THE EFFECT OF RELIGIOSITY AND SHARIA FINANCIAL LITERACY TOWARDS THE USAGE OF SHARIA INVESTMENTS

Muhammad Haikal Hafis and Mandra Lazuardi Kitri
School of Business and Management, Institut Teknologi Bandung, Indonesia
Email: haikal.hafis@sbm-itb.ac.id

Abstract. *Investment is one of the muamalah activities that aims to increase the value of assets owned at this time which will be used for future interests. As a country that has the most Muslim population in the world the Indonesian government has seriously worked on a system where Muslim communities can invest comfortably, but this is contrary to the facts in the field. The level of inclusion of Islamic investment products is still very low, and the managed funds of Indonesian Sharia investments are still far behind Malaysia and Saudi Arabia, which have fewer Muslim populations than Indonesia. In view of this, the potential use of Sharia investment in increasing its market share is still large and wide open considering that the Muslim population in Indonesia is the largest in the world. There are many factors that influence the use of a product, especially investment. This study aims to determine whether the level of community religiosity and the level of Islamic financial literacy influence the use of Islamic investment products. This study uses a quantitative approach involving 429 respondents from the Indonesian muslim population. The sampling technique in this study used Purposive Sampling Technique. This research is based on primary data in the form of a questionnaire filled in by all respondents involved. Data analysis method uses Binary Logistic Regression analysis. Research divided into 5 model where the dependant variable is dummy variable. Whereas in testing the instrument variable this study uses validity test, reliability test. And for the hypotheses testing author using Binary Logistic Regression with Hosmer and Lemeshow, F-Test, Wald Test, and Nagelkerke R2 test as the tools. The result of this research is religiosity variable is not significantly affecting the usage of sharia investment, but sharia financial literacy significantly affecting the usage of sharia investment.*

Keywords: *Religiosity; Financial Literacy; Sharia; Investments; Sharia Investments; Bonds; Mutual Funds; Stocks*

INTRODUCTION

The era of globalization has led to rapid changes in the economic, social and cultural fields. Furthermore, these changes have influenced human needs and interests as consumers becoming increasingly complex. Instinctively, every human being always tries to fulfill all of his life needs. There are many ways to do in order to fulfill needs of life such as actively involved in some organization, institution, project, entrepreneurship, until to utilize passive income instrument such as investments. And for the process to gain and reach their needs, people will always be in touch and need other people. From this relationship, interactions and roles arise in community life to improve their standard of living so in the long run it is hoped that the welfare of the environment and society could be conducted. To realize mutual prosperity, it is possible to have mutually beneficial cooperation where one acts as a provider of funds (investors) and other parties as business actors (entrepreneurs).

As the country with the highest proportion of Muslims in the world, 87.18% or around 226.2 million people (World Bank, 2018) and can be said to be very plural because it has various kinds of groups and Islamic-based religious organizations, making sharia law-based economic activities must be conducted considering that in the Holy Quran there is a proposition that requires Muslims to avoid practices which is not align with Sharia principles such as usury (riba), investing in haram business, gambling or speculation (maisir), uncertainty or ambiguity (gharar), and every transactions that lack of real underlying economic materials and these things can be found on the conventional economic system. The Qur'an 3:130 (Translated by Saheeh International, 1997) shows the prohibition for muslims to do not involves in any kind of riba' or usury practices, "O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful", and also The Qur'an 5:90 (Translated by Saheeh International, 1997) shows the prohibition for muslims to do not involves in any kind of gambling and uncertainty practices "O you who have believed, indeed, intoxicants, gambling, [sacrificing on] stone alters [to other than Allah], and divining arrows are but defilement from the work of Satan, so avoid it that you may be successful.".

In Islam, economic activities such as investment cannot be separated from the role of faith. The role of faith is an important benchmark because faith provides a worldview that tends to influence human personality, such as in the form of behavior, lifestyle, tastes, attitudes toward fellow human beings, and resources. Faith greatly influences the nature, quantity, and quality of consumption both in the form of material and spiritual satisfaction because according to Sharia teachings everything we have done in the world will ultimately be accountable to Allah SWT. Faith provides a moral filter in spending assets and also motivates the use of resources (income) for effective matters (Muflih, 2006: 12).

