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SAVING IN ISLAMIC BANKS: ENCOURAGEMENT OF ISLAMIC FINANCIAL LITERACY

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Abstract

Islamic banking in Indonesia has exhibited positive growth, although financial inclusion in the sector remains low at 9.06%. Islamic banks present an alternative for those seeking a financial institution that adheres to Islamic principles. The low level of Islamic financial inclusion is attributable to several factors, including the insufficient level of Islamic financial literacy at 8.93%. This research was a type of field research using a quantitative approach. The data used primary data obtained through the distribution of questionnaires to batik entrepreneurs in the Wiradesa Pekalongan sub-district. Samples were taken as many as 65 respondents based on the Slovin formula. The type of sampling technique used cluster proportional random sampling. The statistical tests used validity test, data reliability test, and t-test (t-test) to test the hypothesis. The results of the research on Islamic financial literacy variables have a positive and significant effect on interest in saving in Islamic banks, the significance value is 0.023 <0.05 and the t value (2,328) > t table (2,000).

Keywords: *Saving, Islamic Bank, Islamic Financial Literacy*

INTRODUCTION

Islamic banking in Indonesia has experienced positive growth. The development of Islamic banking accelerated following the enactment of Law Number 10 of 1998 on Banking. This law was a revision of Law Number 7 of 1992 on Banking. Law Number 21 of 2008 on Sharia Banking provided a sufficient legal foundation for the establishment of new Sharia banking institutions on July 16, 2008. This positive development in the Islamic banking industry strives to meet the demands of individuals seeking a financial institution that adheres to Islamic law, providing services that are in alignment with their beliefs (Nainggolan, 2016).

A person's decision in choosing the services of a banking institution can be influenced by several factors including the level of financial literacy. According to OJK, financial literacy is "knowledge, skills, and beliefs, which influence attitudes and behaviour to improve the quality of decision making and financial management in order to achieve prosperity" (OJK, 2023).

Literacy on Islamic banking is a crucial aspect for the growth of Islamic banking in Indonesia. Indonesia lacks the educational level of developed countries, which could hamper the human resources required for the development of the banking sector. Meanwhile, Indonesians are not acquainted with the Arabic terms used in Islamic bank products(W. Ismanto et al., 2022). Therefore, socialization to the public regarding Islamic financial literacy is an important program in an effort to develop Islamic banking in Indonesia.

Wiradesa Subdistrict is a region in Pekalongan Regency with a significant population of batik artisans. According to Department of Industry, Trade and SME Cooperatives of Pekalongan's data, 185 batik industries (including small and medium batik industries) are registered with Disperindag of Pekalongan. In this study, the focus is on batik entrepreneurs in the Wiradea of Pekalongan as they are deemed a primary target for banking. This is supported by the fact that conventional banks in the Wiradesa sub-district have established collaborations with these entrepreneurs. Seeing the good business prospects of batik entrepreneurs in Wiradesa, it is a great opportunity for banking institutions to accommodate investment funds from batik entrepreneurs.

LITERATURE REVIEW

Islamic Financial Literacy

Based on a survey conducted by the Financial Services Authority (OJK), the financial literacy level in 2019 was 8.93%. Meanwhile, in 2022, the sharia financial literacy level will be recorded at 9.14%. There was an increase of 0.21% during the period from 2019 to 2022. This increase is still far behind the increase in the level of general financial literacy which in the same period was recorded at 11.65% (OJK, 2022).

Financial literacy in general is the ability to understand finance or "financial literacy"(Mulyadi & Triani, 2019). According to the Organization for Economic Co-operation and Development (OECD), financial literacy is a combination of awareness, attitudes and behaviours needed to make correct financial decisions and ultimately every individual can achieve prosperity (Awwala et al., 2018).

Islamic financial literacy is knowledge and understanding of financial concepts and risks to improve the ability to manage finances according to sharia rules or based on the Qur'an, Hadith, ijma' and qiyas (Zaini et al., 2019). The measurement of financial literacy should not be linked exclusively to products, the organisation and the product or service, but there needs to be a focus on the abilities financial literacy measurement cannot be specifically linked to products, organisations and services, but there needs to be a focus on the capabilities reflected in the perceived risks of the financial decisions taken. This study, therefore, defines Islamic finance as a person's ability to understand the basic concepts of financial concepts, financial products and services in managing financial resources effectively based on sharia principles. This financial knowledge includes aspects of general knowledge about finance, savings and loans, investment, insurance, and pawnshops based on the principles of sharia principles and rules used in Islam (Gunawan et al., 2021).

