

**IDENTIFYING THE VARIABLES THAT
DETERMINE THE USAGE OF ONLINE
INVESTMENT PLATFORM: AN
ISLAMIC PERSPECTIVE**



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UMS
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**LABUAN FACULTY OF INTERNATIONAL
FINANCE**

UNIVERSITI MALAYSIA SABAH

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**THESIS SUBMITTED IN FULFILLMENT FOR
THE DEGREE OF MASTER OF ISLAMIC
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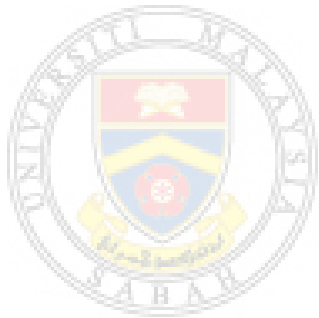
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30th September 2013

ABSTRAK

MENGENAL PASTI PEMBOLEH UBAH YANG MENENTUKAN PENGGUNAAN PELABURAN ATAS TALIAN: MENURUT PERSPEKTIF ISLAM

Perkembangan pesat teknologi telah meningkatkan populariti internet sebagai saluran penyampaian dalam sektor perbankan. Di Malaysia, perbankan atas talian menjadi trend semasa dalam revolusi elektronik, namun, kadar perkembangan perbankan atas talian tidak selari dengan penggunaan pelaburan atas talian dan ianya tidak menarik minat pengguna perbankan atas talian. Kajian ini telah mendedahkan faktor yang paling berpengaruh dalam menentukan penggunaan pelaburan atas talian. Menggunakan model penerimaan teknologi (TAM) sebagai kerangka teori, kajian ini melanjutkan TAM kepada empat pemboleh ubah yang lain iaitu, penerimaan keselamatan, penerimaan pulangan kewangan, penerimaan keagamaan dan pandangan Islam. Kajian melalui 246 umat Islam yang merupakan pengguna perbankan atas talian di Kuala Lumpur dan Selangor telah mendedahkan bahawa, tiga daripada enam faktor dimensi penggunaan dalam penyelidikan ini telah menyumbang kepada penggunaan pelaburan atas talian. Hasil kajian mendapati bahawa penerimaan kegunaan, penerimaan keselamatan, penerimaan pulangan kewangan dan penerimaan keagamaan menyumbang kepada penggunaan pelaburan atas talian dalam kalangan pengguna perbankan atas talian. Pendedahan pemboleh ubah-pemboleh ubah yang menentukan penggunaan pelaburan atas talian membuka ruang untuk para penyedia perkhidmatan pelaburan atas talian dalam membangunkan dan mempromosikan sistem yang menjurus kepada keperluan pengguna. Ini adalah penting untuk para penyedia perkhidmatan memahami ciri-ciri tertentu dalam membangunkan sistem pelaburan atas talian dan mengatur strategi untuk pengguna pada masa hadapan.

ABSTRACT

The booming of technology has raised the popularity of the internet as a delivery channel in the banking sector. In Malaysia, online banking becomes the current trend of electronic revolution, yet, the growth rate of online banking is not parallel with the general usage of online investment platform and it has remained unfavourable among the online banking users. These researches have revealed the most influencing factors for the usage of online investment platform. Using the technology acceptance model (TAM) as a theoretical framework, this study extended the TAM into four other variables, namely, perceived security, perceived financial return, perceived religiosity and Islamic worldview. A survey of 246 Muslims of online banking users in Kuala Lumpur and Selangor has revealed that three of six factor usage dimension in the research were contributing to the usage of online investment platform from the potential investor's point of view. The findings show that perceived usefulness, perceived security and perceived financial return are predicting the usage of online investment platform, among the online banking users. Perceived security was found to be the most influencing factors for the usage of online investment platform followed by perceived usefulness and perceived financial return. This research provides fruitful results with regard to the usage of the online investment platform. Revealing the variables that determine the usage of online investment platform usage will shed some lights to the service providers in developing and promoting their system that focusing on the consumers' prerequisite. It is important for the service providers to understand the features in order to develop online investment platform and positioning strategies for future users.

