

# Chapter 22

## A Qualitative Study on Challenges and Solutions of *Sharī'ah* Mutual Funds in India: Experts Opinions

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### Abstract

India is among those countries where Muslims have been looking for *Sharī'ah* compliant investment opportunities to bring themselves from marginalized sector of economic to mainstream with appropriate protection, regulation, and transparency. Presently, only two *Sharī'ah* complaint mutual funds are available regardless of the massive potential and prospects. Nevertheless, these funds have not been effective in their endeavours. Thus, the objective of this research is to examine the challenges of *Sharī'ah* mutual funds in India from which it then proposes solutions to overcome those challenges. This study adopts a qualitative method wherein primary data is sourced through interviews. In addition, convenience and judgemental sampling approaches are employed, and the findings are analysed using thematic analysis. A total of nine interviews have been led in which four from mutual funds companies and five from *Sharī'ah* finance experts are analysed in this research. The findings identify the political challenge, lack of confidence, awareness, education, lack of demand, and lack of human capital as the key challenges for the fluctuation of *Sharī'ah* mutual funds in India. Religious-based terminologies, lack of proper *Sharī'ah* governance, and absence of marketing strategies are also major challenges. Further, the valuable suggestions gathered through interview have been proposed.

### 1.0 Introduction

The creation of Islamic mutual fund or *Sharī'ah* mutual fund as an alternative to conventional mutual funds enables Muslim investors to find *Sharī'ah* compliant avenues for investment. *Sharī'ah* principles guide and screen asset allocation of Islamic mutual funds by applying screening methodologies set by global Islamic index providers (Htay

et al., 2013; Jamaluddin, 2013). This is where the Islamic mutual funds industry distinguishes itself from conventional mutual funds. Conventional mutual funds can be operated freely without restrictions to investments in elements prohibited by Islam and thus shall be excluded by Muslim investors. By this exclusion means that Muslim investors will not be able to take part in an essential section of the world financial system (Omar et al., 2013).

As compared to conventional mutual funds, Islamic mutual funds are regulated and monitored by *Shari'ah* principles where pooled funds cannot be invested in conventional derivatives (swaps, futures, options) and short selling. Similarly, they are restricted from investing in such stocks of companies that are not *Shari'ah* compliant and not approved by any screening standard (El-Masry et al., 2015). The Islamic mutual fund industry is growing rapidly within the Islamic financial system. Nevertheless, compared to the global conventional mutual fund industry, the Islamic mutual fund industry is still in its early stages of development and maturity. Thus, the global Islamic mutual funds in 2013 with 786 active funds and USD 46 billion, represents 3% of total global Islamic finance assets (Thomas Reuter, 2014). Since the Islamic mutual fund industry is growing globally, a number of countries have launched *Shari'ah* mutual funds. India is among those countries where Muslims have been seeking *Shari'ah* compliant investment opportunities to bring themselves from marginalised sector of economic to mainstream with proper security, regulation, and transparency.

India is a multi-cultural, multi-ethnic, and multi-lingual country. It is indeed one of the fastest emerging destinations for investment. According to International Monetary Fund (IMF), the GDP growth was 7.2% in 2014/2015 (IMF, 2015). This is initially due to economic reform and infrastructure development process adopted by the Indian government. India is the second highest populated country after China and the second largest country for Muslims after Indonesia (Htay and Salman, 2013; Htay and Salman, 2014; Salman et al., 2015). In 2010, Indian Muslims represent 14.4% of Indian's population (180 million). A recent study by Pew Research (2015) indicates that India is projected to have the world's largest Muslim population in 2050 (311 million).

In 2009, SEBI approved the first fully *Shari'ah* compliant mutual fund scheme launched by Taurus Mutual Fund followed by Tata Ethical Fund (Nisar, 2015). Currently, only these two funds are available despite the huge potential, demand, and substantially good performance of these

funds. However, these funds have not been successful in their endeavours to outreach the Muslim investors. The majority of Muslims are still isolated from mutual funds due to lack of awareness, little information of the existence of mutual fund options, and inadequate *Sharī'ah* mutual fund schemes.

