

A Conceptual Study on Islamic Banking and Analysing the Possibilities of Imbibing it With Conventional Banking System in India

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ABSTRACT:

India might be a significant market for Islamic banking institutions because of its huge Islamic population and the idea of interest-free banking, which are the two factors that contribute to the possibility for Islamic banking in India. Nevertheless, a favourable shift in the legislative framework and more awareness among India's Muslim community are still possible. This research examines the fundamental ideas and principles of Islamic finance, as well as the possibilities for Islamic finance in India and the fusion of conventional and Islamic finance. Additionally, this research demonstrates the ways that Islamic banking is financed and outlines its main problems and limitations. According to several studies, India has the potential to become a big market for Islamic banking institutions if the regulatory framework changes favourably and more people in India as a whole become aware of the opportunities. Unfortunately, Islamic banking is perceived in India as a religious philanthropic endeavour limited to the nations economically and socially marginalised Muslim population. This notion has persisted despite years of effective Islamic banking operations and their amazing expansion globally. Islamic banking should be investigated by the RBI and the Ministry of Finance as a potential solution to the microeconomic issues that the Indian people are now facing

Islamic banking is currently a household term in the international financial community, with all the necessary components of current banking interest. Economy of India has been expanding, but ironically so has the rate of loan borrowing. The government must work to create an equitable society. The majority of Indians, meanwhile, don't have access to credit. The current financial system does not support safeguarding the interests of any and all demographic groups. In the past several decades, various regions of the world have established the Islamic banking system with regarding to the Shariah law. Islamic banking is a risk-sharing system where risks are shared between the lender and the borrower through partnerships, joint ventures, leases, and sales based on real assets. In contrast to traditional banking, where trading in interest is assumed to be a main product, money is solely believed to be a means of exchange. This project throws a bird eye view on imbibing the Islamic banking concepts with conventional banking system in India.

Keywords : Islamic banking, conventional banking, interest-free banking, interest-free banking in India, Imbibing Islamic banking and conventional banking, Islamic banking and conventional banking.

INTRODUCTION:

In India, the present baking method was established in the middle of the 18th century. Following the inception, some of the first banks in India were

1. The general bank of India (which was established in the year 1786, but the bank failed in the year 1791.
2. The Bank of Bengal, which was renamed to the State Bank of India in 1809, is the country's largest and oldest bank. The Bank of Calcutta was established in the middle of 1806 and began operations at that time.

These were the three main bank which was originated by the government. Further, The Imperial Bank of India was created in 1921 as a result of the merger of these banks. This became the state bank of India in 1955, after the year of independence. These banks served in that capacity for many years before the Reserve Bank of India was established, and its successors continued the practise. The reserve bank of India legislation of 1934 gave birth to the institution later in the year 1935. The Bank of Bombay and the Bank of Madras were the other two banks that were founded, in the years 1840 and 1843, respectively. Under the state of India act of the year 1959, the ruling bank that is the state bank of India had been given the control of all the eight state associated banks in the year 1960. However, in the year 2017, the merger of these eight state associated banks along with the state bank of India went into effect. Fourteen significant private banks in India, including the Bank of India, were nationalised by the Indian government. Later in the year 1980, the other six new banks were been nationalised. In the context of India economy the majority of the lenders are these nationalised banks. The banking sector is been nominated by them because of their world wide spread network and their vast size.

STATEMENT OF THE PROBLEM:

"A conceptual study on Islamic banking and analysing the possibilities of imbibing it with conventional banking system in India". A growing number of traditional monetary institutions are incorporating Islamic banking. It is becoming more prevalent not just in countries wherein Muslims make up the majority, as well as in those in which they are a minority. India is indeed the third-most populous Muslim nation on the global aspect, hence there is a sizable marketplace for Islamic banking there. Due to India's significant Muslim population, the introduction of Islamic banking will revolutionise current economic financial system both in terms of breadth and opportunities. This will be favourable for India.

SCOPE OF THE STUDY:

Islamic finance encourages risk-taking and entrepreneurship, as well as its extension to the underprivileged might be a useful tool for development assistance. The social advantages are clear; now, usurious interest rates have been frequently used by lenders to take advantage of the impoverished.

Islamic banking was first proposed in 1940 and thus was focused on interest-free finance, only allowing profit-sharing transactions. Given that India is home to 140 million Muslims—roughly 15% of the world's Muslim the potential for Islamic banking is enormous in India. Standard & Poor's Rating Services estimates that the market potential is $4 trillion globally, therefore this could be a vehicle for accelerating economic development in India because it will open up prospects for the society's workers and capitalist poor. Indian banks are becoming increasingly familiar with the idea, and it is widely understood that there is room for Islamic banking in India. Many institutions in the world have demonstrated a willingness to implement this kind of interest-free financing. Nevertheless, scheduled commercial banks won't be able to adopt Islamic banking, at least in a little fashion, before appropriate rules are established to govern this type of banking. In India, the RBI has recognized Islamic banks. Integrity, corporate ventures, risk transfer, and ethical financing are the key focuses of Islamic finance, which draws in a broad range of Muslims and non-Muslims together. Islamic banking is currently one of the world financial sectors in the capital market with the quickest growth.