When discussing the concepts of Islamic financial literacy, it is integral to examine its relationship with the Islamic economic system. Machmud identifies four fundamental principles prescribed in this system: the principle of justice, which mandates that Islamic financial institutions uphold justice in their operations; the principle of partnership; (Mulyadi & Triani, 2019) The customer's position is that of a business partner aligned with Islamic financial institutions who collaborate to achieve business profits. Transparency, specifically regarding financial reports, is a crucial aspect that Islamic financial institutions must uphold. Universality plays a role as Islamic financial institutions operate based on sharia principles, in line with Islam's *rahmatan lil 'alamin* principle.

Several studies related to investment decisions influenced by financial literacy, conclude that literacy in various countries is still low. Bhushan and Medury argue that the higher a person's education, the level of income will increase so that it affects financial literacy (Hidajat, 2015). According to the Financial Services Authority, there are four levels of a person's financial literacy (SNKI, 2018) well literate, namely having knowledge and confidence about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, and having skills in using financial products and services. Sufficient literate, knowledge and beliefs about financial service institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services. Less literate, only has knowledge about financial service institutions, financial products and services. Not literate, that is, do not have knowledge and confidence in financial service institutions and financial products and services and do not have skills in using financial products and services.

Islamic Bank

Islamic banks are intermediary institutions and financial service providers that work based on Islamic ethics and value systems, especially those that are free from interest (*riba*), free from non-productive speculative activities such as gambling (*maysir*), free from things that are not clear and doubtful (*gharar*), has the principle of justice, and only finances halal business activities. Islamic banks are often equated with interest-free banks. Interest-free bank is a narrower concept than Islamic bank, when a number of instruments or operations are interest-free. Islamic banks, apart from avoiding interest, also actively participate in achieving the goals and objectives of an Islamic economy that is oriented towards social welfare (Yumanita, 2005; Frastuti et al., 2019). Sharia bank is a bank that carries out business activities based on Sharia principles, namely the rules of agreements based on Islamic law between banks and other parties for depositing funds and or financing business activities, or other activities declared in accordance with Sharia (Yumanita, 2005).

According to Muhamad (2014) the fundamental difference between conventional and sharia financial institutions lies in the returns and profit sharing provided by customers to financial institutions and/or those provided by financial institutions to customers. Operational activities of Islamic banks use the principle of profit and loss sharing. Islamic banks do not use interest as a tool to earn income or distinguish interest on the use of funds and loans because interest is usury which is forbidden (Widyastuti, 2019; Zainuldin & Lui, 2020).

In its operations, Islamic banks follow Islamic rules and norms, as stated in the above definition, namely (Yumanita, 2005): free from interest (usury); free from non-productive speculative activities such as gambling (maysir); free from things that are unclear and doubtful (gharar); free from things that are damaged or illegal (false); and only finance halal business activities. In short, the first four principles are usually called anti-MAGHRIB (maysir, gharar, usury, and vanity).

Table 1. Comparison between Islamic Banks and Conventional Banks (Widyastuti, 2019)

Islamic Bank	Conventional Bank
Making only investments that are lawful according to Islamic law	Making investments both unlawful and according to Islamic law
Using the principle of profit sharing, buying and selling, and renting	Using interest rate
Profit-oriented and falah (happiness in the world and the hereafter according to Islamic teachings) Connection	Profit oriented
Relationships with customers in the form of partnerships	Relationships with customers in the form of creditors-debtors
Collection and distribution of funds in accordance with the fatwa of the Sharia Supervisory Board	Collection and distribution is not regulated by a similar board

According to Neldawaty (2018), the fundamental difference between conventional and sharia financial institutions lies in the returns and profit sharing provided by customers to financial institutions and/or those provided by financial institutions to customers. Operational activities of Islamic banks use the principle of profit and loss sharing. Islamic banks do not use interest as a tool to earn income or distinguish interest on the use of funds and loans because interest is usury which is forbidden (Widyastuti, 2019; Musa et al., 2021).

The explanation of the profit sharing system is as follows Yumanita (2005) the determination of the amount of the profit-sharing ratio/ratio is agreed upon at the time of the contract by referring to the possibility of profit and loss, the amount of the profit sharing ratio is based on the amount of profit earned, the profit sharing ratio remains unchanged as long as the contract is still valid, unless it is changed by mutual agreement, profit sharing depends on the profits of the business being run. If the business loses, the loss will be shared, the amount of profit sharing increases according to the increase in profit, no one doubts the validity of the profit sharing.

