

# RELIGIOSITY AND INTENTION TO USE ISLAMIC BANKING PRODUCTS: THE MEDIATING ROLE OF ISLAMIC FINANCIAL LITERACY

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**Abstract:** The purpose of this research is to analyze the mediating role of islamic financial literacy on the relationship between religiosity and intention to use islamic banking products.

**Novelty:** While there has been a number of similar studies, this study has novelty which islamic financial literacy becomes mediating role in relationship between religiosity and intention to use islamic banking products that has not been done before.

**Research Methods:** This study' research data was cross sectional and using proporsional random sampling technique. Close ended questionnaires were distributed to 100 undergraduate students of Universitas Sriwijaya, South Sumatera, Indonesia. Data were analyzed by using SEM-PLS.

**Finding/Results:** The result shows that religiosity has directly positive significant effects on intention to use islamic banking products. Also, islamic financial literacy is partially mediates the effect of religiosity on intention to use islamic banking products. The empirical evidence of this research shows that islamic financial literacy decreases the effect of religiosity on intention to use islamic banking products of the undergraduate students as the Z-Generation. The high understanding of islamic banking products turns out to raise doubts about the application sharia principles that applied in Indonesia's syariah banking system. Even though their religiosity is high, more knowledge about it ultimately reduces the intention to use islamic banking products. Further research is proposed to use mix method research to analyzed more factors that cause islamic financial literacy decreases the effect of religiosity on intention to use islamic banking products.

**Keywords:** Religiosity, islamic financial literacy, intention, islamic banking.

**JEL Classifications:** A220, D83, G2, O30, Z12.

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## Introduction

Based on data from the Financial Services Authority (2021) amid the growth of Islamic banking in terms of total assets, the condition of Islamic banking market share is still relatively low. There is lack of public understanding of Islamic banking itself (low Islamic financial literacy) even though 87% of Indonesia's population is Muslim. Students as the Z generation who dominate the Indonesian population are a potential market share for Islamic banking.

Theory of planned behavior explains that attitudes, subjective norms and perceived behavioral control together produce good or bad actions towards an object which ultimately influence the individual to make the planned behavior. The planned behavior in this study is the intention to

use Islamic banking. According to (Priaji (2011) intention is an individual's probability of carrying out a certain behavior or not, and how much this action can be realized. The intention to use Islamic banks is defined as the interest of the Indonesian Muslim community to save their money in Islamic banks (Saptasari & Aji, 2020).

Rani & Souiden (2005) define religiosity as referring to a structured set of beliefs, symbols and practices that allow individuals to feel close to God and as a guide for individual life. Meanwhile, according to Amin et al. (2011) religiosity refers to the role of religion in influencing one's choices and activities.

The definition of Islamic financial literacy was developed based on the definition of financial literacy of previous researchers with adjustments to Islamic principles Rahim et al. (2016) adopted the OECD (Organization for Economic Co-operation and Development) notion of financial literacy, a person's ability through financial knowledge, skills, and attitudes (OECD, 2012) to manage financial resources according to Islamic principles. Huston's (2010) definition of financial knowledge was developed by Abdullah & Anderson (2015) as knowledge of important concepts of Islamic financial products obtained through education or individual specific experience.

So the purpose of this study is to analyze the mediating role of Islamic financial literacy on the relationship between religiosity and intention to use Islamic banking.

## **Literature review and hypotheses**

### **Religiosity and Intention to Use Islamic Banks**

Perspective theory of planned behavior based on the aspect of subjective norms states that individual social pressure can influence a person's intention to act. The better the subjective norm that a person accepts towards Islamic banking is able to encourage someone to stay away from things that are prohibited in Islam such as bank *riba*. So that a person's intention to use Islamic banks is influenced by religious beliefs. Research Bananuka et al. (2019); (Nugraheni & Widyani, 2021); Muslichah & Sanusi, (2019); Saptasari & Aji (2020); Zuliyanti Shabrina (2018); Samsudin (2017); (Fauzi & Murniawaty (2020); Idris et al. (2011) revealed a positive correlation between religiosity and intention to use Islamic banks. Meanwhile Amin et al. (2011), Rahim et al. (2016), Lajuni et al. (2017) states that there is a negative relationship between religiosity and the intention to use Islamic banking. So the research hypothesis can be formulated as follows:

H1: Religiosity affects the intention to use Islamic banks

### **Religiosity and Islamic Financial Literacy**

The better the level of one's religiosity, the better the level of Islamic financial literacy Ilyana et al. (2022). Wise financial decisions start with good sharia financial literacy through knowledge of Islamic finance concepts and are manifested in the form of financial behavior that is in line with Islamic law. Rahim et al. (2016) and Bashir et al. (2013) in their empirical study revealed that there is a positive correlation between religiosity and Islamic financial literacy. So, the research hypothesis is formulated as follows:

H2: Religiosity influences Islamic financial literacy

### **Islamic Financial Literacy and Intention to Use Islamic Banks**

In line with theory of planned behavior based on perceived behavioral control predictors that the individual's perception of the perceived ease of performing a behavior as well as the presence of opportunities or opportunities and the lack of obstacles to carrying out the behavior, the perceived behavioral control will be higher. Good Islamic financial literacy encourages the tendency of individuals to have higher intentions to use Islamic banks (Ilyana et al., 2022; Muslichah & Sanusi, 2019; Fauzi & Murniawaty, 2020; Rozikin & Sholekhah, 2020 & Sholekhah, 2020). Albaity & Rahman (2019) on the other hand, found that Islamic financial literacy shows a negative correlation with the intention to use Islamic banking, although the study found that the more someone understands Islamic finance, the higher their attitude towards Islamic banking. So the following research hypothesis is formulated:

H3: Islamic financial literacy affects the intention to use Islamic banks

### **Religiosity and Intention to Use Islamic Banks through Islamic Financial Literacy**

Fishbein and Ajzen (1991) through theory of planned behavior states that a person acts with planning so that the individual is quite rational in considering the consequences, available information, and capabilities before deciding whether to follow a behavior or not. The consequence of religious teachings that prohibit bank riba will encourage individual intentions to use Islamic banks through financial information sharia which implements a profit sharing system and eliminates bank riba as the right financial decision solution. Researchers have not found previous studies that analyze the influence of religiosity on intentions to use Islamic banks through the mediating variable of Islamic financial literacy significantly. Astutik & Widiastuti's study (2020) shows that Islamic financial literacy has a negative correlation in mediating the relationship between religiosity and the financial performance of SMEs. Meanwhile, Alharbi's et al. (2021) study stated that financial awareness mediates the relationship between brand, religiosity and SME performance. So the hypothesis is formulated as follows:

H4: Religiosity influences the intention to use Islamic banks through the Islamic financial literacy variable

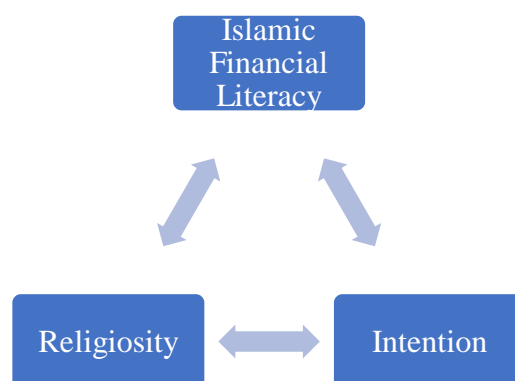


Figure 1. Research Model

## Methods

This study' research data was cross sectional and using proporsional random sampling technique. Close ended questionnaires were distributed to 100 undergraduate students of Universitas Sriwijaya, South Sumatera, Indonesia. All questions asked refer to previous research. The questionnaire consists of three main parts (20 statements) seven statements of intention to use Islamic banks, seven statements of religiosity, and six statements of Islamic financial literacy. The intention to use Islamic banks refers to the research questionnaire Lada et al. (2009) and Amin et al. (2011). Religiosity refers to Rahim et al. (2016) and Rani & Souiden (2005) by modifying some of the statements to suit research needs. Meanwhile, Islamic financial literacy refers to Nawi et al. (2018) with several adjustments to banking conditions in Indonesia. The likert scale is used to measure respondents answers consisting of a scale of 1 to 5 (strongly disagree to strongly agree). Data were analyzed by using SEM-PLS.

## Results, Analysis and Discussion

Table 1 below shows the profile of the respondents obtained after completing the questionnaire. Respondent profiles were identified based on gender, year of class, faculty, age, religion, where did they obtain information or knowledge about Islamic banking and experience using banking services.

Table 1 Profile Respondents

Characteristics of respondents	Information	Frequency (%)
Gender	Man	24
	Woman	76
Army Year	2017	4
	2018	38
	2019	28
	2020	10
	2021	11
	2022	9
Faculty of Origin	Faculty Economy	35
	Faculty Health Public	3
	Faculty of Law	8
	Faculty of Engineering	2
	Faculty Medical	1
	Faculty Agriculture	7
	Faculty Teachership and Educational Sciences	20
	Faculty of Science Social and Science Political	7
	Faculty Mathematics and Science Natural	2
	Faculty of Science Computer	15
	Age	<18 years (less than 18 year)
	18-20 years	30
	21-24 years	65
	>24 years (24 years and over)	1
Religion	Islam	92
	Christian Protestant	6
	Catholic Christian	1
	Hindu	1
	Buddha	-
	Confucius	-

Characteristics of respondents	Information	Frequency (%)
Acquisition Information Banking Sharia	Educational formal	59
	Education non-formal	23
	Education informal	8
Service Banking	Never	10
	Banking conventional	57
	Banking sharia	10
	Banking conventional and sharia	25
	Never	8

Based on table 1, it can be seen that respondents were dominated by female respondents (76%), 2018 class year (38%), came from the economics faculty (35%), aged 21-24 years (65%), Islam (92%), income sharia banking information through formal education (59%), and experience using conventional banking services (57%).

