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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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CONTEMPLATION OF ISLAMIC BANKING IN LUCKNOW: A CRITICAL ANALYSIS**IMRAN SIDDIQUEI****ASST. PROFESSOR****ALIGARH COLLEGE OF ENGINEERING & TECHNOLOGY
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ALIGARH****SAIF REHMAN****SR. LECTURER****ALIGARH COLLEGE OF ENGINEERING & TECHNOLOGY
ALIGARH****ABSTRACT**

India is the home of the 2nd largest Muslim population in the world. Through this paper our effort is to understand the response of the Indian customer towards the Islamic banking. It is impossible to approach the population of the entire nation. So our effort is on the limited basis confined to the city of Lucknow, which holds substantial Muslim population. Through this paper we also get the opportunity to examine new business opportunities that may exist. This paper also addresses the problems faced by Muslim clients in monetary dealings owing to the faith related issues. In total, this paper is an effort to understand the merits & demerits of Islamic Banking as per the Lucknow customer's psyche.

KEYWORDS

Islamic banking, sharia, Lucknow.

INTRODUCTION

Economic life has grown more complex, so too the range of uncertainties confronting business enterprises has extended with it the demand from individuals and firms for more sophisticated ways of handling such uncertainties. The Islamic Banking framework is therefore a form of economic insurance for the Islamic community since it has undertaken to enable business and investment transactions to be executed in an Islamic manner by attracting funds of all forms from investors and distributing the accumulated sums into diverse productive economic sectors. Without such a system, the economic costs and hazards, of individually researched markets and investment opportunities, would be enormous, ungeared to the levels of gearing in banks and rare or minimal. This is so, since very limited groups of people have access to capital as well as expertise in wide or particular areas. The development of necessary skills in all areas of operation is a requirement and since many capital owners cannot develop all the essential skills at any given moment, they have to resort to those who would manage their funds.

Islamic banking refers to a system of banking or banking activity that is consistent with the principles of Islamic law (Sharia) and its practical application through the development of Islamic economics. Sharia 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 in businesses that provide goods or services considered contrary to its principles (Haraam, forbidden). While these principles were used as the basis for a flourishing economy in earlier times, it is only in the late 20th century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions within the Muslim community.

The main goals of an Islamic Banking system are as follows

- (1) Implement the value system of the *Qur'an* and the *Sunnah* (tradition or practice of Prophet Muhammad SAW) in the realm of the Muslim socioeconomic system.
- (2) Foster the growth of the economy of Muslim nations by developing financial markets, institutions and instruments.
- (3) Dampen the shocks of extreme economic output by promoting risk sharing instruments whose payoffs are strictly contingent on the profitability of a firm or project at a micro level.

ISLAMIC BANKING IN INDIA

India is a country of secular dimensions. People from different walks of life & religion are the part & parcel of it. Islam is one of the dominant religions in India. The population of Muslims residing in India is the second highest in the world. This large population could provide substantial amount of business to the Financial Institutions. The fiscal position of India could be very well conditioned. The introduction of Islamic banking will help in bringing those people also into the fold who consider modern day banking policies against their ideologies. It can create a sense of belongingness among the muslim population of India. It can also be helpful in generating investments from the Muslim dominated nations.

Another advantage of dealing in Islamic banking is that it checks bankruptcy. People who are under heavy debts are discouraged from taking on more debt. The credit rating under Islamic banking adheres to the strict code of business. It does not focus on the current assets or liabilities part but on the actual business. Besides the efforts could be made to customize the Islamic banking system as per the requirements of the non muslim population of the country.

There are certain benefits in the way of introducing Islamic banking in India. They are as follows

1. The Islam-based system of finance has proven itself to be entirely feasible and sound.
2. Great emphasis on equity and profit-sharing.
3. A potential in improving the condition of India's largest minority.
4. The creation of interest-free savings avenues will directly benefit Indian Muslims and indirectly benefit all Indians.
5. Establishment of positive co-relation between religion & entrepreneurship.
6. Indian economic system will be able to handle global economic shocks in a better way.

