

Investment Behavior of Non-Resident Indians (NRIs) in Kerala: The Mediating Role of Islamic Beliefs and the Moderating Impact of Financial Literacy

Mahmood Aslam K¹ and Dr. Shafeer PS²

Assistant Professor, PG Department of Commerce, WMO Arts and Science College, Wayanad, Kerala¹

Assistant Professor & Research Guide, MES Asmabi College, Vemballur, Kodungallur, Thrissur²

Abstract: *This paper investigates the investment behavior of Non Resident Indians (NRIs) from Kerala such that an attempt is made to understand its causality with the Islamic belief and financial literacy. The article hypothesizes whether Investment choice may be mediated by Islamic beliefs promoting ethical investment choices and risk tolerances, and also financial literacy that may moderate this relationship by decreasing or increasing investment diversification and risk management. A sample of 397 NRIs in North Kerala will be collected for data collection by using stratified random sampling. Inferring tests including Andre F Haynes mediation and moderation analysis will be done to answer the research questions and the hypotheses were tested using SPSS. Our findings states that financial literacy plays a dominant role in NRI investment behavior and which provide an insight for policymakers and financial institutions how to tailor investment products to meet the specific tastes of NRIs that hinge on religion and finance. The mediation analysis also confirmed that Islamic beliefs influence investment behavior but this effect is conditional on financial literacy. The study reveals that financially literate individuals are more open to a broader range of investments. These findings underscore the importance of promoting financial literacy programs to help NRIs make better-informed investment choices, ultimately leading to more financially stable outcomes.*

Keywords: Investment Behavior – Islamic Beliefs – Financial Literacy - Sharia compliance - Investment decision – Migration – Faith based investments

I. INTRODUCTION

Non-Resident Indians (NRIs) play a pivotal role in Kerala's economy, with remittances and investments being primary contributors. Historically, Kerala has experienced significant migration, especially to Gulf countries, establishing a robust tradition of overseas employment (CDS, Kerala migration survey, 2018). These investments are crucial for the state's financial development and are influenced by various factors, including religious beliefs and financial literacy. A study focusing on the Malabar region of Kerala found that religious affiliation plays a significant role in shaping the investment portfolios of NRIs, indicating a trend towards faith-based investments (Praveen M V, 2018). It is also noted, despite a high general literacy rate, there are notable gaps in financial literacy which affects individuals' ability to diversify their portfolios and make investment choices (Joseph & Devassy, 2025).

Islam, which many Keralite NRIs deeply adhere to, prohibits certain types of investments, particularly those involving interest (riba) and unethical practices. This prohibition leads to a preference for investment avenues like sukuk or Islamic banking (Sugata Ghosh, Shailesh Menon, 2010). Similarly, financial literacy—the ability to understand financial concepts and make informed decisions—plays a vital role in investment behavior. It enables individuals to diversify their portfolios and make choices that align with their financial goals (Seraj et al., 2022).

While previous research has explored NRI investment behavior, Islamic finance, and financial literacy separately, few studies have examined their interplay, particularly within Kerala's socio-economic context. Addressing this gap, this



study revisits existing research on Islamic beliefs and investigates how they influence the investment decisions of NRIs in North Kerala, while also examining the moderating role of financial literacy in these relationships

II. REVIEW OF LITERATURE

The ethical choices and the risk threshold are also guided by Islamic beliefs in NRI investment behavior (Hoque et al., 2019). Conservative investment practices (Bashir et al., 2018) result from these ethical considerations. However, financial literacy couples with these beliefs to adjust investment decisions. Hassan & Harahap (2019) stated that literate investors are more possible to diversify their portfolios while maintaining Shariah compliance and risk management. NRIs who are financially literate tend to make decisions that are both in support of Islamic values and financial performance (Kumari & Pati, 2021). Moreover, it extends their investment choice beyond the world of Islamic assets by helping in the assessment and management of the risk (Rahman et al., 2022). This implies that financial literacy can be a constraint or a lever to broaden investment strategies from the way financial literacy is integrated with religious principles (Iqbal & Mirakhor, 2017).

