

## Research article

# The Influence of Islamic Financial Literacy on The Use of Digital Financial Services in Yogyakarta

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## Abstract.

A good understanding of Islamic financial literacy and digital financial services can be used as the basis for governments and Islamic financial institutions to formulate product communication strategies to be precise and accurate. Digital financial services provide many benefits for service providers as well as for users. This quantitative research was conducted by survey method using a questionnaire with purposive sampling technique. The questionnaire was tested for validity and reliability first and exceeded the standard and analysis with descriptive statistics and simple linear regression. This study found that Islamic financial literacy has a positive and significant effect on digital financial services in consumers in Yogyakarta. The influence of Islamic financial literacy is 54.1%, while other variables outside this study are 45.9%.

**Keywords:** Islamic Financial Literacy; Digital Financial Services

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## 1. Introduction

Data from e-Conomy SEA (2019) shows that of the total population of Indonesia, around 50.82% are classified as unbanked, 25.96% are classified as underbanked, and the rest are banked. This means that access to all types of financial services in Indonesia is still not evenly distributed, so that it can hinder the growth of financial inclusion (1). To increase financial inclusion in Indonesia, Bank Indonesia (BI) and the Financial Services Authority (OJK) issued a number of regulations regarding financial services, electronic money/Digital Financial Services (LKD), and Laku Pandai. Regarding LKD, BI issued a regulation regarding electronic money in 2009 in the form of PBI No. 11/12/PBI/2009 along with the amendments in 2014 with PBI No. 16/8/PBI/2014 and in 2016 with PBI No. 18/17/PBI/2016. The amendments allow more banks to provide digital financial services as well as increase transaction limits for registered users.

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In encouraging increased financial inclusion, various strategies are implemented by adjusting to the times. One of them by utilizing the internet network. The application of the internet network in digital financial services or what is known as financial technology (Fintech), is considered an effective way to provide opportunities in an effort to encourage financial inclusion (2). The use of technology in the financial services sector has now become an unavoidable necessity. If the perpetrators continue to maintain their financial services in a conventional style, it is believed that they will face difficulties to compete with competitors who use digital financial services (3).

According to Rozaq M. Yasin et al (2021), currently digital transactions are growing rapidly in Indonesia, this is due to the rapid development of technology. This condition directs the Islamic banking industry in Indonesia to further improve services by establishing digital banking. This condition has an impact on increasing digital financial service transactions such as mobile payments (m-payment), mobile banking (m-banking), internet banking, and electronic money (e-money) provided by banks (4). The number of internet users in Indonesia in 2020 reached 175.4 million connected via cellular phones reaching 338.2 million. This condition is expected to overcome the problem of financial inclusion through fintech. Fintech is one of the solution for people who have difficulty getting access to financial services, are less literate, and lack confidence in their ability to use financial services, due to their simple and efficient system. Digital payments occupy the first position (38%) in the distribution of fintech services in Indonesia, but in reality the use of payment methods with this digital payment system only reaches 1.66% (5). To use financial services such as mobile payments, there are factors that influence people to use these financial services, such as financial literacy. If public literacy about finance is very good, it is believed that it will be able to increase awareness of financial products and services so that it can trigger usage (6).

Financial literacy is a series of processes or activation to increase knowledge, confidence, and skills that influence the attitudes and behavior to improve the quality of decision-making and financial management in order to achieve prosperity. Although the objective of the sharia financial literacy development program is to expand and improve knowledge, understanding, and community participation, in the use of sharia financial products and services. However, it is not necessarily that people who have a good level of Islamic financial literacy will want to use Islamic financial products and services. Or conversely, people who use Islamic financial products and services have good financial literacy (4).

According to Neskia Andyni and Florentina Kurniasari (2021), financial literacy plays an important role in increasing one's awareness and demand for financial products and

services. The financial literacy index in Indonesia in 2019 was 38.03%, indicating that not all Indonesians are financially literate (5). This indicates that public understanding is still weak in terms of financial management. In fact, most Indonesians do not implement a family financial budget. Indonesia is in the lowest rank where the majority of its citizens do not have reserve funds for an emergency situation of at least three months (7). A good understanding of the influence of literacy that exists in the DIY community on the use of digital financial services is needed by the government and financial institutions to formulate communication strategies and socialize service development more accurately. This study needs to be carried out considering the cultural context, values, and demographics of the DIY community which are different from other cities, and the different levels of public education, especially in responding to the digital financial service program. Based on the description of the background above, the objectives of this study include: a) to determine the level of Islamic financial literacy of the DIY community; b) to find out the condition of using digital financial services in the DIY community; and c) to determine the effect of Islamic financial literacy on the use of digital financial services in the DIY community.