Also this study helps to answer the questions like,

1. What will be the possibilities of imbibing Islamic banking in India?
2. What are the major Islamic financial instruments?
3. How is Islamic banking different from Conventional banking?

OBJECTIVES OF THE STUDY:

1. To examine the fundamental ideas and principles of Islamic banking.
2. To educate about Islamic finance while using different Islamic financial instruments.
3. To analyse the SWOC of Islamic banking concept in India
4. To illustrate how Islamic banking performs in India.

LIMITATIONS OF THE STUDY:

1. The concept of Islamic Banking is a new concept to the researcher. The researcher has made the best efforts to analyse and interpret to the best knowledge.
2. Imbibing Islamic Banking with conventional banking is a difficult task, still the researcher made a humble attempt to compare conventional banking products to Islamic banking
3. The time frame for this research work was limited with a short period of time, it was a bit tough task for the researcher to make a detailed analysis with the banking system.
4. The study is only restricted with comparing the conventional banking products with Islamic banking products alone.

5. As it is a banking sector, norms and regulations that is inflation policies and interest rates of the financial system keeps fluctuating as on yearly basis, analyzing the system operation since the emergence till date was a difficult task.
6. Different scholars have explained the Islamic instruments in their way, analyzing each of them and interpretation the findings was a challenging task.

MARKET SIZE:

As of September 2021, there were 213145 ATMs in use in India, with 47% of banks opening locations in semi-urban and rural areas.In the financial year 2018-2021, the assets in the banks across all the sectors raised. The total assets in the banking industry including those of public and private sectors banks in the country have gone up to USD2.48 trillion in the financial year 2021. The total of all the assets in the public and the private banking industry was USD 1,602.65 billion and USD 878.56 billion. In the financial year 2016-2021, the credit of banks had raise at a CAGR of 0.29%. Subsequently as per financial year 2021, the overall credit was extended to USD 1,487.60 billion. During the same year the deposits grew at a CAGR of 12.38% and touched USD 2.06 trillion by the end of financial year 2021. Bank deposits were stood at Rs. 162.41 trillion.For the further growth in the banking industry the contribution of the reforms and the implementation of different projects and increased spending on the infrastructure is been done. The quick expansion of firms will assist in their credit needs, and all of these fundamental changes indicate that the Indian banking sector is capable of expansion. Internet and mobile banking services have also been made possible by technological advancements. The technology infrastructure has been upgraded, and client service delivery has been improved, to strengthen the business's competitive advantage and improve the overall customer experience.In the financial year 2018 the Indian digital lending was up to USD 75 billion and by the end of financial year it is estimated to reach up to USD1 trillion, driven by fivefold increase in the digital disbursements. By the end of financial year 2025, India's Fintech market is in the expectation to reach Rs. 6.2 trillion.

EMERGENCE OF ISLAMIC BANKING:

On January 1, 1963, the modern Islamic financial system first began to emerge. So as to the present system of their banking, it started in the year 1975, when the Islamic banks were emerged and established and were mandatory to be operated in accordance to the Islamic law and principles (shariah). Since its emergence and establishment Islamic banking is been one of the easy going and the fastest developing sectors in the world wide network and the banking system as certain regions and countries have continued to establish these Islamic banks, which states that all the Islamic banking assets which are been held by the commercial banks worldwide, will probably continue to develop and grow.The Islamic banking sector has rapidly expanded over the past ten years, largely due to global public knowledge and demand for its services, which also facilitates quick and simple access to banking services. Around the world's banking industry and market, and moreover in the GCC that is the (gulf cooperation council), and the southern east and south Asian, which is referred to as home for almost 50% of the overall Islamic banking system, the main aim is to emerge and the dual banking system which conventional banking system coexists with that of the Islamic banking system.The demand for Islamic banking instruments and products is rising, not only among financiers from the Middle East and other Islamic nations but also with the assistance of investors globally, who will always support the industry globally. This is how the entire Islamic banking system is growing.Also with the Islamic banking system expanding worldwide, the Islamic banking system is been undergoing a vast and faster expansion around the global spectrum of the banking activities which nevertheless includes all the personal banking system which is the financial insurance and financial market products and instruments which moreover includes the investments.The growth in the Islamic banking industry worldwide is based on three factors that is basically form the larger population of the Muslim community all over the world and also the non-Muslim investors the Islamic banking practices.

