CHAPTER 1
INTRODUCTION: SHARIAH INVESTMENT AND SHARIAH INDEX, AWARENESS AND PERCEPTION

Statement of the problem:
Islamic finance or Shariah principles based investment is not simply an interest free financial system but it also involves other important principles, which encourage entrepreneurship, social trust, risk taking, transparency, preservation of property rights and ethical values such as justice, fair dealing and fair pricing, mutual co-operation and respect of the other contracting parties. Islamic finance or Shariah principles based investment obtained its significance in the developed and developing countries after 1990’s with the introduction of broad macroeconomic and structural reforms in financial system, the adoption of liberalization policies for trade, capital movements, privatization, and global integration of financial market, and in turn they have paved the way for Muslim community to participate in the stock market operations. The stock market operations of the Muslim community are organized by Shariah Advisory Committee (Shariah Supervisory Board) of a country which creates and forms the rules and regulation for investment on the basis of Islamic law for the benefit of among the 6.3 billion world population. Nisar observed that a number of Shariah-compliant shares in India are much higher than in Muslim countries put together, thus providing larger scope for Muslim investors. He states that 61 per cent Indian companies are Shariah-compliant against 57 per cent in Malaysia, 51 per cent in Pakistan and a mere 6 per cent in Bahrain. He also says that 335 of 1000 listed firms at National Stock Exchange of India and 237 out of 500 listed at Bombay Stock Exchange are Shariah-compliant. This indicates the favourable sign of Shariah indices to perform in respect of Shariah principles based investment well in the future.

In this context it is interesting to know and study perception and awareness of Indian investors towards Shariah investment and Shariah index. What is the Shariah principles based investment pattern of investors? Does Shariah index act as a SWOT of Shariah investors? To what extent there exist awareness on Shariah index and Shariah investment among Indian investors? To what extent Indian investors are aware about World Shariah indices and Indian Shariah indices? To what extent Shariah index is useful in
understanding the Shariah investment? What is the perception of Indian investors towards using Shariah index for Shariah investment? What is the difference between awareness, understanding and perception on Shariah investment and Shariah index?

The present study is a modest attempt to study the perception and awareness of Shariah index among Indian investors.

Today, Islamic indices serve a critical role in Islamic finance. These unique indices identify the universe of securities available for investment and define the way Islamic investors measure the markets. Then it is worth to study and know to what extent all investors i.e. Muslims and non-Muslims are aware of Islamic indices such as Shariah index of India and World Shariah indices? It is considered that the Shariah principles based investment is social and ethical. It creates moral and honesty among investors and develops good characteristics among investors by avoiding investment in bad habitual stock. Then it is essential to know and assess the extent of awareness of investors on Shariah principles based investment. Such attempt is made by the researcher here.

Shariah investment pattern and general investment pattern of investors must be studied from time to time and country to country as well as sector to sector, because economic environment changes time to time and country to country. Therefore, what is Shariah investment pattern of Indian investors needs to be studied and this study made can attempt to do this. Is Shariah index is suitable and importance for Shariah investment? Whether Shariah index acts as a SWOT of Shariah investors needs to be assessed from the investment point of view.

Usefulness of Shariah index in understanding the Shariah investment from the trading trends, growth pattern, price changing pattern, risk and return pattern, Shariah issues concerns, Shariah industry norms, Shariah screenings and Shariah filters point of view as well as from gender, religion, age, education, occupation, income and city point of view needs to be addressed because awareness and understanding are interlinked. As awareness increases, understanding on usefulness increases. From this point of view this study addressed Shariah principles and Shariah index’s awareness and usefulness of understanding. The awareness, understanding and perception (actual use) are the three main dimensions or segment of Shariah investment and Shariah index. Perception of investors using Shariah index for ethical and social investment, Shariah issue concerns based investment, Shariah industry norms based investment, Shariah screens based
investment, Shariah filter based investment must be addressed systematically and in scientific way. Gender-wise, religion-wise, age-wise, education-wise, occupation-wise, income-wise and city-wise perception of investors towards using Shariah index for Shariah investment helps to understand relationship between awareness, understanding and perception. The difference between awareness, understanding and perception in respect of Shariah principle investment, use of Shariah index, etc. help in proper investment and social and ethical investment and avoid the bad investment. Therefore, researcher has taken up this study purposefully. Hence an attempt is made in the present study by the researcher, to enquire about above mentioned / raised questions / problems. That is why the statement of the problem of the present study is under:

“Perception and awareness of Shariah index among Indian investors”.

Therefore the main aim of this study is to make an attempt to address above raised basic problems. But before doing so, it is essential to introduce for understanding purpose concept and some aspects of Shariah investment, Shariah index, awareness and perception.

Some aspects of Shariah investment:

Shariah: Meaning and objectives:
Shariah is an Arabic word which refers to –Islamic law‘, which provides guidelines to Islamic religion and based on it economics, banking, business, law, finance and culture. As per Ibn Al-Qayyim, the basis of the Shariah is wisdom and welfare of the people in this world as well as the Hereafter. This welfare lies in complete justice, mercy, well-being and wisdom. Anything that departs from justice to oppression, from mercy to harshness, from welfare to misery and from wisdom to folly, has nothing to do with the Shariah. In other words, the very objective of the Shariah is to promote the welfare of the people, which lies in safeguarding their faith, their life, their intellect, their posterity and their wealth. Whatever ensures the safeguarding of these objectives serves the public interest and is desirable (Al-Ghazali).

Thus Shariah is the moral code and religious law of Islam. Shariah deals with many topics addressed by secular law, including politics, economics, trade and commerce, as well as personal matters such as hygiene, diet, prayer and fasting.

Shariah investment:
Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. This is called financial
investment. The people who invest their funds, are the suppliers of capital. According to them, investment is commitment. To the economists, investment means the net additions in capital stock. Safety, risk, return, liquidity, income stability, legality and freedom from care, tangibility, etc. are special feature investment. In the present study however, investment means financial investment and Shariah investment means funds invested by investors (Muslim or non-Muslim) as per Shariah principles. It means also that investment made by investors as per Shariah principles based norms, or Shariah based industry norms, or Shariah based screenings or Shariah based filters. The fund follows a bottom up approach to stock picking to build portfolio of companies or individuals which are in harmony with the principles of Shariah on investment can be called Shariah investment. Shariah principles require the investments to be based on certain norms and filters related to the public need, fairness in business and ethical source of income; when investors act according to this, then it is called the Shariah investment.

Islam is a religion that offers guidance on beliefs (aqidah), duties (Shariah) and morals (akhlaq) based on the Holy Quran. Religiously speaking, Shariah is another word of Islam. The Shariah consists of commandments and prohibitions covering almost every aspect of life, including the economic life of the community. Islamic or Shariah financial investment 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, Shariah finance takes into account the moral consequences of financial transactions, 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 finance is commonly known as ethical finance or participatory finance for this reason. Therefore it is common to use the term Shariah compliant to describe anything that is permissible under Islamic law. In ensuring Shariah compliance 5 key principles are strictly followed namely;

1. Belief in divine guidance,
2. No interest,
3. No haram investments
4. Risk sharing is encouraged and
5. Financing is based on real assets.

The bases of Shariah investment / finance are:

1. Shariah principles or issues of concerned,
2. Shariah industry norms,
3. Shariah screenings, and
4. Shariah filters.

**Key Shariah principles for investment:**

**The following are main Shariah principles or Shariah issues of concern:**

- Business activities and transactions involving *riba*, *gharar*, *maysir*, excessive speculation, and other activities or transactions repugnant to the *Shariah* are strictly prohibited.

- Lawful core business activities but mixed with some impermissible activities;
  - discussions have been contentious among the *Shariah* scholars on the issue
  - many have accepted its permissibility (with relevant parameters) based on legal juristic opinion and present circumstances of the market and the industry.

- Receiving interest income is unlawful, even if such income is not generated from its main business activity.

- Concerns with the presence of substantial elements of liquid assets, e.g. account receivables, cash or cash equivalent, and short-term investment of the company;
  - The prohibition of the sale of debt to a third party.
  - Money can only be exchanged at par value.
  - Real assets must constitute a substantial component of the total assets.

- Payment of interest is also unlawful; financing business activities using interest based transactions is problematic; any involvement in such financing activities must be kept minimal.
In this context, investment as per above norms or principles is called Shariah investment.

**Shariah industry norms for investment:**

They are as follows:

- All securities with unlawful core business activities are excluded from the list of permissible securities; conventional financial services and products, insurance, gambling, liquor, production/distribution of non-\textit{halal} meat, hotels, entertainment services unacceptable in \textit{Shariah}, tobacco, and some include weapon and genetic bio-technology.

