

## PUBLIC UNDERSTANDING OF THE CONCEPT OF RISK AND RETURN IN SHARIA INVESTMENT

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**Abstract:** *This study aims to analyze the public's understanding of the concepts of risk and return in Islamic investment. Using a qualitative approach, data were collected through in-depth interviews with five informants who actively invest in various Islamic financial instruments in Medan City. The findings show that most people understand basic Islamic principles such as avoiding riba, gharar, and maysir. However, their understanding of how risk and return interact within Islamic investment remains limited. Many still assume that Islamic investment is always safe and carries minimal risk compared to conventional investment. Meanwhile, individuals with higher financial literacy acknowledge that Islamic products also carry market risks that must be considered. These findings highlight the need for greater educational efforts to strengthen the public's understanding of risk-return dynamics in Islamic finance, particularly for new investors.*

**Keywords:** *Islamic Investment, Risk, Return, Public Understanding, Qualitative Study*

### Introduction

Sharia finance has experienced rapid growth and has become an attractive alternative for people who want to invest in accordance with sharia principles. These principles include the prohibition of riba (interest), gharar (excessive uncertainty), and maysir (gambling), which form the structure of sharia financial products (Ascarya, 2021). Although Islamic investments are based on religious values, these instruments still carry various risks that must be understood by the public. Therefore, public perceptions of the risks and benefits of Islamic investments have become an important topic in current research.

A number of studies show that there are still many misconceptions among Muslim investors, especially the assumption that Islamic investment products are always safer and have lower risks than conventional investments. Research by Firdaus and Arifin (2023) found that many novice investors in Indonesia consider sharia products to be "low risk" simply because they are labeled halal. Meanwhile, other studies show that sharia financial institutions use risk mitigation mechanisms that can reduce the application of pure profit sharing, thereby changing their risk characteristics (Sari & Darmawan, 2022).

Various Islamic investment products such as sukuk, Islamic mutual funds, Islamic stocks, and Islamic peer-to-peer lending financing have their own risks, including market risk, credit risk, and Islamic non-compliance risk (Rohim, 2022). These risks need to be well understood because they affect the expected rate of return and the suitability of the product for a particular investor profile.

Although there is considerable research on Islamic financial instruments, qualitative understanding of how the general public perceives risk and return is still limited. Especially in a local context such as the city of Medan, cultural, religious, and financial literacy factors can influence how people understand Islamic investment. This study attempts to fill this gap by

analyzing the public's understanding of the concepts of risk and return through in-depth interviews with active investors in the city of Medan.

## Theoretical Basis

### 2.1. Sharia Investment Theory

Sharia investment is an investment activity that follows Islamic principles, especially the prohibition of *riba*, *gharar*, and *maysir* (Ascarya, 2021). The main objective of sharia investment is not only to make a profit but also to ensure blessings and compliance with sharia. Various Islamic investment instruments such as *sukuk*, Islamic stocks, Islamic mutual funds, and Islamic P2P financing are structured based on contracts such as *mudharabah*, *musyarakah*, *murabahah*, and *ijarah* (Rohim, 2022).

Profit-sharing instruments such as *mudharabah* and *musyarakah* emphasize the principle of profit and loss sharing, so that the risk is borne by both parties. Meanwhile, instruments such as *murabahah* carry credit risk because the transaction takes the form of a sale and purchase with a margin (Sari & Darmawan, 2022).

### 2.2. Risk Theory in Sharia Investment

- Risk Concept

Risk in investment is defined as uncertainty about future outcomes. In the context of sharia, risk is considered a legitimate element as long as it does not contain excessive *gharar* (Ascarya, 2021). Risks that are still within reasonable limits are permissible because they are part of normal business activities.

- Types of Risk in Sharia Investment

- Market Risk:

The risk of changes in the price of investment assets due to economic fluctuations. *Sukuk* and Sharia stocks are still affected by the market, just like conventional instruments (Rohim, 2022).

- Credit Risk:

The risk of default by *sukuk* issuers, *murabahah* customers, or Islamic P2P lending platforms.

- Shariah Non-Compliance Risk:

The risk that arises if an instrument is proven to be non-compliant with Islamic law due to errors in the contract or operational processes (Sari & Darmawan, 2022).

- Operational Risk:

Includes human, system, or procedural errors that may disrupt the performance of sharia investment products.

- Liquidity Risk:

The risk of difficulty in selling certain Shariah instruments (e.g., retail *sukuk* during the holding period).

