



PUBLIC UNDERSTANDING OF HALAL INVESTMENT: QUALITATIVE STUDIES IN URBAN COMMUNITIES

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Abstract

This study investigates the conceptualization of halal investment among urban communities using a qualitative methodology. Even though most participants know that halal investments must adhere to syariah principles, the study discovered that they frequently rely solely on the syariah label without further investigating the structure and mechanisms of the investment product. Discovered through in-depth interviews, focus group discussions (FGDs), and observations. The primary challenges are insufficient education and a lack of more comprehensive and detailed information regarding halal investment products. Research participants indicated extensive training and seminars necessary to comprehend the selection of syariah-compliant investment products. Based on these findings, it is clear that syariah financial institutions are responsible for enhancing information transparency and strengthening education programs to assist the general public in making investment decisions that are truly by syariah principles.

Keywords: Halal Investment, Syariah Understanding, Syariah Financial Literacy.

INTRODUCTION

Investment is one of the most effective methods in asset management and development. However, as the general public becomes more aware of the principles of syariah, an increasing number of individuals are paying attention to the halal aspect of investment considerations. This phenomenon is becoming more prevalent in Indonesia, which is a country with a majority Muslim population. It is evident from the growing interest among the general public in syariah-compliant financial products, which includes halal investment opportunities. According to a report published by the Financial Services Authority (OJK) in 2023, the expansion of syariah financial products has increased by 8.12% over the previous five years. A growing number of individuals are showing an interest in purchasing goods that are not only profitable from a financial standpoint but also adhere to the principles of Islam.

Halal investment is increasingly becoming a significant issue in society, particularly in nations with a predominantly Muslim population, such as Indonesia. Individuals now evaluate not only the financial advantages but also the halal compliance of their selected investment instruments. It is motivated by a growing recognition of the significance of conducting economic activities in alignment with syariah principles, particularly regarding investment. The principles encompass the prohibition of *riba* (interest), *gharar* (uncertainty), and *maisir* (gambling), which are commonly present in conventional financial

products. Consequently, an increasing number of individuals opt for Syariah-compliant investment products purported to be halal. Despite the growing availability of halal investment products, public comprehension of the concept and its application remains constrained.

Increasing interest in halal investment is inseparable from developing Islamic financial literacy among urban communities. According to research conducted by Sari (2022), Islamic financial literacy among urban communities shows a significant increase, especially in big cities such as Jakarta and Surabaya. However, Sari also noted that despite the increase in Islamic financial literacy, an in-depth understanding of halal investment is still limited. Most people only know that halal investment must be free from usury, gharar (uncertainty), and maisir (gambling). However, they must understand the investment mechanisms and instruments that follow Sharia principles.

Research conducted by Nurfadillah and Ramadhani (2021) also shows that public understanding of halal investment still needs to be improved. Their study found that many people assume that as long as the authorities categorise an investment product as syariah, the product is automatically halal. The halal assessment not only depends on the sharia label but must also consider the business process and sources of funds used in the investment.

Another study by Khairunnisa (2023) revealed that although urban communities have better access to information and education about Islamic finance, more is needed to guarantee a complete understanding of halal investment. It was found that some people are still trapped in investment products that are partially halal due to the lack of in-depth education from financial institutions regarding these products.

Although many studies have discussed Islamic financial literacy and understanding of halal investment, there still needs to be a significant research gap. First, most existing studies focus more on the general aspect of Islamic financial literacy than on the public's understanding of halal investment. Second, many previous studies have used quantitative methods, so they have yet to explore more deeply the motivation, knowledge, and perspectives of the public regarding halal investment qualitatively. Therefore, this study will fill this gap by understanding urban communities about halal investment through a qualitative approach. This study will explore more deeply how urban communities understand the concept of halal investment, the factors that influence their decisions to invest, and the challenges they face in finding investment products that are truly by syariah principles. This study is expected to provide more comprehensive insights into public perceptions of halal investment and recommendations for improving education and more effective Islamic financial literacy through a qualitative approach.

Therefore, the findings of this research will significantly contribute to the advancement of Islamic financial literacy in Indonesia, particularly regarding the enhancement of the general public's comprehension of halal investment. Additionally, this study will likely provide input for financial

institutions and regulators to be more active in providing education on halal Islamic investment products. It will allow individuals to make more informed investment decisions based on religious principles.