However there are certain obstacles in the way of Islamic banking in India

1. The Indian banking system works on the concept of Interest which is against the tenets of Islam.
2. The frequent changes in the regulatory framework of Indian financial sector.
3. Unequal treatment of debt & equity funds.

4. No facility of deposit insurance and credit guarantee for Islamic institutions.
5. Lack of understanding and awareness among Indian banking customers.
6. There is Still no concrete guidelines from RBI from promotion of Islamic banking in India.

MAJOR ISLAMIC BANKING INSTRUMENTS

Amanah - deposits in trust.

Arbun - Down payment; a nonrefundable deposit paid by a buyer retaining a right to confirm or cancel the sale.

Al-'Aariyah - loan of a particular piece of property, the substance of which is not consumed by its use, without anything taken in exchange.

Bai' Muajjal - Literally it means a credit sale.

Bai Salam - Salam means a contract in which advance payment is made for goods to be delivered later on.

Bai bil Wafa - Sale with a right in the seller, having the effect of a condition, to repurchase (redeem) the property by refunding the purchase price.

Daman - Contract of guarantee, security or collateral.

Dayn or Debt - comes into existence as a result of any other contract or credit transaction.

Fiqh - Islamic law. The science of the Shariah.

Gharar - Any element of absolute or excessive uncertainty in any business or a contract about the subject of contract or its price, or mere speculative risk.

Al Ghunn bil Ghurm (): This provides the rationale and the principle of profit sharing in Shirkah arrangements.

Hawalah - Literally, it means transfer; legally.

Hibah - means Gift.

Ijarah - Letting on lease.

Ijarah-wal-Iqtina' - A mode of financing, by way of Hire-purchase.

'Inah - Double sale by which the borrower and the lender sell and then resell an object between them.

'Inan (A type of Shrikah) - It is a form of partnership in which each partner contributes capital and has a right to work for the business, not necessarily equally.

Al- Kafalah (Suretyship) - Literally, Kafalah means responsibility, amenability or suretyship, Legally in Kafalah a third party become surety for the payment of debt.

Mudarabah - A form of partnership where one party provides the funds while the other provides expertise and management.

Murabaha - Literally it means a sale on mutually agreed profit.

Musawamah - Musawamah is a general kind of sale in which price of the commodity to be traded is bargained.

Shirkah - A contract between two or more persons who launch a business or financial enterprise to make profits.

JUSTIFICATION OF THE TOPIC

The rationale behind selecting this topic could be easily understood from the following reasons

1. Unexplored clientele base.
2. Apprehension of Muslim population towards modern day banking.
3. Boundations in terms of religious & cultural mindset.
4. Current social & economic condition of the Muslims
5. Lack of knowledge & understanding among Muslims about the existing business opportunities.
6. Limited or no understanding of the Islamic banking terms.
7. Opportunity for creating new business avenues & transactions.

SIGNIFICANCE OF RESEARCH PROBLEM

The problem addressed in this paper derives its significance based upon the following factors.

1. Inflexibility of the modern banking policies.
2. Blockage of monetary transactions with the gulf nations.
3. Inhibitions of Muslim customers towards the banking norms.

ABOUT LUCKNOW REGION

Lucknow is the capital city of Uttar Pradesh in India. Lucknow is the administrative headquarters of Lucknow District and Lucknow Division. Located in what was originally known as the Awadh (Oudh) region, Lucknow has always been a multicultural city, and flourished as a cultural and artistic capital of North India in the 18th and 19th centuries. Courtly manners, beautiful gardens, poetry, music, and fine cuisine patronized by the Persian-loving Shia Nawabs of the city are well known amongst Indians and students of South Asian culture and history. Lucknow is popularly known as The City of Nawabs. It is also known as the Golden City of the East, Shiraz-i-Hind and The Constantinople of India.

The second largest city in north and central India after Delhi. Straddling the river Gomti, modern Lucknow is a bustling metropolis. It is placed among the fastest growing cities and now it is metropolitan city of India and is rapidly emerging as a manufacturing, commercial and retailing hub. This unique combination of rich cultural traditions and brisk economic growth provides Lucknow with an aura that refuses to fade away.

