

Study of Awareness of Islamic Banking and Opportunities and Challenges for Operation of Islamic Banking in Mumbai

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Abstract: Considering the global economic system, in complement to traditional banking which is established on interest, Islamic Banking is on the verge of emergence. Islamic Finance or Banking is governed by Islamic Laws called as Sharia. There is a big potential for Islamic Banking system to emerge in the markets of Mumbai as it is Metropolitan city with highest number of Muslim population.¹ The objective of this study is to understand the amount of awareness and attitude among the residents of Mumbai about Islamic Banking. The sample of 223 respondents, both Muslim and Non-Muslim, is taken and surveyed based on a questionnaire designed with specific set of statements or questions in relation to the level of awareness and attitude with regard to Islamic Banking. It is observed that the Muslims have better awareness about the fundamental terms and culture of Islamic Banking than it is among Non-Muslims. Also there are many differences in the behaviour of respondents to opening of Islamic bank accounts in Mumbai. There are many opportunities and challenges for Islamic Banking in Mumbai. The collected data is analysed by using appropriate statistical tools and sample tests. Further, this study also covers the identification of SWOT analysis and Porter's Five Force Model if Islamic Banking is introduced.

Keywords: Islamic Banking, Awareness, Attitude, Muslim, Non-Muslim, Sharia

1. INTRODUCTION

Banking is contemplated to be an essential financial mediator and important institution in the current economic system. 'Bank' is defined as a financial institution that accepts deposits from the public; then it creates a demand deposit while simultaneously making loans, and also exchanges currency. Bank provides primary services that include acceptance of deposit, collection of money, provision loans, fund transferring, payment of interest, exchange of money, management of funds, investment in ventures, or safeguard of money towards its own customers. Banking not only provides support to business activities but has social commitments towards the public. For the evolution of any country, the participation of

prevailing Banking structure is crucial, especially for a country such as India which is in developing stage.

Islamic Banking is a banking system following the fundamentals of Islamic Law (Sharia Laws). Two fundamental principles backing Islamic Banking structure are the distribution of profit and loss along with the prohibition of interest collection as it is forbidden in Sharia law for providing an equal spread of wealth. In contrast to widespread notion, Islamic banking does not cater only to Muslims but it caters to everyone. It performs essential services just like conventional banks, except they need to carry the transactions as per the rules and principles of Islam, and it does not have religious connotations. There is a prevalent misunderstanding regarding Islamic Banking that it is just another type of conventional banking excluding the facet of interest or a basic play of wordings where the 'interest' is replaced with 'profit.' The sole crux of Islamic Banking and our traditional Banking is that both are two different ventures established on different fundamentals. It directs to lay the base of a fair and ethical financing structure, which then later affects the social and economic factors of the market it is being enforced in. Irrespective of anyone's religious beliefs, caste or creed; Islamic Banking is built to cater the needs of everyone. Islamic Banks are prohibited from investing in an unlawful business and hence they would never knowingly have anything to do with companies involved in gambling, alcoholic beverages, or porcine food products.

Fifty years ago, Islamic Banking was not known in virtual manner and now it has presence in more than 70 countries of the world. It is observed that assets under Islamic Banking are increasing at double rate than assets under conventional banking. Currently, approximately 500 Islamic Banks manage about 1 trillion US Dollars worldwide. In India, the company named Al-Barakah Financial Services, an NBFC was given a green signal by Kerala High Court to start an institution with Kerala State Industrial Development Corporation in accordance with Sharia Law. If more such companies and banks are set up then Islamic banking system would offer substantially great opportunity to pool investments from other countries provided proper regulatory is developed.

