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## SHARIA FINANCIAL LITERACY INDEX AS A PREFERENCE IN INTEREST OF SAVING AT ISLAMIC BANKS

Arfatun<sup>1</sup>, Muh. Tasrif<sup>2</sup>, Lila Alwyah<sup>3</sup>

<sup>1</sup>Master of Management, Universitas Muhammadiyah Surakarta, Indonesia

<sup>2</sup>Master of Management, Universitas Muhammadiyah Surakarta, Indonesia

<sup>3</sup>Master of Accounting, Universitas Airlangga, Surabaya, Indonesia

Email: [okarfatun@gmail.com](mailto:okarfatun@gmail.com)

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### **Abstract**

The research aims to describe the potential of the Islamic financial literacy index in increasing people's interest in saving at Islamic Banks in West Nusa Tenggara Province. The method used is descriptive quantitative with a systematic literature review approach. The research findings show that the Islamic financial literacy index has the potential to increase the Islamic financial inclusion index. Islamic financial literacy is specified into high knowledge found in Islamic Banks and Savings is the most recognized product. Those with high Islamic financial literacy are retirees, besides those people with a vulnerable age of 25 years and over and those who work as workers. Areas that have the potential to develop Islamic financial inclusion are Mataram City and North Lombok Regency. This research contributes to providing recommendations to Islamic Banks to be considered for developing Islamic business, as well as topics to be developed in the future.

**Keywords:** *Islamic Financial Literacy, Preference, Islamic Inclusion, Islamic Banks*

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### **1. INTRODUCTION**

As a country with a majority Muslim population, Indonesia has a potential market for developing sharia businesses. In 2020, Indonesia is ranked second in an index to measure the development of Islamic finance with the first position occupied by Malaysia. The previous year in 2019, Global Islamic Finance gave the Islamic Finance Country Index (IFCI) score to Indonesia as the first rank in the development of Islamic finance (Otoritas Jasa Keuangan, 2021). The innovations carried out in response to the public's enthusiasm for using Islamic financial services were followed up by State-Owned Enterprises (BUMN) by combining three Islamic Banks into one, namely Bank Mandiri Syariah, BNI Syariah and BRI Syariah to become Bank Syariah Indonesia (Ulfa, 2021).

Community interest in responding to Islamic financial innovations is based on many factors, for instance job demands, family invitations and understanding of Islamic financial services. This understanding is further referred to as Islamic financial literacy. The literacy index encourages people tend to use products offered by Islamic financial institutions (Sardiana, 2016). Financial literacy is the expertise possessed by individuals regarding financial concepts

or financial institution products which will then influence the individual's financial behavior (Nurrohmah & Purbayati, 2020). Islamic financial literacy is an individual's insight related to Islamic finance which influence to Islamic financial behavior in accordance with Islamic principles (Faridho, 2018).

The Islamic financial literacy index is an important factor for determining the tendency/preference of the public to save in Islamic Banks. People who have an understanding of Islamic Banks tend to choose to save in Islamic Banks (Handida & Sholeh, 2019). Consumer preference is a tendency for saving from the many choices availability, as a choice of likes or dislikes for the products offered by the Bank (Khusna & Pratama, 2021). Taslim (2020) defined preference as a set of emotional consisting of feelings, attitudes, expectations and other tendencies that direct individuals towards certain choices. Preference towards banking products is the tendency to intent and choose the products offered by banking (Hasanah, 2019).

Community preferences based on Islamic financial literacy will then have an impact on people's interest in saving at Islamic banks (Taslim, 2020). People's interest in saving is the behavior of people in their attitude of choice or the tendency that is made before making a saving decision (Darmawan, 2019). Interest in saving is also interpreted as people's behavior when they want to use the services of Islamic financial institutions, which involves the initial process of attracting stimulus to the products of Islamic financial institutions which continues to the act of using these products (Ulya et al., 2020). Furthermore, the factors that influence people's interest in saving at Islamic banks are divided into three parts, the first is a factor from within the individual, the second is a social factor, and the third is an emotional factor which includes achievements or accomplishments that give a sense of comfort and want to continue to be in a state of certain (Nurrohmah & Purbayati, 2020).