- Tolerable threshold of mixed income from impermissible activities were adopted to limit the exposure to such elements; e.g. total impure income must not exceed 5\% from the total revenue.

- Interest income must be very negligible;
  - Both the combined unlawful income from mixed activities and interest income must not exceed 5\% of total revenue.
  - Alternatively, ratio of liquid assets (e.g. cash, receivables and short-term investment) that can generate interest income over total assets/market capitalization is also used, e.g. must not exceed 33\%

- The accepted level of liquid assets to total assets/market capitalisation of a company varies between institutions and index providers; ranges from 33\% to 80\%.

- The sum of total debt of a company must not represent more than 33\% of the total asset/market capitalisation.

In this context, when investors follow above norms for investment then it is treated as Shariah investment.

**Shariah screening for investment:**

The Shariah screening methodology followed by NSE and BSE is given below:

**(A) Shariah sector based screening :**

The companies which are primarily into the following activities are screened out on the business sector parameter.
• Conventional financial services such as banks, insurance companies, finance and investment companies, stock broking etc.
• Production, sale and marketing of non-Halal food and beverages such as Pork, Alcohol, Tobacco and such other items etc.
• Companies involved in production or distribution of vulgar entertainment, such as film and other recreational activities where vulgarity, promiscuity is a part and parcel of the business undertaken / promoted
• Hotels and restaurants (providing non-Halal products or entertainment)
• Advertising and Media, (except Media and advertising companies generating revenues in excess of 65% of total income from the GCC countries, News Channels, Newspapers, Sports Channels)
• Gambling, Narcotic drugs, etc.
• Trading of gold and silver as cash on deferred basis

(B) Shariah accounting based screening:
• The companies passing the business screening stage are further screened to ensure that their dealings involving interest-based debt or earnings out of / deployment of funds on interest are within the maximum tolerance limits set by Shariah scholars. There are certain variations in these tolerance limits based on place and time. To remain on the conservative side from a Shariah adherence perspective, TASIS has adopted financial screening norms which are more conservative than those followed by its peers and also justified by empirical studies of the Indian environment. TASIS norms are given below:
  • Interest based-debt should be less than or equal to 25% of Total Assets.
  • Interest income plus returns (currently considered @8%) from interest-based investments should be less than or equal to 3% of the total income.
  • Receivables plus cash and bank balances should be less than or equal to 90% of Total Assets.

Hence, investment made as per Shariah screenings is known as Shariah investment.
Shariah filters for investment:
The following are the Shariah filters for investment:

- Sector: Main business activities
- Sector: Mixed business activities
- Financial: Interest ratio
- Financial: Liquidity ratio
- Financial: Debt ratio

Hence, investment based on Shariah filters is called Shariah investment.

Conditions for investment in shares acceptance according to Shariah: Dealing in equity shares can be acceptable in Shariah subject to the following conditions:

1. The main business of the company is not in violation of Shariah. This means that it is not permissible to acquire the shares of companies providing financial services associated with interest, such as conventional banks and insurance companies. Companies involved in some other business not approved by the Shariah, such as those manufacturing, selling or offering alcohol, pork or haram (forbidden) meat, or involved in gambling, night club activities, pornography and so on are forbidden.

2. If the main business of the company is halal (permitted), such as computers, cars and house building, but the company involved deposits its surplus cash in an interest-bearing account or borrows money paying interest, Muslim shareholders must express their disapproval against such dealings. This should preferably be done by raising their voice against such activities in the annual general meeting of the company.

3. If some income from interest-bearing accounts is included in the income of the company, the proportion of such income in the dividend paid to the shareholder must be given to charity, and must not be retained by the investor. For example if 5% of the total income of a company has come out of interest-bearing deposits, then 5% of the dividend must be given to charity. Thus, where profits are earned through dividends a certain proportion of the dividend, which corresponds to the proportion of interest earned by the company, must be given to charity. Islamic scholars have termed this process ‘purification‘.
Shariah scholars have different views about whether purification is necessary where profits are made through capital gains (such as by purchasing the shares at one price and selling them at a higher price). Some scholars are of the view that, even in the case of capital gains, the process of purification is necessary because the market price of the share may reflect an element of interest related leverage and so interest payments have boosted the performance of the company. Other scholars reason that no purification is required if the share is sold, even if the activity results in a capital gain.

4. The shares of a company are negotiable (and can be freely invested in) only if the company owns some nonliquid assets. If all the assets of a company are in liquid form, or in the form of money that cannot be purchased or sold, except at par value, then these shares cannot be purchased. In this case the shares represent money only and, Islamically, money cannot be traded except at par.

What should be the exact proportion of nonliquid assets of a company enabling the negotiability of its shares? Contemporary scholars have different views about this question. Some scholars are of the view that the ratio of nonliquid assets must be 51% at the very least. They argue that if such assets are less than 50%, most of the assets are in liquid form, and therefore, all its assets should be treated as liquid, on the basis of the Juristic principle _the majority deserves to be treated as the whole of a thing_. Other scholars have opined that even if the nonliquid assets of a company are 33%, its shares can be treated as negotiable.

History of Islamic / Shariah finance:

One of the first manifestations of Islamic economics was the initiation of Islamic finance. The first experiments of Islamic finance began in the countryside of Mit Ghamar in Lower Egypt in 1963. Under the leadership of Ahmed al Najjar, savings/investment houses operated in small towns in Northern Egypt, providing financing on a profit loss sharing basis to small entrepreneurs.
and poor farmers. In the same year, the Pilgrims’ Management and Fund Board, Tabung Haji, was established in Malaysia to help people save money to go for hajj (pilgrimage). The funds were used to invest in industrial and agricultural projects. After the formation of the Organization of Islamic Conference (OIC) in 1973, the Islamic Development Bank was established in 1975 in Jeddah, Saudi Arabia. The multilateral development bank was formed with an objective of fostering economic development and social
progress of member countries in accordance with the principles of Shariah. In the same year, the first Islamic commercial bank, Dubai Islamic Bank, was established in the United Arab Emirates (UAE) by a pious businessman named Saeed Ahmed Lootah. Initially, both banks did not have Shariah scholars or boards to guide their operations and operated according to their understandings of interest free banking (Kauf 2004). Figure 1.1 presents evolution framework of Islamic finance or Shariah investment.

**Figure 1.1**

Evolution framework of Islamic finance

<table>
<thead>
<tr>
<th>Year</th>
<th>Historical events under Islamic / Shariah finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>First Islamic Bank established in Egypt</td>
</tr>
<tr>
<td>1975</td>
<td>Dubai Islamic Bank established under special law pioneering Islamic Banking in the region. Islamic Development Bank (IDB) established to foster the economic development and social progress of member countries and Muslim communities. IDB participates in equity capital and grants loans for projects in member countries</td>
</tr>
<tr>
<td>1983</td>
<td>Iran introduces 100% Islamic Banking system.</td>
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<tr>
<td></td>
<td>Malaysia passes comprehensive legislation on Islamic Finance.</td>
</tr>
<tr>
<td>1984</td>
<td>Sudan launches Islamic Banking</td>
</tr>
<tr>
<td>1985</td>
<td>Fiqh Council of Organization of Islamic Conference (OIC) declares Takaful as fully Islamic paving the way for Islamic Insurance to flourish</td>
</tr>
<tr>
<td>1989</td>
<td>Sudan’s banking system becomes 100 % Islamic</td>
</tr>
<tr>
<td>1991</td>
<td>Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) established. The institute acts as a nodal body advising on standards to be followed by Islamic institutions worldwide</td>
</tr>
<tr>
<td>Year</td>
<td>Event</td>
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<tr>
<td>------</td>
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<tr>
<td>2002</td>
<td>Islamic Financial Services Board (IFSB) established in Malaysia. The organization enhances stability of the industry by issuing standards.</td>
</tr>
<tr>
<td>2005</td>
<td>IFSB introduces ‘Standards’ on Basel II compliance for Islamic institutions</td>
</tr>
<tr>
<td>2007</td>
<td>Total Islamic assets aggregate to USD 300 billion, growing at the rate of 10-15% over past 10 years.</td>
</tr>
<tr>
<td>2016</td>
<td>Islamic assets expected to grow at 15% and exceed USD 1 trillion by 2016</td>
</tr>
</tbody>
</table>

Source: AAOIFI, IFSB, IDB, Islamic Finance News, News Run
Shariah financial instruments:

Figure 1.2 shows the Shariah financial instruments

**Figure 1.2**

Shariah financial instrument

Source: Dharani (2012)

- **Murabaha** is a purchase and resale contract in which a tangible asset is purchased by a bank at the request of its customer from a supplier, with the resale price determined based on cost plus profit markup;

- **Salam** is a purchase contract with deferred delivery of goods (opposite to Murabaha), which is mostly used in agricultural finance;

- **Istisna** is a predelivery financing and leasing instrument used to finance long-term projects;

- **Qard al-Hasan** (benevolent loan) is an interest-free loan contract that is usually collateralized.