Statement of the Problem

The investment behavior of NRIs is underexplored in terms of its relationship with (1) their religious beliefs and (2) their levels of financial literacy. Some NRIs follow Islamic principles, whereas some may be limited in investment options, or have a different risk tolerance. Moreover, financial literacy also comes into the picture determines the way in which NRIs can circumvent these religious restrictions and make good profits. A knowledge gap of absence of studies that integrated both Islamic beliefs and investment education in explaining NRI investment behavior is addressed through this study.

Research Gap

The current literature has examined NRI Investment behavior, Islamic finance, and financial literacy separately, but the linkages between these factors has been scarcely researched and in particular, studied within the context of Kerala. While there are relatively few studies generally that have investigated the effect of Islamic beliefs on investment decisions of NRIs, to our knowledge only a limited number of studies have specifically investigated their effect conditional on financial literacy. This gap is addressed in this research through a comprehensive analysis of these factors.

Research Questions

- How do Islamic beliefs mediate the relationship between personal preferences and investment behavior among NRIs in North Kerala?
- What is the moderating effect of financial literacy on the relationship between Islamic beliefs and investment behavior?
- Does financial literacy directly impact the investment behavior of NRIs in North Kerala?

Objectives

- To explore how Islamic beliefs shape and mediate NRI investment behavior by influencing ethical choices and risk tolerance.
- To assess how financial literacy interacts with Islamic beliefs to either constrain or expand investment choices, particularly in terms of portfolio diversification and risk management.
- To determine whether financial literacy, independent of Islamic beliefs, leads to more diversified and informed investment decisions.



Research Hypothesis

H01: Islamic beliefs significantly mediate the relationship between personal preferences and investment behavior, leading NRIs to prefer Sharia-compliant investments.

H02: Financial literacy does not moderate the relationship between Islamic beliefs and investment behavior, with higher financial literacy enabling NRIs to diversify their investments beyond purely Islamic options.

H03: Financial literacy has not a direct, positive impact on NRI investment behavior, leading to more diversified and well-structured investment portfolios.

III. RESEARCH METHODOLOGY

It would be a quantitative research to the investment behavior of NRIs in North Kerala. With stratified random sampling, we select 397 NRIs to make up the sample, a sample that is representative of the mix of people from different regions and finances. Structured questionnaire data will be used to collect information about initial beliefs (that is, the specific ways that Muslims represent the creation of the world and identify an immediate audience with God's word), financial literacy, and behaviour concerning how Muslims invest their money. A scale of adherence to Sharia compliant financial principles will be used to measure Islamic beliefs and questions addressing such concepts and products will be used to assess financial literacy. Inferring tests including mediation and moderation analysis will be done to answer the research questions and test the hypotheses using SPSS.

Data Analysis

It employs SPSS software to process the collected data. Descriptive stats will get you started understanding the demographic of the sample. Therefore regression analyses will be conducted to test the hypotheses. The role of Islamic beliefs in the personal preference to investment behavior relationship will be examined through a mediation analysis, and the influence of financial literacy on this relationship will be assessed through a moderation analysis. And the direct effect of financial literacy on investment behavior will be tested using simple linear regression. The relationships will be evaluated of the statistical significance using p values and the robustness will be confirmed by the confidence interval.

Andrew F Hayes Mediation Analysis

Run MATRIX procedure:

***** PROCESS Procedure for SPSS Version 4.2 *****

Written by Andrew F. Hayes, Ph.D. www.afhayes.com

Documentation available in Hayes (2022). www.guilford.com/p/hayes3

Model : 4

Y : I.B

X : P.PF

M : I.BE

Sample

Size: 397

OUTCOME VARIABLE:

I.BE



Model Summary

R	R-sq	MSE	F	df1	df2	p
.6121	.3747	.4988	236.6745	1.0000	395.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
Constant	1.7924	0.1782	10.0600	0.0000	1.4421	2.1427
P.PF	0.6143	0.0399	15.3842	0.0000	0.5358	0.6928