India is the 3rd largest country in the world with a Muslim Population of approximately 185 million residents that represents about 15% of the total census and Mumbai has the highest percentage of Muslims among the Metro Cities in India. Despite having such demographics, Mumbai Muslims are mostly financially excluded as they are poor and they lack availability to non-interest banking. They lack the basic requirements of creditworthiness to engage in economic activities. The historical disparities in Mumbai can be

used to make a positive impact on our Banking sector which in turn will help in developing the foundation for innovation and thriving competition in financing sector ahead. Anyone can claim that Muslims residing in Mumbai have been utilizing the current banking system since decades. This is due to the fact there is no other option available that constitutes their financial exclusion. The traditional banking system in Mumbai, in a way it exists now, is not able to tackle all the needs related to finance of a large amount of the Muslim population. We must remember that the Non -Muslims, along with Muslims too, are marginally excluded financially. Lack of opportunity for financial services and lack of access to credit is a big challenge for them. By developing Islamic Banking, the challenges will be eradicated and participation of Muslims in banking system will increase considerably.

It is crucial to have a positive approach towards Islamic Banking since Islamic banking will have to keep up with the traditional banking system in the dual banking structure. From the above discussion, we can infer that to determine the acceptance of Islamic Banking in Mumbai we need to perceive the extent of familiarity regarding the fundamentals of Islamic Banking among the respondents. The acceptance of concept may differ among Muslim and Non-Muslim population, and hence we are still left with the questions: "To what extent are people of Mumbai aware of Islamic Banking?", "What is the level of awareness of people in Mumbai about Islamic banking?" and "What is the attitude of Muslims and non-Muslims towards Islamic banking in Mumbai?"

The objective of this paper is to study awareness regarding Islamic Banking in Mumbai. By considering the demographics of Mumbai, the population of Muslims is approximately 21% and Islam is the second highest² religion in Mumbai and hence this study aims:

- To assess the level of awareness and familiarity of various terms in regards to Islamic Banking among the people of Mumbai
- To understand the attitude of people of Mumbai with regards to Islamic Banking if Islamic Banking has operation in Mumbai
- To study the opportunity and challenges for operation of Islamic Banking in Mumbai through SWOT Analysis

The paper, therefore, is strived at understanding the level of awareness and attitude of people of Mumbai in regards to Islamic Banking. Hence, a specimen sample of the population with similar demography is chosen and survey is carried out by using organized questionnaire prepared for mentioned objective. The data fetched is analysed by using tools of statistics and SPSS software.

The last part of the paper includes a SWOT analysis and Porter's Five Force model with regards to Islamic Banking to understand the consequences of Islamic Banking. This is done to analyse the problems, opportunities or challenges Islamic banking may face while implementing Islamic Finance or Banking in India or Mumbai.

2. LITERATURE REVIEW

Islamic banking is based upon the principle that the use of Riba (interest) is prohibited. This prohibition is based upon Sharia ruling. Since Muslims cannot receive or pay interest, they are unable to conduct business with conventional banks (Gerrard and Cunningham, 1997).

Scott (2007) contends that Islamic banking has shown that it is financially sustainable because it is recording phenomenal growth rates across the world at a time when most businesses in the finance sector are struggling to survive. Financial institutions around the globe are trying to keep pace with the growing demand for Shariah compliant products and services. The segment constitutes nearly 22% of the total banking in Malaysia, which is considered as hub of Islamic banking. It has been growing at nearly 20% in countries like Kuwait, Bahrain and Saudi Arabia as said by AkhileshShenoy and KartikeySeskaria(2011)

Zineldin (1996) reports that the Muslim population forms the niche market that Islamic banking targets and his is a powerful market for customized goods and services as it has the highest income outside the Western World, Australia and Japan. Furthermore, its population that currently stands at 25% of the global population is growing rapidly. All these factors indicate that, unless something unusually catastrophic happens, Islamic banking will continue to be financially viable business as it has a growing effective market. The spread of Islamic banking in other parts of the world, among non-traditional Muslim population puts this system of banking in stronger position regarding financial viability (Zaher and Hassan, 2001).

Metwally (1996) used factor analysis to study the attitudes of Muslims in three Arabic dual-banking systems (Kuwait, Saudi Arabia and Egypt) towards Islamic banking. The results showed that Islamic banks did not significantly differ from conventional banks in the benefits and costs of bank products and services and that Islamic banks equalled conventional bank in terms of staff competency and speed of the services. On this basis, and similarly to Omer (1992), it was concluded that religion was the primary factor in the choice of an Islamic banking institution.