- **Ijara** is a leasing contract whereby a party leases an asset for a specified rent and term. The owner of the asset (the bank) bears all risks associated with ownership. The asset can be sold at a negotiated market price, effectively resulting in the sale of the Ijara contract. The Ijara contract can be structured as a lease-purchase contract whereby each lease payment includes a portion of the agreed asset price and can be made for a term covering the asset's expected life.

- **Musharaka** is an equity participation contract under which a bank and its client contribute jointly to finance a project. Ownership is distributed according to each party's share in the financing.
Mudaraba is a trustee-type finance contract under which one party provides the capital for a project and the other party provides the labor. Profit sharing is agreed between the two parties to the Mudaraba contract and the losses are borne by the provider of funds except in the case of misconduct, negligence, or violation of the conditions agreed upon by the bank.

Components of Shariah finance industry:

The objective of Islamic financial institutions is the pursuit of profits without violating Shariah. The shareholders of and investors in Islamic financial institutions may have purely economic considerations and not be concerned with the objectives of Shariah. Among the most important policies or goals pursued by the Islamic financial system are the following:

- Shariah compliant products or financial services
- Stability in money value
- Economic development
- Social development
- Resource optimization
- Equitable distribution of resources

The Figure 1.3 shows the components of Shariah finance industry which are adopted by investors to fulfil above goals.

Figure 1.3
Components of Shariah finance industry
Source: Dharani (2012)
Islamic Banking

Islamic banking has been defined as banking in consonance with the ethos and value system of Islam and governed, in addition to the conventional good governance and risk management rules, by the principles laid down by Islamic Shariah. Interest free banking is a narrow concept denoting a number of banking instruments or operations, which avoid interest. Islamic banking, the more general term is expected not only to avoid interest-based transactions, prohibited in the Islamic Shariah, but also to avoid unethical practices and participate actively in achieving the goals and objectives of an Islamic economy. Unlike conventional banks, Islamic banks are not allowed to charge interest by lending money to their customers because, under Islamic commercial law, making money from money (riba) is strictly prohibited. In Islamic finance, money is not considered a commodity and, therefore, cannot be rented out for a fee. In lieu of charging interest on money lent, Islamic banking practices and financial transactions are based primarily on sharing (for instance, musharka), trading (for example, murabahah), or leasing (ijarah). The contracts for profit-and-loss sharing are preferred from a Shari‘a perspective, although in practice, industry
relies on trading or leasing, in which the bank sells an asset to the customer on an installment basis or leases the asset to the customer and earns a fixed return in that way.

- **Takaful**, an Arabic word meaning “guaranteeing each other,” is a form of mutual insurance that is fully compliant with Shariah principles. Takaful works on the basis of members cooperating with and protecting each other, but it can also be used by investors seeking returns while adhering to the principles of Islamic law. Members of the takaful scheme pool their individual contributions together to create a pot of money which is then available to cover any subsequent loss or damage claims. Any surplus, after the costs of running the scheme, is then distributed between the takaful operator and members or investors on pre-agreed terms.

- **Real estate**
  
  Real estate as an asset class Islamic finance has used real estate as an investable, tangible asset class on which to base its financial structures. The focus has tended to be on prime or trophy assets: for example, hotels or large
office headquarter buildings. However, since 2010 Islamic funds and Islamic banks providing mezzanine finance have multiplied. In such structures, a conventional senior bank lends the majority of the debt on an interest payment basis, the investors inject their equity and the mezzanine finance tranche is put into the structure in an Islamic compliant way. This is a feasible way of ensuring that deals get done. The senior conventional bank and the Islamic compliant mezzanine lender enter into an inter creditor agreement which governs the way each loan is treated and takes account of the Islamic sensibilities of the mezzanine lender.

- **Islamic Capital Market**
  The Islamic capital market plays a pivotal role in the growth of Islamic financial institutions. Like any capital market, its primary function is to allow people, companies, and governments with surplus funds to transfer them to people, companies, or governments who need funds. The Islamic capital market functions as a parallel market to the conventional capital market for capital seekers and providers. The Islamic capital market attracts funds from outside as well as inside the market. The international sources might include high-net-worth (HNW) individuals, predominantly Muslims from the oil-rich countries,
and others involved in the corporate and business sector. The Islamic capital market does not prohibit participation by non-Muslims, which has increased the growth potential for Islamic products. The present study is concerned with capital market or stock market.

Components of Shariah / Islamic Capital market:

In principle, the objectives of the Islamic capital market are again based on the Islamic Shariah, which in essence should be treated as an important and necessary vehicle to transfer funds from surplus to deficit units. This is to ensure the equitable allocation of capital to sectors which would yield the best of returns to the owners of capital and hence contribute towards the overall growth and expansion of the economy. It is also the objective of the Islamic capital market to ensure that there exists a means of attracting surplus funds for worthwhile investments in accordance with the owners' preferences in terms of the extent of risk involvement, rate of return as well as the period of investment preferred. Without the capital market, the fund
owners could not find sufficient opportunities to invest for short term. Most investments have gestation lags and of long term in character. Emergency needs may arise from time to time which cannot be easily met. It is also unIslamic to hoard wealth. It is therefore necessary for wealth owners to invest their funds in order not to allow their funds to be unnecessarily eroded by the obligatory zakat (Islamic tax)

The components of Shariah Capital market are given in Figure 1.4.

Figure 1.4
Components of Islamic Capital market

Islamic equities are defined as shares of companies undertaking activities permissible under Shariah principles and approved by Islamic scholars. Such approval is established through a combination of qualitative and quantitative criteria. For a company to be considered Shariah compliant, the majority of its revenues must be derived from activities other than the trading of alcohol, tobacco, pork, pornography, gambling, or arms, charging interest on loans. Quantitative criteria include the compliance of certain financial ratios, such as ratio of interest-bearing
debt/ total assets or total debt/ average market capitalization of the company. Major global index providers have introduced Shariah compliant equity indices.

- **Shariah / Islamic indices** are subsets of conventional benchmarks that include only those companies passing rules-based screens for Shariah-compliance. The resulting Shariah indices tend to be highly correlated to their conventional counterparts and provide Islamic investors with Shariah-compliant versions of a wide variety of popular benchmarks.

- **Islamic Bond Market (Sukuk)**

  The word –Sukuk is the plural of the Arabic word –Sakk, which means –certificate, so Sukuk may be described as certificates of trust for the ownership of an asset, or certificates of usufruct. Sukuk differ from conventional bonds in that they do not pay interest. Islam forbids the payment of interest, but a financial obligation or instrument that is linked to the performance of a real asset is acceptable. Sukuk come in various forms, according to the issuer’s requirements. Project-based sukuk can be issued to help finance specific new projects, while asset-specific sukuk are often employed to sell the beneficiary right of existing assets. Quasi-government organizations can also make use of balance sheet-specific sukuk to raise finance for multiple projects.

  Sukuk deals typically fall into four main categories: ijarah, mudharabah, musharakah, and istisna‘a. Ijarah sukuk are commonly employed in longer-term financing, typically
leasing arrangements. Mudharabah sukuk are often used for profit-sharing between investors and entrepreneurs in ventures. Musharakah sukuk are used to finance businesses on the basis of partnership contracts, and sukuk istisna‘a are frequently used in the financing of major infrastructure projects. Sukuk are issued in many forms, such as ijarah floating-rate sukuk, murabahah fixed-rate sukuk, and salam sukuk, a form of bond which cannot be sold and must therefore be held until maturity.

Advantages

• The development of the sukuk market over recent years has provided opportunities for both borrowers and investors who would be unable to access conventional bonds markets due to their noncompliance with Shariah principles.
• Given the dramatic growth of the market over the last decade, sukuk instruments are now both liquid and readily tradable.

• Sukuk securities are rated by mainstream credit agencies, making their risk profiles comparable with mainstream fixed-income instruments.

**Disadvantages**

• Under certain circumstances, sukuk can present additional taxation or stamp duty costs for the issuer, given the introduction of the asset ownership issue into the sukuk structure.

• Islamic law’s broad exclusion of the trading of instruments at above or below par (their redeemable value on expiration of the particular issue) can severely restrict the structures available for sukuk issuers. However, interpretations differ between countries and regions as to what is acceptable practice.

