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ENHANCING ISLAMIC FINANCIAL LITERACY IN INDONESIAN YOUTH GENERATES BROADER SOCIETAL BENEFITS

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Abstract

Indonesia, with a predominantly Muslim population, exhibits low levels of financial literacy and Islamic financial literacy, despite a growing interest in Islamic banking. This research focuses on evaluating the financial literacy of young Indonesians and its relationship with Islamic financial literacy policies. The quantitative approach, based on a survey of 70 respondents, reveals that the

youth in Indonesia possess moderate financial literacy and Islamic finance knowledge. Government policies, primarily centered around personal learning and online education, demonstrate limited efficacy in improving financial literacy among the youth. The study suggests that the low level of Islamic financial literacy cannot be solely attributed to existing policies, as other external factors play a significant role. The research emphasizes the need for a more comprehensive understanding of the multifaceted influences on the relationship between Islamic financial literacy and societal outcomes in Indonesia.

Keywords

Islamic Financial Literacy, Islamic Banking, Policies, Young Indonesian, Society

1. Introduction

1.1. Background

According to Bank Indonesia (BI), Indonesia's projection of economic growth in 2023 has an optimistic outlook, with the country's GDP growth reported at 5.3% in 2022. Indonesia was reported to be an upper middle income country with the growth of the middle class groups as a major contributor to the economic expansion (World Bank Group, 2020). With the objective of economic growth, Indonesia Bank needs to develop a strong foundation on its finance. There are three types of banks implemented in Indonesia, Commercial, Rural and Sharia Bank. With the muslim community, sharia banks are becoming a growing interest to Indonesians with 189 banks having been established as of 2019 (Arham, 2020). Sharia banks apply partnerships and mutual benefit principles adopting fairness and ethical transactions. The implementation of Islamic financing is relatively new compared to conventional financing, with the first sharia bank itself was established in 1991 and began popularizing in 2011. Otoritas Jasa Keuangan (OJK) or the Financial Services Authority is the country's function for development in banking and financial services, including for sharia's policies. Hence, conventional banks were more familiar to the society before the development as their policies have been available since decades before. Moreover, the society's knowledge in Islamic financial literacy wouldn't surpass conventional financial literacy.

Financial literacy, according to Indonesia's Financial Services Authority (OJK), is the capability of one's understanding of knowledge, skill and confidence in doing financial activities which affect their ability to make financial decisions and management. Financial activities refers to personal,

household, corporation financial management such as earnings, spendings, savings, borrowings, budgeting, investing, etc. The higher ability of a person to make financial decisions and management will indicate whether they are financially literate or not. Only 33% of adults in the world are counted to be financially literate, with the strongest number in the developed countries and Western Europe countries (Klapper et al., 2015). Australia, Canada, Denmark, and Germany are some of the countries where financially literate adults account for about 65%. In the same survey, South Asian countries are counted to have lower financial literacy percentage and even the lowest. Indonesia, as one of South Asian countries, accounts for 49.68% of the financial literacy index in the national scope (SNLIK, 2022). Teenagers and young adults, ages from 15 to 29 are found to have 22.45% of the index which is lower than adults, which accounts for 66.92% whilst older adults have the lowest index of 10.64%.

Indonesia's government has made an attempt to increase the country's economy through the role of financial literacy with the help of national institutions and ministries, as the Ministry of Finance stated (2022). They aim to keep the financial sector to provide services to the society that are stable, credible and sustainable, and fairness and consistency for investors. The conditions are alike worldwide with implementing policies for the society. Formal and informal programs can be assessed to spread knowledge about financial literacy. Such policies should be applied in a large scope in order to fully maximize the result. Following suit with policies in developed countries, can benefit Indonesia into increasing its awareness and knowledge toward financial literacy, even Islamic financial literacy.

1.2. Research Question

- What is the level of interest of the young generation in Indonesia towards Islamic financial literacy?
- How effective are the Islamic financial literacy policies that the young generation of Indonesia have implemented?
- How much effect does the young generation to be Islamic financially literate generate impact to society?

1.3. Research Objectives

From these explanations in the background and the research questions above, the research objectives are as follows:

- To determine the level of interest of the young generation in Indonesia towards Islamic financial literacy.

