Introduction

Islamic Finance is a system of finance based on Islamic law, or Shariah. It aims to achieve economic and social justice in all financial matters. In contrast to conventional finance, Islamic finance takes into consideration the moral consequences of financial transactions. It ensures that financial contracts are fair and equitable and guarantees that financial rewards are correlated with the level of risk and responsibility borne by all parties. Islamic Banking and Finance is more stable option vis-à-vis the conventional system as its fundamentals are not based on interest and speculation, uncertainty and gambling which are the key ingredients of the current turmoil in the financial markets. It’s one of the most important characteristics is that the distribution of wealth should be just and fair and it should percolate from the top to the bottom, from bottom to the top so that it may not circulate only amongst the rich. Islamic finance is also commonly known as “Ethical Finance” or “Participatory Finance” or “Interest-free Finance”.

The Islamic financial services industry has witnessed a rapid growth during the last decade. While estimates about the size of the industry differ, conservative sources put the total assets of Islamic financial institutions at approximately One trillion US dollars. Islamic financial institutions operate in over 75 countries including US, Europe, Middle East, East Asia, etc. and are growing at over 15 per cent year-on-year. Notwithstanding the encouraging data, the fact remains that the industry is too small compared to the size of its potential market. The strength that lies in the number of 1.65 billion Muslim populations worldwide is yet to be exploited. One of the key impediments to the growth of Islamic finance is lack of awareness among Muslims about the Islamic alternative models of banking, insurance and investments.

Another key area of concern relates to lack of human resources adequately trained in the models and tools of Islamic finance. Islamic financial institutions have generally been recruiting from the pool of conventional bankers and financial professionals, who often find it too comfortable to camouflage conventional products and services as Islamic ones. The unsavory outcome of this is there for all to see. We now find a wide range of products and services which are Islamic in form but conventional in every other sense. A solution to the above perhaps lies in creating greater awareness among market participants through research, education and training. The depositors, investors, bankers, insurance professionals, financial analysts, regulators and policy makers need to be told
the full story - why conventional financial products and services are not acceptable in Shariah; what are the specific elements and features that are unacceptable; what are the Islamic alternative products and services that fulfill similar needs and address similar concerns and finally whether the alternatives are efficient as well.

The rising importance of business ethics and fiscal conservatism amongst investors lays the importance on Islamic Asset Management and will give rise to its relevance not only as an alternative investment class but as a primary investment option. This study shall make attempts to fathom products, processes and mechanisms that are in use in the Islamic financial services industry. It shall also focus on how financial products and services should be designed and offered in this industry, given the need for full Shariah compliance.
Review of Literature

Since the commencement of economic liberalisation, there has been an increase in the number of investment avenues available for retail investors. Depending upon their risk appetite, they can choose between bank deposits, government/private bonds, shares and stocks, exchange traded funds (ETFs), mutual funds, insurance, derivatives, commodities, currencies, etc. Every investment requires decision making, the outcome of which is unpredictable. This fact has fostered discussion of risk. A study by authors Arifur Rehman H. Shaikh and Dr. Anil B. Kalkundrikar (2011) proves that there are many factors, both intrinsic and extrinsic such as age, gender, marital status, level of income, educational background, etc. that affect the assessment of risk and thereby the investors’ behaviour and decision making. These parameters are also termed as demographic factors. A study by Manish Sitlani, Geeta Sharma and Bhoomi Sitlani (2011) on the association of various demographic factors with investment choice of occupants of the financial services industry reveals that there is no association between variables such as gender, age, marital status, occupation, household income and investment choice. The only variable that has a significant association with investment choice of occupants of the financial services industry is educational qualification. The study also reveals that majority of the investors across demographics prefer Fixed Return Securities as the investment option over the rest, which just proves that safety and security of the investment is primary, whereas the returns are secondary.

Further, research works in the field of human behaviour (behavioural finance) support that personality and knowledge governs the individual behaviour. Individuals with particular traits tend to be relatively consistent in their attitude and behaviour over time and across situations. R. Shanmugham and K. Ramya (2010) in their research examined the relationship between Locus of Control trait, Investment Knowledge and Investment Behaviour. The Locus of Control was classified into internal and external using Rotter’s IE Scale. The outcomes of the analysis showed that investors with high Locus of Control score (internals) are most likely to have high Investment Knowledge and internals are most likely to have a successful Investment Behaviour.