Demographics: The total population of Lucknow is more than 4.5 million according to the census 2011. It is the third largest city in north and central India after Delhi and Kanpur. The majority of Lucknow's population comprises people from Central and Eastern Uttar Pradesh. However, Bengalis, Punjabis and Anglo-Indians have also settled in large numbers. Hindus comprise about 71% and Muslims about 26%. There are also small groups of Sikhs, Jains, Christians and Buddhists.

SELECTED LITERATURE REVIEW

There are many studies and literature about Islamic banking. But specifically on Islamic banking with respect to particular region is very few. If we talk about India the number of study of on Islamic banking are negligible. However we will try to understand the type research work which has been done on this topic worldwide and in India also, and where research gap are existing.

Noor Ahmed Memon: Islamic Banking: Present and Future Challenges: (2007) The paper emphasizes the role of Islamic banks as financial intermediaries and the importance of financial intermediation for society.

It argues that Islamic Banks entering directly into trade, industry and agriculture etc is not beneficial because it means leaving the role of financial intermediation for others.

Salma Sairally: Evaluating the 'Social Responsibility' of Islamic Finance: Learning From the Experiences of Socially Responsible Investment Funds: It seeks to evaluate the Corporate Social Performance (CSP) of IFIs, thus determining how socially responsible IFIs are in their objectives, actions and commitments as a socio-economic contributor to human welfare.

Pawandeep: Islamic banking in India- A study of future potential: (2008) The paper focuses on the scope of Islamic banking in India & its varied advantages to the Muslims of the Indian state. It also focuses on the customization part to make it equally attractive for the non Muslim population of India.

Soumik Majumdar: Islamic banking in India- what is the future potential? (2008) The paper examines the reasons for which the Islamic banking should be started in India. It examines the changes in regulation & obstacles for Islamic banking in India.

Islahi, Abdul Azim: Obstacles in the way of Islamic banking in India: (2001) This paper points out all the obstacles which may hinder the establishment & growth of Islamic banking in India.

Mahmoud Amin El-Gamal, A Basic Guide to Contemporary Islamic Banking and Finance, (2000), The primary objective of this introductory guide is to explain to the non-specialist curious Muslim the difference between the forbidden financial transactions commonly used in conventional finance, and their Islamically permitted counterparts.

Omar Khan, A proposed introduction of Islamic banks in India, International Journal of Islamic Financial Services, this paper stresses on the issues which are critical to the establishment of Islamic bank in India.

Peter Vayanos & Dr. Philipp Wackerbeck, How do Islamic banks compete in an increasingly competitive environment, (2008), This paper seeks to analyze the drivers of growth behind Islamic banking, the changing competitive landscape, potential sources of differentiation for existing Islamic banks, and the challenges that are unique to Islamic banks

M Ravindran, Islamic Banking: Scope and Spread, Markets in Motion, (2010), this paper focuses on the spread of Islamic banking & its comparison with conventional banking methods.

M. Shahid Ebrahim and Tan Kai Joo: Islamic banking in Brunei Darussalam (2001) This paper studies the current realities of the Islamic banking system of Brunei Darussalam from the perspective of the theories of modern financial intermediation and Islamic financial contracting. The limited information on the banking system of Brunei Darussalam reveals that the first phase of the Islamic banking experimentation has been successful, as Islamic banks command roughly 11.5 per cent of the market share. The financial services industry, however, remains extremely competitive and Islamic banks face formidable challenges from conventional banks.

Mohd. Ariff, Islamic Banking, Asian-Pacific Economic Literature, (1988), this paper traces the growth & development of Islamic banking & its salient features.

OBJECTIVES OF THE STUDY

To understand the customer perception regarding Islamic banking in Lucknow region.

RESEARCH METHODOLOGY

The research methodology used for the purpose of this study was essentially an exploratory research, Wherein the Muslim Customers of various public sector banks and private banks of Lucknow region are contacted for collection of data. A total of around 100 such customers were contacted.