The State Bank of India in 2014 has prepared to launch its first *Sharī'ah* mutual fund in India. The primary objective of the product was to bring Indian Muslims into India's mainstream financial system and enable them to participate in economic development. This product received huge acceptance and was welcomed by Indian Muslims due to its credibility as it was backed by the government's largest financial institution. However, the offering was deferred as an official of State Bank of India (SBI) Mutual Fund said that, "based on the suggestions received from participants in the pre-launch meetings, it was decided to review the structure of the SBI *Sharī'ah* mutual fund". Following this, it is expected that the product, when released, will have a comprehensive structure (Nisar, 2015; Times of India, 2017).

The prime objective of the mutual fund is to attract middle and low-income groups and enable them to participate in the capital market activities. In contrast, even after a long experience and practice of conventional mutual fund in India, the majority of people are still not part of this system. Similar issues exist in *Sharī'ah* mutual funds as they failed to attract Muslim investments. After almost two decades, *Sharī'ah* mutual funds have not exceeded more than two funds. This led the researcher to investigate why the number of *Sharī'ah* mutual funds is not increasing. Despite the potential of *Sharī'ah* compliant mutual funds, they face many issues and challenges. These challenges shall be examined and addressed to facilitate the launch of other *Sharī'ah* mutual funds in India. This chapter is systematized in six sections. Section two addresses the overview of *Sharī'ah* mutual funds in India and section three examined the literature review. Section four discusses the research methods and section five deliberates the results and last section completes the chapter.

## **2.0 *Sharī'ah* Mutual Funds in India**

Muslims constitute around 14.2% of the total population in India (Census of India, 2011). The demographic factors along with the sound growth of Indian financial markets present significant prospects for global players as well as Indian Muslims to participate in financial

activities that are in line with *Sharī'ah* parameters. To achieve financial inclusion of poor and middle class (Muslim and non-Muslim households) *Sharī'ah* compliant mutual funds were introduced to the Indian capital market. The Reserve Bank of India (RBI) defined financial inclusion as the “process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low-income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players” (Sairam, 2013). Nevertheless, only three *Sharī'ah* mutual funds have been introduced and approved by SEBI.

## 2.1 Taurus Ethical Fund

Taurus mutual fund is a private sector mutual fund registered with SEBI. In 1993, it was constituted as a trust under the Indian Trust Act 1882. The Taurus Investment Company Ltd became the trustee for the mutual fund company (Taurus Mutual Fund, 2017) that issued Taurus Ethical Fund which is an open-end equity scheme that was launched in 2009. Through the scheme, the pooled funds are invested in *Sharī'ah* compliant companies.

The Standard and Poors BSE *Sharī'ah* Index is the benchmark index for the scheme as pooled funds are invested in listed stocks (Taurus Mutual Fund, 2017). With regard to the screening methodology, funds are screened based on sector as well as accounting aspects. Non-*Sharī'ah* compliant companies are excluded while the accounting sector comprises three measures: (1) leverage compliance, (2) receivables and cash compliance, (3) revenue share from non-compliant activities (Taurus Mutual Fund, 2017). According to the Fact Sheet (2015), Mr. Sadan and Shetty are the fund managers (Taurus Mutual Fund, 2017). The details regarding the *Sharī'ah* advisory board or *Sharī'ah* advisors are not provided in the official website.

Tripathi and Bhandari (2015) compared the performance of ethical mutual funds offered by Taurus mutual funds with conventional funds. They examined the performance of five Taurus ethical fund schemes and concluded that irrespective of the high risk involved in ethical mutual fund schemes, various Taurus ethical funds outperformed their conventional counterparts and benchmark.

## 2.2 Tata Ethical Fund

Tata is among the leading companies in India and considered a prominent mutual fund company in India. Its ethical fund was launched in 1996 as an open-end equity scheme that intends to invest in *Sharī'ah* compliant growth-oriented companies (SEBI, 2017). The funds avoid investing in such companies with high debt to equity ratio. The revenues generated from non-*Sharī'ah* activities are purified yearly by the *Sharī'ah* advisory board which is led by Hussain Hamid Hassan (Tata Mutual Fund, 2017).

## 2.3 State Bank of India (SBI) *Sharī'ah* Equity Fund

The State Bank of India has an experience of 25 years in the mutual fund industry and is considered a prominent government backed mutual fund company. It has been managing 20 equity schemes, 17 fixed income schemes, two ETF schemes and one fund of fund scheme. The pooled funds are invested in other mutual funds instead of investing directly in shares.

