

The Role of Islamic Financial Literacy in Financial Satisfaction and Behavioral Intention to Invest in Islamic Finance

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ABSTRACT:The aim of this study is to explore the impact of Islamic Financial Literacy (IFL) on financial satisfaction and behavioral intention to invest, as well as to assess IFL levels. IFL is a crucial principle that can contribute to individual investment activity and the ability to manage, and both are essential aspects of financial satisfaction. Truth or false statements are used to establish IFL. A 5-point likert scale is used to measure financial satisfaction and investment intentions. The data obtained from 170 respondents was analyzed using Ordinary Least Square. The respondents' IFL level was 49.4 percent, according to the findings. Individuals who have a clear understanding of Islamic finance are more likely to be satisfied with their financial condition and will want to invest. Finally, this paper contributes to the development of behavioral finance.

KEYWORDS:IFL, Islamic Finance, Financial Satisfaction, Behavioral Intention to Invest

I. INTRODUCTION

This paper investigated financial activity, which is a concern that financial researchers frequently investigate. The IFL level of Malang residents is examined in this research. Then focus about how IFL affects financial satisfaction and investing intentions. Gender, age, marital status, level of education, and income are often used as control variables. Because the Indonesian government is attempting to increase the share of the Islamic financial market, the financial behavior sub-topic of investor behavior was chosen as the research topic. Although participation in the financial market is really a important economic output, a study on the topic of participation in the Islamic financial market is desirable [1].

The growth of the Islamic finance industry has supported the economic development of a country. According to the Cambridge Institute of

Islamic Finance's (Cambridge IIF) 2019 Global Islamic Finance Report (GIFR), Indonesia was ranked first in the global Islamic financial market in 2019. Although the Islamic financial market in Indonesia is stagnant, the Islamic financial industry is exhibiting resilient performance with the potential to continue to grow, since it would be supported by the establishment of a strong Islamic economic and financial regulatory environment (KNKS, 2019). In the first quarter of 2020, the Islamic financial sector contributed for 9.03 percent of total assets in the national financial industry, comparison to 9.71 percent in 2019. The Islamic finance generates the most Islamic financial assets, driven by Islamic banking and the Islamic non-bank financial industry (IKNB). However, when compared with the conventional financial sector, the Islamic financial market's share is still below the what has been estimated. The knowledge factor can be described as one of the factors that may influence individuals to be unwilling to invest in Islamic assets based on the discussion above. Theory of Planned Behavior indicates that individual behavior is influenced by a number of factors, one of which is knowledge. Social factors [2], fundamental factors, and personality [3] and according to some studies, influence the growth in the share of the Islamic financial market that is reflected in investor behavior.

sources. DER can show the level of debtor's confidence, as well as the risk to a company. The higher the DER, the higher the risk that may occur within the company, because company funding from the debt element is greater than its own capital [2].

II. HYPOTHESES DEVELOPMENT

The Islamic financial literacy and inclusion index, which is based on the 2016 National Survey of Financial Literacy and

Inclusion, has unsatisfactory results, with 8.1 percent. These findings indicate that many Indonesians still lack sufficient knowledge and understanding of the Islamic financial industry. As a consequence, the government has initiated an education and outreach program through OJK, IDX, and KSEI with the purpose of improving the financial literacy of the general populace, especially investors. Since the 2000s, several preliminary studies on financial literacy have been conducted. Financial literacy is essential because it affects portfolio diversification[4], investor participation[5], [6].

Although Islamic Financial Literacy, or IFL, is a new concept in the field of financial literacy, the IFL literature review focuses on recent financial literacy studies. IFL can be identified as knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management to improve welfare, based on sharia principles[7]. Meanwhile, financial satisfaction has piqued the interest of behavioral finance researchers because it is related to individual and family financial planning, making it an important aspect of life satisfaction[8], and is, in addition, correlated to psychological well-being. Financial literacy was already linked to financial satisfaction in previous studies[9]. In their research on the relationship between IFL and financial satisfaction, they explored that IFL can help individuals achieve financial satisfaction.

