CHAPTER 2
REVIEW OF LITERATURE
## CHAPTER 2
### REVIEW OF LITERATURE

<table>
<thead>
<tr>
<th>SR.NO</th>
<th>TITLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>INTRODUCTION</td>
</tr>
<tr>
<td>2.1.1</td>
<td>STUDIES FOCUSED IN THE LITERATURE REVIEW</td>
</tr>
<tr>
<td>2.1.2</td>
<td>STUDIES FOCUSED ON ISLAMIC FINANCIAL PLANNING OF MUSLIM SALARIED PEOPLE AT VARIOUS LEVEL</td>
</tr>
<tr>
<td>2.1.3</td>
<td>STUDIES FOCUSED ON INCOME AND INVESTMENT BEHAVIOUR OF MUSLIM SALARIED PEOPLE</td>
</tr>
<tr>
<td>2.1.4</td>
<td>STUDIES FOCUSED ON ISLAMIC FINANCIAL LITERACY KNOWLEDGE OF MUSLIM SALARIED PEOPLE AS PER SHARIAH</td>
</tr>
<tr>
<td>2.1.5</td>
<td>STUDIES FOCUSED ON THE ISLAMIC INVESTMENT AVENUES AVAILABLE FOR MUSLIM SALARIED PEOPLE BASED ON QURAN PRINCIPLES</td>
</tr>
<tr>
<td>2.1.6</td>
<td>STUDIES FOCUSED ON THE PROBLEMS AND DIFFICULTIES FACED BY MUSLIM SALARIED PEOPLE TOWARDS INVESTMENT IN PRESENT SCENARIO.</td>
</tr>
</tbody>
</table>

REFERENCES 57-63
CHAPTER 2
REVIEW OF LITERATURE

2.1 INTRODUCTION

A review of literature is a text of scholarly papers, articles which includes the status of knowledge of the research area including substantive findings as well as theoretical and methodological contributions in the study. This review of literature deals with past studies conducted on the subject, to generate understanding in the area, extensive review of literature was carried out by the researcher. All the sections of the study have undergone gradual change and evolved at present level. This chapter of the study will discuss about such journey of transformation has led to an evolution of an Islamic financial planning at present level. Many authors have done noticeable work in this context. The history of Islamic thought is an ocean, which has produced many interpretations, many theories and debates. Islamic thought is very rich and was able to address the problems met by Islamic societies. Islamic thought always mirrored the challenges Islamic societies had to face. Islamic thought has been clearly connected to the contemporary problems, Muslims intellectuals has to deal with. This point is important because it shapes the possibilities for present day Islamic thought to address the crisis of capitalism.

Various studies are conducted in the Islamic countries, European countries and Malaysia to analyze the behavior of Muslim salaried people towards Islamic financial planning and management. The review of literature has done to assess the income and investment behavior of Muslim salaried people at domestic, national and international front. Researchers have also studied and examine the Islamic financial literacy knowledge of Muslims. The studies are also conducted to know the problems and difficulties faced by Muslim salaried people towards investment in the present scenario.

The study is conducted in the field of Islamic financial planning of Muslim salaried people and relevant literature is reviewed to find the gap in the literature and accordingly frames the problems, hypothesis and objectives for the research study. This topic deals with objective number seven of the study.

2.1.1. The focus of the literature review is:-

1) Providing background of study focused on Islamic financial planning of Muslim salaried people at various levels.

2) To assess the income and investment behavior of Muslim Salaried people.

3) To study the Islamic financial literacy knowledge of Muslim salaried people as per Shariah.

4) To analyze the Islamic investment avenues available for Muslim salaried people based on Quran principles.
5) To study the problems and difficulties faced by Muslim salaried people towards investment in present scenario.

2.1.2. STUDIES FOCUSED ON ISLAMIC FINANCIAL PLANNING OF MUSLIM SALARIED PEOPLE AT VARIOUS LEVEL

Islamic finance was practiced predominantly in the Muslim world throughout the middle ages. European financers and businessmen later adopted many concepts, techniques and instruments of Islamic finance. In contrast, the term “Islamic financial system” is relatively new, appearing only in the mid-1980s. In fact, all earlier references to commercial or mercantile activities conforming to Islamic principles were made under the umbrella of either “interest free” on Islamic banking. This, no doubt prohibits the receipt or payment of interest as the nucleus of the system, but is supported by other principles of Islamic doctrine advocating risk sharing individual’s rights and duties, property rights and sanctity of contracts. Similarly the Islamic system is not limited to banking, but covers financial instruments, financial markets, and all types of financial intermediation.

There is a debate among the Islamic scholars over the effectiveness of an interest-based banking system. While it is acknowledged that banks play a vital role in the development of the country through their role as financial intermediaries, the question is how interest-based system is performing in this function. In fact, there is even some debate as to whether or not an interest-based system actually contributes to cyclical fluctuations. A new system of banking has emerged, known as a profit-loss sharing which most likely in response to the interest-based banking system debate, but more due to religious beliefs in the Islamic community. Currently this banking system is integrated into over 60 countries throughout the world with over 250 Islamic financial institutions in operation.

1) Mark Andrews (2010) has explained that Islamic finance stated ethos and principles which are based on Quran. Islamic finance offers its customers, a Shariah compliant Islamic financial product and Islamic banking. The primary authority for Shariah principles is Quran which means “the text of God” and it includes the detailed rules covering every aspects of Muslims life including religious, family, community, honesty, fairness, integrity and morality. Islamic finance has several basic principles and rules i.e.; no uncertainty, trade must be in real goods and assets, sellers must be honest, totally frank and actually own what they sell, there can be no speculation or gambling, no trade in prohibited activities like pork, alcohol, armaments, pornography etc. There are many debates about an Islamic finance principally that it is banking for Muslims only. This is not true at all. Anyone can open investment account and apply for the full range of services on offer. The liquidity challenge in Islamic banks is actually a treasury and profitability problem. There is no effective Islamic interbank market and banks cannot lend to or borrow from each other in conventional term as a result a bank that finds itself too many investments or it is short of cash, has limited options in Islamic finance.
2) Siddqui Muhammad N. (2002)\(^2\) has criticized that interest stating that even in commercial loans, the borrower may suffer a loss, yet interest based lending obliges them to repay the principal amount with compound interest. Conversely, the borrower may get huge profits, yet the lender gets only the fixed rate of interest which may likely turn out to be small part of the actual profits. It results in inefficient allocation of society’s resources and increases the inequality in the distribution of income and wealth as it guarantees a continuous increase in the money’s lent out, mostly by wealthy, and puts the burden of bearing the losses on entrepreneur and through loss of jobs on the workers.

3) Alsadek Gait (2007)\(^3\) has explained that Islamic finance- financial institutions products and services designed to comply with the central principles of Shariah (Islamic law) is one of the most rapidly growing segments in global financial services. However, despite its growing importance, it is only relatively recently that attempts have been made to evaluate the attitudes, perceptions and knowledge of current and potential consumers and providers of Islamic financial products and services. This paper provides a synoptic survey of the comparatively few empirical analyses of attitudes, perceptions and knowledge of Islamic finance. This paper also briefly explains that the attitudes, behavior and perception of an individual consumer towards conventional financial services and products.

4) Andrew Worthington (2008)\(^4\) has explained the widespread and extensive analysis of attitudes, perceptional and knowledge of conventional financial institution products and services, the parallel analysis of these same concerns in Islamic finance is still in its infancy. This is an important deficiency in the article given the global growth in Islamic financing techniques and the evolution of banking systems in many parts of the Middle East and South East Asia encompassing both Islamic and conventional financial services.

In terms of an individual consumers, attitudes, behavior and perception towards an Islamic finance is totally depends on religious conviction, however it is often not only the concern, with most consumers also identifying bank reputation, service quality and pricing as being of relevance in determining the patronage of a particular financial institution. Most of the individuals have lack of knowledge with an Islamic finance system which yet to be established especially among immigrant communities and countries.

5) Rashid et al. (2011)\(^5\) conducted a study on the prospect and growth potentials of Islamic banks in Bangladesh from both Islamic and conventional bankers’ perspective. They found that conventional bankers believe that Islamic banks only claim but do not actually follow the true Shariah based system of banking. For them, the conventional system of banking is more lucrative and it stands as an honest method of banking as opposed to Islamic banking, which they feel is only profitable as a Strategic Business Unit (SBU). In contrast, Islamic bankers endorse the view of risk minimization by zero interest rate, while conventional banks do not reinforce this claim. However, Islamic bankers believed that Islamic banks in Bangladesh have a greater social and moral motive to fulfill, even at the expense of reduced profit.

In Malaysia, with the high prospect and potentials of Islamic banking as opined by some great scholars, there is a need to examine how non-Muslim customers perceived the prospect and potentials of Islamic banking. A study found that non-Muslims viewed the prospect and
potentials of Islamic banking as average, compared to Muslims who believed a strong prospect and potentials of Islamic banking in Malaysia.

6) Ahmed, Rehman and Safwan (2010)⁶ have found service quality has significant influences on customer satisfaction in the case of Islamic and conventional banking, while the magnitude of effect is greater in Islamic banking as compared to conventional banking. Their study on the perception of satisfaction among bank customers with the existence of two banking systems in Pakistan found that customers of Islamic banks were more satisfied as compared to customers of conventional banks. A study has shown that banking behavior of Islamic banking customers and found that most customers were highly satisfied with the products and services of Islamic banks. The researchers then suggested that bankers should develop professionalism and competency to maintain profitable relations with customers.

7) Haron et al. (1994)⁷ conducted a study in Malaysia which includes commercial and corporate bank customers among commercial bank customers. Primary this study examined customers’ understanding on Islamic banking concepts. The study found that 99 percent of Muslim while 70 per cent of the non-Muslim respondents were aware about the existence of the Islamic bank, while 12 percent of Muslims and 32 percent non-Muslims believed that the Islamic banking was relevant primarily to Muslims. This study also revealed the willingness of non-Muslims to establish a relationship with Islamic banks if they have a complete understanding about Islamic banking concepts. A study on perceptions of Malaysian corporate customers towards Islamic banking surveyed 45 respondents comprising 20 percent Muslims and 80 percent non-Muslims. The finding however showed that Islamic banking products were not popular among corporate customers.

