

Impact of Faith in Investment Decisions

Syed Umaid Hashim

Student

Christ (Deemed to be) University, Lavasa,

Soumya V

Faculty in Finance,

Christ (Deemed to be) University, Lavasa.

Introduction

An investment is an asset or item acquired with the goal of generating income or appreciation. In the world where people are investing money in fixed deposits, equities, bonds, mutual funds, insurance etc., there is a set of people who don't invest in such instruments as it as there is an element of interest is involved, as their faith suggests that dealing in interest in any way is prohibited. Be it lending the money on interest, borrowing the money on interest, the one giving surety, the one recording the transaction are equally involved in this sin. There are reasons why a person is prohibited in dealing with interest but, this research will not be go deep into the reasons.

This study is to determine the impact of faith when it comes to investment decision-making. If they are following their faith, then where are they actually investing and the returns they are incurring from their investment, do they know the other investment options available without the element of interest involved.

Problem Statement

There is a community which follows a faith which prohibits them from investing their hard-earned money in any instruments involving the element of interest. This study is to determine how their faith is impacting their investment decisions.

Purpose of the Study

This study is to determine how faith is impacting the individual's investment decision-making. It also is used to determine the level of knowledge an individual has about the investment options which doesn't particularly involve the element of interest. Along with it, the also sheds on the actual investments made by them and the returns they are able to get from their investments.

Research Questions

Few questions that this research intends to put forward are as follows,

- I. Is faith really impacting an individual's decision-making when it comes to investment?
- II. What are investment options they are actually investing in?
- III. What are the returns they are expecting from their investment?
- IV. What are the returns they are receiving on their investment?
- V. How knowledgeable people are about the different investment options available?
- VI. Are they willing to invest in Ethical Funds?

Objective

- I. To determine if the faith really impacting an individual's decision-making when it comes to investment.
- II. To know investment options, they are actually investing in.
- III. To determine the returns, they are expecting from their investments.
- IV. To know the returns, they are receiving on their investment.
- V. To determine how knowledgeable people are about the different investment options available.
- VI. To know if they are willing to invest in Ethical Funds

Scope of Study

The main aim of this study is to provide an insight on involvement of faith in the investment decision-making process, the investment options they are actually preferring and the returns they are getting from their investment. This study will also help in gaining information about the knowledge they actually have about the other investment options available, measure the risk-taking capacity of the individuals and the expected returns from their investments. This study might be helpful to design a new instrument considering this community as they are large in number.

Literature Review

In Hindu Sutras (700-100 BC) and Buddhist Jatakas (600-400 BC) there are many references for payment of interest along with the expressions disdain for such practices. Vashishtha, a prominent law maker drafted a law banning the high caste Brahman's and Kshatriya's from being money-lenders.

Interest was prohibited in Christianity too, the evidence of it can be seen in The Holy Bible as follows, "Do not charge your brother interest, weather on money or food or anything else that may charge interest", (Deuteronomy 23:19). "Do not take interest of any kind from him, but fear your God, so that your countrymen can live among you", (Leviticus, 25:36). "If you lend money to one of my people who is needy, don't be like a money-lender, charge him no interest", (Exodus, 22:25).

It is well known that interest is prohibited in Islam as it is mentioned around 8 times in The Holy Qur'an. The Qur'an says, "Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein", (Al Baqarah, 2:275).

In the world of Investing it was found in one of the studies that religion and faith plays and important instruments. The Abrahamic religions such as Judaism, Christianity and Islam along with Buddhism and Hinduism do not allow financial instruments to use interest. Therefore, the religion has an effect on investing decisions. Few studies directly dealing with the impacts of religion on corporate finance show that there is a significant positive relationship in the highly religious areas (The Effect of Religion on Financial and Investing Decisions).

One of the studies also emphasize how religion matters to economic and other outcomes. From the religious perspective salvation, damnation, nirvana influence the human investing behavior. Religion can also have an impact on corporate investment decisions (McCleary and Barro 2006; Hilary and Hui 2009).

It is also seen that the investing decisions are also impacted by something known as calendar effect in Muslim countries, labeled as Ramadan effect, which is a period associated with great social emotions influencing the investors (Al-Hajieh, Redhead, and Rodgers 2011) they also discussed the role of religious practices in distorting stock return distribution.

As Kumar et al. (2011) note, the finance literature omits the salient factor of religion, which is responsibility for influencing and spreading the social behavior of individuals. Religion is an important feature that underlies social communication (Bisin and Verdier 2011), which is known in behavioral finance as the social network process. Such a network encompasses religious activities and practices that spread common values and beliefs among individuals (McGuire, Newton, Omer, and Sharp 2012).

