THE BEHAVIORAL ISLAMIC FINANCE: CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

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Abstract

In this paper, we propose a conceptual framework of behavioral Islamic finance, we redefine intention as an action or condition that precedes behavior. This paper examines theories, expert opinions, and several research results from scientific papers and articles as well as books from several scientific disciplines other than financial management, then makes reasoning and sequence. This paper proposes redefining intentions as actions or states that precede behavior, other than intentions in the heart. Also, some definitions and propositions of relationships between constructs are expected to be helpful for future scholarship and studies on behavioral Islamic finance and other behavioral finance studies.

Keywords: Behavioral, Islamic Finance, Financial Technology
INTRODUCTION

Limited literature is often an obstacle in research and theory development as well as academic learning. This obstacle usually occurs in new branches of science or scientific development of existing concepts, and also in current conditions. The study of behavioral finance and Islamic finance are the new science of finance and current conditions in the field of financial management.

We utilize learning, our experience, and knowledge regarding financial behavior and Islamic finance, we offer a conceptual framework in the study of Islamic finance behavior, this concept already exists in the teachings of the Islamic religion, namely fiqh muamalah. We propose intention as an antecedent variable of financial behavior, perhaps it seems the same as the Theory of Planned Behavior (TPB) which is a reference for theory development and behavior change studies, but we redefine intention as an action or condition that precedes (antecedent) behavior.

Apart from that, we also reviewed theories, expert opinions, and several research results from scientific papers and articles as well as books from several scientific disciplines other than financial management, then made reasoning and sequence, so that several definitions and several propositions could be put forward. This paper also redefines intention as an action or condition that precedes behavior, other than the intention in the heart. The definition and development of propositions are very necessary for the development of science and future studies.

In the final section, we conclude this paper by reaffirming the role of intention as an antecedent of behavior which already existed in the Qur'an and hadith, before the Theory of Planned Behavior (TPB), we identified opportunities discovered by the research framework in the future.

REVIEW OF LITERATURE

Financial Behavior

Financial behavior is the science that studies how people behave in financial decision-making and management (Risman et al., 2021). Based on the classification of the disciplines of financial management (Personal & Corporate) and based on the theory and background, then the study of financial behavior can be classified into 3 (three) as follows:
Personal Financial Behavior

Personal Financial Behavior can be defined in two perspectives as follows: a) Individual and household behavior in regulating income, spending, saving, and investment; b) Individual and household behavior in financial management in an orderly manner: routine, planned, and controlled in achieving goals effectively and efficiently.

Investor Financial Behavior (Behavior Finance)

Investor's financial behavior is the behavior of investors in investment and phenomena in the capital markets. This study of investor behaviors includes herding, heuristics, bias, market anomaly, market sentiment, investor sentence, and market euphoria.

Behavior Corporate Finance

Behavioral Corporate Finance is the financial behavior that studies the making of corporate financial decisions, both in investment decisions and also in financing. Corporate financial behavior consists of individuals who have behaviors and attitudes; therefore, the financial decisions of a company are influenced by the behaviors or psychology of the financial managers and executives of the company (Risman et al., 2021). Corporate financial behavior covers the following topics:

Heuristic

Heuristics is a process of thinking in which individuals ignore the abundance of information in decision-making. Heuristics is often done by individuals as a way to make quick decisions and ignore a variety of complex information that is needed to make decisions.

One of the heuristics that managers generally use in making financial decisions is real options. Real options are derived from the theory of option pricing that is applied in investing in real assets (non-financial). The term refers to the application of option valuation theory to the real valuation of non-finance investments that have flexibility, such as projects and development, property, factory expansion, and the like. These real options are often associated with escalation of commitment, but not all of them are true.

Managerial Bias

Managerial bias is a cognitive bias as differences in understanding, processing, and conclusion-taking of information available. Managers must be able
to make the best decisions for the company in any situation and circumstances. The financial decisions made by a financial manager will affect the results and the risks that the company will take in the future. These conditions of uncertainty have various biases that affect judgment decision-makers or performance judges. A person's or personal bias also becomes a bias in managers' decision-making, among others: overconfidence bias, loss aversion bias, confirmation bias, and anchoring bias.