Internal factor that plays a role in determining consumer decisions is religion or religiosity. people who deeply internalize themselves with the teachings of their religion, will be increasingly affected by the teachings. Religion plays a role in laying the foundation of understanding and moral concepts in a person. The moral concept of religion determines trust so often that the moral teachings of this religion become the sole determinant in determining attitudes and behavior (Azwar, 1995: 119).

People who have high religiosity level will certainly tend to obey religious teachings in carrying out business practices / investments. Economic profit and loss motives are indeed very important in seeking income, but if faced with the provisions of religious teachings that prohibit practices that are not in accordance with sharia principles, people who have high religiosity will strengthen a positive attitude towards the use of Sharia economic products such as Sharia banks, Sharia finance, investment and Sharia insurance (R. Ery Wibowo, 2015).

But there are interesting factss from the conditions above, even though the mechanisms and regulations regarding Sharia investment have been regulated, the inclusion rate of Sharia investment products is still very small. It's recorded in 2016 the usage/inclusion of sharia investments in Indonesia is only 0.01% from the total Muslim population in Indonesia or around 20,717 people (OJK, 2016). This figure reflects that Indonesia is lagging behind in terms of investment productivity. For example, let us take the asset under management (AUM) number of Sharia funds that consists of bonds, stocks, and mutual funds in Indonesia, which is only at US $ 2 billion. Far below Malaysia which has AUM of US$ 22.6 billion in 2017 while its muslim population is only 19.5 million and Saudi Arabia with US$ 25.6 Billion of AUM while its muslim population is only 31.8 million (Bank Negara Malaysia, 2017). We can see that there is still the potential to optimize the use of Sharia investment because Indonesia is a country with the highest proportion of Muslim population in the world.

Beside the religiosity, there are other variables that influence investment decisions that called financial literacy which is a component of human capital that can be used in financial activities to increase the expected utility of consumption, and recognized as a behavior to improve economic welfare (Huston, 2010). Financial literacy is used as a trigger for awareness, knowledge, skills, attitudes and behaviors important for making sound financial decisions and ultimately achieving individual financial well-being. (Bhabha et al., 2014). Financial literacy is very closely related to investment decisions for investors because if investors do not have good financial literacy, these investors can make mistakes in making financial decisions (Lusardi et al., 2009).

In Indonesia itself shows that the literacy rate of financial products and services in Indonesia is only 29.66% and the inclusion of financial products and services is 67.82%. The survey results showed that the index experienced an increase from the survey in 2013 which in the financial literacy rate was only 21.84%, and the financial inclusion index was 59.74%. Although these results have increased, the results show that the level of financial literacy in Indonesia is still relatively low. While the literacy rate of sharia products and services in Indonesia is only 8.1%, the total inclusion is only 11.1%, and the inclusion for investment in sharia capital market and investments is only 0.01% (OJK, 2017). Based on research conducted by Hidajat and Hamdani (2016) analyzing the level of financial literacy in Sharia perspective. The results of this study are Sharia financial literacy indexes that can be useful to determine the level of Sharia financial literacy of a product or service and increase the inclusion of Sharia financial products. Then there is research from (Atik Masruroh, 2016) showing that there is an influence between the level of religiosity on the use of Sharia financial products such as Sharia banking, the results of the study show a high level of religiosity will increase the interest in using Sharia economic products.

The background in the above shows that the inclusion of Sharia investment product is extremely low. This problem could lead to negative impact towards society such as exclusivity in economic that means only few people that understand and have access towards the product and financial services that would lead to the stagnant growth of economy. From the society side the lack of inclusion would cause lack of saving culture and lead to not have any fund to secure their future if something happened. The other impact is if this condition still maintained, it will broaden the economical gap. Maybe the economy will grow in fascinating numbers but not for the quality (Republika, 2017). In the other hand government actually have a strong driving factor towards Sharia Investment, they already regulated system about the Sharia Investment to attract the investor but still the level of inclusion in Sharia Invesment product very low, with the advantages from being the country which has the largest Muslim number in the world government should realize that there is a giant potential awaits for them if they can use this opportunity to increasing the Sharia Inclusion level towards the usage of Sharia Investments. In the other hand Sharia investment is very closely related if viewed from the perspective of Islam. Someone who internalizes Islamic teachings will tend to obey what is commanded by his religion, an obedient Muslim will certainly prefer Islamic investment products, but again this is still far from the fact that the inclusion of Islamic investment is still very low. So, before increasing the inclusion level of Sharia Investment they need to formulating the right strategy to reach that such of things. Hence, this research aims to identify does the religiosity and Sharia financial literacy really significant affecting towards the usage Sharia Investment that in the future might be used to formulate strategy in increasing the financial Inclusion Level especially for Sharia products.

