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<p><b>Thahira, K.K.</b></p> <p>Assistant Professor, Department of Economics, Sullamussalam Science College, Areacode, Malappuram, Kerala</p>	<p><b>Awareness about Interest Free Banking among Households of Morayoor Grama Panchayath</b></p> <p><b>Abstract</b></p> <p>Interest free banking is banking or banking activity that is consistent with the principles of sharia (Islamic law) and its practical application through the development of Islamic Economics. RBI opens door to interest free banking and proposes Interest free banking products. Awareness about Interest free banking among households varies in different regions of the world. Awareness about Interest free banking among households in India is much lower. Objective of the present study is to find out the awareness about interest free banking among households of Morayoor Grama Panchayath. 100 samples were selected to conduct the study by using questionnaire. Exploratory research method is adopted for the present study. Appropriate statistical methods will be adopted to analyse the data. Results of the study shows that majority of the households were not aware about the concept of Interest free banking.</p>

**Introduction**

The institution of bank has become an indispensable link in the economy of a country. A modern bank combines a number of functions which would otherwise have been performed by different institutions. It can also be described as an institution which borrows idle resources, makes funds available to those who need. Interest free banking is banking or banking activity that is consistent with the principles of Islamic law and its practical application through the development of Islamic economics. Interest free banking and finance are the most discussed topics in finance sector as well as in the media in the recent years. Interest free banking and finance is a fast growing field in the world financial sector. Now Interest free banking is introduced in more than 75 countries including US, UK, China, Canada, France & Singapore.

**Review of Related Studies**

The history of interest free banking could be divided into two parts. The earliest references to the organization of banking on the basis of profit sharing rather than interest (Fiqh al-Muamalat - the fundamental principal of Islamic Banking) can be traced to the late forties. However, in the next two decades it attracted more attention, partly because of the political interest that it created in Pakistan and partly because of the migration of Muslims to the

western countries. The Islamic Development Bank, an inter-governmental bank established in 1975, was born of this process, being the first bank incorporating the principles of Shariah banking. The first private interest-free bank, the Dubai Islamic Bank, was also set up in 1975 by a group of Muslim businessmen from several countries. Two more private banks were founded in 1977 under the name of Faisal Islamic Bank in Egypt and the Sudan. In the same year the Kuwaiti government set up the Kuwait Finance House. In the ten years since the establishment of the first private commercial bank in Dubai, more than 50 interest-free banks have come into being. Though quite a few of them are in Muslim countries, there are now spreading in other countries as well like in Denmark, Luxembourg, Switzerland and the UK. By 2008 Interest free banking was growing at a rate of 10-15% per year and with signs of consistent future growth. Addressing the Oman Investment Forum in October 2011, all conventional banks in Oman can offer Sharia-based financial services upon approval from the Central Bank of Oman (CBO).

Interest free banking refers to a system of banking or banking activity that is consistent with Islamic law (Shariah) principles and guided by Islamic economics. The contemporary movement of Interest free finance is based on the belief that all forms of interest are riba and hence prohibited. In addition,

Islamic law prohibits investing in businesses that are considered as unlawful. Furthermore, the Shariah prohibits what is called Maysir and Gharar. Maysir is involved in contracts where the ownership of a good depends on the occurrence of a predetermined, uncertain event in the future whereas Gharar describes speculative transactions. Both concepts involve excessive risk and are supposed to foster uncertainty and fraudulent behaviour.

The basic principle of Interest free banking is based on risk-sharing which is a component of trade rather than risk-transfer which is seen in conventional banking. Interest free banking introduces concepts such as profit sharing (*Mudharabah*), safekeeping (*Wadiah*), joint venture (*Musharakah*), cost plus (*Murabahah*), and leasing (*Ijar*), cash advances for the purchase of agricultural produce (*salam*) and cash advances for the manufacture of assets (*istisna*), etc. In practice, the fixed-return models, in particular *murabaha* model, were the bank's favourites, as they bear results most similar to the interest-based finance models. Assets managed under these products far exceed those in "profit-loss-sharing modes" such as *mudarabah* and *musharakah*.