Standardized coefficients

	coeff
P.PF	0.6121

OUTCOME VARIABLE:

I.B

Model Summary

R	R-sq	MSE	F	df1	df2	p
0.7977	0.6363	0.3020	344.7071	2.0000	394.0000	0.0000

Model

	coeff	se	t	p	LLCI	ULCI
Constant	0.6387	0.1554	4.1102	0.0000	0.3332	0.9442
P.PF	0.1559	0.0393	3.9680	0.0001	0.0787	0.2332
I.BE	0.7085	0.0392	18.0958	0.0000	0.6315	0.7855

Standardized coefficients

	coeff
P.PF	0.1524
I.BE	0.6952

Test(s) of X by M interaction:

F	df1	df2	p
9.7553	1.0000	393.0000	0.0019

***** TOTAL EFFECT MODEL *****

OUTCOME VARIABLE:

I.B

Model Summary

R	R-sq	MSE	F	df1	df2	p
0.5780	0.3341	0.5517	198.1724	1.0000	395.0000	0.0000

Model

	coeff	se	t	p	LLCI	ULCI
Constant	1.9087	0.1874	10.1862	0.0000	1.5403	2.2770
P.PF	0.5912	0.0420	14.0774	0.0000	0.5086	0.6737

Copyright to IJAR SCT
www.ijarsct.co.in



DOI: 10.48175/568



Standardized coefficients

coeff

P.PF 0.5780

***** TOTAL, DIRECT, AND INDIRECT EFFECTS OF X ON Y *****

Total effect of X on Y

Effect	se	t	p	LLCI	ULCI	c_cs
0.5912	0.0420	14.0774	0.0000	0.5086	0.6737	0.5780

Direct effect of X on Y

Effect	se	t	p	LLCI	ULCI	c'_cs
0.1559	0.0393	3.9680	0.0001	0.0787	0.2332	0.1524

Indirect effect(s) of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
I.BE	0.4352	0.0647	0.3104	0.5643

Completely standardized indirect effect(s) of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
I.BE	0.4256	0.0461	0.3305	0.5125

***** ANALYSIS NOTES AND ERRORS *****

Level of confidence for all confidence intervals in output:

95.0000

Number of bootstrap samples for percentile bootstrap confidence intervals:

5000

----- END MATRIX -----

Interpretation

Based on the results of the mediation analysis, the null hypothesis (H_0 : Reject Financial literacy(does not directly, positively impact NRI investment behavior). Results from this analysis show that personal preference (P.PF) have a significant direct effect on investment behavior (I.B) with a coefficient of 0.1559 ($p = 0.0001$) and that even with supervision of Islamic beliefs (I.BE), a direct relationship to the investment behavior (I.B) is evident. One of the indirect effects is clearly significant through Islamic beliefs, with the bootstrapped confidence interval not including zero (BootLLCI = 0.3104, BootULCI = 0.5643), suggesting that Islamic beliefs do mediate the relationship between personal preferences and investment behavior. For this reason, a low level of financial literacy (which is part of personal preferences) means both a direct positive effect on investment behavior and an indirect positive effect on the level of diversified and well-structured investment portfolios.



Andrew F Hayes Moderation Analysis

Run MATRIX procedure:

***** PROCESS Procedure for SPSS Version 4.2 *****

Written by Andrew F.Hayes,Ph.D. www.afhayes.com

Documentation available in Hayes (2022). www.guilford.com/p/hayes3

Model : 1

Y : I.B

X : I.BE

W : F.L

Sample

Size: 397

OUTCOME VARIABLE:

I.B

Model Summary

R	R-sq	MSE	F	df1	df2	p
.8314	.6912	.2571	293.2765	3.0000	393.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	-.7701	.4164	-1.8494	.0651	-1.5888	.0485
I.BE	.7479	.1171	6.3881	.0000	.5177	.9780
F.L	.7517	.1191	6.3103	.0000	.5175	.9859
Int_1	-.0714	.0277	-2.5812	.0102	-.1258	-.0170