LITERATURE REVIEW

Definition of Religiosty
According to Jallaluddin (2009) religion came from Arabic words al-Din, that means regulations or law. Then in Arabic language this word means mastering, subduing, obeying, reprisal, and habit. While religi in latin word or relegere means collecting and reading. And Religare means binding. Religion is a social arrangement of assigned behaviors and practice morals, worldviews, texts, places of sanctification, prophecies, ethics or organizations that interface humanity with supernatural, transcendental or spiritual elements (Morreal & Tamara, 2013). From the religi and religion terms it creates the terms of Spirituality and religiosity. Religiosity is how far the knowledge, how strong the belief, the implementation of rules and how deep the religions are they adhered which refers to the internalization from the doctrine of the religion (Nashori & Diana, 2002). According to Al Baqarah 208 "O you who have believed, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan Indeed, he is to you a clear enemy" The Qur'an 2:208 (Translated by Saheeh International, 1997). Based on that verse it is clearly stated as a muslim, we need to become a good believer that carry out the teachings of Islam completely, not halfway. In the economical and investments terms we need to pay attention on the rules and regulation in our religion before starting to invest our money so it will not violate the rules in our religion. According to Glock & Stark (1965) said that there are five dimensions in religiosity; Ideology, Ritualism, Experiential, Intellectual, Consequences, and Experiential.

Sharia Financial Literacy
In the development of the Islamic financial system over the past few decades a manifestation of the Islamic worldview was described according to sharia or Islamic law. Sharia is the cornerstone of the Islamic worldview which is a set of norms, values, and laws governing the Islamic way of life. According to Rahim et al. (2016) Islamic financial literacy is defined as a person's ability to use financial knowledge, skills and attitudes in managing financial resources according to Islamic teachings. Besides that Islamic financial literacy is a religious obligation for every Muslim because it brings further implications about the realization of Al-Falah (true success) in the world and in the afterworld. The aspects of Islamic finance literacy used as the basis for measuring Islamic financial literacy in this study adapted the financial literacy research category from Chen and Volpe (1998), also Huston (2010) to be changed in the perspective of Islamic finance. These aspects of financial literacy cover four aspects; General sharia financial knowledge, Sharia Borrowing and Lendings, Sharia Investments and Savings, and Sharia Insurance.

According to the Otoritas Jasa Keuangan, there are several products that are categorized as Sharia capital market products found in Indonesia. Otoritas Jasa Keuangan only mentions 3 products namely Sharia Stock, Sharia Bond (Sukuk), and Sharia Mutual Fund while in the abroad Islamic investment products are more varied, the reason why Otoritas Jasa Keuangan only mention those 3 products because in Indonesian Sharia Capital Market those are the products that have been issued and traded in here.

METHODOLOGY

Methodology used in this research is using quantitative research with binary logistic regression used as the tools to test the hypotheses. Mandatory reliability and validity test are conducted to check whether the questionnaire question that used to gather data in this research are valid and reliable. hypotheses testing author using Hosmer and Lemeshow, F-Test (Maximum Likehood), Wald Test, and Nagelkerke R2 test as the tools. This research are divided into five models where each model are the representative of dummy variable that defined by religious organization that the respondent filled in the questionnaire. Based on the Slovin formula with the population of Indonesia's Muslim and 5% significance level, the minimum sample size that should obtained are 400 respondents. The variables that used in this research are Religiosity (X1), Sharia Financial Literacy (X2), and Usage of Sharia Investments (Y), researcher also insert dummy variable in each model of regression to get a deeper understanding towards the affiliation.

