Chapter 1 – Introduction
1.1 Introduction

The word ‘bank’ characteristically refers to an institution that provides deposit facilities to general people. Technically, a bank is a financial institution whose primary activity is to act as a payment agent for customers and to borrow and lend money (Wikipedia – ‘Bank’). A financial establishment that uses money deposited by customers for investment, pays it out when required, makes loans at interest, and exchanges currency. A modern bank is therefore an institution responsible for receiving, collecting, transferring, paying, lending, investing, dealing, exchanging and serving money and claim to money both locally and internationally or is an institution which deals in information. A conventional banking institution normally earns two types of returns, namely, fee from fee-based services and insulates spread (i.e., interest earned within interest expanded) from its fund-based business. The latter is the main source of income as fund based services are their main line of activity. Banks charge higher interest on loans to cover all the expenses, cost of funds and profit for the owners.

On the contrary, Islamic banking is the alternative banking methodology administered under Shari`ah principles. Unlike conventional banking, Islamic banking system is run under the principles of partnership, mutual solidarity and reciprocal social development (Dusuki and Abdullah, 2006; Ahmed, 2000). Islamic banking, by principle, is different from the conventional banking system because payment of interest which is known as Riba is strictly prohibited in Islamic Banking. In several verses from the Qur’an, Allah undoubtedly underlines that indulging in Riba is like inviting a war against Allah and His Prophet Muhammad ﷺ.
(ﷺ = Peace and Blessings of Allah Upon Him). He also clearly differentiates between Riba and profit and also strongly indoctrinated not to confuse between these. The Qur’an clearly defines that profit must be earned from exchange of goods and services but not from exchange of money itself. Islamic banks fundamentally emerged to fulfil this basic need of Muslims to enjoy banking services in compliance with Islamic principles (Khan et al, 2008).

In recent years, world-over the attitude of stakeholders towards Islamic Banking System has shown increasing graph not only because of the religious motivation but due to various factors including relative cost and benefits, service delivery and quality, staff competency and convenience. However, in countries like India where only conventional banking system is in operation, Muslim community is deprived of Islamic Banking System. Therefore a sizeable number of Muslims either do not maintain any relationship with conventional banking system or do not accept any interest on their deposits. Hence it is believed that there is tremendous scope for Islamic Banking System in Countries like India. Research studies have indicated Islamic Principle as the key factor among Muslims for selecting Islamic Banking System (Metawa and Almossawi, 1998), while as profitable returns on investments generated by Islamic banks is the key motivator for non-Muslims (Gerrad & Cunningham, 1997; Ahmad and Haron, 2002).

India being world’s second largest Muslim population country and Jammu and Kashmir predominately a Muslim state having more than 67% population, surprisingly Islamic methods of finance have not yet been established institutionally in the country in general and the state of Jammu and Kashmir in particular.
However, given the current extensive program of financial reform worldwide and the rapid growth and appeal of Islamic finance in comparable economies, there is a hope and opportunity for a system of Islamic finance throughout the state. As such, there is an earnest need for research into the prospects for Islamic methods of finance from a service user and service provider’s aspect. No study studies has been undertaken so far in this regard in the state of Jammu and Kashmir and also no serious study regarding the perception and attitudes of Indian population towards Islamic Banking has been attempted so far.

In order to fill this gap, the present study first of its type in the Indian context in general and Jammu and Kashmir State particular has been undertaken to find the stakeholders perception and attitudes towards Islamic banking system. The overall study is conducted to analyse perception and attitudes towards Islamic finance with a main focus to identify the impact of basic parameters that influence the perception and attitudes towards the potential use of Islamic methods of finance by Jammu and Kashmir State stakeholders including retail consumers, business firms, bank employees, self-employed, Students etc.

1.2 Objectives of the study:

The study has been carried out with two set of objectives (general and specific). The general objective of the present study was to analyse the most attractive features of Islamic Banking that has attracted the population world over towards Islamic banks. The specific objectives of the study are as follows:
1. To analyse the awareness of Islamic Banking amongst stakeholders in India.

2. To analyse the perception and preferences of stakeholders towards Islamic banking system.

3. To analyse willingness of stakeholders to do business with Islamic Banks.

4. To analyse scope and prospects of Islamic Banks in India.

1.3 Limitations to the Study:

There are several other factors like quality, management efficiency, time, cost etc. that help to identify and understand the perception and attitudes among the stakeholders towards adaption or non-adaption of Islamic Banking. However, due to the nonexistence of Islamic Banking as an alternative banking system in the Jammu and Kashmir State and India as a whole, all these important factors could not be included in the empirical analysis of the present study. This has remained a major limitation to this study.

1.4 Layout of the Study:

Based on the objectives, hypotheses and research methodology set for the study the empiricism of Islamic banking has been presented in the following broad chapters:

**Introduction:** This chapter gives brief introduction of the study in terms of introduction of Islamic Banking, study objectives, limitations and overall layout used for the study.
Islamic Finance – A Conceptual Framework: This chapter provides the primer introduction about the mechanism and types of various Islamic financial products.

Review of Literature: A detailed literature review is reflected in this chapter and this chapter sums up the literature reviewed to formulate the gap and study the work done so far in the field of Islamic Finance.

Materials and Methods: The details about the framework and methodology adopted for the present study has been discussed in detail in this Chapter. In this chapter the descriptive, parametric and hypothesis testing on the data collected from the representative respondents.

Data Analysis and Interpretation: This concluding chapter sums up the descriptive, parametric and hypothesis testing on the data collected from the representative respondents followed by discussion on the results obtained thereof has been presented in detail. It also presents the main findings of the study in terms of summary, contributions, implications limitations and areas for further investigation.

Findings, Suggestions and Conclusion: In this chapter, an attempt has been made to provide combined discussion of results, the theoretical contributions, empirical implications, research limitations and areas for future investigations of study.