AFEBI Islamic Finance and Economic Review

Islamic Behavior Finance: Literature Review

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DOI: https://doi.org/10.47312/aifer.v4i02.460

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Published
2019-12-17

Issue
Vol. 4 No. 02 (2019)

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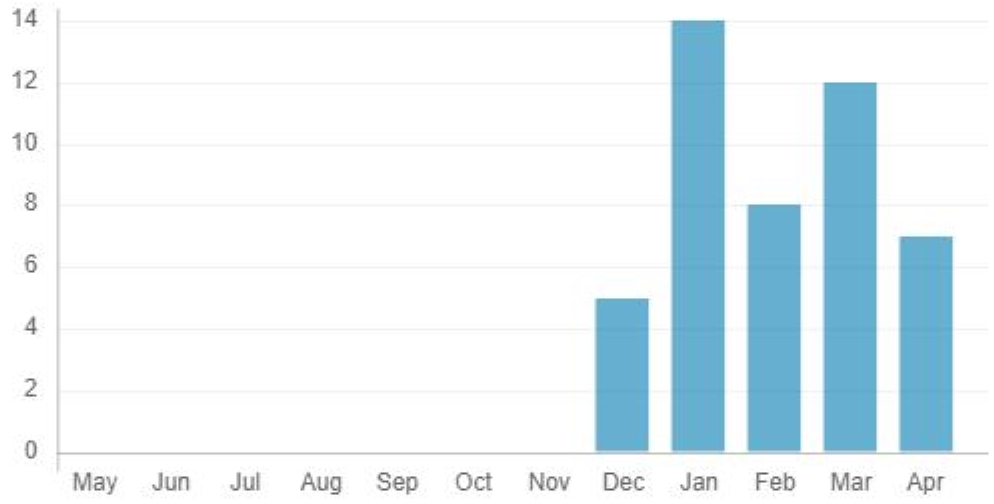

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Islamic Financial Behavior: Literature Review

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The purpose of this research to analyze the existing literature on Financial Behavior and Islamic Financial Behavior which can contribute to future studies in the field of Islamic Financial Behavior. This research is based on a critical review of Islamic Financial Behavior. Research findings that there are two different directions between Financial Behavior and Islamic Financial Behavior, further research is needed to develop and find new theories to advance knowledge in the field of Islamic Financial Behavior that can provide information for a Muslim to invest in accordance with sharia principles and provide a broader insight into investment in terms of psychology or behavior.

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1. INTRODUCTION

The development of behavioral financial science is growing rapidly, many experts are finally conducting research on the behavior of financial decisions that are different from traditional financial principles as done by Baker and Nofsinger, 2010; Barberis and Thaler, 2003; Fama, 1998; Miller, 1986; Statman, 1995 and 1999; In previous research, many academics have included new variables of investment decisions to understand investment decisions such as the influence of investors' personal experiences regarding previous investments (Gustaffson, 2006) investor tolerance factors for risk (Gompers, 1995; Wiltbank and Boeker, 2007; Wright and Robbie, 1996), as well as syndication factors (Admati and Pfleiderer, 1994; Lerner and Gompers, 2001). Researchers have also concluded that behavioral elements in decision making tend to be more influential on individual investors than large investors or institutional investors (Barberis and Thaler, 2003; Fama, 1998; Schleifer 2000; Thaler, 1999).

A new direction is developing throughout the Muslim world with the phenomenon of hijrah in every aspect of life or sharia-based economy, including investment. In conventional economics, a person's motives for investing are different, including saving to get a bigger return, planning for retirement, speculation, and so on. which determines the success or failure of an investment in the future, namely the provisions and will of Allah SWT. The Islamic economic paradigm reflects a view and behavior that reflects the achievement of falah. There are two points of view that underlie the Islamic economic paradigm, namely the paradigm of thinking or behaving (behavior paradigm) and the general paradigm (grand pattern). It is very important for Muslim investors to analyze investor psychology and investment decisions before investing, making Islamic Financial Behavior a growing topic in the financial literature recently. The psychological factor of

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investors, according to various sources, plays the most important role in determining investment. In Muslim investors, economic decisions are made all the time such as work activities, earning, adding value to wealth and consumption.