RESEARCH TYPE: Exploratory and descriptive

POPULATION: 100

TYPE OF SAMPLING: Convenience Sampling

DATA COLLECTION

Primary Data – Primary Data was collected using methods such as interviews, questionnaires and observations

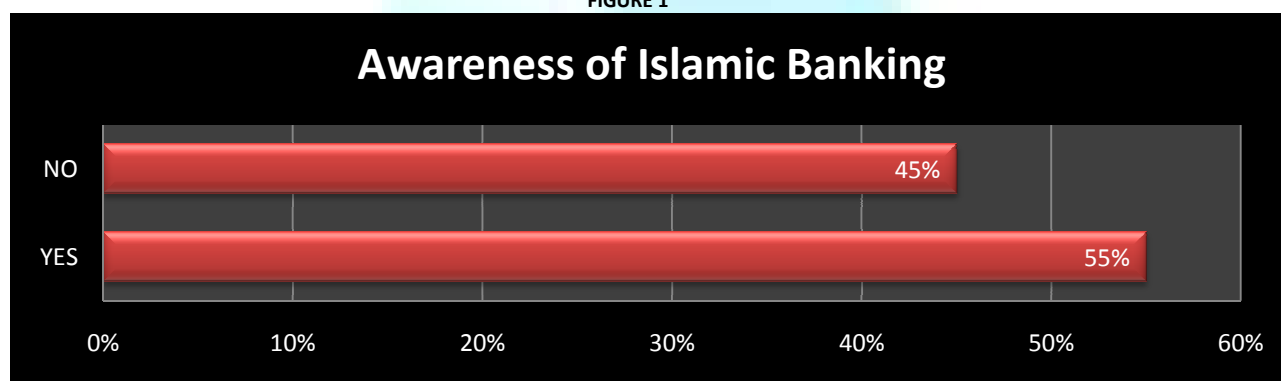
Secondary Data – Secondary data was collected from websites, journals & articles.

DATA ANALYZING SOFTWARE: MS Excel

FINDINGS

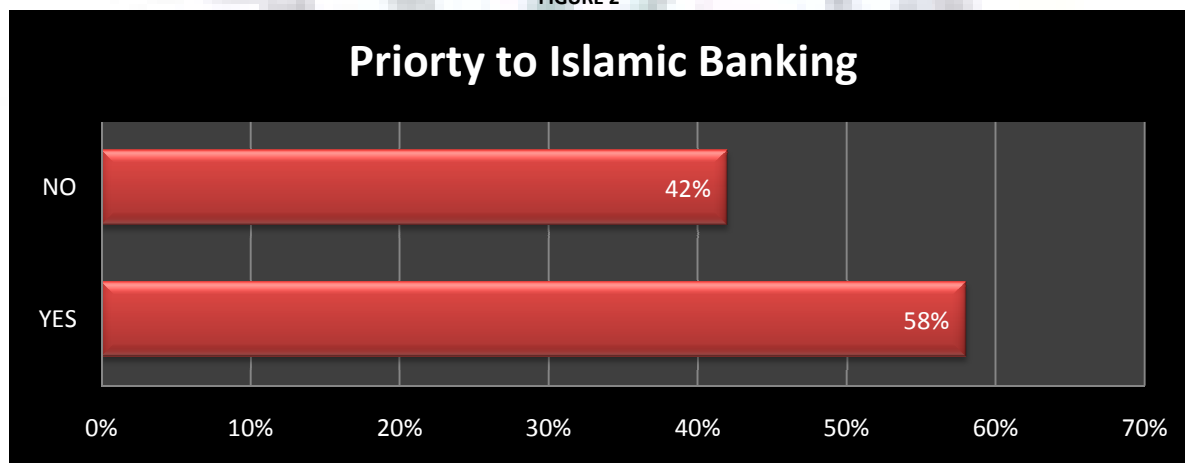
- 70% of the respondents said in affirmative they have the knowledge about Islamic banking. The rest 30% population is ignorant about its existence even. Hence people have the awareness about the Islamic banking.

