

The effect of religiosity and financial literacy on intention to use Islamic banking products

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Purpose: Considerable numbers of study provides and widen the horizon of knowledge on the intentions of people or business to use religious-related banking product. With the increasing awareness of Islamic banking product, this study aims to probe the relationship between knowledge of Islamic finance and religiosity with the intention of consumer to use Islamic banking products.

Methodology: Using purposive sampling, this research uses questionnaires to gather primary data from business owners or managers in Yogyakarta as the respondents. SMART PLS is used to analyze the data.

Findings: This result shows that business players' intention to use Islamic banking products is influenced by religiosity, literacy and attitude. Meanwhile, the effect of Islamic financial literacy on the intention to use Islamic banking products shows a greater influence compared to other relationship. Knowledge, especially being financially literate is very important to increase the interest of industry players using Islamic products.

Originality/Value: To the author knowledge, as the results variations among researcher exist, the findings of this research provides deeper insight on the literature of behavior and norms as well as Islamic financial literacy. This paper suggests that knowledge and religiosity matters as for business payers to make utilization decision related to Islamic banking product.

Keywords: Financial Literacy, Intention to Use, Islamic Banking Products, Religiosity

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Introduction

Islamic bank has a function to manage public money by providing services related to financial services, including funding and payment that operated in accordance to Islamic principles. Its' operation prohibits riba, unlawful objects, speculation, and unfair activities. Islamic bank strictly follows several principles, such as partnership (ta'awun), fairness (ridha), benefit (mashlahat), balance (tawazun), universality (rahmatan lil 'alamin) (Otoritas Jasa Keuangan, 2017).

Religiosity plays a very important role in shaping individual and public behavior (Arnould *et al.*, 2004). Individual's obedience on a particular religion indicates his/her affiliate group (Essoo & Dibb, 2004). Religion is a system that builds the beliefs, values, expectations, and behaviors possessed by members of a group or society (Bobokhonov & Brito, 2015). However, religious values are differ from one individual to another. The level of religiosity can be assessed from an

individual's commitment to his/her, and that it can be seen from individuals' attitudes as well as behavior (Johnson *et al.*, 2001).

Islamic financial literacy is defined as a person's financial knowledge, skills and attitudes in managing financial resources in accordance with Islamic teachings. Hung *et al.* (2009) found that financial literacy might affect someone in performing a behavior. When someone does not have a good financial literacy, he/she has a possibility to make mistakes in making financial decisions. Therefore, financial literacy is the key to decision making (Ateş *et al.*, 2016).

Attitude is one of the main internal influences that influence one's decision making process, in this case, consumers. Attitude is the positive or negative feelings of individuals in performing certain behaviors (Fishbein & Ajzen, 1975) or psychological tendencies expressed by evaluating certain entities with some level of support or dislike (Eagly & Chaiken, 1993). It is a mental sequence that directs one's response to stimuli, consisting of three main elements, which are cognitive, affective, and conative. Cognitive elements are related to the types of information, data, knowledge, and perceptions compiled by consumers. Affective elements pay attention to the feelings and emotions that consumers have of objects (Ostrom, 1969). Conative elements are actions carried out by individuals in connection with the attitude of the object. The action can be either consumers' tendency to buy or intention to buy the object of attitude.

The intention to use Islamic bank products is based on the rationale for Theory of Planned Behavior (TPB) to investigate the effects of religiosity on Muslim attitudes towards Islamic bank products. TPB is considered as the most relevant theoretical model in the context of Islamic products. According to TPB, an individual's intention to perform certain behavior is predicted by his/her attitude. (Fishbein & Ajzen, 1975). According to Gillore (2002), intention consists of two factors: an individual's attitude towards behavior, namely how a person defines behavior related to the things he wants and one's perception of what social norms are about that behavior.

Therefore, this study aims to probe the relationship between knowledge of Islamic finance and religiosity with the intention of consumer to use Islamic banking products.

Literature Review and Hypotheses Development

Religiosity and Intention to Use Islamic Banking Products

The effect of religiosity on intention to use Islamic Banks' products was examined by Souiden and Rani (2015). Their research shows that the more afraid someone is about God's punishment, the more he/she will show a good perception of Islamic banks. In addition, the more the person believes in Islamic law, the more the person supports Islamic banking products. However, religiosity has insignificant effect on consumers' intention to use Islamic financing products (Amin *et al.*, 2011). Alam *et al.* (2012) found that religiosity is an important element because it is able to influence individual in terms of cognitive and behavior. To the contrary, a research conducted by Bananuka *et al.* (2019) indicates that religiosity has a positive significant relationship with the intention to adopt Islamic banking. A part from ideology, religiosity is proven to have positive association the adoption of Islamic banking intention (Kaawaase *et al.*, 2019). Therefore, the following hypothesis is formulated as:

H1: Religiosity affects intention to use Islamic banking products

Religiosity and Attitude Toward Islamic Banking Products

Religiosity plays an important role in measuring consumers' attitudes towards various dubious consumer practices. Aji (2018) found that religious people tend to like products that have similar attributes with what they believe. Thus, religion is one of the most important factors in shaping the attitudes of Islamic banking customers (Metwally, 1996) and playing a key role in influencing retail consumer attitudes towards Islamic finance (Gait & Worthington, 2009). Without exception, this study highlights that Muslim consumers choose Islamic banks to adjust to their

religious beliefs. Hence, according to the foregoing description, the following hypotheses is formulated as:

H2: Religiosity affect attitudes towards Islamic banking products

Islamic Financial Literacy, Attitude and Intention to Use Islamic Banking Products

According to Hilgert *et al.* (2003), financial literacy is similar to financial knowledge. Based on Otoritas Jasa Keuangan (OJK)'s Indonesian Financial Literacy National Strategy (2017), a person is well-literate if he/she has knowledge about financial institutions, products and services, as well as the features, benefits, risks, rights and obligations of the financial products. A highly literate person may probably not make any financial decisions without adequate and sufficient information. Several studies have shown the effect of financial literacy on financial decisions. Research conducted by Jamal *et al.* (2015) found that financial literacy has a positively affect consumers' attitudes and saving behavior. In addition, Badshah *et al.* (2014) found that financial literacy has a short-term effect on investment intentions. Albaity & Rahman (2019), on the other hand, found that Islamic financial literacy is negatively linked to the intention to use Islamic banking, even though they found that the more literate a customer is the higher is their attitude towards Islamic bank. Divergence for theory in the practices of Islamic banks is said to be the cause of the negative relationship (Albaity & Rahman, 2019). Thus, following hypothesis is formulated as:

H3: Islamic financial literacy affects attitudes towards Islamic banking products

H4: Islamic financial literacy affects intention to use Islamic banking products

Attitudes and Intention to use Islamic Banking Products

Although religion has outlined strict laws and regulations in terms of buying financial products, the extent to which religious adherents follow Islamic law is likely to vary, and this variation is influenced by attitude (Newaz *et al.*, 2016). Attitude has a strong impact on people's perceptions and hence impacts their behavior (Fazio, 1986). It is considered as the most influential factor that explains a person's intention to use Islamic banking products, such as Islamic credit cards and personal financing (Amin *et al.*, 2013). A study by Amin *et al.* (2009) revealed that attitude has a significant effect on intention to use Islamic banking products. Based on the description, the following hypotheses can be formulated as:

H5: Attitude affect intention to use Islamic banking products

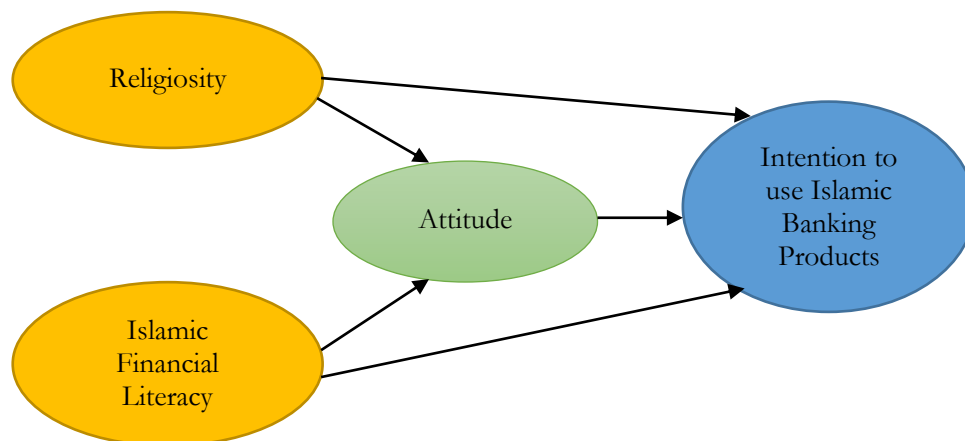


Figure 1. Research Model

Methods

This study applied quantitative methods. The data used in this study are primary data that is obtained directly from respondents through the distribution of questionnaires to respondents.

