

Financial Inclusion through Islamic Banking

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Type of Review: Peer Reviewed.

DOI: <http://dx.doi.org/10.21013/jmss.v6.n2.p17>

How to cite this paper:

Nazar, M. (2017). Financial Inclusion through Islamic Banking. *IRA-International Journal of Management & Social Sciences* (ISSN 2455-2267), 6(2), 324-331.
doi:<http://dx.doi.org/10.21013/jmss.v6.n2.p17>

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ABSTRACT

Financial inclusion is a buzz word today. It plays an important role in driving away the poverty from the country. Financial inclusion is the process of ensuring financial services to the weaker sections of the society at an affordable cost. As per the Sachar Committee Report, Muslims in India are financially excluded. Even though they have an account, the extent of usage is very low due to the religious reasons. The Non-Muslims also do not actively engage in the formal financial system due to the interest involvement. Islamic Bank can serve as a remedy for the financial exclusion of the Muslims as well as Non-Muslims community. The objective of this paper is to understand the extent of financial inclusion among the people in Kerala and their awareness and preference towards Islamic banking. Both primary and secondary data are collected for the study. Secondary data are collected from various secondary sources like published articles, journals, reports, books and websites. Primary data are collected with the help of questionnaire among people in Kerala. The study revealed that most of the respondents have accessed bank accounts but the extent of usage is only for namesake. Moreover the awareness and preference towards Islamic Banking is very high among the Muslims as well as Non-Muslims and suggested that proper care must be taken for introducing Islamic banking system in India. It will ultimately leads to the inclusive growth of our country.

Keywords: Financial Inclusion, Financial Exclusion, Islamic banking, Inclusive Growth

INTRODUCTION

The cornerstone of Inclusive economic growth philosophy is that, the benefits of economic growth should be equitably spread across everybody in the country. No country in the world can take pride in the economic growth, when a large segment of the population of the country continues to be financially excluded. Financial inclusion played a major role in the economic development of a country through poverty eradication. Dr. C. Rangarajan Committee on Financial inclusion (2008), appointed by Govt. of India to study Financial inclusion, defined financial inclusion as “the process of ensuring access to appropriate financial products and services needed by all sections of the society in general, and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost”.

India has the second largest Muslim population in the world. This segment of the population needs access to personal finance. Conventional banking products are not in accordance with their personal law and are not fully accepted by the market segment. A high level committee report known as the Sachar Committee Report in India had pointed out that certain sections of Muslims are very backward in India, and do not use the banking sector. Those who use the banking services are only for name sake. Majority of the Muslim population firmly believe interest as forbidden. The policy goal of financial inclusion can be met if financial products offered to Muslims are not repugnant to their personal law. Moreover, most of the Non-Muslims are not actively engage in the formal financial system. Majority of the people in India make use of the banking service only for fund transfer, safe keeping of their deposit etc. and they do not deposit their fund or avail loans from the bank due to the interest involvement. Here lies the importance of Islamic banking. The prospects for Islamic banks are very bright in Kerala especially when many of the Muslims deposit their savings in the conventional banks without accepting any interest. So a piece of research has been designed to evaluate the extent of financial inclusion among the population in Kerala as well as their awareness and preference towards Islamic banking.

LITERATURE REVIEW

(TP, 2014) made an attempt to study the the extent of financial inclusion among rural households. The study revealed that some of the rural households do not save regularly and does not access to credit. She suggested that the formal financial institution should extent their hands to help the people regarding the financial aspects and change the existing policies.

(Dr.Eugin Prakash Pathrose, 2015) discussed various challenges faced by customers in Financial inclusion. In the study they point out that the access and use of financial inclusion in India remains very low. It also shows that only 8% of the population took a new loan from a formal banking channel. They further states that 35% of adults in India have bank accounts when compared to the global average of 50%.

(Minakshi, 2009) conducted study to assess the implementation of the financial inclusion drive and usage of banking services by households in Gulbarga district, Karnataka. It was found that though the number of households with bank accounts doubled over the duration of financial inclusion drive, 36% of the sample remained excluded from any kind of formal or semi formal saving account.

