



Mediation and Moderation of Islamic Religiosity and Financial Risk Tolerance

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Abstract

This There has been a dearth of research examining the moderating and mediating role of Islamic religiosity and financial risk tolerance in improving sharia investment decisions among the millennials. Responding to research gap, this study examines factors influencing sharia investment decisions with Islamic religiosity and financial risk tolerance as mediating and moderating variables. This study included 219 samples from the millennials who have invested in sharia stocks, Sukuk, or sharia mutual funds, which ranged in age from 18 to 39 years. Data were analyzed using Structural Equation Modeling (SEM) with AMOS 23. This study found that financial literacy did not have a direct impact on sharia investment decisions and that the moderating role of Islamic religiosity did not strengthen financial literacy's influence on sharia investment decisions. Financial risk tolerance, on the other hand, can mediate the influence of financial literacy on sharia investment decisions. Financial risk tolerance has a direct influence on sharia investment decisions and can moderate the influence of financial attitudes on sharia investment decisions. Muslims are more likely to invest in sharia shares, Sukuk, or sharia mutual funds since they believe in their positive outcomes and adherence to sharia principles free of gharar and riba.

Keywords: Islamic Religiosity, Attitude, Risk Tolerance, Investment Decisions.

Introduction

The development of financial technology (fintech) is currently presenting and revolutionizing the behavior of transactions involving payments or financial investments. Investment is a new trend for millennials, which requires financial literacy. Islamic financial literacy refers to financial education in the management

and improvement of access to information through the use of Islamic finance products and services. Islamic financial literacy is defined as a comprehensive understanding and knowledge of Islamic finance to achieve financial well-being (Bialowolski et al., 2021; Choudhury et al., 2019). The significance of increasing financial literacy Comprehensive is very useful for individuals in the future in financial planning, such as management of consumption, deposits/savings, and investments, housing or vehicle loans, and management of personal income tax, the estuary of which leads to financial well-being. Islamic financial planning has a significant influence on Islamic financial planning behavior, and financial planning intentions mediate this influence (O et al., 2017). The right investment decision influences the return obtained. The study argues that financial behavior completely mediates the relationship between financial literacy and investment decisions. This is in line with Gutter and Copur (2011) that financial well-being is positively related to financial management behavior.

Individual investors typically consider portfolio composition, investment objectives, risk perception, market knowledge, demographic characteristics, and financial attitudes (Patwardhan & Vaidya, 2019). Meanwhile, Annamalah et al. (2019) argue that risk-taking behavior, financial status, and information sources have a greater influence on investors' investment behavior. On the other hand, Prasad et al. (2021) show that financial literacy and risk and return analysis has the greatest influence on encouraging investment decisions. Without knowledge and smart financial management, it is difficult to have a financial surplus of savings or future investments. Financial literacy will also improve understanding of financial planning and risk tolerance, which will unquestionably influence how millennials choose sharia financial investments. The questions underlying this study is supported by research conducted by Bateman et al. (2011) that age influences investment choices, and millennial investors prefer challenges/risks and higher returns on investment.

This study examines the role of Islamic financial literacy and its influence on financial risk tolerance and investment decisions, as well as whether Islamic religiosity can strengthen the relationship between financial literacy and Islamic investment decisions. Altruism, acceptance of Allah (Rida), reliance solely on Allah (Tawakkul), gratitude, obedience, and benevolence characterize a person's religiosity (Helmy et al., 2014). From the perspective of the Islamic millennials, knowledge of religious rules influences behavior, including sharia investment decisions (Muhamad et al., 2016).

It will be intriguing to see if an increase in a person's religiosity influences their decision to invest in sharia. Whether financial risk tolerance is capable of mediating the influence of financial literacy on sharia investment decisions, as well as whether financial risk tolerance is capable of moderating the influence of financial attitudes on decisions to choose sharia investment, is worth further investigation and is a novelty in this study. The study's novelty is the examination of the role of moderating and mediating variables such as Islamic religiosity and financial risk tolerance in improving sharia investment decisions in the millennials, which strengthens the influence of financial literacy and financial attitudes.