The data collection method used in this study was a survey method, which was carried out by distributing questionnaires in the field, and respondents were asked to provide responses to the statements contained in the questionnaire. All of the questions asked were adopted from previous studies. As for religiosity, this study adopts the questions from Barro & McCleary (2003) and Jamal *et al.* (2015) while Islamic financial literacy questionnaire is developed from OJK's National Strategy on Indonesia Financial Literacy (Otoritas Jasa Keuangan, 2017). Applying purposive sampling technique, the sample of this research is industrial players in Yogyakarta. Either business owners or managers who have authority to be a decision maker in the business can be the target respondents. Moreover, the business should have been running for at least a year.

Results and Discussion

From 500 distributed questionnaires, there were 383 collected questionnaires from respondents who participated in this survey. The reability test was first conducted by examining the Cronbach's Alpha score for each construct. Every construct has score that are greater than 0.70 (Table 1). It means that all constructs in this study are reliable or the respondents' answers the questions consistently. In addition, to determine instrument validity, researchers tested the value of each loading factor on each indicator. It can be seen in the Table 1 that all measuring instruments in this study have a loading factor value greater than 0.60, which means that all of the items are valid. Therefore, the further analysis can be conducted.

Table 1. Validity and Reability Testing

Items	Loadings	Cronbach Alpha
Religiosity		0.937
R1	0.837	
R2	0.843	
R3	0.855	
R4	0.822	
R5	0.726	
R6	0.818	
R7	0.813	
R8	0.792	
R9	0.827	
Islamic Financial Literacy		0.930
LIT5	0.801	
LIT6	0.757	
LIT7	0.874	
LIT8	0.886	
LIT9	0.876	
LIT10	0.881	
LIT11	0.737	
LIT12	0.724	
Attitude Toward Islamic Banking Products		0.889
SKP1	0.850	
SKP2	0.874	
SKP3	0.868	
SKP4	0.873	
Intention to use Islamic Banking Products		0.905
NI1	0.925	
NI2	0.925	
NI3	0.899	

The structural model testing can be seen in Figure 2, in which the R-square for attitudes and intentions are 0.098 and 0.303, respectively. The hypothesis testing results note that all results are in accordance with the hypothesis statement since all of the are significant with p-value < than 0.01 or 0.05.