Two studies on the perceptions and understanding of Islamic finance deserve special note. In the first, Bley and Kuehn (2004) surveyed business

students' knowledge of financial aspects of Islamic and conventional banks in the United Arab Emirates (Sharjah). A finding was that while Arabic Muslims displayed a high level of knowledge of Islamic financial terms and concepts, non-Arabic Muslims students had a higher level of knowledge of conventional banking. That said most students' banking knowledge was generally at a low level. Recently a study by Akhtar and Akhter (2011) is about the differences in the perception of university employees about Islamic banking in India. Differences were found in the level of awareness about Islamic banking as an alternative to conventional banking.

P. C. Charansingh (2015) mentioned that current situation of Indian Muslims is very vulnerable with the highest percentage of illiteracy, higher unemployment and low level of income and higher poverty rate than the majority Hindus. By accommodating of the full-fledged Islamic banking system in India will be a gigantic leap forward towards the minimization of economic disparity between Indian Muslims and rest of the religion. India has never implemented Islamic banking but Islamic finance has been experienced from time to time under non-banking financial companies and Shariah-compliant products are offered by certain companies. However, in the recent past, some remarkable initiative is taken by certain people to propagate the idea of Islamic banking in India. There are several benefits in developing Islamic banking in India. Those benefits include financial inclusion of the country's largest minority community. Introduction of Islamic banking not only deal with the issues of interest rate but also improve the participation of Muslims in the banking related banking activities. Thus there seems to be an enormous potential for banks to introduce Islamic banking under Pradhan Mantri Jan Dan Yojana (PMJDY), (Charan Sing.2015). Islamic banking will also facilitate the entrepreneurship development for all entrepreneurs who had the sound proposal for starting business operation, but have the scarcity of collateral security. By providing economic aid to economically backward people for the promotion of their own ventures will result in greater employment opportunity and higher living standard to the Muslim community as well as Non-Muslim community which is financially excluded.

Dr ShariqNisar (2005), a Shariah expert, points out that Muslims, who constitute 15% of the Indian population, mostly belong to poorest sections of society. India has the second largest population of Muslims in the world, and many a time, the Muslim population is geographically concentrated, which indicates that there is market potential for Islamic microfinance. Several poor and orthodox Muslims are wary of availing of the services of MFIs on religious grounds, as interest payment is mandatory.

Islamic banking in India is not possible now with the current banking principles based on interest payment, but it can be done through a separate legislation, Reserve Bank of India Governor D Subbarao said in 2013. With the present set of Banking Regulation Act, Islamic banking just cannot take place because many of the banking principles in place are based on interest payments. The Kerala High Court ruling asking the state government and its agencies to keep away from a new company that has been registered under the Shariah laws of banking, Dr SubramaniamSwamy (2011) said: "Since this is a constitutional issue of whether a government can or cannot enter, we have nothing to say on that."

Former union minister SubramaniamSwamy had petitioned the court against the Kerala State Industrial Development Corporation taking the lead to start an Islamic bank with private players. Making a strong plea for launching Islamic banking, MuddassirSiddqui, an authority on the subject, in 2011 said that India should open interest-free banking windows in conventional banks as a pilot project. On issues relating to recovery in cases of loan defaults in Islamic banking, he said it was done the same way as conventional banking. When it was pointed out that the Centre had in its counter affidavit in the Kerala high court on a connected petition on September 9, 2010 stated it was not legally feasible for banks in India or its branches abroad to undertake Islamic banking activities', he said discussions had been held with Union finance ministry officials and RBI regarding Islamic banking. Currently, close to one trillion US Dollars was being managed by about 400-500 Islamic banks worldwide, he said. Interest free banking system would offer a great opportunity to attract substantial investments from countries in the West Asian region to India, he said adding institutions and high net worth individuals there were looking forward to investment opportunities in India. India can attract a good portion of this by developing the appropriate regulatory framework, said AbdurRaqeeb, general secretary and convener of National Committee on Islamic Banking of Indian Centre for Islamic Finance.

