



Investment avenues according to Islamic Sheri'ah Principles: A Case Study

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Abstract: *The present paper analyses the investment avenues according to Islamic Sheri'ah principles. The revival of Islamic Economic System has now become a point of central attention in Islamic world, which covers about one-sixth of the land surface of the global. The least involvement of Muslims in stock market is either because of religious matter or because of not having surpluses. The study found that more than half portion of Muslim does not invest in any financial product. Lack of knowledge regarding Islamic Investment Avenues. It concluded that Muslims can be potential for the company, if tremendous campaign appealing to invest is run among Muslims and businessmen prefer reinvest in businesses rather than investing in financial products.*

Keywords: *Allah, Investment, Avenues, Islamic Sheri'ah, Principles*

Introduction:

Islam is not simply one of the greatest monotheistic religions, signifying submission to the will of Allah, but a system of life in entirety. It prescribes a complete code of conduct for every day human life in all its spheres and manifestations. It does not confine itself to a spiritual relationship between man and Allah or describes the Almighty only with a transcendental reference but also regulates, in right proportions, an interactive relationship between man and man, and between man and society with moral, political and economic genesis. As a result, it is a religion lived in everyday life and no Muslim is in any doubt as to exactly how he should carry on the events of his day.

Looking at the inadequacies of the prevailing economic system, in promoting real economic well-being of the masses, Muslims all over the world started to re-discover the wisdom and balance of Islamic economic system. This led to a renaissance, during the last few decades of economic thought and system as enunciated by Islam. The upsurge gained

momentum with the discovery of oil and resultant ballooning up of the national income of many Middle Eastern countries. In the process, attention was focused on Islamic Economic System, Islamic banking and elimination of interest (**riba**) in conformity with the injunctions contained in the Holy Qur'an and sayings of the Holy Prophet (Peace be upon him).

The revival of Islamic Economic System has now become a point of central attention in Islamic world, which covers about one-sixth of the land surface of the global. The Muslim population by the year 2050 A.D. is expected to be over 2.6 billion or over 26% of the projected world population of 10 billion. Thus one out of every four people by the middle of 21st century would be Muslim, aspiring to lead an economic life as envisaged in Islam. Under the Islamic tenets, interest is prohibited in all forms and manifestations. This prohibition is strict, absolute and unambiguous. The Holy Qur'an has clearly warned that those who do not forego interest which has already accrued and do not desist from



taking it any further, then they are at war path with Allah and his Prophet.

WHAT IS RIBA?

The word "Riba" means excess, increase or addition, which correctly interpreted according to Shari'ah terminology, implies any excess compensation without due consideration (consideration does not include time value of money). This definition of Riba is derived from the Quran and is unanimously accepted by all the Islamic scholars. There are two types of Riba, identified to date by these scholars namely Riba An-Nasiyah' and 'Riba Al Fadl'. 'Riba An-Nasiyah' is defined as excess, which results from predetermined interest (sood) which a lender receives over and above the principle (Ras ul Maal). 'Riba Al Fadl' is defined as the excess compensation without any consideration resulting from a sale of goods. The Islamic system order based on a set of principles constituting the concept and philosophy as enunciated explicitly in the Quran. This philosophy provides what can be understood as the Islamic system of social justice.

Plato and Aristotle had also opposed the concept of interest in the era of before Christ. Interest was also prohibited in the preliminary teachings of Jews and Christians, and is also prohibited in the First Testament of the Holy Bible.

Modern economists have also opposed the interest. The famous English economics expert Lord Keynes, who is globally recognized as an expert of modern economics, has first time expressed his views on the point that unless the interest is abolished in some un-vexatious way, unemployment could not be eradicated from the world, rather, he insisted that the world would not bear

the long-run idleness which is connected with the capitalism.

ISLAMIC BANKING MOVEMENT IN THE WORLD:

Islamic Banking, based on the Islamic economic system, is not restricted to Muslims only. The objective of Islam injunction is welfare of the whole humanity. Islamic Banking is no longer confined to concepts and ideas only. Until the first half of the 20th century, it was more or less an abstract concept. Islamic Banking and finance started in 1963 when Mit Ghambir Savings Bank began offering interest free banking in Egypt.

Starting from 1980s various Islamic Banks and Islamic financial institutions have begun their operations in different Islamic countries. While the countries of Iran and Pakistan have implemented Islamic Banking in the whole banking sector, other countries have permitted Islamic Banking institutions operate with the other traditional banks.

There are thirty-one Islamic Financial Institutions and "interest-free mode of financing" which are practical and more than 48 countries as well as more than 300 Islamic Banks are working on these non-interest modes and interest-free methods all over the globe. The international Islamic Financial Institutions are providing a wide range of services in accordance with the basic principles of Shari'ah. The products are Mudaraba, Murabaha, Musharaka, Ijarah, Istisna and Salam.