In 2014, the SBI announced the launch of its first *Sharī'ah* based mutual fund scheme. According to the prospectus, it is an open-ended equity scheme that aims to provide medium to long term capital gains by investing in *Sharī'ah* compliant equity and equity-based instruments. Similar to other *Sharī'ah* mutual funds, Standard and Poors BSE *Sharī'ah* index is the benchmark. The funds shall refrain from investing in non-*Sharī'ah* compliant instruments including securitised debt, short selling, and securities lending and derivatives (SEBI, 2017).

Similar to the other existing *Sharī'ah* mutual funds in India, the screening process comprises sector based as well as accounting-based criteria. In addition, *Sharī'ah* advisors are obliged to screen stocks according to qualitative parameters. In this context, the *Sharī'ah* advisory board who is led by Rahmani is responsible on *Sharī'ah* structuring, issuance of fatwa, *Sharī'ah* review of legal documents, *Sharī'ah* screening of stocks, and *Sharī'ah* audit.

Despite its good potential, this product was deferred without any official reason announced to the public (Nisar, 2015). If this product was to be issued, it may positively have brought the Muslims from marginalised sectors of the economy into the financial activities in India. Subsequently, this may result in economic growth and uplifting middle class households.

### 3.0 Literature Review

There are many research works comparing Islamic and conventional mutual funds. El-Masry et al. (2015), while comparing the performance in Middle East and North African region (MENA), signified that the performance of Islamic mutual funds, on average, is below to that of conventional funds. However, the result is opposite in GCC countries as Islamic mutual funds outperform the conventional. The method of linear model with multiple benchmarks is applied in this research which consists of 336 funds from 2006 to 2013.

Nonetheless, different studies have been carried out in various countries including Malaysia, Saudi Arabia, and Pakistan. Razzaq et al. (2012), Mansor and Bhatti (2011), and Hoepner et al. (2011) have come up with comparative performance between Islamic and conventional mutual funds in various countries. The overall results of these studies indicate that Islamic mutual funds are less exposed to market risk compared to conventional equity mutual funds such as in Saudi Arabia. Similarly, Islamic mutual funds have significant growth as evident in Saudi Arabia and Pakistan. Moreover, in different market trends no significant difference is noticed. While in crisis Islamic mutual funds were less affected. In terms of overall performance, Islamic mutual funds in Malaysia performed better over the period of study. Last but not least, Islamic mutual funds are competitive with conventional mutual funds in 20 countries. In particular, Islamic funds from the GCC countries and Malaysia performed competitively and above international equity market benchmarks.

Meanwhile, Abdelsalam et al. (2014) compared Islamic mutual funds with socially responsible investment funds (SRI). The analysis is carried out in two stages. Firstly, partial frontier methods are employed to evaluate the performance of mutual funds. Second, regression method is applied for comparison between Islamic and SRI mutual funds during 2001 and 2011. According to the study, average efficiency of SRI funds is to some extent higher than the Islamic funds. Similarly, for the best mutual funds it is evidenced that Islamic funds perform better than SRI.

Similar to the previous studies, a comparative study has been carried out to evaluate ethical and conventional funds in India. In India, *Shari'ah* mutual funds are branded as ethical funds and until now only two ethical funds have been in performance. Tripathi and Bhandari (2015) evaluated ethical funds of Taurus mutual funds with general

funds and the benchmark index. The authors mentioned that in India ethical funds generate higher returns than general funds even with the high risk ethical funds were capable of performing better. This study indicated the increase interest of mutual funds in India on ethical and SRI investments.

It can be concluded by reviewing the literature that Islamic mutual funds are considered competitive not only in Muslim countries but in non-Muslim countries including India. India with a sound economic base, offers a great opportunity for Islamic equity investment. Jamaluddin (2013), found that there are more than 800 *Shari'ah* compliant stocks on the Indian stock exchange. This invites fund management companies to introduce more *Shari'ah* mutual funds in India. However, it can be deduced that none of the studies are carried out to examine the challenges of *Shari'ah* mutual funds in India.

#### **4.0 Research Methodology**

This study examines the challenges of *Shari'ah* based mutual funds in India where a qualitative method is adopted. Qualitative research is concerned with evaluation of attitudes, views, opinions, and human behaviour. The study requires people's knowledge, their views and experiences. The questions formulated in this study can only be answered by interviewing Islamic finance experts as they have detailed and comprehensive knowledge of *Shari'ah* tenets and *Shari'ah* screening methodologies applied in stock screening, investment processes, and purifications of mutual fund portfolios. Similarly, experts from mutual funds companies were approached as they are engaged in Indian capital market, to know their opinions and suggestions.