Islamic Banks are institutions that in their activities provide and provide services in payment traffic (Khusna & Pratama, 2021). Furthermore, Islamic Banks are Islamic financial institutions that in the process carry out banking business activities with Islamic principles and according to their type consist of Islamic Commercial Banks and Islamic People's Financing Banks Law Number 21 2008. In general, Islamic Banks are almost the same as Conventional Banks, the difference lies in the product banking that meets sharia requirements and principles, the organizational structure of Islamic Banks that have a Sharia Supervisory Board that oversees Sharia Bank products and a National Sharia Council that issues fatwas related to Sharia Bank products (Ulya et al., 2020).

A national survey conducted by the Financial Services Authority (OJK) shows that the higher level of Islamic financial literacy, the higher utilization of Islamic financial products and

services. This shows that there is a close relationship between Islamic financial literacy and the intensity of using sharia financial services (Otoritas Jasa Keuangan, 2021). In order to raise awareness of the massive use of sharia financial services, it is important for socialize sharia finance to provide understanding at the public (Nasution, 2019). Responding to the urgency of increasing Islamic financial literacy, OJK formulated the National Strategy for Indonesian Financial Literacy (SNKLI) for 2021-2025 with the vision "Creating Indonesian Communities with a High Financial Literacy Index so that they Can Utilize Appropriate Financial Products and Services to Achieve Sustainable Financial Prosperity ” (Otoritas Jasa Keuangan, 2021).

The latest National Survey of Financial Literacy and Inclusion (SNLIK) conducted by the Financial Services Authority (OJK) in 2019 gave a percentage of the Financial Literacy level of 38.03%, followed by the Financial Inclusion index at a percentage of 76.19%. The Financial Literacy Index is still relatively low when compared to the Financial Inclusion index, however, the latest Financial Literacy Index is higher than the previous survey in 2016 with a Financial Literacy Index percentage of 29.7% and a Financial Inclusion Index of 67.8%. The latest survey shows an increase in the Islamic Financial Literacy Index, this increase is still relatively low when compared to the Financial Inclusion Index (Otoritas Jasa Keuangan, 2021). It means that many Indonesian people still do not understand the characteristics of the products offered by financial institutions.

On a national scale, the Islamic financial literacy index is still below the Islamic financial inclusion index. Noting that several provinces in the index have the same percentage as the national index, besides that there are several provinces whose percentages show the opposite index, one of which is the Province of West Nusa Tenggara. West Nusa Tenggara province in the latest data published by the OJK is the province with the 2nd level of Islamic financial literacy in Indonesia, in direct proportion to that the level of inclusion of Islamic finance is also in 6th position.

Based on the description above, there is an index that is different from the average index of Islamic financial literacy and national Islamic financial inclusion, and West Nusa Tenggara Province in National Survey of Financial Literacy and Inclusion gives a different percentage from the average provincial index. The Islamic financial literacy index of West Nusa Tenggara Province is a higher percentage, namely 22.05% of the Islamic financial inclusion index at a percentage of 16.27% (Otoritas Jasa Keuangan, 2021). In simple terms, this percentage shows that the Islamic financial literacy index is higher when compared to the Islamic financial inclusion index, which means that people who understand Islamic financial literacy are relatively high and those who use Islamic financial products or services are still relatively low.

Considering that it is very important to develop Islamic financial inclusion through awareness of Islamic financial literacy, there is a need to examine the potential of existing Islamic financial literacy as a potential for Islamic Banks to develop economic welfare. In addition, to the author's knowledge, research examining the potential for Islamic financial literacy in West Nusa Tenggara has not been explored. Therefore the researcher wants to fill in the research gaps to enrich the literature as a reference for related parties. In a more detailed context, this research provides input for Islamic banks and local governments to utilize Islamic financial literacy to develop Islamic financial inclusion, and improve regional and national economic welfare.

## **2. METHODOLOGY**

This research was conducted to find the potential of Islamic financial literacy in developing Islamic financial inclusion levels. Therefore used a descriptive quantitative method with a systematic literature review approach. The research uses secondary data, namely using Scientific Journals, publications, and reports as data sources to answer the research problems raised. To maintain the results of the analysis, researchers use certain literature and select it carefully and consider certain criteria, namely (1) a scientific journal must be an indexed and reputable journal; (2) the journal is not registered as a predatory publication; (3) reports, working papers or policy summaries published by the government or reputable and trusted organizations; (4) literature must be published in the last 10 years.