In any economy, private investment occurs in two different ways; active investment where one or more persons put their own capital into a project, manage it themselves and enjoy fruits of their labour and capital themselves; and passive investment where the
investor provides capital and receives a return but takes not further part in project. Both conventional and Islamic system permits and encourages active investment. Both also permit and encourage passive investment which too rewards capital from realized profits in the form of dividends. In both cases any realized loss is borne by the capital providers. But any investment that brings in Riba (interest) income or financing that involves the payment of Riba is prohibited in Islam. Abdul Gafoor (2012) explores the options available within an Islamic setting. They are as follows; Mudaraba (Participatory Finance), Musharaka (Partnership), Murabaha (Cost-Plus Financing), Ijara (Leasing), Bai-Salam (Forward Sale Contract) and Istisna (Manufacturing Finance).

**Author Qasmi, N.A. (2009)** lists the three conditions that need to be fulfilled if a person intends to buy and sell shares on the stock market. The first condition is that the company must not engage itself in unlawful business activities which will harm the society for eg. Alcohol, pornography, gambling, etc. The second condition to be fulfilled is that company’s assets must not comprise of liquid assets only i.e. cash. The company must acquire some fixed assets as well. The third condition states that company must not deal in interest, both paying and receiving as it is against the principles of Shariah.

**Farida Siddiqui (2011)** explains Islamic Banking and its key elements. Islamic Banking refers to a system of banking which is consistent with Islamic Shariah (law) and guided by Islamic Economics. Islam prohibits the payment and collection of Riba (interest or usury). Main conditions governing Islamic investment include the following; money does not generate or beget money in itself, but it becomes productive if it is involving an activity or work; investment is subject to the rule of profit and loss sharing; investment in business activities is lawful but prohibitions should be avoided, contracts must be free of Gharar (uncertainty, ignorance and the conditions which lead to disputes).

**Ayaz Memon (2011)** explains why Riba is prohibited in Islam. Riba (Usury/Interest) as it is used in the Arabic language means to excess or increase. In the Islamic terminology interest means effortless profit or that profit which comes free from compensation or that extra earning obtained that is free of exchange. Types of Riba are “Riba al-nasiah” and “Riba al-fadl”. Prohibition of Riba from Quran are; Allah states in Quran: “O you, who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful.” (3:130). “Allah has permitted trade and has forbidden interest.” (2:175) Islam prohibits eating people’s money unjustly and considers Riba as one way of
stealing people’s money unjustly. The impact of Riba on the lives of people and its oppressiveness cannot be denied. In the name of profit taking people have been pushed into the corner to continuously earn money for lenders and pay them monthly interest on top of interest.

Author **Mohammed Saeed Shingeri (1994)** in his book titled “A Model of Pure Interest - Free Banking” explains the Islamic banking alternatives for Current Accounts and Savings Account; they are Demand Credit Account and Time Credit Account, respectively. The Demand Credit account can be operated by individuals, business houses, associations, etc. Unlike the conventional banks, the demand credit account holder will not suffer in case the banks files for bankruptcy. The main aim of this account is to inculcate the habit of savings amongst the masses and to mobilize the savings for the development of the economy. A Time Credit account is the substitute of Savings account. A Time Credit account holder cannot demand money before the maturity of the term in view of the following Hadith “Prophet Mohammed (PBUH) said that Muslims will stick to the agreed terms and conditions of the contract”. In contrast with traditional banking, this deposit will not bear any material because any benefit whether drawn or impliedly prefixed will be termed Interest.

