

## Islamic banking could be on its way in

Our Bureau

*Banks may be allowed to open specialised interest-free windows for simple products*

Mumbai, December 28:

Interest-free banking, also known as Islamic banking, could become a reality if the Reserve Bank of India accepts the recommendations of its panel that banks in the country may be enabled to open specialised interest-free windows with simple products.

The panel has suggested that the specialised interest-free windows at banks could deal in products such as demand deposits, agency and participation securities on their liability side, and offer products based on cost-plus financing and deferred payment, deferred delivery contracts on the asset side.

The central concept in interest-free banking and finance is justice, which is achieved mainly through the sharing of risk. Stakeholders are supposed to share profits and losses, and charging interest is prohibited.

In interest-free banking, the bank accepting deposits of money from the public is not engaged in lending as a purely financial activity but undertakes operations on the basis of profit and loss sharing (PLS) by engaging in equity financing and trade financing.

The committee said that in the event that interest-free banking is allowed in India, the extant regulatory guidelines in respect of capital and liquidity as applicable in the case of commercial banks would have to be made applicable to those as well.

In its report, the committee noted that globally, interest-free banking has witnessed a significant increase, especially in the wake of the financial crisis of 2008.

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