



INVESTOR AWARENESS REGARDING SHARIA COMPLAINT MUTUAL FUNDS IN INDIA

W.Shabeena Shah*, M.Samira**

*Assistant Professor, Measi Institute of Management, Chennai,

**Research Scholar AMET University, Chennai

Abstract

Islamic Banking and Investment was nonexistent around 30 years back in the world. In the year 2006, Islamic financial institutions (IFIs) assets worldwide were estimated roughly at USD 2 trillion covering bank and non banking financial institutions, with another \$400 billion in financial investments, according to a study by accounting firm KPMG. Which is considerable and the growth momentum noticed by KPMG is also substantial. According to the study conducted by Consulting firm McKinsey & Co the current growth rate of Islamic Banking & Investment is 15% annually and in coming 5 years this rate is going to be 20%. Islamic finance is built on the premise that while “commerce had always been central to Islamic tradition, profits from pure finance [are] viewed with suspicion. Profits from commerce are fundamentally different from those generated by money lending”. Islam prohibits riba (“extra” or interest) and usury (excessive interest), because fixed, pre-determined interest-based lending casts an inherent risk of the lender exploiting the borrower. Islamic banking differs in the relationships between borrower and lender, favoring profit-and-loss sharing or partnership finance. Most large western financial institutions have Islamic subsidiaries or at least Islamic products. In the US, a Dow Jones Islamic market index (DJIM) was launched in 1999 to benchmark Shariah-compliant portfolios, even employing a board of Shariah scholars. Lately though the formal introduction in Banking is delayed jointly by RBI and SEBI, because of complex methods of operation.

Key words: Islamic Banking, Ethical Fund, Shariah Law, BSE TASI Shariah, CNX NIFTY Shariah

Introduction

Shariah-compliant Mutual funds represents of investments in companies that are sharia complaint. These are companies do not investments in companies which indulge in business activities prohibited by Shariah. So, Shariah compliant stocks are those stocks whose income is not derived from prohibited activities. Stocks are screened for Shariah compliance by using certain Shariah screening norms. There are two steps involved in Shariah screening of stocks, Firstly, screening on the basis of activity and secondly, financial screening. Stocks or companies which pass both the criteria are known as Shariah compliant stocks or companies.

On the other hand sharia complaint mutual funds only invest in those kind of companies. There are several Shariah screening institutions which have formulated their own Shariah screening norms under the guidance of their respective Shariah Boards. The better known screening norms in use around the world are those of AAOIFI, Dow Jones, MSCI, S&P and TASI. As the article relates to Shariah compliant stocks in India, our discussion will be confined to screening norms used in India. “Taqwaa Advisory and Shariah Investment Solutions (TASIS) Pvt Ltd” is the leading Shariah advisory institution in India; it has formulated norms for Shariah screening of Indian stocks, which are widely acknowledged and accepted in the country.

Sector Based Screening

Business activities related to the following are excluded:-

- Pork
- Alcohol
- Gambling
- Financials
- Advertising and Media (newspapers are allowed, sub-industries are analyzed individually)
- Pornography
- Tobacco
- Trading of gold and silver as cash on deferred basis
- During the selection process, each company’s audited annual report is reviewed to
- Ensure that the company is not involved in any non-Shariah compliant activities
- Companies that are found to be non-compliant are screened out

Accounting Based Screening

Companies left after passing through sector based screen are then examined for compliance in financial ratios as certain ratios



may violate compliance measurements. The three areas of focus are: leverage, cash and the share of revenues derived from non-compliant activities. All of these are subject to evaluation on an ongoing basis Sharia compliant mutual funds although were targeted towards a particular community; it has gained momentum with public in general. There are three mutual funds currently which are fully sharia complaint they are as follows:

1. Tata Ethical Fund

Tata Ethical Fund is an open ended equity fund which invests in a diversified equity portfolio based on principles of Shariah. The investment objective of the scheme is to provide medium to long-term capital gains by investing in Shariah compliant equity and equity-related instruments of well-researched value and growth-oriented companies. Up to 100% investment in equity & equity Shariah Compliant listed, to be listed and unlisted securities of companies and other instruments if allowed under Shariah principles

2. Taurus Ethical Fund

Taurus Ethical Fund is an Open Ended Equity Oriented Scheme that will invest in companies which are in compliance with the Shariah norms. The scheme will primarily invest in Equity and Equity related instruments. The fund is Actively Managed and invests in diversified portfolios.

Need for the study

India is one country which has around 1635 companies listed in NSE and 5163 in BSE out of which around 50% of the companies are sharia complaint, India offers many opportunities for investment in sharia complaint stocks. Sharia compliant mutual funds offer an opportunity to investment in funds which are ethical and also sharia complaint. This study will help in creating a awareness among the people and also find out ways in which these funds can be promoted.

Objective of the study

1. To evaluate the knowledge level of investors about sharia complaint mutual fund and its terms;
2. To assess the factors that influence the people to invest in sharia based mutual

Methodology of the Study

Both Primary data and secondary data have been collected for the study. Secondary data collected from books, journals, and websites. A structured questionnaire is used to collect the primary data from 250 investors used convenient random sampling techniques. The data are analyzed using percentage analysis and chi square test at 5 percent level of significant confidence level.

Limitations of the Study

The primary data have been collected from 250 respondents only and the period of collection in only one month (December 2016). Convenient random sampling technique is used to collect the data and the study may give full picture of the investors awareness and it may not be applicable other parts of the country.

Review of Literature

Not much articles regarding awareness about sharia based mutual funds is found in India. There has very limited study regarding the above subject.

