SAVINGS AND INVESTMENT BEHAVIOUR OF HAJJ FUND CONTRIBUTORS: A CASE STUDY OF SELECTED CITIES IN INDONESIA

BY

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ABSTRACT

This research conducted an assessment on determinants that rationalize Hajj funds contributors' savings and investment behaviour from a dual objective perspective towards needs fulfilment and religious-socio obligation as an obedient Muslim. Structural Equation Modelling employed in this research utilised independent variables adopted from Fisher's Intertemporal Choice Theory and the Theory of Planned Behaviour. Both Fisher's personal factors, saving horizon and impatience are the determinants of the Intertemporal Choice Theory, whereas religious beliefs and perceived behavioural control are the elements from the Theory of Planned Behaviour are explored. Furthermore, psychological variables and knowledge are two additional independent variables which are also assessed in this study. Moreover, moderation effects analysis were performed using the two variables: Fisher economic factors and product features; whilst multigroup analysis was conducted using different factors of demographic aspects. Primary data were collected from a sample of 408 individual contributors from two provinces who performed Hajj in 2016. It was found that both Fisher's Intertemporal Choice Theory and the Theory of Planned Behavior could explain Hajj savings behaviour with reference to the significant findings of Fisher's personal factors, saving horizon and perceived behavioural control. These theories were also able to explain Hajj investment behaviour through the presence of Fisher's personal factors, impatience and perceived behavioural control. Risk adjusted return preference was the psychological factor that affected Hajj savings-investment behaviour. The moderation role of Fisher's economic factors and product features in the model were also supported. The effects of Fisher's Intertemporal Choice Theory, the Theory of Planned Behavior, and psychological factors are also significant across different across groups of age, gender, education, working status, income, house ownership and wealth.

خلاصة البحث

الهدف الرئيسي من هذا البحث هو إقامة تقييم للعوامل المحددة الأساسية التي تبرر سلوك استثمار المدخرات لدى المساهمين في صندوق الحج بهدف مزدوج نحو تلبية الاحتياجات والالتزام الديني والاجتماعي كمسلم مُطيع. تم استخدام نمذجة المعادلة الهيكلية (Structural Equation Modelling) في هذا البحث المتغير التابع في هذا البحث هو سلوك استثمار مدخرات الحج لدى المساهمين في صندوق الحج. هذا البحث يستخدم المتغيرات المستقلة المأخوذة من نظرية فيشر للخيار الزمني (Fisher's Intertemporal Choice) ونظرية السلوك المخطط (Theory of Planned Behaviour). عوامل فيشر الشخصي، وأفق الادخار (saving horizon) وعدم الصبر هما العاملان المأخوذان من استطلاع لنظرية الخيار الزمني، أما المعتقدات الدينية، والسيطرة السلوكية الملموسة فهما من العوامل المحددة لنظرية السلوك المخطط. علاوة على ذلك، فإن المتغيرات المستقلة الإضافية وهي: العوامل النفسية والمعرفة اللتان ساهمتا في هذا البحث. تم أداء تحليل تأثير التوسُّط باستخدام متغيرَين: عوامل فيشر الإقتصادي وخصائص المنتج، أما تحليل المجموعات المتعددة فقد تم باستخدام عوامل مختلفة تخص الجوانب الديموغرافية. تم جمع البيانات من عينة تتكون من 408 أشخاص مساهم أدى مناسك الحج في 2016م من محافظتين اثنتين في إندونيسيا. تم إثبات أن كُلًا من نظرية فيشر للخيار الزمني والسلوك المخطط بإمكانهما تفسّران سلوك الإدخار للحج مع وجود عوامل فيشر الشخصي، وأُفق الإدخار والسيطرة السلوكية الملموسة. هذه النظريات أيضًا استطاعت أن تُفسر سلوك استثمار الحج مع وجود عوامل فيشر الشخصي، وعدم الصبر والسيطرة السلوكية الملموسة. تفضيل الخطر كان العامل النفسي الذي أثَّر على سلوك استثمار المدخرات، أما المعرفة فقد أثرت فقط على سلوك الإدخار للحج. تم دعم دور التوسُّط الخاص بعوامل فيشر الاقتصادي وخاصيات المنتج في هذا النموذج. تأثيرات نظرية الخيار الزمني، ونظرية السلوك المخطط والعوامل النفسية كانتا مختلفتين بشكل كبير عبر المجموعات العُمرية، والجنسية، والخلفية التعليمية، وحالة العمل، والراتب، وامتلاك بيت، والثروة.

