



# MARKET FOR ISLAMIC FINANCE IN INDIA

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# PRESENTATION OUTLINE

## Introduction

- What is Islamic Finance
- How it is Different from Mainstream Finance
- Islamic Finance: Global Trends

## Islamic Finance in India

- Players & Products
- Progress & Performance
- Problems & Potential

# WHAT IS ISLAMIC FINANCE?

## Name:

- Islamic finance is known by different names such as Ethical Finance, Interest-free Finance, Special Finance, Shariah Finance, PLS Finance etc.
- A Shariah based financial system which seeks to achieve economic and social justice in all financial transactions.

## Characteristics:

- It takes into account the moral consequences of financial transactions;
- It ensures that financial contracts are fair and equitable to all parties involved;
- It guarantees that financial rewards are correlated with the level of risk, efforts and responsibility borne by all parties;
- It Prohibits
  - Interest (*Riba* )
  - Excessive Uncertainty/Speculation (*Gharar*)
  - Gambling (*Maysir*)
  - Harmful Businesses

# ISLAMIC FINANCE VS. MAINSTREAM FINANCE

## Banking Business:

- Interest
- Financing of harmful sectors

## Insurance Business:

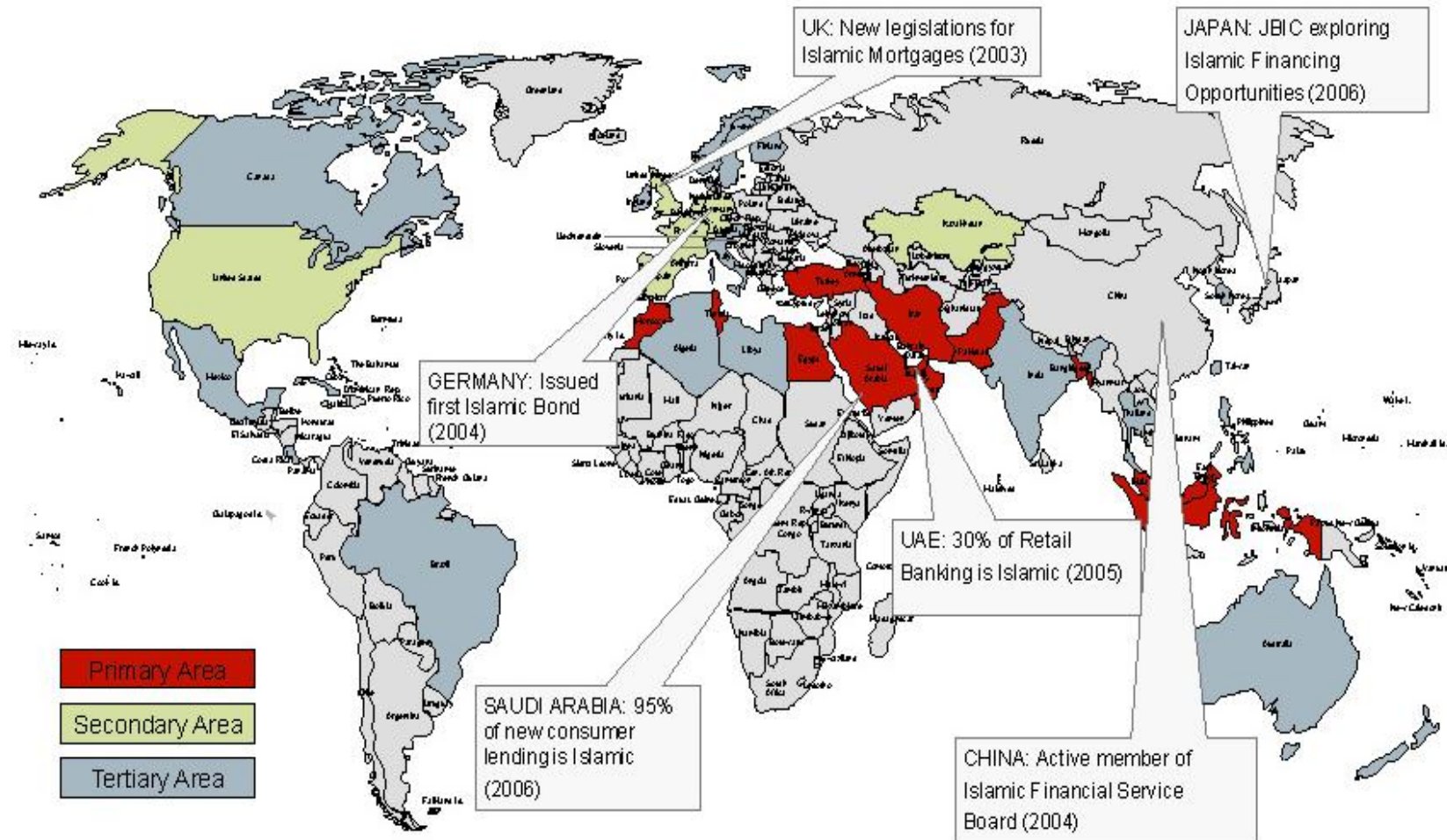
- Trading of Risk Vs Sharing of Risk
- Interest
- Conflict of interest Vs. Solidarity and mutuality