Dr ShariqNisar (2005) added that there is a need to develop a marketing model accordingly and bring some path breaking modifications in the existing setups as being offered in different parts of the world. It is required to create awareness among people that it is not only for Muslims but also for all other people. It is rather an alternative banking system, rendered more effective by applying the risk sharing model based on interest free philosophy of banking.

AkhileshShenoy and KartikeySeskaria(2011) found out that Islamic Banking can be a boon for poor farmers struggling to repay debt and looking

for cheaper sources of credit. Presently there are abundant cases of financial exploitation of farmers who are charged exorbitant interest rates by money lenders and by for profit MFIs. Struggling to repay these huge loans limits their borrowing capacities & hence as a result their investing capabilities. Farmers borrowing from Islamic banks can prove beneficial for the economy as it will pump in more money via increased investments by the farmers themselves. As their investing capacities increase, the farmers will invest in more capital goods and better technology, thereby increasing agricultural produce & as a result bring down raging food inflation prevalent in the economy. By introducing interest free loans vis-à-vis Islamic banking we can also arrest the depressingly regular cases of farmer suicides in vidharbha& elsewhere.

A further benefit of Islamic banking is the \$1.5 trillion worth of Shariahcompliant funds from the Gulf countries. Such funds do not come into India because of absence of Islamic banking as a banking option. At a time when India is looking to make huge investments in development of world class infrastructure & is looking out for sources of funds, these funds seem too attractive to be avoided said AkhileshShenoy and KartikeySeskaria (2011).

Islamic banking was experienced during the financial crisis of 2008-09. While most conventional banks went bankrupt or were on the verge of bankruptcy, not a single Islamic bank went through such a crisis. While conventional banks with their huge amount of reserves were willing to invest in any venture regardless of the levels of risk involved thereby increasing chances of incurring bad debt, Islamic banks follow strict rules against lending to companies with any risk involved thereby incurring close to zero debt. Assuming any future financial crisis was to hit India causing most conventional banks to go bankrupt, Islamic banks would help in tiding over the inevitable liquidity crunch thereby helping in speeding up economic recovery, according to AkhileshShenoy and KartikeySeskaria (2011).

All in all implementing Islamic banking in India seems to be a viable & a wise option both economically & politically.

Islamic Banking is an ultimate solution for the poor and socio-economic conditions of the Muslims in India which is highlighted in the Sachar committee report (2006). Islamic Banks can also provide cheap credit without any collateral which helps to penetrate banking function to grass root level. It is an effective tool for providing banking access to the unbanked population which is ignored by the conventional banks as mentioned by Jahfarputhan (2019).

3. METHODOLOGY FOR THE STUDY

A total of 250 questionnaires were distributed for the collection of a sample of respondents out of which 223 responded. The primary aim of the research paper is to analyze the extent of awareness along with the attitude of people of Mumbai with regards to Islamic Banking, hence a questionnaire is prepared to contain questions in four sections. The first section contains basic demographic questions in relation to religion, gender, age, and occupation. The second section contains ten fundamental terms that are part of Islamic Banking and Finance namely – Sharia, Riba, Takaful, Sukuk, Ijara, Hawala, Mudarabah, Musharakah, Ujrah, and Wakalah. Five out of these ten terms are from the study done by Gerrard and Cunningham (1997). Five terms added for this study were Takaful, Sukuk, Hawala, Ujrah, and Wakalah. The participants were questioned to specify if they were familiar with all these terms on a Likert scale basis where they could choose between “Fully Aware”, “Partially Aware”, “Neutral”, “Partially Unaware” and “Fully Unaware.” The third section contained some statements/questions pertaining to check the awareness and attitude towards Islamic Banking to which respondents had to indicate on a Likert scale styled options whether they “Strongly disagree”, “Disagree”, “Neutral”, “Agreed” or “Strongly agree” with questions that are asked to them. The pilot study was made on 15 questions initially out of which 12 questions were shortlisted for final factor analysis. Six statements were meant to check the awareness level of respondents whereas the remaining six statements were designed to check the level of attitude of surveyed people for Islamic Banking. The last section was designed to identify the response of the respondents towards the specific situation in regards to Islamic Banking if such a bank operates in Mumbai. This section contained three situation based questions. The data collected was from specific regions of Mumbai. An appropriate hypothesis has developed for this paper and findings are made by calculating mean value and carrying out sample T-test. SPSS software is used for analysing the data.

