# Investment Risk Management Strategies in the Sharia Capital Market: Perspectives of Retail and Institutional Investors

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***Keywords:***
*Sharia Capital Market, Risk Management, Retail Investors, Institutional Investors, Investment Strategy*

***Abstract***
*The growth of the Sharia capital market in Indonesia shows a positive trend but still faces challenges in risk management, especially among investors with varying levels of financial understanding. This study aims to analyze the risk management strategies implemented by retail and institutional investors within the context of the Sharia capital market. A quantitative approach with a descriptive-comparative research design was applied. Data were collected through questionnaires distributed to 100 respondents, consisting of 50 retail investors and 50 institutional investors actively involved in the Sharia capital market. The research instrument was tested for validity and reliability prior to use. Data analysis employed descriptive statistics and independent sample t-tests to identify significant differences between the two groups. The findings reveal that institutional investors tend to apply risk management strategies more consistently, including portfolio diversification, the use of risk indicators, and data-driven decision-making. In contrast, retail investors largely rely on intuition and informal sources of information. Both groups demonstrate a high level of compliance with Sharia principles, although retail investors still require improved risk literacy and access to market insights. In conclusion, the effectiveness of risk management strategies is strongly influenced by investors' analytical capabilities and financial literacy. This study recommends enhancing risk education and providing decision-support tools tailored to different investor profiles. Future research is suggested to employ a longitudinal approach and consider psychographic variables such as risk tolerance and perceptions of market uncertainty.*

## INTRODUCTION

The development of the Islamic capital market in recent years has shown a positive trend amidst dynamic economic growth and increasing public awareness of Islamic financial principles. Sharia-based investment instruments, such as Islamic stocks, sukuk, and Islamic mutual funds, have become attractive alternatives for investors seeking optimal returns while adhering to Islamic principles. In Indonesia, the existence of the Islamic capital market has been strengthened by regulations from the Financial Services Authority (OJK) and fatwas from the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), which govern the permissibility of products and transaction mechanisms in the market.

Although structurally supported by adequate regulatory frameworks, investors operating in the Islamic capital market still face various challenges, particularly in terms of risk management. Retail investors, who generally have limited knowledge, small-scale capital, and heavy reliance on public information, often make investment decisions without an in-depth risk analysis. Meanwhile, institutional investors, such as Islamic investment managers, despite having more advanced tools and expertise, continue to face challenges in maintaining Shariah compliance while managing financially optimal portfolios.

A mini research conducted through brief interviews with five retail investors and two institutional investment managers revealed that most retail investors do not use structured risk measurement models but instead rely on market trends and community recommendations. Conversely, institutional investors stated that the limited number of high-quality Shariah-compliant securities and market volatility hinder effective risk management.

Several previous studies have addressed the Islamic capital market from various perspectives. Research by (Anisa & AF, 2024; Shabrina et al., 2024) found that retail investor participation in the Islamic capital market remains low due to a lack of understanding of Shariah instruments and low financial literacy. Meanwhile, a study by (Abdulrahman et al., 2024; Tajuddin et al., 2019) noted that the transparency of information among Shariah issuers is inconsistent, making it difficult for investors to make data-driven decisions.

These studies indirectly highlight the information and literacy gap between retail and institutional investors. This gap increases exposure to risk, especially for retail investors who have limited access to advisory services and portfolio management systems. On the other hand, institutional investors require a systematic approach to integrate Shariah principles into risk mitigation strategies to remain competitive amid market volatility.

In the context of risk management strategies, several studies have examined the approaches used in the capital market. Research by (Miller, 2018; Wipplinger, 2007) emphasized the importance of quantitative approaches in portfolio risk management, such as Value at Risk (VaR). Meanwhile, (Asiyah et al., 2019; Sabirzyanov & Hashim, 2015) suggested a Shariah-based risk management approach that integrates tawhidic values and prudential principles. However, few studies combine these approaches with the differing perspectives of retail and institutional investors within the Islamic capital market.

Given these issues, there is a need for a hybrid risk management framework that can be adaptively applied by both investor types, taking into account their characteristics, capacities, and investment objectives. One proposed solution is to integrate quantitative methods with ethical Shariah principles and behavioral investor analysis.

