

CHAPTER I

INTRODUCTION

1.1 Research Background

Everyone has their own life objectives and dreams. There are several criteria for achieving these objectives, but in fact, everyone desires a peaceful life, certainly in terms of finances. People are regarded to be successful and happy in finance if they have achieved financial well-being (Yulianti and Silvy, 2013). Therefore, in achieving those financial well-being people can get it by having a good financial literacy in their life.

The importance of financial literacy is also supported by research conducted by Atkinson and Messy (2012) that mentioned financial literacy is essential for everybody, regardless of personal background, specialties, or jobs, since it affects financial well-being. This finding is also fully consistent with the statement of Bruggen et al., (2017) to achieve financial well-being, one must be satisfied with one's self-evaluation of the future of finance by having financial literacy, so it is an important factor to be considered. The research conducted by Swiecka et al., (2020) also suggested that individuals and society need to be financially literate to support sustainable development. Those researchers also argued about the higher levels of financial literacy, especially among youth, better the economic indices, which relates to the economy and long-term development. This also supported by Kadoya and Khan (2020), stated people with financial literacy can recognize the phenomena of economic and financial concerns.

According to Thomas and Subhashree (2020), financial literacy is defined as the ability to handle personal and business finances with the required knowledge, skills, and confidence. Other authors (Sapir and Ahmad, 2020) said that financial literacy prepares a person with the knowledge, skills, and attitudes essential to ensure a healthy financial position in current and future situations, allowing them to plan and manage their finances. Thomas and Subhashree (2020) and Sapir and Ahmad (2020) are consistent with Atkinson and Messy (2012) that said that financial literacy is a combination of a set of skills, knowledge, attitudes, and behaviors to help people make wise financial decisions.

For Muslims, financial literacy is a topic that should have special concern. As a Muslim, financial literacy is become crucial factors that should behave in the rules of Shariah law, as it pertains to what is and is not permitted in Islam. Every Muslim should be aware of the following three essential concepts of Islamic finance: (i) the prohibition of *Riba*, (ii) the avoidance of transactions involving uncertainty or *Gharar* and (iii) the avoidance of gambling or *Maisir* in any form. According to Laldin and Furqani (2013), Islamic finance contained Maqashid, that are three basic purposes: promoting the movement of assets in society, facilitating fairness and transparency financial activities, and improving social and economic equality through services to meet man kind's financial needs.

Lack of appropriate Islamic financial literacy, making the ones possible to participate in non-halal financial transactions. Therefore, Muslims have to be aware of the sort of financial transactions they engage in since it has an impact on one's barakah. In the present era, various financial transactions are in the grey zone. The manner Muslims regard money spent is also distinct. Donating cash as philanthropy

or *Shadaqah*, for example, is not considered as spending money for others, but rather actual money preserved for them as the beliefs in Islam.

According to surveys conducted by the Indonesian Financial Services Authority (2019), the financial literacy index for 2019 is roughly 38.03 percent, indicating that Indonesians remain to have a low score. The statistics detailed shows that Indonesia's Islamic financial literacy has increased by only 0.83 percent in three years, compared to 8.22 percent for conventional financial literacy (OJK, 2019). Considering that Indonesia is the world's largest predominantly Muslim country, this type of research is especially critical for a nation like Indonesia.

It is really essential to look into the aspects that influence Islamic financial literacy. Since the majority of prior research is focused on the conventional view point. Atkinson and Messy (2012) described the fundamental concept of financial literacy as having three dimensions: financial knowledge, financial attitude, and financial behavior. The current study will be primarily focused on the Islamic view point. Firdausi and Kasri (2022) conducted the first study on Islamic financial literacy, which used a multidimensional approach that was shown to be the nearest to representation of the Islamic financial concept, it thus replaced all questions based that were incompatible into Islamic concepts. It also decomposes financial literacy into the following dimensions: financial knowledge, financial attitude, and financial behavior whereas it determines education's purposes.

The current study aims to assess undergraduates Islamic financial literacy at Andalas University. The reasons are undergraduates play a significant role in society since, once they finish their education and join the job market or earning their own money, they will soon become mature adults capable of marrying and

starting a family. Therefore, students hopefully have good financial literacy that is provided by universities regardless of their field of backgrounds. The second one, Indonesian students are one of the specific groups for the Indonesian Financial Service Authority's approach to boost financial literacy in the country. This is indicated in OJK's revised means of attaining financial literacy and inclusion index target (OJK, 2017). The importance of this study focuses on Islamic financial literacy since most research just focused on Western perspective; it could be insightful research that discusses Islamic financial literacy topics. This support for the research conducted by Firdausi and Kasri (2022), stated study on Islamic financial literacy is very limited conduct.

Therefore, based on this background explanation, the researcher is interested in taking the title **“Islamic Financial Literacy Among Undergraduate Students of Andalas University”**, which provides more evidence of Islamic Financial Literacy factors also clarifies the research gap from previous studies.

1.2 Problem Formulation

Based on the background described above, the problem formulation to be investigate in this research is **“How is the Level of Islamic Financial Literacy Among Undergraduates Students of Andalas University”**.

1.3 Research Objectives

The research aims to investigate the level of Islamic Financial Literacy among undergraduate students of Andalas University. This research also using multidimensional approach to measure the Islamic Financial concept by presenting five new dimensions of Islamic financial literacy developed from the Maqasid

Shariah: protection of religion (al-din), protection of life (al-nafs), protection of intellect (al-‘aql), protection of wealth (al-maal), and protection of lineage (al-‘ird).

1.4 Research Benefits

Contribution to Academia

This research provides insight and information about the level of Islamic Financial Literacy among undergraduates students through Islamic Financial concept with five of Maqasid Sharia principles. This research also supports the development of Islamic Financial Management literature in Indonesia. It can also be used as a new reference as a source of information and guidelines for future research on the same subjects.

Suggestions for Policy

This research provides recommendations for policymakers and university stakeholders as an evaluation for developing university curriculum. As a result of the revisiting of that curriculum, students from a variety of backgrounds will have the same opportunity to improve their knowledge on finance, which will have an impact on their behavior and attitude in financial matters.

For Indonesian Muslim Undergraduates

Following the MBKM program's new policy, students now have the possibility of enrolling in courses from other faculties. This has open up the possibility for students from all disciplines to take an Islamic Finance/Accounting/Economics course, which could be very beneficial for them as a Muslim student in ensuring their financial transactions and activities are compliant with the Shariah laws.

1.5 The Scope of Research

This research analyzes the level of Islamic financial literacy among undergraduate students. This research will focus on undergraduate students of Andalas University. The data collected from this research will use an online questionnaire or Google form for 301 respondents. This research looks at the influence of demographic factors to the level of Islamic Financial Literacy.

1.6 Writing Systematic

The research is organized as follows. The first chapter presents the background and reason to conduct this research. The chapter then followed by the objectives and the benefits and the scope of this research, as well as writing systematic of this research. The second chapter explains conceptualization of financial literacy in conventional perspective. In conventional perspective it will be explained in three dimensions: financial knowledge, financial behaviors and financial attitudes. The theory will continue with the conceptualization of financial literacy in Islamic perspective. This chapter is continued by discussing several previous research that related to this research, research model and hypothesis development. The third chapter presents the research methodology which consists of measures of Islamic financial literacy, research design, data type and sources, data collection method, research population and sample. The next chapter presents the findings together with the discussion. The last chapter is closed by the conclusion, limitation, and research recommendations.