## Capital Market:

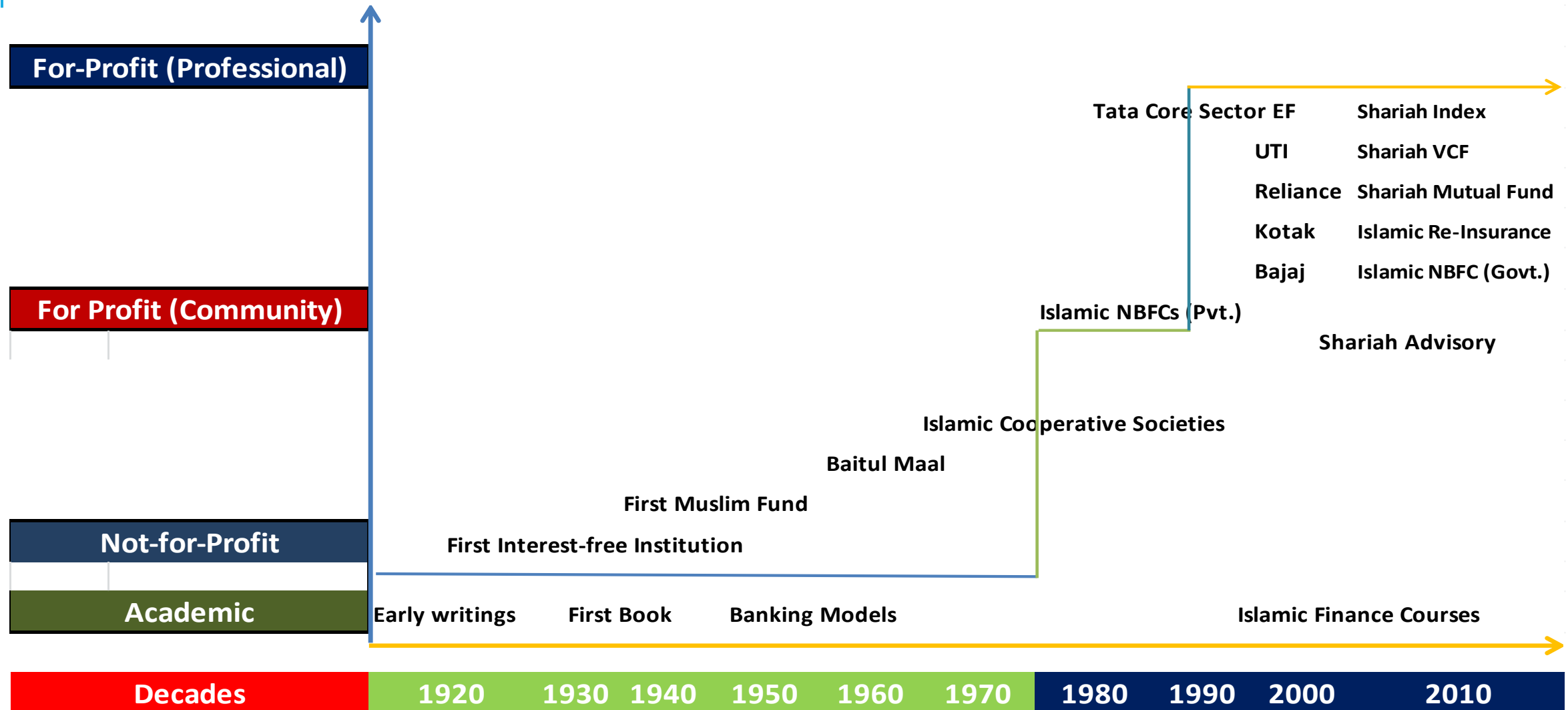
- Equity Vs. Bonds
- Business screening
- Financial screening
- Trading restriction

# ISLAMIC FINANCE: GLOBAL SPREAD

- Islamic finance is currently practiced in about 75 countries.
- Many western and secular countries are trying to tap the niche opportunities.
- Mainstream banks in many countries have started Islamic finance operation under “windows” “subsidiaries” or “standalone” model.
- By 2020, a major part of the Middle East economy is projected to become Shariah-compliant.



