

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1579

ANSWERED ON:04.03.2011

ISLAMIC BANKING QUESTION

Adsul Shri Anandrao Vithoba; Owaisi Shri Asaduddin; Yadav Shri Dharmendra

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Reghuraraj Committee has recommended for introduction of Islamic Banking/interest free banking in the country to ensure 'inclusive growth with innovation';
- (b) if so, the details thereof;
- (c) whether the Government has accepted the recommendations made by the said Committee keeping in view the judgement made by the Kerala High Court in this regard;
- (d) if so, the details thereof alongwith the implementation status of such accepted recommendation and if not, the reasons therefor; and
- (e) the time by which the final decision is likely to be taken by the Government in this regard?

**Answer**

MINISTER OF THE STATE IN MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): Raghuram Rajan Committee (Report of the Committee on Financial Sector Reforms) in 2008 has, inter-alia, stated the following regarding Islamic Banking / interest free banking:

'Certain faiths prohibit the use of financial instruments that pay interest. The non availability of interest free banking products (where the return to the investor is tied to the bearing of risk, in accordance with the principles of that faith) results in some Indians, including those in the economically disadvantaged strata of society, not being able to access banking products and services due to reasons of faith. This non availability also denies India access to substantial sources of savings from other countries in the region.

While interest free banking is provided in a limited manner through NBFCs and cooperatives, the Committee recommends that measures be taken to permit the delivery of interest free finance on a larger scale, including through the banking system'.

(c) to (e): The Government of India has submitted before the Hon'ble High Court of Kerala at Ernakulam in Writ Petition (Civil) No. 35180 of 2009 and Writ Petition (Civil) No.10662 of 2010 that in the current statutory and regulatory framework it is not legally feasible for banks in India to undertake Islamic banking activities in India or for branches of Indian banks abroad to undertake Islamic banking outside India. The said stand of the Government of India is applicable Mutatis Mutandis to the activities of Non-banking Financial Companies also.