

PROPOSED MODEL FOR THE FACTORS INFLUENCING MUSLIM INVESTORS IN CHOOSING ISLAMIC UNIT TRUST FUNDS

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Abstract

The purpose of this study is to identify the factors which are influencing Muslims investor in choosing Islamic unit trust funds as one of their saving alternatives. The connections among the factors have not been fully established in decision making area. We developed a model and testable propositions of the relationships between religiosity, Islamic financial literacy and product knowledge with the dependent variable, decision making in Islamic unit trust funds. The target respondents for this study will be the Muslim investors in Islamic unit trust funds in Malaysia.

Keywords: Islamic Unit Trust funds, Investment Decision Making, Malaysia.

2016 GBSE Journal

Introduction

The development of Islamic unit trust funds has grown faster now a day. Islamic unit trust funds are one of the most popular products of Islamic financial instrument in Malaysia (Ali, Md Zani, & Kasim, 2014). Islamic unit trust funds is a Syariah based product where it is suitable for the Muslims in Malaysia to choose it as one of the halal (*permissible*) saving instruments. Islamic unit trust funds operate as pools of collective investment fund and managed by professional managers. According to Rajeswari & Moorthy (2005), Islamic unit trust funds is a retail product which is designed for small investors, salaried people and for those who like to invest in the product which is giving benefits as stock market investing but with low risk.

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Within a decade, it shows the increasing of the launched funds from 65 funds in 2004 to 197 funds in 31st March 2016 (Securities Commission of Malaysia, 2016). The total net asset value (NAV) of Islamic unit trust funds also show rapid growth every year and show that this product already gets attention from many investors in various religions to invest (Rahim, 2010; Remo-Listana, 2009).

By having complete knowledge about the product will influence them to make a suitable decision (Harris, 2012). Religiosity also influences investors attitude in their decision making process (Johnstone, 1975). Muslim investors are compulsory to use or choose a product which is in line with the Syariah rules. Here, the level of religiosity will work as a motivation to the Muslims either to follow the right guidance or not.

Islamic financial literacy also plays a big role in influencing Muslims to make a right decision in their investment decision. It is compulsory for the Muslims to have a knowledge of wealth management because it can guidance them to make a good decision which is accordance with Islamic perspectives. A good decision will help them to get the prosperity in this world and Hereafter. From this situation, this study wants investigate the factors which influence Muslims investor in choosing Islamic unit trust funds.

Problem Statement

This study focused on decision making of Muslims investor in choosing Islamic unit trust funds as their saving alternative. In order to evaluate the decision making of Muslims investor, the researchers investigated the factors which can influence Muslims investor in Malaysia when making an investment decision.

There is a limited study on the factors which influence investor in decision making in Islamic unit trust funds. Majority researchers in Islamic unit trust funds area are interested to investigated the performance (Elfakhani & Hassan, 2005; Ismail & Shakranib, 2003; Kassim & Kamil, 2012; Nassir, Shadi, & Abdul Hamid, 2012; Nik Muhammad & Mokhtar, 2006; Suhana, Raja Zuraidah, Nooririnah, Ruziah, & Zaibedah, 2012; Widiyanti, Adam, & Ismail, 2013), differentiate the performance between Islamic and conventional funds (F. Abdullah, Hassan, & Mohamad, 2007; Ashraf, 2013; Bashir, Rasyidah, & Nawang, 2011; Choong, Thim, Fie, & Ng, 2012; Hassan, Khan, & Ngow, 2010; Hoepner, Hussain, & Rezec, 2011; Mansor & Bhatti, 2011; Md. Saad, Abd Majid, Kassim, Hamid, & Mohd. Yusof, 2010; Rubio, Hassan, & Merdad, 2012), investment behaviour (Ali et al., 2014; Nathie, 2009) and the perceptions towards investing in unit trust funds and Islamic unit trust funds (Wan Nawang, Hashim, & Marzuki, 2008).

Hence, this study will test some criteria as religiosity, Islamic financial literacy and product knowledge as factors that can influence investors in their decision making.

Literature Review

Decision making is a study of identifying and choosing alternatives based on the values and preferences of the decision maker. The decision is made to choose the best alternatives or chooses the best product which is can fulfil decision makers' goals, objectives, desires, values and so on (Harris, 2012). According to Ackert (2014), financial commentators and scholars have recognised the impact of human psychology on financial decision making.

Religiosity is one of the examples of human psychological factors where it has an impact on human behaviour and attitudes (Weaver & Agle, 2002) and expected to have an effect on consumer's ethical beliefs. People who are more religious are more ethical in terms of their beliefs (Giorgi & Marsh, 1990). Research on consumer decision making also found that cognitive processing occurs immediately prior to the act of purchase. Cognitive processes can be defined as a higher mental process such as perception, memory, language, problem-solving and abstract thinking (Gerrig & Zimbardo, 2002).