Therefore, conducting interviews with Islamic finance experts and mutual funds companies including *Shari'ah* mutual fund companies is the ideal and best approach to meet the research objective. Interview is a tool for qualitative research and a large number of social science research rely on interview data. The advantage of preferring interview over distributing questionnaires is time constrains that dictate researchers to select interviews (Creswell 2013). The semi-structured interview is conducted with 5 Islamic finance experts and 4 mutual fund companies dominating the mutual funds industry in India. The researchers have adopted non-probability sampling among others (Sekaran and Bougie, 2013). A mixture of convenient sampling and judgemental sampling method is used for selecting Islamic finance experts, conventional mutual

fund companies and *Sharī'ah* mutual fund companies. It permits the specialists to deliberate in depth during the interviews and researchers to select the respondents who are fit for the specific purpose or expertise in the area of research.

Out of 9 interviewees, 7 interviews are conducted through face to face interview. five of them acceptable soundtrack the interview while the rest did not. Moreover, 2 of the interviews are completed through phone calls. All the interviewees are holding the positions in the mutual fund companies at the least level of assistant manager. The overall time for each individual interview is in the range of 40 minutes to 1 hour. Records are taken during the interviews, and the researcher listened to the recorded interview data two times. The data is reviewed and transliterated in a written form. The data is arranged by questions to look at all applicants and their responses to organize cohesions and differences.

In examining the interview outcomes, thematic approach is used. According to Alhojailan (2012) and Attride-Stirling (2001), it permits scholars to understand the matters more widely and deeply. It is a suitable qualitative analysis method (Fereday & Muir-Cochrane, 2006) and it is appropriate to explore thoughts, experience and opinions of the theme from more than one participant for each issue. Hasan (2014), Kasim et al. (2015) and Salman et al. (2017) used the thematic approach in their research. The coding is used to simplify in presenting the interview results (Hasan, 2014), for example, Islamic Finance Expert is assigned as "IFE" and thus, "IFE 1" refers to number 1, "IFE 2" refers to the Islamic finance expert number 2 etc. This study applies the thematic approach in examining the contents of the interview data.

## 4.1 Findings

The primary objective of the study is to examine issues and challenges of *Sharī'ah* mutual funds in India and to propose suggestions after crystallising the issues and challenges. The researchers believe that *Sharī'ah* mutual funds have a high potential in the Indian market that will result in financial inclusion of the Muslim community and boost the Indian economy. However, despite the huge potential of *Sharī'ah* mutual funds in India, the issues and challenges have not been examined nor explored. To achieve this end, it is believed that the Islamic finance experts and mutual fund companies can better impart opinions and highlight the issues in addition to suggestions and proposals.



#### 4.1.2 Profile of the Respondents

A total of 16 experts was approached for the interview; out of that 5 Islamic finance experts accept to be interviewed and 4 officers from Mutual funds companies. This represents 56% of the total Islamic finance experts and mutual fund companies approached. The total number of interviewees is 9 and all of them are male. In the case of marital status, one is single, and the rest are married. All the interviewees are holding the position in the mutual fund companies at the minimum level of assistant manager/officer. Five of them are currently advising the Islamic financial institutions in India and outside India.

### 5.0 Analysis and Discussion on the Findings

The responses collected through interviews on issues and challenges of *Sharī'ah* mutual funds in India are presented based on thematic analysis in the following section.

#### 5.1 Issues and Challenges of *Sharī'ah* Mutual Funds in India

Question 1: *What are the difficulties and challenges faced by Sharī'ah mutual funds in the Indian context?*

This question was put forward about the issues and challenges faced by the *Sharī'ah* mutual funds in India. All of the respondents highlighted multiple issues and challenges based on their experience. There are 11 major issues highlighted in the themes. In each theme, other issues expressed by different respondents are mentioned.

The following Table illustrates the major themes of challenges with the number of respondents. For instance, the respondents highlighted similar challenges in different ways and expressions, hence, the researchers mentioned the theme of the challenges and listed those challenges expressed in different ways under its themes.