APPROVAL PAGE

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DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature ……..…………………….. Date ……..……………………..

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Signature Date

This thesis is dedicated to my dearest parents.

Anything good that has come to my life has been because of

your example, guidance, and love

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All glory is due to Allah, the Almighty, whose Grace and Mercies have been with me throughout the duration of my programme. Although, it has been tasking, His Mercies and Blessings on me ease the herculean task of completing this thesis.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Hajj is one of the five fundamental pillars of Islam and is an obligation of every Muslim who has the capacity to perform the prescribed ritual. The performance of Hajj has both individual and community considerations. Foremost, the title “Hajji” is given as a sign of respect in Muslim archipelago communities to a religious person who has fulfilled this fifth pillar of Islam.

Hajj may have impacts on both the personal life (individual) and the collective life (social). Allah says in the Holy Quran, "That they may witness the benefits (provided) for them, and celebrate the name of Allah…” (Al-Hajj 22:28). Hajj is the way of perfecting one’s faith; as Muslims who perform the pilgrimage carry only the intention of pleasing Allah, they will be in the state of virtue and piety, they become purer in thought and deed, their pride and vanity will disappear, and at the same time they will forget material comfort (Khan, 2012). Furthermore, by performing Hajj, people from diverse cultures and socio-economic backgrounds become acquainted with each other and appreciate each other’s differences. They bring themselves together to achieve their goals and remove the barriers (Khan, 2012).

As mentioned by Agarwala et al. (2019), not only does religious value shape an individual’s ecstatic acquaintance, but also their psychological well-being, that altogether contribute to strengthen individual’s decisions and actions. Clingingsmith et al. (2008) mentioned three manifestations about how Hajj affects both religious practice and beliefs. First, the Hajj improves an individual’s religious practice within five to eight months post-Hajj. It also increases the regularity of fasting outside of *Ramadan* (the obligatory month of fasting) and the frequency of performing *Tahajjud* (supererogatory) prayers by approximately twofold. Second, Hajjis display more positive views towards other nationalities and social groups, higher tolerance, and are more peacefully inclined. Third, the Hajj also improves the index that captures the awareness of women's quality of life as well as increases favourable views towards education for girls.

Although the obligation of Hajj pilgrimage is mandatory only on a person with physical and financial abilities, devout Muslims with any financial condition can accomplish the Hajj pilgrimage using certain schemes. There are several alternatives for potential Hajj pilgrims in preparing Hajj funds, from the traditional practices which do not involve the financial sector, to a more advanced one utilising the financial sector instruments. Swapping or selling certain assets for cash to pay the cost of Hajj pilgrimage is considered a traditional practice. The assets may take the form of gold, land, or vehicles. Furthermore, the financial sector has provided significant services in assisting potential Hajj pilgrims with Hajj saving schemes offered not only by banks but also by non-bank financial institutions. This type of saving scheme is not much different from other types of traditional savings for various purposes.

Saving is an alternative that would enable Muslims to plan their finances to meet the expenses of performing the pilgrimage; it comes in the form of a Hajj deposit fund that could cover the Hajj cost and all related Hajj expenditures during the pilgrimage in Mecca. Upon attaining sufficient savings, they can register with the Ministry of Religious Affairs to obtain a Hajj registration serial number and be eligible for Hajj, and then wait for several years to be granted the visa to perform the Hajj. The timeframe of the process requires a careful saving plan to realise the opportunity of fulfilling one's religious obligation.

According to economic theories, personal saving is part of income that is left after tax payment and consumption in a given period of time (Audenis et al., 2002). Personal saving increases as people continually postpone their current consumption to meet future consumption. Some people have preference to change their saving into investment to accomplish certain objectives. Hence, the motivation to save is accompanied by pecuniary or other incentives. In the case of the Hajj, saving provides not only pecuniary motivation but also bountiful religious benefits.

With a quota of 204,000 pilgrims for regular Hajj and as many as 600,000 people registered each year, The Ministry of Religious Affairs stated until April 2018 Indonesia has an accumulation of 3.7 million Muslims registered for Hajj with an average waiting period of nineteen years. The shortest waiting period on the same year was eleven years and the longest was twenty nine years. As seen in figure 1.1 the average waiting period for Hajj in Indonesia was sixteen years on June 2016 and twenty years on February 2019.

