

## The Feasibility of Islamic Banking In India ♦

The Indian financial institutions are regulated by Reserve Bank of India, which does not permit interest-free banking system. Therefore, it was discussed in the Second Fiqh Seminar of the Islamic Fiqh Academy held in December 1989 in New Delhi to find out ways and means to develop a legal framework for the operation of interest-free banking in India either by taking recourse to the existing laws or by lobbying for change in the relevant legislation.

Regarding Islamic Banking it was decided that it should be based on *Mudhārabah*, *Mushārahah*, *Ijārah* and *Murābaha* and should necessarily be kept clean of *Riba* (interest). To chalk out its practical aspects a committee of economic experts and Islamic scholars was formed consisting of:

1. Dr. Rahmatullah Ansari
2. Dr. Abdul Haseeb
3. Dr. K. G. Munshi
4. Dr. Fazlur Rahman Faridi
5. Dr. Nejatullah Siddiqui (Saudi Arabia)
6. Dr. Mohammed Manzoor Alam
7. Dr. Mohammad Anwar (Malaysia)
8. Janab Abdul Wahab Delvi
9. *Mufti* Saeed Ahmed Palanpuri
10. Ml. Khalid Saifullah Rahmani
11. Ml. Ateeque Ahmed Bastavi
12. Ml. Qazi Mujahidul Islam Qasmi

The detailed sixty-page report of the Banking Committee on the issue of Islamic Banking was presented. Mr. Abdul Haseeb, former Director, Reserve Bank of India and Mr. Muhammad Hussain Khatkhatey put up the abridgement of this report in Urdu before the participants of the Seminar.

- 18.1 It was highlighted in this report that interest-free Islamic Banks cannot be established in India unless prevailing Banking laws are suitably amended and Banks are permitted to directly finance the trade and industry.

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♦ Second Fiqhi Seminar (New Delhi) 8-11 Dec 1989.

- 18.2 As an alternative, the report recommended the setting up of Islamic Financial Institutions and interest-free societies under the Indian Companies Act and Cooperative Credit Societies Act with adoption of Partnership under certain conditions.
- 18.3 Islamic modes of business like *Mudhārabah*, *Shirkah*, *Murābaha* and *Ijārah* are recommended to be adopted, in this report, as also those banking services which are free from interest and which are called 'Non-Banking Services'.
- 18.4 Establishment of a central (federal) institution to control such Islamic Financial Institutions is also recommended in the report. The central institution will issue certificate of financial stability and validity of such bodies and take stock of the credibility and administrative ability and capability of any new financial institution in case it is planned. It will also impart them useful advice and arrange to utilize the surplus capital of one institution through another in some profitable and permissible business.