**Market Timing Theory**

The financing strategy of the issuance of shares or bonds is not based on the optimal capital structure, but based on market conditions, on the market bearish conditions then the right financing is to issue shares separated from issuing debts (bond).

In the application of financial behavior, the three classifications of the study of financial conduct can be applied together mainly to personal and corporate financial behavior, such as the application to financial behavior as follows:

**Behavioral Finance of MSMEs**

Micro, Small, and Medium Enterprises (MSMEs) are an important part of the economy (Soelton et al., 2023; Sindhwani et al., 2022, Lestari et al., 2022;). MSMEs financial management, especially micro and small enterprises (MSEs) has “unique characteristics as it is a transition from personal finance (stairs house) to corporate finance, therefore MSMEs' financial behavior covers two perspectives: personal financial behavior and behavioral corporate finance”. (Risman et al., 2023; Huda & Risman, 2024).

Based on the definition of financial behavior, MSMEs’ financial management behavior can be defined as the conduct of MSMEs decision makers in carrying out financial management activities that include financial plans, financing or capital decisions, investment or budget decisions, and controlling.

Based on the theory of personal financial behavior and behavioral corporate finance, then the indicators of MSMEs’ financial behavior can be grouped into (Risman et al., 2023): a) financial planning; b) financing decisions (capital); c) investment decisions (budgeting); d) financial control (financial control).
Sharia Financial Behavior

In sharia financial behavior, personal financial behavior and corporate financial behavior can apply, depending on the subject because sharia financial behavior can be personal or corporate (sharia financial institutions). Preferably, sharia financial behavior can apply to personal financial behavior and also to corporate financial behavior.

The Theory of Behavioral Change

According to Risman et al., (2021), all the theories of individual behavioral change can be the basis of the theory of personal financial behavior change because financial behavior is part of individual behaviors:

The Theory of Stimulus Organism Response (S-O-R)

This theory was pioneered by Hovland, Janis & Kelley (1953), the basic assumption of this theory is that in the process of communication, there is a process of reaction action;

Theory of Reasoned Action (TRA)

The theory pioneered by Ajzen and Fishbein (1973), that behavior attitudes are referred to as positive or negative feelings of an individual (judgmental influence) towards a defined stage of behavior. The attitude towards behavior in general affects intentions more than the dimensions of subjective norms and behavioral controls. TRA only assumes that all individual behavior is under the control of the individual himself

Theory of Planned Behavior (TPB)

This theory was introduced by Ajzen (1985) which was the development of the Theory of Reasoned Action (TRA). The Theory of Planned Behavior (TPB) explains that attitudes to behavior and subjective norms of involvement in behaviors are considered to influence intentions, TPB also includes behavioral controls perceived over involvements in behavior as factors influencing intentions and behaviors

Theory social cognitive of self-regulation

This theory was pioneered by Zimmerman (1990) who stated that effectiveness has proven to be the primary indication for motivating, striving, and surviving in any resistance. All factors will form the autonomy of learning which is seen through
personal processes influenced by events and experiences in the environment so that behavior is formed within a person.

**Technology Acceptance Model (TAM)**

This theory was first introduced by Davis (1989). This theory is an adaptation of the Theory of Reasoned Action (TRA) to identify system reception behavior and information technology. Individuals behave not only based on their perceptions but also ease of use and usability.

**Fiqh Muamalah**

In an Islamic perspective, financial behavior, which is part of human behavior, has long been regulated by sharia provisions known as *fiqh muamalah*. According to Hani (2021), the *fiqh Muamalah* is a section of the *fiqh* that deals with the laws relating to relations between people, whether the relationship is true or in the form of an agreement or alliance (Hani, 2021). According to Abdurahman (1992), the *fiqh muamalah* is the section that discusses the laws that relate to the actions and relations of human beings in matters of truth and rights and ways of settling their disputes.