Conventional banks operate under the concept of lender-borrower relationship where interest is considered as the rental income on capital. The depositors are assumed to be capital providers. Profits of the banks are distributed at the discretion of the bank



managements. But the Islamic Banks follow the concept of Mudaraba (profit sharing) based on investor entrepreneur relationship. Here Islamic Banks consider depositors as entrepreneurs. The profits generated through this relationship are divided between the two parties as per agreed ratio.

Further, researchers divide Islamic Bank customers into three broader categories (a) religiously motivated customers (b) high profit motivated customers (c) customers who are religiously motivated but also expect returns at least similar to conventional banks. Customers of second and third categories generally dominate in terms of numbers in any Islamic bank. They expect returns on deposits similar to conventional banks.

In the money market, the main objective is to meet short-term liquidity requirements. The market facilitates banks with deficit in cash to borrow from the banks having surplus money. Islamic money market conducts a similar function of meeting the short-term liquidity needs. Instead of interest, it allows Islamic Banks to share surplus capital on profit-sharing basis.

Islamic and conventional money markets can be assumed to offer similar returns on investments. Low returns in Islamic money markets may badly affect the overall profitability of Islamic Banks in the initial stages of their development. Even if, Islamic money market offers returns higher than conventional market, the Islamic Banks may still not enjoy an advantageous position.

According to the Institute of Islamic Banking and Insurance, there are more than 300 Islamic Financial Institutions in the world. These institutions are working in the following

countries: Albania, Algeria, Australia, Bahamas, Bahrain, Bangladesh, and British Virgin Islands, Brunei, Canada, Cayman Islands, Cyprus, Djibouti, Egypt, France, Gambia, Germany, Guinea, India, Indonesia, Iran, Iraq, Italy, Ivory Coast, Jordan, Kazakhstan, Kuwait, Lebanon, Luxembourg, Malaysia, Mauritania, Morocco, The Netherlands, Niger, Nigeria, Oman, Pakistan, Palestine, Philippines, Qatar, Russia, Saudi Arabia, Senegal, South Africa, Sri Lanka, Sudan, Switzerland, Tunisia, Turkey, Trinidad and Tobago, United Arab Emirates, United Kingdom, United States, Yemen.

Research Objectives

- ❖ To study investment avenues for Muslim according to Shari'ah principles.

Sub objectives

- ❖ Whether Muslims invest in financial Products or not
- ❖ The reasons for not investing
- ❖ Products in which they invest
- ❖ Frequency of investment
- ❖ Average tenure of investment
- ❖ Expected rate of return

Methodology:

Sources of Data: The obtained for the study is primary in nature as the data is collected from primary sources of data collection like questionnaire and observations.

The data was obtained from the businessmen, professionals investors of Jammu and Kashmir. Population, investors and professionals.

Sample size: Convenience sampling; no sampling technique was used to arrive a sample rather it convenient suiting the



use. The sample size for the study is 200 respondents.

Limitations

- ❖ This being a convenience sample, the analysis may not be a true picture of the target population.
- ❖ Lack of human power needed for collecting information from respondents.
- ❖ Biasness or prejudice of some of the respondents regarding any sort of the information which is required for such study.
- ❖ Not much of importance was attached to this task by some of the respondents. We were greeted with either reluctance or nonchalance.

Education qualification of investors.

Table 1 : Education qualification of investors.

Educational Qualification	Frequency	Investing	Percentage	Not Investing	Percentage
SSE	56	30	53.57	26	46.43
HSE	24	20	83.33	4	16.67
Graduate	96	53	55.21	43	44.79
Postgraduate & Above	24	20	83.33	4	16.67

The purpose of the question is to check the Educational qualification of the investors and non-investors and the

❖ Medium sample size of the respondents.

ANALYSIS OF QUESTIONNAIRE

Age wise distribution of investors

The purpose of the question is to check out the age distribution of the investors as well as non-investors and the results which we got that the tendency of investing is 72.92%, 66.67%, 62.50% & 51.25% in the age group of 50-above, 30-40, 40-50 & 20-30 respectively. Thus we conclude that age group of 50-above are highly investing while as other age groups are moderately investing. While as in non-investing group mostly age group of 20-30 is not investing their savings.

result shows that almost 83.33% is either having educational qualification of HSE or PG & above.

Occupation of investors

Table 2: Occupation of investors.

Occupation	Frequency	Investing	percentage	Not Investing	Percentage
Business	72	42	58.33	30	41.67
Service	88	51	57.95	37	42.05
Professional	16	10	62.50	6	37.50
Others	24	20	83.33	4	16.67



The response of this question shows that business is the main source of income for the investors and the people in service and others are not fully.