(Gupta, 2013) try to review the financial inclusion in Hoogly. The study focus on the extent of financial inclusion and finds that the rate of financial inclusion is only around 50%. Households belonging to minority communities, backward classes, people working as agricultural labours, people who are below poverty line, illiterate were mostly excluded.

(Naveed Azeem Khattak, 2010) conducted a study to assess the customer satisfaction and awareness of Islamic banking. In the study they suggested that, the customer's awareness level towards Islamic banking is good. Moreover, the customers adopted Islamic Banking due to not only the religious reasons, but also due to bank efficiency in the transaction, their confidentiality to its customers, its working hours etc.

SCOPE & SIGNIFICANCE OF THE STUDY

Muslims are largely excluded from mainstream financial services so far due to involvement of the interest element in these transactions. Interest is strictly prohibited in the monetary affairs according to the Islamic teachings. Non-Muslims also face many financial problem but they are not ready to take loans from bank due to the heavy interest rate. The government tried to take the financial services to each households of country. These steps of course have enlarged the banking and financial penetration level in India. In response of such initiatives, level of registration in mainstream banking has increased tremendously. But the most important part is the extent of benefit level. Besides the number of account, level of transaction and availability of credit facilities should also increased so that poor people can have the access of such services for their financing needs. This paper is an attempt to study the extent of financial inclusion and the awareness and preference towards Islamic banking among people in Kerala.

OBJECTIVES OF THE STUDY

1. To assess the extent of financial inclusion among people in Kerala.
2. To assess the awareness and preference towards Islamic banking among Public in Kerala.
3. To test whether there is any disagreement between Muslims and Non Muslims regarding the awareness & Preference towards Islamic Banking.

HYPOTHESIS

1. There is no significant difference between Muslims and Non- Muslims regarding the awareness about Islamic Banking.
2. There is no significant difference between Muslims and Non- Muslims regarding the preference towards Islamic Banking.

RESEARCH METHODOLOGY

Both primary data and secondary data are used for the study. As per the CRISIL Inclusix Index, out of 638 districts in India Malappuram is ranked 124th position in financial inclusion. Therefore for primary data

collection, 50 Muslims and 50 Non- Muslims from Malappuram District were selected by using convenience sampling method. Total number of samples is limited to 100 due to shortage of time. Structured questionnaire is used for data collection. Secondary data are collected from various secondary sources like published articles, journals, reports, books and websites. For analysis of data, percentage method is used. For testing hypothesis Chi square test is used.

FINANCIAL INCLUSION IN KERALA

Indian government has initiated several programs recently to expand the circle of financial inclusion. The major steps include Pradhan Mantri Jan Dhan Yojana, compulsion of banking account for scholarship schemes, MGNREGA, other cash benefit schemes, introduction of Aadhar, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Bima Yojana, banking correspondents, IT based applications, simplifying KYC norms, no frill accounts, Kisan credit cards etc. Kerala, a Southern state in India, has witnessed high social development, disproportionate to the economic growth. The social parameters of literacy, longevity, per capita income etc. in Kerala is highest in the country. The Kerala experience in this regard has been famously referred to as the ‘Kerala model of development’, by International economists like Amartya Sen. The ranking of 14 districts in India in this regard according to the CRISIL Inclusix Index is as follows:

District	Ranking in the Country	District	Ranking in the Country	District	Ranking in the Country
Pathanamthitta	1	Alappuzha	11	Wayanad	24
Trissur	3	Kasargod	20	Kannur	32
Ernakulam	4	Kollam	43	Kozhikode	33
Thiruvananthapuram	5	Malappuram	124	Palaghat	37
Kottayam	7	Idukki	44		

Source: Crisil-Inclusix Index, Ranking of 638 districts in all states in India.

RESULTS AND DISCUSSION

Demographic information of the respondents is given below.

