

# ISLAMIC FINANCIAL LITERACY AMONG STUDENTS ATTENDING FACULTY OF ISLAMIC ECONOMICS AND BUSINESS

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## Abstract

*This study aims to find out Islamic financial literacy level of students enrolling in Faculty of Islamic Economics and Business IAIN Langsa as well as factors affecting it. A sample of 236 respondents was drawn from the population using Slovin formula and the questionnaires were distributed randomly. Descriptive statistics and one-way ANOVA were used to analyse the collected data. The results indicate that Islamic financial literacy level is 65.9% categorised as medium and among the factors affecting it is the age of respondent (p value 0.036 <  $\alpha$  0,05).*

**Key words:** *Islamic financial literacy, personal finance, age*

## 1. INTRODUCTION

Financial literacy has not been a new issue anymore. In fact, it is considered as one of the several vital life skills needed to survive in modern society (Kingwara, 2014). Indonesian Financial Service Authority (OJK) defines financial literacy as knowledge, skill, and confidence which affect one's attitude and behaviour in improving the quality of decision making and financial management in order to gain financial wellbeing (OJK, 2017).

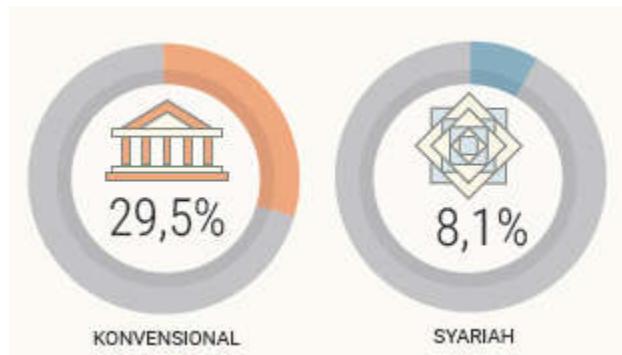
Among the objectives of OJK's National Strategy of Indonesian Financial Literacy is to become a well literate and financially inclusive nation with students being one of the targeted objects. The organisation first conducted a national survey on Indonesian Financial Literacy and Inclusion in 2013. The results were classified into four categories: well literate, sufficiently literate, less literate, and not literate. On further survey in 2016, the score for well literate only went to 27,9 % from 21.8% in 2013 (OJK, 2017), still a far reach from the targeted score of 75% in 2019. In this survey Aceh province ranks ninth with mean score of 32.7 %, above the national average.

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In simple term, Islamic financial literacy is similar to the conventional one, only it focuses on the Islamic or sharia compliance aspects of finance and financial institutions. 2016 marks the first time Indonesian OJK conducted survey on Islamic financial literacy. The result is shown in the figure below:

Figure 1  
Conventional VS Islamic Financial Literacy Index



Source: OJK, 2017

Among the provinces with good rankings in Islamic financial literacy is Aceh which comes second after East Java. Having a literacy index of 21.1%, Aceh is set to implement a fully Islamic financial service in 2020 when the local law (Qanun) about sharia financial institution comes into effect. This law requires that all financial institutions operating in Aceh adopt a sharia compliance system.

There have been numerous studies on financial literacy in Indonesia. However, most of the studies focus on the literacy of general or conventional finance. While there are some who seek to find out the Islamic aspect of the literacy, little did focus their research on students. Among the studies focusing on sharia or Islamic financial literacy are those of Setyawati and Suroso (2016) whose participants were lecturers, Djuwita and Yusuf (2018) on SMEs owners, and Siregar (2018) on merchants. Moreover, to the extent of the writer's knowledge, there has not been any research conducted specifically on Acehnese Higher Educational Institution. Hence, this study aims to fill that gap by providing insights into Islamic financial literacy among students of Islamic economic and business, particularly in the westernmost province of Indonesia, namely Aceh.