FIGURE 1



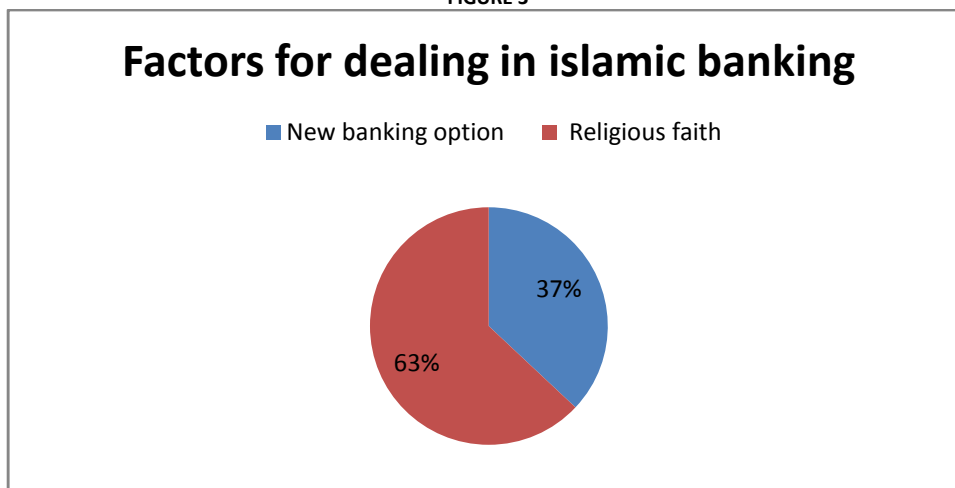
- 58% people are of the view that they would like to try Islamic banking over the commercial banking while rest 42 % of the respondents do not seem interested as the result of laid apprehension to try something new.

FIGURE 2



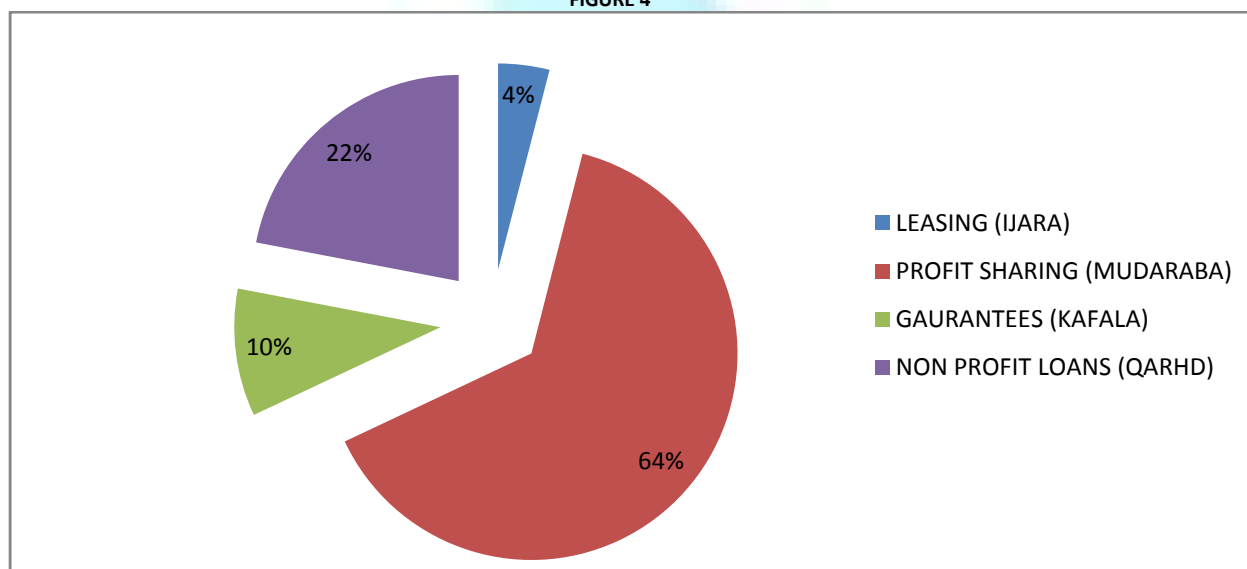
- 63% people favor the religious faith while 37% consider Islamic bank as the new banking option.

