

**DEMOGRAPHIC CHARACTERISTICS INFLUENCING PREFERENCES ON  
ISLAMIC RETAIL FINANCIAL PRODUCTS : A DESCRIPTIVE STUDY**

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**ABSTRACT**

*Each individual is practicing different lifestyle because they come from different demographic background. Age, income, education level, marriage status and occupation will direct/indirectly affects individual in making decision towards financial matters. The Credit Counselling and Debt Management Agency (AKPK) has announced latest statistics of indebtedness level among Malaysian people. Malaysia household debt-to-gross domestic products is still in high rate, which standing at 83.8 per cent in the first half of 2018. Among the factors is because people failed to manage financial efficiently. As regard to this, Bank Negara Malaysia proposed to conduct programs in order to increase the level of financial knowledge and management among people. Some cannot match the background profiles with investment portfolio and thus keeping money only as saving deposits. Financial market, particularly Islamic financial institutions has offer variety of products. People is free to choose based on their main preferences. Thus this study is aims to propose a framework in order to know what are the factors influencing people to choose Islamic financial institutions products namely bank deposit, Tabung Haji, Islamic Unit Trust and Takaful. Is the factor of demographics affect them to choose certain products over other products? This study also uses behavioral finance theory in order to examine what factors influence individual to choose particular products.*

**Keywords:** *Financial Preference, Islamic Retail Products, Behavior Finance*

## **CIRI - CIRI DEMOGRAFI YANG MEMPENGARUHI PEMILIHAN TERHADAP PRODUK KEWANGAN RUNCIT ISLAM : KAJIAN DESKRIPTIF**

### **ABSTRAK**

Setiap individu mengamalkan gaya hidup yang berbeza kerana mereka datang dari latar belakang demografi yang berbeza. Umur, pendapatan, tahap pendidikan, status perkahwinan dan pekerjaan akan memberikan kesan secara langsung atau tidak langsung dalam membuat keputusan mengenai hal kewangan. Agensi Kaunseling dan Pengurusan Kredit (AKPK) telah mengumumkan statistik terkini mengenai tahap keberhutangan dalam kalangan rakyat Malaysia. Produk domestik keluaran dalam negeri bagi isi rumah di Malaysia masih pada kadar yang tinggi, yang mana berada pada tahap 83.8 peratus bagi suku pertama tahun 2018. Antara faktornya adalah kerana gagal menguruskan kewangan dengan cekap. Oleh yang demikian, Bank Negara Malaysia mencadangkan untuk mengadakan program bagi meningkatkan tahap pengetahuan dan pengurusan kewangan dalam kalangan masyarakat. Sebahagian dari mereka tidak dapat memadamkan profil latar belakang dengan portfolio pelaburan dan dengan itu hanya menyimpan wang sebagai deposit simpanan. Pasaran kewangan, terutamanya institusi kewangan Islam telah menawarkan pelbagai produk. Masyarakat bebas memilih berdasarkan pilihan utama mereka. Oleh itu, kajian ini bertujuan untuk mencadangkan rangka kerja untuk mengetahui apakah faktor-faktor yang mempengaruhi masyarakat memilih produk institusi kewangan Islam seperti deposit bank, Tabung Haji, Unit Amanah Islam dan Takaful. Adakah faktor demografi mempengaruhi mereka untuk memilih produk tertentu berbanding produk lain? Kajian ini juga menggunakan teori kewangan tingkah laku untuk mengkaji faktor-faktor yang mempengaruhi individu memilih produk tertentu.

**Kata kunci :** *Keutamaan Kewangan, Produk Runcit Islam, Kewangan Kelakuan*

### **INTRODUCTION**

In the coming years between 2020 -2024, Malaysia aims to achieve a 'high-income status' nation. To meet high income aspirations, the per capita income need to hit about US\$15,000 (RM62, 300). Hence, saving and investment can be among other ways to contribute into high economic growth. Saving is disposable income after deduct the usage and consumption, whereas investment is buying assets or stock markets and hope to get return in future. The level of saving mobilize into the economy can be realized with the help of banking system and through other financial institutions. The higher the percentage of saving, the higher chances for investment to goes up. The attraction to invest will only see among literate people as they may know the basic fundamentals in financial and investing. According to the Credit Counselling and Debt Management Agency (AKPK), Malaysian household facing debt problems due to lack of financial planning and financial discipline. The rate of debt to GDP ratio was about 65 percent in 2018, which is still in higher rate among 14 ASEAN countries. Malaysia government set the debt ratio beyond 55 per cent was financially unhealthy, which in turn will be affecting an economic growth. Indebtedness problems can be resolved if saving and investment was properly managed. Thus AKPK suggested people to play a role in enhancing financial awareness to be among financially literate so they can make informed financial preferences. Imbalance financial management leads to lack in debt controls, less saving and having not enough money to invest in stock market. Financial products preference is referring to how individuals analyzes and acts on information prior to decision making. According to behavioral finance theory, people are affected by psychological (thoughts, feelings, and other cognitive characteristics) and sociological factors when making decision. This theory has explained how thinking is not rational to choose good financial products. Many factors will affect preferences, prior to decision making that usually makes the decision unfavorable. Behavioral finance theory is basically an upgraded from traditional theory that assumed people are always rational in preferences and decision making. Thus

this paper want to focus the reality environment which many factors affecting the preferences, include demographic profiles such as age, income, education level, marriage status and occupation.