## 2. LITERATURE REVIEW

### 2.1. Previous studies

Studies about financial literacy among students have been conducted numerous times with case studies coming from all around the world: from east to west and north to

south. Among the most notable studies is one by Chen and Volpe (1998) whose subjects were college students across six states of the USA. With their study they have established three score ranges for three categories in Personal Financial Literacy which has become a reference for many subsequent researches, including this one. The categories are Low (average score <60%), Medium (average scores 60% - 79%), and High (average scores >80%).

Meanwhile in Turkey, Sarigul (2014) conducted a study on 1127 students from three universities. He suggested that the financial literacy level was inadequate as the mean percentage of correct responses was 65%. He further elaborated that gender, field of studies, entry years, and parents' education are among factors influencing students' financial literacy. In Ghana, a light majority of the population surveyed (53.3%) turns out to be financially literate while the rest is not (Oseifuah, et al, 2018). While evidence from Kenya proved that financial literacy among undergraduate students was low with only 38% of respondents were classified as financially literate (Kingwara, 2014)

In Indonesia, the most referred study was the one by Margaretha and Pambudhi (2015) who conducted study on 584 students of Trisakti's Economic Faculty. They found that the average score of students' financial literacy was 48.91% which fell into low category. They also found that gender, age, GPA, and parents' income influenced financial literacy. Formerly, Rasyid (2012) has conducted a study on students majoring management at Padang State University. He concluded that students' money management ability was in moderate level with financial literacy being a contributing factor. Likewise, a study done by Akmal and Saputra (2016) on the students of IAIN Imam Bonjol's Islamic economics and Business Faculty yielded an average score of 74.75%, also in medium category. Even worse, a study by Mendari and Kewal (2013) on students of STIE Musi found that a whopping 97.19% of respondents score below 60, indicating the low financial literacy. Similarly, Sakinah and Mudakir (2018) also found the low category mean score with 50.4%.

## **2.2. Hypotheses development**

Studies by Chen and Volpe (1998), Falahati and Paim (2011), Kingwara (2014), Sarigul (2014), and Oseifuah et al (2018) all found that male students had higher financial literacy compared to their female counterparts. On the contrary, Margaretha and Pambudhi (2015) obtained that female students were more literate than males. Therefore, the first hypothesis in this study is H1: gender influences Islamic financial literacy.

The second factor examined in this study is the length or duration of study which is

represented by entry year. This variable consists of four categories: 2015, 2016, 2017, and 2018. Sarigul (2014) as well as Sakinah and Mudakir (2018) concluded that entry years collaborate to the level of financial literacy whereas Margaretha and Pambudhi (2015) declared otherwise. Thus the second hypothesis is H2: entry year influences Islamic financial literacy.

Programme of study is the following factor observed in this study. FEBI IAIN Langsa has four programmes of study to date, namely Sharia Banking, Sharia Economics, Sharia Financial Management, and Waqf and Zakah Management. In the studies by Sarigul (2014) and Oseifuah et al (2018), the results were found to be significantly difference between various fields or programme of study. Hence the third hypothesis, H3: programme of study influences Islamic financial literacy.

The last independent variable in this study is the age of respondents which divided into two:  $> 20$  years and  $\leq 20$  years. Chen & Volpe, 1998; Margaretha & Pambudhi, and Sakinah & Mudakir, 2018 found that age of respondent affects their financial literacy. So the last hypothesis of this study is H4: age influences Islamic financial literacy.

### **3. METHOD**

The population of this study is the students of Islamic Economic and Business Faculty (FEBI) of State Institute for Islamic Studies (IAIN) Langsa from four entry years: 2015, 2016, 2017, and 2018, which amounts to 1274 students. Using Slovin formula at 5% margin of error, 304 samples were drawn from the population. However, only 236 of the questionnaire could be used.