3.1. Hypotheses

The following hypotheses were developed and tested. The hypotheses are adapted from research done by Gerrard and Cunningham (1997) having a similar research in Singapore. The hypotheses in the above study were considered as Singapore was in a similar condition as Mumbai where Muslims were in minority and implementation of Islamic Banking had not yet started in Singapore.

Hypotheses 1: Muslims will have a better understanding of Islamic terms used in Islamic Banking than Non-Muslims.

Hypotheses 2: There is a difference in the value of means calculated for awareness in regards to Islamic Banking over religion in Mumbai.

Hypotheses 3: There is a difference in the value of means calculated for attitude in regards to Islamic Banking over religion in Mumbai.

Hypotheses 4: Muslims exhibit different behaviour and reactions to the start of operation of Islamic Banking in Mumbai than Non-Muslims.

3.2. Reliability of Scale

For section 3 of the questionnaire, reliability of scale is calculated using the Cronbach's Alpha test on the statements designed to check awareness and attitude. Table 1 shows that the Cronbach's Alpha for awareness is 0.869 and for attitude is 0.821. Cronbach's Alpha measures internal consistency and value more than 0.6 indicates high reliability of scale and hence the questions in section 3 are acceptable.

Table 1: Reliability scale using Cronbach's Alpha

<i>Sr. No</i>	<i>Variables</i>	<i>Questions</i>	<i>Cronbach's Alpha</i>
1	Awareness	In practice Islamic banking is different from conventional banking.	.869
2		Islamic banking is based on Sharia (Islamic Laws).	
3		Islamic banking is a banking system for people of all faiths/religions.	
4		If I put my money in Islamic banks, I am contended that my money will not be invested in unethical ventures like Alcohol, Gambling etc.	
5		Islamic banking is strictly based on risk sharing model.	
6		Islamic banks are more regulated form of banking as they are governed by regulatory bodies as well as by Sharia boards.	
7	Attitude	Granting of interest-free loans by Islamic banks is considered a contribution on the part of the bank to help the community in a just and efficient manner.	.821
8		Financing on the basis of profit-loss-sharing between the lender and the borrower will be advantageous to both.	
9		Financial matters and religion are inseparable.	
10		Investments are more secure in Islamic banks	
11		Islamic banking provides a solution to contemporary financial problems.	
12		Islamic banking is at par with the principles of modern finance.	

3.2. Results of the Findings

3.3.1. Demography of the Respondents

Table 2: Demography of Respondents

<i>Items</i>	<i>Sub Items</i>	<i>Frequency</i>	<i>Percentage</i>
Religion	Muslim	44	19.73
	Non- Muslim	179	80.27
Educational Qualification	Less than Graduation	2	0.9
	Graduation	104	46.64
	Post Gradation	72	32.29
	CA / CS / CWA / Other Professional Qualification	45	20.18
	Occupation	Self-employed /Business	37
Occupation	Private Service	74	33.18
	Student	107	47.98
	Any other	5	2.24
	Age group	Below 25	52
25 to 34		124	55.61
35 to 50		39	17.49
Above 50		8	3.59

The descriptive statistics on demographics variables of respondents are shown in Table 2. The sample is divided into various aspects based on Religion, Occupation, Educational Qualification and Age Group. The majority of respondents are Non-Muslims accounting to 80.27% and 19.73% are Muslim respondents which is similar to the demography of Muslim population in Mumbai. Most of the respondents fall in the age group of '25 to 34' accounting to percentage of 55.61% and it is likely that they might have larger influence on Islamic Banking as they are most likely to be regarded as clients for fresh loans and advances. The calculations made in the table show that large number of participants amounting to 87% and more are very well educated and hold a degree whereas 20% are professionals. Majority of respondents are students (47%) or working in private sector (33%) while 16.79% are self-employed/ Businessmen.