L=Ln (Pi/(1-Pi))= β0+ β1X1+ β2X2+...+βnXn are the equation that used in this research models.
- The first model of this research is using binary logistic regression without including the dummy variables
  Y= β0+ β1RS+β2SFCL+e
- The second model of this research is using binary logistic regression with including the dummy variables 1 (Not affiliated to any Islamic religious organization)
  Yd1= β0+ β1RS+β2SFCL+e
- The third model of this research is using binary logistic regression with including the dummy variables 2 (affiliated to Nahdlatul Ulama')
  Yd2= β0+ β1RS+β2SFCL+e
- The fourth model of this research is using binary logistic regression with including the dummy variables (affiliated to Muhammadiyah)
  Yd3= β0+ β1RS+β2SFCL+e

FINDINGS AND ARGUMENT

Table 1 Realiability Test Result

Variable	Cronbach's Alpha	N of Items
Religiosity (X1)	0.881	15
Sharia Financial Literacy (X2)	0.636	20

Based on the reliability test result all of the independent variable cronbach's alpha are above the minimum value of 0.6 (Malhotra, 2010). İt means that all of the questionnaire items are reliable. For the validity test also the r calculation from all of the question items in the questionnaire are above the r table and also it means all of the questionnaire items are valid.

Table 2 Hosmer & Lemeshow, Simultant Test, and Nagelkerke R-Square results

Model No	Name	Sig. Hosmer & Lemeshow	Sig. Simultant Test	Nagelkerke R2
1	Overall	,254	,000	,469
2	Not Affiliated	,607	,000	,582
3	Nahdlatul Ulama	,570	,000	,347
4	Muhammadiyah	,433	,000	,532

From the table above it shows the osmer & Lemeshow, Simultant Test, and Nagelkerke R-Square results. For the Hosmer and Lemeshow it shows that the significance value are above the significance level 5% (0.05) that means all of the proposed model are fit and could enter the next step of binary logistic regression. For the Simultant test it shows that all of the value are below the significance level and that means the independent variables that used in the regression are significantly affecting towards the independent variables (Usage of Sharia Investments). And the nagelkerke R-Square are used to look how much the independent of variable in the regression model are explaining the whole model, from these model we could see that Model 2 (Not affiliated towards the religious oraganization) are the model that have the highest number with 0.582 or 58% , it means the Religiosity and Sharia financial literacy variable explaining about 58,2% factor that affecting the usage of Sharia Investments.

Table 3 Wald Test results

Model No	Name	Sig. Religiosity	Coefficient of Regression	Sig. Sharia Financial Literacy	Cofficient of Regression
1	Overall	,437	-,013	,000	3,065
2	Not Affiliated	,839	,005	,000	3,555
3	Nahdlatul Ulama	,049	-,063	,000	2,503
4	Muhammadiyah	,634	-,033	,003	4,000

Based on the results of the data analyzed in Wald Test. The researcher determined the findings, where the Religiosity Score (X1) for Model 1, Model 2, Model 4 and did not have a significant effect on The usage of sharia investment (Y). This is indicated by the results of testing the regression coefficient on the variable Religiosity Score (X1), obtained a significance value of more than α = 0.05. This result contrasts with the research conducted by Hassan and Anood (2009) stating that the four factors that most influence investment decisions are the religious reason, company reputation, perceived ethics of the company and objectives. There is another findings that belongs to an anomaly because in the Model 3 (Affiliated to Nahdlatul Ulama'(NU)) religiosity is significantly affecting the usage of Sharia Investment, but it has negative effect because in the regression equation the religiosity score has (e-0,065) for each point increase of the Religiosity Score. in other words that the higher the Religiosity score, it decreasing the probability of someone to uthe sharia investment.