For a Muslim investor, the aspect of rationality is not the only aspect that must be considered in his investment decision. There is another aspect that is no less important, namely spiritual morals which will filter out activities that are prohibited in investment. The behavior of a Muslim investor is not the same as the behavior of conventional investors, because according to Huda and Nasution (2007), Islam as a rule of life that regulates every aspect of human life, provides various choices and suggestions for living a life in accordance with the law of Allah SWT. Allah SWT and his apostles gave orders (guidance) and norms/signs to be obeyed by every Muslim in investing and there was no element of usury, maysir (gambling), gharar (obscurity), and tadlis (fraud).

2. LITERATURE STUDY

Traditional financial theories first introduced by Harry M. Markowitz in 1952. Markowitz is known with its the Markowitz model, providing a way of investing efficiently and optimally, by establishing an optimal portfolio. Theories efficient market hypotheses by Fama in 1970 assumes that efficient financial and investor markets in making their finances processes and applies based on complete information. Markowitz's model portfolio theory was further developed by Sharpe (1964), Lintner (1965) and Mossin (1966).

When US stock crashes on September 11, 1986 (Black Thursday) and 19 October 1987 (Black Monday), the New York Stock Exchange (NYSE) opened just a big storm, which is a kind of invisible hands that encourage investors to sell shares immediately, then there was panic selling and stock prices began to fall. There was a tremendous panic among investors that the market became uncontrollable. No one can rationally explain the background of the two events.

Von Neumann and Morgenstern (1944) wrote research on The Theory of Games and Economic Behavior, writing became the beginning or basis of how to describe a person's level of rationality when he was in two choices in making investment decisions. Financial investors are consumers of financial products, which when they act are certainly influenced by financial behavior. Behavioral finance emerged when Slovic (1969 and 1972) discovered the psychological aspects of investment decisions, and subsequently financial behavior began to be discussed by academics. Kahneman and Tversky (1974) stated that an uncertain situation (uncertainty) would lead to heuristics or biases, then Kahneman and Tversky (1979) proposed a prospect theory, then Thaler in 1985 presented the theory of Mental Accounting, while Shefrin and Statman (1985, 2000) succeeded in developing the science of Financial Behavior in various studies. Bondt (1998) found the representation of individual investors. Statman (1995) and Forbes (2009) describe the theory of Financial Behavior. Ritter (2003) said that there are cognitive illusions that affect investors' minds in the decision-making process, namely heuristics and mental frames.

3. RESEARCH METHODOLOGY

This paper discusses literature review as a methodology for conducting research and offers an overview of the different types of reviews. This study wants to analyze the existing literature on Behavioral Finance and Behavioral Islamic Finance that can contribute to future studies in the field of Behavioral Islamic Finance.

4. RESULT AND DISCUSSION

Religious Behavior of Investors

Islam is a teaching that controls life in all aspects including faith, worship and including muamalah, especially in economic matters. In economic development, sharia has an important role in shaping people's behavior. Sharia prioritizes cooperation, instills virtues such as obedience, honesty, integrity, simplicity, tranquility, peace, and social harmony, and regulates one's behavior. According to Ancok and Suroso (1994), Glock and Stark's formulation which divides religiosity into five dimensions at a certain level is in line with with Islam as follows:

a. The dimension of belief (belief) can be equated with aqidah.
   A Muslim's belief in the nature of his religious teachings is called the dimension of belief or aqidah, especially fundamental and dogmatic teachings.
b. Dimensions of religious practice (pratice) can be aligned with sharia.
   The level of obedience of a Muslim in carrying out ritual activities in accordance with the instructions and recommendations of his religion is referred to as the dimension of worship (religious practice) or sharia.
c. Dimensions of experience (feeling) can be equated with ihsan.
   The extent to which a Muslim feels and experiences religious feelings or experiences is called the experiential dimension or ihsan
d. The dimension of knowledge (knowledge) can be equated with religious knowledge.
   The dimension of religious knowledge or knowledge refers to the level of knowledge and understanding of a Muslim towards the teachings of his religion, especially the main teachings of his religion as stated in the holy book.
e. Dimensions of practice (effect) can be equated with morality.
   The dimension of practice which is also called morality refers to how a Muslim behaves in accordance with the teachings of his religion, namely how individuals interact with their environment, especially with other individuals. A Muslim can invest his funds in one of three ways such as in cash, in the form of non-producing assets, or in productive activities such as project ownership. Sharia investment is a form of investment that adheres to sharia principles in both the real and financial sectors.