Literature Review

Theory of Planned Behavior

According to Ajzen and Fishbein (1970) and Ajzen and Fishbein (1972), attitude is the first determinant of behavioral intention, and people will evaluate whether the behavior is beneficial or unfavorable. This means that the decision to choose sharia investment is based on the TPB concept that the investment choice is profitable (Aziz & Bhatti, 2022). A previous study conducted by Warsame and Ileri (2016) explains that many factors influence investment decisions, including religiosity, investment experience, and a variety of other non-financial factors such as age, income, gender, socioeconomic factors, and so on. However, Aziz and Bhatti (2022) argue that the attitude of investors themselves is the most important decision in choosing investments. Several studies have demonstrated the impact of individual attitudes, both affectively and cognitively, on the selection of Islamic banking products and services (Al-Salem & Mostafa, 2019).

Financial Literacy

Financial literacy is a major concern in future individual financial planning (Naiwen et al., 2021). In the same vein, Kasoga (2021) explains that financial literacy is the depth of a person's knowledge of finance. It is the fundamental understanding of what is right and wrong in terms of *riba*, *istishna'*, *Ijarah*, *mudharabah*, and *musharaka*, as well as *salam* (Hidajat & Hamdani, 2017). Good financial literacy encourages investors to gain adequate investment experience and knowledge, such as by purchasing stocks, mutual funds, and using investment products (sharia stocks, Sukuk, and sharia mutual funds with the *Ijarah* contracts or profit sharing). If investors with limited information choose

ambiguous investments, low financial literacy leads to less profitable or even loss-making investments (Adil et al., 2021).

Islamic Religiosity

Religion and religiosity are important factors in a Muslim's daily activities since they encourage people to behave and act in accordance with their religious beliefs and commitment to religion (Moghavvemi & Musa, 2018). Religiosity is a belief that a person has by obeying all of God's commands and avoiding His prohibitions (Bakar et al., 2013). Individuals' life paths are determined by their religious beliefs (Audretsch et al., 2013). Religiosity is embedded in a Muslim's values and attitudes, which influences their behavior, including investment decisions. A study conducted by Usman (2016) proves that religiosity is a key variable that explains consumer decisions to prefer Islamic banking over conventional banks.

Risk Tolerance

Risk tolerance reflects investors' proclivity to select investments based on investment risk factors (Hoffmann et al., 2015). Investors categorize investment risk as dangerous investments, high-risk investments, medium-risk investments, and low-risk investments. It is supported by the research of Lucarelli et al. (2015) examining the influence of investors' attitudes toward investment risk. Several studies have been conducted to explain the role of cognitive processes in investment decision-making. Despite established literature on risk tolerance and decision-making, little is known about financial risk tolerance and its impact on investment decisions (Nguyen et al., 2016).

Investment Decisions

Investment decisions are the process of purchasing assets (such as securities or other traded instruments) to profit in the future (Ahmad & Shah, 2020). Investment decisions are made by selecting among several reasonable investment alternatives. Investment choices also compare the loss outcome, gain outcome, loss probability, and volatility of returns (Nguyen et al., 2019). Ahmad & Shah, (2020) reinforce this by describing that in an efficient market, investors' tendencies are rational, so investment decisions are unbiased and tend to be consistent. However, many investors have cognitive or emotional biases when selecting investments, so it is critical to be cautious when making investment decisions to avoid mistakes that result in losses. Data support is required when

making investment decisions, such as the company's reputation, financial statements from year to year, stock price in the past, and industry position (Dzogbenuku et al., 2022).

Methods

The study's target population is millennials, or people between the ages of 18 and 39 who live in Indonesia's provinces (Central Java, East Java, West Java, Yogyakarta, Jakarta, Banten, and Outside Java). Using nonprobability sampling, 219 millennial respondents were selected through purposive sampling. The research sample consists of investors who have buying and selling sharia shares, sharia mutual funds, and Sukuk. Of the 219 data taken, 188 data meet the goodness of fit index, leaving 31 unused data. With hypothesis:

H₁: The higher the level of the millennials' financial literacy, the more it improves the Sharia investment decision-making

H₂: The higher the level of the millennials' financial literacy, the more it improves the Sharia investment decision-making.

H₃: The greater the Financial Risk Tolerance of the millennials, the more it improves the Sharia investment decision-making.

H₄: The higher the level of the millennials' financial literacy, the more it improves the Sharia investment decision-making as mediated by financial risk tolerance.

H₅: The higher the religiosity of the millennials, the more it improves the Sharia investment decision-making.

H₆: The higher the level of the millennials' financial literacy, the more it improves the Sharia investment decision-making as moderated by Islamic religiosity.