Based on that definition, simply *fiqh muamalah* can be defined as the law of sharia in human interaction or relationship with other human beings. Therefore, Sharia finance can be defined as all activities related to transactions based on Sharia principles as regulated in the provisions of the *fiqh muamalah*. A financial transaction is an alliance, in *fiqh muamalah* called *akad* (al ‘aqdu), according to Hani 92021. *Akad* is an alliance between *ijab* and *qobul* in a way that is permitted by the Qur'an which establishes the existence of legal consequences on its object. According to Hasan (2014), an *akad* is an agreement between parties that establishes a mutual understanding regarding a specific object and is expressed (Sighat) in an offer and acceptance (ijab-qobul).

According to the provisions of *fiqh muamalah*, the reasons for prohibiting a transaction are as follows:

**Haram Its Substance (haram li-dzatihi)**

Haram based on the substance can be distinguished into two: a) Goods/services, such as liquors, carcasses, pork, etc; b) Provision, for example, in the case of financing, rental for alcoholic beverages, prostitution, etc.; management of investments in illicit activities: shares of liquor manufacturing companies.

**Haram Except Its Substance (haram li-ghairihi)**
Including, among others: Tadlis (Fraud), Gharar/Taghrir (Uncertainty), Ikhtikar (Manipulation of Supply), Hoarding, Al Ba’i Al Najasyi (Manipulation of Demand), Riba (Usury), Maysir (Gambling), Risywah (Bribery).

**Invalid (incomplete) of the Akad (contract)**

Transactions are prohibited because their *akad* (contract) is invalid, which includes: a. Essential elements (*rukun*) are not fulfilled. *rukun* are mandatory components that must be present in a transaction, for example in a sales transaction: the essential elements are the parties involved, the object, and the offer and acceptance (*ijab qabul*); b. Conditions (*syarat*) are not met. Conditions are elements that complement the essential elements. The conditions of a transaction include mutual consent, the parties being eligible to transact, the object being beneficial and meeting requirements, and the clarity of the goods and price.

**RESEARCH METHOD**

This paper is a qualitative descriptive study, namely examining theories, expert opinions, and several research results from scientific papers and articles as well as books from several scientific disciplines other than financial management science.

**RESULTS AND DISCUSSION**

**The Behavioral Islamic Finance**

Based on the definition of Sharia financial, Sharia financial behavior is the behaviors in financial transactions based on Sharia principles as regulated in the provisions of the Sharia law (Fiqh Muamalah).

**Conceptual Model**

Based on the definition of Sharia financial behavior, we propose the following model of Sharia financial behavior:

![Conceptual Model of Behavioral Islamic Finance](image)
Beliefs and Islamic Living

Someone who has a belief and desire to live an Islamic living including financial management, then determines that the person concerned has the intention to change his behavior to conform to the Shariah according to the terms of fiqh muamalah. Based on the provisions of fiqh muamalah, then the dimensions and indicators of the financial behavior of shariah can use the factors causing the prohibition of a transaction as follows:

**Non-Prohibited (Haram) Goods/Services**

The indicators of non-prohibited (haram) goods/services (object) are It's not alcohol, not a corpse, not pork, not other non-prohibited (haram) goods/services.

**Not prohibited (haram) in allocation/purpose**

The indicators of not prohibited (haram) in its allocation/purpose are: the financing transaction is not for the opening of a prohibited (haram) business, investment is not on prohibited (haram) enterprise: shares of alcoholic beverage manufacturing.

**Not prohibited other than the substance (haram li-ghairihi)**

The indicators not prohibited other than the substance (haram li-ghairihi) are not: Tadlis (Fraud), Gharar/Taghrir (Uncertainty), Ikhtikar (Manipulation of Supply), Hoarding, Al Ba’i Al Najasyi (Manipulation of Demand), Riba (Usury), Maysir (Gambling), Risywah (Bribery).