To obtain the data needed for this study, a questionnaire consisting of personal characteristic information and 20 multiple choice questions was constructed and distributed randomly toward the population. The questions were classified into general knowledge, saving and borrowing, and investment. Each question weighs 5 points making the total 100 points. Hence the total scores for each response were calculated by multiplying the number of correct answers with 5. Further, this study employed descriptive statistics and one way ANOVA run on Microsoft Excel to analyse the collected data and the hypotheses are accepted provided that  $p$  value  $< \alpha 0,05$ .

### **4. RESULTS AND DISCUSSION**

#### **4.1. Islamic financial literacy of students of Islamic Economics and Business Faculty of IAIN Langsa**

As has been explained in previous section, the sample of this study was 236 students of Faculty of Islamic Economics and Business (FEBI) IAIN Langsa. Apart from the 20 multiple choice questions, the questionnaire also intended to record several information about the respondents' background in order to understand whether certain variables contributed to the level of Islamic financial literacy. The following Table 1 provides insights into the characteristics of the respondents.

Table 1  
Demographical Characteristics of Respondents

<b>Variables</b>	<b>Number of Respondents</b>	<b>Percentage</b>
<b>Gender</b>		
1. Male	54	24.2%
2. Female	179	75.8%
<b>Entry Year</b>		
1. 2015	35	14.8%
2. 2016	78	33.1%
3. 2017	54	22.9%
4. 2018	69	29.2%
<b>Programme of Study</b>		
1. Sharia Banking	64	27.1%
2. Sharia Economics	138	58.5%
3. Sharia Financial Management	31	13.1%
4. Waqf and Zakah Management	3	1.3%
<b>Age</b>		
1. $\leq$ 20 Years	108	45.8%
2. $>$ 20 Years	128	54.2%

From Table 1 it was clear that the majority of respondents were female, which made up 75.8% of the population. It is different from the second variable, entry years, which percentage of respondents were distributed almost evenly. However, the number of respondents varied widely in terms of their programmes of study, with the highest (Sharia Economics) made up 58.5% of the population and the lowest (Waqf and Zakah Management) only score a mere 1.3%. Whereas the difference among the last variable, age, only 8.4%.

Furthermore, the summary of the total score could be found in Table 2. This table shows that the lowest score was 30%, which means there were respondents whose correct

answers were only 6 out of 20. On the other hand, the highest score was 95%, indicating they only got one question wrong.

Table 2  
 Descriptive Statistics of Islamic Financial Literacy

Descriptive Statistics	Financial Literacy (%)
Minimum	30
Maximum	95
Mean	65.9
Standard Deviation	11.41651125

With 65 in range and standard deviation of 11.42 %, it could be safely concluded that the responses varied widely among the data.

Based on the percentage of correct answers, Chen and Volpe (1998) proposed three levels of financial literacy: low, medium, and high. Therefore, referring to their theory, the total scores of the questionnaires were then divided into three categories accordingly. The percentage of each category can be found in Table 3 as follows:

Table 3  
 Financial Literacy Rates among Students

Categories	Number of Respondents	Percentage
Low	51	21.6
Medium	148	62.7
High	37	15.7
Total	236	100.0

Similar to the mean in Table 2, the biggest percentage among the three categories was of the medium one, with 62.7%. It can be concluded that the majority of the students, precisely 62.7% of them, have a medium level of Islamic financial literacy.

Table 4  
 Percentage of Correct Responses for Each Question

Areas of Financial Literacy	Literacy Level (%)		
	Low <60%	Medium 60% - 79%	High >80%
General Knowledge			
1. Maqashid shariah			86
2. Interest			99.6

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3. Aqad	92.4
4. Shares	93.6
5. Purchasing power	77.5
6. IFI	91.9
7. Shariah insurance	85.2
Saving and Borrowing	49.8%
1. Profit calculation	93.6
2. Qardh al hasan	66.1
3 Profit margin	58.6
4. Saving account	15.7
5. Aqad in financing	20.3
6. Profit sharing	55.9
7. Account balance	38.1
Investment	57.3%
1. Nisbah	94.9
2. Loss in musyarakah	48.7
3. Diversification	42.4
4. Money market instrument	70.3
5. Shariah capital market instrument	44.9
6. Islamic index	42.4

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Table 4 shows the mean score for each areas of Islamic financial literacy. In general knowledge, the mean of correct responses is 89.5%. Saving and borrowing has mean score of 49.8% while investment results in 57.3%. Hence, it is obvious from the table that most students obtained good scores in general knowledge as it yields the highest mean of 89.5% whereas the lowest literacy was in the areas of saving and borrowing with only 49.8%.