• **Islamic / Shariah compliant Derivatives market**

  A derivative, a financial instrument whose value is a function of the value of another asset, typically takes the form of a contract in which the investors promises to deliver, or take delivery of, an asset at a specific date and at a specific price. Conventional derivatives include call and put options, futures, forwards, and swaps are used for hedging, arbitrage, and speculation. Islamic finance allows derivatives for the first two purposes – hedging and arbitrage- but prohibits their use for speculation or gambling (maisir). As long as riba (interest) and gharar (uncertainty) are avoided, the Islamic derivatives structure used in hedging and arbitrage enjoys significant freedom of design.

  Islamic derivative products include the structured murabahah deposit, structured options that operate on the principle of wa’d (promise), profit rate swaps, and
cross-currency swaps, such as the foreign exchange (FX) wa‘d (a Shariah compliant FX option) and the Islamic FX outright (a Shariah compliant FX forward contract that locks in the price at which an entity can buy or sell a currency at a future date).

**Advantages**

- Some Shariah scholars believe that Islamic derivatives can play a Shariah-compliant beneficial purpose by offering users, such as farmers, protection from adverse price movements.
• Derivatives can be used to offset risks for producers, and they can therefore be used as tools in support of long-term investment plans that can be of benefit to communities.

• Shariah-compliant transaction structures can be used to create synthetic derivatives that win wider acceptance over their compatibility with Islamic principles than conventional derivatives.

**Disadvantages**

• Derivatives such as futures and options are widely used for speculative purposes—activities that can equate to gambling, and therefore run contrary to the principles of Islam.

• Most Shariah scholars maintain that, by their very nature, derivatives—both conventional and Islamic—are priced according to assets that are not in the possession of the seller, in violation of the hadith principle. Most scholars therefore believe that Muslims should not trade in derivatives.

• Specialist Islamic synthetic derivatives can suffer from severe liquidity shortages because they are unattractive to conventional investors.

• The noncompliance of conventional derivatives with Shariah meant that some Islamic institutions were less able to employ hedging strategies to protect their interests during the global banking industry crisis in the wake of Lehman Brothers’ collapse in late 2008.

**Islamic/ Shariah Mutual Funds and Unit trust:** Investment funds are defined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as: Funds are investment vehicles, which are financially independent of the institutions that establish them. Funds take the form of equal participating shares/units, which represent the shareholders'/unitholders' share of the assets and entitlement to profits or losses. The funds are managed on the basis of either mudaraba or agency contract.

**With Shariah investment guidance in place, the establishment of Islamic investment funds gained momentum. The Amana Income Fund, the first Islamic equity fund to be established in the**
United States, was formed in June 1986 by members of the North American Islamic Trust (NAIT), an organisation in Indiana, which oversees the funding of mosques in the United States. In 1987, Dallah AlBaraka Group established two companies, namely Al-Tawfeek and Al-Amin, which were specifically dedicated to the development of Islamic equity funds. These companies have successfully launched a number of Islamic funds focusing on such diverse sectors such as real estate as well as international equities.

Today, there is a wide array of Islamic capital market products and services to meet the needs of those who seek to invest in compliance with Shariah principles. These include Shariah-compliant stocks, Islamic bonds, Islamic funds and Islamic risk management products. The Islamic capital market has grown in sophistication and Islamic forms of product structuring, project financing, stockbroking, asset management and venture capital services are becoming increasingly widely available. Some Mutual Funds offered in India based on the Shariah Indices are:

- Tata Ethical Fund
• Taurus Ethical Fund

• Islamic Exchange Traded funds

Islamic Exchange Traded Fund (Islamic ETF) is a combination of Shariah Compliant stocks. It is like mutual funds and individual share. Like a share, it traded in stock exchanges throughout the trading day. Like a mutual funds, it is issued and maintained by asset management companies. In India, GS Shariah BeES is Shariah Exchange Traded funds which track the performance of the Nifty Shariah index.

• Islamic Commodity funds

Commodity funds invest in physical commodities. Short selling is not allowed. The fund manager may make use of istisna‘a contracts, pre-agreeing the price of goods to be manufactured and delivered at a specified future date, with the manufacturer benefiting from advance receipt of the agreed sale price. Commodity fund managers can also use bay al-salam contracts. These remain Shariah-compliant due to the fact that the seller‘s position is protected because payment is passed to the seller on agreement of the contract rather than on its completion. The buyer is compensated by the fact that the agreed delivery price is set at a discount to the physical spot price.
Growth of Shariah / Islamic investment / finance:

Islamic finance is developing at a remarkable pace. Since its inception three decades ago, the number of Islamic financial institutions worldwide has risen from one in 1975 to over 300 today in more than 75 countries. They are concentrated in the Middle East and Southeast Asia (with Bahrain and Malaysia the biggest hubs), but are also appearing in Europe and the United States. Total assets worldwide are estimated to exceed $250 billion, and are growing at an estimated 15 percent a year. The reasons behind the recent growth in Islamic finance are

1. The strong demand from a large number of immigrant and nonimmigrant Muslims for Shariah-compliant financial services and transactions.
2. Growing oil wealth, with demand for suitable investments soaring in the Gulf region.
3. The competitiveness of many of the products, attracting Muslim and non-Muslim investors.
4. Three recent major global economic crisis in the conventional system: 1973 oil shock, infamous 9/11 and 2008 sub prime crisis- contributed to the growth of Islamic finance. Each economic jolt brought about a wider search by both Muslims and non-Muslims for alternatives to conventional banking and finance. Today a number of financial products based on Shariah compliant principles are performing much better results in the stock market compared to the financial products based on the conventional system of investment. Hence it acts as new source of investment.
5. The flow of funds into Muslim oil-producing states
6. Growing political and social desire in the Muslim world for financial alternatives to banking and investment institutions that have been historically dominated by the West.
The growth of Islamic assets during 2005-2015 is given in figure 1.5.
At present, the number of Shariah finance institutions are between 1 to 25 in Italy and USA. Islami Tijara (2011) shows that 935 companies among the 3450 are following the Shariah investment principles and considered as the Shariah compliant shares in Indian stock market. It means 27 percent of the companies are considered as Shariah compliant shares with the total market capitalization of Rs. 38,58,716 crore. Further, Islamic Tijara shows that 58 companies in Automobiles, 71 in construction and reality, 347 in consumer, 175 in Healthcare, 77 in
Industrials and Capital Goods, 124 in Information Technology, 53 in Metals and mining, 19 in Oil and gas and 11 in Power and Utilities industries are Shariah compliant shares in Indian stock market. Most of the companies are belonging to consumer industry and minimum companies from Oil and gas industry.

Some aspects of Shariah indexes / indices:

An index is a mathematical construct, so it may not be invested in directly. But many mutual funds and exchange-traded funds attempt to "track" an index, and those funds that do not may be judged against those that do. It is a portfolio of stocks that
are representative of the entire market or a particular sector or segment of the market. It captures the overall behaviour of the equity market and indicates the market trends by showing how a specified portfolio of share prices is moving. A good stock index is one that is well diversified, highly liquid and represents the market. A stock index or stock market index is a measurement of the value of a section of the stock market. It is computed from the prices of selected stocks. It is a tool used by investors and financial managers to describe the market, and to compare the return on specific investments. A benchmark or an index is a point of reference for investors for evaluating a fund's or portfolio's performance. A stock market index is a method of measuring a section of the stock market. Many indices are cited by news or financial services firms and are used as benchmarks, to measure the performance of portfolios such as mutual funds. An index is basically an indicator. It gives you a general idea about whether most of the stocks have gone up or most of the stocks have gone down. Then what is Shariah index / indexes or indices? What is history of it? What is its characteristics,
importance and types? This section attempts to some aspects of Shariah indexes after knowing some aspects of Shariah principles base investment.

Shariah Indexes – meaning and objectives:

A SHARIAH Index in an index of companies that are found to be compliant with the Islamic canonical law or the Shariah. Most Shariah indices which have been created so far have been based on an existing or an underlying index, whose constituents have been screened for compliance by a board that is well-versed in the principles of the Quran.

Shariah index is the subset of the conventional benchmark index that includes companies after being screened for Shariah compliance. The resulting Shariah indices tend to be highly correlated to their conventional counterparts and provide investors with Shariah-compliant versions of a wide variety of popular benchmarks.

