shariah-compliant (strict adherence to Islamic economic norms) financial services like Islamic mutual funds, Islamic bonds (sukuk), Islamic insurance (takaful), Islamic credit cards and other technology-driven services like ATMs and online banking, all of which have a tremendous market in India. Incidentally, the Dow Jones Islamic Index has, after suitable vetting, declared 60-70 percent of Indian companies on the BSE and NSE as Shariah compliant for equity investment. In India there are reportedly 200 small Islamic banking institutions in Kerala alone. The deposits of each of these banks range from Rs. one lakh to Rs. ten lakhs and they do not restrict their lending to Muslims alone. In many Western countries mainstream banks are now opening special no-interest divisions to cater to Muslim clients who refuse to either pay or earn interest. But this is clearly the response to a niche-market of clients with special needs. There is still a long way to go before the idea of interest-free money is taken seriously by conventional bankers and policy makers.

historical development

The history of Islamic banking could be divided into two parts. The earliest references to the organization of banking on the basis of profit sharing rather than interest (Fiqh al-Muamalat-the fundamental principal of Islamic Banking) can be traced to the late forties. However, in the next two decades it attracted more attention, partly because of the political interest that it created in Pakistan and partly because of the migration of Muslims to the western countries. The Islamic Development Bank, an inter-governmental bank established in 1975, was born of this process, being the first bank incorporating the principles of Shariah banking. The first private interest-freebank, the Dubai Islamic Bank, was also set up in 1975 by a group of Muslim businessmen from several countries. Two more private banks were founded in 1977 under the name of Faisal Islamic Bank in Egypt and the Sudan. In the same year the Kuwaiti government set up the Kuwait Finance House. In the ten years since the establishment of the first private commercial bank in Dubai, more than 50 interest-free banks have come into being. Though quite a few of them are in Muslim countries, there are now spreading in other countries as well like in Denmark, Luxembourg, Switzerland and the UK. In most countries the establishment of interestfree banking has been by private initiative (mostly by migrant Muslims). In Iran and Pakistan, however, it was by government initiative and covered all banks in the country.

concepts in islamic banking

Amongst the common Islamic concepts used in Islamic banking are:

❖ **Profit sharing (mudarabah):** Islamic Banks offer savings and time deposits in the form of investment accounts under the system of *mudarabah*. The depositors of such accounts share profits and/or losses of the institutions under an agreed-upon formula. The depositors in mudarabah accounts are the suppliers of capital, rabb al-mal, who entrust their funds to the bank, mudarib, in the tradition of Western style investment banking, subject to dealings with only noninterest bearing instruments. The mudarib, acting as money manager or agent, invests the money and then distributes the profits and/or losses on the basis of the agreed-upon contract. The following conditions must be met:

❖ Profits to be shared must be proportional to the funds contributed to the mudarabah account and these cannot be in lump sums or in guaranteed amounts.

❖ The loss to the depositor (contributor of funds) cannot be more than the amount of deposit.

❖ **Non-interest bearing demand deposits (checking accounts):** Conventional checkingaccounts in modern commercial banks are non-interest bearing deposits, and since Islamic Banking Institutions shun interest rate based dealings, most of them offer such demand depositaccounts. Ideally, Islamic Banks should not be charging any fees on checking accounts astheyare free to employ the depositors' money, subject to the reserve requirements, if there are any,into earning assets. In practice, however, this is not always the case. Depending on the size of thedeposit, service charges and fees get collected to meet operating costs.

❖ **Joint venture (musharakah):** The third instrument used by Islamic Banks is musharaka*h*, which is a form of equity financing through joint ventures. Unlike the case of mudarabah, here the bank not only participates in the supply of capital to the venture, but also in its management. Thus, the Islamic Banking Institutions assumes the role of an entrepreneur as well as that of a financier

❖ **Cost plus (murabahah):** The fourth instrument, *murabahah* (or more specifically, baimujalmurabah - cost plus financing), used by the Islamic Banks consist of transactions where the institution buys a product (e.g., a car or a machinery) on a client's behalf and then resells thiswith a mark-up to a client, the borrower. Thus, an automobile selling at a price of $20,000 maybe bought by the Islamic Banking Institutions and resold to a client at $25,000, to be paid back inmonthly installments (or a lump sum at the end of the loan term) over a 2-year period. Instead ofinterest in a traditional loan, the bank makes a profit with the difference of the purchase value.