Table No. 1 Demographic Profile of the Respondents

Demographic Variable	Frequency	Percentage	Demographic Variable	Frequency	Percentage
Gender			Occupation		
Male	72	72	Self Employed	42	42
Female	28	28	Professional	12	12
Total	100	100	Govt. Employee	22	22
Age			Others	24	24
18-30	18	18	Total	100	100
31-45	44	44	Annual Income		
46-60	32	32	Up to 100000	40	40
61 or Above	6	6	100001-250000	28	28
Total	100	100	250001-400000	20	20
Education			400001 or above	12	12
Plus Two	12	12	Total	100	100
Graduate	38	38	Religion		
Post Graduate	14	14	Muslims	50	50
Others	36	36	Non Muslims	50	50
Total	100	100	Total	100	100

Source: Primary Data

Out of the total respondents 72% are male and 28% are female. 44% of the respondents are aged between 31-45. 38% of the respondents are Graduate. Most of the respondents are self employed and having less than Rs.100000/- income.

Table No. 2 Reasons for having and not having bank accounts

Reasons for having bank account				
Reasons	Frequency		Percentage	
	Muslims	Non-Muslims	Muslims	Non-Muslims
For depositing	4	4	8	8
For availing loan	3	8	6	16
For fund transfer	18	21	36	42
For safekeeping	8	5	16	10
For satisfying the legal formalities	15	12	30	24
For earning Interest	0	0	0	0
Total	48	50	96	100
Reasons for not having bank account				
Reasons	Frequency		Percentage	
	Muslims	Non-Muslims	Muslims	Non-Muslims
Not Needed	2	0	4	0
Not enough money	0	0	0	0
Religious reasons	0	0	0	0
Procedural formalities	0	0	0	0
Lack of financial knowledge	0	0	0	0
Total	2	0	4	0
Grant Total	50	50	100	100

Source: Primary Data

100% of the Non-Muslims have bank account but only 96% of the Muslims have bank account. Most of the respondents are opened account for fund transfer and satisfying legal formalities like salary account, Adhaar, Subsidies etc. 16% of the Muslims & 10% of the Non-Muslims opened their account for safekeeping of deposits. Only 8% of the respondents from both categories are opened their account for the purpose of depositing.

Table No. 3 Reasons for having and not having Access to Credit

Reasons for having Access to Credit				
Reasons	Frequency		Percentage	
	Muslims	Non-Muslims	Muslims	Non-Muslims
Children Education	1	9	2	18
Uncertainty related to health	0	0	0	0
Households needs	8	0	16	0
Investment in business	7	9	14	18
Total	16	18	32	36
Reasons for not having Access to Credit				
Reasons	Frequency		Percentage	
	Muslims	Non-Muslims	Muslims	Non-Muslims
No Collaterals	0	0	0	0
No guarantor	0	0	0	0
Never needed	11	12	22	24

Due to the interest involvement	23	20	46	40
Procedural formalities	0	0	0	0
Total	34	32	68	64
Grant Total	50	50	100	100

Source: Primary Data

Out of the total respondents, only 34% of the respondents are borrowed from bank for household needs, investment in business etc. But more than 60% of the Muslims & Non-Muslims are not borrowed from bank. The main reason for not access to credit is due to the interest involvement.

Table No. 4 Awareness & Preference towards Islamic Banking

Variables	Frequency		Percentage	
	Muslims	Non-Muslims	Muslims	Non-Muslims
Aware	36	29	72	58
Not Aware	14	21	28	42
Total	50	50	100	100
Prefer	50	48	100	96
Not Prefer	0	2	0	4
Total	50	50	100	100

Source: Primary Data

72% of the Muslims and 58% of the Non-Muslims are aware about the Islamic banking but 28% the Muslims and 42% of the Non-Muslims are not aware. Majority of the Muslims prefer the introduction of Islamic Banking in India. But only 4% of the Non-Muslims do not prefer Islamic Banking.

