

The Role of Islamic Economic Literacy in Shaping Financial Behavior Based on Islamic Principles

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Abstract. The development of the Islamic economy in Indonesia has not been fully accompanied by an adequate level of Islamic economic literacy among the general public. This condition creates a gap between religious awareness and daily financial practices, where people tend to understand Islamic concepts normatively but are unable to implement them operationally in financial management. This study aims to analyze the role of Islamic economic literacy in shaping public financial behavior based on Islamic principles. This study uses a descriptive qualitative approach with data collection techniques in the form of a survey of the general public and a documentation study of official Islamic financial literacy reports. The results show that Islamic economic literacy in the community is still at the basic level and has not yet developed into an applied understanding. Financial behavior based on Islamic principles is more dominant in aspects of consumption and social distribution, while long-term Islamic-based financial planning is still limited. Islamic economic literacy has been shown to play a significant role as a cognitive factor influencing individual attitudes, beliefs, and perceptions of control in financial decision-making. This research confirms that strengthening contextual and applicable Islamic economic literacy is key to shaping public financial behavior that aligns with the maqasid of Islamic law.

Keywords: Literacy, Financial Behavior, Islamic Economics, Islamic Finance

1. Introduction

Islamic economics has experienced rapid development in recent decades and has become an integral part of the global financial system, particularly in countries with a Muslim-majority population. The fundamental principles of Islamic economics, grounded in Islamic values such as justice, transparency, and the prohibition of riba, position it as a significant alternative within the broader financial landscape. These principles include the prohibition of interest (riba), the avoidance of excessive speculation, the promotion of social justice, and adherence to Islamic ethical norms in business and finance. In Indonesia, Islamic economics has grown rapidly and is increasingly applied across various sectors. Islamic banks have proliferated and offer the public an alternative for conducting financial transactions in accordance with Islamic principles. This development indicates a rising public awareness of Islamic economic principles, particularly through Islamic financial literacy, which is expected to influence society to manage their finances more wisely and effectively.

Islamic banks play an important role in enhancing Islamic financial literacy and motivating the development of financial products and services that align with public needs[1]. Islamic economic literacy refers to the understanding and knowledge an individual possesses regarding the principles of Islamic economics. It encompasses comprehension of the Islamic economic system, Islamic financial principles, Islamic financial products, and the legal frameworks governing financial transactions in Islam. It also includes familiarity with concepts such as zakat, infaq, sadaqah, riba, gharar, and mudharabah. Moreover, Islamic economic literacy involves the ability to select and utilize Islamic financial products that align with one's needs and Islamic values.

With adequate literacy, individuals can make financial decisions that are appropriate and consistent with Islamic principles, while avoiding risks associated with financial products that do not comply with Islamic law[2]. The integration of financial literacy and financial inclusion can significantly influence societal welfare and financial system stability. According to the Financial Services Authority (OJK), the Islamic financial literacy index and Islamic financial inclusion index stood at only 9.14% and 12.12% respectively in 2022—far below the general financial literacy and inclusion indices of 49.68% and 85.10%. This disparity presents high risks, as the abundance of financial services available to the public is not matched by adequate financial knowledge, leading to various vulnerabilities, especially in the

context of investment[3]. Financial behavior based on Islamic principles among the general public is reflected in daily financial management practices. Islamic financial planning not only helps individuals achieve financial stability but also supports equitable wealth redistribution through instruments such as zakat, infaq, and waqf. However, many people still lack a detailed understanding of Islamic financial regulations, creating hesitation and uncertainty in their use. Therefore, continuous efforts to promote Islamic financial education and literacy are crucial to support societal development[4].

Information regarding Islamic financial products and services is often unclear or complex, resulting in the public's inability to make informed financial decisions. This lack of clarity can foster distrust and reluctance to adopt Islamic financial instruments, even when general financial literacy is high. Limited accessibility to Islamic financial literacy programs also presents a significant challenge. Ideally, such programs should be easily accessible, yet in practice, barriers—both physical and digital—often hinder public participation. Additionally, the lack of awareness about the benefits of Islamic financial literacy poses an obstacle to addressing literacy challenges. Society must be convinced that Islamic financial literacy offers tangible benefits in managing their finances, thereby encouraging them to enhance their understanding[5].