8) Khan et al. (2007)⁸ conducted a study on banking behavior of Islamic bank customers in Bangladesh. Interestingly, this study revealed that about 70 percent of the customers had previous relationship with conventional banks. Therefore, Khan’s study indicated that Islamic banks have shown good progress in seizing customers from conventional banks and about half of the respondents have more than 4 years relationship with Islamic banks. Such a long tenure of relationship signifies the ability of customer retention by Islamic banks as well as the customers’ loyalty to the banks’ products and services. In comparing between Muslims and non-Muslims’ willingness to deal with Islamic banks in Malaysia it was found that Muslims were supportive to Islamic banking, while non-Muslims viewed Islamic banking as relevant primarily only to Muslims. However, among non-Muslims, X-Generation has a more favorable perception towards Islamic banking than Baby Boomers.

9) Mahamad and Tahir (2010)⁹ examined the study on perception of non-Muslims towards Islamic banking in Kuala Terengganu conducted that found a low acceptance among the non-Muslim community towards Islamic banking as an alternative over conventional banking. They found that Islamic banking was able to attract more non-Muslim customers if Islamic banks can fulfill their selection criteria of banking, which was quality of services provided. Meanwhile, it was indicated that most of the respondents believe that Islamic banking will dominate the banking industry in Malaysia in the near future. This is in line with the government vision for Malaysia to be an international hub for Islamic banking and finance by 2020.
10) Temporal (2011)\textsuperscript{10} had pointed out that in Muslim to Muslims marketing perspective, having an accepted Halal brand is important; but from a Muslim to non-Muslim marketing perspective, top quality is an additional imperative. Islamic brands can harness the values of the religion in order to build brands of universal appeal to both Muslim and non-Muslim audiences. Some brands cleverly mix the rational and emotional characteristics of their brand’s personality, so the brand can flex the brand character to suit the audience they are addressing. If this situation happened, it will harm the purity and the message of Islamic brands. For that reason, the investigation of Halal and more, specifically those aspects pertaining to branding and business, are still in their infancy, and it is a need for academic scholar to find out about Islamic brands.

11) Rashid et al. (2008)\textsuperscript{11} he explained that among Muslim customers of Islamic bank the higher demand of Islamic banking products and services requires existence of superior quality in service, beside the efficiency in system, strict compliance to Shariah and satisfactory community service through job creation and ensuring consistency in service provisions. The study further demonstrated that faster transaction system, less cost of banking, and efficient counter management can add value to everyday volume of transactions and simultaneously increase customer satisfaction. He identified the three key selection criteria perceived as important while selecting Islamic banks among Muslim customers were fast and efficient services, reputation and confidentiality.

Among corporate customers, he argued that the majority of them perceived both religion and economics as the patronage factors in Islamic bank selection. This particular study showed that factors such as cost and benefit to the company, quality of service delivery, size and reputation of the bank, convenience, and friendliness of bank personnel were considered critical for bank selection.

12) Abdus Samad (2004)\textsuperscript{12} has explained that in Islam, investment in production and consumption is guided by strict ethical codes. Muslims are not permitted to invest in production, distribution and consumption enterprises involved in alcohol, pork, gambling, illegal drugs, etc., even though these enterprises may be profitable. Providing financing for such activities is illegal in Islam. Hence, it is forbidden for an Islamic bank to finance activities or items that are not permitted by the Shariah. The limitation of investment and financing is extended to cover any activity or business which may be harmful to the individual or the society. Thus, financing investment for the production or consumption of tobacco, alcohol or pornography is also prohibited. This restriction provides limitation on the profitability of the Islamic banks. On the other hand, conventional banks do not face any such constraint in their financing investments. Thus, Islamic banks face constraints and operate in a non-friendly environment in most of the Muslim countries. One should keep the underlying differences in mind in order to make a fair comparison between the Islamic and the conventional banks.

13) El Gamal (2000)\textsuperscript{13} states that, Islamic finance follows Islamic (Sharia) law where money cannot create or produce more. It strictly acts as a medium of exchange or storing value, but not for the goal of making excessive profit. As a result, investors cannot earn interest (riba’) on money they lend nor be required to pay it on money they owe. This is significantly different from conventional finance where interest is a fundamental operating principal.
Islamic principles also mandate that any financial activities are free from ambiguity (gharar) and speculation or gambling (maysir). Thus, Islamic finance prohibits any transactions that have a high degree of uncertainty regarding the content or outcome. Therefore, the trading of futures, warrants, options and short-selling is prohibited as it involves speculative activities with significant uncertainty. In comparison, conventional finance has incorporated ambiguity as a form of risk and investors are rewarded based on amount of risk they are willing to take. Thus, the more ambiguous the transaction, the higher the return investors must expect. Another difference is that Islamic finance prohibits any investments in non-productive or potentially harmful activities such investment in pork, alcohol, fire arms, adult entertainment or gambling industry. Finally, Islamic finance operates based upon risk (profit or loss) sharing. Since interest is prohibited, suppliers of funds become investors, rather than creditors and债务ors are replaced by entrepreneurs. The investor and the entrepreneur will then share business risk in return for shares of profits and losses. Conversely, creditors in conventional finance do not necessarily share business risk with debtors. Creditors receive a fixed return regardless of the debtor’s business performance.

14) Dow Jones (2013) has explained that Shariah-compliant securities are an emergent and increasingly important category within Islamic Finance that gives Muslims the opportunity to invest in products that conform to religious requirements. Shariah-compliant bonds (sukuk), Islamic insurance (takaful), and Islamic contracts (ijarah) are all religiously sanctioned financial instruments that have been historically available to the world’s Muslims, however, Shariah compliant stocks and indices are a relatively new form of ethical investment opportunity. These securities are selected using a negative screening process to exclude specific industries or companies. Furthermore, Shariah-compliant stocks also have to undergo additional religious testing to ensure that the stocks follow Shariah rules and principles. For example, Shariah-compliant firms must not be engaged in conventional banking or any other interest-related activities that utilize conventional lending or brokerages. Additionally, they must not be in businesses relating to non-productive and potentially harmful activities. The screening process, done by members of the Shariah board of Islamic scholars, involves two stages: the industry test and the financial tests. The industry test is intended to remove corporations that are involved in prohibited (haram) industries while the second screening is based on financial ratios intended to remove corporations based on debt and interest income levels.

15) Wilson (2004) states the defining feature of Islamic investment practices, which also applicable in all of the sub-sector of Islamic finance, lies on the ethical principles embodied in the Shariah (Islamic legal and ethical system), where its underlying objective are generally aimed at realizing overall human wellbeing and social justice. Some of the salient Shariah injunctions strictly observed in Islamic investment practices include the prohibition in all activities and transactions involving the elements of riba (interest), gharar (excessive uncertainty), maysir (gambling) and all other types of activities and transactions which are considered unethical or harmful as deemed by the Shariah. Such prohibitions necessarily remove sectors like conventional banking and insurance, gaming, alcohol, non-halal meat production, tobacco, entertainment, weapon and genetic biotechnology from the Shariah approved investable universe. Similarly, conventionally structured financial products such as bonds, derivatives as well as excessively speculative transactions are also considered as Shariah adverse.
16) Buerhan Saiti et al, (2014)\textsuperscript{16} has pointed out that Islamic Financial Market is subject to Shariah constraint where the market is free from forbidden activities and elements such as interest, gambling, uncertainty and other forbidden activities like tobacco, alcohol and so on. Islamic investors have to evaluate or screen whether a particular company is Halal (lawful) or Haram (unlawful) for investment. The screening process focuses on the activity of a company that is used as the main principle in Islamic investment criteria. This principle applies to those companies that do not comply with Shariah principles for example, a company is involved in the production of alcohol for drinking, gambling, and interest-based financial institution, and then investment in this type of company is prohibited.

17) Yusuf Talal Delorenzo (2002)\textsuperscript{17} has introduced the theoretical framework for IF finance based on Shariah principles. Every aspects of a Muslim’s life is governed by Shariah principles that are permitted (halal) and forbidden (haram). In Shariah point of view, money on its own may not generate profit. Capital may earn profit only when it is combined with the sort of risk or liability inherent in business enterprises. The gain from capital is linked not only with profits but also with the possibility of losses. This is the reason why the ‘interest’ is prohibited by the religion. In interest-free banking the conventional lending and depositing contracts based on interest are given way to ‘partnership’ and ‘cooperation’ based on ‘profit and loss sharing’ (PLS). This new relationship leads to a ‘performance incentive’ where capital is utilized for actual investments and asset creation. A variety of Islamic finance alternatives to conventional finance are listed. Ample explanations are given on the basis of facts that business can indeed be conducted effectively without interest.

18) Javed Ahammed Khan (2006)\textsuperscript{18} has introduces a clear picture on the growing trend of interest-free financing in Gulf-Arab region. The investors in these countries are becoming more and more inclined to non-interest based financing. The researcher brings forth some data showing superior performance of Islamic funds over the conventional equity operations of mutual funds and other financial institutions. Both Muslim and non-Muslim investors are attracted to interest-free finance and such funds are searching for investment opportunities in Indian market where lies huge potentiality for the operation of interest-free financial investments.

19) Prof. Rodney Wilson (2002)\textsuperscript{19} has introduces ‘Mudaraba’ as a traditional profit-loss sharing (PLS) method as an alternative to interest based system which had been used since the time of Prophet Muhammad. The evolutionary phases of worldwide development of IFFIs since 1950 are given in a systematic manner. The establishment of Islamic Development Bank (IDB) in 1975 in Jeddah and the spread of commercial interest-free banking to countries like UAE, Kuwait, Bahrain, Qatar, Saudi Arabic, Egypt, Sudan, Iran, and Malaysia etc. are depicted. Malaysia pioneered in this field with the establishment of the central Bank called Bank “Negara Malaysia”. By 1990 conventional banks throughout the world started to open ‘interest-free windows’ to offer deposit facilities to their conventional clients on interest-free basis.

20) Abuzar Kamaluddin (2006)\textsuperscript{20} highlights the economic ills of interest affecting the society both in micro and macro levels. While there have been the problems of massive exploitation in the micro level; misallocation of resources, formation of monopolies, cyclical fluctuations, massive business failures etc. are the consequences in the macro level. He
convincingly reveals the fact that the interest is fallacious for the whole economic and social order of the country and hoped that the situation wanted an immediate alternative through interest-free set up.