The study done by Shweta Goel and Rakesh Srivastava, provides a strong evidence to suggest that all four religions (Hindus, Islam, Sikhs, Christians) tend to have different investment behavior. In other words, there is a significant relationship between investment behavior of individual and his/her religious affiliation. (Religious Grouping as Predictor of Individual Investment Behavior)

Cultural factors, such the prevailing religious beliefs, have a significant influence on individual behavior and economic outcome. Managers and employees of firms located in more religious areas are likely to be more conservative and may make more prudent decisions (Terpstra et al. 1993, Miller and Hofman 1995, Barnett et al. 1996, Miller 2000, and Diaz 2000, among others). Adding to that one more research has shown that the Religious influence on individual behavior may also affect corporate decisions. At the institutional level, document lower debt levels by local governments of the more religious areas Chen et al. (2016b).

In line with other related studies, it is found that there is significant relationship between individual's investment behavior and his/her religious affiliation (Hess, The impact of religiosity on personal financial decisions, 2012) (Rusnah Muhamad, 2005) (Tahir Imran, 2011).

The investor behavior is showing increasing interest as the level of direct investments increases. The literature has examined shows many issues that may influence the asset allocation decisions of investors. However, there is little evidence that adds to the assumption that religious activism plays a role in the context of investment (Belief and Investing: Preferences and Attitudes of the Faithful).

While in some studies it is shown that there is a significant impact of religion or faith on the investing decisions, which mainly have conducted by scholars in religious areas. There are scholars from Christian majority nations which suggests otherwise. This study helps us to find out the impact of religion and faith on investing decisions in the Indian scenario.

Questionnaire

Impact of Faith on Investing Decisions

Faith has an impact on our lives in one way or the other. Many major religious scriptures including that of Hinduism, Islam, Christianity and Buddhism have prohibited to deal in interest. This study is to find out the impact faith has on the investing decisions

- 1) Name

- 2) Age
 - 18 - 25 Years
 - 25 - 35 Years
 - 35 - 45 Years
 - 45 - 55 Years
 - 55 Years and above
- 3) Faith
 - Hinduism
 - Islam
 - Christianity
 - Buddhism
 - Others
- 4) Do you strictly follow your religion?
 - Yes
 - No
- 5) Do you know that your religion be it Hinduism, Islam, Christianity or Buddhism prevents you from dealing in Interest?
 - Yes
 - No
- 6) Do you invest in instruments dealing with interest?
 - Yes
 - No

- 7) How much knowledge do you have about the Capital Markets (i.e., Stocks, Mutual Funds, Insurance, Debentures, Bonds)?
 - None
 - Slight
 - Considerable
 - Great
- 8) Where do you invest your savings?
 - Stocks
 - Mutual Funds
 - Debentures
 - Bonds
 - Real Estate
 - Jewellery and other precious metals
 - Savings Account
 - Fixed Deposit
 - Others
- 9) How much returns do you expect from your investment?
 - 0% - 2.5%
 - 2.5% - 5%
 - 5% -7.5%
 - 7.5% - 10%
 - 10% - 12.5%
 - 12.5% - 15%
 - Above 15%
- 10) How much return do you actually get from your investment?
 - 0% - 2.5%
 - 2.5% - 5%
 - 5% -7.5%

- 7.5% - 10%
 - 10% - 12.5%
 - 12.5% - 15%
 - Above 15%
- 11) Are you happy with the returns you are currently getting?
- Yes
 - No
- 12) Is your current investment is strictly following the norms of your faith?
- Yes
 - No
- 13) Would you like to invest in an instrument which is made by strictly following norms of your faith and gives you moderate returns?
- Yes
 - No

Research Methodology

The following study has correlation design as the data collected is mostly observed and the study explores the relationship between faith and the investment pattern. It's a quasi-experimental design as the study also seeks to find out if there's a cause-effect relationship between two or more variables which in this study are factors such as faith, strictness in following the faith, knowledge of the capital markets etc. Independent variables are not manipulated in our study.

The research instrument that has been used for this study is in the form of a questionnaire. It has been designed to determine if the faith of a person is having an impact on his/her investment decisions and if yes, how is it affecting.

This information was collected using a series of yes and no questions along with various rather important questions.

The questionnaire has been mailed to people with different faiths and the method used for sampling is random.

