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Topic: A Study on Viability of Islamic Finance in India with Special Reference to Kerala

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Abstract

Islamic finance is a system of finance based on Islamic law or Shariah, aims at achieving economic and social righteousness in all financial affairs. It takes in to account not only the moral consequences of financial transactions but also ensures the financial contracts should be fair and equitable to all parties involved and guarantees that the financial rewards are fully correlated with level of risk and responsibility borne by all parties. The present study aims to assess the viability of Islamic finance system In India with special reference to Kerala. The present study is sincere effort to achieve various objectives, such as, to assess the performance of Islamic micro financial institutions and traditional micro financial institutions in Kerala and find out significant difference in their efficiency scores; to find out the impact of demographic factors on selection of the institutions (Islamic or traditional) by individuals; to measure the impact of motivating factors on selection of the institutions (Islamic or traditional) by individuals; to assess the perception of customers of Islamic finance towards the Islamic finance system in India; to find out legal viability of Islamic financial system in India.

To accomplish the research objectives, to answer the research questions and to test the research hypotheses, the study used primary data which are collected from the state of Kerala. The study used Data Envelopment Analysis, Factor Analysis, Discriminant analysis, Binary logistic regression, Mann Whitney and Kruskal Wallis tests, independent sample t test and qualitative analysis. As per the data envelopment analysis under input method, the technical efficient and pure technical efficient Islamic financial institutions are more in number and percentages in all

the four years. However, though Islamic financial institutions are dominating in the fully scale efficiency; the conventional institutions are dominating in the year 2012-2013 in 90 percent scale efficiency. Therefore it can be said that more number of Islamic financial institutions are performing well in the utilisation of inputs with the maximum level of outputs since the technical efficient Islamic financial institutions are more in number and percentage. In order to find out the impact of demographic factors upon the selection of Islamic financial institutions or conventional micro financial institutions by the respondent individuals, the study used discriminant analysis and binary logistic regression. As per the result from discriminant analysis, employment, religion, income and gender are the most important variables in the discriminating between the respondents who selected Islamic finance and who did not. Binary logistic Regression is also giving similar results. The study explored various motivating factors behind the selection of Islamic financial institutions by the individual respondents. Out of 29 statements, the factor analysis reduced the variables into six factors. These six factors are further analyzed by discriminant analysis and binary logistic regression. As per the result from the discriminant analysis, the factors, such as possible benefits and scope of Islamic finance are the most important factors in discriminating between two dependent groups. The binary logistic regression also gives similar results. The study explored the perception of Islamic finance customers towards the Islamic finance system in India and found whether the demographic factors like religion, age, gender, income etc. have relationship with the perception and whether the perception significantly vary across these demographic factors. As per the results from Mann Whitney test, respondents' religion has significantly affected on the perception related with benefits, policy and coverage or there is significant difference between Muslims and non Muslims in the perception towards the benefit, policy and coverage of Islamic finance. As per the results of Kruskal Wallis test, the factor benefit is significantly different among the different age group. The study used qualitative analysis to find out the legal viability and the available options and Strength, Weakness, Opportunities and Threats of Islamic finance in India. According to the results from qualitative analysis, Islamic finance in its complete form is not feasible in India because of legal and regulatory barriers. However, there are various options which are permissible in India in the current scenario and are compatible to Shariah.