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LIST OF ABBREVIATION

| | | |
|---------------|---|---|
| BIMB | - | Bank Islam Malaysia Berhad |
| CIC | - | Capital Issues Committee |
| ICM | - | Islamic Capital Market |
| IDS | - | Islamic Debt Securities |
| IFSI | - | Islamic Financial Services Industry |
| INCEIF | - | International Center For Educational In Islamic Finance |
| IT | - | Information Technology |
| IW | - | Islamic Worldview |
| KLSE | - | Kuala Lumpur Stock Exchange |
| KMO | - | Kaiser-Meyer-Olkin |
| NBFIs | - | Islamic Financial Institutions |
| PU | - | Perceived Usefulness |
| PEOU | - | Perceived Ease of Use |
| PFR | - | Perceived Financial Return |
| PR | - | Perceived Religiosity |
| PS | - | Perceived Security |
| SEC | - | Security Exchange Commission |
| TAM | - | Technology Acceptance Model |
| WWW | - | World Wide Web |

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CHAPTER 1

INTRODUCTION

1.1 Overview

The growth of technological advancements and Islamic banks become trends around the world (Guru, Shanmugam, Alam and Perera, 2003). In Malaysia, the establishment of Islamic banking is parallel with the conventional banking system. The process development and Islamization banking sector gradually taking place among banking consumers. For an example Mudhara investment account, Musyarakah financing, Islamic accepted bills and Islamic negotiable instrument are the financial instruments that have been widely accepted. The next challenges in banking sector are in taking this investment through the internet that sounds Islamic which is in line with *Shariah* rulings. The banks no longer can ignore the importance of online investment platform due to the benefits of low cost of operations, access wider global market, convenience and effectiveness by using it. The financial crisis that hit the United States of America (USA) and the world economy in the year of 2008 cause many investments to collapse and investors to lose their money in financial investment.

Besides, in 2007 during the pre-Asian crisis period, the number of companies' capitalisation and USD169.72 billion shares traded. In 2008, the markets were affected by the crisis and the amount of companies registered decline to 976 listed companies, market capitalisation declined to USD189.09 billion and only USD93.78 billion share traded. It shows that there was a decline in the growth rate due to the Asian financial crisis (Yeoh, Hooy and Arsad, 2010).

Even though the financial crisis exploded, the majority of the banks has begun to undertake their business through the internet by providing an effective and easy provision of financial services. This is in order to attract more customers as well as to retain their existing customers (Jayawardhena and Foley, 2000). The explosion of the internet and electronic business has simulated the banking and financial sector towards encouraging customers to bank online. Internet banking thus becomes the preferred channel for customer to execute their business transactions. This is probably due to the effectiveness and the potential benefits of using internet banking (Khalil Md Nor, Sutanonpaiboon and Nor Hamimah Mastor 2010b; Jayawardhena and Foley, 2000).

The internet has become popular in Malaysia and it promotes a new way of doing business. In Malaysia, internet helps the e-finance industry grown rapidly, as a result the process of conducting the financial services quickly and easily compared to the traditional physical operation. Online banking, brokerage, payment, mortgage and other landing, insurance and many financial services are a part of e-finance. In Malaysia, the adoption of internet banking is still in the infancy stage (Ndubisi and Sinti, 2006). Nevertheless, customers have found the internet banking is a convenient way to access their financial transaction anywhere and anytime they wish.

Figure 1.1 shows that in the Asia-Pacific region, 79 percent of the online respondents used the online banking for investment transactions. It compared to the 73 percent of them who preferred to travel to a physical branch. As a result, the global trend showing that the process of investment transaction online was increasing.