According to Shariah principles, dealing in interest-based transactions, investing in harmful and unethical sectors like alcohol, tobacco, firearms, pornography and gambling, etc. are prohibited. Hence Shariah compliant products are
designed in such a way that funds are invested only in Shariah compliant stock or assets. Measuring the movement of these Shariah principles based investment activities in terms of
percentage change (or index) in prices can be referred as Shariah Index. The Shariah index measuring the changes between variables, value or price of Shariah compliance. It is the ratio of the current value to the base value of Shariah investment. There are 3 principal types of index, namely; value index, quantity index and price index. Measuring value of Shariah principles based investment (i.e. securities / stocks against base year is called Shariah index. When number of activities of Shariah principles based investment are measured or compared with basic year, then it is called quantity based Shariah index. As against this, when price is considered in measurement for current year over basic in terms of percentage is deemed to be price Shariah index. Shariah index is the measurement of Shariah based script and its movement or status for current year over previous or base year. A Shariah price index is an average of changes in the price of the individual Shariah securities or Shariah principles based investment in the market. A benchmark or Shariah index is a point of reference for investors for evaluating a fund‘s or portfolio‘s performance in respect of Shariah principles based investment or Islamic finance.
Shariah index is a tool or measure of Shariah compliant securities (ordinary shares, warrants, and transferable subscription rights, banking finance, etc.) of a stock exchange listed company that have been classified as being admissible for investment based on the company’s compliance with Shariah principles in terms of its primary business and investment activities. It means Shariah indices are subsets of conventional benchmarks that include only those companies passing rules-based screens for Shariah-compliance. Shariah index is the techniques of measuring ethical investments as per Shariah principles based. It is a portfolio of stocks that are representative of the entire market or a particular sector or segment of the market. It captures the overall behaviour of the Shariah equity market and indicates the market trends by showing how specified portfolio of share prices is moving. A good Shariah index is one that is well diversified, highly liquid and represents the market. The index movement is indicated by the average price movement of the set of stocks that constitute the index.

The objective of Shariah indexes are as under:
The main aim of introducing the Shariah index was to attract the Muslim population to invest in the stock market. Even though stock markets in India have seen a new
phase of growth in recent years, a large section of the Indian population restrained itself from investing in the stock markets. Shariah investment or Islamic finance is a social responsible investing as Shariah principles are applied. Hence, increasing the volume of stock activities and movement in Islamic finance/stock market is the another important objective of the Shariah Index.

1. To provide information or data to investors for decision making on marketing of Shariah securities.
2. To provide data to investors in respect of companies that are Shariah compliant.
3. To provide information and direction to investors on Shariah principles based investment in respect of issues concerns, industry norms, screening and filters.
4. To raise the efficiency of decision making on marketing of Shariah securities or Shariah finance or Islamic finance.
5. To help for quick reference.
6. To promote Islamic finance or Islamic capital market and structure.
7. To help tapping of Shariah securities / finance marketing opportunities.
8. To educate investors and companies about Shariah based investment activities and movement i.e. marketing of securities.
9. To build awareness among investors and company regarding Islamic / Shariah finance and its compliance.
10. To improve Shariah market transparency.
11. To provide a benchmark.
12. To measure the performance of Islamic equity
13. One of the purpose of launching such index is so that market would recover and the volumes in the scripts included in Shariah index would also increase significantly.

Characteristics of Shariah indexes:
Following are some of the characteristics of Shariah index/indexes.

1. The Shariah Index serves to guide Muslim investors to buy shares that are Shariah compliant and approved securities.
2. The Shariah index tracks the performance of the Shariah compliant securities on the stock exchange.
3. The Shariah indexes were launched in order to expand participation of investors who are passionate investing in securities approved in accordance to the Islamic law.

4. To ensure conformity with Shariah law and that Islamic beliefs are being implemented, Shariah Supervisory Boards (SSB) are mandatory.

5. It provides the investors a tracking and benchmarking of the performance of Shariah compliant securities towards making better investments decisions.

6. Shariah compliant products are attractive and offer many opportunities to even non-Muslim investors and non-Islamic institutions.

7. The Shariah indices are designed to offer investors Shariah-compliant investment solutions.

8. The Shariah Index is a subset of the parent index (conventional index). This index does not have fixed number of companies.

9. Must have Shariah advisory Board.

10. Constituents of parent index which are Shariah compliant are part of Shariah Index.

11. Shariah Index can be used for a variety of purposes such as benchmarking fund portfolios, launching of index funds, ETF’s and structured products.

**Importance of Shariah indexes/ indices:**

Shariah indices offer various benefits to investors, companies, agents, government and trading members. As it serves multiple way, Shariah indexes are very much important from Shariah investment point of view. Shariah indices/ indexes are important because they are serving following benefits.

1. The Shariah indices serve as
   a) a lead indicator of the performance of the overall economy,
   b) a barometer for the overall market behaviour,
   c) a benchmark for portfolio performance
   d) an underlying for derivative instruments like index futures and options
c) Under-pins products like exchange-traded funds, index funds etc. Hence, it is very useful to Muslim and non-Muslim investors.
2. The main aim of introducing the Shariah index was to attract the Muslim population to invest in the stock market. Even though stock markets in India have seen a new phase of growth in recent years, a large section of the Indian population restrained itself from investing in the stock markets. This is mainly because the Muslim population (Approx 180 million) abstained from investing due to their religious beliefs of not indulging in any investment activity that is prohibited under the Shariah Law.

3. The idea of launching a Shariah index is also to increase the volumes in the stocks that are included in Shariah index.

4. One of the purpose for launching such index is so that market would recover and the volumes in the scrips included in Shariah index would also increase significantly.

5. A large section of people who want to make their investment keeping in line with their religion would get a fair opportunity to do so.

6. The underlying principle behind the creation of a separate Shariah index is to help the Islamic investor community identify and invest in businesses that are complaint with the Shariah laws. In a nutshell, this separate index gives the Shariah-friendly businesses an opportunity to reach out to more potential Islamic investors. At the same time the Index offers the Islamic investors a chance to take part in the businesses of the companies on the index without compromising on Islamic laws.

7. They give the investor the opportunity to participate in the Indian equity markets while remaining compliant with the principles of Islamic law. In fact, this has been followed by the launch of many mutual funds as well as portfolio management services which are compliant with the Shariah law.

8. Shariah compliant indices can be used to construct Socially Responsible Investment (SRI) products that are attractive to investors who do not wish to invest in stocks of companies that engage in activities that they deem to be against their beliefs. These products are particularly attractive to Islamic investors, as these instruments allow them to invest without violating their religious principles.

9. Several prominent studies in recent years have identified the fact that Muslim participation in India's financial system is minimal. The Sachar Committee Report (2006) found that nearly 50% of India’s Muslim population was
excluded from the formal financial sector. Thus Shariah Index will help promote financial inclusion of the Muslim population in India and attract investment flows from international funds. Even socially responsible investors of other faith may be interested in the index and related investment products. The study will also focus on participation of foreign investors.

10. The index would attract Islamic and other "socially responsible" investors both in India and overseas.

11. Islamic finance does not require specific laws and is not limited to the Muslim community.

12. There is vast potential and opportunities for financial institutions to tap in the field of Islamic banking and finance.

13. With the adoption of stringent Shariah principles, Islamic finance offers a huge alternative economic opportunity to the conventional methods that investors have become accustomed to. Many countries globally from Europe, Middle East, Asia, Australia and even the United States have realized the importance of Islamic finance.

14. An index provides a "pulse" for the capital market, along with accountability and a benchmark for investment products. Media coverage of index performance promotes public awareness and understanding of capital markets. An index can also be used to compare performance of a fund/portfolio relative to the corresponding index. An index is the basis for several important financial products, such as index funds and exchange traded funds (ETFs).

15. The existence of the Shariah screening process in the stock market will enable the investors especially those who are Muslim to invest into companies that run the permissible activities in their businesses. According to a senior official at Taqwa Advisory and Shariah Investment Solutions (TASIS), Bombay Stock Exchange has the largest number of listed Shariah compliant stocks in the world. All Muslim countries of West Asia and Pakistan put together do not have as many listed Shariah compliant stocks as are available on BSE. It is
very useful to Muslim as well as non-Muslim investors as it widens market for Shariah compliant securities.

16. Shariah indices creates confidence among investors by providing better responses from ethical investors and to that extent enhances the goodwill and the reputation of the Shariah principles based investment.
17. It provides safety and equity as well as liquidity on investing by way Shariah compliance stocks.

18. Shariah indices provide true and fair price value, and quantity information for decision making and it guide to investors to act or not to act on investment.

**History of Shariah Indices:**

**History of World Shariah Indices:**

The Dow Jones Islamic Market Index and TII-FTSE Islamic Index, launched in 1999 and 2000, respectively, were the first global Islamic benchmarks. Since that time, Morgan Stanley Capital International (MSCI) and S&P have also developed Islamic indices.