ISLAMIC BANKING INSTRUMENTS:

Riba: an Islamic concept in the Islamic banking system which is called as charged interest. Mainly referred to as the usury, in other words known as the unreasonably charging of the high interest rates. Besides there is another type of Riba according to shariah that is referred as the exchange of the products of uneven qualities and quantities

Istisna: it is regarded as to the contract where the payment of the contract is made by the buyer and the respected products and goods are delivered on the future date. According to the project finance, its structure is moreover used as in the emerging and construction period of the respected project. Many Islamic lenders and investors appoint the borrowers as their agency contractor so as to specify the project is procured islamical on the financial terms.

Ijara: it is mainly a lease contract. A lease contract happens to be when a party has given all the rights to use on the condition of the return for a rental payment. This instrument mainly is used in the operational stage of the project financing as on the construction stage.

Wakala: this instrument is handled by an agency contractor where in the wakil represents as to the agency capacity with regards to that of the financer.

Sukul: it is stated as the Islamic bond moreover rather than the debt claim the investors takes the share of the underlying asset on his name.

Murabahah: it is referred to as the sale agreement where in the agreed profit between the financiers and then the client is done in the sales and purchases account.
Mudarabah: Is a form of Islamic banking whereby Islamic banks provide savings and time deposits in the form of investment accounts in accordance with the Mudarabah system. In such an account, the bank's depositors will split all organisation gains and losses in accordance with a predetermined structure. They are frequently referred to as the bank's capital suppliers because they only entrust the bank with non-interest bearing instruments when they deposit money with them.

Musharakah: This is a particular kind of joint venture-based equity financing method. Similar to Mudarabah, the bank not only contributes to the joint venture's capital supply but also to its management.

EVOLUTION OF ISLAMIC BANKING INDIA:

Two of the main advantages of setting up the Islamic banking system in India are that it has a sizable Muslim population and that it is being done so within the framework of favourable regulatory system changes and increased Muslim and Indian knowledge.

According to the Indian census the larger part of Muslim population is seen in India but a larger part of this is not been in a position to access all the banking services with an framework that as per the Islamic legal regulations receiving the interest and giving interest is been prohibited as Only the profit sharing feature and the fee-based system or model can be used to lend the money.

The Middle Eastern economies and the fact that there are new investment destinations will both gain from the introduction of the Islamic banking system in India, which also benefits from having a bigger percentage of the Islamic population. Indian businesses like Infosys, Wipro, Tata Motors, and Satyam Computer Services are probably included in the BRIC index of Islamic law, according to poor. The expansion of the Islamic banking system in Asia has been prohibited by Indian regulatory system, but this hasn't eliminated the possibility of opening foreign branches and subsidiaries and competing in this new market by providing Islamic banking instruments.The economy of India is been growing in an excellent scale but on the other hand the rate borrowers is also on an increasing rate. This system must endeavour to maintain an egalitarian system. Moreover Indian people have no access to credit as the present system of banking is not conducive to protect the interest of all the section of the economy and the Indian population. Additionally, the Islamic banking system, which is founded on Islamic law, has become fully institutionalised throughout the world during the past several decades. Lenders and borrowers share risks under the Islamic banking system through joint ventures, partnerships, leases, and sales. It is based on actual resources. Money is only thought to be a vehicle of exchange, as opposed to conventional banking, where trading in interest is a primary product and where it is assumed that money is exchanged as a primary commodity. Islamic banking has the potential to promote inclusive economic development and strengthen weaker populations, such as farmers and small- and medium-sized enterprises (SME's). The argument for interest-free loans to attract investment from the Gulf region is also strong. Finally, it gives the socialist goal that the Constitution envisioned strength. As a result, many studies have been done to support Islamic banking in India, including the Planning Commission report from 2008. In spite of theoretical goals and its functioning, the current legal structure does not permit the establishment of such a banking system. But it appears that India is now favouring religious legislation in order to advance the cause of secular law. Although India has never had an Islamic banking system, shariah-compliant products are also provided by businesses, and Islamic financing has occasionally been tested by nonbanking financial institutions.

However, some people have recently made a concerted effort to spread the concept of Islamic finance.

INDIAN ISLAMIC BANKING'S POTENTIAL IN FUTURE:

The approach to the problem must be finished in order to have a lasting solution. There is no room for compromises, such as the coexistence of conventional and all-inclusive Islamic finance. As a result, it will be best to work toward an economy with no interest policy that is built on 100% reserves for defending the wider public interest rather than offering the superfluous option of making money by clicking buttons on a computer. Anyway, it would result in a fundamental transformation of the country's overall economy. Therefore, it would not be wise to overnight convert India's economy from one that relies on interest to one that does not seem to. India is advised to make the required changes to the banking laws, preferably with distinct Islamic banking laws that let Islamic banks to operate alongside conventional banks. This can be accomplished in one of two ways: by granting Islamic banks new licences or by enabling Islamic banking services in Indian banks. Further study should also be conducted throughout the transition time to prepare for an economy without interest. Unnecessarily, some people assert that the word "Islamic banking" violates the Constitution's secular foundation. It is advised that we call it interest-free banking rather than Islamic banking to prevent misunderstandings.