3.3.2. Testing Hypotheses for Variables

Table 3: Value of Mean of the Variables

<i>Religion/Variable' →</i>	<i>Muslims</i>	<i>Non- Muslims</i>
Awareness	4.1648	3.0472
Attitude	4.0791	2.9423

In table 3, we can see that mean values for both variables of Muslims are greater than of Non-Muslims. Non-Muslims are not as familiar as Muslims about Islamic Banking. However, the difference in the value of means is less for the variable of awareness hence T test was conducted to check the hypotheses (Table 4)

Table 4: Samples T-test (Independent Sample)

	<i>F</i>	<i>t</i>	<i>df</i>	<i>Sig.</i>
Awareness	32.754	11.472	221	.000
Attitude	17.142	10.796	221	.000

Table 4 indicate that awareness and attitude does vary with the religion and hence hypotheses 2 and hypotheses 3 are accepted. This indicates that religion plays role in awareness and attitude towards Islamic Banking in Mumbai.

3.3.3. Understanding of fundamental terms of Islamic Banking

Table 5: Understanding of Islamic terms

<i>Terms</i>	<i>Muslim</i>	<i>Non- Muslim</i>
Sharia	3.46	2.11
Riba	2.54	1.74
Takaful	2.23	2.05
Sukuk	2.11	1.44
Ijara	2.06	1.45
Hawala	2.49	2.18
Mudarabah	2.03	1.48
Musharakah	1.94	1.56
Ujrah	1.91	1.45
Wakalah	2.14	1.64
All	2.2914	1.7080

The level of understanding about some important terms under Islamic Banking is shown in Table above. The understanding found among Muslims is not substantially higher than the awareness among Non-Muslims and on the whole, both are not very familiar with the terms. The term 'Sharia' has the highest level of awareness among both the Religions and the term Hawala too has a considerable level of awareness between both religions. Muslims have more understanding about the term Riba but Non-Muslims

have awareness about Takaful. Hence we can say that Hypotheses 3 is not fully accepted as Muslims have more understanding about the terms of Islamic Banking whereas both do not have complete awareness about the terms. Hence Hypotheses 3 is rejected.

3.3.4. Response to opening of Islamic Banking

	Muslims		Non-Muslims	
	No (44)	%	No (179)	%
1 <i>If an Islamic Bank opens its branch in India what will be your reaction to it?</i>				
a Open an account immediately with such type of bank.	20	45.5	12	6.7
b Wait for market response and open an account with such a bank if it is providing more benefits than existing commercial banks.	8	18.2	45	25.1
c Will continue banking with the traditional commercial banks.	10	22.7	54	30.1
d Can't say	6	13.6	68	38.1
2 <i>In case an Islamic bank announced that it had no profit to distribute on investment and savings deposits for any one year and if you were a depositor with this bank, would you:</i>				
a Keep the deposit at the same or a different Islamic bank, because placing the deposit with a non-Islamic bank contravenes Islamic principles	13	29.5	6	3.4
b Withdraw all deposits at once and switch them to one or more banks which guarantee a return	6	13.6	55	30.7
c Remain a depositor at the Islamic bank because it could distribute high profits in subsequent years	11	25	14	7.8
d Consult relatives and colleagues and then decide what to do	4	9.1	18	10.1
e Can't Say	10	22.7	86	48.0
2 <i>The reasons which motivate people to deposit their money at an Islamic bank are:</i>				
a Religious reasons solely	18	45	46	25.7
b Profitability reasons solely	3	6.8	11	6.1
c Religious and profitability reasons combined	14	35	67	37.4
d I do not know	9	20.5	55	30.7

The response and behaviour of Muslim and Non-Muslims to the probable opening of Islamic Bank was significantly different. Majority of

Muslims (45%) responded to the statement of having an account with such type of the bank whereas some portion of Muslim respondents (22%) said they will continue with conventional banking. On the other hand Non-Muslim respondents accounting to 38% weren't sure about opening such account. Some of them (25%) said that they would wait for the market response and then take a decision.