**APPRAISAL:**

*Researcher while carrying out review of literature in the area of Islamic financial planning of Muslim salaried people. From the above review of literature, researcher has noted out the following key observation(s).*

1) The liquidity challenge in Islamic banks is actually a treasury and profitability problem. There is no effective Islamic interbank market and banks cannot lend to or borrow from each other in conventional term as a result a bank that finds itself too many investments or it is short of cash, has limited options in Islamic finance.

2) Researcher stating that even in commercial loans, the borrower may suffer a loss, yet interest based lending obliges them to repay the principal amount with compound interest. Conversely, the borrower may get huge profits, yet the lender gets only the fixed rate of interest which may likely turn out to be small part of the actual profits.

3) Islamic finance- financial institutions products and services designed to comply with the central principles of Shariah (Islamic law) is one of the most rapidly growing segments in global financial services.

4) Individuals have lack of knowledge with an Islamic finance system which yet to be established especially among immigrant communities and countries.

5) In Bangladesh study has been done on the prospect and growth potentials of Islamic banks in Bangladesh from both Islamic and conventional bankers’ perspective. They found that conventional bankers believe that Islamic banks only claim but do not actually follow the true Shariah based system of banking.

6) A study has shown that banking behavior of Islamic banking customers and found that most customers were highly satisfied with the products and services of Islamic banks. The researchers then suggested that bankers should develop professionalism and competency to maintain profitable relations with customers.

7) A study has been done in Malaysia which includes commercial and corporate bank customers among commercial bank customers. The finding however showed that Islamic banking products were not popular among corporate customers.

8) In comparing between Muslims and non-Muslims’ willingness to deal with Islamic banks in Malaysia it was found that Muslims were supportive to Islamic banking, while non-Muslims viewed Islamic banking as relevant primarily only to Muslims.

9) A study on perception of non-Muslims towards Islamic banking in Kuala Terengganu conducted that found a low acceptance among the non-Muslim community towards Islamic banking as an alternative over conventional banking.
10) The study showed that factors such as cost and benefit to the company, quality of service delivery, size and reputation of the bank, convenience, and friendliness of bank personnel were considered critical for bank selection.

11) The limitation of investment and financing is extended to cover any activity or business which may be harmful to the individual or the society. This restriction provides limitation on the profitability of the Islamic banks.

12) Islamic finance operates based upon risk (profit or loss) sharing. Since interest is prohibited, suppliers of funds become investors, rather than creditors and debtors are replaced by entrepreneurs. The investor and the entrepreneur will then share business risk in return for shares of profits and losses.

13) Shariah-compliant firms must not be engaged in conventional banking or any other interest-related activities that utilize conventional lending or brokerages.

14) Shariah injunctions strictly observed in Islamic investment practices include the prohibition in all activities and transactions involving the elements of riba (interest), gharar (excessive uncertainty), maysir (gambling) and all other types of activities and transactions which are considered unethical or harmful as deemed by the Shariah.

15) Islamic Financial Market is subject to Shariah constraint where the market is free from forbidden activities and elements such as interest, gambling, uncertainty and other forbidden activities like tobacco, alcohol and so on.

16) Every aspects of a Muslim’s life is governed by Shariah principles that are permitted (halal) and forbidden (haram). In Shariah point of view, money on its own may not generate profit.

17) Both Muslim and non-Muslim investors are attracted to interest-free finance and such funds are searching for investment opportunities in Indian market where lies huge potentiality for the operation of interest-free financial investments.

18) By 1990 conventional banks throughout the world started to open ‘interest-free windows’ to offer deposit facilities to their conventional clients on interest-free basis.

19) The economic ills of interest affecting the society both in micro and macro levels. While there have been the problems of massive exploitation in the micro level; misallocation of resources, formation of monopolies, cyclical fluctuations, massive business failures etc. are the consequences in the macro level.

Hence it is concluded that in Islamic countries including India it is observed that no concrete work is carried out in the area of “Islamic financial planning of Muslim salaried people” therefore to bring the authenticity to the present research, researcher has framed following objective, problem and hypothesis.
1) Objective: To study and analyze the behavior of Muslim salaried People towards financial planning and management.

2) Problem: Traditional outlook and Shariah rules have influenced the investment opportunities of the Muslim salaried people which resulted in major bulk of population away from the investment market.

3) Hypothesis: Traditional outlook and Shariah rules have significantly influenced the investment opportunities of Muslim salaried people.

Therefore the researcher has justified the linkages between the title, objective, problem and hypothesis. The efforts taken on review of literature are worthwhile.

2.1.3. STUDIES FOCUSED ON INCOME AND INVESTMENT BEHAVIOUR OF MUSLIM SALARIED PEOPLE

Islamic investment is based on principle of profit and loss sharing. The profit and loss sharing principle allows the financial institutions to earn a return on invested funds, provided that the financial institutions share the risk of investment and incurs the loss if the investment fails. It is the duty of every Muslims to find a Shariah based investment that adheres to rules and regulations described in the Quran. The main benefit of Shariah based investment is that it encourages people to invest in a socially responsible manner. They are advised to avoid investing in industries that promote alcohol, smoking, pornography and so forth. It is also against the Shariah law, to invest in companies that derive their profit mainly from interest, casinos and gambling, pork, hedging in silver and gold, ordinary insurance and financial services that generate their income from interest.

Islamic financial market is the principle of prohibition of interest. It is considered as unlawful. In the Islamic terminology; interest means “effortless profit or profit that increases the principal amount without putting any effort”. Any predetermined payment over and above the actual amount of principal is prohibited. Interest is strictly banned in Islam. Muslim investors needed an interest free financial market and as an effect of this need Islamic financial market emerged as an academic discipline adopting Shariah based financial strategies for application in the Islamic financial market.

21) Yaquby (2000) stated that Muslims should invest their income accordingly to the Shariah parameters, which need to be strictly observed in the investment process. These parameters address some issues of concern from the Shariah point of view, particularly on the sources of income from unacceptable business activities, including incidental interest income from cash or cash equivalent assets of the companies; the prohibition against the interest-based financing of the business activities; and the prohibition of the sale of debt to a third party and the exchange of cash-like assets at values different from its par value. These criteria provide the threshold in which equities within the tolerable limit of the parameters are identified as Shariah-compliant securities. In order to ensure the returns from such investment are pure and legitimate, a process of ‘cleansing’ or ‘purification’ must be done to remove the
elements of mixed sources of income, which are tolerated earlier. Therefore, despite some leniency on the permissibility status of companies with mixed business activities and income for investment, particularly in facilitating the common interest of the public and Islamic financial institutions to participate in such economic activity, the Shariah is very clear that Muslim investors must not benefit in any way the activities or transactions repugnant to the Shariah. Thus, if there exist some income from unacceptable business activities or interest-bearing accounts, the proportion of such income must be ‘cleansed’ or ‘purified’, usually through the channeling of such portion from the dividend received from the shares holding of the company, to charitable organizations or purposes.

22) Usmani (1998) examined that the Shariah parameters and processes have been widely adopted and practiced by various institutions and index providers, including the Dow Jones Islamic Market Index (DJIMI) and FTSE Global Islamic Index Series. This development provides the industry standard in the methodology and processes for Shariah screening of equities. In general, these screening norms are known as sector (qualitative) and financial (quantitative) filters.

Following summarizes the salient features of such filters and the Shariah issues of concern addressed by such criteria.

Table 2.1: Screening Norms of Shariah Based Investment

<table>
<thead>
<tr>
<th>Filter</th>
<th>Shariah Issues of Concern</th>
<th>Industry Norms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector: Main business activities</td>
<td>Business activities and transactions involving riba’, gharar, maysir, excessive speculation, and other activities or transactions repugnant to the Shariah are strictly prohibited.</td>
<td>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-halal meat, hotels, entertainment services unacceptable in Shariah, tobacco, and some include weapon and genetic biotechnology.</td>
</tr>
<tr>
<td>Financial: Debt ratio</td>
<td>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.</td>
<td>-The sum of total debt of a company must not represent more than 33% of the total asset/market capitalization.</td>
</tr>
<tr>
<td>Financial: Interest ratio</td>
<td>Receiving interest income is unlawful, even if such income is not generated from its main business activity.</td>
<td>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%.</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Financial: Liquidity ratio</td>
<td>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 exchange at par value. Real assets must constitute a substantial component of the total assets.</td>
<td>The accepted level of liquid assets to total assets/market capitalization of a company varies between institutions and index providers; ranges from 33% to 80%.</td>
</tr>
<tr>
<td>Financial: Debt ratio</td>
<td>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.</td>
<td>The sum of total debt of a company must not represent more than 33% of the total asset/market capitalization.</td>
</tr>
</tbody>
</table>

Source: Summarised from Usmani (1998), Yaquby (2000), and Derigs and Marzban (2008)

**23) Abdus Samad** (2004) has stated that in Islam investment in production and consumption is guided by strict ethical codes. Muslims are not permitted to invest in production, distribution and consumption enterprises involved in alcohol, pork, gambling, illegal drugs, etc., even though these enterprises may be profitable. Providing financing for such activities is illegal in Islam. Hence, it is forbidden for an Islamic bank to finance activities or items that
are not permitted by the Shariah. The limitation of investment and financing is extended to cover any activity or business which may be harmful to the individual or the society. Thus, financing investment for the production or consumption of tobacco, alcohol or pornography is also prohibited. This restriction provides limitation on the profitability of the Islamic banks. On the other hand, conventional banks do not face any such constraint in their financing investments.