FIGURE 3



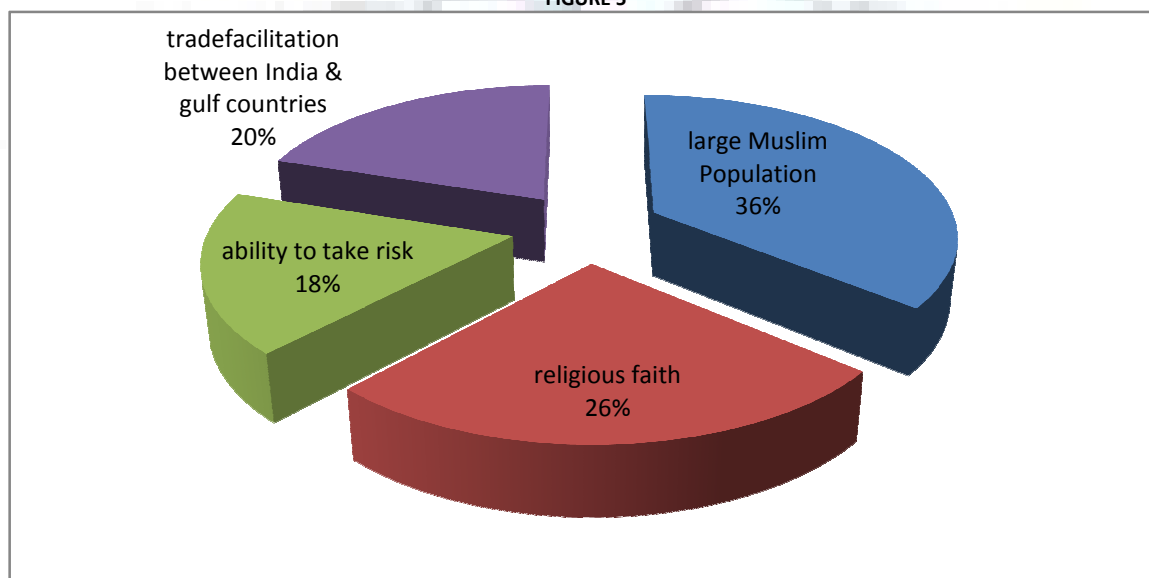
- 4% people want to take Leasing(Ijara as the financial option , 64 % people prefer Profit sharing (Mudaraba) as the option , 10% people prefer Guarantees (Kafala) as the financial option, and 22 % people prefer Non Profit Loans(Qarhd) as the financial option.

FIGURE 4



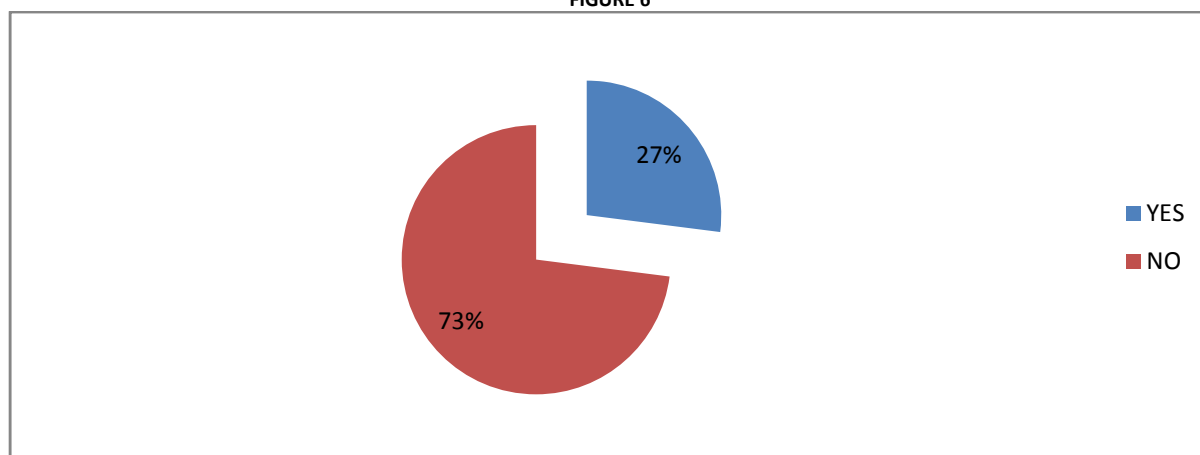
- 36% of the respondents think the presence of large muslim population, 26% favored the religious faith, 20% favor trade facilitation between India & Gulf countries, 18% consider ability to take risks as the major influencing factors for promotion of Islamic banking in India.