In 2006, S&P began offering the S&P 500 Sharia Index, the S&P Europe 350 Sharia Index, and the S&P Japan 500 Sharia Index. At the initial launch of the S&P series, 295 stocks in the S&P 500 Sharia were deemed to be Shari‘a compliant; 139 stocks, in the S&P Europe 350; and 286, in the S&P Japan 500. In 2007, MSCI entered the market with three indices—the MSCI Emerging Markets Islamic Index, MSCI USA Islamic Index, and MSCI World Islamic Index.

S&P followed the launch of their three broad indices with a series of narrower indices in 2007. The S&P/International Financial Corporation
Investable GCC indices include six Shari‘a-compliant country indices (one for each of the six Gulf Cooperation Council countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE), a composite that excludes Saudi Arabia, and a composite that includes Saudi Arabia. The S&P Pan Asia Shariah Index includes Shari‘a-compliant securities in China, Hong Kong, India, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand. To be included, a stock must have at least US$1 billion in float-adjusted market capitalization, and to expedite the Shariah screening process, only the top 15 stocks in each country are evaluated.

By year-end 2008, the Dow Jones Islamic Market Index family had expanded to incorporate 70 indices at the regional, country, industry, and market-capitalization levels, including the markets of the United States, Europe and the Eurozone, the Asia
Pacific region, the BRIC countries (Brazil, Russia, India, and China), and Canada, among others.\textsuperscript{13}

The FTSE family of Islamic indices at year-end 2008 included the global FTSE Shariah All-World Index of large- and mid-cap stocks, begun in 2007, and the FTSE regional family of Shari‘a-compliant indices, which includes (1) the first of the FTSE SGX (Singapore Stock Exchange) index series—namely, the FTSE SGX Asia Shariah 100 Index, which was launched in 2003 and includes 50 of the largest Japanese companies and 50 of the largest companies from Singapore, Korea, Taiwan, and Hong Kong; (2) the FTSE DIFX (Dubai International Financial Exchange) index series (soon to be renamed to reflect the Dubai exchange’s new name, NASDAQ Dubai), which were the first tradable indices in the GCC region and which include the FTSE DIFX Kuwait 15 Shariah Index and FTSE DIFX Qatar 10 Shariah Index; and (3) the FTSE Bursa Malaysia index series, which includes the FTSE Bursa Malaysia EMAS (Exchange Main Board All-Shares) Shariah Index and the FTSE Bursa Malaysia Hijrah Shariah Index.
The Jakarta Islamic Index, which contains 30 companies listed on the Indonesia Stock Exchange, has been available since 2000.

Figure 1.6 compares the quantitative screens of the four major Islamic index families.

**Figure 1.6**

<table>
<thead>
<tr>
<th>Qualitative Screens of Major Islamic Index Families</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Category</strong></td>
</tr>
<tr>
<td>Debt</td>
</tr>
<tr>
<td>Receivables</td>
</tr>
<tr>
<td>Cash</td>
</tr>
</tbody>
</table>

History of Indian Shariah Indices:

On February 19, 2013, S&P Dow Jones Indices and the Bombay Stock Exchange (BSE) announced their strategic partnership to calculate, disseminate, and license the widely followed BSE suite of indices. One of the first indices created by the partnership was the S&P BSE 500 Shariah index. This index is designed to represent all Shariah compliant stocks of the broad based S&P BSE 500 Index. The Index joins the family of S&P Shariah indices with the S&P 500 Shariah, S&P Europe 350 Shariah, and S&P Pan Asia Shariah indices among others.

In Figure 1.7 a brief compilation of the Shariah Indices in India is given.

Figure 1.7
Shariah Indices in India

<table>
<thead>
<tr>
<th>Stock Exchange</th>
<th>National Stock Exchange (NSE)</th>
<th>Bombay Stock Exchange (BSE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shariah Index</td>
<td>CNX Nifty Shariah</td>
<td>BSE TASIS Shariah 50</td>
</tr>
<tr>
<td></td>
<td>CNX 500 Shariah</td>
<td>S&amp;P BSE 500 Shariah</td>
</tr>
<tr>
<td>Benchmark/Parent Index</td>
<td>CNX Nifty Index</td>
<td>BSE-500 Index</td>
</tr>
<tr>
<td></td>
<td>CNX 500 Index</td>
<td>S&amp;P BSE 500 Index</td>
</tr>
<tr>
<td>Launch Date</td>
<td>February 19, 2008</td>
<td>27th December, 2010</td>
</tr>
<tr>
<td></td>
<td>February 19, 2008</td>
<td>2nd May, 2013</td>
</tr>
<tr>
<td>Base Date</td>
<td>December 29, 2006</td>
<td>1st January, 2008</td>
</tr>
<tr>
<td></td>
<td>December 29, 2006</td>
<td>3rd November, 2008</td>
</tr>
<tr>
<td>Base Value</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td></td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>No. of Constituents</td>
<td>18</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>50</td>
<td>168</td>
</tr>
<tr>
<td>Methodology</td>
<td>Free Float Market Capitalization</td>
<td>Free Float Market Capitalization</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Calculation Frequency</td>
<td>EOD Daily</td>
<td>EOD Daily</td>
</tr>
<tr>
<td>Index Rebalancing</td>
<td>Monthly</td>
<td>Monthly</td>
</tr>
</tbody>
</table>

Source: Compiled from Asia Index Factsheet, NSE, and BSE

At present, there are twenty one recognized stock exchanges in India. Amongst these the BSE and NSE are the largest one. The equity market capitalization of the companies listed on the BSE is Rs: 69 lac Crs / Approx US $ 1.20 trillion as of December 2013, making it the 4th largest stock exchange in Asia and the 8th largest in the world.
Indian stocks market is the fourth largest in terms of number of stocks listed and eight largest in terms of market capitalization. There are more than 5000 companies listed on Bombay stock exchange (BSE) but on evaluation it was found that 3400 companies are actively traded. Pragmatic Wealth Management P.ltd under supervision of its Shariah committee (IIFB) screened for Shariah stocks. As on December 2013 out of 3400 companies 633 companies are Shariah compliant, it roughly represent 19 percent of total traded stocks and in terms of market capitalization it is over 56 percent.

Types of Shariah Indices:

World Shariah Indices:

Since the launch of global Islamic indices in 1999, the range of available benchmark indices has blossomed, expanding across both regional and economic geographies. At present there are four major global Islamic Indices providers that cover the Islamic equity market, as shown in Figure 1.8.

Figure 1.8

Islamic Indices providers for Equity Markets
This means that,
1. The Dow Jones Islamic Market Indices (DJIM) family has expanded to provide a wide variety of benchmarks tracking Sharī'ah-compliant securities – including indices for 69 countries, across both developed and emerging markets. The DJIM family also includes regional, industry sector and market capitalisation indices, as well as specialised indices and custom measures.

2. Recognizing the urgent need for Islamic equity indices, Standard & Poor’s (S&P) initially applied Sharī'ah screens to three headline indices – the S&P 500, the S&P Europe 350 and the S&P Japan 500 – in 2006. In 2007, S&P followed with the S&P GCC Sharī'ah and the S&P Pan Asia Sharī'ah Indices, to cater for the demand for Sharī'ah product benchmarks for those regions. In 2008, S&P completed the review of the S&P Global Broad Market Index (BMI) Equity Indices, which consists of over 11,000 companies worldwide, for Sharī'ah compliance, the result of which is the S&P Global BMI Sharī'ah index comprising nearly 6,000 constituents, along with 10 sectors and 47 countries and regional sub-indices.

3. FTSE also introduced its Sharī'ah indices in 2006, starting with the FTSE Global Sharī'ah Index Series, screened by Yasaar Sharī'ah scholars. A further three Islamic indices were launched in August 2006.

4. Meanwhile, MSCI began its Islamic indices series in 2007, which subsequently developed to cover over 50 developed and emerging countries and over 50 regions such as the GCC countries and Arabian markets. Such indices are used by the investment community throughout the world.

**Shariah Indices in India:**

- **NSE Indices:**

  CNX Nifty is owned and managed by India Index Services and Products Ltd. (IISL). The broad-market indices on NSE (National Stock Exchange) consist of large, liquid stocks listed on the Exchange and serve as a benchmark for measuring the performance of the stocks or portfolios such as mutual fund investments.
Some of them are CNX Nifty, CNX 100, CNX 200, CNX 500, Nifty Midcap 50, CNX Smallcap Index, CNX Midcap.