Table 1: The Issues and Challenges

Themes	Respondents	Challenges
Lack of Human capital	IFE 1 & 5	<ul style="list-style-type: none"> <li>• Lack of expert fund managers having necessary understanding about managing <i>Sharī'ah</i> funds</li> <li>• Not having enough competent workforce which is very important for any products to tap the market</li> </ul>

High risk	IFE 1, 3, 5 & 9	<ul style="list-style-type: none"> <li>• Investor's attitude towards risky products</li> <li>• <i>Sharī'ah</i>-compliant funds are always high risk</li> <li>• Markets over the past years have been volatile</li> <li>• Competition with existing conventional mutual funds</li> </ul>
Political challenge	IFE 4, 5 & 7	<ul style="list-style-type: none"> <li>• Political influence in disapproving religious based products in secular country such as India.</li> </ul>
Marketing challenges	IFE 1, 2, & 8	<ul style="list-style-type: none"> <li>• Convincing people regarding the <i>Sharī'ah</i> compliance</li> <li>• Lack of marketing and advertising of products</li> <li>• There is no distribution network for <i>Sharī'ah</i> compliant schemes</li> </ul>
Lack of confidence	IFE 1, 2, 3, 4, 6 & 7	<ul style="list-style-type: none"> <li>• Community lacks trust in the existing schemes</li> <li>• Most of the fund managers are still not convinced of the market potential</li> <li>• Lack of confidence among fund managers and companies regarding the mechanism of <i>Sharī'ah</i> compliant funds</li> <li>• Trust deficiency among investors on <i>Sharī'ah</i>-compliant products</li> <li>• Negative growth of <i>Sharī'ah</i> mutual funds</li> </ul>
Lack of awareness	All interviewees	<ul style="list-style-type: none"> <li>• Lack of awareness about the availability of <i>Sharī'ah</i> funds</li> <li>• Lower public participation due to lack of awareness and trust</li> </ul>
Lack of education	IFE 2 & 9	<ul style="list-style-type: none"> <li>• Lack of sufficient literacy, education among public about Islamic finance and <i>Sharī'ah</i> compliant mutual funds</li> <li>• Lack of knowledge and understanding among <i>Sharī'ah</i> scholars about fund management and market practices</li> </ul>
Lack of demand	IFE 1 & 3	<ul style="list-style-type: none"> <li>• There is no demand</li> <li>• No encouragement, acceptance from investors</li> </ul>
Religion based terminology	IFE 8 & 9	<ul style="list-style-type: none"> <li>• Religion based product in a secular country</li> </ul>
Non-existence of <i>Sharī'ah</i> governance	IFE 5, 6, 7, 8 & 9	<ul style="list-style-type: none"> <li>• Fiqh rigidity generally among <i>Sharī'ah</i> scholars</li> <li>• Huge gap between practitioners and <i>Sharī'ah</i> scholars</li> <li>• Lack of universal regulation about <i>Sharī'ah</i>-compliant products</li> <li>• no compulsion on having <i>Sharī'ah</i> governance under the existing regulation</li> <li>• Lack of transparency and disclosure regarding <i>Sharī'ah</i> compliance</li> </ul>
Small industry	IFE 3 & 4	<ul style="list-style-type: none"> <li>• Smaller number of <i>Sharī'ah</i>-compliant investment schemes</li> <li>• Lack of <i>Sharī'ah</i>-compliant financial schemes</li> </ul>

## 5.2 *Sharī'ah* Mutual Funds: Solutions and Recommendations

Question 2: *How to overcome these challenges?*

The issues and challenges were mentioned in the previous question by the respondents. Having mentioned such issues, the last question was raised in order to know their suggestions to tackle the issues and overcome challenges. In response to this question, all interviewees gave valuable suggestions based on their extensive experience. Before discussing possible suggestions, every issue will be briefly discussed followed by the suggestions provided by the respondents.

### 5.3 Lack of Human Capital

*“Lack of expert fund managers having necessary understanding about managing Sharī'ah funds”* (IFE 1).

*“Not having enough competent workforce which is very important for any products to tap the market”* (IFE 5).