FIRST ISLAMIC BANKING IN INDIA:

Due to RBI regulations requiring banks to offer customers interest, Islamic banks cannot be referred to as banks in India because there is no interest option available. Due to the fact that most purported Islamic financial institutions and banks in India lack bank status and cannot issue cheques. The Reserve Bank of India has given the Kerala State Industrial Development Corporation (KSIDC) and the Kerala government the go-ahead to establish a banking institution based on Islamic financial principles.Cheraman Financial Services Ltd. was the first bank to function as a nonbank financing firm NBFC under the Kerala State Industrial Development Corporation. (CFSL). A public statement was made regarding CFSL, the most recent iteration of Al Baraka's financial services. According to CFSL Chairman P Mohammed Ali, the company will operate as a nonbanking financing company with an authorised capital of Rs. 1000 crore, according to Industries Minister PK Kunhalikutty. In the beginning, it will be registered as a non-banking financing business (NBFC), and eventually, it will be converted into a full-fledged bank that complies with shariah, according to informed government officials.

The registration procedures were probably finished this year, and the NBFC started operating in 2010. With the backing of the communist party in India, an interest-free cooperative bank modelled after the Islamic banking system possibly the first of its kind in India was established.Devout Muslims who have shied away from the traditional interest-based banking system because it violated their religious prohibitions are the target of the bank in Kerala's Kannur district, which is hoping to attract investments from them.Government representatives assert that the bank changed its status from a non-banking finance business (NBFC) to a full-fledged Sariah compliant bank after being registered. Two shariah-compliant locations, Bai al Salam and all Instinsa, have been designated for such investments by the projected Kerala-based bank: these localities will get funding for infrastructural projects.Bank put all of its funds in wealth-generating investment opportunities and gave shareholders a return. The planned Islamic bank also established a portion of the social fund, which is required by shariah law and the Islamic banking idea, and offered Gulf returnees interest-free loans to start small businesses or other ventures. The state's Muslim population is overwhelmingly in favour of the idea, and many wealthy Muslims are closely adhering to sharia principles in their businesses. Most of these people don't have a bank account. There was much debate about whether investing in the stock market violates shariah standards. Some people in the community think that sharia trading goes against the principles of Islam. They will therefore feel relieved that an Islamic bank has been established. West Asia and countries with a large Muslim population, including Malaysia and Indonesia, are especially fond of the idea. Leading worldwide banks with exclusive Islamic banking windows are HSBC, Standard & Chartered, and others. The largest challenge facing the Kerala-based bank was the establishment of a Shariah supervisory board. On the board of the bank should be independent scholars with expertise of banking procedures and Shariah principles. The Reserve Bank of India gave the Cheraman Financial Services Ltd. permission to open a financial institution that adheres to Islamic financial principles on August 18, 2013.

REVIEW OF LITERATURE:

Qureshi- Islam and the interest-based theory-1946

Similar to health care and education, this book saw banking finance as a social aspect that the government ought to fund. Due to the bank's inability to pay interest to account holders or accrue interest on loans that were issued, Qureshi took this stance. Qureshi also mentioned businesspeople and banks forming partnerships as a potential substitute, sharing any losses. Profit sharing was left out of the discussion. Early authors weren't expressing well-thought-out ideas; they were just thinking aloud.

Ahmad- economies of Islam-Chapter 7-1952

This book suggests that Islamic banks can be founded as limited liability joint stock companies. In his plan, there was a partnership-based account where anyone could deposit money, with shareholders earning more dividends than the account holders phone from the flawlessly constructed phones, in addition to current accounts, on which neither dividends nor interest were to be granted. Just the way Qureshi before him, Ahmad mentioned potential business partnerships with entrepreneurs looking for bank financing. However, neither the partnership principle nor who would, if anyone, bear the loss, were made explicit. It was suggested that banks may settle trade bills using money from their current accounts without paying interest.

Mohsin Khan, Theoretical research in Islamic banking and finance 1982

A thorough and complex framework for Islamic banking in a contemporary context has been offered by Mohsin. His approach combines the traits of development, merchant, and commercial banks in an innovative way. As if interest-free banks couldn't thrive on just banking business, it adds numerous non-banking services like consulting, factoring, real estate, and trust company. Given the sophistication and specialised nature of many of the operations listed, many of which surely fall outside the jurisdiction of commercial banking, most Muslim nations may consider them irrelevant at this point in their development.Moshin explicitly claimed that interest-free banks could coexist with other banks that charged interest, demonstrating that his concept was created to work in a capitalist system.