There were 100 respondents from Sriwijaya University undergraduate students who participated in this study. Validity and reliability tests were carried out to test whether the constructs and reliability of the respondents' answers were valid or not consistently by testing the value of each loading factor and the Cronbach Alpha Score was greater than 0.7. Therefore, further analysis can be carried out.

Table 2 Validity and Reability Testing

Item	Loadings	Cronbach Alpha
Intention to use islamic products		0.941
INT 1	0.753	
INT 2	0.915	
INT 3	0.925	
INT 4	0.917	
INT 5	0.876	
INT 6	0.835	
INT 7	0.788	
Religiosity		0.911
REL 1	0.836	
REL 2	0.902	
REL 3	0.907	
REL 4	0.860	
REL 5	0.741	
REL 6	0.805	
REL 7	0.784	
Islamic Financial Literacy		0.927
IFL 1	0.814	
IFL 2	0.811	
IFL 3	0.908	
IFL 4	0.815	
IFL 5	0.783	
IFL 6	0.859	

Structural model testing can be seen in figure 2 value R-square presenting the influence of endogenous constructs can be explained by exogenous constructs. The magnitude of the influence of the religiosity variable explaining the construct of Islamic financial literacy is 0.354. Meanwhile, the magnitude of the influence of the religiosity variable explaining the construct of intention to use Islamic banks is 0.563. This shows that the magnitude of this influence is included in the weak towards category moderate (Hair et al., 2014).

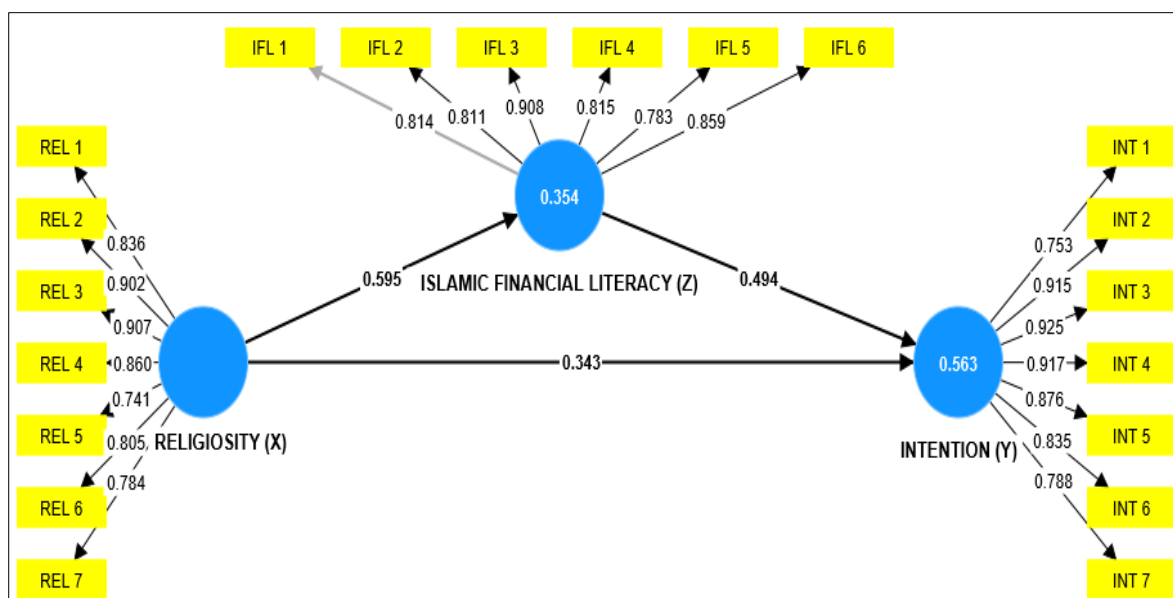


Figure 2 Structural Model

## Discussion

Table 3 Hypotheses Testing

Variable	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Religiosity (X) → Intention to use Islamic banking products (Y)	0.343	0.342	0.091	3.772	0.000
Religiosity(X) → Islamic financial literacy (Z)	0.595	0.592	0.099	5.980	0.000
Islamic financial literacy (Z) → Intention to use Islamic banking products (Y)	0.494	0.495	0.099	5.012	0.000
Religiosity (X) → Islamic financial literacy (Z) → Intention to use Islamic banking products (Y)	0.294	0.293	0.079	3.722	0.000