After the economic recession of 2009, the majority of the world came to realise that it was the collapse of Capitalism after Socialism. American researchers affirmed that the Tsunami’s impact of recession would hamper the least, to those who were practicing Muslim. Author **Muhammad Umar Chapra (2008)** explains that the very foundation of Islamic system being different from that of Socialism and Capitalism which are both earth bound and not oriented to spiritual values, the super-structure ought to be different. An attempt to show the similarity of Islamic system with either capitalism and or socialism can only demonstrate lack of understanding of the three systems. This thought process is echoed by **Shoebullah Khan (2011)** who explains the distinctive features of Islamic Economics. He says that Islam shows the route to perfect way of living. One will find perfect guidance and disciplines in matters of faith, devotions, social living, politics and administration. Economics, which is an important field necessary for the society, is also dealt with in complete detail and clarity. Firstly, the system is unique in its feature as it has been revealed by Allah, the Creator of the entire Universe unlike Socialism and Capitalism which are manmade. The second unique trait of Islamic system of economics
is that it has been enjoined with emphasis on good manners and etiquettes. There is no place for hard-heartedness, miserliness, cruelty and self interest. Another unique feature is that one will find a beautiful relationship which blends materialism and spiritualism. The next important aspect of this system is Tawazunijtima (balance and counter balance) and Adlijtima (mass justice) due to which both wealthy and poor benefit. The most critical trait of this system is that is permanent and unchangeable.

The strong performance of the Islamic financial institutions during the global financial crisis has further enhanced the reputation of the sector as a legitimate alternative to the conventional financing system. The ability of the Islamic Financial sector to withstand the economic downturn during the global financial crisis is analysed Alam N. and Rajjaque M.S. (2010). The authors compare the performance of Shariah compliant equities with equities in the wider general market. They construct three portfolios based on the constituents of S&P Europe 350 that represent the overall market, the market without the financial firms and the market of Shariah compliant equities. The findings of the study reveal that the portfolio of Shariah compliant equities outperforms the other two portfolios and shows less variability, and is therefore considered less risky. Further, M.Y. Khan (2011) shows how interest based financing can be replaced by two modes namely participation in profit or loss rather than interest sharing only by the lender and loses to be borne by the borrower. Secondly, since Indian Banking laws do not permit the Islamic banking, the Muslim community can look at equity investment, broking services, participating finance for infrastructure projects, merchant banking, under writing, etc. for participating in financing activities. In this era of globalization where capital is moving from one corner to another corner of the universe, Muslims are lagging behind in financial activities which are visibly employment oriented.

The slowdown in the demand for conventional financing thanks to the economic downturn has left debt and equity issuers considering alternative methods, such as Islamic finance. Islam prohibits the charging and payment of interest on financial transactions and advocates social justice and equality through distribution of wealth within the society. Following these principles, the Islamic Banking and Finance sector has experienced global acceptance since the establishment of the first commercial Islamic Bank in 1975. However, the sector faces many challenges as it continues to expand globally. These challenges include the regulatory environment in some countries that limit the ability of
Islamic financial institutions to offer certain financing products, and a lack of consumer knowledge about the system. Stefan Volk and Markus Pudelko (2010) identify the major challenges and opportunities for Islamic Retail Banking in Europe. The authors compare two European markets of Britain and Germany and propose a framework that aids in determining the evolution of a domestic market for Islamic Banking. The framework consists of four attributes: demand conditions, supply conditions, regulatory conditions and societal conditions. The paper suggests that further expansion of Islamic Banking in Europe would require changes in the regulatory environment to allow implementation of Islamic Banking schemes and comparable tax treatment to conventional banking.

Asyraf Wajdi Dusuki (2010) analyses the equity-based Sukuk financial structures and explains that in order to distinguish itself from the conventional system, Islamic financial agreements should go beyond the economic outcomes of the contracts, and focus on the spirit of the system that emphasizes social justice and equality. This fact is further supported by Simon Watkins (2011) who says that if Islamic finance is structured in a way that involves the sharing of risk and reward equally, the financial effects will differ from those of a conventional loan. The key features of cash flows, risk and return of a supposedly Islamic fund are in essence the same as those of an interest-bearing conventional bond and this should be made clear to sukuk scholars and investors at inception. This may slow the sukuk market's growth and bolster the asset-backed market. "It is probably only by supporting the features that make Islamic finance different that any sustainable value will be added to the global financial system.

