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## **Analysis of Sharia Investment and its Influence on Muslim Investors' Decision-Making in Indonesia**

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**Abstract:** Indonesia, as the country with the largest Muslim population in the world, has enormous potential for developing Sharia-compliant investments. Sharia investment is a capital investment system based on Islamic principles, free from *riba* (usury), *gharar* (gharar), and *maysir* (gambling), and emphasizes the values of justice, transparency, and sustainability in economic activities. Sharia investment is expected to provide an alternative financial system that is not solely oriented towards financial gain but also aligns with the ethical and social values of the Muslim community. This article aims to analyze the concept of Sharia investment and examine the factors influencing Muslim investors' decisions in selecting Sharia-compliant investment instruments in Indonesia. The research method used is a qualitative descriptive approach through a literature review of recent scientific journals, reference books, and official reports from Sharia financial institutions and regulators. The study results indicate that Sharia financial literacy plays a significant role in shaping investors' understanding and attitudes toward Sharia investment. Furthermore, risk perception, return levels, and trust in Sharia financial institutions and Sharia supervision have been shown to significantly influence investment decisions. These findings underscore the importance of improving education, transparency, and institutional strengthening to encourage sustainable growth of sharia investment in Indonesia.

**Keywords:** Sharia Investment, Investment Decision, Sharia Financial Literacy, Risk Perception, Islamic Finance.

## 1. Introduction

The development of the Islamic financial industry in Indonesia has experienced significant growth over the past decade, particularly in the Islamic capital market sector. This is evidenced by the increasing number of Islamic financial instruments, as well as rising transaction values and market capitalization. The Financial Services Authority (OJK) noted that the capitalization of Islamic stocks and outstanding national sukuk (Islamic bonds) has consistently shown a positive trend year after year, in line with increasing regulatory support and public interest in Islamic-based financial products (OJK, 2024).

Sharia investment presents an alternative capital investment system that is not solely oriented towards achieving financial returns but also emphasizes ethical aspects, fairness, and adherence to Islamic sharia principles. These principles include the prohibition of usury (riba), gharar (gharar), and maysir (gambling), as well as the requirement for halal and productive business activities. With these characteristics, Sharia investment is believed to create a more stable and sustainable financial system than conventional systems (Antonio, 2021; Hassan et al., 2023).

Despite its significant market potential, retail investor participation in Islamic investment in Indonesia remains relatively low compared to the total Muslim population and the number of investors in the financial market as a whole. This indicates a gap between the potential and actual development of Islamic investment. Several previous studies have shown that low Islamic financial literacy is a major factor hindering people from making Islamic-based investment decisions (Rizki & Firmansyah, 2022; Nugroho & Wulandari, 2023).

Besides literacy, risk perception also plays a crucial role in investment decisions. Some investors still view Islamic investment instruments as high-risk products or offering less competitive returns than conventional investments. This perception often arises from limited information and understanding of Islamic investment mechanisms, particularly regarding profit-sharing systems and risk management (Hassan et al., 2023).

Furthermore, the level of trust in Islamic financial institutions and the effectiveness of Islamic supervision also influence investor interest in investing (Rahman et al., 2024).

Therefore, a comprehensive analysis of Islamic investment and the factors influencing Muslim investor decisions is crucial. A deeper understanding is expected to contribute to the formulation of strategies to increase literacy, strengthen public trust, and develop policies that support the sustainable growth of the Islamic financial industry in Indonesia.

## 2. Literature Review

Sharia investment refers to capital allocation activities conducted in accordance with Islamic principles, including the prohibition of riba (interest), gharar (uncertainty), and maysir (gambling), as well as the obligation to engage in halal and productive economic activities (Antonio, 2021). These principles aim to establish a fair and transparent financial system that balances economic objectives with ethical and social considerations.

In Indonesia, major sharia investment instruments include sharia stocks, sukuk, and sharia mutual funds. Sharia stocks are issued by companies whose business activities comply with Islamic principles and pass regulatory screening. Sukuk, as sharia-compliant bonds, generate returns based on underlying assets rather than interest, while sharia mutual funds provide diversified investment opportunities for retail investors. Official data indicate that these instruments demonstrate relatively stable performance and increasing investor interest (OJK, 2024).

Investment decision-making in the Islamic perspective extends beyond conventional risk–return considerations to include moral and social responsibility. This approach aligns with the concept of maqasid al-shariah, which emphasizes public welfare and ethical economic conduct (Ascarya, 2022).

Sharia financial literacy plays a central role in shaping investors' decisions. It encompasses knowledge of sharia principles, contract mechanisms, and the characteristics of sharia investment instruments. Empirical evidence suggests that higher levels of sharia financial

literacy positively and significantly influence sharia investment decisions, particularly among retail investors (Nugroho & Wulandari, 2023).

Risk perception is another crucial determinant. Studies indicate that exaggerated risk perceptions—often driven by limited

### 3. Research Methodology

This study uses a qualitative descriptive approach with a literature review method to analyze the concept of Islamic investment and the factors influencing Muslim investors' decisions. This qualitative descriptive approach was chosen because this study aims to comprehensively understand and interpret the phenomenon based on empirical and conceptual findings from previous research, without conducting direct statistical testing (Creswell, 2018).