**Not Invalid (incomplete) of the Akad (contract)**

Transactions are prohibited because their akad (contract) is invalid, which includes: Essential elements (rukun) are not fulfilled, conditions (syarat) are not met.

**Intentions**

Intention literally means al-qashd (desire). In the conceptual model (figure 1), intention is also defined as a condition before sharia financial behavior, and can be a preliminary action (antecedent) of sharia-compliant financial behavior, such as performing ablution (ablution) before prayer so that ablution functions (ablution) as a preliminary action before prayer.

**Cognitive and Shariah Financial Behavior**

Hambali (2015) defines cognition as a person's belief in something derived from the process of thinking about someone or something. The process is to acquire knowledge and manipulate knowledge through the activities of remembering, understanding, judging, exploring, imagining, and speaking. According to Dayakisni & Hudaniah...
(2003), cognitive processes such as memory and reasoning (the processes underlying thoughts, beliefs, ideas, and judgments about others that individuals have) play an important role in thinking and behavior.

According to that definition, cognitive is a process that relates knowledge and understanding. The cognitive process aspects that influence financial behavior are Financial Knowledge, Financial Experience, and Financial Literacy.

**Sharia Finance Knowledge**

Financial knowledge is everything about finance that is known and forms the basis of financial decision-making and management. Finance knowledge is the understanding and skills that influence attitudes and behavior to improve efficiency and efficiency in decision-making and management of finance.

The ability to manage money and finances effectively and efficiently is essential for every individual and business entity, ranging from managing personal finances and housing to being a business entrepreneur and a professional in the field of investment and financial institutions. For that, the dimensions and indicators of financial knowledge are quite broad, including the following:

**Application of Sharia Financial Knowledge to Personal Financial Behavior**

The indicators of this personal financial knowledge are: ability to estimate the value and income in accordance sharia principles, understanding the need for money for halal consumption, understanding the need for money for interest-free savings, understanding the need for investment that is not prohibited, understanding the need for Sharia-compliant insurance protection, and Financial recording and administration.

**Application of Sharia Financial Knowledge on Household Financial Behavior**

In addition to covering personal financial knowledge, household financial knowledge also needs indicators to understand and comprehend other money needs as follows: making financial plans, understanding the need for islamic education for children. Understanding the need for emergency funds, understanding the need for islamic housing (renovation, payment of sharia-compliant housing financing installments).

**Application of Sharia Financial Knowledge on Professional & Business Financial Behavior**
The indicators of Sharia Financial Knowledge on Professional & Business Financial Behavior are: Understanding the creation of financial bookkeeping according to Sharia principles, Understanding the time value of money and the value of time, c. Understanding Sharia-compliant investment evaluation (no interest, etc.), Understanding the impact of inflation on the value of money and assets, and understanding investment risks (risk management).

Based on the conceptual model (figure 1), someone who has endeavored to enhance their Sharia financial knowledge already has the intention to transform their Sharia financial behavior. The higher one's financial knowledge, the better their financial management. Based on this theory and reasoning, the proposition can be formulated as follows:

P: Shariah's financial knowledge has a positive influence on financial behavior

**Sharia Financial Experience**

Financial experience is the condition and past events that have been experienced, worked, lived, felt, and bore about finance so that it can be learned as a guideline or guidance on actions that are currently and will be done in the future. According to this definition, then the financial experience is a past condition and event that has been experienced, worked, experienced, felt, and bearing about the finance of the sharia, so can be a guide or a hint on the action that is currently and is to be performed in future according to the Shariah.

Financial experience and financial knowledge are closely related and overlapping aspects. Therefore, indicators of Sharia financial experience include having or currently having, among others: savings without interest, Sharia-compliant investments, Sharia insurance, maintaining financial records according to Sharia standards, and conducting Sharia-compliant investment assessments (no interest, etc).