Therefore, seriousness is needed in managing, planning, controlling, organizing and it is intended as a form of worship to Allah SWT. In essence, investment is the placement of a number of funds in one or more assets over a certain period of time with the hope of generating income or increasing the value of the investment. Investors need information that becomes the basis for making investment decisions.

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The model of investment decision-making behavior is formed from available data in the form of investment appraisal criteria that allows Muslim investors to choose the best investment among the available investment options. Investors consider various factors in making investment decisions, one of which is psychological factors. According to psychological theory, a person will always be driven by his basic needs which are shaped by the environment in which investors are located. Regarding behavior, practices and religious activities (religiosity) investors do not guarantee one hundred percent of them to choose investments that are in accordance with sharia principles.

Islamic Financial Behavior

Many studies have been carried out to examine investment decisions in Islamic financial behavior in Muslim investors, such as those conducted by Haron and Wan Azmi (2008) wrote an article title Measuring Depositors' Behaviour of Malaysian Islamic Banking System: A Co-integration Approach, where they examined the role of religion to determine the saving behavior of customers at Islamic banks in Malaysia, and find that Islamic banking customers place profit motives above their religious motives when making economic decisions.

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Wahyuni (2012) wrote an article title Moslem Community Behavior in The Conduct of Islamic Bank: The Moderation Role of Knowledge and Pricing with variables of attitude, social influence, behavior intention and knowledge of product, using a questionnaire method as many as 195 Muslim respondents in Surakarta found that attitude, behavior intention and knowledge of product are very influential for decisions to use Islamic bank products, but social influence variables have no effect on decisions to use Islamic bank products.

Hanudin Amin (2013) wrote an article title Factors influencing Malaysian bank customers to choose Islamic credit cards Empirical evidence from the TRA model with variables of attitude, subjective norm and perceived financial cost. The results of the study show that attitudes, subjective norms and perceived financial costs have an effect on choosing a sharia credit card

Syukriah Ali, Rosliza M, Zani and Kartini Kasim (2014) conducted a study in Kedah Malaysia with the research title Factors Influencing Investors’ Behavior in Islamic Unit Trust: An Application of Theory of Planned Behavior and the research variables were intention attitude, social influence and perceived behavioral control, they found that the variables of intention attitude, social influence and perceived behavioral control affect investors' intentions to invest in Islamic unit trust funds

Canepa and Ibnrubbian (2014) wrote an article Does Faith Move Stock Markets? Evidence from Saudi Arabia, their findings show that religious teachings influence investors' behavior towards their chosen investment portfolio.

Mohammed Hersi Warsame and Edward Mugambi Ireri (2016) conducted a study in Qatar with the article title Does the Theory of Planned Behavior (TPB) Matter in Sukuk Investment Decisions, the variables studied were behavioral intention, attitude, subjective norms, perceived behavioral control. The results of their study found that the attitude and perceived behavioral control variables significantly influenced the intention to invest in sukuk, while subjective norms did not significantly affect investors' intentions to invest in sukuk. The researchers also found that the religiosity factor did not affect the decision to invest in sukuk.

Noraini Yusuff, Fadillah Mansor and Abu Bakar Hamed (2017) wrote an article title The Measurement Of Islamic Unit Trust Investment Decision In Malaysia: An Exploratory Factor Analysis with research variables such as financial literacy, information sources, investment risk, religiosity, and product knowledge. The results of their research found that the variables of financial literacy, information sources, investment risk, religiosity and product knowledge had an effect on investment decisions

Nurul Shahnaz Mahdzan, Rozaimah Zainudin, Rosmawani Che Hashim, and Noor Adwa Sulaiman, (2017) wrote an article title Islamic religiosity and portfolio allocation: the Malaysian context with demographic, religiosity and risk tolerance variables. The results of their study found that religiosity variables in general had no effect on the allocation of portfolio assets, while individuals with high risk tolerance, income level and education level showed a tendency to allocate risky assets into portfolios.