To support this solution, theoretical frameworks such as the Modern Portfolio Theory (MPT) by Markowitz provide a basis for risk-return-based investment decision-making. Additionally, Islamic Behavioral Finance Theory offers insight into how Islamic values and individual perceptions influence investment behavior within a Shariah-compliant context.

Based on the above, this study aims to identify and analyze the risk management strategies employed by retail and institutional investors in the Islamic capital market, with the expectation of contributing to enhanced risk literacy and the development of investment strategies aligned with Shariah principles and investor profiles.

Risk management is a crucial process in investment to identify, measure, and control risks in order to minimize negative impacts on investment objectives. In capital markets, risk management involves strategies to reduce the likelihood of losses caused by market fluctuations and other risks. A commonly used classical approach is the Modern Portfolio Theory (MPT) developed by Markowitz, which emphasizes the importance of portfolio diversification to reduce risk without sacrificing expected returns. Quantitative tools such as Value at Risk (VaR), beta, and standard deviation are also employed in practice to measure and manage investment risk. A mini research conducted through interviews with five retail investors and two Shariah investment managers found that retail investors generally do not apply quantitative models in risk management and tend to rely on intuition and market trends. In contrast, institutional investors employ more structured approaches but still face challenges such as the limited availability of Shariah-compliant securities and high liquidity risk.

The Shariah capital market is a part of the Islamic financial system that provides investment instruments adhering to Shariah principles, namely free from riba (interest), gharar (excessive uncertainty), and maysir (gambling). Transactions in the Shariah capital market must be based on valid contracts such as musyarakah, mudharabah, and ijarah. In Indonesia, the existence of the Shariah capital market is supported by regulations from the Financial Services Authority (OJK) and supervision from the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). Instruments in the Shariah capital market include Shariah stocks, sukuk, and Shariah mutual funds, but this market still faces challenges such as low investor literacy, limited number of Shariah-compliant issuers, and perceptions of lower liquidity compared to conventional markets. These limitations also affect risk management strategies that must not only consider quantitative aspects but also ensure Shariah compliance.

Retail and institutional investors have different characteristics in risk management. Retail investors are usually individuals with limited capital and lack access to professional advisory services, hence they tend to make investment decisions based on limited information and sometimes emotional responses. On the other hand, institutional investors such as Islamic insurance companies and investment managers have greater resources, access to analytical data, and more sophisticated risk management mechanisms. A study by (Bawalle et al., 2025; Saranj & Zolfaghari, 2025) showed that institutional investors are better able to adjust their portfolios effectively during market volatility, while retail investors often resort to panic selling due to insufficient risk mitigation strategies. This indicates that differences in risk management approaches are strongly influenced by the capacity and resources of each investor group.

Within the context of the Shariah capital market, risk management strategies consider not only rational economic and financial aspects but also ethical and spiritual values inherent in Shariah principles. Concepts such as tawakkul (trust in God), hikmah (wisdom), and justice form the basis of investment decision-making. This approach promotes prudential principles and avoidance of speculative instruments that are not compliant with Shariah. (Abdullah, 2013; Khandelwal & Aljifri, 2021) suggests that risk management strategies in the Shariah capital market should emphasize risk-sharing rather than risk-transfer, whereby risks and rewards are fairly shared among parties through agreed contracts. Such a strategy aligns with maqashid shariah, which aims to preserve wealth (hifzhul maal) and avoid unjust losses.

To develop effective and relevant risk management strategies for both retail and institutional investors in the Shariah capital market, integrating several theoretical frameworks is essential. Modern Portfolio Theory (MPT) provides a foundation for risk management based on diversification and quantitative analysis. Islamic Behavioral Finance Theory helps understand how Islamic values and individual perceptions influence investment behavior, especially among retail investors. Additionally, Agency Theory is relevant to explain the dynamics between institutional investors and fund managers who must ensure investments comply with Shariah principles. Through the integration of these theories, a hybrid risk management strategy can be developed that combines quantitative and qualitative approaches while considering spiritual aspects and investor characteristics in the Shariah capital market context.

The main references supporting this review include research by (Najeeb & Vejzagic, 2013; Sugianto & Malasyi, 2024) discussing the development of Shariah capital markets and risk management challenges in emerging economies, a study by (Jaiyeoba et al., 2020) on differences in behavior between retail and institutional investors in the Shariah capital market, and (Seho et al., 2016) work proposing the integration of risk-sharing principles in Shariah-based investment risk management. These references are drawn from the period 2018 to 2025 and provide relevant and up-to-date conceptual frameworks in the context of Shariah capital markets and investment risk management.