The two respondents believed that even though two *Sharī'ah* mutual funds are available in India, the fund managers and industry players lack necessary information regarding the *Sharī'ah* fund management. This situation causes the issue of human capital. To overcome the issue, respondents emphasised on the need of special training for fund managers and professionals. A series of workshops, conferences, briefings and discussions are to be conducted in every state and city. They felt that in order to tap the market and gain confidence among investors, the mutual funds personnel should have enough knowledge and expertise in the particular field. They added that in the future if *Sharī'ah* mutual funds are further introduced; the workforce demand would be high. Hence, the industry should be ready to supply expert human capital accordingly.

### 5.4 High Risk

The issue was highlighted by four respondents (IFE 1, 3, 5 & 9).

*“Sharī'ah compliant funds are always high risk”* (IFE 3).

With regard to this challenge, the respondents suggested that the distinguished feature of *Sharī'ah* mutual funds is that it is based on profit and loss sharing under the concept of *Musharakah* contract. Since the

mutual funds are equity-based funds and are exposed to market risk, the investors in India found it to be very challenging as they are not familiar with such a risk. Though it is always mentioned that diversification mitigates such risks, investors are not convinced.

In order to overcome this issue, the respondents suggested that investors shall have faith and confidence in profit and loss sharing products. Further, there is a need to change the attitude and perception of investors from interest to profits wherein they shall be aware and taught that equity funds are risk sharing products and exposed to market risks even after diversification. In this regard, the respondents appreciated that this concept is established and well accepted in Islamic finance. Introducing *Sharī'ah* mutual funds can change the mind-set of people, particularly investors.

*“Markets over the past few years have been volatile”* (IFE 5 & 9).

It was expressed by another two respondents that the market over the past few years was very volatile. This affects the *Sharī'ah* mutual funds in terms of returns and performance. Fund managers are responsible to mitigate such risks involved in *Sharī'ah* mutual funds as they are exposed to high risks. The fund managers were requested to consider the market of other countries such as Malaysia and GCC countries where the *Sharī'ah* mutual funds are dominant.

## **5.5 Political Challenge**

*“Political influence in disapproving religious based products in secular country such as India”* (IFE 4, 5 & 7).

Three respondents who expressed that the political environment in India could be an issue in order for *Sharī'ah* mutual funds to be welcomed and supported by the government. They elaborated that any kind of product in the name of religion might cause hurdles to be accepted. All three respondents mentioned the deferment case of *Sharī'ah* mutual fund that was about to launch in 2014 headed by the State Bank of India (SBI). Though the SBI mutual fund did not mention any reason, the drift and tone of the articles and views appeared on the electronic, print, and social media lead one to suspect that the fund was politicised and deferred consequently.

To tackle the issue, a respondent (IFE 4) suggested that, “highly influential people with very good links with the political parties should

be on the board of the company of the mutual fund. These people should be able to solve the problems and settle the issues related to the political events”.

While the other (5) respondent further added that the industry shall seek help from those politicians who are in favour of *Sharī'ah* mutual funds. The respondent recalled the initiative, support and steps taken by some politicians who represented the issue in the parliament and brought it into consideration.

One respondent (7) suggested that political parties have concern over the terminology used for the product. Thus, any product with a name that does not indicate any religion will be accepted and welcomed by all parties. Therefore, there is a need to rebrand the product and make it attractive using marketing strategies without tying it up with religious names or terminologies.

## 5.6 Marketing Challenges

Three (IFE 1, 2, & 8) respondents expressed concerns on issues related to marketing and promoting *Sharī'ah* mutual funds. They collectively highlighted that none of the marketing strategies were adopted in order to tap the market and generate awareness of the availability of *Sharī'ah* mutual funds. Advertisements were never seen to promote such funds. Further, a respondent (IFE 2) mentioned that the distribution network for marketing and selling the product is lacking.

One respondent (IFE 8) stated, “this can be overcome by appointing local *Sharī'ah* scholars on the *Sharī'ah* board of these mutual funds. Secondly, Imams of mosques and the public have to be educated, and this can be done through awareness and educational programs. Mutual funds can consider these awareness and educational programs as part of their marketing campaigns. Thus, the respondent emphasised on the need of having *Sharī'ah* scholars on the board to gain confidence of the public and thus boost up the marketing of the products.

Apart from using marketing strategies and tools as suggested by all the three respondents, one respondent (1) added that the mutual funds shall highlight the distinguished features of *Sharī'ah* mutual funds and convince them that this fund has the ability to give higher returns and profits. For instance, the respondent mentioned one feature which is the stability of the *Sharī'ah* mutual fund as compared to conventional fund.

