



# **ALTERNATIVE FINANCE**

**K. MUSHTHAQ AHAMMED**

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# Future Potential of Islamic Banking in India

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**ABSTRACT:** The earlier Committee report highlighted that approximately 50% muslims are financially excluded. The long held issue of financial inclusion can be taken care of by introducing Islamic Banking. Majority of Indian Muslims are so poor that they are not targeted by the commercial banks and whose savings lie idle at home. Muslims in India generally lack creditworthiness primarily because they form part of 'ghettos' or negative areas, which were drawn back and are still in vague. Islamic Banking prohibits usury which is the collection and payment of interest, commonly called Riba. Islamic law also prohibits investing in business that are considered unlawful or Haraam (such as alcohol, gossip columns or pornography).

**KEYWORDS:** Islamic banking, financial inclusion, sharia, Riba, ghettos, haraam

## INTRODUCTION

Islamic Banking refers to a system of banking that is consistent with Islamic law (Sharia) known as *Fiqh al-Muamalat*, and is guided by Islamic economics. Islamic law prohibits usury which is the collection and payment of interest, commonly called *Riba*. Islamic law also prohibits investing in businesses that are considered unlawful or *Haraam* (such as alcohol, gossip columns or pornography). Although Islamic Banking can be traced back to 5<sup>th</sup> century in muslim countries, modern Islamic Banking started in Egypt in 1963 by Ahmad EL Najjar. In 1975, the Islamic Development Bank was set-up with the objective to provide funding of projects in the member countries. The first modern commercial Islamic Bank Dubai Islamic Bank, opened its doors in 1975.

## OBJECTIVES OF THE STUDY

1. To cognize the concept of Islamic banking by understanding various Islamic financial products
2. To evaluate recent developments in Islamic banking in India
3. To understand Future Potential

## PRODUCTS OF ISLAMIC BANKING

1) **Prohibition of Riba:** The Arabic term Riba is a synonym of interest which is used in conventional banking system. Islam considers money only as a medium of exchange and prohibits charging of any interest i.e. money earned out of lending money itself. Islam does not consider money as an asset which can be ethically used to earn a direct return. Interest can lead to exploitation and injustice in the society. In Islamic Banking, though Riba is prohibited but equity based returns on investment are accepted. Lenders obtain ownership interest in the assets they finance or earn profit share or purely a fee-based remuneration. Lenders also participate in the profit sharing. Islamic banks follow the accounting standards prescribed by Accounting and Auditing organization for Islamic finance Institutions (AAOIFI).



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