Based on table 3, religiosity has a positive effect on the intention to use Islamic banks ( $\alpha = 5\%$ ) with a coefficient value of 0.343. These results can be interpreted that the level of religiosity of undergraduate students at Sriwijaya University influences students' intentions to use Islamic banking. These results are consistent with research (Nugraheni & Widyani, 2021; Saptasari & Aji, 2020; Muslichah & Sanusi, 2019; Zuliyanti Shabrina, 2018; Samsudin, 2017; Fauzi & Murniawat, 2020; Idris et al., 2011; Bananukaet al., 2019) who found that religiosity had a significant positive effect on intention. Religiosity affects Islamic financial literacy, with a coefficient of 0.595. Is the highest coefficient value compared to the influence of other variables. This fact shows that the religiosity of Sriwijaya University undergraduate students increases their Islamic financial literacy to truly understand Islamic finance according to religious teachings. This research is in line with Ilyana's et al. (2022); Rahim et al. (2016); Bashir et al. (2013) which states that religiosity influences a person's Islamic financial literacy to determine whether to take action using Islamic banking or not. Islamic financial literacy also has a significant effect on the intention to use Islamic banking with a coefficient value of 0.494. These findings indicate that respondents' understanding of Islamic finance, especially Islamic banking, influences their intention to use Islamic banking. The results of this study are consistent with research (Ilyana et al., 2022; Muslichah & Sanusi, 2019; Fauzi & Murniawaty, 2020; Rozikin & Sholekhah, 2020).

Table 4 Mediation Test Results

Influence	<i>Direct Effect</i>		<i>Indirect Effect</i>		<i>Total Effect</i>		VAF
	<i>Path</i>	T statistics	<i>Path</i>	T statistics	<i>Path</i>	T statistics	
Religiosity (X) → Islamic Financial Literacy(Z) → Intention to use Islamic Banking Products (Y)	0.343	3.772	0.294	3.722	0.637	7.494	46,1%

Based on the acquisition of a VAF value of 46.1%, the mediation of Islamic financial literacy on religiosity and intention to use Islamic banks is partial mediation. In accordance with the provisions according to Hair et al. (2016) if  $20\% \leq \text{VAF value} \leq 80\%$ , then partial mediation occurs, meaning that the magnitude of the mediation effect can be interpreted.

### Conclusion, Implications and Suggestions

It can be concluded that the four hypotheses have a positive and significant effect. The religiosity of Sriwijaya University undergraduate students has a positive and significant effect on the intention to use Islamic banking (H1), religiosity also has a positive and significant effect on Islamic financial literacy (H2), financial literacy has a positive and significant effect on the intention to use Islamic banking (H3), financial literacy is able partially mediate the relationship between religiosity and intention to use Islamic banking (H4). The empirical evidence of this research shows that islamic financial literacy decreases the effect of religiosity on intention to use islamic banking products of the undergraduate students as the Z-Generation. The high understanding of islamic banking products turns out to raise doubts about the application sharia principles that applied in Indonesia's syariah banking system. Even though their religiosity is high, more knowledge about it ultimately reduces the intention to use islamic banking products.

The theoretical benefits of this research can develop a concept regarding the intention to use Islamic banks which will ultimately determine the growth rate of Islamic banking itself. In addition, this research can be used as a reference and an empirical evidence tool in reviewing the influence of religiosity and Islamic financial literacy on the intention to use Islamic banking among students. The practical benefits of this research are for the Islamic banking industry, as a basis for increasing student intentions in using Islamic banking through efforts to increase public Islamic financial literacy. Where it is intended to strengthen the influence of religiosity which has caused Islamic banking to be in demand so far. The economic benefit of this research is that it can be a reference that students are a potential market share to increase the growth of Islamic banking and influence the country's economy in the future.

This research has a number of limitations. First, this study collected data on only 100 undergraduate students at Sriwijaya University, so it is less able to describe the actual conditions in the field. To be able to generalize these results, it is necessary to carry out further research by expanding the population range such as conducting research on D3, S2 and S3 students. Second, the respondents of this study experienced inequality in the characteristics of respondents such as gender and religion which were dominated by female respondents and the Islamic religion, causing the results of the intention to use Islamic banks in male respondents and other religions to be less responsive in this study. Third, this study doesn't analyze more about factors that make financial literacy become partially mediating which decreasing effect religiosity on intention to use islamic banking products. Further research is suggested to use

mix method research to analyzed more factors that cause Islamic financial literacy decreases the effect of religiosity on intention to use Islamic banking products.

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