FIGURE 5



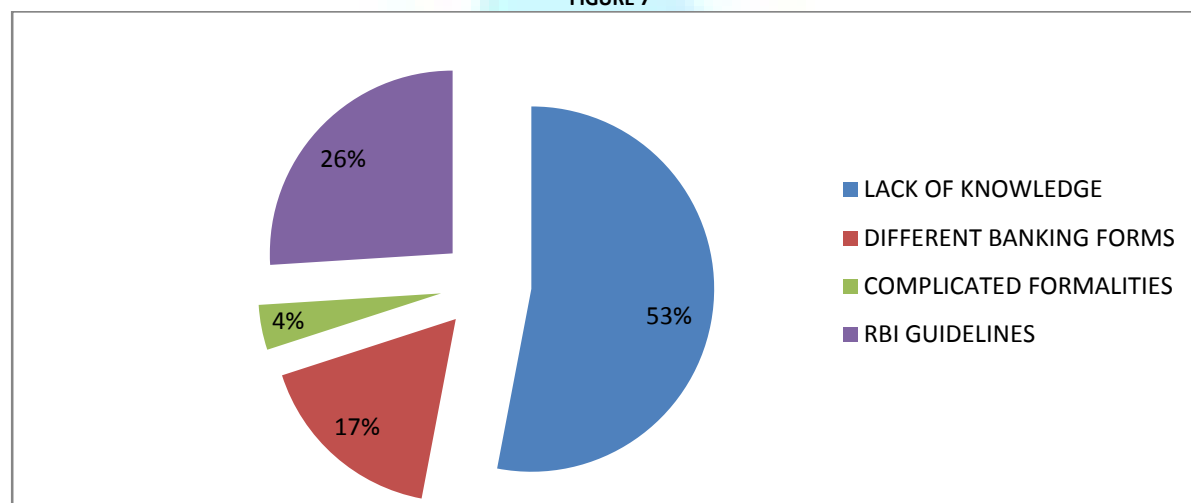
- Only 27% of the respondent population was aware of the fact that first Islamic bank has been opened in Kerala while rests 73% were ignorant of this fact.

FIGURE 6



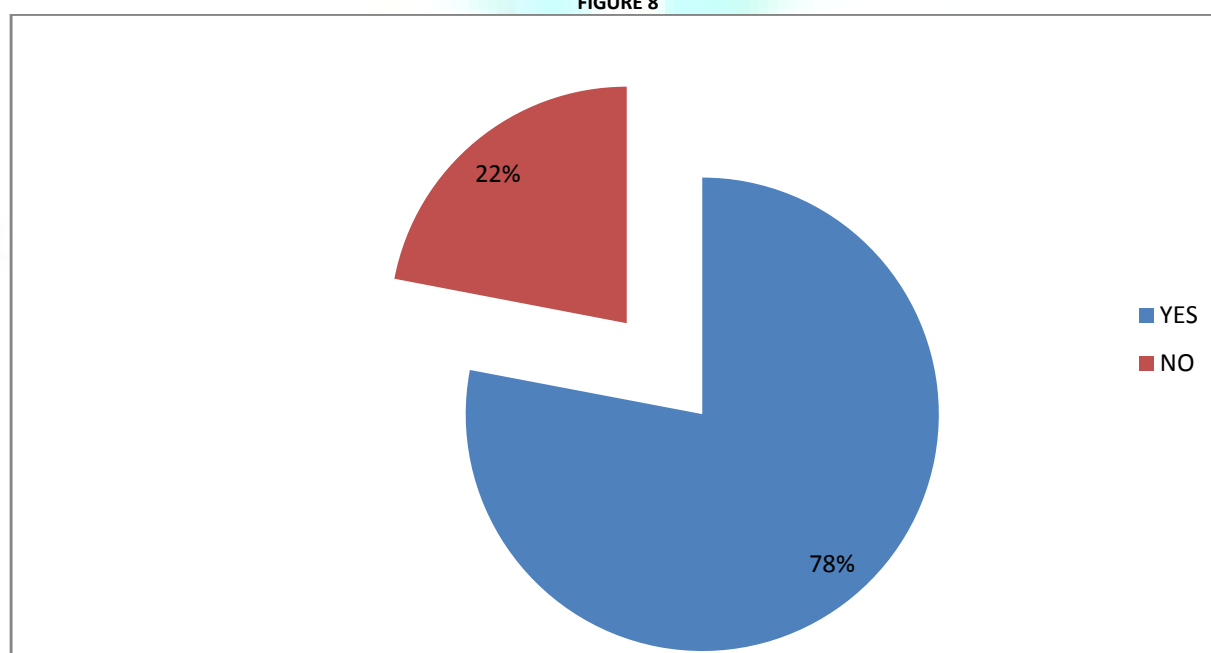
- 53% of the respondents consider lack of knowledge, 26% consider R.B.I guidelines and 17% consider different banking forms while remaining 4% consider complicated formalities as the hindrance for Islamic Banking in India.