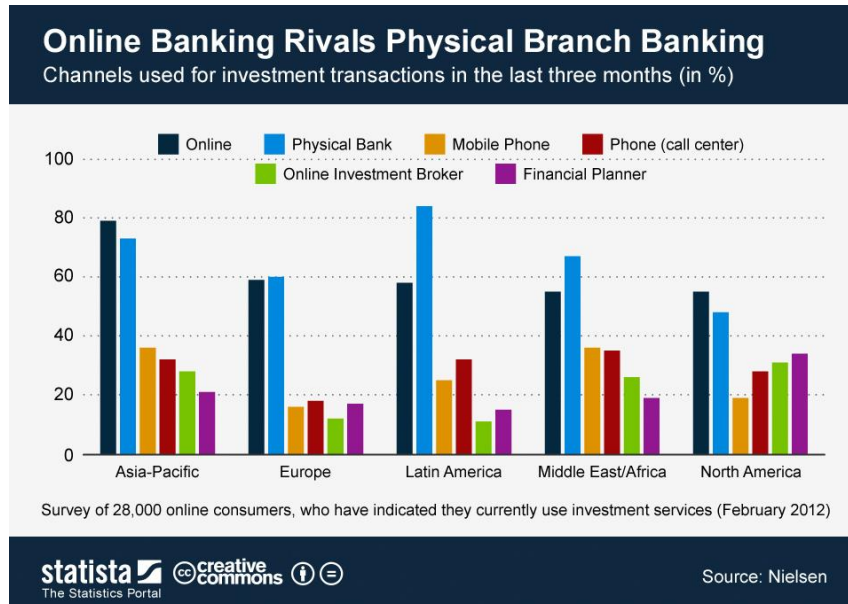


Figure 1.1 : Online Banking Rivals Physical Branch Banking: Channels Used for Investment Transactions in the Last Three Months (in %).

Source : The Statistics Portal

There are four processes influence the investors to choose e-brokerage known as investor characteristics, e-brokerage characteristics, external characteristics and transaction characteristics (Konana, Menon and Balasubramanian, 2000). This study focuses more on the transaction characteristics that is including the perceived usefulness, perceived ease of use, perceived security, perceived financial return, perceived religiosity and Islamic worldview. Therefore, the Technology Acceptance Model (TAM) introduced by Davis in 1989 was extended in order to study the determinant of investors while performing online investments by using the online investment platform. The persistence of choosing TAM because it has been validated as a powerful and parsimonious theory for explaining the adoption of IT by the user (Davis, 1989). Besides, TAM has been applied to a wide range of IT and now TAM being chooses to study in the context of online investment.

1.2 Problem Statement

The internet is a medium that has emerged and revolutionised the way businesses are conducted. It is a very feasible area of business activity. Financial institutions such as banks are currently amongst the largest beneficiaries from the advent of this World Wide Web (WWW) technology (Lallmahmood, 2007). Even though internet banking continues to grow, it does not guarantee that it would be accepted amongst the consumers. Consequently, Robinson (2000) conceded that half of the people that have tried online banking services would not become active users.

Dewally (2003) reported that users' beneficiary from this advancement in technology is that they can directly access the financial market. In 1995, Malaysia has experienced a new form of investment that is internet-based investment when Kuala Lumpur Stock Exchange or currently known as Bursa Malaysia launched the online stock trading. Even though the online banking phenomenon in Malaysia has passed through more than decades now, however, internet-based investment has not yet become a trend among Malaysian investors (Ramayah, Rouibah, Gopi and Rangel, 2009c).

Only two percent of the entire trading of retail securities on the Malaysian Stock Exchange went through the internet (Sani, 2005). The online stock broking firms that offered online stock services is still limited. Besides, most of the online trading system in Malaysia is not an open system like another closest neighbouring country such as Singapore and Hong Kong. The investment of the local retail investors only can be done through remisers. In other words, the investment will go to the broker's front-end system not delivered directly to the exchange.

Now, the question is why does online investment is not popular in Malaysia? Why are the current traditional and online investors do not want to use online investment platform? Why does it happen? There are many information about the online stock trading on the internet, yet the information about the security, privacy and many other factors regarding online stock trading does not address (Gopi and

Ramayah, 2007b). Thus, information actually gives a greater impact on the usage of online stock trading.

Besides, the researcher found that there are limited studies on the online investment. Other than that, the data and statistics of online investment platform user considered outdated, since most of the prior researcher provides the numbers of online investment platform users for almost the last 10 years. To conclude this, the researcher admitted that the current and the latest data of online investment platform users are not available to be shown in this study.