If such Islamic Bank didn't distribute the profit for a year then Muslim respondents (29%) said they would not withdraw deposits and keep with same or any other Islamic bank whereas some Non-Muslim respondents (37%) would like to withdraw their money at once and deposit in some conventional bank.

Most of the Muslims respondents (45%) have belief that the reason to deposit money at Islamic banks is religious reason only whereas Non-Muslims think that there might be both Religious and Profitable reasons for depositing the money in Islamic Banking. The reason why most respondents are not sure about Islamic Banking is due to lack of awareness about Islamic Banking. Thus we can determine that Hypotheses 4 is accepted on the basis of responses.

3.3.5. Summary of Hypotheses Testing

<i>Sr. No.</i>	<i>Hypothesis</i>	<i>Result</i>
Hypotheses 1	Muslims, in contradiction to Non-Muslims, will have a better understanding of Islamic terms used in Islamic Banking and Finance.	Rejected
Hypotheses 2	There is a difference in the value of means calculated for awareness in regards to Islamic Banking over religion in Mumbai.	Accepted
Hypotheses 3	There is a difference in the value of means calculated for attitude in regards to Islamic Banking over religion in Mumbai.	Accepted
Hypotheses 4	Muslims, in contradiction to Non-Muslims, exhibit different behaviour and reactions to the start of operation of Islamic Banking in Mumbai.	Accepted

4. RESEARCH DISCUSSION AND CONCLUSION

From the above research study, it is implied that there is an absence of familiarity with regards to Islamic Banking in Mumbai. People are not aware of the terminologies as Islamic Banking is not yet introduced in Mumbai. Muslims have shown favorably optimistic attitude in regards to Islamic Banking among the two religions. Muslim respondents have agreed that

they will place their savings in the form of deposits in Islamic banking if such bank is established and they would also keep the money deposited even if profits are not distributed for a year or more as depositing money in conventional banks that are Non-Islamic is against the Islamic principles. These findings are in line with the finding of other studies by Gerrard and Cunningham (1997) because in Singapore too the Muslims are a minority and Islamic Banking was not introduced in Singapore.

4.1. SWOT Analysis

SWOT analysis is essential to identify the Strengths, Weakness, Opportunities and Threats and further formulate strategy by utilizing them. Here SWOT analysis will help in understanding the potential of Islamic Banking in Mumbai.

Strength

- Foundation lays major emphasis on poverty alleviation and inclusive growth
- Very popular across countries in short span of time
- Mumbai's banking structure has great potential for Islamic banking to do well here
- Sharing of profit and loss instead of collecting interest under the Islamic principles
- Banking structure purely based on ethics
- Has higher stability than conventional banks as it is not debt based financing
- Immune to instability as proved during global financial crises.

Weakness

- Lack of provision of interest free Banking system as per regulations in India and hence major legal framework needs to be changed
- General common perception that Islamic Banking is solely for Muslims
- Market share is negligible and demands great amount of monitoring
- There are disagreements in Sharia laws among various group of people.
- It requires greater level of business ethics which is lacking in current scenario and yet to evolve
- Lack of awareness regarding Islamic Banking system and cultures.

Opportunities

- Huge market size due to highest Muslim residents in Mumbai
- Alternative to the traditional banking system
- Potential of reengineering and innovation of products and services offered
- Positive attitude in regards to Islamic banking in Mumbai
- Financially excluded Muslims can become the beneficiaries of this Banking
- Growing Indian economy can attract huge investments

Threats

- Biggest threat of secularism resulting in political turmoil.
- Close competition from traditional conventional banks.
- Impression that religion and financial matters are different things.
- May give rise to communalism to some extent.

4.2. Porter's Five Force Model Analysis for Islamic Banking in India

Porter's five forces model is an analysis tool using five industry forces to determine the level of profitability and intensity of competition in an industry. Islamic Banking's potential is analysed below using the Porter's Five Forces Model.