## **3. RESULT AND DISCUSSION**

The National Islamic Financial Literacy Survey by the Financial Services Authority shows a national average percentage of 8.93%, besides that, a survey was conducted on the National Islamic Financial Inclusion Index at an average value of 9.10%. These two indices indicate that West Nusa Tenggara Province has a score above the national average index, as shown in: Table 1. These indices are still relatively low when compared to conventional financial literacy and inclusion indices. The gap in the Islamic financial literacy index is more than 12% from the conventional financial literacy index, furthermore, the gap in the Islamic financial inclusion index is more than 45% from the conventional financial index.

**Table 1. Comparison of Islamic Financial Literacy and Inclusion Index with Conventional Financial Literacy and Inclusion in West Nusa Tenggara Province**

No.	Index	Islamic Bank	Conventional Banks
1.	Financial Literacy	22.05%	34.65%
2.	Financial Inclusion	16.27%	61.42%

(Otoritas Jasa Keuangan, 2021)

The Islamic financial literacy index for West Nusa Tenggara Province with a percentage of 22.05% is broken down into understanding of Islamic financial institutions or those that are more likely to be used by the public in general, shown in Table 2. This percentage shows the most desirable Islamic financial institutions to those that are not yet in demand by the public. Islamic banking is the institution that is most in demand by the public, in more detail an understanding of Islamic banking products is described in Table 3 which details the 5 products of Islamic banking that are most known. The table shows that Savings is the most widely known product and includes the characteristics of Savings products, followed by *Wadi'ah* or *Mudharabah* Savings.

**Table 2. Preferences for Islamic Financial Products and Services in West Nusa Tenggara Province**

No.	Institution	Percentage of Knowledge and Preferences
1.	Banking	≥ 50%
2.	Other Formal Financial Institutions	≥ 30%
3.	BPJS	≥ 10%
4.	Financing	≤ 10%
5.	Insurance	≤ 10%
6.	Pawnshop	≤ 10%
7.	UKM	≤ 10%
8.	Pension fund	≤ 10%

(Otoritas Jasa Keuangan, 2021)

**Table 3. Knowledge of Islamic Banking Product Characteristics**

No.	Products or Services	Product or Service Features	Product or Service Benefits	How to Obtain Products or Services	Product or Service Risk
1.	Savings	56.24%	63.11%	28.51%	30.42%
2.	Wad'iah Savings or Mudharabah	40.44%	55.05%	23.18%	28.25%
3.	Deposit	37.70%	47.93%	18.97%	29.48%
4.	Mudharabah Deposits	46.87%	65.27%	29.09%	31.62%
5.	Giro	42.53%	61.28%	34.21%	41.07%

(Otoritas Jasa Keuangan, 2021)

Islamic financial literacy, which then influences people's preference for using Islamic financial institution products, is mapped based on the type of work and age of the community. In general, a person's type of work determines the interest in saving and the urge to know more about Islamic financial institutions and the services they offer. Furthermore, age can classify the level of knowledge possessed about Islamic financial institutions and their products (Nurhidayati & Anwar, 2018). Table 4 shows the different types of jobs held and presents the Islamic financial literacy index per occupation group. Furthermore, Table 5 shows the age difference which tends to have a different Islamic financial literacy index.

**Table 4. The highest percentage of financial literacy based on 5 types of work**

No.	Type of work	Percentage 2016	Percentage 2019
1.	Retired	35.30%	54.46%
2.	Employees and Professionals	39.90%	54.02%
3.	Entrepreneur / entrepreneur	27.70%	43.60%
4.	Student	23.40%	31.69%
5.	Housewife	15.30%	30.46%

(Otoritas Jasa Keuangan, 2021)

**Table 5. Percentage of Financial Literacy by Age**

No.	Age	Percentage
1.	15-17 Years	15.29%
2.	18-25 Years	44.04%
3.	26-35 Years	47.98%
4.	36-50 Years	30.60%
5.	Over 50 Years	25.13%

(Otoritas Jasa Keuangan, 2021)

In supporting economic welfare, the Islamic financial literacy index must have a positive influence in increasing the Islamic financial inclusion index. The Islamic financial inclusion index is reflected in the ease of access to Islamic finance in an area. Table 6 shows the number of Sharia Banks and Sharia Business Units available in West Nusa Tenggara Province. Furthermore, Table 7 shows the development of the latest fund management from Islamic Banks and Islamic Business Units per Regency and City, which presents City/Regency with good management based on FDR in percent.