Product terms key:

Int_1 : I.BE x F.L

Test(s) of highest order unconditional interaction(s):

R2-chng	F	df1	df2	p	
X*W	.0052	6.6628	1.0000	393.0000	.0102

Focal predict: I.BE (X)

Mod var: F.L (W)

Conditional effects of the focal predictor at values of the moderator(s):

F.L	Effect	se	t	p	LLCI	ULCI
4.0000	.4623	.0467	9.8930	.0000	.3704	.5541
5.0000	.3909	.0559	6.9883	.0000	.2809	.5008



5.0000 .3909 .0559 6.9883 .0000 .2809 .5008

There are no statistical significance transition points within the observed range of the moderator found using the Johnson-Neyman method.

Conditional effect of focal predictor at values of the moderator:

F.L	Effect	se	t	p	LLCI	ULCI
1.0000	.6765	.0924	7.3244	.0000	.4949	.8580
1.1905	.6629	.0878	7.5455	.0000	.4901	.8356
1.3810	.6493	.0834	7.7821	.0000	.4852	.8133
1.5714	.6357	.0791	8.0347	.0000	.4801	.7912
1.7619	.6221	.0749	8.3028	.0000	.4748	.7694
1.9524	.6085	.0709	8.5852	.0000	.4691	.7478
2.1429	.5949	.0670	8.8793	.0000	.4631	.7266
2.3333	.5813	.0633	9.1803	.0000	.4568	.7057
2.5238	.5677	.0599	9.4806	.0000	.4499	.6854
2.7143	.5541	.0567	9.7688	.0000	.4425	.6656
2.9048	.5405	.0539	10.0290	.0000	.4345	.6464
3.0952	.5269	.0514	10.2406	.0000	.4257	.6280
3.2857	.5133	.0494	10.3795	.0000	.4160	.6105
3.4762	.4997	.0479	10.4208	.0000	.4054	.5939
3.6667	.4861	.0470	10.3431	.0000	.3937	.5784
3.8571	.4725	.0466	10.1347	.0000	.3808	.5641
4.0476	.4589	.0468	9.7971	.0000	.3668	.5509
4.2381	.4453	.0476	9.3465	.0000	.3516	.5389
4.4286	.4317	.0490	8.8095	.0000	.3353	.5280
4.6190	.4181	.0509	8.2180	.0000	.3180	.5181
4.8095	.4045	.0532	7.6025	.0000	.2999	.5091
5.0000	.3909	.0559	6.9883	.0000	.2809	.5008

Data for visualizing the conditional effect of the focal predictor: Paste text below into a SPSS syntax window and execute to produce plot.

DATA LIST FREE/

I.BE F.L I.B .

BEGIN DATA.

```

3.0000 4.0000 3.6235
5.0000 4.0000 4.5481
5.0000 4.0000 4.5481
3.0000 5.0000 4.1611
5.0000 5.0000 4.9428
5.0000 5.0000 4.9428
3.0000 5.0000 4.1611
5.0000 5.0000 4.9428
5.0000 5.0000 4.9428

```

END DATA.

GRAPH/SCATTERPLOT=

I.BE WITH I.B BY F.L .