## 2. Research Method

The method used in this research is quantitative research using a causal research design. Causal design is a research design that is causal (8). This research design is used to find a causal relationship between the independent variable (X) and the dependent variable (Y). The independent variable in this study is the Islamic financial literacy of the DIY community. While the dependent variable in this study is digital financial services. The population in this study is the entire community in DIY. Determination of the sample in this study using purposive sampling method. Purposive sampling is a sampling technique with certain considerations or criteria (8). The criteria used as samples are people who have digital financial service facilities and are domiciled in DIY. The number of samples in this study amounted to 70 respondents. stionnaire distributed to respondents. The type of questionnaire used is a closed questionnaire, containing questions that have been prepared by the researcher specifically. The questions were then measured using a rating scale. Rating scale is one tool to obtain data in the form of a list containing the nature or characteristics of behavior that want to be investigated and recorded in stages. Meanwhile, the data analysis technique used is simple linear regression analysis..

### 3. Result and Discussion

#### 3.1. Concept of `An-Taradhin Minkum in the Perspective of the Qur'an

Based on respondent's responses to variables, it is known that the respondents' responses to the Islamic financial literacy variable are included in the medium category, namely 64.3%. Meanwhile, respondents' responses to the digital financial service variable are also included in the medium category, which is 74.3%. The results of hypothesis testing indicate that the level of Islamic financial literacy in Yogyakarta is in the medium category, as well as the condition of using digital financial services by the Yogyakarta community is in the medium category. This study concludes that Islamic financial literacy has a positive and significant effect on the use of digital financial services in the DIY community. This shows that the higher the level of Islamic financial literacy in the DIY community, the higher the intensity of using digital financial services by the DIY community. With these conditions, it is hoped that financial inclusion in Indonesia, especially in DIY, will continue to grow, so that it can provide many benefits for everyone, including those who interact with the industry.

The results of this study are in line with research conducted by Andyni & Kurniasari (2021) which states that there is a positive influence of financial literacy on financial inclusion (5). Furthermore, research by Handida & Sholeh (2018) concludes that there is a positive influence of the variable level of Islamic financial literacy on Muslim community decision-making using Islamic banking products (9). Research by Panghayo & Musdholifah (2018) concludes that there is a significant influence between the level of knowledge on the selection of Islamic financial services (10). Furthermore, research by Prihatini & Muhid (2021) shows that there is a significant positive influence between digital literacy on Internet usage behavior (11). Furthermore, research by Saleh et al. (2020) also concludes that financial literacy has a significant effect on the use of fintech (12). Meanwhile, this study also refutes the results of research from Destianata & Lutfi (2017) which concludes that financial literacy has no significant effect on credit card use (13).

### 4. Conclusion

1. The results showed that the respondents' responses to the Islamic financial literacy variable were included in the high category as many as 12 people (17.1%), while the responses of respondents in the medium category were 45 people (64.3%), and

the responses of respondents in the low category were 13 people. (18.6%). This explains that respondents' responses to the Islamic financial literacy variable are included in the medium category.

2. Respondents' responses to digital financial service variables in the high category were 10 people (14%), while the responses from respondents in the medium category were 52 people (74.3%), and respondents in the low category were 8 people (11.4%). This shows that respondents' responses to digital financial service variables are in the medium category.
3. The results of research and discussion on the effect of Islamic financial literacy on the use of digital financial services in the DIY community, it can be concluded that the Islamic financial literacy variable has a positive and significant effect on the use of digital financial services in the DIY community. This result is based on the t-value of 8.945 with sig. t is 0.000 ( $p < 0.05$ ), meaning that the higher the intensity of Islamic financial literacy that is applied, the level of use of digital financial services in the DIY community will also increase. The coefficient of determination ( $R^2$ ) of 0.534, which means that the influence of Islamic financial literacy variable to variable digital financial services amounted to 53.4%, while the remaining 46.6% is influenced by other variables of the study.

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