**Table 6. Distribution of BUS and UUS Office Networks in West Nusa Tenggara Province**

No.	Types of Islamic Banks	Operational Head Office/Branch Office	Branch office	Cash office	Amount
1.	Sharia Commercial Banks	19	41	6	66
2.	Sharia Business Unit	4	1	1	6

(Otoritas Jasa Keuangan, 2022)

**Table 7. Development of Islamic Bank Fund Management by City and Regency in Billion Rp**

No.	County town	Assets before Set off	Financing	Third-party funds	FDR in Percent
1.	Mataram City	13,364	5,414	8,095	66.88%
2.	Bima City	497	484	217	223.26%
3.	West Lombok Regency	737	701	415	169.17%
4.	Central Lombok Regency	1,007	948	372	254.94%
5.	Regency	1,117	1028	692	148.52%
6.	East Lombok Regency	294	272	253	107.44%
7.	North Lombok Regency	1025	980	367	266.99%
8.	Sumbawa Regency	1,150	1,121	478	234.30%
9.	Bima Regency	789	764	403	189.50%
10.	Dompu Regency West Sumbawa Regency	505	497	225	220.93%

(Otoritas Jasa Keuangan, 2022)

#### 4. DISCUSSION

The West Nusa Tenggara Province sharia financial literacy index with the 3rd highest national position, namely 22.05%, means that the index is high when compared to other regions. This indicator represents other financial literacy indicators that are fulfilled. This percentage is measured and gives the result that the highest understanding and public tends to use Islamic financial services are Islamic banks as shown in table 2. The results of subsequent publications show that Islamic financial services and products that are best known by the public are savings with the highest percentage compared to with other services and products, as shown in table 3, and followed by knowledge of *Wadi'ah* Savings or *Mudharabah*.

Demographically, the classification of people with an understanding of Islamic finance is represented by retirees as those with the highest knowledge, followed by employees and professionals, then students have a significant increase from 2016-2019, which is more than 8%. Table 5 shows that people with the highest Islamic financial literacy index are people with a vulnerable age of 26-35 years based on a percentage of 47.98%. The publication of the employment of West Nusa Tenggara Province shows that people with a vulnerable age of 25

years to 54 years, namely around 69.19% are workers of productive age to work (Dinaskertrans, 2017).

To support the sustainability and benefits of a high Islamic financial literacy index, it must be balanced with the availability and ease of access to Islamic financial institutions and their services and products. Table 6 shows that the availability of access to financial services through the number of Islamic Commercial Bank offices in West Nusa Tenggara Province is 66 offices consisting of branch offices, sub-offices and cash offices, Sharia Business Units totaling 6 scattered offices. More specifically, looking at cities or regencies with effective financial management as represented by the FDR ratio are the city of Mataram with an FDR percentage of 66.88% and North Lombok Regency with a percentage of 107.44%. Both of these areas are considered effective because they refer to an ideal FDR ratio of 80% -100% (Somantri & Sukmana, 2020).

## 5. CONCLUSION

With regard to the potential of the Islamic financial literacy index in increasing the Islamic financial inclusion index in West Nusa Tenggara Province, the authors found that people with high financial understanding are more likely to use financial services from Islamic banks with savings product specifications. People who have a high Islamic financial literacy index are retirees and those with high potential are students because of the rapid increase in the Islamic financial literacy index. The author found that people who have the potential to use Islamic financial services are those aged 25 years and over with the majority working as workers. More than that, the City of Mataram and North Lombok Regency are areas that have the potential to provide high Islamic financial services based on an FDR ratio that is close to the ideal ratio.

## 6. AUTHORS' DECLARATION

The authors made substantial contributions to the conception and design of the study. The authors took responsibility for data analysis, interpretation, and discussion of results. The authors read and approved the final manuscript.

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