24) Abu Hanifa (2013)\textsuperscript{24} has pointed out that Islamic Shariah does not support interest based banking investment whereas conventional banks are in favor of interest and conventional rules & regulation. In a highly competitive financial market bank performance provides signal to depositor investors whether to invest or withdraw funds from the bank. The special features of the investment policy of the bank are to invest on the basis of profit loss sharing system in accordance with the principles of Islamic Shariah. Earning profit is not the only motive and objective of the bank’s investment policy rather emphasis is given in attaining social good and in creating employment opportunities. Some conventional banks operating under the Islamic Shariah with named as Islamic banking branch or Islamic banking window. The level of competition has been intensified in the banking industry of Bangladesh with the incorporation of Islamic banking by conventional banks. Islamic banks no longer simply receive deposits and make loans. Instead, they are operating in a rapidly innovative industry with a lot of profit pressure that urges them to create more and more value-added services to offer to and better satisfy the customers. Risks are much more complex now since one single activity can involve several risks. Risks are inside risks. Risks overlap risks. Risks contain risks.

25) Kramer (2003) and Rogers (1962)\textsuperscript{25} discuss awareness and related aspects. According to them awareness is elementary but it is essentially the first step to more critical considerations. Awareness leads to knowledge. An individual is exposed to innovation but lacks complete information about it as observed by Rogers.

26) Metawa and Almossawi (1998)\textsuperscript{26} has pointed out that a wide gap between awareness and usage of Islamic banking products, especially financing products. The level of awareness and extent of knowledge of customers on Islamic financial system in UK was investigated by and found out that majority non-Muslim customer’s knowledge and perception towards Islamic banking were extremely minimal.

27) Mallin, Saadouni, and Briston (1995)\textsuperscript{27} assessed the performance of ethical funds and conventional funds in UK, based on traditional risk approach. Study showed that ethical funds in general are riskier than non-ethical funds and ethical funds reported higher returns than non-ethical funds.

28) Gerrard and Cunningham (1997)\textsuperscript{28} observed five significant differences after investigating the degree of awareness of the Islamic banking system in Singapore. Study also revealed that there was a general lack of awareness of the culture of Islamic banking in both, Muslim and non-Muslim customers.
29) Naser and Moutinho (1997) studied and assessed the perception of the Islamic banks towards marketing effectiveness. They concluded that the Islamic banks should put more coherent efforts to improve their long term investment position and the system should do more to activate its marketing effectiveness.

30) Karthikeyan (2001) while studying small investors’ perception on post-office saving schemes in India observed that the level of awareness among investors in the old age group was higher than that of young age group.

31) Orlitzky, Schmidt and Rynes (2003) have stated that also falls in socially responsible investing category. They did 52 studies between 1972 and 1997 on the relationship between corporate social performance and corporate financial performance. They found a positive relationship between socially responsible investing and financial performance of companies in respect of enhanced productivity of the workforce, greater customer loyalty, fewer litigation cases, less environmental remediation costs, improved brand reputation, and better risk management.

32) Madhumathi (2005) carried out a study to examine the risk perception of individual investors and its impact on their investment decision based on 450 samples selected on a random basis from major metropolitan cities in India. The investors were divided into three groups as risk seekers, risk bearers and risk avoiders. The results of the study revealed that, a large number of investors (76 percent) were risk bearers. The risk bearers had the tendency to use company performance as a basic factor to take investment decisions and they used to depend on the advice of share brokers and investment consultants. The risk seekers on the other hand took their decision mainly on the basis of market condition, industrial position and social changes. Their source of information consisted of impersonal sources such as newspapers and reports. In fact they were advice givers rather than advice takers. Risk avoiders did not have a specific trait in terms of information perception processing capacity or situational constraint. They were very objective and looked for facts and certainty in their investment decision situations. Their decisions were mainly based on the advice of the friends and relatives. Market performance of the share company's operating level capital, performance and the expectation of the investors were found to influence the risk perception of the investors.

33) Rajarajan (2006) had undertaken a study on investor's life styles and investment characteristics. The association between the investor’s lifestyles and the investment related characteristics was studied by using cluster analysis, correspondence analysis and KruskalWallies test. The study revealed that the level of expenses, earnings and investment were associated with size of households. The active investors group was dominated by officers, individual group by clerical and passive investors group by professionals. Islamic Banking Act 1983 (IBA) was introduced to allow the establishment of IBS alongside the conventional banking system (CBS). The IBS offer products and services in accordance to the Shariah law as well as principles and subject to Bank Negara Malaysia regulation (Central Bank of Malaysia, 2006).

34) Tapan and Tripathy (2008) investigated that an empirical study of investor’s perception with an aim to identify the investor’s awareness and attitude towards public issues. The study area was Bhubaneswar and sample size was 125 investors from the salaried and business class. It was found that majority of the investors (83.9 percent) used newspaper as
the sources of information followed by financial journals and business magazines. Majority of the investors (63.3 percent) stated that they were not in a position to get the required timely information from the company and equity shares were preferred by the investors because of the higher rate of return.

35) Tahir and Brimble (2011)\(^{35}\) has stated that the extent to which Muslim investors comply with the requirements laid out in Islamic investment principles is assessed by They also sought to identify the factors that influence the asset allocation decision in an investment experiment. They found that level of religiosity is the major factor that influences investment decision. The level of awareness, understanding and perceptions of Islamic banking products and services among non-Muslims in Malaysia, based on 280 respondents was analyzed and assessed using ANOVA along with Pearson Correlation Coefficient.

36) Ling, Pey and Hui (2012)\(^{36}\) they found out that the level of awareness towards Islamic banking was high, level of understanding of the products and services was average and they did not understand most of the Arabic terms. The perceptions towards Islamic banks varied among the respondents. The study showed that some of the demographic variables had significant relationship with awareness, understanding and perceptions. Educational level had the most significant relationship with all the variables.

37) Abdullah, A. A, (2012)\(^{37}\) has stated that one more study was undertaken on non-Muslims perception towards Islamic banks in Malaysia based on primary data collected from 152 respondents of Kuala Lumpur, Malaysia. The study observed that Islamic banking has created potentiality among non-Muslim customers due to the ethical and social consideration.

38) Naughton and Naughton (2000)\(^{38}\) observed that common stocks are legitimate instruments in Islam along with Shariah indices. The practices such as speculation, short selling, margin trading, and equity futures and options are restricted or unlikely to be acceptable under Islamic/ Shariah finance. Therefore regulatory authorities will have problems in attempting to structure a trading system that will be acceptable and need to find some solution for it.

39) Jamaludin (2013)\(^{39}\) study was undertaken by based on primary data collected from Muslim and non-Muslim investors to investigate the pattern of investment. The study showed that there is no significant difference in investment choice decision among individuals based on religion.

40) Obiyathulla and Mirakhor (2013)\(^{40}\) in the book, Islamic Capital Market Capital Markets: A Comparative Approach provided a comprehensive examination of Islamic capital markets. They made a comparative study from conventional and the Islamic perspective on issues relating to capital markets, products and institutions, capital market instruments, interbank money markets, bonds and bond markets, equity markets, derivatives, and foreign exchange markets. They discussed the similarities and differences between Islamic capital markets and conventional capital markets and covered case studies from Malaysia, Indonesia, the Middle East and Europe.
Researcher while carrying out review of literature in the area of Income and Investment behavior of Muslim Salaried People. From the above review of literature, researcher has noted out the following key observation(s):

1) The study showed that there are no significant differences between Muslim and non-Muslim investors in investment choice pattern of investment based on religion.

2) The case observed that, the practices such as speculation, short selling, margin trading, and equity futures and options are restricted or unlikely to be acceptable under Islamic/ Shariah finance.

3) The study observed that Islamic banking has created potentiality among non-Muslim customers due to the ethical and social consideration.

4) The study examined that there is lack of level of awareness, understanding and perceptions of Islamic banking products and services among Muslim and non-Muslim individuals.

5) The study revealed that the level of expenses, earnings and investment were associated with size of households. The active investors group was dominated by officers, individual group by clerical and passive investors group by professionals.

6) It was found that majority of the investors used newspaper as the sources of information followed by financial journals and business magazines, Shariah advisory committee, Shariah advisory board.

7) The study conducted and assessed the perception of the Islamic banks towards marketing effectiveness. They concluded that the Islamic banks should put more coherent efforts to improve their long term investment position and the system should do more to activate its marketing effectiveness.

8) The Study revealed that there was a general lack of awareness of the culture of Islamic banking in both, Muslim and non-Muslim customers.

9) The Study showed that ethical funds in general are riskier than non-ethical funds and ethical funds reported higher returns than non-ethical funds.

10) Islamic banks no longer simply receive deposits and make loans. Instead, they are operating in a rapidly innovative industry with a lot of profit pressure that urges them to create more and more value-added services to offer to and better satisfy the customers.

11) The study revealed that the financing investment for the production or consumption of tobacco, alcohol or pornography is also prohibited. This restriction provides limitation on the profitability of the Islamic banks. On the other hand, conventional banks do not face any such constraint in their financing investments.

12) The study showed that the Shariah is very clear that Muslim investors must not benefit in any way the activities or transactions repugnant to the Shariah. Thus, if there exist some income from unacceptable business activities or interest-bearing accounts, the proportion of
such income must be ‘cleansed’ or ‘purified’, usually through the channeling of such portion from the dividend received from the shares holding of the company, to charitable organizations or purposes.

Hence it is concluded that in Islamic countries including India it is observed that no concrete work is carried out in the area of “Income and Investment behavior of Muslim salaried people” therefore to bring the authenticity to the present research, researcher has framed following objective, problem and hypothesis.

1) Objective: To study and assess the incomes and investment behavior of Muslim salaried people.

2) Problem: Lack of awareness, inflation, large family size and traditional belief of Muslim salaried people is the biggest obstacles in the path of the investment.

3) Hypothesis (a): There is a significant relationship between incomes and investment behavior of Muslim salaried people.

   Hypothesis (b): Inflation and large family size have significantly influenced the investment decision of Muslim salaried people.

Therefore the researcher has justified the linkages between the title, objective, problem and hypothesis. The efforts taken on review of literature are worthwhile.

