

FINANCIAL LITERACY AND INVESTMENT DECISIONS IN ISLAMIC FINANCIAL PRODUCTS

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ABSTRACT

This study aims to analyze Financial Literacy and Investment Decisions on Islamic Financial Products in Riau. The research method used is descriptive method and quantitative and qualitative analysis. The data collection technique uses a questionnaire that has been tested for its validity and rehabilitation. The research subjects were 154 respondents using purposive probability sampling technique and 25 interviewees. Meanwhile, the data analysis technique used is a simple linear regression equation, the management uses SPSS version 26 and Nvivo 12. Based on the results of the hypothesis testing it is known that financial literacy simultaneously has a significant effect on investment decisions on financial products in Riau Province.

Keywords: *Financial Literacy, Investment, Sharia.*

INTRODUCTION

Investment is an activity of setting aside some assets to be placed in investment vehicles with the hope of reaping economic value in the future (Achsien, 2000). In essence, investors will choose to invest their assets with their financial decisions, namely considering (return) returns and (risk) risks (Tandelilin, 2010). Tjiptono & Fachrudin (2012) emphasized that theoretically, for a riskier investment, investors will expect a higher return.

Investors also often expect fast and maximum profits with minimal risk, but the tolerance of each investor has acceptable limits. Basically there are two things that affect an investor's decision to invest, the first is the extent to which these investment activities can maximize profits for investors, both investment decisions are based on the psychological readiness of investors. This is the mindset of investors who have a rational mindset (Christanti & Mahastanti, 2011).

An understanding of financial literacy gained from financial education will then enable individuals to have sufficient knowledge about how to take advantage of the investments they make. Investment choices are based on the assumption that individuals are interested and able to make decisions about their finances. So that these investors have sufficient knowledge and information about these financial products and should be able to avoid the possibility of fraud or losses that are not in accordance with the tolerance limit of the investor or his risk averse.

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RESEARCH METHODS

Using descriptive analysis and linear regression testing. According to Nazir (2011) descriptive analysis is a study to determine facts through interpretation, including studies to accurately describe the nature of group or individual phenomena of the research object. Descriptive analysis is used to describe the condition of each variable, using regression analysis with the following equation:

$$\text{Investment Decision} = \beta_1 + \beta_2 \text{Financial Literatet} + et$$

The population of this study is the entire community. The sample selection in this study used a non-probability sampling technique, namely purposive sampling method. The purposive sampling method is the determination of the sample according to predetermined criteria

(Asnawi & Wijaya, 2005).

And the research respondents are described in general by presenting the characteristics seen from gender, age level, and employment status. The number used in this study was 154 respondents.

Table 1: Respondent Identification

| CATEGORY | ITEM | PERCENTAGE |
|---------------------|--------------------------------|------------|
| 1. Gender | Man | 30,5% |
| | Woman | 69,5% |
| 2. Age | 17 – 22 | 66,9% |
| | 22 – 30 | 26% |
| | 30 – 35 | 3,9% |
| | > 35 | 2,6% |
| 3. Jobs | Student | 59,1% |
| | PNS/TNI/POLRI | 2,6% |
| | Businessman | 7,8% |
| | Private Officer | 13,6% |
| | Investor | 0% |
| | Housewife | 3,2% |
| 4. Education | Other | 15,6% |
| | Package A, B, C | 0% |
| | SMA | 35,7% |
| | D3 | 3,9% |
| | S1 | 57,8% |
| | S2 | 2,6% |
| 5. Income Per Month | Other | 1,9% |
| | Under Rp. 1,000,000 | 54,5% |
| | Rp. 1,000,000 – Rp. 3,000,000 | 29,2% |
| | Rp. 3,000,000 – Rp. 5,000,000 | 8,4% |
| | Rp. 5,000,000 – Rp. 10,000,000 | 5,2% |
| 6. Domicile | Above Rp. 10,000,000 | 2,6% |
| | Bengkalis Regency | 23,4% |
| | Indragiri Hilir Regency | 2,6% |

| | |
|-----------------------------|-------|
| Indragiri Hulu Regency | 5,8% |
| Kampar Regency | 3,9% |
| Meranti Islands Regency | 5,2% |
| Kuantansingingi Regency | 3,2% |
| Palalawan District | 5,2% |
| Rokan Hilir Regency | 5,2% |
| Rokan Hulu Regency | 2,6% |
| Siak District | 7,8% |
| Dubai District | 4,5% |
| Pekanbaru Regency | 21,4% |
| Riau Islands Province | 2,6% |
| Areas Outside Riau Province | 6,5% |

Respondents in this study were dominated by women as much as 69.5%. For the classification of respondents based on age, the 17-22 year group had a higher percentage, namely 66.9% and it can be seen that most of the respondents were young, namely under 22 years. In terms of education, the number of respondents was dominated by undergraduates. Judging from the characteristics, it can be concluded that the respondents from this study were more beginner investors. This can be seen from their age and education.