Abdelbari El Khamlichi Kamel Laaradh Mohamed Arouri Frédéric Teulon

2014 The literature exhibits that all the previous works studied the Islamic equity funds without exploring the persistence of their performance, even if this issue is very important to address several questions in financial management. The article contributes to the current literature by addressing this shortage; with this articles proceed further with the aim of finding any consistency in funds' performance. Evidence that supports non-persistence in performance or rather the persistence of non-performance of Islamic mutual funds during and after the last financial crisis. This raises the question of the management strategies implemented by the banks managing Islamic funds.

Mohammad Ashraf Ferdous Chowdhury and Mansur Masih 2015 Islamic finance and Socially Responsible Investment (SRI) have been two of the most rapidly growing areas of finance over the last two decades. During this period, they have each grown at rates that far exceed that of the financial markets as a whole. The purpose of this paper is to take a comparative approach in comparing and contrasting the performance of both types of restricted investment portfolios. Despite the differences in the screening criteria and portfolio management of both types of funds, this study suggests that the potential



diversification benefits between Sharia compliant funds and the SRI funds are possible both in the crisis period and non-crisis period.

PADMAJA. R, (2013) A mutual fund is a type of professionally-managed collective investment vehicle that pools money from many investors to purchase securities. As there is no legal definition of mutual fund, the term is frequently applied only to those collective investments that are regulated, available to the general public and open-ended in nature. Mutual funds have both advantages and disadvantages compared to direct investing in Individual securities. Today they play an important role in household finances. So the present Study aims at consumer behavior towards mutual funds with special reference to ICICI Prudential Mutual Funds Limited, Vijayawada. Data was collected through primary and secondary sources. Primary data was collected through structured questionnaire. Convenience sampling method was used to collect the data and entire study was conducted in Vijayawada City.

Hypothesis of the study

1. There is no significant difference between the education of the investors and the level of awareness regarding sharia mutual based mutual funds
2. There is no significant difference between the occupation of the investors and the level of awareness of regarding sharia based mutual fund investments
3. There is no significant difference between the income of the investors and the level of awareness of using mutual fund investments.

Chi Square Analysis

Null hypothesis (H_0): there is no significant difference between the education of the investor and the level of awareness regarding the share based mutual funds investments.

Alternate hypothesis (H_1): there is no significant difference between the education of the investor and the level of awareness regarding the share based mutual funds investments

Qualification *Awareness regarding sharia based investments Cross tabulation count				
Table 1				
		Awareness regarding sharia based investments		Total
		Yes	No	
Qualification	12 th	21	21	42
	Graduate	11	21	32
	Post graduate	21	10	31
Total		53	52	105
Chi-Square Tests				
Table 2				
		Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square		7.019 ^a	2	.030
Likelihood Ratio		7.158	2	.028
Linear-by-Linear Association		1.700	1	.192
N of Valid Cases		105		

- a. 0 cells (0.0%) have expected count less than 5
- b. The minimum expected count is 15.35.
- c. Since p is less than 0.05. Reject null hypothesis (H_0)

Inference: there is no significant difference between the education of the investor and the level of awareness regarding the sharia based mutual funds investments.

Correlation Analysis

The study the relationship between the saving amount of the investor and their investment level



Correlations Table 3			
		Savings	How many times to you investment in a year
Savings	Pearson Correlation	1	-.073
	Sig. (2-tailed)		.458
	N	105	105
How many times to you investment in a year	Pearson Correlation	-.073	1
	Sig. (2-tailed)	.458	
	N	105	105

Inference: There is negative correlation between the variables. As the saving level of the investor decrease, the investment is also found to be decrease.

One Way Anova Analysis

Null hypothesis (H_0): there is no significant difference between the income level of the investor and purposing of investing in mutual funds.

Alternate hypothesis (H_1): there is no significant difference between the income level of the investor and purposing of investing in mutual funds.

ANOVA					
Purpose of buying Table 4					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	17.552	3	5.851	3.071	.031
Within Groups	192.448	101	1.905		
Total	210.000	104			

Since p is less than 0.05. Reject null hypothesis (H_0)

Inference: there is no significant difference between the income level of the investor and purposing of investing in mutual funds.

Findings of the Study

- According to the survey the sample size in the sample of 230 respondents 190 were salaried, 30 were self employed and 10 were retired.
- According to the survey educational level the respondents 90 respondents had completed masters, 90 respondents graduates, 20 were professional degree holders, 30 were diploma holders.
- According to the survey 67 respondents belong to the monthly earning of 35000 to 50000, 92 respondents between 15000 to 34000 and rest 71 in 5000 to 14000
- Majority (226) of the respondents were advised by their financial advisors on which mutual fund to invest
- Nearly (185) respondents have never heard of sharia based mutual based funds.
- About (200) respondents want to invest in ethical and social responsible funds.
- About 226 customers have invested in systematic investment plan and would like to know more about the sharia based mutual funds.
- There is no significant difference between the education of the investor and the level of awareness regarding the sharia based mutual funds investments.



- There is no significant difference between the income level of the investor and purposing of investing in mutual funds.
- There is negative correlation between the variables. As the saving level of the investor decrease, the investment is also found to be decrease.

Suggestion from the Study

1. India has highest number of sharia complaint stocks in stock market than any Islamic country. Awareness among target population is need of the hour.
2. Investors who are looking for ethical investments should be advised regarding sharia based mutual funds
3. The fund houses have the responsibility to create awareness and promote the sharia-based funds.
4. Although the assets under management in sharia-based mutual funds are around 4 billion USD the potential to grow is huge.
5. Investors with urge to invest in socially responsible companies can be advised to invest in sharia based mutual funds
6. Sharia based mutual funds can become popular if they also provide tax relief.
7. All possible measures should be taken my fund houses to measure the confidence level of the investors.

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