LITERATURE REVIEW

Halal Investment in Islam

Halal investment is a type of financial management that adheres to Islamic syaria principles, prohibiting usury, gharar, and maisir. In the context of investment, usury is defined as profit obtained through interest, forbidden in Islam. In contrast, gharar refers to uncertainty in transactions that may harm one of the parties.

Maisir refers to speculation or gambling that can cause major losses. Research by Ahmed et al. (2022) emphasizes that halal investment must be based on economic sectors that support social welfare and do not conflict with Islamic ethics, such as the agricultural, trade, and infrastructure sectors, free from prohibited elements. In addition, investment products must go through a transparent and Syariah-compliant process to ensure their halalness (Ahmed et al., 2022).

Syariah Financial Literacy

Syariah financial literacy is an individual's ability to understand and apply financial concepts by syariah. According to research by Fatmawati (2023), syariah financial literacy includes knowledge of financial products and the ability to identify products by Islamic principles. In particular, regarding investments, individuals with a strong understanding of syariah financial literacy can make more prudent choices regarding the teachings of their religion. At the same time, Fatmawati brought attention that syaria financial literacy is still low in certain circles, even though syaria financial products are becoming more readily available. It highlights the necessity for improved education within the community. (Fatmawati, 2023).

Public Perception of Halal Investment

Various factors, including financial literacy, access to information, and education, influence public perception of halal investment. According to research by Khairunnisa (2023), many people perceive that the syaria label is sufficient to indicate the halalness of an investment product, even though they still need to understand the mechanism and structure of the product fully. Indicates a gap between the public understanding of Syaria financial products and the in-depth application of halal investment principles. Better financial education and literacy are needed to overcome this misconception, especially among urban communities (Khairunnisa, 2023).

Obstacles in Understanding Halal Investment

One of the main obstacles to understanding halal investment is the need for more in-depth education and access to related information. Research conducted by Yusuf et al. (2023) shows that even though urban communities have better access to technology and information, many individuals still need help understanding financial products that are truly halal. One of the reasons is the limitations of Islamic financial institutions in providing in-depth education about these products. This study concludes that financial institutions need to be more proactive in providing more comprehensive information about Islamic investment products so that people can make wiser decisions (Yusuf et al., 2023).

METHOD

Types of research

This study employs a qualitative research methodology utilizing a case study approach. Qualitative research was selected to thoroughly comprehend the perspectives and insights of urban communities concerning halal investment. The case study methodology enables researchers to examine individual experiences and viewpoints within a particular context, specifically halal investment. This study aims to obtain rich, detailed data on how people understand and interact with halal investment (Creswell & Poth, 2018).

Time and Place of Research

This research will be conducted over three months, from January to March 2024. The research location will be focused on several major cities in Indonesia, namely Jakarta, Surabaya, and Bandung. The selection of these cities is based on the consideration that they have significant urban populations and relatively good access to sharia investment products. The research is expected to provide a representative picture of the understanding of halal investment in urban environments (Hancock et al., 2016).

Method of collecting data

The data collection method in this study will involve several techniques, including in-depth interviews, focus group discussions (FGDs), and observations. In-depth interviews will be conducted with key informants, including individuals who have invested in Sharia products and financial experts. FGDs will involve urban community groups to gain a collective perspective on halal investment. Observations will be conducted at syariah financial institutions to understand the practices and information conveyed to the community. Data obtained from these techniques will provide comprehensive information on the community's understanding and experience of halal investment (Merriam, 1998; Braun & Clarke, 2013).

Data analysis

The collected data will be analyzed using a thematic analysis approach. The analysis begins with transcribing interviews and FGDs; then, data coding is carried out to identify key themes. These themes will be organized and analyzed to identify patterns and relationships relevant to people's understanding of halal investment. The thematic analysis allows researchers to explore the deep meaning of qualitative data and make interpretations that fit the study's objectives. This study will also use data triangulation to ensure the accuracy and validity of the findings (Braun & Clarke, 2006; Patton, 2015).

RESEARCH RESULTS AND DISCUSSION

Research result

This study reveals several key findings regarding urban communities' understanding of halal investment based on in-depth interviews, focus group discussions (FGD), and observations at several Islamic financial institutions.