H₇: The higher the financial attitude of the millennials, the more it improves the Sharia investment decision-making.

H₈: The higher the financial attitude of the millennials, the more it improves the Sharia investment decision-making as mediated by financial risk tolerance.

Result and Discussion

Descriptive Statistic

According to the data in Table 1, the origin of the most respondents in this study is Central Java, with a total of 80.8%, and the largest respondents are female and those with an average age of 18-23 years. The majority of respondents (91.3%) have a bachelor's degree, have an income of less than IDR 5 million, and are female (78.5%). According to the analysis of one-way ANOVA, respondents'

characteristics based on their province of origin have a significant influence on the investment decision. While there are no significant differences in influencing Islamic financial investment decisions based on respondents' ages, education, income, age, and gender.

Measurement of Variables and Confirmatory Factor Analysis

Table 2. Measurement of variables and Confirmatory Factor Analysis

Statement	Outer Loading	Cronbach's Alpha	AVE	CR	Description
Islamic Religiosity (Audretsch et al., 2013; Bakar et al., 2013; Mahdzan et al., 2017; Moghavvemi & Musa, 2018; Pardiansyah et al., 2022; Septyanto et al., 2022). Measured with a Likert scale of 1-7, with 1 indicating strongly disagree and 7 indicating strongly agree.					
Believing that choosing sharia investment is part of obeying God's commands and staying away from His prohibitions	.802	0.801	.808	.821	Accepted
Planning for the future and thinking optimistically	.819				
Bank interest is <i>haram</i>	.758				
Investing in (Sukuk, sharia stocks, and sharia mutual funds) out of faith	.755				
Choosing sharia investment is part of religious observance	.729				
Choosing sharia investment is part of worship	.750				

Financial Literacy (Naiwen et al., 2021; Prasad et al., 2021). Measured with a Likert scale of 1-7, with 1 indicating strongly disagree and 7 indicating strongly agree.

Have adequate technical understanding/knowledge on how to invest in (Sukuk, sharia shares, shariah mutual funds either with profit sharing contracts or The <i>Ijarah Contract</i>)	.725	0.809	81 2	.8 22	Accepted
Following reviews of Islamic finance products	.744				
Experienced in sharia investment (Sukuk, sharia shares, sharia mutual funds with profit sharing or the <i>Ijarah</i> contracts)	.784				
Choosing an investment by considering the halal-haram of an investment	.822				
Understanding financial/accounting information on Islamic investments	.776				

Financial Attitude (Hoffmann et al., 2015; Septyanto et al., 2022). Measured with a Likert scale of 1-7, with 1 indicating strongly disagree and 7 indicating strongly agree.

Financial Risk Tolerance ...

Convinced that sharia investment is profitable	.885	0.858	.823	.799	Accepted
Investment choices must be free from <i>gharar</i> , <i>tadlis</i> , <i>riba</i> , <i>maysir</i> , and immorality.	.799				
Invest in sharia Sukuk/stocks because they follow the fatwa of the National Sharia Council	.801				
Investing in Islamic finance improves adherence to Sharia principles.	.826				
Sharia investment is being chosen because of its promising future prospects.	.828				
Sharia Investment Decision (Dzogbenuku et al., 2022; Fachrudin et al., 2022; Tahir & Brimble, 2011). Measured with a Likert scale of 1-7, with 1 indicating strongly disagree and 7 indicating strongly agree.					
Looking for sharia investment information before deciding to invest	.817	0.830	.799	.794	Accepted
Choose a sharia-compliant company with a good reputation.	.782				

Only choose halal investments	.794
Choose the most profitable sharia investment	.778
Choose to invest in Sukuk or sharia stocks instead of saving money in the bank	.811

Financial Risk Tolerance (Hoffmann et al., 2015; L. Nguyen et al., 2019; Tahir & Brimble, 2011). Measured with a Likert scale of 1-7, with 1 indicating strongly disagree and 7 indicating strongly agree.