RESEARCH METHODOLOGY:

Secondary data is the research that has previously been gathered and can be assessed by the researchers. It refers to information that has previously been gathered from original sources and produced easily accessible for use in subsequent study.

Data that is categorised as secondary for one project could be fundamental for yet another. The gathering of secondary data is the basic foundation of the investigation. The secondary data is gathered from a variety of outlets, including unpublished theses, research articles, novels, periodicals, and periodicals.

All articles were compiled using researchgate.com, social direct, and online scholars. Look up publications, and research papers. Systematic review that are obviously designed for the market for Islamic financial institutions are really the central objective. To glean knowledge about Islamic financial institutions, market trends, and related challenges, the research and periodicals will be reviewed.

DATA ANALYSIS:

HOUSING LOAN:

HOUSING LOAN IN CONVENTIONAL BANKING SYSTEM:

A home loan is a source of financing which is acquired for the purpose of acquiring a house by pledging the asset as security. Home loans provide greater investment with low interest rates as well as lengthy terms. EMIs are used to pay them back. The estate's title is returned to the bank following repayment. A house loan offers finance to make it possible for you to affordably acquire the property you need. Up to 75% to 90% of the price of the property is covered by the lender, as well as a lump sum in the extent of the balance is required at closing. Housing loans provide a lot of money at low interest rates and have lengthy repayment terms. Additionally, the Indian government offers subsidies underneath the number of housing programmers, such as the PMAY credit facility.

Strategies for obtaining a decent mortgage include

- Do your market research and pick the best lender.
- Check your home loan eligibility.
- Ensure that your credit score is high.

- Be aware of the costs and fees (go through the loan agreement to understand the conditions that are undergone with the different fees and charges and assess the amount of the loan).
- Put up money for a down payment and make a payback plan ahead of time.
- Keep all relevant documents handy.

Housing loans can be accessible from a wide range of financial institutions, notably mortgage banking firms, commercial banks, community banks, credit unions, savings banks, as well as mortgage brokers. This same government sponsors a number of homebuyer support programs, such as those that provide low- to moderate-income homebuyers with down payment assistance, mortgage insurance programmes, special residential mortgage programmes for teachers and law-enforcement officers, and loans that help revitalise an inward housing.

HOUSE FINANCING IN ISLAMIC BANKING

An additional financial solution for homebuyers to finance their buying of a residence is islamic house financing. The majority of Islamic house financing options now provided by Islamic bankers are predicated based the Bay' Bithaman Ajil (BBA) and commodities Murabahah principles.

Source of revenue: it has two key structures for an Islamic home finance product- Ijara and Murabahah. With Ijara financing (an Arabic word which means shared equity rental) the financier provides financing to the customer, enabling them to acquire and use the property, with the client then making repayments to the financier. The repayment comprise the Ijara rental component for the borrower's use of the financier equity interest in the property, and a principal component whereby the borrower incrementally increases their equity in the property through the repayment of the principal amount of the debt. This transaction occurs by the way of a finance facility agreement. To clarify, this model is not a rent-to-buy scheme.

This differs from conventional home loan, in which a lender extends credit to a borrower who repays the loan with interest. The most popular kind of Islamic financing in the Middle East and Asian subcontinent is Murabahah financing. By method of such a contracts, an Islamic financier buys a property from such a vendor at the desired time and resells it to the customer at a predetermined profitability ratio.

The customer then makes periodic payments of an agreed amount over a set period of time. This method of Islamic financing differs from a traditional loan in that monies are not simply extended by the financer to the customer for the purchase of an asset, as is the case with the traditional loan. Rather, an asset is purchased by the financier and then sold to the customer. Moreover under a traditional loan agreement, the final amount being repaid is unknown as there may be variability in the rate of repayment over the life of the loan, while under a Murabahah agreement the final repayment amount is pre-agreed between the parties, removing ambiguity and creating a high degree of transparency.

The requirements to apply for Islamic finance are similar to those of traditional mortgage application. Essentially applicants will need to substantiate their income in order to demonstrate their borrowing capacity, and provide proof of their intended deposit. The assessment process will consider credit history, employment details, dependents, expenses, liabilities, and property details. Notably being of Islamic faith is not a requirement of this process.

LEASE FINANCING:

LEASE FINANCING IN CONVENTIONAL BANKING SYSTEM

A traditional lease is an agreement between both the lessor and the lessee for the ownership of a particular asset. The asset remains the property of both the lessor, but that the lessee is given the ability to utilize it during the duration of the lease in exchange for a set of cash payments by the lessee to the lessor.

A pure rental agreement called an operational lease has three unique characteristics

- The asset's cost has not been entirely amortised well over rental period.
- The asset's upkeep is handled by the lessor.
- In most cases, the lessor receives the asset back.