## METHODS

This study employs a quantitative approach with a descriptive-analytic design to describe and analyze the risk management strategies implemented by retail and institutional investors in the Shariah capital market. The quantitative approach is chosen because it allows for objective measurement of variables and statistical analysis to examine the relationships and differences in risk management patterns between the two investor groups.

The research instrument used is a structured questionnaire specifically designed to measure aspects of risk management strategies, including the use of risk control tools, portfolio diversification, and adherence to Shariah principles. The questionnaire consists of closed-ended questions using a 5-point Likert scale, which has been tested for validity and reliability through a pilot test with a small sample of similar respondents.

Data collection was conducted through both online and offline surveys distributed to a purposive sample of 100 retail investors and 30 institutional investors who are actively investing in the Shariah capital market in Indonesia. The purposive sampling technique aims to ensure that respondents have relevant experience and knowledge regarding the research subject, thus providing representative and valid data for analysis.

Data analysis was performed using the latest version of the SPSS (Statistical Package for the Social Sciences) software. Analytical techniques included descriptive analysis to outline respondent characteristics and risk management strategy patterns, as well as independent samples t-tests to compare differences in strategies between retail and institutional investors. Additionally, multiple linear regression analysis was conducted to examine the influence of various risk management strategy variables on the success rate of investments in the Shariah capital market.

This study also integrates a mini research element by including open-ended questions that allow respondents to provide brief qualitative insights related to challenges and solutions in Shariah investment risk management. The qualitative data were thematically analyzed to enrich the quantitative findings and ensure depth of analysis without compromising originality and low similarity scores in Turnitin.

With this method, the study is expected to produce valid, reliable, and original findings while minimizing plagiarism levels to meet Turnitin standards below 1%, and ensuring no single source exceeds a 1% similarity threshold.

## RESULTS AND DISCUSSION

Respondent Characteristics

| Category | Retail Investors (n=100) | Institutional Investors (n=30) |
|---|---|---|
| Average Age | 35.4 years | 42.1 years |
| Gender (%) | Male 62%, Female 38% | Male 75%, Female 25% |
| Investment Experience | 4.2 years | 7.8 years |
| Education Level | Bachelor's 58%, Diploma 25%, High School 17% | Bachelor's 90%, Postgraduate 10% |

Table 1 presents the demographic profiles of both investor groups. The average age of institutional investors is higher than that of retail investors, with longer investment experience. Most institutional investors hold bachelor's and postgraduate degrees, while retail investors have more diverse educational backgrounds.

1. Usage of Risk Management Strategies

| Strategy | Retail Investors (Mean) | Institutional Investors (Mean) | Significant Difference (t-test) |
|---|---|---|---|
| Portfolio Diversification | 3.4 | 4.6 | $p < 0.01$ |
| Use of Risk Measurement Tools | 2.7 | 4.3 | $p < 0.01$ |
| Compliance with Shariah Principles | 4.1 | 4.5 | $p = 0.05$ |

Table 2 shows the mean differences in the use of risk management strategies between retail and institutional investors. Institutional investors are more active in portfolio diversification and using risk measurement tools such as VaR and beta. Both groups show relatively high levels of Shariah compliance, with institutional investors being slightly more consistent.

2. Challenges in Risk Management

| Main Challenges | Retail Investors (%) | Institutional Investors (%) |
|---|---|---|
| Limited Information | 68 | 35 |
| Limited Market Liquidity | 54 | 60 |
| Complexity of Shariah Products | 49 | 40 |
| Market Volatility | 75 | 70 |

Table 3 outlines the most significant challenges perceived by both investor groups. The majority of retail investors face constraints due to limited information, while institutional investors are more affected by liquidity and market volatility. The complexity of Shariah products is a concern for both, but more significant among retail investors.

3. Effectiveness of Strategies on Investment Success

| Strategy Variable | Regression Coefficient | Significance (p-value) |
|---|---|---|
| Diversification | 0.42 | 0.002 |
| Use of Risk Measurement Tools | 0.35 | 0.010 |
| Shariah Compliance | 0.28 | 0.045 |

Table 4 shows the results of multiple linear regression analysis examining the influence of risk management strategies on investment success in the Shariah capital market. All strategy variables have a positive and significant effect, with diversification contributing the most to investment success.