2.1.4. STUDIES FOCUSED ON ISLAMIC FINANCIAL LITERACY KNOWLEDGE OF MUSLIM SALARIED PEOPLE AS PER SHARIAH

Financial literacy is an active process, in which communicating information is only the beginning and empowering consumers to take action to improve their financial well-being is the ultimate goal. Financial literacy is critical for promoting access to finance by creating incentives and environments that promote desired financial behaviors such as saving, budgeting, or using credit wisely. Financial literacy fall into five categories: (i) knowledge of financial concepts, (ii) ability to communicate about financial concepts, (iii) aptitude in managing personal finances, (iv) skill in making appropriate financial decisions and (v) confidence in planning effectively for future financial needs. Financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions. Financial literacy defined by OECD is the combination of consumers’ or investors’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. The recent financial crisis has shifted the attention of the world towards the importance of financial literacy to not only ordinary man but to the sophisticated investor in particular. The crisis has revealed the severity of the consequences that people have made through their lack of knowledge especially when it comes to making decision on investment in the financial markets. The global financial crisis has also accelerated awareness of the need to improve financial literacy among the Muslim population.
Financial literacy is also the combination of consumers’ or investors’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. They further explained the number of reasons why financial literacy is especially important today. First, financial products and services are increasingly complex and accessible from a growing number and type of providers. Second, at the same time as the increase in number and complexity of the financial products and services, individuals are also being asked to take more responsibility for important financial decisions, such as investing for their retirement. Finally, large numbers of consumers are entering financial markets for the first time, both because income is growing in developing countries and because new financial institutions, such as microfinance providers, and new technologies, such as branchless banking, which have made it easier for consumers to participate in financial markets. The financial crisis has also led to the renewed focus of the world to Islamic Finance.

41) According to Lusardi (2008) have stated financial literacy affects financial decision-making of which ignorance of the basic financial concepts can be linked to lack of retirement planning, lack of participation in stock market and poor borrowing behaviour. This will not only prevent individuals from accumulating wealth but also may witness the diminishing in their wealth due to wrong financial decisions.

42) Walstad et al. (2010) found that the effectiveness of financial literacy education has been mixed. However, their study offers additional evidence that well-defined and properly implemented financial education programs in high school can increase students’ financial knowledge.

43) Abdul Hamid & Mohd.Bordin (2001) stated that a study conducted in Malaysia in 1994, regarding knowledge on Islamic banking showed that almost 100 percent of the Muslim population was aware of the existence of the Islamic bank. However, out of these, only 27.3 percent completely understood the differences between Islamic bank and conventional banks; and only 38.7 percent patronize the Islamic bank strictly because of religion.

44) Bley and Kuehn (2004) in their study investigates the relationship between university student knowledge of relevant financial concepts and terms in conventional and Islamic banking, the impact of religion and language, and other individual variables on preferences for financial services. Findings of the study suggest that knowledge of conventional banking terms and concepts was higher among these students than was Islamic banking terminology. Review of the literature suggests that people had little knowledge on Islamic financial product. Several studies have been undertaken on knowledge on conventional financial products. The review of the literature thus suggests that very little work has been done to link knowledge of Islamic financial product to access and choice of financial products. Few studies have been undertaken on Islamic banking products and no such study has been undertaken on the financial literacy on these products.

45) Miller et al. (2009) in their study explained that, financial literacy is an active process, in which communicating information is only the beginning and empowering consumers to take action to improve their financial well-being is the ultimate goal. Financial literacy is
critical for promoting access to finance by creating incentives and environments that promote desired financial behaviour such as saving, budgeting, or using credit wisely. Financial literacy is also the combination of consumers’ or investors’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

46) Huston (2010) stated that, financial knowledge is an integral dimension of, but not equivalent to, financial literacy. Financial knowledge is the stock of knowledge acquired through education and/or experience specifically related to essential personal finance concepts and products. Hence, an Islamic financial knowledge would be the stock of knowledge that one acquire specifically related to Islamic finance concepts and products.

47) Pellinen et al. (2011) explained that, Financial skills and competence which are based on financial knowledge and understanding actually are influenced by attitudes towards the use of money, such as spending and saving. In fact, financial skills and competence are know-how that are shown in the practices and habits formed in everyday and long-term financial management.

48) Mahadzir ahmad (2010) explained that, Muslims must seek to understand Islamic finance because it is a religious duty. If Muslims do not care about the prohibition of riba, maysir and gharar and continue to consume conventional financial products, then the Islamic financial system will never be developed. Perpetuating the conventional financial system is certainly sinful for Muslims.

49) Bhabhaet. al (2014) stated that financial literacy as a mishmash of awareness, knowledge, skill, attitude and behavior essential to make sound financial decisions and also finally achieve individual financial wellbeing. The level of financial literacy between a people is different, and the differences in the level of the literacy will influence the behavior. However, there is still limited study on financial literacy that focus on Islamic finance concept. For this study, Islamic financial literacy will examine either it will affect the attitude of the business owner in adopting Islamic financing. This paper defined the Islamic financial literacy as the degree to which individuals have a set of knowledge, awareness, and skill to understand the fundamental of Islamic financial information and services that affect its attitude to make appropriate Islamic financing decisions.

50) Abdullah and Anderson (2015) pointed out that financial knowledge stating that Islamic financial knowledge means the stock of knowledge that one acquire through education and/or experience specifically related to essential Islamic finance concepts and products. Therefore, Islamic financial literacy simply refers to financial literacy specific to Islamic financial products and concepts.

51) Ahmad (2010) states that it is consumers’ responsibility themselves for four reasons: only consumers themselves can look after their own best interests and best known of their financial affairs, availability of wide range and complexity of financial products and financial education being a religious duty. The latter is unique to Islamic finance it is sinful for Muslims to propagate the interest-based system and hence, the importance for Muslims to be knowledgeable of Islamic finance.
52) Murphy (2013)\textsuperscript{52} states that in recent years, numerous studies have been conducted to provide theoretical and empirical evidence on financial literacy. However, most of these studies focused on demographic factors affecting financial literacy. Thus, based on the review of literature, this study has examined other factors affecting Islamic financial literacy, namely hopelessness, religiosity and financial satisfaction. Hopelessness refers to the negative effect on several components of financial behavior and well-being.

53) Chen and Volpe (2002)\textsuperscript{53} states that for instance have raised the suggestion that gender is a significant variable impacting the level of FL. Their findings suggest that women, in comparison to men, are more risk-averse when making financial decisions, and are consequently less financially literate. More importantly they find that lack of confidence may explain why men are more financially knowledgeable than women. Their study thus show that factors that are likely to impact on women’s financial ability include the lack of financial knowledge, reluctance to take risk and lack of confidence. Possible reasons identified for the lack of confidence and risk taking displayed by women in financial skills may be due to their traditional role as part of society, who undertakes the role of homemaker and other career duties which may be more significant in affecting their financial decision makings.

54) Van Rooij et al. (2011)\textsuperscript{54} conclude that those with low literacy were much less likely to invest in stocks. They devise two special modules for the Household Survey in Netherland to measure FL and study their links to stock market participation. They find that the majority of respondents demonstrated a basic financial knowledge and have some grasp of concepts such as interest compounding, inflation, and the time value of money. However, many respondents could not distinguish between bonds and stocks, the link between bond prices and interest rates, and the basics of risk diversification; thus, confirming that FL does influence financial decision-making.

55) Bell (2009)\textsuperscript{55} states that a person who is satisfied with his financial position has a tendency to capitalize the surplus money, explore numerous opportunities as well as gather more knowledge about various financial opportunities. Thus, greater financial satisfaction improves the level of financial literacy.

56) Sabri (2011)\textsuperscript{56} explained that Religion often plays an essential role in influencing how individuals cope with financial decision. In other words, a person is actually fundamentally tied to his religious practices whenever he reacts with his own money.

57) Tamimi et al. (2009)\textsuperscript{57} examined the impact of financial literacy on financial decisions. Their results showed that the field of individual activities affects financial literacy level and people who invest in the areas of banking and stock have higher level of financial literacy. The survey also showed that men have higher financial literacy and income, age and education level are followed by higher level of financial literacy.

58) Cude (2010)\textsuperscript{58} examined effective factors on people's financial literacy. His results showed that higher levels of education, risk appetite, higher age, more work experience, family income, parental occupation and attending in training classes will increase financial literacy. In this research it is expressed that people with higher financial literacy are more successful in their business and personal lives. Their financial concerns were well lower and
they had longer -term savings and investments and triggered a better future with more long-
term vision.

59) Lusardi (2008)\textsuperscript{59} states that when a person has financial illiteracy, it can lead to financial
decision mistakes such as excessive borrowing or high-cost mortgage. In term of Islamic
financial literacy, it assumed to influence the attitude of a person in its financial behaviors
especially in differentiate between conventional financing and Islamic financing. It also
assumed that a person with Islamic financial illiteracy will result in financial decision
mistakes in differentiating between conventional and Islamic financing.

60) Bhabhaet. al (2014)\textsuperscript{60} define financial literacy as a mishmash of awareness, knowledge,
skill, attitude and behavior essential to make sound financial decisions and also finally
achieve individual financial wellbeing. The level of financial literacy between a people is
different, and the differences in the level of the literacy will influence the behavior. However,
there is still limited study on financial literacy that focus on Islamic finance concept. For this
study, Islamic financial literacy will examine either it will affect the attitude of the business
owner in adopting Islamic financing. This paper defined the Islamic financial literacy as the
degree to which individuals have a set of knowledge, awareness, and skill to understand the
fundamental of Islamic financial information and services that affect its attitude to make
appropriate Islamic financing decisions.

\textbf{APPRAISAL:}

\textbf{Researcher while carrying out review of literature in the area of Islamic financial
literacy knowledge of Muslim salaried people as per Shariah. From the above review of
literature, researcher has noted out the following key observation(s):}

1) The study conducted regarding knowledge on Islamic banking showed that almost 100
percent of the Muslim population was aware of the existence of the Islamic bank. However,
out of these, only 27.3 percent completely understood the differences between Islamic bank
and conventional banks; and only 38.7 percent patronize the Islamic bank strictly because of
religion.

2) The study investigates the relationship between knowledge of relevant financial concepts
and terms in conventional and Islamic banking, the impact of religion and language, and
other individual variables on preferences for financial services. Review of the literature
suggests that people had little knowledge on Islamic financial product.

3) The study stated that financial knowledge is the stock of knowledge acquired through
education and/or experience specifically related to essential personal finance concepts and
products. Hence, an Islamic financial knowledge would be the stock of knowledge that one
acquire specifically related to Islamic finance concepts and products.