According to Khan M.Y. (2011) Sukuk is a certificate of equal value representing undivided shares of ownership of an asset. Without creating any liability on the issuer, Sukuk can result in safe investment because the issuer issues this instrument for mobilising the savings to finance the projects likely to strengthen the economy and to stop the diversion of funds or its misuse. Sukuk Finance for infrastructure development has assumed very large role in GCC countries and can be of significant importance to many other developing countries including India. M.Y. Khan (2012) lists the key advantages from issuing Sukuk they are; capital formation, funds cannot be diverted to non productive purposes, leads to higher national output and increase in employment, can reduce the burden on fiscal deficit and interest liabilities if the government uses it instead
of long term debt securities (bonds) and will help in containing inflationary pressure. If Sukuk is recognized by Government of India as a security under Securities Act, foreign investment flow would increase substantially from Middle East countries. Further, if the government approves Sukuk as an unencumbered security, it can also used for SLR purpose by Islamic and other banks.

Lending in a Shariah compliant way is commonly achieved through a Murabaha (a sale contract) or an Ijara (a lease). In a Murabaha, the lender buys certain assets and sells those assets to the borrower for a deferred purchase price (the cost plus the lender's return) and the borrower either sells the assets for an immediate payment and retains cash subject to payment of the deferred purchase price or holds the asset. Joanna Faith (2009) finds out that in spite of the efforts of the governments across the world in regards to amendments to their tax legislation to make Islamic Finance approach a viable option, but there is still a long way to go before tax codes function properly for this form of financing. The UK has surged ahead of the rest but still there is a long way to go. For example, the UK tax legislation is not perfect when trying to apply legislations to transactions you come across gaps and potential issues. At best you will get equal tax treatment as you would with conventional financing.

Authors Conway Kevin and Feese Suzanne (2007) analyse the different approaches adopted by US and UK tax authorities to ascertain the tax liabilities on Islamic Finance arrangements. In US, traditionally the starting position for any US tax analysis of a transaction is the form of the transaction. However, in many instances, the US courts and the IRS have recharacterised transactions for US federal income tax purposes according to their economic substance by employing a substance-over-form analysis. In applying the substance-over-form doctrine, one looks to the objective economic realities of a transaction rather than to the particular form the parties employed and does not regard the simple expedient of drawing up papers as controlling for tax purposes where the objective economic realities are to the contrary. The UK approach is that the arrangements must meet certain conditions if the profit elements as described earlier are to be treated as interest for UK tax purposes. In considering an arrangement the tax director or adviser has to apply the rules contained in sections 46 to 57 (inclusive) and Schedule two Finance Act 2005 and the proposed rules in Finance Bill 2007 and otherwise apply basic principles and rules. The UK legislation labels the return on Islamic finance arrangements
as either alternative finance return, profit share return or, for the sukuk, additional payments but never deems the amounts to be interest although they are treated as interest for UK tax purposes. The US way has more flexibility in its approach, but it is also cumbersome in that many aspects of the approach need to be taken into account in order not to fall foul of the intended treatment, and the way of taxation does not have statutory certainty. On the other hand, the UK way is very prescriptive and risks being too narrow.

The study by Saima Ahmad and Kaleem Ahmad (2010) looks at the Shariah compliant agriculture financing options in Pakistan. The authors study the bank staffs’ perception and understanding of the forward sale agreement on crops (Bai Salam). The research shows that application of Bai Salam contracts has been limited owing to poorly kept land records, widespread illiteracy and restrictive government policies.

The research paper by Kassim Hussein (2010) examines the behaviour of key bank-level stability factors of liquidity, capital, and risk taking and consumer confidence in Islamic and conventional banks operating in the same market. Using a sample of 194 banks from the Gulf Cooperating Countries between 2000 and 2007, Hussein finds that liquidity is not determined by a bank’s product mix but rather attributed to systematic factors. The findings also reveal that Islamic banks generally tend to provide higher consumer confidence levels due to the fact that they are more capitalized than conventional banks, have positive and significant relationship with liquidity and tend to follow stringent risk strategies compared to conventional banks.