# ISLAMIC FINANCE IN INDIA (HISTORY)



# ISLAMIC FINANCE IN INDIA (IMPORTANT DEVELOPMENTS)

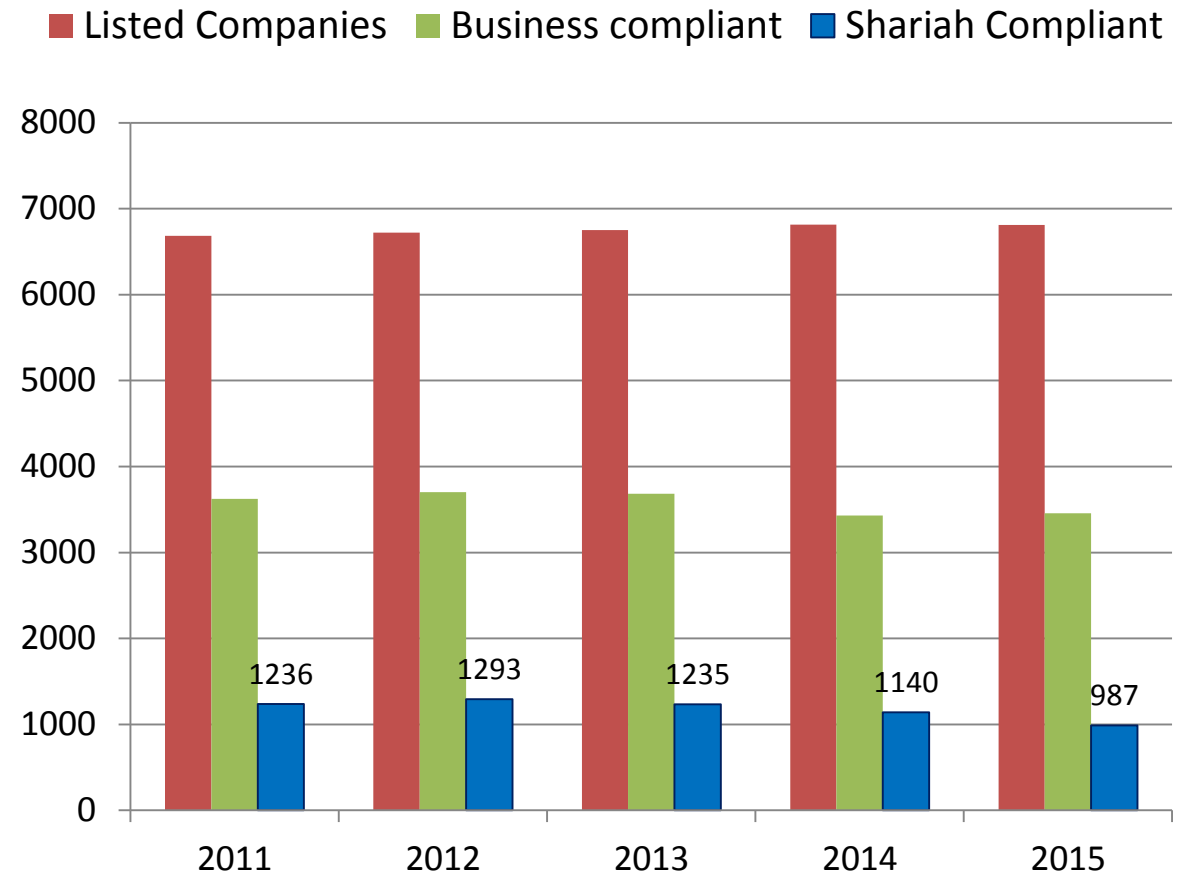
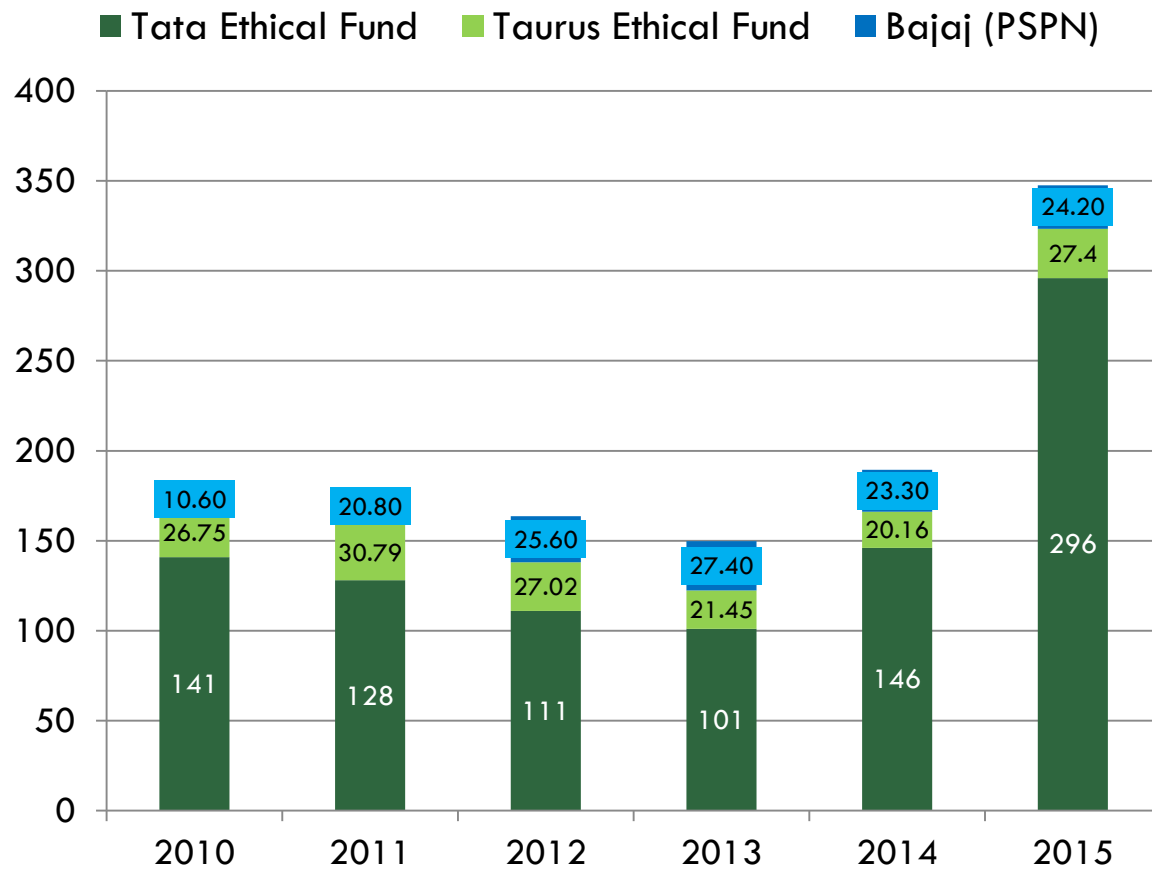
Action	Year
RBI appoints Anand Sinha Committee for studying Islamic Financial Products	2005
Raghuram Rajan Committee recommends Interest-free banking for financial inclusion	2008
Ministry of Minority Affairs invites bids for reconstruction of National Minority Development Finance Corporation (NMDFC) on shariah Lines	2008
SEBI permits India's first shariah compliant Mutual Fund Scheme	2009
SEBI permits India's first shariah compliant Venture Capital Fund	2009
GICRe enters Retakaful (Islamic reinsurance) in the foreign reinsurance market.	2009
Government of Kerala announces starting of an Islamic NBFC	2009
BSE and TASI launch BSE-TASIS Shariah 50 Index	2010
Kerala High Court dismisses petition filed against Kerala-based Islamic finance company	2011
RBI cancels license of Islamic NBFC	2012
SBI defers the launch of Shariah Equity Fund	2014

# ISLAMIC FINANCE IN INDIA (PLAYERS & PRODUCTS)

Regulator	Sector	Possibility	Institution
RBI	Banks	No	
	Non-Banks	Yes	Cheraman Financial Services Ltd
IRDA	Life	No	
	General	No	
	Re-Insurer	Yes	GIC Re
SEBI	Mutual Funds	Yes	Tata, Taurus
	PMS	Yes	Many
	Shariah Indices	Yes	BSE & NSE
	Venture Capital	Yes	Secure India Real Estate Fund