Analysis

The replies from the questionnaire have been accounted to 197 out which 46.7% turned out to be following the faith of Islam, 39.59% of the respondents were following Hinduism and the rest 13.71% were Christians. While looking at the demographics it can be said that the majority of the responses 35.53% came from the age group of 25 – 35 years, followed 30.96% by the age group of 18 – 25 years. It can be seen that 91.88% of the total respondents believed to be following their faith strictly. As it comes to the knowledge of the prohibition of interest in their faith, it is noticed that 92.39% of the total Muslims were aware of it, but 96.15% of the total people following the faith of Hinduism and 96.30% of the total people following the faith of Christianity were not aware of it. When it comes to investing in the instruments dealing in interest, 98.91% of Muslims avoid it

while 96.15% & 100% of the followers of Hinduism and Christianity tend to invest in such instruments. It is also seen that 62.94% of the total respondents believed to have slight knowledge about the capital markets, 22.84% of them believed to have considerable knowledge and 13.71% believed to have none.

It can also be seen that 165 of the total respondents have their money in the Savings Account, followed by 94 in the Real Estate, 54 in Jewelry and other precious metals, and the rest being 48, 47 & 43 in Mutual Funds, Fixed Deposits and Stocks respectively.

The 51.85% & 44.44% of the people following the faith of Christianity believe their ideal return on their investment should be 10% - 12.5% & 7.5% -10% respectively. While 43.59% & 33.33% of the people following the faith of Hinduism believed that their ideal return on investment should be 7.5% - 10% and 10% - 12.5% respectively. But when it comes to people following the faith of Islam it's quite wide-spread by 35.87%, 20.65%, 13.04% & 10.87% expecting a return of 7.5% - 10%, 10% - 12.5%, 5% - 7.5% & 2.5% - 5% respectively.

Looking at the returns they actually getting we can find out that the 59.26% & 29.63% of the people following the faith of Christianity are having the returns of 5% - 7.5% & 2.5% - 5% respectively. While in the people following the faith of Hinduism it can be seen that 38.46%, 37.18% & 15.38% are able to get the returns of 5% - 7.5%, 2.5% - 5% & 7.5% - 10% respectively. In the people following the faith of Islam it can be noticed that 36.96%, 23.91%, 19.57% & 14.13% of their total are believed to be able to produce the return of 2.5% - 5%, 0% - 2.5%, 5% - 7.5% & 7.5% - 10% respectively.

The percentage of total people not happy with their returns is surprising at 80.71%. And it can be seen that 94.42% of the total respondents are willing to invest in the instruments following the norms of their faith and giving moderate returns.

Findings and Conclusion

It can be seen that in major faiths as mentioned above it is prohibited to invest in the instruments dealing in the interest. This research was to determine the impact a faith of a person has on his investments. Through the questionnaire the data was collected from 197 respondents and it can be seen that majority of people following Islam are aware of the prohibition whereas the other are not much so. It can also be seen that majority of people who already know about the prohibition avoid investing in the instruments dealing in interest. This has an affect on their investment patterns as they tend to avoid the instruments like Fixed Deposits, Bonds & Debentures, Debt Mutual Funds and rather tend to invest their money in Real Estate and Jewelry and other precious metals. The expectations and the actual returns they receive from these investments are low comparatively.

It is also seen that majority of the total respondents are not happy with their current returns and are willing to invest in the instruments following the norms of their faith and giving moderate returns.

It can be safely concluded by saying there is a need for the NBFC giants to include these sentiments of the potential investors. There are many cases in the recent past which support this research as many followers of Islamic faith have lost their investment in the name of halal investments where they were nothing but Ponzi Schemes. This make enough room for NBFC giants to step in and realize the sentiment of the potential investors and capitalize on it.

Reference

1. The Hindu Sutras
2. The Buddhist Jatakas
3. The Bible
4. The Qur'an
5. The Effect of Religion on Financial and Investing Decisions (Walid Mansour, Mouna Jlassi)
6. McCleary and Barro 2006; Hilary and Hui 2009
7. Investor sentiment and calendar anomaly effects: A case study of the impact of Ramadan on Islamic Middle Eastern Markets (Al-Hajieh, Redhead, and Rodgers 2011).
8. Does Local Religiosity Impact Corporate Social Responsibility (McGuire, Newton, Omer, and Sharp 2012).
9. Religious Grouping as Predictor of Individual Investment Behaviour (Goel, Shweta; Srivastava, Rakesh)
10. Belief and Investing: Preferences and Attitudes of the Faithful (Brimble, Mark; Vyvyan, Victoria; Ng, Chew)