The prime role of any supervisory monetary body is to protect depositors. Pillar 1 of the Basel II Accord set Capital Adequacy recommendations for internationally active banks. The objective is to ensure the safety of the deposits that are at the disposition of the banks and that should be guaranteed full payment. Authors Rima Turk Ariss and Yolla Sarieddine (2007) identify the challenges in implementing capital adequacy guidelines to Islamic Banks. In the conventional banking system, the bank invests depositors’ funds into yielding assets and it bears all risks associated with such activities. Under Islamic banking, depositors are not neutral providers of funds and the majority of the deposits fall under the unrestricted investment accounts. Islamic Banks are exposed to different risks than conventional banks that arise from the use of funds. Islamic financing activities are generally backed by real assets, exposing them to substantial commodity price risk. The proposals by AAOIFI and IFSB say that to include 50 per cent of the risk-weighted assets
financed by investment accounts and allocating adequate risk weights to different Islamic financing modes, respectively. Islamic banks are still exposed to significant liquidity risk, which is not yet catered to by current proposals. Further, Islamic banks are not allowed to use the wide range of derivative instruments. The complications are further enhanced as Islamic finance activities are not standardized across institutions or countries as there is no single regulatory body.

Introduction of Dow Jones Islamic World Market Index has quickly gained a great response from Muslim investors worldwide. The index provides the needs of investors looking for Shariah compliant stocks. Furthermore, the index provides investors a benchmark to judge how their Islamic funds perform against an Islamic index. The authors Al-Zoubi Haitham A and Maghyereh Akhtham (2007) use risk measures to examine how this selection restriction affects the risk of Islamic investments represented by the Dow Jones Islamic Index. The results suggest that Islamic index represents unique risk characteristics, which is significantly less than the broad market basket of stocks. The result was interpreted mainly to the profit and loss sharing principle of Islamic finance where banks share the profits and bear the losses (Mudarabah) or share both profits and losses (Musharaka) with the firm. The two implications of the study were; firstly, the findings may help investors to evaluate the risk performance of the most popular Islamic index available today with the world equity market and secondly, filtering criteria adopted criteria adapted to eliminate Shariah-non-compliant companies have no loss and Muslim investors are no worse off investing in an Islamic basket of stocks in comparison to a much larger basket.

A research done by Noraini, M.A., Simon A. and Rifaat, A.A.K. (2008) on understanding the perceptions of Islamic bankers about the nature of risks, risk measurement and risk management techniques whose result shows that Islamic banks are exposed to similar types of risks to those in conventional banks, but there are differences in levels of risks. The findings suggest that each risk should be assessed separately for each financial instrument in order to facilitate appropriate risk management. The findings also suggests that Islamic banks are perceived to use less technically advanced risk measurement techniques of which the most commonly used are maturity matching, gap analysis, and credit ratings. The more technically advanced risk measurement techniques such as VaR, simulation techniques, etc are not used widely by Islamic banks. The
research also shows that Islamic banks are not using Shariah compliant risk mitigation techniques, which are different from the conventional banks.

Forays into Islamic microfinance have been few and scattered and of limited outreach. Some have been mandated by the state, but lack popular demand, as in Iran; others have emerged in response to popular demand, but lack regulatory support by the state, as in Syria. This has provided the background for a more systematic study of Islamic microfinance in Indonesia, the largest Muslim country, where several strands of Islamic microfinance, formal and semi-formal, have evolved since 1990 in parallel. Islamic banking is now officially recognized as part of a dual banking system in Indonesia. But only commercial banks have successfully acquired the art of Islamic banking by training young and dynamic people, yet lack experience in microfinance. Islamic rural banks, mostly under absentee ownership, have failed to prove themselves as efficient and dynamic providers of microfinance services. Author Hans Deiter Seibel (2008) says there are two options of promoting Islamic microfinance in Indonesia: (1) assisting Islamic commercial banks to establish units with Islamic microfinance products; (2) reassessing in a participatory process the challenges and realistic opportunities of Islamic rural banks and cooperatives, with a focus on effective internal control, external supervision, and the establishment of associations with apex services to their member institutions.

Function of Islamic finance needs more refinement and preciseness for offering greater Ummatic interest. The ongoing efforts can be successful, when all branches of economic activities particularly banking products and advertisement correspond together in a more technical and balanced way. Authors Debraj Datta and Mahua Datta (2009) identify the two aspects that need to be considered before launching any Islamic banking product or service, Firstly, how to promote the product following the ethical yardstick under the Quran and Sunnah and secondly, keeping pace with Shariah, the incentive of the products for attracting the customer needs to be more focused and innovative as compared to other conventional systems. In Islamic system, moderations in living are encouraged, while prodigality and waste are denounced. Costly promotional efforts and massive commercial advertisement by businesses are considered to be unnecessary. It was observed that there was lack of exaggeration or hyperbole in advertising in Persian Gulf States as compared to American advertising. The emphasis in such advertising was laid on long lastingness, tradition, quality and the overall integrity if the goods and service. The use of selected
Quranic Injunctions and words can enhance the mood of the advertising communication to make it more appealing to Muslim consumers. For e.g.: an advertising campaign targeted at the Gulf market for the Ford Excursion sports utility vehicle uses the word “Mashallah”.