# ISLAMIC FINANCE IN INDIA (PROGRESS & PERFORMANCE)

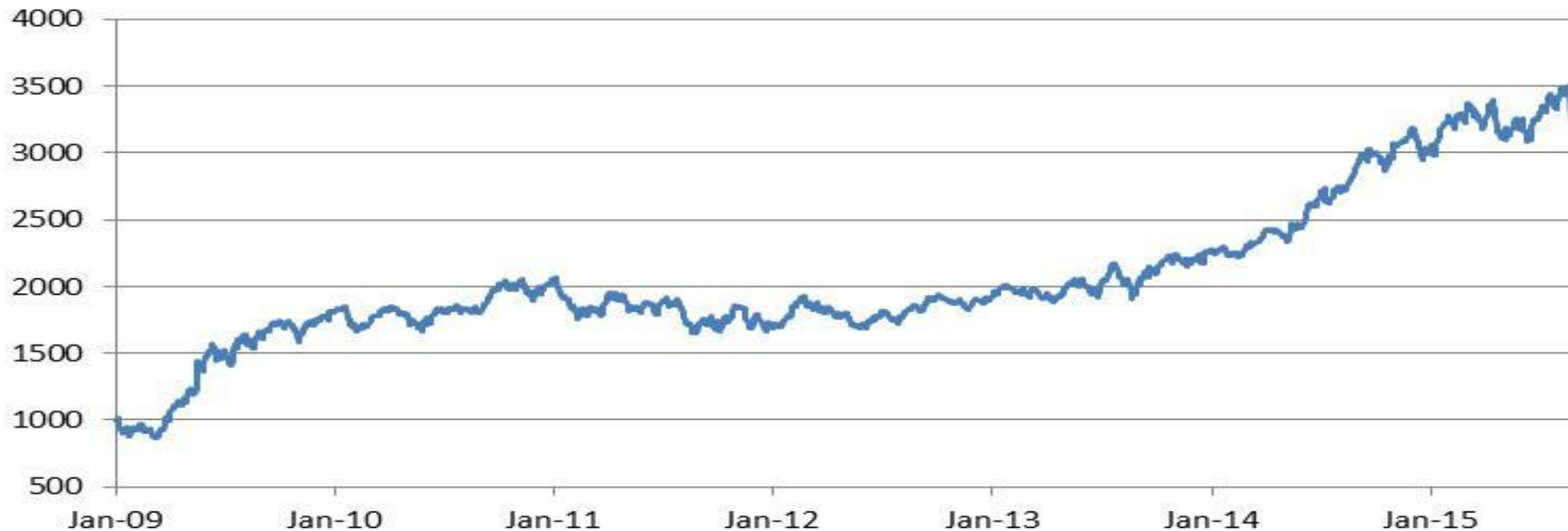


# ISLAMIC FINANCE IN INDIA (PROGRESS & PERFORMANCE)

GIC ReTakaful Business						
Year	2009-10	2010-11	2011-12	2012-13	2013-14	Annualized Growth (Since 2010-11)
Net Contribution	12.7	52.1	109.8	204.7	653.4	132%
Commission	9.1	9.1	13.8	31.0	64.3	92%
Income	-	12.8	24.7	52.1	176.7	140%
Surplus	0.2	6.1	23.1	45.2	170.8	204%

# ISLAMIC FINANCE IN INDIA (PROGRESS & PERFORMANCE)

## CNX Shariah25



Returns (%)	QTD	YTD	1 Year	5 Years	Since Inception
	0.82	8.43	14.82	12.86	19.63

# ISLAMIC FINANCE IN INDIA (PROBLEMS & POTENTIAL)

## Problems:

- Very few products
- Low financial literacy
- High volatility
- Regulatory bias and neglect
- Politically sensitive

## Potential:

- Untapped largest domestic market
- Potential to attract huge investments from Middle East and other shariah compliant investors
- Financial inclusion

# FINAL WORDS

*“While interest-free banking is provided in a limited manner through NBFCs and cooperatives, the Committee recommends that measures be taken to permit the delivery of interest-free finance on a larger scale, including through the banking system. This is in consonance with the objectives of inclusion and growth through innovation. The Committee believes that it would be possible, through appropriate measures, to create a framework for such products without any adverse systemic risk impact.”*

*(Raghuram Rajan Committee, Chapter 3: Broadening Access to Finance; Page 35)*

**Thank You!**

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