Although the two studies used different respondents, [6] with respondent investors in the Islamic capital market, but [7] with students, the significance of the findings of the two researchers was not diminished. The following hypotheses can be formulated based on conceptual and empirical studies:

H1. IFL has a positive impact on financial satisfaction

Individuals, especially Muslims, will face issues if they want to do transaction with Islamic financial institutions. First, there's the terminology. Second, whether or not the desired instrument is sharia-compliant. As a rule, it is essential to consider the principle of IFL. Several studies have

revealed how financial literacy affects investment decisions when it comes to the impact of IFL on the intention to invest in Islamic financial instruments. Individuals who are financially literate are less likely to face issues when it comes to entering the financial market[5]. IFLs have a significant impact on the decision to use Islamic bank products and services, according to the Albaity & Rahman report (2019). It is hoped that the better the IFL becomes, the more people will want to use Islamic financial institutions' products and services. The following is the second hypothesis:

H2. IFL has a positive impact on behavioral intention to invest

III. METHOD

In Malang City, 172 respondents with various backgrounds were surveyed using quantitative methods. In January 2021, data was collected using an online questionnaire and a purposive sampling method, with respondents who have a fixed income and manage the finances independently. The OLS Regression Test was used to analyze the collected data.

The measurement items used in this study were adapted from previous research and modified to the Islamic finance context. The IFL item refers to [10] research, which included 10 question items like "interest-free Islamic financial methods," "Gharar refers to uncertainty, so it is prohibited in Islamic finance," and "interest-free Islamic financial methods." IFL items are classified on whether they are true or false; if they are true, they are given a 1; if they are false, they are given a 0. The intention to invest item from the [11] consists of 8 items, including "willing to invest in Islamic financial products," adapted from the [7] study, which consists of 7 items, including "satisfied with my current financial situation." Item intention to invest and financial satisfaction are measured using a five-point Likert scale. In addition to IFL as an independent variable and financial satisfaction and intention to invest as the dependent variable, this study also uses socio-demographics such as gender, age, education level, marital status and income level as control variables.

Variable	Items	Cronbach's Alpha
Financial Satisfaction	7	0.766
Behavioral Intention to Invest	8	0.750

Table 1. Reliability Test

The reliability test is intended to measure the level of consistency over time of the instrument used. The limit value is used to assess the level of reliability that is acceptable if the cronbach's alpha value is 0.70. Table 1 shows that the value of financial satisfaction and behavioral intention to invest, respectively, is 0.766 and 0.750, which means that all question items are reliable.

The validity test was carried out to see which questions were appropriate to represent the research variables, namely financial satisfaction and behavioral intention to invest. The question item is said to be valid if the r-count is more than 0.03. Based on table 2 all the construct items of the question are declared valid.

Table 2. Validity Test

Satisfaction1	.574**	Behavioral1	.630**
Satisfaction2	.680**	Behavioral2	.745**
Satisfaction3	.451**	Behavioral3	.631**
Satisfaction4	.570**	Behavioral4	.540**
Satisfaction5	.470**	Behavioral5	.535**
Satisfaction6	.675**	Behavioral6	.623**
Satisfaction7	.635**	Behavioral7	.520**
		Behavioral8	.690**

** Correlation is significant at the 0.01 level (2-tailed)

IV. RESULT

The first section will explain the phenomenon of IFL in Malang City, followed by an explanation of how IFL impacts financial satisfaction and the intention to invest in Islamic financial instruments. The IFL level of Islamic financial instruments in Malang City is 21.7 percent, based on the responses to the question items. Furthermore, the results of the respondent data description show that 42 percent of respondents are female and 58 percent are male. The percentage of the participants (54%) were between the ages of 25 and 35, and undergraduate degrees being the highest level of education.73

percent of those who responded to the survey said that they were married. The table below shows the answers to IFL questions, as well as the OLS findings of IFL regression and socio-demographic variables on financial satisfaction and investment intention.

The analysis found that IFL had a positive impact on Intention to Invest Islamic Finance at a significance level of 0.002. Based on these findings, the proposed H2 is accepted, which means that the higher the individual IFL, the stronger their willingness to invest in Islamic financial instruments.