As competition intensifies, financial institutions increasingly must be able to deliver personalised and customised financial solutions. Therefore from the study of authors Ralf, Z., Hussain, G.R., (2007), it is important for institutions to understand the dynamics of customer segmentation, build customer relationships and address requirements and preferences of specific segments of the market. From this, it is also important that financial institutions invest in new products to meet Islamic customer needs and demands, particularly as the Muslim population is growing in Australia at a rapid pace. Equally important is the need to develop an effective communication plan that goes beyond just marketing and advertisement to ensure the populace is aware of how Islamic banking products operate. As the results of this study show, institutions need to educate customers to adapt to the new ways of doing banking transactions, and understanding that Islamic finance involves the sharing of both profits and losses.

The study by authors Bassam Maali, Peter Casson and Christopher Napier (2006) applied an Islamic perspective to develop a benchmark for social reporting by Islamic banks. The empirical findings suggest that social issues are not of major concern for most Islamic banks. This may in part reflect the fact that most Islamic banks operate in less developed economies where social concerns, especially as regards issues such as the environment, may be given less importance. However, Muslims in the countries where Islamic banks operate are likely to have a high expectation of the banks’ social role. This has been recognized by the management of some Islamic banks, such as Jordan Islamic Bank as it provides a broader range of social disclosures compared to most other Islamic banks.

Post the economic collapse of 2008-2009, there is a surge in the importance of business ethics and corporate governance. The regulators across the world have introduced stringent norms and are more vigilant. The study by Saidi, T. A. analysed the nature of the relationship between Islamic banking and ethical banking systems, and has found that Islamic banking is one of the most prominent forms of ethical banking. It is actually the standard bearer of ethical banking system in the contemporary world.
To speculate on the future of Islamic finance one needs to speculate on the future, not only of global finance, but also on the future of capitalism. M. Nejatullah Siddiqi (2011) puts forth his views on the way ahead for the capitalist system and the opportunities and challenges for Islamic finance. Siddiqi observes that there is a shift from individualistic, profit maximizing capitalism to socially conscious economy activity. Predominance of the financial sector in the economy and speculative nature of current financial markets, leading to increasing inequality within nations and between nations, environmental deteriorations that threaten the very survival of mankind and the increasing levels of anxiety in public. The time has come when innovation should trump imitation. From purification of current financial transactions from haram (the prohibited) to designing financial ways and means that would serve the maqasid al-shariah (objectives of Islam), which is the new direction the Islamic financial community should take. With a sizeable market share in the Gulf as well as in South-East Asia, it is now in a position to experiment and explore. There has been a relative decline in bonds and a rise in equity as means of investment at the international as well as domestic level. The financial community is now aware of the environmental and ethical considerations that must attend its choices. That provides a window of opportunity for Islamic finance seeking to serve Islamic goals of balanced growth, equitable distribution and mutuality-goals that are universally acclaimed by contemporary humanity.
Objectives of the Study

1. To study the prerequisites and conditions which are critical for the investments to be classified as Shariah compliant.
2. To study the present Regulatory Framework of Indian Financial industry with a view to identify opportunities for Shariah compliant Products and Services in India.
3. To make a dynamic assessment of the expected Regulatory Framework in the middle term in the context of introduction and development of Shariah compliant Products and Services.
4. To analyse the theoretical feasibility of various Shariah compliant products and services under the Regulatory Framework as at present and in the prospective middle term.
5. To understand the actual investment patterns of both Muslim and Non-Muslim investors in the Financial Markets.
6. To study the awareness levels of Shariah guidelines amongst both Muslim and Non-Muslim investors in the Financial Markets.
7. To understand the attitude and perception of investors (Non – Shariah compliant), both Non-Muslim and Muslim investors towards Shariah based investments.
8. To understand the attitudes towards investment as per Shariah guidelines in the Financial Markets of Shariah based investors.
9. To understand the potential for designing new Financial Products and Services based on Shariah guidelines.
10. To understand the existing distribution network for Shariah compliant Financial Products and Services and the prospects for its future development in the context of potential increased acceptance and penetration of such products.
11. To study the impact of Shariah Finance on Financial Inclusion and Inclusive Growth in India.
Hypothesis