1. General Understanding of Halal Investment

Most people who participated in the research showed that they had a fundamental comprehension that halal investments are required to adhere to syaria principles, such as the prohibition of riba, gharar, and maisir. It is essential to adhere to these principles to guarantee that financial transactions are carried out per Islamic teachings. Riba, also known as interest, is forbidden because it is considered an unfair form of profit. Gharar and maisir, on the other hand, are terms that refer to uncertainty and speculation that can be detrimental to one of the parties involved in a transaction. As a result of this comprehension, the participants generally acknowledged the significance of selecting investments using these principles to guarantee that the profits earned are halal.

However, the research findings also show significant differences in participants' understanding of the application of sharia principles in investment practices. Some participants only understand the halalness of a product from the Sharia label given without further verification of the mechanisms and sources of funds involved. Although participants can recognize the Sharia label, they often need help understanding the practical aspects of determining an investment product's halalness. Their understanding may need to be deeper to ensure that the investment they choose is based on Syariah principles.

This finding aligns with Sari's (2022) research, which shows that although Islamic financial literacy has increased, an in-depth understanding of halal investment products still needs to be improved. Increased Islamic financial literacy is only sometimes followed by a better understanding of

investment practices that are by Islamic principles. The a need for a more in-depth and comprehensive educational approach to ensure that the public not only understands the concept of halalness theoretically but can also apply it in their investment decisions practically and informatively.

2. Perception of Islamic Financial Institutions

Individuals frequently presume that offerings from Islamic financial institutions inherently satisfy halal criteria. This assumption is based on the belief that these institutions have conducted operations in alignment with Islamic principles. Nonetheless, the interview findings in this study indicated that most participants needed to comprehensively analyse the product structure and business processes related to the investment. They often depended on the Islamic designation as a confirmation of halal status without conducting additional investigation into the product's technical details.

According to the study's findings, this belief is why individuals do not undertake in-depth research into the process of developing and managing Islamic financial products. For instance, even though a product may be labelled as Islamic, the investment structure and source of funds utilized may not be completely by the principles of Islam. These findings suggest that individuals tend to consider the Islamic label to be an adequate indication of halalness without clearly understanding how the institution ensures that every product they sell is by Islamic principles.

This finding aligns with the research conducted by Nurfadillah and Ramadhani (2021), which indicated that individuals frequently presume that the syariah label alone ensures a product's halal status without additional verification. This study underscores the necessity for enhanced education and transparency from Islamic financial institutions to guarantee that the public comprehensively understands the compliance of their investment products with Sharia principles. To ameliorate this situation, Islamic financial institutions must enhance communication and furnish more comprehensive information regarding the compliance of their products with halal standards.

3. Obstacles in Accessing and Understanding Information

Based on the findings of this study, the most significant challenge identified was the need for comprehensive and transparent information concerning halal investment products offered by Islamic financial institutions. According to several participants' opinions, the available information was frequently too general and did not contain the specifics required to make decisions regarding investments that were truly by Islamic principles. To give one example, information regarding operational mechanisms, investment structures, and sources of funds used needed to be presented in more detail, which made it difficult for the general public to conduct in-depth evaluations. Investors who wanted to ensure Islamic principles truly guided their investments were left with uncertainty and doubt.

Most participants felt that even though they received information about halal investment products, the information needed to be more comprehensive to meet their decision-making needs. This limitation indicates that Islamic financial institutions must improve how they convey information to the public by adding relevant technical details and transparency in their products. This lack of clarity also indicates a gap in the education provided to the public about what makes an investment product halal and how they can practically verify its halalness.

This result is consistent with the research findings of Yusuf et al. (2023), which demonstrated that, despite the increased availability of information on Islamic financial products in urban areas, in-depth education on these products still needs to be improved. This study underscores the necessity of a more comprehensive approach to providing information and education to the public regarding halal investment products. To surmount this challenge, Islamic financial institutions must enhance the quality and depth of the information they offer and bolster their educational initiatives to guarantee that the public possesses the necessary knowledge to make investment decisions on Islamic principles.

4. Education and Socialization

The study also revealed that socialization and education regarding halal investment still need significant improvement. Many research participants expressed the need for more in-depth training and seminars to understand how to choose investment products based on syariah principles. They felt that the current information was often too basic and insufficient to equip them with the practical knowledge to select investments that met sharia criteria. Therefore, there is a strong demand for a more comprehensive and structured education program.

The need for increased education covers various aspects, from understanding the basic principles of sharia in investment to practical skills in assessing the halalness of investment products. Participants suggested that sharia financial institutions and related organizations conduct training that provides theory and practices concrete ways to evaluate investment products. Includes understanding investment mechanisms, analyzing financial statements, and verifying compliance with Sharia principles.