## **LITERATURE REVIEW**

Past studies has evident of how demographic profiles of individuals such as age, income, education level, marriage status and occupation has affecting preferences toward financial products.

Bhavani and Shetty (2017) studied among investors in Dubai through how demographic factors affecting decision making. Male is found to invest in stock market while female preferred bank deposits. Respondents also being asked to rate the most preferable financial products to hold and listed as life insurance to be the first ranking, followed by bank deposits, equity and mutual funds. Professional mostly attracted toward equity while housewife preferred bank deposits. Students and undergraduate also among who chose for bank deposits as it is said to be easy access and are applicable for online banking.

Jain and Mandat (2012) found insignificant results between gender and investment decision among investors in Rajasthan City, but positively influenced age, marital status, income level and occupations. This study tested the relationship between demographic and the level of risk taking ability of investors as risk preference being important factors to consider in investing shares and stocks, mutual funds, real estate and derivatives.

Shinde and Vanvar (2015) studied the effect of demographic factors on the choice of investment among 670 investors in Pune City, India. Insurance and bank deposits were most preferable by middle age group and low income level.

Atchyuthan and Yogendrarajan (2017) found the factors influencing financial preferences include emphasize more on safety and liquidity, other than returns. Based on marital status factors, Jaffina married women who take own financial decisions is low, even though they are working. Their culture is to respects male (husbands) prior to decision making.

## **SIGNIFICANCE OF STUDY**

Preferences are influenced by many factors. Behavior differ according to reason of holding different financial products. With the irrational thinking as theorized in behavioral finance, preferences may get into wrong financial decisions in future. Hence, it is important to know the factors related. Besides, in order to induce economic growth, to give particular attention towards saving and investment is a need. From this study, the factors influencing preferences could be recognized thus helps particular party to take actions in order to help some individuals transform their idle savings into investment for more return.

## **OBJECTIVES OF STUDY**

This study intend to take particular attention into induce the economic growth, through channelizing saving and investment of individuals towards right path. Preference towards financial products is worth to study prior to decision making made by individuals. Thus the objective of this study is to identify the demographics factors such as age, income, education level, marriage status and occupation that influencing preferences towards financial products.

## **SCOPE OF STUDY**

This study focusing on preferences towards Islamic retail financial products. As it is not yet focusing on the decision making, the focus is open to those who prefer to use/already a user of Islamic financial products. The variables taken, which is the demographic factors are decided based on the extensive literature review.

## **METHODOLOGY OF STUDY**

This is a descriptive study in which to explore some demographic factors influencing financial preferences. The relevant literatures and research findings were collected from past studies from previous researchers, related websites, newspapers and research articles.

## **FACTORS INFLUENCING PREFERENCES**

Previous literatures has listed some factors influencing preferences include the demographic factors, which catch more attention among scholars. Demographic profiles of individuals differ from one another so it is much more influencing the chosen toward particular products. This factors categorized under certain elements as shows in the framework below:

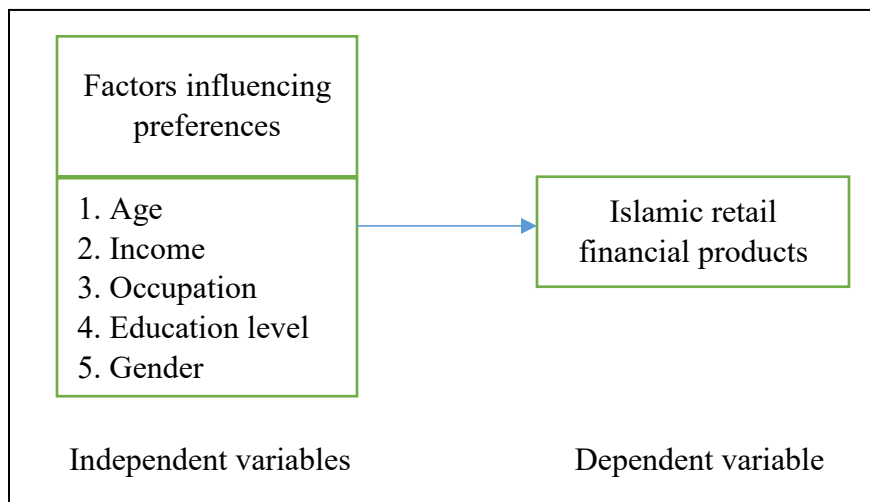


Figure 1: FRAMEWORK OF VARIABLES INCLUDED

If perceive according to behavioral financial scope, all individuals did not behave rationally when making decision because of factors like demographics and psychographic characteristics (Islamoglu Apan and Ayvali, 2015)