H_{01} \quad \text{There are no significant differences in patterns of financial investments.}

H_{02} \quad \text{There are no significant differences in awareness of Shariah guidelines.}

H_{03} \quad \text{There are no significant differences in willingness for investment as per Shariah guidelines.}

H_{04} \quad \text{There are no significant differences in earnings for investors for investments as per Shariah guidelines.}
Research Methodology

Sources of Data

a) Primary data:
   This will be collected using a survey with the help of different sets of structured questionnaires on the basis of identified sample.

b) Secondary data:
   This shall be gathered from books and publications, magazines, internet, journals and periodicals, etc.

Research Design

Qualitative Descriptive
The research intends to understand the existing framework of the Financial Market Regulators in India with a view to introduce Islamic Banking and Finance products and services. Further, the research also intends to understand the willingness, knowledge and awareness levels of both investors and non-investors in the financial markets. The research will be temporal in nature and would be conducted on a sub-section of the respondent population.

Quantitative Descriptive Cross-Sectional
The research intends to quantify the profits generated by using Islamic Finance products and services vis-à-vis conventional finance products. The research will be temporal in nature and would be conducted on a sub-section of the respondent population. Thus the design adopted for Research is Quantitative Descriptive Cross-Sectional.
**Sampling Type**

**Stratified Random Sampling**

The sampling will involve division of the participants of the Financial Markets in India (population) into smaller strata like Banks, Insurance Companies, Mutual Fund Houses, Corporate and Retail Investors and Stock Brokers having exposure to financial products and services, etc. formed on the basis of the common attributes within a stratum. A random sample from each stratum will be taken in a number proportional to the stratum's size when compared to the population. These subsets of the strata will then be pooled to form a random sample. Thus the sampling used will be Stratified Random Sampling. This Sampling type was adopted to reduce the potential for human bias in the selection of units of analysis to be included in the sample. Stratified random sample will provide us with an unbiased and diversified sample.
Sampling Plan

1. **Retail Investors:**
The sampling frame shall comprise of individuals in the age group of 22 – 60 years and having a minimum investment portfolio of Rs.50,000;
   - Non-Muslims (Non-Shariah Compliant) – 300 Investors
   - Muslims (Non-Shariah Compliant) – 100 Investors
   - Muslims (Shariah Compliant) – 100 Investors
   - Non-Muslims (Shariah Compliant) – 100 Investors

2. **Retail Non-Investors:**
The sampling frame shall comprise of individuals in the age group of 22 – 60 years and having a minimum annual household income of Rs.5,00,000;
   - Muslims – 100 Non-investors
   - Non-Muslims – 300 Non-investors

3. **Corporate Investors:**
The sampling frame shall comprise of Corporate Houses;
   - Small Enterprises under BSE Small Cap Index – 20
   - Medium Enterprises under BSE Mid Cap Index – 20
   - Multi National Corporate (MNC) – 20

4. **Financial Institutions:**
The sampling frame shall comprise of the Institutions who offer Financial Products and Services;
   - Banks under BSE Banking Index (BANKEX) – 14
   - Mutual Funds as per the descending order of their Assets Under Management (starting from the top) – 20
   - Life Insurance Companies as per descending order of their revenue (starting from the top) – 10
   - General Insurance Companies as per descending order of their revenue (starting from the top) – 10
   - Stock Brokers as per descending order of their revenue (starting from the top) – 10

**Total Sample Size – 1124**
Research Area
Across India – Especially cities like Mumbai, Delhi, Calcutta, Chennai, Bangalore, Hyderabad, Ahmedabad.