This finding aligns with Fatmawati's (2023) research, which underscores the necessity for enhanced education to elevate sharia financial literacy within the community. Fatmawati demonstrates that, notwithstanding the improved accessibility to information, the depth of comprehension regarding sharia financial products remains insufficient. This study emphasizes the necessity for enhanced initiatives in delivering effective educational programs to augment public comprehension and facilitate improved investment decisions.

With more in-depth training and seminars, it is hoped that the community can overcome the lack of information and gain sufficient knowledge to ensure that their investments are truly based on Sharia principles.

Discussion

The findings of this study show that, while urban communities are becoming more aware of Sharia principles in investment, in-depth understanding and application of these principles in halal investment practices still need to be revised. This awareness reflects preliminary knowledge about the significance of investing by Syariah law. However, when it comes to real-world investment decisions, there are still gaps in the consistent and comprehensive application of Sharia principles.

These results are in line with the findings of Sari (2022) and Nurfadillah & Ramadhani (2021), which revealed that although sharia financial literacy among the community shows an increasing trend, in-depth understanding of the concept and practice of halal investment remains a significant challenge. This study emphasizes the need for further efforts to improve understanding of halal investment through more targeted education and training and support from syariah financial institutions to provide clearer and more applicable guidance for investors. Increased literacy and in-depth understanding are expected to strengthen the adoption of Sharia principles in investment and encourage investment practices based on syariah law.

The perception that products with a syariah label are automatically considered halal without in-depth evaluation of the mechanism and source of funds indicates a significant gap in public understanding of syariah investment. This belief can lead to the use of products that do not truly comply with Sharia principles, so it is important to address this problem by increasing transparency and education from syariah financial institutions, in line with the findings of Yusuf et al. (2023), which show that obstacles to accessing adequate information contribute to the need for a more public understanding of syariah principles in investment.

This information constraint often results in investors being unable to critically evaluate whether an investment product is truly by syariah principles or simply relying on labels without adequate substance. Therefore, Islamic financial institutions must proactively provide more transparent, comprehensive, and detailed product information. It includes explaining the investment mechanism, source of funds, and how the product complies with Syariah principles. Better education and information transparency can help investors make more informed decisions and minimize the risk of choosing products not based on Syariah's values. Thus, Islamic financial institutions strengthen customer trust and satisfaction and contribute to developing a more robust and halal sharia investment market.

Education on halal investment should be conducted more intensively and structured, involving various methods and approaches to ensure its coverage and effectiveness. The use of seminars, workshops, and easy-to-understand educational materials are important steps in this strategy. Seminars can present experts in the field of syaria investment to provide an in-depth understanding of Sharia principles and their application in various investment products. Interactive workshops can allow participants to learn practically and directly interact with experts, helping them understand how to apply syaria principles in their investment decisions.

According to Fatmawati (2023), this structured educational approach increases public understanding of halal investment and serves as a tool to improve investment decisions. With a better experience, people can be wiser in choosing investment products that follow syariah principles, avoiding unwanted risks and ensuring that their investments follow their religious values. Effective education can also strengthen public trust in sharia financial institutions, creating a more transparent and accountable market. Therefore, sharia financial institutions and related authorities must commit to organizing quality and affordable educational programs to support the growth of a healthy and sustainable syaria investment market.

This study demonstrates that there needs to be more theoretical and practical knowledge in halal investment. This gap calls for additional attention from Islamic financial institutions, educators, and policy makers to guarantee that the general public can make investments that are truly by Islamic principles.

CONCLUSION

Based on the findings of this study, it is clear that urban communities still face several significant challenges when it comes to understanding halal investment. Even though most participants know that halal investment must adhere to syaria principles, such as the prohibition of usury, gharar, and maisir, there are variations in how these principles are applied in practice. Many participants only rely on the syariah label without further verifying the structure and mechanisms of investment products. The main obstacles identified are the need for clearer, in-depth information about halal investment products from sharia financial institutions and inadequate education.

The study's findings demonstrate an immediate necessity to enhance socialization and education concerning halal investment. Participants recommended extensive training and seminars to comprehend the selection of investment products compliant with Syariah. This finding aligns with prior studies emphasising comprehensive education's significance in enhancing syariah financial literacy. To address this issue, syariah financial institutions must provide more detailed and transparent information and strengthen educational efforts so that the public can make investment decisions based on sharia principles.

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