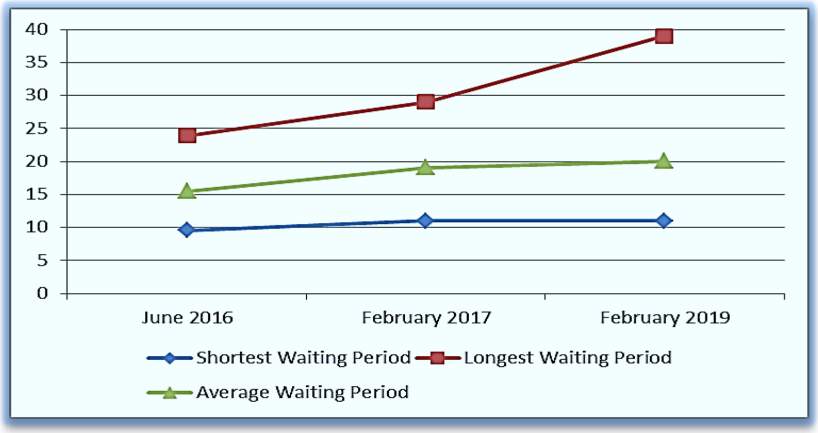

Figure 1.1 Waiting Period for Hajj in Indonesia (Years)

It is required for Muslims to deposit initial Hajj payment of IDR 25 million (USD 1950 approximately) to appointed financial institutions. In Indonesia, it is not only the banking sectors that provide Hajj savings-investment plan service for future pilgrims, but also insurance companies. However, by using the Hajj savings-investment plan from the bank, future pilgrims would be automatically registered with the Ministry once their savings amount has met the required threshold. In October 2014, the Hajj Fund Management Agency (*Badan Pengelola Keuangan Haji*) was established with the special duty to manage Hajj funds deposited by future pilgrims. However, the agency is not tasked to assist future pilgrims in preparing for the expenses they might incur during their pilgrimage. Therefore, it is necessary for Muslims to save timely into an investment fund to support their Hajj journey.

In comparison, potential pilgrims in Malaysia who make deposits in Lembaga Tabung Haji do so primarily as a religious obligation (Mannan, 1996). Tabung Haji of Malaysia is considered a pioneer Islamic financial institution which has mobilised savings of individuals and successfully operated a shariah-compliant investment fund to fulfil the life long-desire of many individuals of performing the Hajj ritual (IRTI-IDB, 1995). The simple deposit procedures and cooperation with other similar institutions have enabled Tabung Haji depositors to make deposits through any of the following means: Tabung Haji office, post office, monthly deduction by their employers, direct mail of deposit to Tabung Haji Head Office, and saving scheme for dependants.

The behaviour attached to saving for Hajj pilgrimage may be different from that with other types of savings. First, saving for Hajj provides a good feeling even though the return on saving is relatively low. Second, saving is planned but not a fixed binding commitment. Hence, it should be flexible to accommodate savers' personal needs.

Third, the funds in trust are kept with religious intent and bountiful benefits in mind. Clingingsmith et al. (2008) proved that the substantial financial expenditure required for Hajj does not create financial stress that leads to negative feelings. The hypothesis that the Hajj has an adverse effect on satisfaction with finances is also rejected. The Hajj does not affect monthly household consumption expenditures and is not a measure of household assets. The respondents also revealed that most do not consider the pool of savings for the Hajj as fungible; those who are unable to go keep their Hajj funds for future reapplication, and it took them at least four years to save money for Hajj.

Based on a conventional point of view, saving can become a problem for certain people because it involves making choices in different time periods (Fisher, 1930). The difficulties in making a saving decision, particularly for the long term, are mainly related to self-control and time inconsistency as individuals are impatient, they cannot delay any immediate gratification and sequence temptation, and they are also are present-biased, which imply they have a strong tendency to make inconsistent choices between today and tomorrow.

On the contrary, Islam considers the existence of the afterlife to be inseparable from the belief in God. This extends a Muslim's time horizon beyond death and the belief that life after death is closely interrelated in a sequential manner. Therefore, the utility derived from a choice of action is the total of the present value of its immediate effect in this life and its later effect in the life to come. Muslims are more selective in spending their income on things that yield benefit not only in this life but also in the afterlife through reward from God (Khaf, 1996). Islam promote a proper financial behavior by reducing debt taking and performing investment as the future arrangement (Kassim, 2019). In the Holy Quranic verse 12:47-49, the God Almighty (Allah) says in this regard where Yusuf said Muslim is encouraged to work hard, save wisely and consume efficiently without being lavish.