The data sources in this study consist of secondary data obtained from various relevant and credible literature. Data were collected from indexed national and international scientific journals, Islamic economics and finance textbooks, and official reports published by the Financial Services Authority (OJK), Bank Indonesia, and Islamic financial institutions. The literature used was prioritized for publications from the last five years to ensure the relevance and timeliness of the data analyzed, particularly regarding the development of Islamic investment in Indonesia.

The data collection process was conducted through a systematic search of academic databases such as Google Scholar and national journal portals, using keywords including "Islamic investment," "investment decisions," "Islamic financial literacy," and "Islamic investment." The selected literature was then screened based on the criteria of topic suitability, methodological quality, and its contribution to the discussion of Islamic investment and Muslim investor behavior.

Data analysis techniques were conducted through the stages of data reduction, data presentation, and conclusion drawing. In the data reduction stage, researchers identified and sorted information relevant to the research focus. Next,

information—can reduce investors' willingness to engage in sharia investments (Hassan et al., 2023). Meanwhile, institutional trust, reinforced by effective sharia supervision and transparent governance, significantly enhances investor confidence and participation (Rahman et al., 2024).

the data was presented in an analytical narrative, comparing the results of previous studies to identify patterns, similarities, and differences in the findings. The final stage was drawing conclusions inductively based on a synthesis of the analyzed literature.

To maintain the validity and credibility of the research, researchers employed source triangulation techniques by comparing findings from various official references and institutions. Thus, the study's results are expected to provide an objective and comprehensive picture of Islamic investment and the factors influencing Muslim investor decisions. This approach is expected to provide a theoretical contribution to the development of Islamic finance literature and serve as a basis for further empirical research.

### 4. Discussion

Based on the results of a literature review, Islamic financial literacy has been shown to play a dominant role in shaping Islamic investment decisions. Investors who have a good understanding of Islamic principles, contract mechanisms, and the characteristics of Islamic investment instruments tend to demonstrate a more rational and confident attitude when making investment decisions. This finding aligns with research by Hassan et al. (2023), which states that Islamic financial literacy significantly contributes to reducing uncertainty and increasing investor readiness to face investment risks.

Islamic financial literacy also plays a role in shaping investor risk perceptions. Investors who understand that Islamic investments apply profit-sharing principles and have clear underlying assets tend to view risk more objectively. This is supported by a report from the Financial Services Authority (2024), which shows that several Islamic capital market instruments, such as sukuk and Islamic mutual funds, have relatively stable volatility

compared to conventional instruments over a given period. This condition strengthens the argument that low Islamic financial literacy can trigger excessive risk perceptions and hinder investment interest.

In addition to literacy and risk perception, the level of return remains a crucial factor in Sharia investment decisions. Although Muslim investors consider Sharia compliance, rational economic considerations still play a significant role. Data from the Financial Services Authority (OJK) (2024) shows that the performance of Sharia mutual funds and sovereign sukuk in recent years has been relatively competitive and able to compete with conventional instruments. This finding supports the view that Sharia investments are not only superior from an ethical perspective but also have real economic appeal for investors.

Trust in Sharia financial institutions and the Sharia supervisory system is also a crucial determinant of investment decisions. The existence of a Sharia Supervisory Board and strict regulations provide assurance that the

## 5. Conclusion

This study provides a comprehensive overview of Islamic investment and the factors influencing Muslim investors' decisions, based on a review of current literature. The results demonstrate that Islamic investment not only serves as an alternative financial system in accordance with Islamic principles, but also has competitive and sustainable economic potential to support the growth of the national financial industry.

Islamic financial literacy has been shown to be a key factor in shaping Islamic investment decisions. Investors who have a sufficient understanding of Islamic investment principles, mechanisms, and instruments tend to have a more rational risk perception and a higher level of trust in Islamic investment products. This underscores the importance of ongoing education and outreach to increase public participation in Islamic investment.

In addition to literacy, risk perception, return levels, and trust in Islamic financial institutions

investment products offered comply with Sharia principles. Rahman et al. (2024) emphasize that investor confidence increases with information transparency and consistent implementation of Sharia principles by financial institutions. In the Indonesian context, strengthening governance and oversight by regulators has positively contributed to increasing public trust in the Sharia financial industry.

Overall, the results of this study indicate that Sharia-compliant investment decisions are influenced by the interaction of cognitive, psychological, and institutional factors. Sharia financial literacy shapes investor understanding and attitudes, risk perception influences the evaluation of investment alternatives, while returns and trust in Sharia-compliant financial institutions strengthen investors' final decisions. These findings indicate that efforts to increase Sharia-compliant investor participation cannot be undertaken in isolation but require a comprehensive approach through education, transparency, and institutional strengthening.

also play significant roles in determining investment decisions. Competitive returns and strong Sharia supervision can increase the attractiveness of Islamic investments to investors. The existence of clear regulations and the role of the Sharia Supervisory Board also strengthen investor confidence in Sharia compliance and governance of the Islamic financial industry.

Overall, the findings of this study indicate that Islamic investment decisions are influenced by a combination of rational, psychological, and institutional factors. Therefore, the development of Islamic investment in Indonesia requires a comprehensive approach through increased Sharia financial literacy, information transparency, product innovation, and institutional and regulatory strengthening. This research is expected to contribute to the development of Islamic finance literature and serve as a reference for future researchers, regulators, and industry players in formulating more effective and sustainable strategies for developing Islamic investment.

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