Islamic financial literacy and product knowledge are the factors which can help consumers in their decision making process (Hastings, Madrian, & Skimmyhorn, 2012; Rooij, Lusardi, & Alessie, 2011). Islamic financial literacy is a new element of Islamic knowledge in financial education. The definition of Islamic financial literacy can be followed as a definition of financial literacy because that definition is not contradicted with the Shariah rules (Abdul Rahim, 2014). However, the measurement of Islamic financial literacy must be create based on the standard of Islamic finance. Antara, Musa, & Hassan (2016) has defined Islamic financial literacy as "the degree which individual 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."

Consumer product knowledge is an important element when purchasing (Lin & Chen, 2006). Product knowledge is based on memories or known knowledge from customers where it consists of 3 categories as (1) subject knowledge or perceived knowledge, (2) objective knowledge and (3) experience-based knowledge (Brucks, 1985).

Hypothesis Development

Religiosity and Islamic Unit Trust Investment Decision

Religion is a possible determinant of investment behaviour (Keister, 2003) because it can influence people's values, habits and attitude which can influence lifestyle and in turns affect consumer decision behaviour (Delener, 1994). Religious has been operationalised using religiosity where it has received increasing attention among behavioural researchers (Delener, 1994; Jamaludin, 2013; Muhamad & Mizerski, 2010; Shu, Sulaeman, & Yeung, 2012; Shukor & Jamal, 2013; Worthington et al., 2003).

The role of religiosity can shape the consumer's choice of banking either Islamic banking or conventional banking (Johan, Putit, & Syed Alwi, 2014; Wan Ahmad, Ab Rahman, Che Seman, & Ali, 2008). Idris, Nik, Naziman, & Januri, (2011) also supported that religiosity was the most significance factors in choosing Islamic product. On the basis of this argument, we proposed the following,

H1: Religiosity is positively related to Islamic Unit Trust Investment Decision.

Islamic Financial Literacy and Islamic Unit Trust Investment Decision

Financial literacy or financial education is one of the important elements that can affect financial decision making (Rooij et al., 2011). Müller & Weber (2010) has investigated the relationship between financial literacy and unit trust investment behaviour and found that there is a positive influence of financial literacy on the likelihood of investing in low-costs fund alternatives. Awareness about unit trusts and investment accounts is positively correlated with education (Guiso & Jappelli, 2005). People who have less awareness about financial products because they have low financial literacy (Guiso & Jappelli, 2005). Therefore, we proposed the following:

H2: Islamic financial literacy is positively related to Islamic Unit Trust Investment Decision.

Product Knowledge and Islamic Unit Trust Investment Decision

A consumer's knowledge about a product would determine consumer purchase decisions (Lin & Chen, 2006). During the purchasing process, the amount of knowledge in consumer memory about the product would affect their decision making process. The consumer will choose a product which is can fulfil their goal and expectation based on the knowledge of product which come from familiarity, experience or information search (Alba & Hutchinson, 1987; Brucks, 1985; Johan et al., 2014). Low understanding about the product knowledge will affect the consumers did not choose it as their best decision whenever that product is actually the best product solution for the customers. From this argument, we can conclude that:

H3: Product knowledge is positively related to Islamic Unit Trust Investment Decision.

The Proposed Research Model

In figure 1, we illustrate the proposed research model for this study.

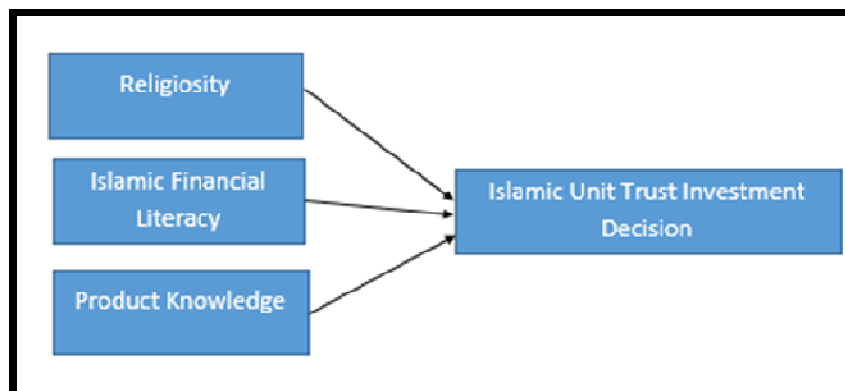


Figure 1: Proposed Research Model

Conclusion

In this paper, we compile the overview of decision making and the factors which can influence investors in their decision making process. From the literature review, we can conclude that religiosity, Islamic financial literacy, and product knowledge is an important factor which can influence consumers in their decision making process. This study extends the literature of Islamic financial literacy since it is still in new development (Abdul Rahim, 2014; M. A. Abdullah & Chong, 2014; Ahmad, 2010; Antara et al., 2016).

The finding will have crucial implications for unit trust authority such as Securities Commission of Malaysia and Federation of Investment Managers Malaysia (FIMM) to improve a product which is suitable for the characteristics of Muslims and always sharing knowledge about the products to increase consumer awareness.

Acknowledgements

This article publishes as a part of Ph.D. requirement under the University of Malaya.

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