1.3 Objectives of the Study

In order to provide a solid theoretical basis for identifying the variables that determine the usage of online investment platform, this study integrated two important streams of literature under the nomological structure of the theory acceptance model and the literature on perceived security, perceived financial return, perceived religiosity and Islamic worldview. TAM has been utilised in many online contexts to understand the user perception of the system function and adaptation. Therefore, TAM should be the most appropriate tools and comprehensive model for understanding the online adaptation (Lee, 2009). Thus, the objective of this study was wanting to validate an argument TAM instrument in a new context of an online investment platform. The researcher's belief that the Islamic variables (perceived religiosity and Islamic worldview), perceived security and perceived financial return in combination with the TAM (perceived usefulness and perceived ease of use) will shed some lights towards the constructive understanding of what consumers concern while they want to use online investment platform want to place their investment.

The main objective of this study is to identify the variables that determine the usage of online investment platform from an Islamic Perspectives. Internet banking has emerged two decades ago; the environment of financial services has evolved alongside the technology of internet. Undeniably, nowadays the application

of e-banking in this industry has grown and the capacity of users has increased. This shows that people are able to migrate to technology appliance (Poon, 2008). Hence, the main objective of this study is to identify variables or factors that determine the usage of online investment platform facilities.

The objectives of this study are;

- a. To identify variables which significantly determine the usage of online investment platform from an Islamic perspective?
- b. To identify the most influencing factors that determine the usage of the online investment platform.

1.4 Research Questions

The following research questions intend to address the above research objectives:

- a. What are the significant variables that determine people's usage of online investment platform from an Islamic perspective?
- b. What are the most influencing factors that determine the usage of online investment platform?

1.5 Motivation of the Study

The financial crisis which hit the USA and global markets lead to the total loss of all major investment banks all over the world. That crisis caused so many investments to collapse and people lose their money in the financial investment. Even though the crisis exploded, the banks begun to undertake their business through internet as an alternative to the traditional financial activities. In line with that situation, the banking and financial sectors was encouraging their customers to utilised online banking. In Malaysia, the online banking customer increasing day by day since it promotes the new way of doing business. However, the online investment, in Malaysia becomes unfavourable among the investors.

This research focus specifically to the online investment platform product for retail investors provided by the local banks such as Maybank, CIMB and RHB in Malaysia. Additionally, this study also aims to provide in depth understanding of Muslim perception towards an online investment platform, so those who participate in this study have fulfilled the requirement set by a researcher for an example; respondents need to be Muslim, have experience using online banking and financial literate. Thus, lead the motivation for this study.

The motivation of the study is as follows:

- i. Limited literature on the online investment platform; and
- ii. There are no solid theories to study online investment platform in Islamic perspectives;
- iii. To give an overview of the service providers such as banks regarding online investment preference among the potential online investors or online investment platform users;
- iv. Online investment platform has not been utilised well by the investor

1.6 Significance of Study

Investment is important for improving and increasing the competitiveness of an economy. Without investment, an economy could enjoy a high level of consumption yet this creates an unbalanced economy. There will tend to be a current account deficit and little investment in future growth prospects. Generally, the online investment contributes to the benefits to investors and banks. The investor will enjoy the benefit of managing their investment convenient and efficiently without time barrier.

In consonance with the above argument, by understanding the online investor preference with respect to online investment platform could be advantageous in order to identify any aspects of shortfall or advantages of performing online investment platform. The bank would concern with regards to the online investors' preference as they might cause the greater impact on the

success of an online investment platform utilizing by the investors. Therefore, the bank will be benefiting from the current studies as the study considers some fine recommendation for the bank to improve the development of online investment platform in the future.

Generally, this study tries to shed some lights which regards to "Identifying variables that determine the usage of online investment platform: from Islamic perspectives". Highlighting this topic is of course to understand what lead to determine the factors of online investment platform usage from the investors. Therefore, this phenomenon would lead to the recommendation of ideas to remedy such perception.

1.7 Organization of Thesis

The thesis is organised in the following chapters. Chapter one introduces the study. Chapter two expounds the development of the Islamic financial industry in Malaysia while chapter three discusses the past literatures related to investment from the Islamic and online perspectives. Chapter four provides the theoretical framework for the model on determinants of usage of the online investment platform. Specifically, the model tries to identify variables that determine usage of the online investment platform. Chapter five analyses and discusses the findings of the study. Finally, the last chapter concludes the study.