As a result, the lessee benefits from the ability to acquire an asset, use it for its interest, and then release it after it has completed its task. The characteristics of an operating lease, which vary from those of finance lease, include the following:

- One of the terms of the lease period is that title to the asset shall not end up passing towards the Lessee.
- A purchase option to acquire the asset at a discount cannot be included in the lease agreement.
- The lease period must be shorter than 75% of the asset's market economy.

Only about 90% (not equal to) of the asset's fair market value should be less than the present value of rental as well as lease payments that do not contain executory costs (insurance, maintenance, taxes, etc.).

The purpose of these qualities is to ascertain the parties' intentions in a leasing deal. An operating lease is an agreement that does not include the conveyance of all ownership's rights and obligations.

<u>Source of revenue</u>: Another significant source of intermediate- as well as long-term financing is leasing, in which the asset class owner grants a third party the ability to utilize the asset in exchange for reoccurring instalments.

ISLAMIC LEASE FINANCING/IJARA:

Ijara is a contract between both the lessor and the lessee in which the lessee receives or pays for a specific service or benefit in exchange for a distribution of the benefits or rent from the lessor's property. It is a lease agreement wherein the lessor rents out using a specific asset towards the lessee in exchange for a certain rate or rental for a predetermined amount of time.

The two guiding ideas and primary sources of income in Islamic lease financing are:

- The financing must be based on assets: According to the first basic rule of shariah, profit is made whenever anything with inherent value is traded or made available for use, contrary to how traditional financial transactions are conducted. Money seems to have no intrinsic worth. As a result, trading in money could indeed make a profit unless it is exchanged for actual assets.
- A component of risk is required: The second fundamental principle of Islamic lease financing is that a person cannot demand a profit or charge for a piece of land or a deal in which he has never assumed any risk.

In such an Ijara agreement, the lessor owns part of the leased asset while leasing the usufruct (or right of use) to a business, who will then utilise it for the agreed-upon duration for the agreed-upon fee. The lessor is responsible for taking on all liabilities and risks associated with the leased asset, along with the responsibility to repair any impairment and damage brought on by regular wear and tear and other natural occurrences that aren't the result of the lessee's bad behaviour or carelessness.

The term "Ijara" refers to a contract of known and intended usufruct against a specified and lawful return or recompense for the performance or repayment for the benefits supposed to be taken, for the exertion or labour intended to be done.

HIRE PURCHASING:

HIRE PURCHASE SYSTEM IN CONVENTIONAL BANKING

It is a contract for the purchase of expensive consumer items where the buyer makes a down payment up front and then pays the remaining balance plus interest over time in instalments. It is described as an agreement whereby the owner of the assets makes them available for rental in exchange for regular payments made by the hirer. Once all the agreed-upon payments have been made, the hirer has the choice to buy and own the item. With some monthly agreements, the buyer receives rights of ownership as soon as the seller and buyer agree to the agreement. Under hire purchase agreement, one buyer does not formally acquire the goods as their own unless all payments have been received. It has these characteristics:

1. Hire purchase contracts are not regarded as a credit extension.
2. Ownership does not pass to the buyer under a hire purchase arrangement unless all instalments have been fulfilled.
3. Compared to outright purchases, hire buy contracts are typically higher expensive over the long term.

Hire purchase contracts are comparable to rent-to-own arrangements, such those for rent-to-own cars, where the lessee has the option to purchase at any time throughout the term of the contract. Similar to rent-to-own, hire purchase can help consumers with bad credit by allowing them to spread out the expense of pricey things they otherwise wouldn't be able to afford over a longer period of time. However, it differs from extending credit because the buyer doesn't actually own the goods until all payments have been received. Compared to alternative sales or renting options for unprotected items, hire purchase courses give the seller additional protection because ownership is not transferred until the end of the arrangement.

HIRE PURCHASE SYSTEM IN ISLAMIC BANKING

If the hirer complies with all the terms of the agreement, a hire purchase agreement gives the option for the hirer to purchase the item at the conclusion of the hire period. According to its conditions, a company or an individual may ask the bank to buy capital items like machinery, tools, or equipment and rent them to them. When the lessee accepts distribution of the items, the rent is due and the length of the lease is established. The bank (lessor) has recourse to the leased asset in the event that instalment payments are not made on time. The lessee is required by the contract to make recurring rental payments. This typically surpasses the stock's depreciation expense. Depending on the details of the agreement, this may be a fixed sum for the duration of the lease or a variable sum. The parties' respective demands can also be taken into account when crafting provisions for things like insurance, repair expenses, and protection of the leased item. The hire buy period must not last longer than the item's usable life, and the lessee is not permitted to transfer the property to another person without the bank's express written consent.