## 5.7 Lack of Confidence

The issue was highlighted by six (IFE 1, 2, 3, 4, 6 & 7) respondents. They felt that regulators, fund companies, investors, distributors, brokers, and *Sharī'ah* scholars are not confident about *Sharī'ah* mutual funds. It was expressed by a respondent that the trust deficiency was observed while talking to investors due to the negative growth of mutual funds in past years. While another respondent (4) mentioned that according to the portfolio, there were many investors from different religions who were also having the same issue of confidence. Good performance of the portfolio and sound returns increased the confidence level.

The respondents (IFE 1 & 3) suggested that, “advertisements, carrying out meetings, and circulating flyers about *Sharī'ah* mutual funds can alleviate the issue”. Another respondent (IFE 6) added that while marketing and convincing investors, the product shall be explained completely with necessary details. Further, it was suggested that market research may call the attention of fund managers and investors to explore the *Sharī'ah* mutual funds potential. Finally, marketing, disclosure of performance, and necessary data related to *Sharī'ah* compliance will increase the confidence level of all groups.

## 5.8 Lack of Awareness

All the interviewees highlighted the awareness issue and proposed solutions. All of them collectively proposed to increase public awareness by conducting awareness programs, workshops, conferences, seminars, and public meetings. Two respondents (IFE 1 & 4) suggested proper marketing and promoting *Sharī'ah* mutual funds. In addition, the mutual fund companies should market their product in multinational companies to tap the possible market.

Two respondents (IFE 2 & 9) emphasised education through which the awareness could be guaranteed. Further, a respondent proposed including literature of Islamic finance and *Sharī'ah* funds into the syllabus of finance and banking courses.

## 5.9 Lack of Education

In addition to the suggestions given under the awareness issue, a respondent (IFE 9) suggested that Islamic finance should be taught in colleges, universities, and Islamic schools. He highlighted the pressing

need to prepare the syllabus accordingly. Further, the respondent (IFE 9) proposed integration among *Sharī'ah* scholars and practitioners and bridging the gap in both communities. He suggested that training sessions and workshops are the most suitable platform where both *Sharī'ah* scholars and practitioners from the industry are engaged for teaching and learning.

### **5.10 Lack of Demand**

Two respondents (IFE 3 & 4) believed that demand is crucial for every product to get the acceptance and approval from regulators and mutual funds. Thus, IFE 4 suggested that, “demand is very important for every development of product if Muslims become aware of *Sharī'ah* based products available for them in India and they start investing, the demand will be high and ultimately it will appeal the regulators and fund companies to introduce *Sharī'ah* compliant products”.

He asserts on the need to talk to regulators, fund companies, distributors and to introduce tax saving schemes. There is huge demand for tax saving schemes in India and we need to promote that these *Sharī'ah* compliant products are tax saving. Further, there are some products that are by default *Sharī'ah* compliant. For instance, Reliance Group Support Services (RGSS) 2012-2013 is a gold fund and by default is a *Sharī'ah* compliant product. Another respondent (IFE 3) added that this is the right time for mutual fund companies to introduce *Sharī'ah* compliant funds and increase the market size in order to open the industry to competition.

### **5.11 Religious Based Terminology**

The issue was raised by two respondents (IFE 8 & 9) that the product should not be branded with heavy Islamic terminologies that make other communities feel that the product is exclusively for Muslims. Thus, in response, all of them expressed that, “any product particularly in any secular country like India should not be named or labelled based on any religion. Many secular countries have adopted this kind of attitude where they do not use religion-based names or brands. If any product that gives religious perception, people will not prefer to invest in that product ultimately this product will be restricted”.

The respondents further suggested to highlight the features of *Sharī'ah*-compliant fund instead of focussing on brand or religious name. In addition, the interviewee suggested that “Non-Dividend Yielding Fund” could be the ideal name for branding.

## 5.12 Non-Existence of *Sharī'ah* Governance

There are several issues mentioned by (IFE 5, 6, 7, 8 & 9). One of the respondents mentioned that though the existing regulations are sufficient in order for *Sharī'ah* compliant mutual fund to operate, there is no compulsion on having *Sharī'ah* governance under the existing regulation. The respondent explained that the reason behind not including *Sharī'ah* governance under the regulation, “conceding supremacy to *Sharī'ah* scholars as against regulators”, is the risk that regulators are afraid of (IFE 5). However, due to this, other *Sharī'ah* related issues emerged as mentioned by (IFE 7 & 9) such as lack of transparency and disclosure regarding *Sharī'ah* mutual funds.