Prepared to take on investment risk (such as risk of loss)	.843	0.869	.819	.811	Accepted
Diversify investments to reduce portfolio risk	.868				
Investors consider risk in investment decisions	.819				
Choose investment with low risk in investment	.849				
Avoid risky transactions and speculative investments	.847				
All forms of investment must be free from uncertainty (<i>Gharar</i>)	.857				

Figure 2 depicts a data pattern with a normal distribution as seen from the bootstrap results, in which the lower and upper limits are at the same pole, both positive or equally negative, and the results show both have positive values, indicating that the data is distributed normally. Furthermore, the goodness of fit model results show that the chi-square value is 25,268, the probability is 0.005, the GFI is 0.947, the AGFI is 0.900, the TLI is 0.979, the CFI is 0.968, and the RMSEA is 0.066, indicating that the model is has a good fit.

Table 3: Regression Weights

Hypothesis	Regression	Estimate	SE	CR	Probability	Description
H1	Financial Literacy (FL) → Sharia investment decisions	-,014	,065	-216	.829	Rejected
H2	Financial Literacy (FL) → Financial risk tolerance	.322	,045	7.092	***	Accepted
H3	Financial Risk Tolerance → Sharia investment decisions	.869	.145	5.992	***	Accepted
H4	Islamic Religiosity → Sharia investment decisions	.480	.139	3.447	***	Accepted
H6	INTERACT (FL and Islamic religiosity) → Sharia investment decisions	,000	,000	.1155	.265	Rejected

H7	Financial Attitude (FA)→Sharia investment decisions	.501	.084	5.950	***	Accepted
H8	INTERACT (FA and Financial Risk Tolerance)→Sharia investment decisions	,000	,000	2,038	,042	Accepted

***<1%, **< 5%, *<10%

Hypothesis 1 indicates that financial literacy influences sharia investment decisions with a coefficient value of -0.014 and a significance level of .829 or more than the probability value of 0.05 or 5%). Thus, H1 is rejected.

Hypothesis 2 demonstrates that financial literacy influences financial risk tolerance, with a coefficient value of 322 and a significance level of 0.01. It is less than the probability value of 0.05 (5%). As a result, H2 is accepted.

Hypothesis 3 demonstrates that there is an influence of financial risk tolerance on sharia investment decisions, with a coefficient value of 0.869 and a significance level of ***, indicating that this value is less than the probability value of 0.01 or 1%, denoting that the influence of financial risk tolerance on sharia investment decisions is significant. As a result, H3 is accepted.

Hypothesis 5 shows that there is an influence of Islamic religiosity on sharia investment decisions with a coefficient value of 0.480 and a significance level of ***, implying that this value is less than the probability value of 0.01 or 1%, denoting that the influence of Islamic religiosity on sharia investment decisions is significant. Thus, H5 is accepted.

Hypothesis 6 indicates that financial literacy influences sharia investment decisions by moderating Islamic religiosity with a coefficient value of 0.00 and a significance level of 0.878 (this value is greater than the probability value of 0.05 or 5%). As a result, H6 is rejected.

Hypothesis 7 proves that there is an influence of financial attitudes on sharia investment decisions, with a coefficient value of 0.501 and a significance level of ***, indicating that this value is less than the probability value of 0.01 or 1%. As a result, H7 accepted.

Hypothesis 8 exemplifies that there is an influence of financial attitudes on sharia investment decisions with financial risk tolerance mediation, with a coefficient value of 0.00 with a significance level of 0.05 (this value is less than the probability value of 0.05 or 5%). Thus, H8 is accepted.

Sobel Test

Table 4. The Influence of the Mediation on Financial Risk Tolerance

Hypothesis	Mediating Variable	Sobel test statistic	One-tailed probability	Two-tailed probability	Result
H4	Financial literacy → financial risk tolerance → sharia investment decisions	5.14765854	0.00000013	0.00000026	Accepted

Hypothesis 4 demonstrates that there is an influence of financial literacy on sharia investment decisions through financial risk tolerance mediation, with a coefficient value of 5.14765854 and a significance level of 0.01 (this value is less than the probability value of 0.05 or 5%), indicating that the influence of financial literacy on financial risk tolerance is significant. As a result, H4 is accepted.

Discussion

The results reveal that Islamic religiosity influences investment decisions (Sukuk, sharia mutual funds, and sharia stocks). This is consistent with previous research indicating that Islamic religiosity influences investment decisions (Septyanto et al., 2022; Tahir & Brimble, 2011). The study, however, contradicts Warsame and Ireri (2016) who state that religiosity does not directly affect investment decisions. Because investment decisions are influenced more by behavioral factors such as customer service quality and Sukuk knowledge for both Muslims and non-Muslims. The results also indicate that Islamic religiosity does not moderate the influence of financial literacy on sharia investment decisions. Because high religiosity causes risk aversion, investors prefer low-risk or savings investments (Mahdzan et al., 2017; Miller & Hoffmann, 1995; Tahir & Brimble, 2011) also state that Islamic religiosity has no influence on portfolio allocation.