Hypothesis Test
The Hypothesis would be done using Statistical methods as below

Parametric Test
- $z$ – test
- Anova

Non Parametric Test
- Chi – Square
Scope of the Study

The development of Islamic Asset Management has been driven by rising demand for Shariah compliant investments from an estimated population of 1.65 billion Muslims worldwide, approximately 24 per cent of the world population. Its relevance as an alternative investment class for all investors, whether Muslim or Non-Muslim, has accelerated with the rising importance of business ethics and fiscal conservatism. The strong performance of the Islamic financial institutions during the recent global financial crisis has further enhanced the reputation of the sector as a legitimate alternative to the conventional financing system. Now, the aim is to provide information on the foundations of Islamic finance as well as to describe what clients should consider when evaluating Shariah compliant firms.

The study will help in understanding the current framework of the Indian Financial System and what is the scope for introducing Shariah compliant products and services in the existing structure. If the existing system doesn’t warrant the introduction of Islamic finance, then what are the amendments that should be done so as to facilitate its introduction. The study shall analyse the guidelines and norms of the key regulators in the Indian Financial system namely; Securities and Exchange Board of India (SEBI), Insurance Regulatory Development Authority (IRDA), Reserve Bank of India (RBI), Forward Markets Commission (FMC), etc. as this shall help in understanding and developing the Islamic finance products offering same benefits but at the same time adhering to the Shariah guidelines.
Limitations of the Study

1. The research shall pertain to the following products and services relating to;
   a) Commercial Banking
   b) Insurance
   c) Investment Banking
   d) Fund Management
   e) Financial Engineering
   f) Project Finance

2. The research shall be a sample study across the country
Utility of the Study

The study will help in understanding the current framework of the Indian Financial System and what is the scope for introducing Shariah compliant products and services in the existing structure. If the existing system doesn’t warrant the introduction of Islamic finance, then what are the amendments that should be done so as to facilitate the introduction of Islamic Banking and Finance. The study shall analyse the guidelines and norms of the key regulators in the Indian Financial system namely; Securities and Exchange Board of India (SEBI), Insurance Regulatory Development Authority (IRDA), Reserve Bank of India (RBI), Forward Markets Commission (FMC), etc. as this shall help in understanding and developing the Islamic finance products offering same benefits but at the same time following the Shariah guidelines.

Further, it will help in mobilising the savings of the Muslims which are apprehensive as regards to investing their unused income in Financial Markets because of the Shariah guidelines. This in turn will improve the liquidity in the banking domain and also help the country in achieving its capital requirement towards various Infrastructure projects. As per the 11th Five Year Plan (2006 - 2011), the capital required to fund the infrastructure sectors requirement is estimated to be US$ 500 billion. The 12th Five Year Plan (2012 – 2017) pegs this amount above US$ One trillion. As per the report of Planning Commission, there is likely to be huge gap of US$ 300 billion to meet the financial requirement for infrastructure sector up to 2017. This gap can only be filled by oil rich nations of Middle East who have an estimated savings of US$ 1.5 trillion which is likely to reach US$ Seven trillion by 2020. At the same time there is lack of opportunities of investment for these countries because of slowing western economy. Islamic finance will be ideally suitable for the much needed funding for the long term in various sectors including infrastructure. As a result of this, the burden and the cost of borrowing of the Government will reduce significantly. The current trend of high inflation, huge fiscal deficit as a proportion of Gross Domestic Product (GDP) can be easily controlled with the help of additional liquidity that will be infused in the system.

The study shall also help to achieve the goals of Financial Inclusion which is the key ingredient for an Inclusive Growth of a developing country like India. If we want justice and equity, Islamic Banking and Finance is a viable answer because it is not based on interest and speculation, uncertainty and gambling. Islamic Banking and Finance is
proven to be an alternative as its core principle is sharing of profit and loss. It’s one of the most important characteristics is that the distribution of wealth should be just and fair and it should percolate from the top to the bottom, from bottom to the top so that it may not circulate only amongst the rich. Thus, it will help in achieving the objectives of financial inclusion to reform the lives of the minority communities by eliminating barriers.

The rising importance of business ethics and fiscal conservatism amongst both Muslim and Non-Muslim investors lays the importance on Islamic Asset Management and will give rise to its relevance not only as an alternative investment class but as a primary investment option.