One of the respondents (IFE 6) mentioned that both existing *Sharī'ah* mutual funds do not have proper disclosure of *Sharī'ah* governance and screening process of *Sharī'ah* funds. He further, mentioned that only one *Sharī'ah* mutual fund has uploaded a certificate of *Sharī'ah* compliance from *Dar-al Sharī'ah*. The certificate was issued in 2014 and was not renewed annually. Apart from the certificate, the screening process and other *Sharī'ah* related information were not disclosed.

The same respondent expressed his concern over the gap between *Sharī'ah* scholars and practitioners. According to him, *Sharī'ah* scholars usually do not know the market practices of funds and stock market. Owing to this, they are not able to express their opinions pertaining to *Sharī'ah* issues. Further, *FÊqh* rigidity among *Sharī'ah* scholars cause lack of confidence and has a negative impact on investors. The respondent discussed this issue in the Indian context while another respondent (IFE 7) expressed that there is no universal standardisation in regulations about *Sharī'ah* compliant products.

With regard to the first issue, the respondent (IFE 5) suggested that the SEBI shall include the *Sharī'ah* governance system under the regulation. The credibility of *Sharī'ah* scholars will enhance the investors' confidence. Subsequently, *Sharī'ah* risk can be mitigated.

To overcome the second issue, two respondents (IFE 6 & 7) recommended mandatory appointment of *Sharī'ah* advisory board for every mutual fund and implement *Sharī'ah* governance system wherein the disclosure regarding the screening process and transparency could be guaranteed.



Having mentioned the concern over the *Sharī'ah* scholars and their inability to provide rulings on particular *Sharī'ah* issues, the respondent (IFE 8) recommended *Sharī'ah* scholars to have a proper degree in Islamic banking and finance. *Sharī'ah* and finance knowledge will provide the new human capital to the industry in the form of Islamic finance experts.

Further, one of the respondents (IFE 9) suggested *Sharī'ah* scholars to look at the global practices of Islamic finance and *Sharī'ah* mutual funds in order to follow the harmonised and comprehensive standards provided by the international standard providers. He further recommended research on *Sharī'ah* governance framework that could be proposed to SEBI.

### **5.13 Small Industry**

The issue was highlighted by two respondents (IFE 3 & 4) as they felt that mutual fund industry overall is very small. Despite the huge potential, only two mutual fund schemes are available across the country. In response to the issue, the respondents directly suggested increasing the market size by introducing more *Sharī'ah*-compliant mutual fund schemes.

## **6.0 Conclusion and Recommendations**

This chapter discusses the major findings obtained through interviews with Islamic finance experts and mutual fund companies from India to determine the issues and challenges that exist in *Sharī'ah* mutual funds of India. Despite *Sharī'ah* mutual funds have been in existence for a long time, it was felt that they are not sufficient and have not succeeded in their endeavour. The majority of Muslims are isolated from mutual funds due to lack of awareness, little information of the existence of mutual fund options, and inadequate *Sharī'ah* mutual fund schemes. The striking issues among others are lack of awareness, education, and confidence among investors, regulators, fund companies, and distributors. Small market and low demand from investors are also primary factors that restricted *Sharī'ah* mutual funds. It is noteworthy to highlight the political challenge that cannot be ignored as the respondents expressed their serious concern in this regard during the interview.

The researchers recommend that further study might be extended to examine investor's awareness. For instance, based on the findings, there is lack of awareness, confidence, and education among Muslim and

non-Muslim investors. Thus, the researcher recommends researching investor's awareness and perception towards *Sharī'ah* mutual funds in India. In this regard, the quantitative methods are suggested to be applied for further research.

Further, according to the findings, there are many issues related to *Sharī'ah* compliance. For instance, a proper *Sharī'ah* governance framework is not available for *Sharī'ah* mutual funds in India. Investors are not satisfied with the existing *Sharī'ah* mutual funds and their performance. Therefore, it is suggested for future research that *Sharī'ah* governance framework for *Sharī'ah* mutual funds might be prepared and proposed. Similarly, the performance of existing *Sharī'ah* mutual funds in India could be investigated in future search.

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