### 2.3. Theory of Returns in Sharia Investment

Returns in Islamic investment are obtained through *halal* mechanisms in accordance with the contract. For example:

- In *mudharabah* and *musyarakah*, returns are divided based on a ratio agreed upon at the outset.
- In *murabahah*, returns are obtained from the selling price margin.
- In *ijarah*, returns come from asset rentals.

Returns on sharia investments are not guaranteed and remain subject to market conditions, so they are not always more stable or safer than conventional investments (Firdaus & Arifin, 2023).

Modern portfolio theory also applies to Islamic investments, namely that high returns are usually accompanied by high risks (high risk – high return). However, Islamic investors must still consider the aspect of halal in addition to potential profits.

#### 2.4. Investor Behavior Theory and Sharia Financial Literacy

- Investor Behavior (Behavioral Finance)  
Investor behavior is influenced by risk perception, religious beliefs, personal experience, and financial literacy. Many Islamic investors choose products based on the "Islamic" label rather than on proper risk analysis (Firdaus & Arifin, 2023).
- Islamic Financial Literacy  
Islamic financial literacy is an individual's understanding of Islamic financial principles, products, risks, and mechanisms. Research shows that the higher a person's financial literacy, the more realistic their understanding of the risks and returns of Islamic investments (Rohim, 2022).

Low literacy often gives rise to myths such as:

- Islamic investments are always safe,
- profits are guaranteed to be stable,
- Islamic products are free from the risk of loss.

#### 2.5. Theory of Public Risk Perception

Risk perception is subjective and influenced by sociocultural factors, religiosity, experience, and trust in institutions. In the context of Muslim communities, religiosity often leads them to believe that sharia instruments are automatically safer because they are halal and supervised by a sharia board (Firdaus & Arifin, 2023).

However, empirically, research shows that sharia instruments still follow market mechanisms, so an excessive perception of safety can mislead investors (Sari & Darmawan, 2022).

### Research Method

#### 3.1. Research Approach

This study uses a qualitative approach with a descriptive study type, which aims to deeply understand how people interpret the concepts of risk and profit in sharia investment. The qualitative approach was chosen because it is able to explore the subjective experiences, perceptions, and financial literacy levels of informants naturally in accordance with their life contexts. According to Creswell (2018), qualitative methods provide space for researchers to understand phenomena from the participants' perspective, making them highly relevant for examining the public's understanding of sharia-based investment.

#### 3.2. Research Location and Subjects

The research was conducted in the city of Medan, one of the major cities in Indonesia with a fairly rapid development of Islamic financial instruments.

The research subjects involved five informants who met the following criteria:

- Actively investing in sharia instruments (e.g., sharia mutual funds, gold, retail sukuk, sharia stocks, or sharia peer-to-peer lending).
- Residing or working in the city of Medan.

- Willing to be informants and provide information openly.

Informants were selected using purposive sampling, which is the selection of samples based on research objectives and the suitability of informant characteristics (Patton, 2015).

### 3.3. Data Collection Techniques

Data was collected using:

- In-depth Interviews

Interviews were conducted in a semi-structured manner to allow for in-depth exploration of the understanding of risks and benefits in sharia investment. Questions were directed at:

- Informants' understanding of sharia principles (riba, gharar, maysir).
- How they understand the risks of Islamic investment
- Their perceptions of the relationship between risk and potential returns.
- Their personal experiences when investing.

#### b. Documentation

The researcher examined several documents and official publications on sharia investment, including reports from the Financial Services Authority (OJK), fatwas from the DSN-MUI, and academic articles to strengthen the data.

### 3.4. Data Analysis Techniques

The data was analyzed using thematic analysis methods based on the steps developed by Braun and Clarke (2006). The analysis process began with rereading all interview transcripts, then coding important information related to perceptions of risk and profit. Next, the codes were grouped into several themes, such as misconceptions about sharia risk, financial literacy, and perceptions of security. Once the themes were formed, the researchers drew meaning and relationships between themes to answer the research questions. The analysis was conducted iteratively, that is, through a back-and-forth process between data and interpretation.

### 3.5. Data Validity

To ensure validity, the study used:

- Source Triangulation  
Comparing responses between informants
- Member Checking  
Reconfirming findings with informants to ensure that the researcher's interpretation matches their experiences.

This step aims to ensure that the researcher's interpretation truly reflects the informants' views and experiences (Lincoln & Guba, 1985).