Since the lessee is more concerned with using the asset than with who owns the title to it, hire purchase (leasing) offers many advantages over outright purchase. Leasing has a lot of advantages and disadvantages. However, the main reason it has gained traction in the financial sector is due to the tax benefit it provides.

MORTGAGE LOAN

MORTGAGE LOAN SYSTEM IN CONVENTIONAL BANKING SYSTEM

It's a loan that real estate buyers or current property owners can use to borrow money to pay for any purpose while placing a claim just on real estate being purchased. The mortgage origination process secures the loan against the borrower's home. In the event that the borrower defaults on the loan or otherwise violates its conditions, this implies that a legal process is set up that enables the lender to take ownership of and sell the secured property (foreclosure and repossession) to pay off the loan. The mortgage can also be explained as the borrower exchanging a benefit for payment in the form of collateral (loan).

Borrowers of mortgages may be either individuals or businesses mortgaging residential or commercial property (for example, their own business premises, residential property let to tenants, or an investment portfolio). Depending on the country, the lender will often be a financial institution like a bank, credit union, or building society. Loan agreements could be arranged directly or indirectly through middlemen.

The terms of a mortgage loan might differ greatly depending on the amount borrowed, the loan's maturity date, the cost of borrowing, the mode of repayment, and other factors. The lender's claims over the protected asset supersede those of the borrower's remaining creditors, thus if the borrower experiences bankruptcy or insolvency, the debts owed to them by the sales of the protected property will only be paid if the mortgage lender is fully reimbursed first.

It is typical for property purchases to be financed by a mortgage loan in many jurisdictions. Few people have enough savings or available cash to pay for a residence outright. High internal lending markets have emerged in nations where home ownership is in great demand. Securitization, a procedure that turns pools of mortgages into fungible bonds that can be sold to investors in tiny denominations, allows mortgages to be financed either by the financial sector (i.e., through short-term deposits) or by the financial markets.

Whenever an owner (often of a fee simple ownership of real estate) offers their interest (right to property) as security or collateral for a loan, this is known as a mortgage. As a result, a mortgage is an encumbrance (restriction) on the right to the property, just like an easement would be. However, since most mortgages are requirements for receiving fresh loan funds, the term "mortgage" has come to refer to any loan that is secured by real property of this kind. Mortgages have an interest rate, much like other loans, and are planned to amortise over a certain time period, usually 30 years.

Numerous elements of mortgage loans are often governed by governments, either directly (via legislative requirements, for instance) or implicitly (by supervision of market players or the banking sector), and frequently through state involvement (directly lending by state-owned banks, or sponsorship of various entities). The geographical, historical, or particular characteristics of the legal or financial systems may also play a role in defining a particular credit markets.

Mortgage holders are often structured as long-term loans, with monthly payments that are computed using the time value of money formula and resemble an annuity. Depending on local circumstances, the most basic plan might call for a fixed monthly payment over a period of 10 to 30 years. The principle portion of the loan, or the initial loan, would be gradually paid off throughout this time frame through amortisation. In reality, several variations are both feasible and typical both internationally and inside each nation.

To generate interest revenue, lenders provide money against property, although they often borrow the money themselves (for example by taking deposits or issuing bonds). Thus, the cost of borrowing is influenced by the rate at which lenders borrow money. In many nations, lenders may also sell the mortgage loan to third parties interested in collecting the borrower's ongoing payments in cash, sometimes in exchange for security (by means of a securitization).

Mortgage market will also consider the (perceived) risk level of the new mortgage, that is, the likelihood that the money will be repaid (typically considered a function of the borrower's creditworthiness); that if it is not repaid, the lender will be able to foreclose on the real estate assets; and the financial, interest rate risk, and time delays that may be involved in some situations.

MORTGAGE LOAN IN ISLAMIC FINANCE:

Muslims may opt to look for a halal alternative when buying a home because Islam bans interest-bearing loans. A variety of Islamic mortgage choices are available, enabling purchasers to climb the housing ladder while adhering to sharia law. Mortgages that adhere

to Sharia law are really "mortgage alternatives" that serve as no-interest house buying schemes.
Although there are several varieties on the market, they all function essentially the same way: the bank purchases the asset on their favour and takes title to it.
With a part going toward purchasing out the share held by the property owner, the monthly payments operate very much like rental. So need to either have purchased the rights back at the conclusion of the time or still owe money before you can claim ownership.

The following three different mortgage products are halal:

1. Ijara
2. Reducing Musharakah
3. Murabahah

Ijara: With a Ljara home purchase plan, you finance your ultimate purchase with monthly payments that are split 50/50 between rent and capital. This indicates that over the duration of the contract, your ownership portion of the property stays constant.