Based on the conceptual model (figure 1), someone who has sought experience in Sharia finance already has the intention to enhance their Sharia financial behavior. The higher the Sharia financial experience a person has, the better and more Sharia-compliant their financial management will be. Based on this theory and reasoning, the following proposition can be formulated:

P: Sharia financial experience has a positive influence on Sharia financial behavior
Sharia Financial Literacy

Financial literacy is "the knowledge, skills, and confidence that influence attitudes and behaviors to improve the quality of financial decision-making and management to achieve the financial well-being of the community" (OJK, 2024). Based on this definition, Sharia financial literacy is the Sharia financial knowledge, Sharia financial skills, and confidence that influence attitudes and behaviors to improve the quality of financial decision-making and management according to Sharia principles (Sharia compliance).

Based on this definition, the financial literacy variable already includes financial knowledge and financial experience, and thus should not be used simultaneously as exogenous variables. Similarly, Sharia financial literacy indicators can include indicators of Sharia financial knowledge and Sharia financial experience.

Based on the conceptual model (figure 1), someone who has endeavored to enhance their Sharia financial literacy already has the intention to improve their Sharia financial behavior. The higher the Sharia financial literacy a person has, the better and more Sharia-compliant their financial management will be. Based on this theory and reasoning, the following proposition can be formulated:

P: Sharia financial literacy has a positive influence on Sharia financial behavior

Bias Cognitive

Cognitive bias plays an important role in investors' investment decisions in the capital market. In investor financial behavior (behavioral finance), the influence of cognitive bias on investment decisions is in the form of cognitive biases, which are defined as reasoning and perceptions that differ from standard or traditional theories such as the Efficient Market Hypothesis (EMH), Dividend Discount Model (DDM), and Capital Asset Pricing Model (CAPM).

Cognitive biases in investment decision-making include Representativeness Bias, Anchoring & Adjustment Bias, Availability Bias, Self-Attribution Bias, Illusion of Control Bias, Conservatism Bias, Confirmation Bias, Mental Accounting Bias, and Hindsight Bias. In the study of financial behavior, biases have a positive meaning because they can provide benefits such as: quick decision-making (since stock trading requires speed due to rapidly moving prices), practical decision-making for effective and efficient investment decisions, reducing worry and fear, addressing the main problems investors face which are fear and greed, and increasing confidence which is necessary for quick and accurate decision-making.
Therefore, the proposition of common influence on investment decision-making is as follows:

P: Bias has a positive influence on investment decisions

**Technology and Sharia Financial Behavior**

*Islamic Financial Technology (Fintech)*

Financial technology (fintech) is a combination of financial services and technological innovation that ultimately transforms business models from conventional to modern and digital. (Risman et al., 2021; 2023). According to the definition, Islamic financial technology is a combination of financial services and technological innovation that meets Sharia compliance, such as excluding the criteria of forbidding a transaction.

The dimensions and indicators of Islamic Fintech are Sharia-based, also based on the Technology Acceptance Model (TAM), which is easy to use and useful, the dimensions and indicators are: Easy to use, which is the ease of use by the user; useful, that is the benefit or benefit that the user needs; not prohibited other than the substance; valid (complete) of the Akad (contract), both the terms and conditions of a transaction.

Fintech can influence the behavior of financial management in making quick financing decisions without having to make complicated financial calculations. (Risman et al., 2023, Yulianto et al., 2024). Based on the conceptual model (figure 1), then the use of Islamic fintech shows the intention to change financial behavior for the better and by the sharia principles. The higher the use of Islamic Fintech then the better also the financial management carried out and the more in line with the principles of Sharia (Sharia compliance). Based on the theory and reasoning, the proposition can be formulated as follows:

P: Islamic financial technology has a positive influence on Sharia financial behavior