- *Rivalry among industry:* Various products for deposits and loans are provided by Conventional banks. Indian Commercial banks have network globally and hence have a comparative advantage in operation due to economies of scale. Whereas Islamic Bank is operating through NBFC in India. Hence India needs to improve competencies, innovation in product, and efficiency in operations to lead competitive rivalry for Islamic Banking
- *Bargaining power of Suppliers:* Suppliers of services of Islamic banking in India are not progressed to become active market because of the legal framework. Conventional banks play an essential role and have spread branches all over India. In order to increase the bargaining power of Islamic Banking, it is necessary to start Sharia compliant window as Islamic bank window in every conventional bank. Experts in his field will be needed for the same.
- *Bargaining power of Customers:* The Muslims in India will willingly accept the culture of Islamic banking in the name of Religion. They will highly demand the Islamic banking solution to cater their needs and for their upliftment. This will affect their spending habit and their way of life to great extent. Some Muslims that are liberal would not go for Islamic Banking and rather prefer conventional Banking.
- *The threat of new entrant:* Profitability and sustainability of the market attracts new players in the market. The entrant will analyse the benefits and cost of operations in regards to Islamic banking. Islamic banking has a high potential and hence new players are attracted towards it. Liberal Policies by Reserve Bank of India and changes in regulatory framework will play an important role in development of Islamic banking in India.
- *Threat of Subsidies:* Enormous number of products and services are provided by Islamic banking and such products are not in compliance with Sharia under conventional banks. Conventional banking is based on determination of interests beforehand. Whereas Islamic banking prohibits interest. Use of gambling is not allowed and hence derivatives like future, forwards, and swaps are prohibited. Alternative for Islamic banks in India is Microfinance.

5. IMPLICATIONS TO BANKS

There are some implications to banks from this study if Islamic banks are introduced in India.

Firstly, Reserve bank of India would have to amend the legal framework for operation if Islamic Banking is implemented in India.

Secondly, the study establishes that small portion of Muslims have awareness of Islamic banking culture whereas Non-Muslims are significantly unaware. There is, therefore, a need to develop innovative and strategically informative advertisements and deliver to proper audience to increase the awareness of Islamic banking if such banks are established. There is a need for modification in the banking industry and Islamic banking can lead to dual banking system in Mumbai.

Thirdly, Islamic Banks must aim to be more profitable than traditional banks. We observed in the findings of this study that if Islamic banks are not able to make profit for a year, 13% of Muslims and 30% of Non-Muslims would withdraw the deposits. So to stop the outflow of funds, Islamic banks should aware their customers about the coming year's profit.

Lastly, if Islamic banking is introduced, it will be necessary to offer prompt services in order to attract more customers. Also, Islamic banks would need to target Non-Muslims besides Muslims and there are good chances enough that Non-Muslims would select such banks as an investment opportunity.

6. LIMITATIONS OF THE STUDY AND FUTURE STUDIES

In the study, I would like to highlight on some of the limitations of this study:

Due to lack of time and wideness of scope of this study, it was difficult to conduct a full depth research on all angles of Islamic Banking. All the samples collected were from specific regions of Mumbai and have variations to actual demography of Mumbai. Due to that, responses may not be fair enough to generalize the whole population of Mumbai. Not all issues relating to Islamic Banking have been covered in the study. Only variables of awareness and attitude in relation to Islamic banking have been covered.

This study did not possibly see the extent to which Muslims and Non-Muslims in Mumbai would be supportive towards Islamic Banking. Also it fails to study the circumstances under which they may extend their support for Islamic banking. Following to the same study, a future study

can be made that includes whether higher level of awareness of Islamic banking culture and products offered would increase their support more or not. Studies equivalent to this can be performed in several different countries having minority of Muslim in the population. The research in which a section studies about 'Awareness of Islamic banking culture' can include lending based products and investment based products and other services. In context of Mumbai or India, a study equivalent to this can be performed say, three years after which Islamic banks have been extensively advertised and Islamic banking is implemented. After more information and support, the awareness level for the respondents may differ accordingly.

NOTES

1. Source: <http://islamicpopulation.blogspot.com/2010/07/indian-cities-with-highest-muslim.html>
2. Source: *Wikipedia*

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