- To identify the effectiveness of the Islamic financial literacy policies that the young generation of Indonesia has implemented.
- To identify the effect of the young generation to be Islamic and financially literate generates an impact to society

2. Literature Review

2.1. Financial Literacy

Financial literacy, which relates to the understanding and ability to apply financial knowledge to make good financial decisions, has been a growing interest in society. For instance, according to a research conducted by Remund (2010), the definition of financial literacy has a strong emphasis on the conceptual framework in which individuals' capability to manage their finances effectively. This is done so by having an effective planning on long-term financial and having good short-term financial decision making, which are very much affected by economic conditions. For that reason, financial literacy is a combination of one's comprehension of financial education and its implementation in life. With the definition and understanding of financial literacy, individuals who are financially literate are more careful to financial decisions they make and to the provision in the financial service industry. A study by Taylor and Wagland (2011), governments have made efforts to strengthen the financial literacy implementation in Australia and New Zealand in order to reform the financial industry and access financial education opportunities. Such an approach is done by formal and informal education to spread awareness to the community about financial literacy. Lusardi et al. (2015) have conducted a study to evaluate the tools and narrative in improving financial literacy. In the study, such tools include an informational brochure, a media interactive, written narrative, and video.

2.2. Islamic Financial Literacy

The concept of Islamic financial literacy undergoes the basic concepts of Islamic finance by applying the sharia laws. The understanding of Islamic financial literacy is defined as the knowledge and ability to the principles and practices of Islamic finance. According to Ahmad et al. (2020), the concepts of Islamic financial literacy is based on two principal factors which are the knowledge of riba and the concept of profit-sharing, as well as perceptions with adhering to Sharia law. However, in a study by Abdullah & Razak (2015), they proposed a wider understanding to Islamic financial literacy with aspects from sharia laws that should be implemented to financial literacy. Such aspects include

basic wealth management, financial planning and Islamic financing concepts of zakat, law of inheritance, wasiyah, charity donation and waqf. The authors discussed these aspects deeper in their study with relevant links to the Islamic laws.

2.3. Islamic Finance

2.3.1. Islamic Finance Principles

Islamic Finance a type of financial services where its services complies to Islamic sharia laws. The services follow the values and ethical principles that are taught in Islam, written in their holy book, the Quran (Gait & Worthington, 2007). These values and principles are believed to be sourced from God through the Quran and the sayings and practices of the Prophet Muhammad, called Sunna, in which Muslims follow. The Islamic system is more than the relationship between economic conduct and the factors of production. It provides equal weight to moral, social, ethical, and religious considerations in order to promote equality and fairness for the benefit of society as a whole (Iqbal, 1997). The principles of Islamic finances revolve around the term “interest-free”, or the basis of Islamic principles which prohibits the act of putting interest on a loan. However, the system follows a bigger understanding more than ‘interest-free’, as stated in a previous study by Iqbal (1997). The author emphasized that Islamic finance is backed by other Islamic philosophy tenets that promote risk sharing, personal responsibility, property rights, and the sacredness of contracts. Based on the Islamic teachings, the Prophet Muhammad had taught finance principles by giving examples on doing trade without interest and by profit/loss sharing.

2.3.2. Islamic Finance in Indonesia

From a previous study by Alharbi (2015), it was stated that Islamic banks act as a financial institution that upholds shariah principles in all of its operations by acting as a financial intermediary between investors and savers. They also offer banking services within the parameters of legal contracts and achieve a balance between economic and social return. These banks have been providing services to the Indonesian community since 1997. This has given the option for Muslim of Indonesians to use Sharia banks as their banks. The state of Indonesian finance bank has developed into a new system with the merger of three Syariah banks in 2019. A new pillar of power and polarization in Indonesia's Islamic economy was created by Bank Syariah Indonesia, which also altered the country's Islamic banking landscape (Mahargiyantie, 2020). This is the strategic role in strengthening the national

economy by the development of capital and finances from Indonesian Sharia Banks, which are able to enhance funding in business and national development. From a study by Marimin & Romdhoni (2015), the author explained about the use of a profit-sharing Sharia banking framework in Indonesia. The Indonesian Sharia banking system has managed to improve the bank's ability to maintain performance and removes its need for ethnicity and high deposit interest, which allows it to operate more cheaply than traditional banks. Moreover, there is a competitive market between conventional banks and Islamic banks in Indonesia which require Islamic banks to strive harder in the industry.