Previous research has shown that financial literacy significantly influences individual financial behavior. However, empirical studies specifically examining Islamic economic literacy and its implications for financial behavior among the general public remain limited, particularly in developing countries. Therefore, this study is relevant in addressing this research gap by analyzing the role of Islamic economic literacy in shaping Islamic principle-based financial behavior within society. This research is expected to provide theoretical contributions to the development of Islamic economics literature and practical insights for policymakers, Islamic financial institutions, and educational organizations in formulating strategies to enhance Islamic economic literacy. With improved Islamic economic literacy among the general public, it is anticipated that financial behavior will become not only economically efficient but also aligned with Islamic values and the objectives of *maqāṣid al-shari‘ah*.

2. The Proposed Method

The method employed in this study is a descriptive qualitative approach aiming to gain an in-depth understanding of the role of Islamic economic literacy in shaping financial behavior based on Islamic principles. This approach was selected not to test hypotheses, but to explore the meanings, processes, and social dynamics underlying financial behavior within the context of Islamic economics. The focus of the research is directed toward the public's perceptions of the practices and implementation of Islamic economic literacy carried out by Islamic financial institutions and educational entities.

The data were obtained through surveys administered to various community groups to assess their level of understanding regarding Islamic finance. In addition, the researcher collected data through document analysis, including policy reports and official publications such as the Islamic financial literacy and inclusion reports issued by the Financial Services Authority (OJK). Data collection techniques consisted of surveys and document-based research. The collected data were analyzed using qualitative thematic analysis, which involves identifying key themes related to Islamic economic literacy and Islamic principle-based financial behavior. The analysis process was conducted through the stages of data reduction, data display, and interpretative conclusion drawing.

3. Results and Discussion

Description of Islamic Economic Literacy Among the General Public

The analysis shows that the public's understanding of Islamic economics remains at the level of basic recognition. Most people are familiar only with terms such as *riba*, *zakat*, and Islamic banks, but this familiarity has not developed into a more operational understanding. Many respondents acknowledge that the Islamic system is "different" from the conventional one, yet they are unable to clearly explain distinctions in contracts, profit-sharing mechanisms, or the Sharia rationale behind financial products. This situation indicates that Islamic economic literacy among the public is still declarative—limited to knowledge of Islamic terms and symbols, without deeper understanding that can be used as a basis for financial decision-making. In practice, this leads to a lack of confidence in using Islamic financial products, even though they are perceived as more aligned with Islamic teachings. These findings reinforce earlier national financial literacy reports showing that the low level of Islamic financial literacy is not due to a lack of interest but rather limited comprehension that is applicable and easy for the public to understand. According to Rohmat, Islamic literacy influences the extent to which economic actors implement Sharia values in their economic activities. The objective of achieving *rahmatan lil 'alamin* can only be realized when individuals adopt Sharia principles in everyday economic practices. Therefore, individuals must be equipped with knowledge of Islamic economics—both those that are obligatory and those that are recommended. Moreover, as part of their moral duty, Muslims are obliged to disseminate beneficial knowledge, making the spread of Islamic economic literacy a form of social responsibility among Islamic economic actors.

Public Financial Behavior from an Islamic Perspective

The study reveals that public financial behavior does not yet fully reflect Islamic economic principles in a comprehensive manner. In daily practice, people tend to use conventional financial services due to convenience, accessibility, and habit, despite having a religious preference toward Sharia systems. Islamic-based financial behavior is more evident in the areas of consumption and social distribution, such as concern for halal income sources and the performance of *zakat* and *sadaqah*. However, in long-term financial planning—such as savings, investment, and risk management based on Sharia—implementation remains limited. This shows that Islamic values in financial behavior have not been fully internalized. Financial decisions are often driven by practical rationality rather than a deep understanding of *maqashid al-shariah*, particularly in wealth protection (*hifz al-mal*). Thus, Islamic financial behavior remains partial and not yet systemic. Islamic economics can protect society from harmful financial practices that contradict Sharia principles, such as usury-based lending (*riba*), deceptive sales practices (*gharar*), and illegal investments involving *maysir*. Understanding these principles is crucial so that families remain financially stable and avoid predatory practices[6].

The Role of Islamic Economic Literacy in Shaping Financial Behavior

The main finding of this study highlights that Islamic economic literacy plays a vital role in shaping Islamic financial behavior. Individuals with better understanding of Sharia financial concepts and mechanisms tend to show more positive attitudes toward Islamic financial products and greater caution in financial decision-making. Islamic economic literacy acts as a cognitive factor that influences attitudes and perceived behavioral control, as explained in the Theory of Planned Behavior. Adequate knowledge

increases individuals' confidence in using Islamic financial services and reduces skepticism regarding their legitimacy and benefits. Conversely, low levels of literacy lead to discrepancies between religious intentions and actual financial behavior. Even when individuals have strong religious awareness, limited technical understanding prevents them from implementing Sharia principles in everyday financial decisions. Thus, Islamic economic literacy is necessary to translate intentions into real behavior.