Monthly income of investors

Table 3: Monthly income of investors

Monthly Income	Frequency	Investing	percentage	Not Investing	Percentage
0 – 10000	120	64	53.33	56	46.67
10000 – 20000	32	29	90.63	3	9.38
20000 – 30000	24	17	70.83	7	29.17
30000 & Above	24	13	54.17	11	45.83

This graph shows that people having income of 4000-10000 are the major investors' i.e. most of the people who invest are in this income group although people having in between of 10000-20000

are having greater participation i.e. among 32 people in this income range 29 were investing while in case of 4000-10000 range among 120 people only 64 were investing and rest not investing.

Monthly savings of investors

Table 4: Monthly savings of investors

Monthly Savings	Frequency	Investment	percentage	Not Investing	Percentage
1 – 4000	136	81	59.56	55	40.44
4000 – 8000	16	11	68.75	5	31.25
8000 – 12000	32	22	68.75	10	31.25
12000 & Above	16	9	56.25	7	43.75

By analysing this question, the persons having savings of about 4000 – 8000 & 8000 – 12000 monthly invest their saving followed by 12000 & Above in order to appreciate their capital by yields and capital appreciation.

As our survey was in Kashmir and related areas the %age of investors were more than non investors but it may not be true for other areas and our survey was mainly near brokerage houses so this was also one main reason for such a result.

Do you invest your savings?

Table 5 : Amount invested from saved amount of 10000,

Amount	Frequency	Percentage
2000	34	27.64
3000	23	18.7
4000	20	16.26
Others	46	37.39
Total	123	



Here the result shows that 27% invest 2000-4000 from savings into stock market while as 37% were unaware about their investment some people were so

risky that their reply was that invest almost 100% of their savings into equity market.

Investment objective of investors.

Table 6: Investment objective of investors.

Investment Objective	Frequency	Percentage
Capital Gain through long term investment	43	34.95
Capital Gain through short term investment	45	36.6
Trading during a day(Intraday)	25	20.32
Others	10	8.13
Total	123	

We found that most people in J&K to whom we met were short-term as well as intraday traders as the response of some

people was that they wholly depend on this income which they obtain from intraday trading

Investment alternatives for investors.

Table 7: Investment alternatives for investors.

Investment Alternatives	Frequency	Percentage
Equity	55	44.71
Mutual Fund	16	13.0
Debt Instrument	5	4.065
Saving With Banks & Post Office	5	4.065
Commodities	4	3.25
Insurance & ULIPS	30	24.39
Derivatives	6	4.87
Real Estate	2	0.016
Total	123	

Here we found that 44.71% Muslims invest in equity shares and 24% invest in products like ULIPS which in one way or other related with equity. thus we can interpret from the results that muslim investors are risk takers.

Do you invest in single or mixed alternatives?

As described in the previous question it was found that most people invest in a single product i.e equity shares while as small %age of respondents were having multiple alternatives.



Maximum portion of saving of investors goes to.

Table 8: Maximum portion of saving of investors goes to

Max Portion of saving goes to	Frequency	Percentage
Equity	86	69.91
Mutual funds	22	17.9
Real estate	5	4.06
Debt Instrument	6	4.87
Commodities	4	3.25
Total	123	

By analysing this question that the maximum portion of the investors saving goes to equity or Capital Market and to some extent in Mutual Funds, as both these alternatives have higher returns than other investment alternatives.

Which criteria do you consider while taking investment decisions?

Return was the main criteria of the investment. In the survey we found that 54.3% were investing because of this

eason while as 18.6 people take Shari'ah into consideration before investing their saving 26% for tax benefits.

Which external factors influence your investment decision?

During the survey we found that television was the main influencing factor 30.89% respondents were influenced by CNBC-TV among others freinds were the second response.

What is the expected rate of return on your investment?

Table 9: Which external factors influence your investment decision

Expected Rate Of Return	Frequency	Percentage
5 - 10%	43	34.95
10 - 15%	35	28.5
15 - 20%	18	14.63
20% - Above	27	21.95
Total	123	

During our survey we found that 34% muslims investors expect to get 5-10% return on their investment while as 21%

people expect above 20% because of high inflation and other attractive avenues and 14% expect 15-20% return.

What is the frequency of your investment?

Table 10: What is the frequency of your investment?

Frequency of investment	Frequency	Percentage
Daily	57	46.34
Weekly	36	29.3
Monthly	13	10.56
Yearly	17	13.82
Total	123	



We found that intraday trading was the main option of the investors so 46% were daily investors and the weekly monthly and yearly %age was 29%,10.56% and 13% respectively.

How much percent do you invest in equity market?

About 42% people invest their savings into equity market as they are risk aware while as 20% invest their 80% into equity market.

Why don't you invest your savings to get some returns?