Reducing Musharakah: A joint purchase contract between you and your Islamic bank is known as diminishing Musharakah. The provider's portion is paid off in regular instalments, which causes your profitable company to increase as indeed there decreases.

Murabahah: The sharia-compliant suppliers acquire the land underneath the Murabahah no-interest purchasing program then transfer it as per the marked-up price, which payment is done in regular payment.

Although they are not frequently utilised for UK house acquisitions, these halal mortgage agreements are occasionally employed in commercial property development. You should be careful to carefully analyse the potential dangers and benefits that may occur with each of the following Islamic mortgage choices because they are all a little bit different in order to choose the best one for business.

Islamic mortgage risks include:

The expenses of insuring, routine maintenance, and processing the customs duty on the original investment must all be met, even though the chosen bank is the actual owner of the property. It is necessary to add all expenses to the cost of the acquired plan itself (although this advice obviously also applies to a traditional mortgage).

In addition, many Islamic and halal mortgage providers may establish the rent using LIBOR-pegged prices rather than utilising typical levels in the neighbourhood as a benchmark. Although it could work in your favour, you might end up spending more than the initially anticipate to for the location.

Required down payment for with an Islamic mortgage:

To be eligible for a halal mortgage option, you must have a least 20% deposit. You must also plan for surveys, building insurance, stamp duty, and any additional expenses such mortgage broker fees and lawyers bills.

Shariah alternatives to the Islamic mortgage are available at numerous UK financial institutions and building societies, not simply those who identify themselves as Islamic banks. There are many individual, no-interest solutions available among the three primary purchase plan categories we've mentioned here, so it pays to look around for the lowest price.

A halal mortgage lender professional with knowledge of this kind of mortgage option may assist in making a decision among the numerous solutions on the market. Additionally, your broker may help you with remortgaging, which can be challenging with Islamic mortgages.

FINDINGS AND SUGGESTION:

FINDINGS:

Dividends are taxed in India under the current regulations, while interest is free from taxation. However, the capital of Islamic financial institutions is based on equity and is managed through profit-sharing. As a result, as compared to other traditional financial organisations, this is a significant disadvantage for Islamic financial companies.

All banks in India are required to operate under the principle of interest under the banking regulation act of 1949. Consequently, this makes it illegal to start and grow an Islamic bank, which is essentially a bank without interest.

Transparency in profit distribution, financial documentation, and adherence to both governmental and Islamic laws, and shariah laws, are necessary to foster and restore investors' faith. Islamic financial institutions, however, have not been able to live up to these expectations.

There is perpetual concern that borrowers would underreport their profits. Additionally, there are no severe penalties for defaulters, which leads to still another concern of its abuse.

The cash reserve ratio (CRR) and statutory liquidity ratio (SLR) laws are another reason why banks are required to hold a sizable portion of their deposits in interest-bearing public and government securities. Non-banking financial institutions (NBFCs) that operated in accordance with Shariah law appeared, but they struggled to thrive due to the numerous revisions that occurred and the severe restrictions that were placed on them.
Why Islamic banks are frequently younger and hence smaller than traditional banks. This claims that the cost structures of Islamic banks are greater since they are frequently still operating at sub-optimal scales.

The industry will be hampered by non-Islamic influences and won't function in its purest form unless and until it functions in an Islamic culture and environment.

SUGGESTIONS AND CONCLUSION:

Islamic banking is becoming more significant in several places of the world today. The opening of Islamic banking in India would benefit the citizens since the Muslims financial situation would improve if the money that is currently in banks was invested in Islamic banks. More classes should be taught on Islamic banking so that people are aware of this type of banking and would aid in the growth of the economy, since interest-free banking would help to increase education and would help in more employment. India is interested in participating in the expanding Islamic banking sector, and Indian policymakers are closely monitoring the projected implementation of this sector.

Prior to providing Islamic banking financial services in the nation, they must significantly alter the legal framework that oversees the Indian banking system. One of the goals of Islamic banks is "equitable distribution of income," which translates to the total eradication of poverty. But only if Islamic banking is properly developed and adopted in India can it be accomplished.With the inclusion of Muslims in Shariah-compliant banking who were previously excluded and the availability of cash for development in India, there would be a real opportunity to revitalise the Indian economy. It would benefit the poor since it makes it possible for agricultural, manufacturing, and retail businesses to acquire equity financing.

Islamic banking is frequently asserted to be intrinsically less vulnerable to crises since its goal of risk sharing lowers leverage and promotes better risk management on the parts of both financial institutions and their clients. Islamic financial institutions are thought to be a good platform for boosting access to financial inclusion, including access to finance for SME's, thereby supporting growth and economic development. It is also claimed that Islamic finance is more stable than conventional finance because:

• Islamic finance involves prohibitions and speculation.
• Financing is asset-based and therefore fully collateralized.
• It is founded on a strong ethical precepts.

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