The results indicate that financial literacy has no influence on sharia investment decisions. It shows a negative coefficient. Warsame and Ireri, (2016) support this results that knowledge of Islamic banking products does not automatically increase individuals' desire to use banking products, and religious factors are not the leading factors for these decisions. Different investment decisions may be influenced by differences in individual risk tolerance, because individuals with low-risk tolerance prefer safe or low-risk investments, whereas individuals with high-risk tolerance are willing to take risks. larger while also seeking a higher rate of return (Awais et al., 2016).

However, the research results indicate that financial risk tolerance mediates the influence of financial literacy on sharia investment decisions. In the same vein, Ahmed et al. (2021) prove the mediating role of financial risk tolerance on the influence of financial literacy on individual investment decisions. Individual investors prefer stock investments, and high financial literacy indicates a favorable position for investors because it eliminates the risk of loss by selecting a reputable company and considering the volatility of the previous stock price (Heshmat, 2012). Naiwen et al. (2021) support this proffering that investment decisions are influenced by risk tolerance and financial literacy. Individual investors who are financially literate take more risks, and male investors take more risks than female investors. As a result, the level of individual risk tolerance leads to different investment decisions.

This study proves that financial risk tolerance influences sharia investment decisions. Low-risk tolerance increases the desire of investors to attract investment funds (Widyastuti et al., 2019). Nguyen et al. (2019) strengthen this by arguing that financial literacy determines investment choices. individuals with a high level of financial knowledge and expertise are also more likely to choose high-risk investments. Individuals with low financial literacy, on the other hand, tend to allocate less risky funds. The results of this study are in line with Upadana and Herawati (2020) that university students prefer savings as an investment product because it has low risk and is easier to disburse. In addition to savings, students choose stocks as their investment choice.

The results suggest that attitude has a significant positive influence on investment decisions. Furthermore, financial risk tolerance can moderate the influence of ownership on sharia investment. financial attitudes affect investment decisions (Septyanto et al., 2022). In the Islamic perspective, the attitude is very close to the issue of ethics and obedience, which is primarily based on the Qur'an and As-Sunnah. This attitude leads to a strong belief that all Muslims must follow

Sharia principles when transacting or investing. Muslim investors, including those who buy stocks, believe that sharia stocks are the best option.

Conclusion

The findings of this study emphasize the importance of financial risk tolerance as a driving factor for investment, either directly or as a moderating or intervening variable. Several studies have demonstrated that financial literacy increases financial risk tolerance and, as a result, improves decisions regarding sharia investments. The findings show that Islamic religiosity only has a direct impact on investment decisions, but fails to moderate the influence of financial literacy on sharia investment decisions. Financial attitude has a greater direct influence than Islamic religiosity. The results of this analysis contradicted previous research. This study proves that the direct influence of financial literacy on sharia investment decisions was insignificant and negative. A high level of financial literacy encourages investors to choose investments in riskier sectors to get a higher return. Investments in Islamic stocks and Sukuk with profit-sharing contracts, for instance, have higher returns and risks than Ijarah contracts. The most important factor for an investor when selecting a sharia investment is risk tolerance.

Meanwhile, financial attitude is the second driving factor of sharia investment decision. The results also demonstrate that religiosity has a direct influence on sharia investment decisions but fails to moderate the influence of financial literacy on sharia investment decisions. Financial attitudes have a significant positive direct influence on sharia investment decisions, and financial risk tolerance has a significant direct influence as a moderating and mediating variable.

The practical implications are consistent with research findings indicating that Islamic religiosity and financial attitudes have a positive and significant influence on the selection of Islamic investments. There is a need for an Islamic financial authority policy because the questionnaire shows that respondents invest in sharia Sukuk/shares because they follow the National Sharia Council fatwa to invest free of gharar and riba. As a result, it is necessary to develop sharia investment products that are free of gharar and riba as they influence investment decisions. The limitation of this study is that the respondents are investors of Sukuk, sharia shares, and sharia mutual fund, which means that this study is not generalizable to professional investors or different investment products.

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