RESULTS AND DISCUSSION

Based on the data processing that has been done using SPSS analysis version 26 to answer the hypothesis. Using descriptive analysis and linear regression testing. According to Nazir (2011) descriptive analysis is a study to determine facts

through interpretation, including studies to accurately describe the nature of group or individual phenomena of the research object. Descriptive analysis is used to describe the condition of each variable. Regression analysis was carried out to see the relationship of each variable, with the following equation:

$$Investment\ Decision = \beta_1 + \beta_2 Financial\ Literacy + et$$

Results of Multiple Linear Analysis

Linear regression analysis aims to see the relationship between financial literacy (X) and investment decision variable (Y). The following results have been tested by researchers, which can be seen in the table below:

| | |
|---------------|----------|
| α | 24.587** |
| <i>t-stat</i> | 4.591 |
| FinLit | 0.904** |
| <i>t-stat</i> | 6.736 |

Source: results of SPSS data processing 26, 2023

The linear regression equation can be arranged as follows:

| |
|--|
| $Y = 24.587 + 0.904 X$ |
|--|

Based on the formula equation above, an explanation can be given as follows:

1. The constant value is 24.587, meaning that the value of the investment decision is 24.587.

2. The financial literacy coefficient is obtained with a value of 0.904 meaning that other independent variables have the same value or no changes are made and the financial literacy variable will be increased by 1 point or 1% will increase by 0.904 or 90.4% in investment decisions.

Based on the coefficients table, a significance value of $0.000 < 0.05$ is obtained, so it can be concluded that the financial literacy variable X affects the Investment Decision variable Y, which means that H_0 is rejected. Based on this, it can be concluded that financial literacy has a significant effect on investment decisions.

From individual testing (T Test) has value $t_{test} 6,736 > 1.97569$, so it can be concluded that

the regression coefficient is positive, so that the investment decision variable affects the financial literacy variable.

Whereas from the overall regression coefficient hypothesis test (T test) it has a calculated F value of 45.373 with a significance level of $0.000 < 0.005$, so the regression model can be used to predict the participation variable or in other words there is an effect of the financial literacy variable (X) on the investment decision variable (Y).

The coefficient of determination (R²)

The coefficient of determination aims to measure how far the model's ability to explain the variation in the dependent variable. The results of the tests that have been carried out in this study are as follows:

Table 3: Results of the Coefficient of Determination (R)

| | |
|-------------------|-------|
| R | 0.479 |
| R Square | 0.23 |
| Adjusted R Square | 0.225 |

Source: results of SPSS data processing 26, 2023

The table above explains the value of the correlation/relationship (R) which is equal to: 0.479. From this output, the coefficient of determination (R Square) is 0.230, which implies that the independent variable (Total X) to the dependent variable (Total Y) is 23.0%. Based on these calculations, it can be seen that the contribution of the financial literacy variable to the investment decision variable is 77.0%. And the remaining 23.0% is influenced by other factors outside the variables of this study.

Nvivo12 testing

The desired sample in this study is to have several requirements such as respondents who are 17 years and over and respondents who live in Riau. In order to comply with these requirements, the authors collect data by observation and interview methods. The type of observation made is passive role observation, namely observations made directly in Islamic banks as research objects regarding investor decisions in taking Islamic banking products.

The type of interview conducted by the author is an interview conducted in the Riau area

with several questions regarding financial literacy and investment decisions. The questions given are:

1. Respondent's ability to prepare personal financial reports
2. Considerations in buying goods, comparing prices, products and their uses
3. Making personal budgets such as income budgets and expenditure budgets
4. Respondents can distinguish between wants and needs
5. Respondents are interested in investing
6. Respondents' income regarding safer investments
7. As well as selecting the type of investment desired by respondents such as sharia investment or conventional investment

Financial Literacy

According to the results of interview data analysis on financial literacy, the words that most often appear using the Nvivo application in the word cloud are finance, reports, in order to be able to make investment decisions. The following is a word cloud image used in this research resource