On the other hand for the sharia variable financial literacy level (X2) in model 1, model 2, model 3 and model 4 have an influence on The usage of sharia investment (Y). This is indicated by the results of testing the regression coefficient on the Sharia financial literacy level (X2) variable, obtained a significance value that is less than α = 0.05 that means the sharia financial literacy variable are significantly affecting the usage of sharia investments and because all of the regression coefficent is a positive number it means sharia financial literacy have a positive correlation towards the usage of Sharia Investments

CONCLUSIONS

- Religiosity does not have significant effect towards the usage of sharia investments, exception for the third model of this research (Nahdlatul Ulama') it has the significant effect but decreases the odds to use the Sharia Investments or in the other hand for the third research model the religiosity will negatively affect the usage of Sharia Investments. The findings about religiosity in this research rejected the result of previous research that conducted by Rahim et al. (2016) where the results are religiosity have a significant positive impact in increasing the usage in Sharia financial products such as savings, investments and insurance.
- Sharia Financial Literacy have significant effect towards the usage of sharia investment. Findings in the model 1,2,3, and 4 shows the same result with the previous research conducted by Lusardi (2009) and Rahim et al (2016) where the financial literacy play big role in determining financial activity such as saving behavior, financing, and usage of financial investments.
- Religiosity and Sharia financial literacy simultaneously will affect the usage of Sharia Investmentand to summed up the religiosity tend to not have significant effect towards the usage of sharia investment. Sharia financial literacy tend to have significant effect towards the usage of sharia investment and if it tested simultaneously it will significantly affect the usage of Sharia investment.

REFERENCES

Abdillah, & Jogiyanto. (2015). PLS Alternatif Structural Equation Modeling (SEM) dalam Penelitian Bisnis. Jakarta: Andi.

Al Tamimi, H., & Bin Kalli, A. A. (2009). Financial literacy and investment decisions of UAE investors. Journal of Risk Finance.

Alvara Research Center. (2017). Potret Keberagaman Muslim Indonesia. Jakarta: Alvara Strategic.

Antara, P. (2016). Bridging Islamic Financial Literacy and Halal Literacy: The Way Forward in Halal Ecosystem. Elsevier B.V.

Arikunto, S. (2012). Dasar-dasar evaluasi pendidikan edisi 2. Jakarta: Bumi Aksara.

Asnawi, S. K., & Wijaya, C. (2005). Riset keuangan : pengujian-pengujian empiris. Jakarta: Gramedia Pustaka.

Ates, S. (2016). Impact of Financial Literacy on the Behavioral Biases of Individual Stock Investors : Evidence from Borsa Istanbul. Business and Economics Research Journal, 1-19.

Central Intelligence Agency. (2019, 06 26). Indonesia - The World Fact Book. Retrieved from Central Intelligence Agency: https://www.cia.gov/library/publications/the-world-factbook/geos/id.html

Chen, H., & Volpe, R. (1998). An Analysis of Personal Financial Literacy Among. Financial Services Review, 107-128.

Fetzer Institute. (1999). Multidimensional Measurement of Religiousness/Spirituality for Use in Health Research. Kalamazoo, MI: Fetzer Institute.

Ghozali, I. (2011). Application of multivariate analysis with SPSS program. Semarang: Diponegoro University Publishing Agency.

Glock, C. Y., & Stark, R. (1965). Religion and society in tension. Chicago: Rand McNally.

Huston, S. (2010). Measuring Financial Literacy. Journal of Consumer Affairs, 296-316.

Lusardi, A., & Tufano, P. (2009). Debt literacy, financial experiences, and overindebtedness. National Bureau of Economic Research.

Malhotra, R. K. (2010). Marketing research: an applied orientation. New Jersey: Pearson/Prentice Hall.

Manan, A. (2012). Hukum Ekonomi Syari'ah Dalam Perspektif Kewenangan. Jakarta: Kencana.

Masruroh, A. (2015). Analisis Pengaruh Tingkat Religiusitas Dan Disposible. Salatiga: Sekolah Tinggi Agama Islam Negeri Salatiga.

Otoritas Jasa Keuangan. (2016). Survey Nasional Literasi dan Inklusi Keuangan. Jakarta: Otoritas Jasa Keuangan.

Rahim, S. (2016). Islamic Financial Literacy and its Determinants among University Students : An Exploratory Factor Analysis. International Journal of Economics and Financial Issues, 32-35.

Soemitra, A. (2014). Masa Depan Pasar Modal Syariah di Indonesia. Medan: Kencana.