Table 11 : Why don't you invest your savings to get some returns

Why people don't invest	Frequency	Percentage
Lack of knowledge	22	28.57
Risk	15	19.48
Religious matter	35	45.45
Difficulty in selection	5	6.49
Total	77	

When asked why they don't invest most of the respondant reply was that are not having so much income and knowledge about the products and because of religion as islam prohibited

interest but when they were asked that parsoli is providing the avenues according to shariah they replied they are unaware about this.

If a company which will be providing avenues according to Shari'ah Principles; what would be your response?

Launch of New Shari'ah Company	Frequency	Percentage
Invest Immediately	27	18.5
Think before investment	83	41.5
Consult Company	25	12.5
Others	65	32.5
Total	200	

In the survey we found that majority of investor response was that they will invest after investigation about the product and the company while as 18% believe that they would invest immediately after the launch of the Shari'ah based product.

The purpose of this question was to check out the responses of the respondents about the new investment opportunities which are likely to be offered in future. The responses regarding the parameters were primarily regarding to know about the product and the benefits and most of the respondents about 80% of the population were willing to invest in these products when they will be launched into the market

Suppose a new opportunity like Islamic Banking or Hajj Fund is available in market, what parameters you would like to evaluate the opportunity?

Do you have knowledge about companies providing products according to Shari'ah principles?



100% of the population till now responded that there is a very less no. of companies which are providing Shari'ah compliant products. Regardingly company can benefit itself by launching new products such as HUIJ Fund and Islamic Banking and they will not only benefit the company but will help the Muslim population to achieve the economic as well as religious benefits and with this the customer base of its clients will also increase.

Findings:

- ❖ The least involvement of Muslims in stock market is either because of religious matter or because of not having surpluses.
- ❖ We found that more than half portion of Muslim does not invest in any financial product.
- ❖ Lack of knowledge regarding Islamic Investment Avenues.
- ❖ Most Muslims in spite of having knowledge regarding the Shari'ah Compliant Avenues, they prefer to invest in Non Shari'ah compliant Products.
- ❖ Main influencing factor related with investment was by friends and CNBC TV.
- ❖ People who are satisfied are highly satisfied & the people who are not satisfied are highly dissatisfied.
- ❖ Muslims can be potential for the company, if tremendous campaign appealing to invest is run among Muslims.
- ❖ Businessmen prefer reinvest in businesses rather than investing in financial products.
- ❖ Most of Muslims are aware of Shari'ah principles and try to follow

those principles fully or partially. This is also one constraint for investment.

Conclusion

Live on the earth as you have to spend hundreds of years here & prepare for thereafter as if you are going to die now. This shows that Muslims should invest so that they can make their both worlds good. Feeding hungry, supporting needy the virtuous deeds in Islam can only be executed only when one is having sufficient corpus & investment is one of the main gateway for assimilation of corpus. Investment in Real estate/properties, though permissible in Islam, has got inherent disadvantages over equities. First, because of the unit size, it is not possible for every individual to buy property since the cost involved is huge whereas, one can invest inequity (the Shari'ah way) for an amount as low as Rs. One thousand and there are no upper limits. Secondly, property is subject to a lot of legal paper work and one has to go through a very cumbersome procedure to acquire properties. However, it is very easy to buy and sell shares by being a member of a SEBI registered broker. So buying and selling shares is as easy as snapping your fingers. Finally, there is often a threat of encroachment of the property which involves costly litigation. Equity shares have a big advantage here since the stocks purchased get directly deposited in the investor's Demat account where it is in the safe custody of the custodian and he can sell them when ever and as much as he wants to sell.

Precious metals (gold, silver, platinum) investments are permitted in Islam. But from the point of view of economics and return on investments, these precious metals can at best beat the inflation and since they are globally traded with prices being affected by



global demand and supply, the price and value does not reflect the economic growth of the nation. Hence, more often than not, it under performs the domestic economy growth. And since the Indian economy is on a long term growth path, Muslims are suggested to invest in Shari'ah compliant stocks.

- ❖ www.financeinislam.com
- ❖ www.islamicnews.com

A further problem with precious metal is the warehousing because if they are not safely stored, then it will always be susceptible to theft. Stocks are kept safely in the Demat account held with the custodian. One more point that goes in the favour of equity stock markets is the Capital gains tax advantage. There is no capital gains tax for long term investors i.e. if the investment is held for more than one year. And for the short term investments of less than a year, investors have to pay only ten percent tax on its gains. Muslims must take advantage of this benefit and invest in stocks that would help them create wealth in the long term the Shari'ah way.

There is a misconception that investment in stocks is not permissible in Islam and it is often said that it is 'Haram'. Islamic scholars over a period of time have laid down certain parameters for investing like the Economic activities and financial ratios. Stocks which fulfil these parameters should be invested in by the Muslims the 'Shari'ah way'.

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