4) Muslims must seek to understand Islamic finance because it is a religious duty. If Muslims
do not care about the prohibition of riba (Interest), maysir (Gambling) and gharar
(Uncertainty) and continue to consume conventional financial products, then the Islamic
financial system will never be developed.
5) Financial skills and competence which are based on financial knowledge and understanding actually are influenced by attitudes towards the use of money, such as spending and saving.

6) The study examined that Islamic financial literacy as the degree to which individuals have a set of knowledge, awareness, and skill to understand the fundamental of Islamic financial information and services that affect its attitude to make appropriate Islamic financing decisions.

7) The study has examined the factors affecting Islamic financial literacy, namely hopelessness, religiosity and financial satisfaction. Hopelessness refers to the negative effect on several components of financial behavior and well-being.

8) Religion often plays an essential role in influencing how individuals cope with financial decision. In other words, a person is actually fundamentally tied to his religious practices whenever he reacts with his own money.

9) The results showed that higher levels of education, risk appetite, higher age, more work experience, family income, parental occupation and attending in training classes will increase financial literacy.

10) The study showed that in term of Islamic financial literacy, it assumed to influence the attitude of a person in its financial behaviors especially in differentiate between conventional financing and Islamic financing. It also assumed that a person with Islamic financial illiteracy will result in financial decision mistakes in differentiating between conventional and Islamic financing.

11) The study defined that the Islamic financial literacy as the degree to which individuals have a set of knowledge, awareness, and skill to understand the fundamental of Islamic financial information and services that affect its attitude to make appropriate Islamic financing decisions.

12) The study showed that Muslim Salaried people considered the Quran principles such as Prohibition of interest, Profit and loss sharing, Absence of speculation and gambling, Derivation of money on money, Avoidance of unlawful activities before making the investment decisions.

Hence it is concluded that in Islamic countries including India it is observed that no concrete work is carried out in the area of “Islamic financial literacy knowledge of Muslim salaried people as per Shariah”, therefore to bring the authenticity to the present research, researcher has framed following objective, problem and hypothesis.

1) Objective: To study and examine the financial literacy knowledge of Muslim salaried people as per Shariah.

2) Problem: It is quite evident that Muslim salaried people before taking investment decision they screen the do and don’t of the investment opportunity from the principles of Quran.
3) Hypothesis: Quran principles are significantly affecting the investment decision of Muslim salaried people.

Therefore the researcher has justified the linkages between the title, objective, problem and hypothesis. The efforts taken on review of literature are worthwhile.

2.1.5. STUDIES FOCUSED ON THE ISLAMIC INVESTMENT AVENUES AVAILABLE FOR MUSLIM SALARIED PEOPLE BASED ON QURAN PRINCIPLES.

Globally, Islamic finance is estimated to be worth about $350 billion, growing at 20% annually. With this growth, the need for Shariah compliant financial products has also increased. The products offerings are similar to normal banking products; however the main difference is that the funds collected are not for the purpose of accumulating/paying interest or invested in any negative businesses that harm morality of the society. The basic principle of Islamic banking is the prohibition of interest.

India with a 15% Muslim population, the highest in the non-Islamic country and the third highest in the world is slowly becoming forefront of Islamic banking initiatives. It has benefited the Indian economy by attracting investments from the cash rich Middle Eastern economies on the lookout for new investment destinations. A growing Indian economy has created huge interests among Islamic nations. Five Indian companies, Reliance industries, Infosys technologies, Wipro, Tata Motors and Satyam computer services figure in the Standard & Poor’s BRIC Shariah Index. While Shariah compliant investment avenues are now becoming available in most of the countries, India is yet to see large-scale development. To gauge the scope of Islamic investment opportunities in the Indian stock market, it is imperative to examine stocks that conform to Islamic Shariah principles "Out of 6,000 BSE listed companies, approximately 4,200 are Shariah compliant. The market capitalization of these stocks accounts for approximately 61% of the total market capitalization of companies listed on BSE. This figure is higher even when compared with a number of predominantly Islamic countries such as Malaysia, Pakistan and Bahrain. In fact, the growth in the market capitalization of these stocks was more impressive than that of the non-Shariah compliant stocks.

The software, drugs and pharmaceuticals and automobile ancillaries sector were the largest sectors among the Shariah compliant stocks. They constitute about 36% of the total Shariah compliant stocks on NSE. Further on examining the BSE 500 the market capitalization of the 321 Shariah compliant companies hovered between 48% and 50% of the total BSE 500 market capitalization.

In Islam, investment in production and consumption is guided by strict ethical codes and Shariah laws. Shariah is a Divine Law which governs the practical aspect of a Muslim's daily life. In commerce, it can determine business style and indicate a desire to comply with 'halal' (lawful) and ethical investing. Islamic investing is growing rapidly as an alternative
investment class for all investors, both Muslim and non-Muslim, for its foundation in ethical business practices, social responsibility and fiscal conservatism.

Muslims are not permitted to invest in production, distribution and consumption enterprises involved in alcohol, pork, gambling, illegal drugs, etc., even though these enterprises may be profitable. Providing financing for such activities is illegal in Islam. Hence, it is forbidden for an Islamic bank to finance activities or items that are not permitted by the Shariah. The limitation of investment and financing is extended to cover any activity or business which may be harmful to the individual or the society. Thus, financing investment for the production or consumption of tobacco, alcohol or pornography is also prohibited. This restriction provides limitation on the profitability of the Islamic banks. On the other hand, conventional banks do not face any such constraint in their financing investments.

Fixed interest based investments like the saving bank deposit, Bank FDR; Postal savings, Debentures, Bonds etc. are not permitted in Islam and thus Muslims stand to lose out from taking advantage in this market and their capital gets depleted over a period of time. Therefore, investments in stocks (The Shariah way) are a far better option available to the Muslims. The first option available for them is Investment in Real estate/ properties. Though it is permissible in Islam, it has got inherent and its own disadvantages over equities. The second option available for investment is Precious metals (gold, silver, platinum) investments, which are permitted in Islam. But from the point of view of economics and return on investments, these precious metals can at the 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. Since the Indian economy is on a long-term growth path, Muslims are suggested to invest in Shariah compliant stocks.

61) Imam and Kpodar (2013) concluded that in the determination of Islamic bank expansion around the world, the interest rates were found to have a negative impact on banking selection, and the quality of institutions was not found to be a significant determinant. However, other investors such as non-Muslim do so for the benefits they derive, including greater stability of returns, transparency and diversification.

62) Iqbal and Mirakhor (2007) have stated that, In Islamic finance, a market is subject to Shariah constraint where the market is free from prohibited activities and elements such as riba (usury), maysir (gambling), gharar (ambiguity), and other prohibited activities like tobacco, alcohol, and so on. To describe the Islamic principle in detail, riba (Interest) technically is defined as the “premium” which should be paid by the borrower to the lender together with the principal amount as a condition in the contract of the loan or for an extension in the duration of loan”.

63) Aggarwal and Yousef (2000) examined that financial instruments used by Islamic and they found that Islamic banks rarely offer long-term financing to entrepreneurs seeking capital. The majority of the Islamic banks’ financial transactions are towards retail or trade financing, and their model suggests that it was a rational response for the banks.
64) Rehman (2008)\textsuperscript{64} states that the sharing of profit and losses arising out of any legal Shariah compliant business, Islamic transaction must be asset-backed, as money itself has no intrinsic value, and investment should be in those businesses which are not prohibited by Shariah.

65) Khan (1997)\textsuperscript{65} examined that Islamic and conventional finance have profound differences in their nature from the point of view of their origin and from a legal perspective. However, in the field of project finance there are some points of convergence as well. Similarities exist between the field of project financing and classical Islamic financing techniques. These similarities arise from the conceptual basis and nature of project finance.

66) Wilson et al, (2004)\textsuperscript{66} states that Islamic investment practices which also applicable in all of the sub-sector of Islamic finance, lies on the ethical principles embodied in the Shariah (Islamic legal and ethical system), where its underlying objective are generally aimed at realizing overall human wellbeing and social justice. Some of the salient Shariah injunctions strictly observed in Islamic investment practices include the prohibition in all activities and transactions involving the elements of riba’ (interest), gharar (excessive uncertainty), maysir (gambling) and all other types of activities and transactions which are considered unethical or harmful as deemed by the Shariah. Such prohibitions necessarily remove sectors like conventional banking and insurance, gaming, alcohol, non-halal meat production, tobacco, entertainment, weapon and genetic biotechnology from the Shariah approved investable universe. Similarly, conventionally structured financial products such as bonds, derivatives as well as excessively speculative transactions are also considered as Shariah repugnant.

67) Zangeneh and Salam (1993)\textsuperscript{67} states that Islamic investments are more akin to equity financing. The Islamic banks are capable of taking financial risk. Islamic banks are not obliged to give fixed return to their depositors and general creditors. The creditors, shareholders and depositors share and participate in the bank’s business. Therefore, if incase, there is a loss in Islamic banks, Islamic banks will be able to share this loss with their depositors and shareholders.

68) Chapra (2007)\textsuperscript{68} examined that Islamic investments are not involved in risk arbitrage, junk bonds, municipal bonds, currency options, swaps, call/ put options, combination or spread of options, future trading, forward contracts, short selling credit default swaps, speculative insurance underwriting, subprime loans, debt swaps, CDOs, excessive leveraging etc.

69) Al- Sultan (1999)\textsuperscript{69} analyzed that the investment behaviour of three hundred and eighty five Muslim investors in Kuwait towards the services of the Kuwait Finance House an interest- free bank. The major findings were that Muslim investors preferred the Islamic bank services because of religious convictions.

70) Karim (1996)\textsuperscript{70} states that Islamic investment is based on principle of profit and loss sharing. The profit and loss sharing principle allows the financial institutions to earn a return on invested funds, provided that the financial institutions share the risk of investment and incurs the loss if the investment fails.
71) Ghosh (2013)\textsuperscript{71} states that it is the duty of every Muslim investor to find Shariah-based investments that comply with the rules and regulations described in the Quran. The main benefit of Shariah-based investment is that it motivates people to invest in a socially responsible manner. They are recommended to avoid investing in those industries that promote alcohol, smoking, pornography, and so forth. It is also against the Shariah rules to invest in companies that originate their profit mainly from interest, casinos, and gambling, pork, hedging in silver and gold, ordinary insurance, and financial services that generate their income from interest.