#### **4.2. Factors influencing Islamic financial literacy**

Apart from trying to determine the level of Islamic financial literacy among students, this study also aims to find out the effect of several demographic factors toward literacy level. The factors studied are gender, entry years, programme of study, and age with hypothesis for each of them. Oneway ANOVA analysis was done in order to examine the hypotheses and the results are presented in Table 5.

The first hypotheses concern gender. H1: Gender influences students' Islamic financial literacy, and H0: Gender does not influence Islamic Financial literacy. Table 5 shows the F value for gender is 0.390 with  $p = 0.533 > \alpha = 0.05$  hence the hypothesis is rejected. It can be concluded that, contrary to most previous studies (Chen & Volpe, 1998;

Falahati & Paim, 2011; Sarigul, 2014; Margaretha and Pambudhi, 2015, among others), gender in this study does not influence students' literacy level. This finding supports those of Sakinah and Mudakir (2018) who also found no effect of gender toward student's financial literacy.

The second hypotheses are about length of study as represented by entry years. H2: Entry year influences students' Islamic financial literacy and H0: entry year does not influence Islamic financial literacy. F value for this variable is 2.262 with  $p < 0.05$ . Again, the second hypothesis is also rejected. The result is in line with that of Margaretha and Pambudhi (2015) which implies that the length or duration of study does not influence financial literacy. In simple term, senior students are not necessarily better literate than their juniors, or vice versa. It contradicts the findings of Sarigul (2014) and Sakinah and Mudakir (2018) who concluded that seniors were more knowledgeable than their juniors.

Programme of study is the next variable. In spite of all programmes of study related to economics or business, there is a huge difference regarding potential students' preference: Sharia banking is the favourite while Waqf and Zakah Management is the less preferable. The hypotheses are H3: programme of study influences Islamic financial literacy and H0: programme of study does not influence Islamic financial literacy. F value: 1.104,  $p < 0.05$ , thus the third hypothesis is rejected. While being contradictory with findings of Sarigul (2014), this finding is similar to the study by Oseifuah, et al (2018) who found that programme of study appears not to account for difference in financial literacy.

The last variable is age. H4: age influences Islamic financial literacy and H0: age does not influence Islamic financial literacy. F value for age is 4.470 and  $p < 0.05$ , so H4 is accepted. This findings contributes to many of the similar studies which concludes that the literacy rates among age groups differ significantly (Chen & Volpe, 1998; Margaretha & Pambudhi, 2015 and Sakinah & Mudakir, 2018 among others).

Table 5  
Summary of One-Way ANOVA

	<b>F Value</b>	<b>p</b>	<b>Conclusion</b>
Gender	0.390	0.533	H1 rejected
Entry Year	2.262	0.082	H2 rejected
Programme of Study	1.104	0.348	H3 rejected
Age	4.470	0.036	H4 accepted

## 5. CONCLUSION

In reference to the discussion above, several conclusions can be drawn from this study. First, the average rate of students' Islamic financial literacy was at 65.90%. It indicates that students only have medium level of literacy which still below the expectation for a region implementing only Islamic financial services.

Second, among the four observed factors, namely gender, entry year, programme of study, and age, only the last one has a p value < 0.05. It means gender, length of study (as in entry year), and focus of study (represented by programme of study), do not affect financial literacy. Through inconclusive, this finding has a worrying symptom as seniors do not differ significantly from their juniors. It may imply that their study years do not contribute much to the higher literacy level.

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