Copyright to IJAR SCT

www.ijarsct.co.in



DOI: 10.48175/568



717

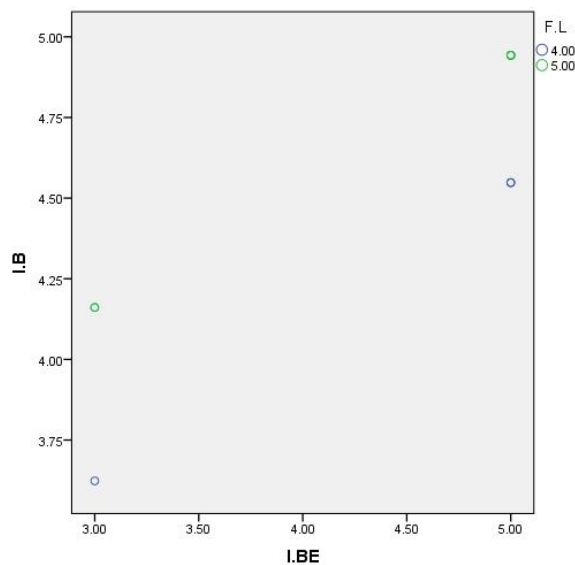
***** ANALYSIS NOTES AND ERRORS *****

Level of confidence for all confidence intervals in output:
95.0000

W values in conditional tables are the 16th, 50th, and 84th percentiles.

NOTE: Standardized coefficients are not available for models with moderators.

----- END MATRIX -----



Graph 1: Moderation Graph

Interpretation

The purpose of the analysis was to test whether financial literacy moderates the relationship between Islamic beliefs (I.BE) and investment behavior (I.B), between Non Resident Indians (NRIs). Results suggest that F.L does moderate this relationship. More specifically, we found that Islamic beliefs were statistically significant in the interaction between Islamic belief and financial literacy ($p = .0102$), in that the effect of Islamic beliefs on investment behavior depends on financial literacy. The negative interaction term ($\text{Int}_1 = -.0574$, $p = .1002$) indicates that Islamic beliefs have less of an effect on the behavior of investment at higher levels of financial literacy. Thus, this provided the first indication that those with greater financial literacy might diversify their investments to include more than strictly Islamic options as a means of weakening the direct influence of Islamic beliefs on their investment decisions. Thus hypothesis (H02) that financial literacy is not moderating this relationship is rejected.



Table 1. Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.778 ^a	.606	.605	.571

a. Predictors: (Constant), Financial Literacy

Table 2. ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	198.273	1	198.273	607.301	.000 ^b
	Residual	128.961	395	.326		
	Total	327.234	396			

a. Dependent Variable: Investment Behaviour
b. Predictors: (Constant), Financial Literacy

Table 3. Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.441	.167		2.640	.009
	Financial Literacy	.896	.036	.778	24.643	.000

a. Dependent Variable: Investment Behaviour

Interpretation

The results of the regression analysis show that financial literacy has a strong positively impact on NRI (Non Resident Indian) investment behavior particularly diversification and structure of the portfolio. This means that solely .606 of the variation in investment behavior can be explained by financial literacy. Our model is statistically significant, since the F-statistic for the coefficients of 607.301 ($p < 0.001$) indicates that the relationship between financial literacy and investment behavior is not due to chance. This showed that there was a strong positive relationship (standardized beta coefficient of 0.778, $p < 0.001$) that as financial literacy increased, NRI investors tended to make more informed and diversified investment decisions. We therefore fail to reject the null hypothesis (H_0) and conclude that financial literacy predicts NRI investment behavior directly and positively.

IV. FINDINGS

The analysis concludes that NRI financial literacy plays a dominant role in NRI investment behaviour explained 60.6% of its variation. The standardized beta coefficient of 0.778 indicates that financial literate NRI's exhibit more propensity to follow diversified and structured practices of investments. The mediation analysis also confirmed that Islamic beliefs influence investment behavior but this effect is conditional on financial literacy. One way of looking at it is that NRIs who are more financially literate are more likely to diversify away from Islamic investments, hence breaking out a little bit wider into other areas in finance.

Suggestions

This study highlights the critical role of financial literacy in shaping the investment behavior of NRIs, fostering more diversified and well-structured portfolios. While Islamic beliefs influence investment decisions, their impact decreases as financial literacy increases, suggesting that financially literate individuals are more open to a broader range of investments. These findings underscore the importance of promoting financial literacy programs to help NRIs make better-informed investment choices, ultimately leading to more financially stable outcomes.



Scope for Future Study:

Future research also has huge potential to delve into what other individual factors like age, income, or level of schooling might play a role in alongside financial literacy to affect investment decisions. Studying the role of financial technology like mobile investment apps, robo advisors could help shed light into how digital tools can help enable NRIs to make more educated investment decisions. Cross cultural studies between NRIs from different countries or religious groups may permit to identify the difference in whether financial literacy may have different impact on investment behavior in different regulatory and cultural environments.