FIGURE 7



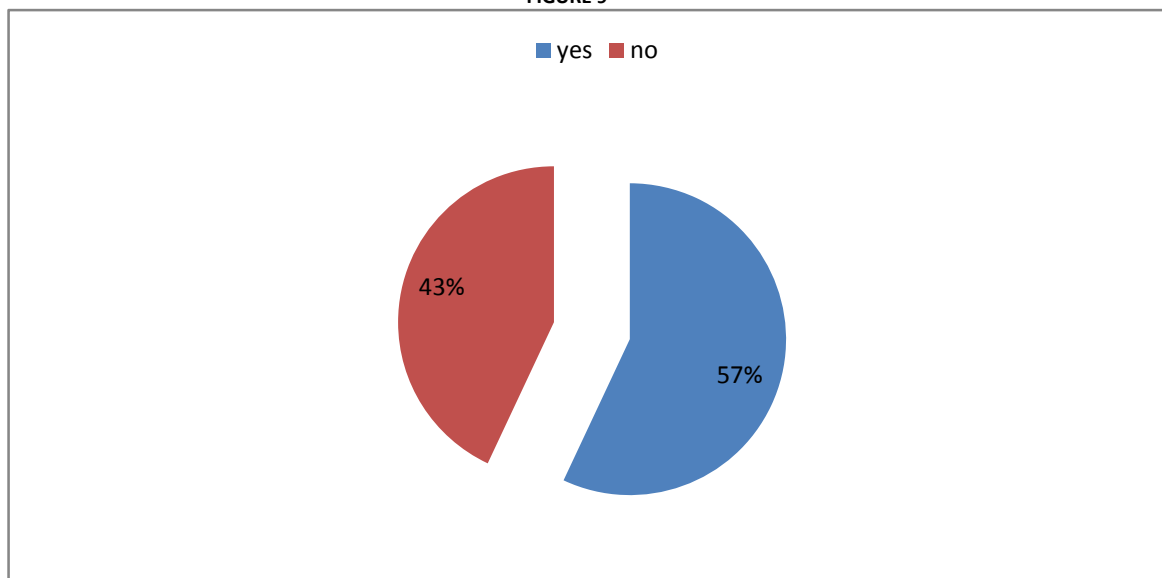
- 78% of the respondents favor the incorporation of the Islamic banks in the Indian banking system while the rest 22 % are not in favor of it.

FIGURE 8



- 57% of the people say that Islamic bank, if opened in Lucknow will be successful while the remaining 43% of the population had serious doubts about it.

FIGURE 9



CONCLUSION

It could be easily deciphered from the findings of this paper that the concept of Islamic banking is not alien for the people of Lucknow. This concept has created a lot of interest due to its varied features. People have given different views about the usage of this concept in the city like Lucknow. A section wants to use it for pure commercial purposes while others relate it to religion. However there is still large scale confusion owing to the superficiality of the available literature. There is the need to create proper awareness among the masses about Islamic banking. People are ignorant about the existence of any Islamic bank in the country. If the concept is to be introduced in India then there must be the appropriate understanding of the Islamic banking. Also the necessity is to make the banking guidelines conducive for its operation. Still the people think that Islamic banking must be introduced. They are hopeful of a new revolution which it may bring about in the Indian banking sector. They are more than ready to accept it.

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