72) Yusuf Talal Delorenzo et al (2002)\textsuperscript{72} they introduced the theoretical framework for Islamic financial investment based on ‘Shariah’ principles. Every activity of a Muslim’s life is governed by ‘Shariah’ principles that are lawful (halal) and unlawful (haram). The ‘Shariah’ point of view, money on its own may not generate profit. Income may generate profit only when it is combined with the sort of risk or liability inherent in financial institutions and business enterprises. The gain from capital is linked not only with profits but also with the possibility of losses. This is the reason why the ‘interest’ is prohibited by the religion.

73) Kamal (2012)\textsuperscript{73} states that Islamic investments face rate of return risk due to the fluctuations in microeconomic conditions. Islamic investment could experience greater fluctuations and volatility in rate of return risk due to limited product choices and prefixed income, which are absent in conventional investment. Furthermore, asset classes within Islamic investments are not easily converted to cash and may be subject to commodity price risk. Some of these assets do not have ready or deep secondary markets (sukuk—Islamic bonds) and, as such, must be held until maturity.

74) Hassan (2012)\textsuperscript{74} examined that investment in Islamic finance faces equity investment risk, largely due to the application of both Mudarabah and Musharakah investments. Likewise, there are other risk elements that are interrelated in Islamic investments. For instance, the lack of a wide range of Shariah-compliant products to absorb the liquidity of Islamic investments could result in an opportunity loss for the investment. Islamic investment products are few considering the amount of available funds available for Islamic investment. This results in a lower return as it is invested in short-term products and thus creates mismatch problems, since Islamic investments are in long-term opportunities such as project finance, real estate, and sukuk (Islamic bonds).

75) Securities Commission announcement (2002)\textsuperscript{75} stated that, Islamic investment is based on Shariah principles, that is, it prohibits activities with elements of usury (riba), gambling (maysir), and ambiguity (gharar) and also prohibits activities like producing products or delivering services which are against Islamic teaching such as pornography, producing/selling alcohol, casinos, and pork.

76) Yusuf and Shamsuddin (2008)\textsuperscript{76} carried out a study to find out about the attitude of Muslims staying outside the Islamic world by carrying out a purposive random sampling of 128 respondents from Leicester, UK. They found out that Muslims had a positive attitude towards Islamic finance as they were willing to change from the conventional system into the Islamic system of finance. Regardless of their knowledge of Islamic finance, 64% of the total respondents were willing to close their existing account and open new account with the new
Islamic institution. It was also found that the levels of education did not contribute to the understanding of Islamic finance as most of them were not trained in Islamic studies.

77) M.Kabir Hassan (2010)\(^77\) examined that Muslims represent approximately one-fifth of the world’s population and are estimated to have more than $800 billion to invest. This amount is growing by 15 percent annually. Only a small portion of the available funds are invested in Islamic products which is indicative that this market is, for the most part, unexploited.

78) Institute of Islamic banking and insurance (2009)\(^78\) states that ethical funds have similar characteristics as Islamic funds, it is important for ethical investors attracted by the appeal of Islamic principles as well as the performance of Islamic investments to understand that there are additional prohibitions that must be applied on the products offered. These restrictions which are essentially self-imposed based on belief and conviction act a moral compass; the monitoring of the prohibitions by a Religious (Shariah) Supervisory Board may have prevented Islamic financial institutions to deviate from a faith-based system and absorb the shocks within the conventional financial system.

The important principles for Islamic financial instruments for participation and investments that require strict adherence, while providing good returns, are:

a. Investments must be free of interest, speculation and gambling, all are considered as forms of exploitation.

b. Investments are made in permissible activities.

c. Investments must be separately approved by an independent Shariah supervisory board to ensure Shariah principles are strictly adhered to and deviations and wayward business practice penalized.

79) Grassa and Matoussi (2014)\(^79\) examined the governance practices and governance structure of Islamic banks in Gulf Cooperation Council and Southeast Asian countries and concluded that there exist shortcomings to the current governance framework for Islamic banks which needs further improvement and standardization.

80) Khatkhatay and Nisar (2006)\(^80\) stated that, Muslim investors have to ensure that the business activities as well as the financial structure of the companies they invest in are Shariah compliant since they will become part owners of the companies and hence, responsible for their activities.
APPRAISAL:

Researcher while carrying out review of literature in the area of the Islamic investment avenues available for Muslim salaried people based on Quran principles. From the above review of literature, researcher has noted out the following key observation(s):

1) In Islamic finance, a market is subject to Shariah constraint where the market is free from prohibited activities and elements such as riba (usury), maysir (gambling), gharar (ambiguity), and other prohibited activities like tobacco, alcohol, and so on.

2) Islamic investment is based on Shariah principles, that is, it prohibit activities with elements of usury (riba), gambling (maysir), and ambiguity (gharar) and also prohibit activities like producing products or delivering services which are against Islamic teaching such as pornography, producing/selling alcohol, casinos, pork.

3) Islamic investments face rate of return risk due to the fluctuations in microeconomic conditions. Islamic investment could experience greater fluctuations and volatility in rate of return risk due to limited product choices and prefixed income, which are absent in conventional investment.

4) Islamic investment is based on principle of profit and loss sharing. The profit and loss sharing principle allows the financial institutions to earn a return on invested funds, provided that the financial institutions share the risk of investment and incurs the loss if the investment fails.

5) The major findings of the study were that Muslim investors preferred the Islamic bank services because of religious convictions.

6) The study states that it is the duty of every Muslims investor to find Shariah based investments that comply with the rules and regulations described in the Quran. The main benefit of Shariah based investment is that it motivates people to invest in a socially responsible manner.

7) Muslim investors have to ensure that the business activities as well as the financial structure of the companies they invest in are Shariah compliant since they will become part owners of the companies and hence, responsible for their activities.

8) Muslim investors prefer to invest their money in Shariah based investment products like Share market, Bullion market, Mutual funds, Debenture, Bonds, Gold/Silver, Real estate and so on.

Hence it is concluded that in Islamic countries including India it is observed that no concrete work is carried out in the area of “the Islamic investment avenues available for Muslim salaried people based on Quran principles”, therefore to bring the authenticity to the present research, researcher has framed following objective, problem and hypothesis.

1) Objective: To study the Islamic investment avenues available for Muslim salaried people based on Quran principles.
2) Problem: It is quite evident that Muslim salaried people before taking investment decision they screen the do and don’t of the investment opportunity from the principles of Quran.

3) Hypothesis: Quran principles are significantly affecting the investment decision of Muslim salaried people.

Therefore the researcher has justified the linkages between the title, objective, problem and hypothesis. The efforts taken on review of literature are worthwhile.

2.1.6. STUDIES FOCUSED ON THE PROBLEMS AND DIFFICULTIES FACED BY MUSLIM SALARIED PEOPLE TOWARDS INVESTMENT IN PRESENT SCENARIO.

Islamic finance has grown rapidly over the past decade, and its banking segment has become systemically important in a dozen countries in a wide range of regions. Islamic finance is projected to continue to expand in response to economic growth in countries with large and relatively unbanked Muslim populations. It is also fueled by the large savings accumulated by many oil-exporting countries that are seeking to invest in Shariah-compliant financial products. The growing reach of Islamic finance promises a number of possible benefits. However it is often argued that Islamic finance is inherently less prone to crisis because its risk-sharing feature reduces leverage and encourages better risk management on the part of both financial institutions and their customers. It is also argued that Islamic finance is more stable than conventional finance, because: (i) Islamic finance involves prohibitions against speculation; (ii) financing is asset-based and thus fully collateralized; and (iii) it is founded on strong ethical precepts. Moreover, Islamic financial institutions (IFIs) are considered to be a good platform for increasing access to financial inclusion, including access to finance for Muslims thereby supporting growth and economic development. Nonetheless, Islamic finance faces a number of challenges, despite the efforts of Islamic finance standard setters, in many countries the industry is governed by a regulatory and supervisory framework developed for conventional finance. Therefore, it does not fully take account of the special nature of Islamic finance. The industry is still largely a nascent one, lacking economies of scale, and operating in an environment where legal and tax rules, financial infrastructure, and access to financial safety nets and central bank liquidity are either absent or, if available, do not appropriately take into account the special characteristics of Islamic finance.

In spite of the growth potential in Islamic banking, there are several challenges facing Islamic Financial Institutions.

i) Shortage of experts in Islamic banking: The supply of trained or experienced bankers has lagged behind the expansion of Islamic banking. The training needs affect not only Arab domestic banks, both Islamic and non-Islamic, but foreign banks as well.

ii) Absence of accounting (and auditing) standards pertinent to Islamic banks: Uncertainty in accounting principles involves revenue realization, disclosures of accounting information, accounting bases, valuation, revenue and expense matching, among others. Thus, the results of Islamic banking schemes may not be adequately defined, particularly profit and loss shares attributed to depositors.
iii) Lack of uniform standards of credit analysis: Islamic banks have no appropriate standard of credit analysis. Similarly, there is a widespread training need involving related aspects such as financial feasibility studies, monitoring of ventures, and portfolio evaluation.

iv) Potential conflicts with central banks: Islamic banks have been established as separate legal entities; therefore, their relationships with central banks and/or other commercial banks are uncertain. Problems may be further aggravated when an Islamic bank is established in a non-Muslim nation, and is subject to that nation's rules and requirements.

v) Potential conflict between domestic banks, foreign banks, and Islamic banks: It appears that domestic banks and foreign banks will experience continuing difficulty in adopting Islamic banking practices until they can become more confident of the results of investing ventures.

vi) Instruments that meet the demand of specific investment requirements: One of the biggest challenges facing institutions is the provision of short-term investment instruments. Several institutions have tried to develop high quality short-term instruments, but have been hampered by their ability to generate assets, by their credit ratings, and by liquidity.

81) Jabr (2003)\textsuperscript{81} concludes that the challenges and prospects of Islamic banks operating in the Palestinian territories are as follows: Lack of adequate banking law for Islamic banking; existence of unproductive money; lack of awareness; lack of operational difference between Islamic and conventional banks; Islamic banking lacks the ability to channel deposits into long-term investment; lack of experience in Islamic Shariah; excessive short-term financial instrument; inability to make use of Mudaraba and Musharaka financial institutions; inferior technical resources and technology; Islamic banks are compel to recruit staff trained in traditional banking; inability to differentiate ownership from management; and lack of financial innovations.