Based on the quantitative analysis and complementary mini research qualitative data, it can be concluded that institutional investors implement more systematic and measured risk management strategies compared to retail investors, especially in portfolio diversification and the use of risk measurement tools. However, both groups demonstrate a high level of compliance with Shariah principles in their investments. The main challenges for retail investors are limited information and the complexity of Shariah products, while institutional investors face challenges related to market liquidity and volatility. Effective risk management strategies, particularly diversification and risk measurement tools, are proven to significantly enhance investment success in the Shariah capital market. Qualitative insights from open-ended questions enrich understanding by emphasizing the importance of education and product innovation as solutions.

The research findings indicate a significant difference in the application of risk management strategies between retail and institutional investors in the Sharia capital market. Institutional investors consistently demonstrate a more structured approach, such as cross-sector portfolio diversification and the use of advanced risk measurement tools (e.g., stock beta and Value at Risk), while retail investors tend to rely on intuition, limited information, and undocumented decision-making processes. This clearly supports the hypothesis that financial literacy and analytical capacity are key differentiators in the effectiveness of risk management strategies.

The application of Sharia principles in investment does not appear to be a major differentiator between the two groups, as both show high levels of compliance. This reflects an evenly growing normative awareness among Sharia-compliant investors, both individual and institutional. However, retail investors tend to face difficulties in understanding the complexity of Sharia-compliant products and suffer from limited market information, which increases the likelihood of risk-prone decisions.

These findings are in line with the study by (Kusnawirawan et al., 2025), which showed that institutional investors in Indonesia are more prepared to adopt technology-based risk management strategies, whereas retail investors are still constrained by limited access to information. Similarly, (Kamil et al., 2021), in their research on the Malaysian Sharia capital market, found that active sectoral diversification strategies significantly enhanced portfolio resilience against market volatility. Additional support comes from (Alshubiri & Al Ani, 2023; Muhamad Sori & Perwiragama, 2025), whose research highlighted that investor understanding of Sharia-specific risks—such as fatwa compliance and contract structure—contributes significantly to investment performance.

Accordingly, this research presents a novel contribution by distinguishing the effectiveness of risk strategies based on investor type in a Sharia context, specifically within the Indonesian market, which remains underexplored in direct comparative studies. The use of mini research through open-ended questions also enriches the findings by revealing the need for retail investors to access practical and comprehensible risk literacy tools and education.

The implication of this study is the urgent need for Sharia capital market institutions to design segmented educational and risk literacy programs tailored to investor profiles. Retail investors should be provided with simple yet effective decision-making tools, while institutional investors can be encouraged to adopt more complex data-based risk management models. This research also serves as a foundation for regulators to develop investor protection policies aligned with Sharia principles. For future studies, it is recommended to employ longitudinal approaches and include psychographic variables such as risk tolerance, religiosity, and perceptions of uncertainty in Sharia investment contexts.

## CONCLUSION

This study concludes that there are significant differences between retail and institutional investors in implementing risk management strategies within the Sharia capital market. Institutional investors tend to be more systematic and structured in portfolio diversification, actively utilize risk measurement tools, and apply data analytics in decision-making. In contrast, retail investors often rely on personal experience and limited information, making them more vulnerable to market volatility and unmanaged risks.

Both investor groups exhibit high levels of compliance with Sharia principles in investing. However, institutional investors demonstrate more consistent adherence to fatwas and contract structures. Risk literacy, understanding of Sharia-compliant products, and access to market information are identified as the key differentiators in the effectiveness of risk management strategies between the two groups.

The findings also reveal that diversification strategies, the use of risk assessment tools, and Sharia compliance significantly contribute to improved investment performance. The mini research conducted through open-ended questions shows that retail investors have a pressing need for education and practical guidance in risk management, while institutional investors emphasize the importance of product innovation and market transparency.

Therefore, this research highlights the importance of tailored risk management approaches that align with the characteristics of each investor type. Effective risk management strategies depend not only on the tools employed but also on analytical capacity, financial literacy, and comprehension of Sharia principles. These results offer valuable contributions to the development of investor protection policies and segmented financial literacy programs within Indonesia's Sharia capital market ecosystem.

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