### **Age and preferences**

It is evident that preferences were differ according to age group. Age becomes among the factors that significantly affects individual's preferences. Young age individuals often do not have enough saving upon deduction some portions of money from their monthly income. Less saving turns to less money to invest. Younger tend to enjoy the financial earlier and make saving if there is any balance of money. However, Verma (2008) found that young Indian preferred to invest in mutual funds and stock market as it is said to be more comfortable. In some cases, it is agreed that the increasing age affecting preferences through their level of risk taking behavior, which will be decreased and they are more towards safer financial products (Rajarajan, 1999). At increasing age, individuals has set up goals toward asset accumulation other than asset preservation. Oder people tend to focus on retirement plans and invest in order to cover future life after retirement. However, risk averse person not willing to invest at an older age as it may face high risk of getting loss from investment. They more concern to health care, to buy insurance for any bad things happen soon. Those who in the range of 50 years old tend to choose insurance as a first choice (Singh, 2006). Moreover, insurance company has prepared some small savings for their policyholder, that being attraction for people to buy insurance.

### **Income and preferences**

Each different levels of income groups may possess different amount of income that contribute to different portions available for saving and investment. In line with this, preferences may change over different level of income groups; high income, middle income and low income. The level of income determines how much the portion left for savings and investments (Suman and Warne, 2012). Lower income people seems to only put money as saving accounts instead of make investment. Those who high income may distribute money into some portions of consumptions, saving and investments because they often has more money surplus.

### **Occupation and preferences**

Preferences pattern also varies following occupation because some having monthly fixed income while some are not. Past researched has strong evident which occupations has significant effect on preferences toward financial products (Desigan, Kalaiselvi and Anusuya, 2006). Businessman usually involve in investment and preferred to invest in bonds and real estates as compared to those who work in low positions (Manish, 2007; Verma, 2008). To invest in any capital market, there must be huge amount of money because the risk of loss is there. Besides, this group of workers always expose to investment area that required them to take risk because the return from the investment is high. Bank deposits and insurance mostly preferred by housewives, retired person and government servant.

### **Education level and preferences**

This is lead to the quantity and quality of informations apart from academic educations hold by individuals. Mittal and Vyas (2007) found that an educated people with higher level of financial literacy has advantages in analyzing information and features of financial products, making they less expose to wrong financial decisions. They tend to choose high-risk investments. Compared with one who financially illiterate, they rather make preferences based on their emotional and irrational thinking. It is observed that undergraduates are investing more in insurance (Shil, 2008). Very few studies has conducted in this context because it is difficult to depict the exact trends between education level and preferences. Some past researched shows an insignificant relationship which education does not affect how people choose financial products (Geetha and Ramesh, 2011).

### **Gender and preferences**

Economic well-being and financial behaviors of men and women differ significantly. Many past researchers focused on gender preferences toward financial products. The gender preferences gap is huge as male and female basically has different perceptions, thinking, and emotions when making preferences and decision. Mary (2015) found that female in Chennai City, India preferred to save money as bank deposits and other safer financial products. Women are not confident to invest money in capital and stock markets as they feel insecure and more risky to spend money for investment. As an alternative, the money surplus will be placed in bank deposits for a long period. Male is interested to make investment because they impress with high return given in the future. Furthermore, male is found as an active participants when comes to financial products selection. They are more conscious and confident with financial services (Shinde and Zanvar, 2015). Recent research by Bhunia and Siddika (2018) shows women are now much more educated and place at higher position level effectively. Thus, women in the age of 31-45 years have an expert knowledge and information about saving and investment in financial assets.

## **BEHAVIORAL FINANCE THEORY AND PREFERENCE**

Individuals affected by many factors when comes to choose variety of financial products available in financial markets. The assumption that an individual are always rational in making decision was not more appropriate as human decision are always irrational in some factors. Thus the theory of behavioral finance explains of why individual are not rational, which due to some reasons such as psychological factors, risk taking attitude, habits etc. This theory has upgraded from traditional financial theory that consider

investors act rationally and the market are always efficient. Many past research agreed that behavioral finance will affects investors' preference and decision making through many factors.

## **CONCLUSION**

Behavioral finance is getting high attention among researchers who is focusing on preferences and decision making, particularly among investors. This theory found that there are more than one factors will influence people prior choose and decide on particular financial products. Every individuals is different in thinking, attitude and emotions thus being a critical challenge for them. Wrong decision making may leads to fail in financial management and higher debts. From the review of related past studies, demographic factors may plays a significant roles in contributing the factors influencing preferences because each individuals totally differ from each other's.

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