In addition to the profit-sharing principle, Islamic banks also have alternatives for raising funds and providing non-profit sharing financing (Dhzuhri P Izzun Khoirun Nissa et al., 2022). Islamic banks have two main roles, namely as a business entity (*tamwil*) and a social entity (*maal*) (Suretno & Bustam, 2020). Broadly speaking, the types of Islamic bank business activities can be divided into fund raising, fund distribution, services, and social activities.

METHODOLOGY

This type of research was field research, in which information data obtained through studies conducted by researchers in the field are collected for later analysis. Field research is research that is carried out in a scientific situation but is preceded by some kind of intervention (interference) from the researcher (Azwar, 1998). This research approach used a quantitative approach, namely research in which the data presentation employed numbers and statistical tests in data analysis (Sutisna & Saebani, 2018). In this study, the authors chose Wiradesa Pekalongan batik entrepreneurs because Wiradesa is one of the districts with a large number of batik entrepreneurs. This research was conducted in the Wiradesa sub-district, Pekalongan district. The indicators of financial literacy are knowledge of finance, savings and loans, insurance, and investment. The sampling technique used is cluster proportional random sampling based on the village, where there are 14 villages in the Wiradesa sub-district. For sampling from each sub-population (each kelurahan) was carried out using the proportional sample technique. The number of samples to be taken in this study uses the Slovin formula calculation. The validity of the data was tested with validity and reliability tests. Classic assumption test with normality test, heteroscedasticity test and multicollinearity test. In testing the hypothesis, to find out whether there is a positive and significant effect between the variables X and Y, the test using the t-test method (t-test).

RESULT AND DISCUSSION

Validity Test

Testing the validity of the data in this study used the product moment validity test with the help of the SPSS version 26.0 application, for a significance level of 5%. The df value in this study is df = n-2, 65-2 = 63, so the r table value is 0.244. If the value of r count > r table then the question item is said to be valid. The results of the validity test on all question items in the questionnaire are as follows:

Table 2. Validity Test Results

Variable	Statement	r_{Count}	r_{Table}	Information
Islamic financial literacy	1	0,392	0,244	Valid
	2	0,536	0,244	Valid
	3	0,782	0,244	Valid
	4	0,734	0,244	Valid
	5	0,569	0,244	Valid
	6	0,849	0,244	Valid
	7	0,617	0,244	Valid
	8	0,520	0,244	Valid

Based on the data in Table 2, it is evident that the value of r count is greater than r table for all questionnaire items, indicating that all the questionnaire items can be deemed valid.

Reliability Test

After the data is declared valid in the normality test, the reliability test is then carried out. Reliability is used to measure how consistent respondents are in answering the questionnaire question items. The criterion is if a variable is said to be reliable, that is, if the Cronbach Alpha value is > 0.60. The results of the reliability test of the research variables are Cronbach Alpha values on variables greater than 0.60. So the conclusion is the data is reliable.

Normality Test

The normality test in this study is used to see if the data is normally distributed or not. The normality test used in this study uses the Kolmogorov-Smirnov test. Data that is normally distributed has a significance value of > 0.05 and data that is not normally distributed has a significance value of <0.05. Based on the normality test it can be concluded that the data is normally distributed. This is evidenced by the Asymp value. Sig (2-tailed) is 0.200, which is 0.200 > 0.05, so that the data in this study fulfill the normality test requirements.

Heteroscedasticity Test

This test is used to determine whether the regression model has heteroscedasticity or not. a good model is a regression model where heteroscedasticity does not occur. this heteroscedasticity test method is to use the glacier test. Based on the heteroscedasticity test, it was found that the Islamic financial literacy variable has a significance value of 0.075 > 0.05, so it can be concluded that in the regression model there is no heteroscedasticity.

Multicollinearity Test

A good regression model is a tolerance value > 0.10 and a VIF value < 10, meaning that the model does not have multicollinearity. The multicollinearity test results obtained tolerance and VIF values for the Islamic financial literacy variables were 0.565 and 1.769, so it can be concluded that the regression model did not have multicollinearity.

T Test

The t test is used to determine whether there is a partial effect between the independent variables on the dependent variable. The t test is done by comparing t count with t table. If the value of t count > t table, and sig. < 0.05 then H0 is rejected and Ha is accepted. If t count < t table, sig. > 0.05 then H0 is accepted and Ha is rejected. based on the t test the results show that the significance level of the Islamic financial literacy variable (X1) is 0.023 <0.05 and the t count (2.328) > t table (2.000), then H01 is rejected and Ha1 is accepted. It can be concluded that Islamic financial literacy has a significant effect on the intention to save in Islamic banks.