*Murabahah* may be called an Islamic mortgage transaction, instead of lending the buyer money to purchase the item; a bank might buy the item itself from the seller, and re-sell it to the buyer at a profit, while allowing the buyer to pay the bank in instalments. However, the bank's profit cannot be made explicit and therefore there are no additional penalties for late payment. In order to protect itself against default, the bank asks for strict collateral. The goods or land is registered to the name of the buyer from the start of the transaction. Another approach is *Eljara wa Elqina*, which is similar to real estate leasing. An innovative approach applied by some banks for home loans, called *Musharaka al-Mutanaqisa*, allows for a floating rate in the form of rental. The bank and borrower form a partnership entity, both providing capital at an agreed percentage to purchase the property. The partnership entity then rents out the property to the borrower and charges rent. The bank and the borrower will then share the proceeds from this rent based on the current equity share of the partnership.

## Objective of the Study

- To find out the awareness about the basic financial contracts under interest free banking among households of Morayoor Grama Panchayath.

## Methodology

Exploratory research method is selected for the present study. 100 households were selected by simple random sampling method from Morayoor Grama Panchayath to conduct the study. Morayoor Grama panchayath is a Grama Panchayath from Malappuram Distict of Kerala. A structured questionnaire is used for data collection. Simple statistical techniques were used for the analysis.

## Data Analysis

**Table 1: Awareness of Households about Interest Free Banking**

N=100					
S. No.	Basic Financial Contracts Under Interest Free Banking	Responses of Consumers			
		Aware	Percentage (%)	Not Aware	Percentage (%)
1	Equity Participation ( <i>Musharakh</i> )	20	20	80	80
2	Trust Based Finance ( <i>Mudarabah</i> )	40	40	60	60
3	Cost Plus Financing ( <i>Murabahah</i> )	20	20	80	80
4	Leasing ( <i>Ijarah</i> )	10	10	90	90
5	Deferred Payment ( <i>Istisna</i> )	40	40	60	60
6	Participation Securities ( <i>Sukuk</i> )	32	32	68	68
7	Agency ( <i>Wakala</i> )	40	40	60	60
8	Demand Deposits ( <i>Al-Wadiah</i> )	38	38	62	62
9	Benevolent Loan ( <i>Qard Hassan</i> )	30	30	70	70

From Table-1,

- Equity participation (*musharakh*); it is a partnership agreement between bank and the customer where equity is contributed jointly. Only 20% of the samples were aware about this feature.
- Trust based finance (*mudarabah*); here profits are shared in a predetermined ratio and losses are bear by the owner. Only 40% of the samples were aware about this contract.
- Cost plus financing (*murabahah*); which represents that total cost is usually paid in instalments and the product belongs to buyer until the last

instalment is paid. Majority of sample (80%) were not aware about this concept

- Leasing (ijarah); the bank buys and leases out an asset or equipment required by its clients for a rental fee. The responsibility for maintenance rests with the lesser. 90% of the samples were not aware about it.
- Deferred payment (istisna); under this type of contract, manufacturer agrees to produce and to deliver premise at a given price on a given future date. 40% of the samples were aware about this concept.
- Participation securities (sukuk); this represents shariah-compliant securities that are backed by tangible assets. Sukuk have face value linked to the value of assets and can be traded in the secondary market. Only 32 % of the samples were aware about this concept.
- Agency (wakala); this is a money market instrument. The depositors place fund with the bank to invest these funds in to suitable projects. The bank as an agent is entitled to receive a fee for its service and returns will be given to the depositors. Only 40% of the samples were aware about this contract.
- Demand deposits (al-wadiah); this refers to a concluded contract between owner and bank. The depositor grants the bank their permission to utilise the money for whatever purpose permit by law. Only 38 % of the samples were aware about this contract.
- Benevolent loan (qard hassan); under this arrangement, a loan is extended on a goodwill basis, with the debtor only required to pay the amount borrowed. Banks are allowed to charge a service fee to cover the expense of handling loan. Only 30 % of the samples were aware about this contract

### Conclusion and Suggestions

As a part of Islamic finance, there are different initiatives are held by private groups and public in different part of our country. RBI also opens door to interest free banking and proposes interest free banking products. Awareness about Interest free banking among households varies in different regions of the world. Awareness about Interest free banking among households in India is much lower. Result of the study shows that most of the citizens of Kerala

were not aware about the concept of interest free banking, its principles and advantages. From this circumstances, the study suggest to:

- Make aware about the ideas of Interest free banking among the mass.
- Make aware about the principles and advantages of Interest free banking among the mass.
- Conduct awareness campaign for making knowledge about this venture.
- Introduce more interest free ventures in our country.
- Create a comprehension about this venture, and make aware that it is not a part of religion.

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