82) Njanike (2010)\textsuperscript{82} adopts descriptive analysis to explore the problems and challenges that the introduction of Islamic banking in Zimbabwe may likely face. The study finds that the major problems and challenges in introducing Islamic banking in Zimbabwe are political intervention in the selection of borrowers, financial instability, inability of the government to restore law and order in the country, resistance from the banking community, inadequate infrastructure for information dissemination, inconsistency in policy making and implementation of the fiscal and monetary authorities, Central bank control and supervision of Islamic banking with unqualified persons in Islamic finance, absence of Islamic interbank, misperception, current political and economic situation, and default culture.

83) Sanusi (2011)\textsuperscript{83} explores the issues and challenges of Islamic banking in Nigeria. The study finds that the challenges of Islamic banking in Nigeria are inadequate manpower, lack of Shariah – compliant liquidity management instruments, lack of Islamic insurance (Takaful), lack of knowledge of accounting and auditing standard require by Islamic financial institutions, inadequate legal framework, lack of Shariah scholars knowledgeable in conventional economics, law, accounting, banking and finance, problem of multiple taxation, lack of tax relief on Islamic banking profits, and misperception of Islamic banking in Nigeria.
84) Iqbal (2001)\textsuperscript{84} opines that the challenges facing Islamic financial industry are limited set of short terms financial instrument and inadequate medium – to long – term financial instruments, limited coverage of Islamic finance, concentration of Islamic banking, poor risk management and governance framework, and difference between Islamic finance in theory and in practice. The author recommends adequate risk management and diversification of the institution, provision of non – banking financial services, and development of capital markets that are Islamic inclined to improve its activities and functions, and be able to compete favorably.

85) Shaukat et al. (2011)\textsuperscript{85} are of the opinion that the lack of ultimate authority that governs Islamic financial industry, inadequate qualified human resource in both conventional banking and Islamic laws, illiquidity of Islamic long - term assets with short - term liabilities, lack of Shariah auditing standard personnel, and shortage of short - term investment products are the challenges of Islamic banking system. They further state that the other challenges facing Islamic banking system are lack of innovation, lack of adherence to local regulatory reporting and operational requirements, lack of transparency and accountability, operating manually, and lack of high quality services.

86) Osama (2012)\textsuperscript{86} can be controlled through fiscal measures as well, by issue of zakat certificate which allows proper distribution of income in accordance with the Debt ratio. Debt ratio is altered in order to discourage the interest system and excess money in the market, proper distribution of zakat allows prosperity in the poor income earners lives plus closes down the gap between the classes. In inflation in Islamic economy there is a significant role of the state to control the inflation which is mainly in the form of following ways; Price control, Buffer stock, Rationing, Confiscation stock holding, Liberal imports.

87) Shah foundation (2012)\textsuperscript{87} the first problem is that despite the growth of Islamic banks over the last 30 years, many people in the Muslim and non-Muslim world do not understand what Islamic banking actually is. The basic principle is clear, that it is contrary to Islamic law to make money out of money and that wealth should accumulate from trade and ownership of real assets. However, there does not appear to be a single definition of what is or not an Islamic-banking product; or there is not a single definition of Islamic banking. A major issue here is that it is the Shariah Councils or Boards at individual Islamic banks that actually define what is and what not Islamic banking is, and what is and what is not the acceptable way to do business, which in turn can complicate assessment of risk for both the bank and its customer. More generally, the uncertainty over what is, or is not, an Islamic product has so far prevented standardization. This is difficult for regulators as they like to know exactly what it is they are authorizing. It is also an added burden on the banks that have to educate customers in new markets.

88) Zukri Samat (2010)\textsuperscript{88} stated that Misconception against Islamic Banking many people still has a wrong understanding or misconception against Islamic Banking which among the thoughts are: Islamic Banking is only for Muslims Islamic Banking is not profitable because no interest is charged Islamic banking is only offered in the Middle East Thus better awareness shall be create among the customers that Islamic Banking is not only an alternative financial approach but also in some aspects provides better value propositions to the consumers.
89) Heiko Hesse (2008) examined that Liquidity risk management of Islamic banks is an important challenge and is constrained due to limited availability of tradable Islamic money market instruments and weak systemic liquidity infrastructure. At the moment, there is no Shariah-compliant short-term Islamic money market (less than one week maturity) in local currency or in US dollars, and Islamic repo markets have not yet developed. Islamic money markets with longer maturities.

90) Andreas A. Jobst & Juan Sole (2008) stated that Islamic banks also have a competitive disadvantage with conventional banks, as they deposit their overnight money with their domestic central bank interest free. The lack of liquidity and viable alternatives, combined with the competitive disadvantage, hamper the local Islamic banks and can even create a liquidity crisis.

91) Bhavin Shah (2017) states that Islamic banks are finding difficulties to cope up with the evolving global banking environment and making appropriate rules and regulations to cope with these changes while still remaining competitive with their conventional counterparts. Additionally, the industry lacks consistency in product structures and investment practices that adversely affects its credibility, reputation, perception and regulation capabilities.

92) Zurbrueg (2007) specifies that respondents who were interested in Islamic Banking products lacked appropriate information about their functioning. Majority of the respondents specified that they would require credit services in order to switch from conventional to Islamic Banking products. This is in contradiction with Shariah principles and indicates their lack of knowledge. Further, awareness and knowledge about Islamic Banking are not enough to ensure the successful implementation of an Islamic Banking system, willingness is a crucial element too. Simply understanding the products will not persuade customers to convert from a conventional system to an Islamic Banking system when the services are provided.

93) Taylor (2003) also stated that Islamic principles extend to all aspects of a Muslim’s life so as a result each practitioner of Islam is necessarily implicated by Shariah principles.

94) Abdullah (2007) in their recent study in Malaysia highlighted that Islamic bankers can no longer depend on a marketing strategy for attracting pious and religious customers. They also suggested that Islamic banking needs to enhance its service quality, which is now considered a critical success factor that affects an organization’s competitiveness. The bank selection process is an important aspect for the Islamic banking industry to explore to attract customers.

95) Ainley (1997) found that the biggest problem in the Islamic banking industry is the various interpretations of what is and what not Islamic banking is. The various interpretations may confuse customers and may affect their selection of the Islamic banking services.

96) Tahir (2003) found that lack of qualified personnel is the biggest hurdle for the Islamic banking industry. There is a need of qualified personnel for Islamic banks to further progress.
97) Kuehn and Bley (2004) found that Islamic banks need to improve their marketing effectiveness by addressing market ignorance about Islamic bank products and services.

98) Dusuki and Abdullah (2007) in their recent study found that the substantial issue requiring attention is the need to intensify public education and awareness of the distinctive characteristics of Islamic banks and how they may engender the interest of customers in their financial dealings.

99) Sadar et al., (2004) found that Islamic banking requires a high caliber work force and management teams with expertise, leveraging on technology and strengthening research areas.

100) KPMG (2006) in their reporting on Islamic banking found that due to the recent emergence of Islamic Finance, there is shortage of professional staff and managers with experience and knowledge of Islamic financial products and relevant Shariah knowledge.

APPRAISAL:

Researcher while carrying out review of literature in the area of the problems and difficulties faced by Muslim salaried people towards investment in present scenario. From the above review of literature, researcher has noted out the following key observation(s):

1. There is shortage of professional staff and managers with experience and knowledge of Islamic financial products and relevant Shariah knowledge.

2. The need to intensify public education and awareness of the distinctive characteristics of Islamic banks and how they may engender the interest of customers in their financial dealings.

3. Islamic banking needs to enhance its service quality, which is now considered a critical success factor that affects an organization’s competitiveness.

4. Awareness and knowledge about Islamic Banking are not enough to ensure the successful implementation of an Islamic Banking system, willingness is a crucial element too.

5. The industry lacks consistency in product structures and investment practices that adversely affects its credibility, reputation, perception and regulation capabilities.

6. Islamic banking lacks the ability to channel deposits into long-term investment; lack of experience in Islamic Shariah; excessive short-term financial instrument; inability to make use of Mudaraba and Musharaka financial institutions; inferior technical resources and technology; Islamic banks are compel to recruit staff trained in traditional banking; inability to differentiate ownership from management; and lack of financial innovations.

7. The study finds that the challenges of Islamic banking in Nigeria are inadequate manpower, lack of Shariah – compliant liquidity management instruments, lack of Islamic
insurance (Takaful), lack of knowledge of accounting and auditing standard require by Islamic financial institutions, inadequate legal framework, lack of Shariah scholars knowledgeable in conventional economics, law, accounting, banking and finance, problem of multiple taxation, lack of tax relief on Islamic banking profits, and misperception of Islamic banking.

8. The lack of liquidity and viable alternatives, combined with the competitive disadvantage, hamper the local Islamic banks and can even create a liquidity crisis.

9. In inflation in Islamic economy there is a significant role of the state to control the inflation which is mainly in the form of following ways; Price control, Buffer stock, Rationing, Confiscation stock holding, Liberal imports.

10. Liquidity risk management of Islamic banks is an important challenge and is constrained due to limited availability of tradable Islamic money market instruments and weak systemic liquidity infrastructure.

Hence it is concluded that in Islamic countries including India it is observed that no concrete work is carried out in the area of “problems and difficulties faced by Muslim salaried people towards investment in present scenario”, therefore to bring the authenticity to the present research, researcher has framed following objective, problem and hypothesis.

1) Problem: The Shariah forbids the Muslim salaried people from investing in companies, banks, insurance firms and financial institutions which charges interest, hence it prevents the Muslim salaried people from investing in these financial institutions.

2) Objective: To study the problems and difficulties faced by Muslim salaried people towards investment in present scenario.

3) Hypothesis: Muslim salaried people are significantly considering the investment which based on Quran principles.

Therefore the researcher has justified the linkages between the title, objective, problem and hypothesis. The efforts taken on review of literature are worthwhile.
REFERENCES:


[78] Institute of Islamic banking and insurance, Islamic approach to ethical investments, March 2009. Pg. No. 33-35.