❖ **Leasing (ijarah):** The fifth instrument used by the Islamic Banks is *ijarah* or leasing. Two types of leases are used. In one, the lessee pays the lessor installment payments that go towards ultimate purchase of the equipment by the lessee. This type of lease/purchase agreement is known as ijarah Wa-iqtina. The second type of lease maintains the ownership of the lessor as per the lease contract

islamic banking – potential in india

The potential for Islamic Banking in India lies in the following points:

- India could be a significant market for Islamic Banking Institutions due to its large Muslim population; and
- However, it is still subject to a favourable change in regulatory environment and increased awareness among Muslims and India.Many studies finds that India has the potential of emerging as a significant market for Islamicbanking institutions, provided there is a favourable change in regulatory environment and increased awareness among Muslims and India as a whole. One study says that, _given favourable regulatory conditions, India holds a promising growth opportunity for Islamic finance institutions, whose asset base globally is expected to more than triple to $1 trillion by 2016. According to market intelligence and data analysis services provider Grail Research, Islamic banking is already fast gaining prominence among the global financial institutions, especially in the backdrop of the banking sector woes impacting the markets like the USA and UK and the concept has a huge potential market in India as well. According to Report by Grail Research, part of US-based management consultancy Monitor Group, ―India could be a significant market for Islamic banking institutions, provided there is a favourable change in regulatory environment and increased awareness among Muslims and India as a whole. According to Grail Research Founder and CEO Mr Colin Gounden, ―You need to look no further than at the profitability of Saudi banks (the world‗s highest) for reasons why Islamic finance will have strong interest globally as a growth engine for financial services. In the words of AI Rahmatullah, Professor, University of Calicut, ―The size of the market will be very large as the Indian population is above 100 crore and Muslim population itself is about 15 crore and majority of them, in the name of religious faith, are looking for interest free banking and finance. As per the Indian census, India has one of the largest Muslim population in the world but a large portion of this has not been able to access the banking services because as per Islamic principles, giving or receiving interest is prohibited though money can be lent on profit sharing or fee based model. India with a highest percentage of Muslim population in a non-Islamic country should have been in the forefront of Islamic banking initiatives, but it is yet to be permitted here. It will hugely benefit the Indian economy by attracting investments from the cash rich Middle Eastern economies on the lookout for new investment destinations. Five Indian companies, Reliance Industries, Infosys Technologies Wipro, Tata Motors and Satyam Computer Services figure in the Standard & Poor‗s BRIC Shariah Index. The Indian government has ruled out the introduction of Islamic Banking in the emerging Asian economy but has not dismissed the option for overseas branches and subsidiaries of Indian banks. Reserve Bank of India is considering requirements for overseas branches and subsidiaries to offer Islamic Banking products in order to compete in the emerging field.

financing modes by islamic banks

Islamic Banks adopt several modes of financing projects. For instance:

❖ **Investment Financing**: This is done in three ways namely:

- Musharakah where a bank may join another entity to set up a joint venture, both parties participating in the various aspects of the project in varying degrees. Profit and loss are shared in a pre-arranged fashion. This is not very different from the joint venture concept. The venture is an independent legal entity and the bank may withdraw gradually after an initial period.
- Murabahah where the bank contributes the finance and the client provides the expertise, management and labour. Profits are shared by both the partners in a pre-arranged proportion, but when a loss occurs the total loss is borne by the bank.
- Financing on the basis of an estimated rate of return. Under this scheme, the bank estimates the expected rate of return on the specific project it is asked to finance and provides financing on the understanding that at least that rate is payable to the bank. If the project ends up in a profit more than the estimated rate the excess goes to the client. If the profit is less than the estimate the bank will accept the lower rate. In case a loss is suffered the bank will take a share in it.
- **Trade Financing**: This is also done in several ways such as:
- Leasing where the bank buys an item for a client and leases it to him for an agreed period and at the end of that period the lessee pays the balance on the price agreed at the beginning and becomes the owner of the item.
- Mark-up where the bank buys an item for a client and the client agrees to repay the bank the price and an agreed profit later on.
- Sell-and-buy-back where a client sells one of his properties to the bank for an agreedprice payable now on condition that he will buy the property back after certain time for an agreed price.
- Hire-purchase where the bank buys an item for the client and hires it to him for an agreed rent and period, and at the end of that period the client automatically becomes the owner the of the item.
- Letters of credit where the bank guarantees the import of an item using its own funds for a client, on the basis of sharing the profit from the sale of this item or on a mark-up basis.
- **Lending**: The main forms of lending are:

- Loans with a service charge where the bank lends money without interest but they cover their expenses by levying a service charge. This charge may be subject to a maximum set by the authorities.
- No-cost loans where each bank is expected to set aside a part of their funds to grant no cost loans to needy persons such as small farmers, entrepreneurs, producers, etc and to needy consumers.
- Overdrafts also are to be provided, subject to a certain maximum, free of charge.

The hypotheses of the study were tested using one way analysis of variance.

Analysis of variance

ANOVA is applied to find out the significant difference between Educational level and Awareness on Islamic banking by using the following hypotheses is constructed:

H_0: There is no difference between Educational level and Awareness on Islamic banking

H_1: There is no difference between Educational level and Awareness on Islamic banking

Computation Formula: F = MSC/MSE

Degree of Freedom = (c-1) (4, 20),

(r-1) (4, 20)

Level of significance @ 5%

ANOVA TABLE

Source of variance	Sum of squares	Degree of freedom	Mean squares
Between columns	30.8	4	7.7
Between rows	27.2	20	1.36
	58	24	9.06

interpretation

The table value of F for $V_1 = 4$, $V_2 = 20$ at 5% level of significance = 2.87. The calculated value (5.661) is higher than table value (2.87), we reject the null hypothesis. So conclude that there is a significant difference between Educational qualification and Awareness on Islamic banking.

IV. Findings

- Islamic banking has the same purpose as conventional banking except that it operates in accordance with the rules of shariah.
- Shariah prohibits the payment or acceptance of interest fees for the lending and accepting of money respectively, (riba, usury) for specific terms, as well as investing fin businesses that provide goods or services considered contrary to its principles(Haraam, forbidden)
- Islamic banks are seen to involve themselves as financial intermediaries and investments oriented institutions in bringing about wellbeing of the community, society and economy in the light of shariah.
- Most of the respondents are aware about the concept of Islamic banking. But only 13% of respondents are extremely aware about Islamic banking. 7% of respondents are not at all aware.
- Majority of the respondents are aware about the difference between Islamic banking and conventional banking. 10% of respondents are not at all aware.
- About 60% of respondents are agree with Islamic banks conduct its operation according to shariah law.
- About 46% of respondents agree with Islamic banks prohibit interest in all forms of transaction.
- About 40% of respondents are agree with parties in Islamic banks cannot predetermine a guaranteed profit.
- About 53% of respondents are agree with Islamic banking returns are based on gift and profit sharing basis instead of interest.
- Most of the respondents are agree with Islamic banks are contribute social welfare and removing inequalities.
- There is only 10% of respondents have Islamic bank a/c.
- The factors leads to adopt Islamic banking are religion and good for welfare of society.
- There is a relation between respondents’ educational level and awareness on Islamic banking.
- Most of the respondents are not at all aware about Islamic bank started in Kerala.
- About 40% of respondents are agree with Kerala is a suitable place to implement Islamic bank in Kerala. They believe that implementation would bring social benefit.
- Most of the respondents are willing to use Islamic bank in future.

V. Suggestions

- An awareness program should be conducted on a mass scale with the intention for creating awareness among people about Islamic banking.
- People are willing to use Islamic banking in future, so implementation of Islamic bank in Kerala should widen.
- There are some barriers in the path of Islamic banking in Kerala and also India we can accommodate it by making changes in existing operational and regulatory aspects of RBI and Tax Authorities.
- Through the implementation of Islamic banks will help to contribute social benefit to the society.

VI. Conclusion

- Now a day’s banking is an important financial institution. Despite touching each and every part of our lives, conventional banks have still been viewed solely as financial institution. People are very interested about Islamic banking but most of the people are not extremely aware about Islamic banking. There no full-fledged Islamic banking system in Kerala because of the RBI regulation towards Islamic banking. People are ready to use islamic bank in future. So the implementation of Islamic bank would beneficial to Kerala. It will helps to contribute social benefit, economic benefit etc.

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