2.4 Hypothesis Development and Conceptual Framework

Based on previous literature, financial literacy relates to how an individual understands and makes financial decisions based on their knowledge and Islamic financial literacy refers to the understanding and ability in Islamic finance principles such as profit-sharing. Formal and informal education are a form of global policies used in much research previously done. It should be seen for its effectiveness for the younger generations in Indonesia. Therefore, from such variables the outcomes can be considered that it can possibly generate positive or negative outcomes for Indonesian society. With consideration of research questions and objectives, there are several hypotheses that are formed.

- Hypothesis 1 (H1): The Islamic financial literacy policies implemented on young Indonesians has a positive impact on the Islamic financial literacy level.
- Hypothesis 2 (H2): The Islamic financial literacy policies in Indonesia are estimated to have a positive impact on the society.

The first hypothesis (H1) proposes that the Islamic financial literacy of young Indonesians has an indirect effect on the islamic financial literacy policies that are applied. This hypothesis is based on the research question and objective, which are to determine existing global financial literacy policies that are effective to Indonesia's young generations. According to the second hypothesis (H2), implementing Islamic financial literacy policies in Indonesia will benefit society. As a result, those who are knowledgeable about Islamic finance will be better able to handle their finances in line with Islamic principles. This hypothesis is based on the research question and purpose, which look to see if Islamic financial literacy can be effective to the young generation of Indonesians. Based on the hypotheses constructed, the conceptual framework is constructed to provide a visual representation of the relationships among the variables and the direction of the relationships (Cueva, 2022). The level of

young Indonesian being Islamic financially literate are affected by the Islamic financial literacy policies implemented. Then, the financial literacy policies implemented are seen to have a positive impact on the society.

3. Research Design and Methodology

3.1. Research Design

In this study, a quantitative research approach is used in order to derive functional relationships between the variables. Quantitative research systematically investigates phenomena by collecting measurable data and using statistical, mathematical, or computer methods (Fleetwood, 2023). This approach is suitable for this research because there are hypotheses presented to be tested in the approaching discussions. The data for this research are based on primary data as the sources of data. Primary data is data that is collected from direct sources for specific purposes or research objectives (Hox & Boeije, 2005). To reach the research objectives, primary data is needed to be collected for this research. So as to obtain primary data for this research, a survey is conducted and spread for a sample to participate in, using purposive sampling where subjects of the survey are selected by choice based on a certain topic (Robinson, 2014). In order to have sufficient data and relevant data to be analyzed, the number of respondents who participated in the survey should reasonably be 50 and more, and thus the sample reached 70 respondents. This is required for the research to answer the research question and fulfill the research objectives where to evaluate the willingness of being financially literate and effectiveness of existing policies on financial literacy.

3.2. Research Methodology

Data collection method for this research will be a survey that is conducted through a widespread online questionnaire form. Participants will participate in answering a sequence of questions with several types. Questions will be in the form of a close-ended question with limited choice, a close-ended question with multiple selection choice, and likert-scale of 1-to-5 scale. Close-ended questions are questions that respondents must select from a limited number of response possibilities for each closed-ended inquiry (Colosi, 2006). Close-ended questions have the advantage of having a predetermined answer, designed by the researcher, making them more specific than open-ended questions. This allows more consistency among respondents in terms of comprehension of both the question and their responses. Likert scale is also a form of close-ended questions with a five point

scale for respondents to choose from. Participants are given a statement or question for which they have to choose their level of agreement or disagreement on it.

4. Findings and Discussion

From the survey conducted, a total of 70 participants were taken as respondents. The survey was conducted based on an online questionnaire which was spread to young Indonesians. Demographics are surveyed by their gender, age, occupation, and education level. The demographic of the respondents is summarized into the following table.

(Table 4.1. Respondent's Demographic)

Demographics		Frequency
Gender	Female	38
	Male	32
	Total	70
Age	< 18 years old	1
	18 - 26 years old	69
	> 26 years old	0
	Total	70
Occupation	Student	48
	Employee	22
	Total	70
Education Level	High School Graduates	19
	Bachelor's Degree	51

	Master's Degree	0
	Total	70

(Source: Author's Own Illustration)

The majority of the 70 respondents were highly educated young adults. About 48.6% of people ranked their financial literacy as being a "4" (very good), and 44.3% were aware of the fundamentals of Islamic financing. Only 17.1% of respondents have engaged in Islamic finance initiatives, while 42.9% have not engaged in any financial literacy initiatives. The most frequent form of involvement in financial literacy and Islamic finance programs was personal learning. Overall, the majority of respondents had a moderate level of financial literacy; nevertheless, despite being conversant with Islamic finance concepts, the majority had not gone through any official instruction on the subject.