DISCUSSION

Based on the t-test results, the significance level of the Islamic Financial Literacy variable (X1) is 0.023, which is less than 0.05, and the t count (2.328) is greater than the t table (2.000). Therefore, H01 is rejected, and Ha1 is accepted. It can be concluded that Islamic financial literacy has a significant impact on the intention to save in Islamic banks. The level of knowledge of Islamic finance among Wiradesa Pekalongan batik entrepreneurs is positively associated with their inclination to save in Islamic banks.

The Islamic financial literacy of Wiradesa Pekalongan batik entrepreneurs is satisfactory, as indicated by affirmative responses to selected questionnaire statements by the majority of respondents. This suggests an overall understanding of Islamic finance concepts among batik entrepreneurs in the Wiradesa Pekalongan sub-district. The positive and significant influence of Islamic financial literacy on the to save in Islamic banks is in line with the study of Ismanto, that public knowledge of good Islamic banks will affect their interest. If people's knowledge about Islamic banks is low, then people's interest is also low (K. Ismanto, 2018). The same statement has also been made in other research regarding a similar topic: the degree of sharia financial literacy impacts the inclination to save in sharia-compliant banks (Nurrohmah & Purbayati, 2020).

Interest can be influenced by internal, social, and emotional factors. Knowledge of sharia finance or a person's level of religiosity may increase interest in saving in sharia banks due to internal factors. When individuals understand a concept, such as religion, they are more likely to put it into practice. Understanding that the Koran serves as the foundation for sharia economic law promotes the use of sharia-compliant financial services. These services align with Islamic teachings and principles. Additionally, knowledge of usury encourages individuals to conduct transactions that are free from usury.

Then in terms of social factors, this interest can be driven by social conditions such as a religious environment where the majority use sharia banks. This environment can also be a work environment that requires someone to use a sharia bank. Apart from that, someone will be encouraged to use a sharia bank because of the desire to be accepted or recognized. For example, a religious person will tend to use sharia financial services to appear in line with his religiosity. The third driving factor is emotional, this can be in the form of fanaticism or love of religion, thus encouraging someone to use sharia financial services.

Islamic financial literacy influences interest in saving in accordance with sharia principles: An individual who understands Islamic financial principles will tend to have a strong interest in saving in accordance with the teachings of their religion (Setyowati et al., 2018). They will understand better the importance of practising principles such as avoiding usury, managing zakat properly, and seeking halal investments. Islamic financial literacy assists in appropriate financial decision-making: A good understanding of Islamic financial principles helps one in making financial decisions that are in line with religious teachings. They will be more likely to choose halal financial products, avoid usury, and ensure that their investments are shariah-compliant.

The pursuit of sustainable financial goals is facilitated by adherence to Islamic principles of saving. A devout commitment to saving in accordance with Islamic values empowers one to attain financial objectives in concordance with their religious beliefs. A devout commitment to saving in accordance with Islamic values empowers one to attain financial objectives in concordance with their religious beliefs. This involves adherence to zakat payment regulations, avoiding usury, and making provisions for a sharia-compliant financial future. Such practices complement each other in the pursuit of Islamic financial goals. Islamic financial literacy and compliance with sharia principles in saving mutually reinforce each other. The higher the level of Islamic financial literacy, the more pronounced is one's interest in saving in accordance with religious laws. Conversely, the greater the interest in saving in line with sharia, the stronger the motivation to enhance Islamic financial literacy.

CONCLUSION

Based on the results of the data analysis and hypothesis testing presented, the study yields two conclusions. Firstly, it is crucial to save in Islamic banks due to the avoidance of usury, *masysir, gharar*, and falsehood based on Islamic teachings. This leads to more *maslahah* in *muamalah* life. Secondly, Islamic financial literacy positively and significantly influences the interest in saving in Islamic banks. This is demonstrated by the arithmetic t-value (2.328) exceeding the table t-value (2.000) and a significance value of 0.023 being less than 0.05.

In conclusion, Islamic financial literacy and interest in saving in accordance with Islamic principles are crucial in achieving financial stability in accordance with religious values. They are interrelated, and improving Islamic financial literacy can lead to greater interest in saving and investing in accordance with shariah principles.

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