### 3.6. Research Ethics

This study applied ethical principles by providing all informants with an explanation of the research objectives, their rights as participants, and guarantees of personal data confidentiality. Informant identities were disguised using codes such as Informant A, B, C, and so on to maintain their privacy.

## Result and Discussion

### 4.1. Results

The community's basic understanding of sharia principles shows that all informants in this study understand the prohibition of usury, gharar, and maysir as the main foundations of sharia investment. Several informants, such as Informants A and C, chose sharia instruments because they felt more spiritually secure and in line with their values. In terms of risk perception, the interviews revealed two main categories. The group with low literacy, such as Informants B and D, considered sharia investment to be safer than conventional investment and believed that the sharia label and supervision by the Sharia Supervisory Board guaranteed minimal risk. Conversely, the group with high literacy, such as Informants A and E, understood that sharia investment still contained market risk, liquidity risk, and management risk. The understanding of the relationship between risk and return also differed among informants. Informants C and D believe that the more sharia-compliant a product is, the lower the risk without affecting the potential return. Meanwhile, Informants A and E understand the concept of risk–return tradeoff, namely that the higher the risk of a product, the higher the potential return.

The study also found that public understanding is influenced by three important factors. First, financial literacy: informants with access to education understand risk and return more objectively. Second, personal experience: Informant E, who had experienced losses in sharia stocks, showed a more realistic understanding of risk. Third, social environment influence: social media and communities have a significant impact on shaping the perception that sharia investment is safe without significant risk. These findings indicate a clear gap between normative understanding of sharia and technical understanding of risk and market mechanisms.

### 4.2. Discussion

Research findings show that the public's normative understanding of sharia principles is quite strong, but it is not accompanied by adequate technical understanding of risk and return. This condition is in line with the OJK (2022) report which states that sharia financial literacy in Indonesia is still low. The perception that sharia investments are automatically safe, as shown by the low literacy group, is consistent with the findings of Hassan and Lewis (2007), which reveal that many people associate the sharia label with financial stability and security. Conversely, the high literacy group demonstrates an understanding consistent with the market theory described by Bodie, Kane, and Marcus (2014), that all investment instruments remain subject to market risk regardless of their label.

In the context of the relationship between risk and return, the understanding of low-literacy informants who consider sharia products to be low risk but still profitable is not in line with the risk–return tradeoff theory, as explained by Fabozzi and Markowitz (2011). This indicates that low literacy can lead to irrational decision-making in sharia investment. Factors such as the social environment and the media also reinforce misconceptions, as described by Rahim and Amin (2011), who found that risk perception is greatly influenced by external information and social pressure.

Further discussion also shows that misperceptions about Islamic investment risk are not only caused by a lack of literacy, but also by cultural narratives that associate sharia compliance with a sense of security. El-Gamal (2006) explains that Muslim investors often use sharia principles as a form of moral reassurance, which is then misinterpreted as financial security. The public's dependence on informal information from family, mosque communities, and social media influencers further reinforces biased perceptions. In addition, personal experience plays an important role in shaping risk understanding; Kolb (1984) mentions that direct experience is a stronger source of learning than theory alone.

On the other hand, there is a communication gap between regulators and the public. Although the OJK provides educational materials, the technical language used is often difficult for novice investors to understand. This is consistent with Ascarya's (2007) view, which emphasizes that Islamic financial education needs to be delivered contextually to be effective. Overall, this discussion confirms that the public's understanding of Islamic investment is influenced by a combination of technical, social, cultural, and personal experience factors, so that literacy improvement must be carried out holistically and not only focus on theory.

### Conclusion

Based on the research results, it can be concluded that the public's understanding of the concepts of risk and return in Islamic investment still shows a significant gap. Although all informants understood the basic principles of sharia, such as the prohibition of *riba*, *gharar*, and *maysir*, this understanding was more normative and was not fully accompanied by a technical understanding of risk and market mechanisms. Some informants, especially those with low literacy, still assume that Islamic investment is automatically safer, so they tend to ignore the potential risks inherent in Islamic instruments. Conversely, informants with higher literacy levels demonstrate an understanding that is consistent with the theory that risk and return are closely related. Factors such as financial literacy levels, personal experience in investing, and social and media influences are important elements that shape public perceptions of risk and return. In addition, the gap between the information provided by regulators and public understanding further reinforces these misconceptions. Overall, this study emphasizes the importance of improving sharia financial literacy in a comprehensive, contextual, and easy-to-understand manner so that the public can make more rational investment decisions in accordance with sharia principles

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