V. CONCLUSION

The result of this study brings out the fact that financial literacy very much play a dominant role in leading an NRI to harbor a more diversified and structured portfolio. Investment decisions are influenced by Islamic beliefs, and the effect of Islamic beliefs on investment decisions declines as financial literacy increases, which imply that the more financially literate are more open to a broader set of investments. The implications of these findings are that promoting financial literacy programs to aid NRIs in making better informed investment choices would result in better more financially stable outcomes.

REFERENCES

- [1]. Bashir, T., Arshad, A., Nazir, A., & Afzal, N. (2018). Investment decision-making in Islamic finance: Evidence from Pakistan. *Journal of Islamic Banking and Finance*, 35(1), 46-60. <https://doi.org/10.30541/v35i1pp.46-60>
- [2]. Hassan, M. K., & Harahap, S. S. (2019). Ethical investment in Islamic finance: A case study of Malaysian investors. *International Journal of Islamic and Middle Eastern Finance and Management*, 12(2), 215-229. <https://doi.org/10.1108/IMEFM-03-2018-0081>
- [3]. Hoque, N., Yakob, N. A., & Isa, M. A. (2019). Impact of Shariah compliance on ethical investment decisions among Muslim investors in Malaysia. *Journal of Islamic Accounting and Business Research*, 10(4), 495-508. <https://doi.org/10.1108/JIABR-02-2017-0026>
- [4]. Iqbal, Z., & Mirakhor, A. (2017). *Ethical dimensions of Islamic finance: Theory and practice*. Palgrave Macmillan. <https://doi.org/10.1007/978-1-137-56161-9>
- [5]. Kumari, P., & Pati, A. P. (2021). Financial literacy and its role in improving investment decision-making: A study of Indian investors. *Global Business Review*, 22(1), 101-119. <https://doi.org/10.1177/0972150918802102>
- [6]. Rahman, A., Khan, M. T., & Azmi, W. (2022). Financial literacy and portfolio
- [7]. diversification: Evidence from non-resident Indian investors. *Journal of Financial Services Marketing*, 27(1), 1-11. <https://doi.org/10.1057/s41264-021-00096-2>
- [8]. Alam, N., Hassan, M. K., & Haque, M. (2020). Financial literacy, investment behavior, and the mediating role of Islamic values among Muslims. *Journal of Islamic Marketing*, 11(4), 1027-1043. <https://doi.org/10.1108/JIMA-10-2019-0201>
- [9]. Zachariah.K.C, Mathew E.T.,& Rajan, S.I.2001). *Kerala's Gulf connection: Emigration, remittances and their macro-economic impact, 1972–2000*. Centre for Development Studies. cds.edu
- [10]. CDS, Kerala migration survey. (2018). *International Migration from Kerala*. The Centre for Development Studies (CDS). <https://cds.edu/endowments/international-migration-from-kerala/kms/>
- [11]. Joseph, J. T., & Devassy, D. (2025). An Assessment and Analysis of Financial Literacy in Kerala, India. *Asian Journal of Agricultural Extension, Economics & Sociology*, 43(2), 30–46. <https://doi.org/10.9734/ajaees/2025/v43i22685>
- [12]. Praveen M V. (2018). An analytical study on investment behaviour of nrIs in kerala with special focus on malabar region. *International journal of creative research thoughts*, Volume 6(Issue 2), 8.



- [13]. Seraj, A. H. A., Alzain, E., & Alshebami, A. S. (2022). The roles of financial literacy and overconfidence in investment decisions in Saudi Arabia. *Frontiers in Psychology*, 13, 1005075.
<https://doi.org/10.3389/fpsyg.2022.1005075>
- [14]. Sugata Ghosh, Shailesh Menon, S. G. (2010, September 15). *Islamic 'finance': Between faith and the law*