The sectoral indices are, CNX Auto Index, CNX Bank Index, CNX Energy Index, CNX Finance Index, CNX IT Index, CNX Media Index, CNX Pharma Index, etc.
The thematic Indices are CNX Commodities index, CNX Consumption Index, CNX PSE Index, CNX Nifty Shariah and CNX 500 Shariah Index

1. CNX Nifty:

The CNX Nifty is a well diversified 50 stock index accounting for 23 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds.

CNX Nifty is owned and managed by India Index Services and Products Ltd. (IISL). IISL is India's first specialised company focused upon the index as a core product.

- The CNX Nifty Index represents about 66.85% of the free float market capitalization of the stocks listed on NSE as on June 30, 2014.
- The total traded value for the last six months ending June 2014 of all index constituents is approximately 50.39% of of the traded value of all stocks on the NSE.
- Impact cost of the CNX Nifty for a portfolio size of Rs.50 lakhs is 0.07% for the month June 2014.
- CNX Nifty is professionally maintained and is ideal for derivatives trading.

2. CNX 500

The CNX 500 is India's first broad based benchmark of the Indian capital market.

- The CNX 500 Index represents about 96.42% of the free float market capitalization of the stocks listed on NSE as on June 30, 2014.
- The total traded value for the last six months ending June 2014, of all
Index constituents is approximately 96.28% of the traded value of all stocks on NSE.

The CNX 500 companies are disaggregated into 72 industry indices viz. CNX Industry Indices. Industry weightages in the index reflect the industry weightages in the market. For e.g. if the banking sector has a 5% weightage in the universe of stocks traded on NSE, banking stocks in the index would also have an approx. representation of 5% in the index.
Thematic Index

1. CNX Nifty Shariah:

The CNX Nifty Index includes the largest and most liquid companies listed on the National Stock Exchange. The CNX Nifty Index is parent index to CNX Nifty Shariah Index. The constituents of CNX Nifty index are screened for Shariah compliance and only the companies that are Shariah compliant form part of CNX Nifty Shariah Index. The index performance closely tracks the performance of the parent index. CNX Nifty Shariah Index can be used for benchmarking fund portfolios, launching of index funds, ETF’s and structured products.

2. CNX 500 Shariah:

The CNX 500 Index covers more than 90% of the total market capitalization and more than 80% of total traded volume on the National Stock Exchange. The CNX 500 Index is parent index to CNX 500 Shariah Index. The benchmark index is screened for Shariah compliance and forms the CNX 500 Shariah, which closely tracks the performance of the parent index. CNX 500 Shariah Index can be used as benchmarking fund portfolios, launching of index funds, ETF’s and structured products.
Shariah Indices on BSE:

BSE (Bombay Stock Exchange) developed a range of indices which are segment-specific, sector-specific and thematic indices to match the varied needs of investors and market participants. Some of the indices on BSE are; SENSEX, BSE-100 Index, BSE-200 Index, BSE-500 Index, Dollex Series of BSE Indices, BSE IPO Index, BSE SHARIAH 50, BSE TECk Index, BSE PSU Index, BSE BANKEX Index, BSE FMCG Index, BSE Mid-Cap, BSE Small Cap Index, etc.

Thematic indices are designed to provide a single value for the aggregate performance of a number of companies representing a theme. Some of the Thematic Indices on NSE are; CNX MNC Index, CNX Service Sector Index, CNX Commodities Index, CNX Nifty Shariah, CNX 500 Shariah.
1. **S&P BSE TASIS Shariah 50 Index**

BSE (Bombay Stock Exchange) and Taqwaa Advisory and Shariah Investment Solutions (TASIS) had jointly developed Shariah compliant equity index in India named, BSE TASIS Shariah 50 Index which was launched on 27th December, 2010. The underlying principle behind the creation of a separate Shariah index was to help the Islamic investor community identify and invest in businesses that are complaint with the Shariah laws. The BSE TASIS Shariah 50 index (SHA 50) consisted of the 50 largest and most liquid strictly Shariah compliant stocks from the BSE 500. According to the notice no. 20130506-22, dated 6 May, 2013, the calculation, publication and dissemination of S&P BSE TASIS SHARIAH 50 Index was to be discontinued from June 10, 2013. The new index launched was S&P BSE 500 Shariah to include more constituents which are Shariah compliant.

2. **S&P BSE 500 Shariah Index**

- On February 19, 2013, S&P Dow Jones Indices and the Bombay Stock Exchange (BSE) announced their strategic partnership to calculate, disseminate, and license the widely followed BSE suite of indices.
- One of the first indices created by the partnership was the S&P BSE 500 Shariah index. The S&P BSE 500 consists of 500 of the largest, most liquid Indian stocks trading at the BSE. The index represents nearly 93% of the total...
market capitalization on the exchange. It covers all 20 major industries of the economy.

- The Shariah index is designed to represent all Shariah compliant stocks of the broad based S&P BSE 500 Index. The Index joins the family of S&P Shariah indices with the S&P 500 Shariah, S&P Europe 350 Shariah, and S&P Pan Asia Shariah indices among others.

Awareness and perception of Shariah index and Shariah investment:

Meaning of awareness:

Awareness is the state or ability to perceive, to feel, or to be conscious of events, objects, or sensory patterns. It is the state or quality of being aware of something. As against this Shariah index awareness means having knowledge of Shariah indices and its related aspects. Shariah index awareness implies vigilance in observing or alertness in drawing inferences from what are experiences about Shariah
index. Awareness of Shariah index means the state or ability to perceive, to feel, or to be conscious of Shariah index events, objects, analysis, inclusion or sensory patterns. It is the quality of being aware of something on Shariah index and its related aspects. Consciousness of Shariah index is referred as Shariah index awareness.

Awareness is the stage when an individual is exposed to innovations but lacks complete information about it. (Rogers, 1962). In this context it can be said here that, awareness is the stage when an individual is exposed to innovation but lacks information about Shariah, Shariah principles and Shariah indexes from investment perspective point of view. The chance of a person making use of Islamic banking products/ investment based on Shariah principles and Shariah index increases when the person is aware and understood their features and importance. Researcher found that there is a wide gap between awareness and usage (chapter 7). Therefore Run and Yeo, simple model on awareness, understanding and behaviour of Islamic banking is useful in our study purpose. The model is as under:
Figure 1.9

Run and Yeo’s Model on Awareness, Understanding and Behaviour

Source: Cyril de Run, E., & Yeo, D. S. L. Awareness, understanding and behavior of Islamic banking: Results of a special study. IBBM.
A psychological interpretation of awareness by perception says that to be aware of something is to perceive something. Shariah index awareness who and the how much of Shariah index information. It may refer to how many investors / persons know Shariah indexes and its related aspects / how that familiarity and Shariah based investment stacks up against the competition, i.e. say competition with BSE index. In simple words, Shariah index and Shariah investment awareness means having knowledge of Shariah index and its aspect and Shariah principles based investment. It implies vigilance in observing or alertness in drawing inferences from what investors experiences regarding Shariah index and Shariah principles based investment. "Higher" forms of awareness including self-awareness require cortical contributions, but "primary consciousness" or "basic awareness" as an ability to integrate sensations from the environment with one's immediate goals and feelings in order to guide behavior, springs from the brain stem which human beings share with most of the vertebrates. Thus knowing extent of Shariah index and Shariah principles based investment by the investors is referred here awareness and here
investors’ awareness on Shariah indexes and Shariah principles based investment is measured through surveys that ask participants questions.

Meaning of perception:

In a simple sense, perception means perceiving i.e., giving meaning to the environment around us. It is perceiving of objects what we are faced with. We can understand the meaning of perception in a better sense if we go through some important definitions of it given by some behavioural scientists.

According to Udai Pareek and others' "Perception can be defined as the process of receiving, selecting, organising, interpreting, checking and reacting to sensory stimuli or data".

Stephen P. Robbins defines perception as "a process by which individuals organise and interpret their sensory impressions in order to give meaning to their environment".

Fred Luthans opines that "Perception is an important mediating cognitive process through which persons make interpretations of the stimulus or situation they are faced with".
Thus, perception can be defined as a process which involves seeing, receiving, selecting, organising, interpreting and giving meaning to the environment. The functioning of the whole process is influenced by the individual doing the perceiving, the objects or events being perceived, and the environment in which perception occurs. Perception is the organization, identification, and interpretation of sensory information in order to represent and understand the environment.

A simple sense, perception in the context of Shariah index and Shariah principles based investment means giving meaning to the pattern of Shariah investment, Shariah usage and Shariah principles based investment awareness and understanding. It is the process of receiving, selecting, organizing, interpreting, checking and reacting to Shariah based investment and Shariah indexes. It is a process by which individuals organise and interpret their sensory impressions on Shariah based investment and Shariah index application. The opinions or views of the investors on Shariah based investment by using Shariah index after selecting, organising and
interpreting.