Mariana et al., assert that low financial literacy increases the likelihood of poor financial decisions. Individuals who lack knowledge of Islamic financial concepts are more vulnerable to financial crises and potential losses due to fraudulent activities[7]. Improving Islamic financial literacy not only enhances personal financial management but also strengthens public confidence in Islamic banking. Financial literacy positively influences financial behavior, where individuals with better understanding exhibit greater confidence in using Sharia-compliant products.

Barriers to Improving Islamic Economic Literacy

This study identifies several barriers that hinder the widespread development of Islamic economic literacy. Information regarding Sharia financial products is often conveyed using highly technical language, making it difficult for the general public to comprehend. Existing outreach efforts have also not fully reached the groups most in need of financial education. Additionally, Islamic economic literacy is not yet strongly integrated into formal or non-formal education systems. As a result, the public is more familiar with conventional financial concepts that have long been disseminated through various educational and media platforms. Trust issues also play a significant role. Some people still question the consistency of Sharia compliance within Islamic financial institutions, leading them to be cautious or reluctant to transition to Islamic systems. This suggests that literacy improvement must go hand in hand with better service quality and transparency in Sharia financial institutions. Recent studies show that Islamic financial literacy varies widely across countries, influenced by several factors[8]:

- a. Education and Awareness – Higher levels of education and awareness correlate with higher literacy.
- b. Sharia Financial Infrastructure – The availability and accessibility of Sharia financial services enhance literacy levels.
- c. Government Regulations – Supportive policies, including Islamic finance education and training, significantly affect literacy.
- d. Demographic Characteristics – Age, gender, and socioeconomic background influence literacy levels.
- e. Experience and Knowledge – Direct experience with Sharia financial products and deeper understanding of Sharia principles contribute to higher literacy.

Countries with large Muslim populations often show higher Sharia literacy, but significant disparities remain, indicating the need for stronger global efforts. Islamic financial literacy plays a crucial role in strengthening economic stability by improving Sharia-based financial management, reducing financial risks, and expanding financial inclusion through wider participation in Sharia-compliant systems.

Implications of the Findings for Strengthening Islamic Economics

The findings indicate that strengthening Islamic economics cannot be separated from efforts to build more grounded and contextual Islamic economic literacy. Literacy should not merely involve information

dissemination but must serve as a structured process that enables people to understand, evaluate, and apply Islamic economic principles in real life. As Islamic economic literacy improves, the public becomes not only users of Islamic financial products but also value-driven economic actors who are more responsible and socially aware in their financial decisions. Thus, Islamic financial behavior can develop naturally—motivated not only by religious norms but by rational understanding of its benefits. This aligns with Nasrifah, who found that Sharia financial education directly influences improvements in literacy and Islamic banking inclusion[9]. Individuals with strong understanding and positive attitudes toward Sharia principles are more likely to access and utilize Islamic banking services. In this regard, Sharia financial education acts as a behavioral transformation instrument that bridges literacy enhancement and increased public participation in Islamic banking systems.

4. Conclusion

Based on the research findings, efforts to enhance Islamic economic literacy must be carried out in a more systematic and contextual manner. Literacy programs should not focus solely on normative concepts but must also provide practical understanding of Sharia contracts, product mechanisms, and the economic and social implications of using Islamic financial services. Educational approaches that are simple, applicable, and experience-based are considered more effective in increasing public comprehension. Islamic financial institutions are encouraged to strengthen their educational roles through transparent, accessible outreach activities, coupled with improved service quality and consistent implementation of Sharia principles. These efforts are essential to building public trust and reducing skepticism toward the Islamic financial system. The government and educational institutions are advised to integrate Islamic economic literacy into formal education curricula and public education programs. Collaboration among regulators, financial institutions, and educational bodies is key to expanding literacy efforts in a broad and sustainable manner. Future research is recommended to employ quantitative or mixed-method approaches to empirically examine the causal relationship between Islamic economic literacy and financial behavior. Additionally, region-based or demographic-specific studies could provide deeper insights into contextual factors influencing Islamic economic literacy and financial behavior within different communities.

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