5. CONCLUSIONS

Financial Behavior research was initially based on the Theory of Games and Economic Behavior written by Von Neumann and Morgenstern in 1944 and continued by Slovic in 1969 and 197 who discovered psychological aspects and then Tversky and Kahneman in 1974 and 1979 found heuristic theory and prospects which later became the foundation of the subsequent development of Financial Behavior, and in the end there were studies on Financial Behavior related to the Islamic/Muslim world (Islamic Financial Behavior) which mostly focused on the Theory of Planned Behavior as well as various variables such as Islamic law, subjective norms , attitude, religiosity, etc. The results of this literature review the author concludes that there are two different directions between Financial Behavior and Islamic Financial Behavior in terms of the theoretical foundation and also the variables studied in the research, it is highly expected for the development of Islamic Financial Behavior theory and future studies on Islamic Financial Behavior must adopt Islamic theories that apply to financial and investment behavior that is consistent with Sharia principles. In future research, it is expected to add to the results of the latest studies to obtain a comprehensive literature review.

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by Herry Ramadhani

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This paper discusses literature review as a methodology for conducting research and offers an overview of the different types of reviews. This study wants to analyze the existing literature on Behavioral Finance and Behavioral Islamic Finance that can contribute to future studies in the field of Behavioral Islamic Finance.

4. RESULT AND DISCUSSION

Religious Behavior of Investors

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Syukriah Ali, Rosliza M, Zani and Kartini Kasim (2014) conducted a study in Kedah Malaysia with the research title Factors Influencing Investors' Behavior in Islamic Unit Trust: An Application of Theory of Planned Behavior and the research variables were intention attitude, social influence and perceived behavioral control, they found that the variables of intention attitude, social influence and perceived behavioral control affect investors' intentions to invest in Islamic unit trust funds

Canepa and Ibnrubbian (2014) wrote an article Does Faith Move Stock Markets? Evidence from Saudi Arabia, their findings show that religious teachings influence investors' behavior towards their chosen investment portfolio.

Mohammed Hersi Warsame and Edward Mugambi Ireri (2016) conducted a study in Qatar with the article title Does the Theory of Planned Behavior (TPB) Matter in Sukuk Investment Decisions, the variables studied were behavioral intention, attitude, subjective norms, perceived behavioral control. The results of their study found that the attitude and perceived behavioral control variables significantly influenced the intention to invest in sukuk, while subjective norms did not significantly affect investors' intentions to invest in sukuk. The researchers also found that the religiosity factor did not affect the decision to invest in sukuk.

Noraini Yusuff, Fadillah Mansor and Abu Bakar Hamed (2017) wrote an article title The Measurement Of Islamic Unit Trust Investment Decision In Malaysia: An Exploratory Factor Analysis with research variables such as financial literacy, information sources, investment risk, religiosity, and product knowledge. The results of their research found that the variables of financial literacy, information sources, investment risk, religiosity and product knowledge had an effect on investment decisions

Nurul Shahnaz Mahdzan, Rozaimah Zainudin, Rosmawani Che Hashim, and Noor Adwa Sulaiman, (2017) wrote an article title Islamic religiosity and portfolio allocation: the Malaysian context with demographic, religiosity and risk tolerance variables. The results of their study found that religiosity variables in general had no effect on the allocation of portfolio assets, while individuals with high risk tolerance, income level and education level showed a tendency to allocate risky assets into portfolios.

5. CONCLUSIONS

Financial Behavior research was initially based on the Theory of Games and Economic Behavior written by Von Neumann and Morgenstern in 1944 and continued by Slovic in 1969 and 197 who discovered psychological aspects and then Tversky and Kahneman in 1974 and 1979 found heuristic theory and prospects which later became the foundation of the subsequent development of Financial Behavior, and in the end there were studies on Financial Behavior related to the Islamic/Muslim world (Islamic Financial Behavior) which mostly focused on the Theory of Planned Behavior as well as various variables such as Islamic law, subjective norms , attitude, religiosity, etc. The results of this literature review the author concludes that there are two different directions between Financial Behavior and Islamic Financial Behavior in terms of the theoretical foundation and also the variables studied in the research, it is highly expected for the development of Islamic Financial Behavior theory and future studies on Islamic Financial Behavior must adopt Islamic theories that apply to financial and investment behavior that is consistent with Sharia principles. In future research, it is expected to add to the results of the latest studies to obtain a comprehensive literature review.

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