Table No. 5 Reasons for the preference towards Islamic Banking

Reasons	Frequency		Percentage	
	Muslims	Non-Muslims	Muslims	Non-Muslims
Religious Reason	12	0	24	0
Socially Responsible investing	6	10	12	20
Success story in the rest of the world	2	10	4	20
Sustainability of profit-loss sharing model	2	15	4	30
Interest free	27	15	54	30
Variety Financial Products & services	1	0	2	0
Total	50	50	100	100

Source: Primary Data

Majority of the Muslim and Non-Muslims respondents prefer Islamic Banking due to its interest free nature. 24% Muslims show preference due to religious reasons and 30% of the Non-Muslims prefer Islamic Banking because of profit-loss sharing model.

Table No. 6 Response to Introduction of Islamic Banking in India

Response	Frequency		Percentage	
	Muslims	Non-Muslims	Muslims	Non-Muslims
Open an account immediately with such type of bank	37	30	74	60
Open an account after considering market response	6	6	12	12
Continue with present banking system	1	5	2	10
Can't say	6	9	12	18
Total	50	50	100	100

Source: Primary Data

74% of the Muslims and 60% of the Non-Muslims will open an account with the introduction of Islamic Banking but 12% from both categories will wait for the market response.

HYPOTHESIS TESTING

- ❖ There is no significant difference between Muslims and Non- Muslims regarding the awareness about Islamic Banking.

The Chi square value is 2.16 and the table value is 3.84. The Chi square value 2.16 is less than the table value at 5% level of significance 3.84. Therefore, null hypothesis is accepted. So we can conclude that, there is no significant difference between Muslims and Non- Muslims regarding the awareness about Islamic Banking.

- ❖ There is no significant difference between Muslims and Non- Muslims regarding the preference towards Islamic Banking.

The Chi square value is 2.04 and the table value is 3.84. The Chi square value 2.04 is less than the table value at 5% level of significance 3.84. Therefore, null hypothesis is accepted. So we can conclude that, there is no significant difference between Muslims and Non- Muslims regarding the preference towards Islamic Banking.

MAJOR FINDINGS

- ♥ The study reveals that 98% of the total respondents are included in the formal financial system in terms of access to bank account. So we can say that, majority are financially included.
- ♥ Majority of the respondents use their bank account for fund transfer, safe keeping as well as for satisfying the legal formalities like obtaining subsidies, Adhaar Linkage, Salary Account etc. and neither for depositing not for borrowing. So we can summarize that the extent of financial inclusion is very poor in Kerala.
- ♥ Out of the total respondents, only 34% of the respondents are borrowed from bank. But 66% of the people are not borrowed from bank. That means more than half of the population is financially excluded in terms of access to credit. The main reason for not access to credit is due to the interest involvement.
- ♥ 65% of the total respondents are aware about the Islamic Banking and 98% of them prefer the introduction of Islamic Banking in India and the major reason for their preference is due to its interest free nature.
- ♥ 67% of the respondents open an account with the introduction of Islamic Banking but 12% will wait for the market response.
- ♥ Muslims and Non-Muslims are aware about Islamic Banking. Moreover, they uniformly prefer the introduction of Islamic Banking in India.

SUGGESTIONS AND CONCLUSION

The Government of India and RBI strive to ensure that the poor people are included in the formal economy through banking channels. As compared to other states, Kerala is ranked in the first position in the list of financially included states. Majority of our people have bank accounts. But the extent of usage is very low. Actually they are not actively participated in the formal financial system due to the interest based banking. The study shows that if the Islamic Banking is introduced in India, definitely Muslims and Non-Muslims will actively participate in the banking system and we can ensure the overall inclusion of the people in the formal financial system. The critics of Islamic Banking point out that the introduction of Islamic Banking is not feasible in India because the legal framework of India is not allowing such a kind of banking system. But the United Kingdom which is the source of our constitution and banking laws, already adopted Islamic Banking due to its immense opportunities for the future growth. There is three option for the Government of India to introduce Islamic Banking;(1)The amendment of the current legal framework (2)Establishment of a separate legislation for the functioning of Islamic Bank (3)Allow the foreign Islamic Banks to open their branches in India. Islamic Bank is the need of the hour and it will lead to the inclusive growth of India.

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