This study is motivated by a strong enthusiasm among most Muslims to fulfil the Hajj pilgrimage obligation, which in turn encourages them to save a certain amount of money for that purpose. Therefore, the aim of this research is to explore, describe, and assess factors influencing a Muslim savings-investment behaviour by employing Fisher's intertemporal choice theory and The theory of planned behaviour. Fisher's intertemporal choice theory is chosen because saving for future consumption is always connected with a decision to lower current consumption. The consequences of choosing present and future consumption result in the saving behaviour. The theory of planned behaviour will specify dimensions that include attitude and perceived behavioural control of Muslims who intend to fulfill the Hajj obligation.

1.2 STATEMENT OF THE PROBLEM

Hajj savings-investment behaviour can increase a Muslim's awareness about the importance of planning and participating in a saving-investment product and provide financial readiness for Muslims to perform the Hajj pilgrimage obligation. However, current studies on saving and investment are scarce especially on economic, personal, and religious belief factors that explain a Muslim's decision to commit and contribute to a Hajj savings-investment product.

Several theoretical and simulation studies have analysed saving for selected motives such as retirement plan (Brown, 2007; Hardcastle, 2012; Knoll, 2011; Koe Hwee Nga & Ken Kyid Yeoh, 2018; Yu-Jen Hsiao et al., 2016), precautionary reasons (Carroll and Kimball, 2001; Gourinchas and Parker, 2002; Hubbard et al., 1994), and saving with a bequest motive (Horioka et al., 2003; Kopcsuk and Lupton, 2007; Lockwood, 2010). However, empirical studies of saving for specific motives have been few (Horioka and Watanabe, 1997), particularly regarding religious obligation as a motive for saving. Several studies on saving behaviour in general have considered religion and religiosity as exogenous variables that significantly influence the saving behaviour (Klaubert, 2010; Nyhus, 2002; Otto, 2009; Yayeh, 2014). In this context, saving-investment behaviour is associated with an explicit religious obligation motive.

Generally, Muslims understand that their family needs fulfilment or assurance before they perform their Hajj pilgrimage. This understanding is mainly because Hajj is only mandatory for those who have the financial capacity while the capability of a Muslim to perform the Hajj is subject to his personal livelihood. This issue represents a research gap as to whether Muslims are proactive or reactive in their saving-investment behaviour for the Hajj.

Alternatively, some Muslims are less likely to save for all Hajj-related expenditure. Instead, they realise their illiquid wealth or assets to finance their Hajj expenditure, for instance by selling their idle assets such as land or a house. Muslims who save in the long term for the purpose of performing the Hajj pilgrimage by setting up a pool of funds in certain saving plans provided by financial institutions or by investing in other types of assets such as gold would be considered as demonstrating a planned behaviour, unlike those who liquidate their financial position at a short notice to fulfil their Hajj obligation. This study focuses on the planned saving-investment behaviour and not liquidation strategy for Hajj purpose.

The lack of policy initiatives to encourage active rather than passive saving-investment behaviour motivates this research to determine the important and significant variables to support the need for such a policy. In October 2014, the Hajj Fund Management Agency (*Badan Pengelola Keuangan Haji*) was established with the special duty to manage Hajj funds deposited by future pilgrims. However, the agency does not have any particular task in helping future pilgrims to prepare for their Hajj expenditure. Meanwhile, most financial institutions in Indonesia offer Hajj saving schemes merely to accommodate the potential market that Hajj investment products seem to disregard. In addition to the contract of *wadiah* and *mudarabah muqayyadah*, Hajj saving schemes also uses *mudharabah mutlaqah*, which allows banks to manage future pilgrims' funds with more flexibility because of fewer restrictions. However, there are no alternatives for Muslims in choosing Hajj investment products that provide more aggressive returns so that they can perform their Hajj at the earliest.

1.3 PURPOSE OF THE STUDY

The aim of this research is to explore, describe, and conduct an assessment of significant determinants that explain contributors' saving-investment behaviour, particularly in relation to the obligation to fulfil one of the pillars of Islam, the Hajj pilgrimage. In light of the above, the primary objectives of the research are divided into three components.

First, by learning from the savings-investment behaviour towards Hajj, this research will be beneficial in terms of ascertaining the determinants comprising contributors' personal factors, personal religious belief, perceived behavioural control, psychological factors in the aspect of risk tolerance and saving motive, and also contributors' knowledge as significant factors that affect savings-investment behaviour for the Hajj pilgrimage purpose. Second, this paper is intended to analyse and identify Fisher's economic factors and product features and assess the moderation effect of those two factors on contributors' savings-investment behaviour. Third, this study aims to analyse the influence of demographic factors on Hajj savings-investment behaviour as well as to conduct a multigroup effect analysis based on demographic factors.