Table 3. Respondent Response on IFL Questions

	True	False
IFL01 Islamic method of finance is interest-free	91%	9%
IFL02 Gharar refers to uncertainty and deception and not allowable in Islamic finance	52%	48%
IFL03 Preservation of wealth is one of the objectives of Islamic finance	64%	36%
IFL04 It is allowable to sell a commodity before it comes under our control	53%	47%
IFL05 An Islamic financial institution may invest with you according to Profit sharing method (Mudharabah)	44%	56%
IFL06 An Islamic financial institution lends money according to Profit/loss sharing method (Musharakah)	39%	61%
IFL07 Islamic financial institution provides lease financing (Ijarah)	42%	58%
IFL08 Islamic financial institution provides trade financing methods Call Murabahah	34%	66%
IFL09 Islamic financial institution provides industrial financing (Istisna)	39%	61%
IFL10 Islamic financial institution may provide benevolent loans called Quard Hassan	36%	64%
Level of IFL	49,4%	

Tabel 4. OLS Regression Test

	<i>Financial Satisfaction</i>	<i>Intention to Invest Islamic Finance</i>
<i>Number of Observations</i>	172	172
<i>R square</i>	.035	.046
<i>Islamic Financial Literacy</i>	.01*	.002
<i>Gender</i>	.226	.061
<i>Age</i>	.275	.073
<i>Education</i>	.124	.065
<i>Marital Status</i>	.146	.020*
<i>Income</i>	.037*	.381

*Significance at level 5%

The control variable that affects individual intention is marital status with a significance of 0.020. These results indicate married individuals have a strong intention to invest in Islamic assets because they are associated with long-term investments. R square research model 4.6 percent.

V. DISCUSSION

This study aims to measure the level of IFL in the city of Malang and examine the influence of IFL on financial satisfaction and Intention to Invest Islamic financial instruments. Socio-demographic variables such as gender, age, status, education and income were used as control variables. The results of the survey on the IFL level of respondents in the city of Malang were 49.4 percent. These findings indicate that in a span of 3 years there was an increase in IFL among the public, because based on a national survey conducted by OJK in 2017 the IFL level was 8.1 percent. The level of public understanding of the existence of Islamic finance products is getting better, even though people do not fully understand some of the concepts of Islamic finance, such as the concept of Mudharabah and Ijarah.

The results of the IFL influence test on financial satisfaction found that if the level of individual understanding is good about Islamic finance, the better the financial satisfaction. In the context of this research, individuals take advantage of their IFLs to achieve their desires in terms of financial improvements and changes in financial conditions for the better in accordance with sharia.

This finding is in line with [9], [7]. The ability of individuals to manage finances in the midst of conditions of economic uncertainty due to the pandemic is very important because it can guarantee financial cash flow which in turn brings financial satisfaction to individuals.

The test of the influence of IFL on the

intention to invest in Islamic finance shows that the level of IFL has a positive impact on the intention to invest in Islamic finance products, both in Islamic banks, Islamic capital markets and other Islamic finance. These results are in line with studies conducted by [12] and [6], [9]. Individual considerations in choosing Islamic finance apart from being in accordance with sharia principles, are not carrying out activities that can harm society [13]. Therefore, the dissemination of positive information about Islamic finance is needed so that the public can understand its benefits. Historically, the use of products in Islamic banks is more familiar to the public [14].

This finding supports the fact that the majority of people in their daily lives interact more with the banking sector. The control variable that affects individual intention is marital status. These results indicate married individuals have a strong intention to invest in Islamic assets because they are associated with long-term investments.

VI. CONCLUSION

The results showed that the IFL of Malang city people was still relatively low, so that socialization and education was needed regarding Islamic financial instruments. IFL has a positive impact on financial satisfaction and intention to invest in Islamic financial products in the city of Malang. In addition, marital status and income are also predictors to explain financial satisfaction and an individual's intention to invest. It is suggested for further research to consider measuring IFL related to the intention to invest in instruments in the capital market and banking and other financial institutions separately in order to obtain a detailed description of individual behavior. In addition, it is advisable to examine other variables, for example measuring the level of risk perception [13].

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