*Islamic Digital Finance*

Digital finance is a financial service facilitated by smartphones, personal computers, the Internet, mobile banking, e-wallet, electronic money, as well as credit and debit cards (Risman et al., 2021). According to this definition, Islamic digital finance is the financial service that facilitates smartphones, personal computers, the Internet, mobile banks, electronic wallets, e-money, and credit and Debit cards that comply with Sharia compliance, such as not included in the criteria of prohibited a transaction (prohibited substantial, prohibited other than the substance and valid (complete) the akad (contract).
Digital finance is also the development of technology in the field of finance; therefore, the dimensions and indicators of Islamic digital finance are partly having similarities to the dimensions and indicators of Islamic fintech that is based on Sharia (prohibited criteria of a transaction) also based on the theory of Technology Acceptance Model (TAM) that is easy to use and useful, dimensions of such indicators among them are: easy to use, because digital payments are more commonly used for financing than one of the indicators is the perception of ease of making payments; useful, that are effective and efficient perception, transactions become faster, safe for saving money, protecting from counterfeit money, helping financial recapitulation (History features, mutations, etc.), suitable for various types of payments; can help development of business (Services & Goods); comply with Sharia compliance, such as not included in the criteria of prohibited a transaction (prohibited substantial, prohibited other than the substance and valid (complete) the akad (contract).

Based on the conceptual model (figure 1), then the use of Islamic digital finance Sharia demonstrates the intention to change financial behavior for the better and follow the sharia. That the higher the use of Islamic digital finance, the better the financial management and the more in line with the Sharia principles (sharia compliance). Based on the theory and reasoning, the proposal can be formulated as follows:

P: Islamic digital finance has a positive influence on Sharia financial behavior

**Sharia Financial Inclusion**

One of the positive impacts of technological developments in the field of finance is the increasing achievement of financial inclusion is the impact of. Financial inclusion is a condition in which people have easy access to effective, efficient, and quality financial services. Increased public access to financial services products will further reduce the level of economic and social inequalities in the community and boost economic growth, which in the end is expected to improve the well-being of the community (Risman et al., 2021). According to this definition, Sharia financial inclusion is the codification of ease of access to effective, efficient, and quality Sharia financial services.

According to Beik & Arsyianti (2017) Sharia finance inclusion is an activity or effort to improve public accessibility to Sharia financial institutions, so that communities can manage and distribute their financial resources according to the principle of Sharia. Sharia financial inclusion means that people can access Sharia banking financial institutions to make a transaction either to store, to apply for financing, or services
contained in Sharia banking to raise the welfare of the community as well as eradicate poverty through family development in particular.

The dimensions and indicators of financial inclusion of Shariah are the aspects of easy access and Sharia compliance, the dimensions, and the indicators are as follows: a) Perceptions of ease of access, some of these indicators are simple administration, light requirements, online, etc; lower cost; Safe; complete of service/product; quality of service/product.

The main benefits of Sharia financial inclusion are, among other things, facilitating the decision-making of special financial funds that encourage Sharia compliance, facilitating payment of contributions, obtaining low (competitive) capital costs, and so on. Financial inclusion is a change that can trigger a perception of convenience. (Risman et al, 2023). Based on the conceptual model (Figure 1), Sharia financial inclusion is a condition (intention) that serves as an antecedent to Sharia financial behavior. The higher the Sharia financial inclusion, the better the financial management and the more in line with the Sharia principles (sharia compliance). Based on this theory and reasoning, the following proposition can be formulated:
P: Sharia financial inclusion has a positive influence on Sharia's financial behavior

CONCLUSION

Islam has comprehensively regulated relationships between humans and human behavior in fiqh muamalah, long before the theory of planned behavior existed. Intention, which is the antecedent variable of behavior change, already exists and is frequently mentioned in the Qur'an and Hadith, stating that everything must begin with intention. Intention even differentiates one act of worship from another and determines the reward for the action taken (behavior).

This paper proposes redefining intentions as actions or states that precede behavior, in addition to intentions in the heart. Furthermore, some definitions and propositions of relationships between constructs are expected to be helpful for academics and future studies on behavioral Islamic finance and other behavioral finance studies.

REFERENCES

The Behavioral Islamic Finance