Figure 1: Financial Literacy Word Cloud

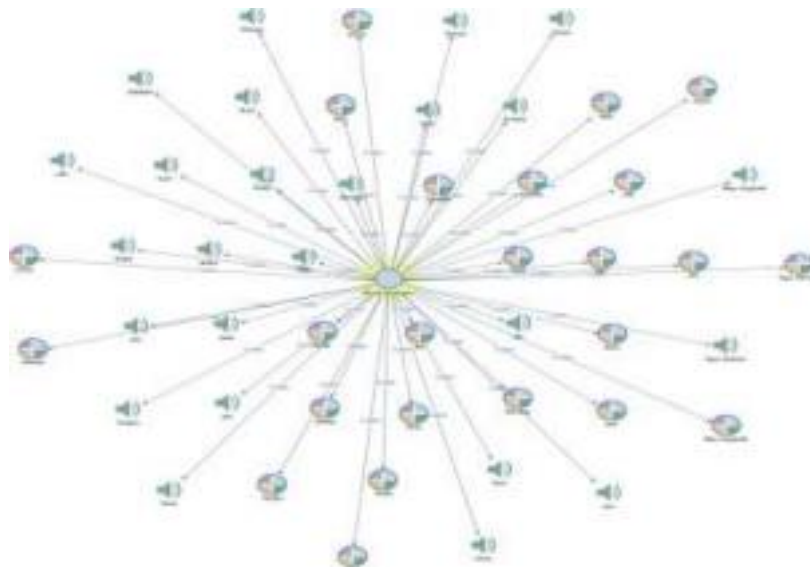


Source: Nvivo 12 data processing results

Further use the Nvivo application in the explore diagram which is used to determine whether there is a correlation relationship based on the similarity of words found in the data sources or

nodes selected and compared. With the results of the respondents' answers to questions about financial literacy.

Figure 2: Graph Chart



Source: Nvivo 12 data processing results

By looking at the results of the respondents' answers to questions about financial literacy. From the diagram above it can be seen that financial literacy requires financial literacy in investing, which must be prepared before investing capital and mentally in investing, investing in using capital to gain profit and in investing prioritizing personal or basic needs before investing.

Investation Decision

Based on the results of an analysis of interview data related to investment decisions for financial literacy in investing, the words that most often appear using the Nvivo software in the word cloud include interested, investment, sharia and so on. The image below shows the Word Cloud used in this research resource.

Figure 3: Investment Decision Word Cloud



Source: Nvivo 12 data processing results

Furthermore, still using the Nvivo application in the explore diagram which is used to find out whether there is a correlation relationship based on the similarity of words found in the data

sources or nodes that are selected and compared. With the results of the respondents' answers to questions about investment decisions.

Figure 4: Graph Chart



Source: Nvivo 12 data processing results

By looking at the results of the respondents' answers to questions about financial literacy. From the diagram above it can be seen that investment decisions have obstacles in the form of capital in investing, the need for knowledge about financial literacy and continuing to learn in investing, failure in investing is used as learning and always pays attention to profit.

The Effect of Financial Literacy on Investment Decisions

Financial literacy or *financial literacy* is financial knowledge and skills to apply this financial knowledge (Lusardi & Mitchell, 2007). The higher the level of one's financial literacy, the wiser the person is in making decisions. A person's level of financial literacy can be influenced by several factors, including gender, age, and experience. According to Lusardi & Mitchell (2007), financial literacy has a positive effect on

investment decisions and reduce the effects of cognitive biases. Investors who have good financial literacy will avoid deviant behavior and be more rational in their actions. (Pradhana, 2018)

Based on the results of testing the hypothesis shows that the variable *financial literacy* influence on investment decisions. So that in this study H_0 was rejected and H_a was accepted. This is appropriate *Financial Literacy and Education Commission* defines financial literacy as the ability and awareness to use knowledge and skills to manage financial resources to achieve maximum financial well-being, (Kadoya & Khan, 2020). Based on this theory we can conclude that *Financial Literacy* can be one of the factors that influence decision making in investing.

Based on the results of the questionnaires and interviews with respondents, the majority of respondents prefer sharia investment over conventional investment. For the Muslim community, sharia investment is an activity that is highly recommended in Islam, although in some classical Islamic literature there is no investment terminology and other terms such as capital markets, stock investment, bonds and so on, (Sakinah: 2014). Respondents' interest in sharia products tends to be good, this is because information related to sharia financial products can now be accessed more easily due to technological advances so as to increase interest in investment as well as ease of access transaction activities, (Ratih kurnia larasti & Deny yudianto).

CONCLUSION

Based on the results of research through online surveys given to people in Riau Province, it is known that financial literacy has a positive and significant effect on the decision to invest in Islamic financial products in Riau Province. This was also later supported by the results of follow-up tests through a deep-interview process with a number of sources, it was found that an understanding of financial literacy is one of the factors that determines the decision to invest in Islamic financial products. Samples and sources are not limited to beliefs or cultural backgrounds so that general conclusions can be drawn, but it is possible that using different data and classifications will give different results.

THANK YOU

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investment decisions.

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