Investors perception on Shariah based investment and using Shariah index is the process of receiving, selecting, organizing, interpreting, checking, acting and reacting. This is like input-throughput-output process. According to Alan Saks and Gary Johns, there are three components of perception, namely; the perceiver, the target and the situation. Internal and external factors are influencing the perception to a great extent. Internal factors are (1) needs and desires, (2) personality, (3) experience. Whereas, external factors include (1) size, (2) intensity, (3) frequency/ repetition, (4) contrast, (5) status and (6) movement.

The perception as direct perception, perception-in-action, categories of decision makers and Whyte (1977) are some of the early models in this regards. The Theory of Reasoned Action views a person's behavior as following logically and systematically from whatever information he /she happens to have available (Ajzen and Fishbein 1980, p. 244).

Thus debt, quasi-debt and profit and loss
sharing instrument are Islamic financial instruments. Investors’ view on investing in Islamic instruments based on Shariah principles is called perception. Islamic finance refers to a system that is consistent
with Islamic law (Shariah) and guided by Islamic economics. In particular, Shariah law prohibits usury, the collection and payment of interest or riba, investing in businesses that are considered unlawful, or haram. Therefore, investors perception in this respect means investing as per this rules. Using Shariah index in this is called investment perception.

Theories or models of awareness and perception:
The Hierarchy of Effects Model, AIDA Model and Lavidge and Steiner Model:
Hierarchy of Effects Model\(^\text{16}\) consists of 6 hierarchical sequence of events, namely, 1. Awareness 2. Knowledge 3. Liking 4. Preference 5. Conviction and 6. Purchase (action). Whereas, AIDA Model was introduced in 1925 and it is a historical model. It identifies cognitive stages an individual goes through during the buying (decision) process for a product or service. It stands as under\(^\text{17}\),

\[
\begin{align*}
A & \rightarrow \text{Awareness (attention)} \\
I & \rightarrow \text{Interest} \\
D & \rightarrow \text{Desire} \\
A & \rightarrow \text{Action}
\end{align*}
\]

In this model, the additional \(_R^4\) is sometimes added, which is \(_\text{Retention}^4\) which make AIDAR Model.
In 1961, Lavidge and Steiner presented new model and described 3 distinct phases of learning namely, 1) cognitive, 2) affective, and 3) conative. These 3 models are presented in Figure 1.10.

Figure 1.10
Lavidge and Steiner’s Model

Source: AIDA (1925) and Hierarchy of Effects, Lavidge and Steiner (1961)
ATR Model:

A model is ATR (Awareness, Trial, Repeat purchase or Repurchase) proposed by Ehrenberg in 1988 that focuses on encouraging repeat purchases/actions. Figure 1.11 described as under:

Figure 1.11 ATR Model

DAGMAR and other models:

DAGMAR approach, innovation adoption model and involvement models, elaboration likelihood model, ADKAR Model, awareness to advocacy model, awareness to support model, William McGuire’s model of persuasion, situational awareness model, the AEC Model, are attempting relationship between awareness and action (decision making).

Theory of Reasoned Action (TRA)

The Theory of Reasoned Action (TRA) (Fishbein
and Ajzen 1975[9]) is the most widely studied model of attitudes and behaviour. This model has received broad support in empirical studies of consumer decision making and in the literature on social psychology (Sheppard, Hartwick and Washaw 1988)[20]. The theory basically posits that for behaviour, attitudes are developed from beliefs and can be used to predict behavioural intentions and behaviour. Behaviours are driven by behavioural intentions, which themselves are a product of attitudes towards behaviour and subjective norms with respect to the behaviour. The relative importance of attitudinal and normative considerations can vary widely from person to person. Figure 1.12 shows a diagram of the TRA as follows:
The TRA assumes that external variables namely demographic variables, attitudes towards targets and personality traits indirectly affect a person’s attitudes and behavioural intention. Figure 1.13 shows demographic variables such as age, religion and education would have indirectly positive or negative effect on a person’s intention to do specific behaviour or using something. Accordingly, this thesis concentrates to know the attitude and behaviour of Indian investors towards Shariah index and Shariah investment based on socio-economic variables.

Secondly, in case of traditional attitudes towards people as targets, TRA assumes that the more favourable a person’s attitude is towards some object, and the less likely he/she will be to perform any negative behaviour with respect to the object. Finally, a personality trait is usually viewed as a predisposition to perform a certain class of behaviour or that appear to underlie of influence the behaviour in question. Even though most of the support for the theory has come from social psychology, research using TRA has proven to be successful across a number of disciplines and is designed to explain any human behaviour (Ajzen and Fishbein 1980). Figure 1.13 indicates the summary of the Ajzen and Fishbein’s (1980) TRA framework.
Figure 1.13
Theory of Reasoned Action

Source: Ajzen and Fishbein‘s (1980)

This theory can be used in knowing the attitude and behaviour of Indian investors in respect of Shariah investment and finance and usage of Shariah index. Awareness of Islamic methods of finance or Shariah principles based investment and Shariah index and perception of investors using Shariah index towards Shariah investment based on demographic variable may can study with the help of TRA.
The proposed and modified model adopted from Ajzen and Fishbein’s (1980) TRA framework is presented in Figure 1.14.
Amin model on awareness, understanding and perceptions:

Awareness, understanding and perceptions are the foundation of usage of Islamic finance products and services or investment. If the investors are not aware and do not understand Islamic finance or Shariah investment, they would not take the initiative to adopt Shariah compliant products. So, in order to attract more people, investors‘ awareness, understanding and perception should be studied before looking into the investment according to Shariah principles for investors‘. In this context, model given by Amin\textsuperscript{22}, which take into account the demographic matters, awareness, understanding and perception is highly useful. The model is as under:

Figure 1.15
Amin Model of
Figure 1.14
AUP

Awareness

Understanding

Perception

Demographic factors
(Age, Religion, Education, Occupation, Income)

Source: Amin, H. (2007)
The present study is based on Amin model.

Present study:
This study attempts to assess
a) the awareness of investors on Shariah principles based investment and Shariah index,
b) Shariah investment pattern of investors,
c) usefulness of Shariah index in understanding the Shariah investment,
d) perception of investors towards using Shariah index in investment based on Shariah issues concerns, Shariah industry norms, Shariah screens and Shariah filters and differences between awareness, understanding and perception, assuming that there is a significant difference between awareness of investors on Shariah issues for investment and perception of investors towards using Shariah index in Shariah issues concerns based investment and there exist a significant difference between awareness about Shariah index among investors and perception of investors towards using Shariah index for Shariah investment in respect of Muslim and non-Muslim investors as well. This study is based on primary and secondary data. The primary data are collected from Mumbai, Chennai, Hyderabad and Lucknow city investors. The size of sample is 440 investors. The questionnaire, observations, personal interview, discussion, mobile dialogue etc. are used for collecting required data. The data is analysed and interpreted by using frequency, percentage, average, ratio, chi-square, tables, figures, charts and comparison. The detail methodology employed for the present study is described in Chapter 3.

Chapter Plan:
The entire thesis is divided into 8 chapters as under:
1. Introduction : Shariah Investment And Shariah Index, Awareness And Perception
2. Review of Literature
3. Research methodology
4. Socio-economic background of the sample respondents
5. Extent of awareness on Shariah principles and Shariah index among investors
6. Shariah investment pattern of investors and understanding the usefulness of Shariah Index.
7. Usage perception of investors towards Shariah index and differences between awareness, understanding and perception.
8. Summary of conclusions and suggestions

**Limitations of the present study:**

The present study has the following limitations

1. Islamic finance is a relatively new concept in India, therefore the literature available on the topic is limited.
2. Despite the increasing demand in other countries for Shariah compliant funds and awareness of Islamic investment, the empirical studies on Islamic indices and Islamic funds are scarce.
3. Non-availability of information on the companies listed on Shariah Index and the absence of transparency on the performance of the Index has affected the quality of study.
4. The words Islamic and Shariah are not understood by all and hence it was difficult to collect proper responses from non-Muslims, who may have misunderstood few principles. Some respondents were prejudiced regarding the words Islam, Muslims, Shariah and therefore were reluctant to fill the questionnaire correctly and therefore there is a possibility of some biased opinion.
5. Only data is collected from 4 metro cities and other cities like Delhi, Kanpur, Calcutta, etc. are left out, hence scope of the study is comparatively limited.
6. Size of the sample is also comparatively small as only 440 investor respondents are covered here.
7. Majority sample is collected through e-mail and hence it becomes one of the limitation of this study.
8. Random error is inevitable while using sampling techniques. Study is based on only convenience sampling.
References


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