As said from many previous studies, formal institutions such as schools are the main policies used in many countries. However, as seen from the survey result, the formal platform of study is not utilized by many participants of the survey. Implementation of islamic financial literacy policies, as said from Herawati (2015), should have complementary ways from informal education from seminars and workshops. This program has interest from the participants but needs more effort on promoting to have more participation from young Indonesians.

To determine the statistical significance of the variables utilized in the research, the study conducted a validity test. Six questions on a Likert scale were utilized by the researchers and divided into three categories: Islamic financial literacy, Islamic financial literacy policies, and outcomes for society. The questionnaire's validity was tested using the R-value, and the results showed that the questions' answers were reliable because the R-value was higher than the R-table. Additionally, a Cronbach's alpha coefficient of 0.801 was discovered, suggesting the validity and sufficiency of the items. On evaluating the correlation between each variable, correlation analysis is conducted. The result shows a positive correlation and significance. Islamic financial literacy policies (47.7%) and outcomes for society (49.1%) have a moderate correlation with each other.

The regression analysis was done and was found to have little correlation between Islamic financial literacy with outcomes to society and other variables could have explained the relationship

further. Such variables should have been taken into consideration to correlate the relationships as stated in previous literature from Nurrohmah and Purbayati (2020). On further use of regression analysis, the relationship between the mediating variables to have indirect effect to independent and dependent variables is found to have no significance. Thus, the current Islamic financial literacy policies are not effective to be implemented for the young generation of Indonesia for it is not significant enough to give an impact to the level of Islamic financial literacy and its outcomes. The result of the regression analysis is shown in the tables below.

(Figure 4.1: Regression Analysis)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.491 ^a	.241	.230	.842

a. Predictors: (Constant), Islamic_Financial_Literacy

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.252	.582		2.152	.035
	Islamic_Financial_Literacy	.226	.049	.491	4.646	<.001

a. Dependent Variable: Outcome

(Source: Author's Own Illustration)

(Figure 4.2: Mediation Analysis)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.252	.582		2.152	.035
	Islamic_Financial_Literacy	.226	.049	.491	4.646	<.001
2	(Constant)	.777	.670		1.161	.250
	Islamic_Financial_Literacy	.189	.055	.411	3.444	<.001
	IFL_Policies	.113	.081	.167	1.401	.166

a. Dependent Variable: Outcome

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.187	.865		4.838	<.001
	Islamic_Financial_Literacy	.324	.072	.477	4.474	<.001

a. Dependent Variable: IFL_Policies

(Source: Author's Own Illustration)

Overall, the study offers insightful information about the connections between Islamic financial literacy, Islamic financial literacy policies, and societal results. The results indicate that improving Islamic financial literacy can have a favorable impact on societal outcomes. The association between Islamic financial literacy and societal outcomes is, however, also significantly explained by other variables and circumstances that fall outside the scope of this study.

5. Conclusion

This research aims to investigate how the young generation of Indonesia have adequate literacy about Islamic financial literacy and how it is effective to give positive outcomes to the society. With the growing interest in Islamic finance with the implementation of ethical and fair transactions, the need of the society to have knowledge and literacy on Islamic finance is needed. The existing policies of Islamic financial literacy are evaluated to see the effectiveness of policies to young Indonesians or not. Thus it is evaluated that the economy and society of Indonesia can both benefit from increasing financial literacy in the nation. Hypotheses are formed based on these objectives and visualized into a conceptual framework in order to answer the research questions of this research. These are then analyzed through several ways of analysis which gives the result of the output. Analysis found

for this research is that young Indonesians have moderate literacy on Islamic finance with moderate concern about the importance of being financially literate. The most common policies or programs that young Indonesian participate in are personal learning and online-based learning. Other policies such as classroom learning or formal learning are not effective and sufficient enough for the society and needs improvement in promoting. Thus such policies that are currently implemented in Indonesia are not effective enough to improve their literacy level. However, there is no direct relationship measured from analyzing Islamic financial literacy with generation of better outcomes to society. There are other factors which have a direct impact on the generation other than Islamic financial literacy with its policies.

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