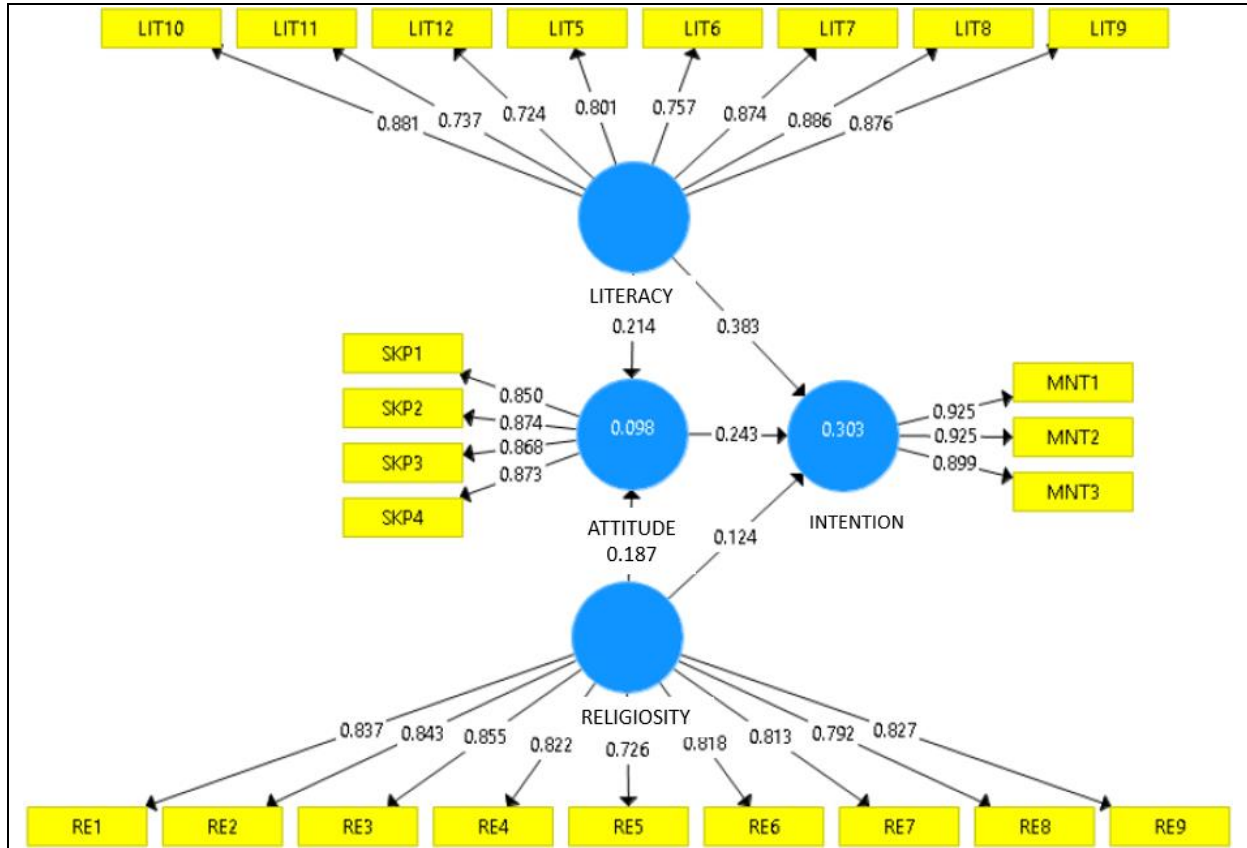


Figure 2. Structural Model

Discussion

Table 2. Hypotheses Testing

	Coefficient Value	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Religiosity -> Attitude	0.187	0.184	0.073	2.546	0.011
Religiosity -> Intention	0.124	0.126	0.039	3.162	0.002
Financial literacy -> Attitude	0.214	0.216	0.049	4.386	0.000
Financial literacy -> Intention	0.383	0.384	0.042	9.158	0.000
Attitude -> Intention	0.243	0.244	0.051	4.756	0.000

Based on Table 2, it revealed that religiosity is positively affect intentions to use Islamic banking products ($\alpha = 1\%$) with a coefficient value of 0.124. This result can be interpreted that the level of religiosity of industry players in Yogyakarta influences their intention to use Islamic banking products. When looking at the results of respondents' responses on religiosity variable indicators, mostly respondent answered "agree" to "strongly agree". When asked about their intention to use Islamic banking products, most of them also answer "agree" to "strongy agree". These results are consistent with the findings of Souiden and Jabeur (2015), Bananuka *et al.* (2019) and (Kaawaase *et al.*, 2019) who found that religiosity has a significant positive significant effect on intention.

The results also show that religiosity has a positive effect on the attitudes toward Islamic banking products, ($\alpha = 1\%$) with a coefficient value of 0.187, which means that the effect of religiosity is quite strong on attitude. This result is in accordance with the findings of Souiden and Rani (2015), that the more someone is afraid of God's punishment, the more afraid he/she to God, the more careful they will be. The same result was found by Souiden and Jabeur (2015) who found that a strong Islamic belief would affect one's attitude.

Literacy affects the intention to use Islamic banking products, with the coefficient of 0.383. It is the highest value compared to other coefficient values. This fact means that the financial literacy of industry players towards Islamic finance increases their intention to use Islamic banking products. This finding is consistent with the research of Hassan and Anood (2009) which states that financial literacy has an influence on the intention to make an investment decision from an investor.

Literacy is also significantly affect attitude at $\alpha = 1\%$ and the coefficient is 0.214. This finding shows that the respondent understanding towards Islamic banking products affects their attitude to use sharia banking products. Furthermore, the effect of attitude towards intention is also significant with $\alpha = 1\%$ with a coefficient of 0.243. The results of this study are consistent with the findings of Newaz *et al.* (2016). That result also supports Souiden and Rani (2015), who found that religiosity has an indirect effect on purchase intentions of Islamic banking services mediated by attitudes towards these banks.

Conclusion

It can be concluded that industry players' religiosity affects their attitudes toward Islamic banking products (H1), their religiosity also affects intention to use Islamic banking products (H2), financial literacy significantly affects attitudes toward Islamic banking products (H3), financial literacy also affect intention to use Islamic banking products (H4), and finally attitudes toward Islamic banking products affect intention to use Islamic banking products. This result show that the interest of industrial players in using Islamic banking products is influenced by religiosity, literacy and attitude. While the attitude of industry players in using Islamic banking, products is influenced by the religiosity and the attitude of industry players to use Islamic banking products. Meanwhile, the effect of Islamic financial literacy on the intention to use Islamic banking products shows a greater influence compared to other relationship. This can be interpreted that increasing financial literacy is very important to increase the interest of industry players using Islamic products.

The findings of this research may contribute to both academics and practitioners. This paper provides deeper insight on the literature of behavior and norms as well as Islamic financial literacy. This paper suggests that knowledge and religiosity matters as both will affect the way people to gather, synthesize and process information for them to make decision, especially decision pertain to the usage of religious-related banking products.

This research, like other, has number of limitations. First, this research gathers evidences from a specific area only in Yogyakarta. To be able to generalize the result, there is a need for further research by extending the span of population. Second, this research might not accommodate the change of behaviour over time which can be improved by future research in the same area. Third, future research may compare cross country condition.

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