

## Does Financial Literacy Influence Housewife Intention to Use the Islamic Financing? With Trust as a Moderating Variable

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### ABSTRACT

**Research Aims:** This study aims to analyze the effect financial literacy on the housewife intention to use Islamic financing with trust as a moderating variable.

**Methodology:** This study involved 358 housewife respondent in 32 Indonesian provinces. The model used was based on the theory of reasoned action development with the partial least squares structural equation modeling as the data processing tool.

**Research Findings :** Housewives' financial literacy influences mothers' intentions to use Islamic bank financing products.

**Originality:** Although numerous studies have concentrated on financial literacy and the use of sharia financing, the behaviour of housewife and the high number of housewife loans to informal institutions concern academics and practitioners. This research can highlight the importance of financial literacy for housewives can avoid applying for loans to informal institutions, so sharia financing can be a suitable alternative.

**Research limitation and implication:** The study discovered that financial literacy with variabel ability, attitude and knowledge affect the intention of housewife to use the Islamic financing. Meanwhile, the trust variable failed to moderate the housewife's ability to use Islamic financing. The trust variable was not successful in moderating the attitude and knowledge of the housewife to use Islamic financing. Meanwhile the trust variable significantly moderates the attitude towards the financing variable with a significance

**Keywords:** *Financial literacy, Housewife, Islamic Financing, PLS-SEM, Trust.*

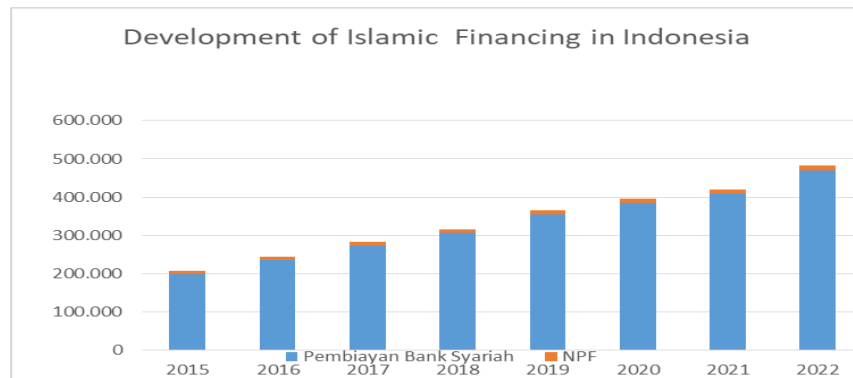
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### INTRODUCTION

In the global financial sector, Islamic banks are growing rapidly (Zaid, 2019). Compared with other financial organizations, including conventional banks, Islamic banks

have proven their ability to maintain stability over time (Setyobudi et al., 2015). This is demonstrated by an increase in Sharia banking finance distribution, which aims to encourage the implementation of national development, equitable development, economic growth, and national stability to raise people's living standards (Financial Services Authority, 2017).



**Figure 1. Development of Islamic Financing in Indonesia**

The table above shows that the distribution of sharia banking financing has consistently grown amid the process of economic recovery due to the Covid-19 pandemic. As of August 2022, distribution of sharia banking financing shows growth beyond the previous one-year period. This growth, which increased by 8.77% (yoy), surpassed national banking lending and financing which grew by 3.26% (yoy).

According to the table above, the availability of Sharia banking financing has been steadily increasing during the economic recovery process triggered by the Covid-19 pandemic. As of August 2022, the distribution of Sharia banking financing has increased over the preceding year. This expansion, which increased by 8.77% year on year, exceeded national banking lending and financing, which expanded by 3.26% yearly. One of the factors influencing the growth of sharia financing is public trust in the principles of business financing used, such as justice ('adl), balance (tawazun), benefit (maslahah), universalism (alayah), and the absence of gharar, maisir, usury, zulm, risywah, and other illicit objects (Financial Services Authority, 2017). People's intentions to utilize Islamic bank products are influenced by Sharia norms, which express religious values in operational activities (Zaid, 2019). Religious values can be seen in individuals' attitudes, behaviour, and trust since religious values affect most elements of human society (He, Wang, & Gao, 2022). Religious principles influence both individual behaviour and societal behaviour. Religious values can be measured based on an individual's devotion, including that of a housewife, and this can be observed in people's attitudes, behaviour, and trust in Sharia-compliant Islamic financing. In addition to Sharia principles, public financial literacy influences the wide availability of Sharia bank funding.

Financial literacy is a complex topic that varies with regional and demographic contexts. Because it is an activity related to a person's ability to make informed judgments and take effective action in financial management (Bernado, 2000). Therefore, financial literacy is important in making financial decisions, including financing at Islamic banks. In general, the consensus says that only a few individuals with low financial literacy succeed in making financing or credit decisions (Gustman et al., 2012). This condition is a crucial

problem for a country, especially developing countries (Karakurum et al., 2019). The effects experienced are weak sound financial principles, low-risk management and high financial pressure. In this context, financial literacy became a critical topic of interest among policymakers, central bankers, and banking, including sharia banking in developing countries like Indonesia.

The OJK survey recorded SNLIK 2022 results showed the Indonesian people's financial literacy index was 49.68 per cent, an increase compared to 2019, which was only 38.03 per cent. Meanwhile, this year's financial inclusion index reached 85.10 per cent, an increase compared to the previous SNLIK period in 2019, which was 76.19 percent (OJK, 2022). The data does show an increase, but it turns out that not 50% of Indonesian people have financial literacy. So we need a strategy that is right on target. Because actually, the level of financial literacy variations are determined by several factors such as the level of education, income, gender, and financial goals, although it does not rule out the possibility that a person with a high level of education and income can also have a bad financial understanding (Corcoran-nantes, 2016). Therefore, housewives are required to have high financial literacy (Calamato, 2010), in order to be able to become good strategic planners and have positive financial behaviour (Caushal, 2006), have more diverse perceptions than men in family welfare (Sharma & Kota, 2019). Such as asset ownership, seizing opportunities, health quality, financial accuracy, and social intelligence (Gudmunson & Danes, 2011).

Unfortunately, the reality is rather different. As a country with a mostly Muslim population, Indonesia has a poor financial literacy index. Based on data from the Financial Services Authority (OJK), it was just 17% in 2013 and 36.13% in 2019. By 2022, it will have climbed by 50.33 per cent of women who are considered financially literate and understand how to manage their finances effectively. This disorder, affects half of the female population, has potential financial management errors (mismanagement), such as credit misuse and a lack of adequate financial planning (Suparti, 2016). As a result, it affects economic stress (Mancebon et al., 2019). Disturbing the family's economic stability (Antonia Grohmann, 2014).

## LITERATURE REVIEW

### *Islamic Financing Intention*

Islamic financing is the provision of financial services that are compliant with Shariah, Islam's fundamental principles. Shari'ah prohibits the payment of interest (Riba) or usury, the sale of questionable products (Gharar), gambling (Maysir), short sales, and the financing of illicit activities deemed injurious to society (Bananuka et al., 2020). Muslims who use financial intermediaries for financing face two obstacles. The first step is understanding the financial details of their financing and potential solvency determinants. Another obstacle Muslims face is evaluating whether the financing or instrument they wish to use is Shariah-compliant. In other words, does the bank's selected funding method comply with Shariah principles (Albaity & Rahman, 2019).

Contract-based Islamic financial products are classified into three categories. At first, debt-like financing is structured as sales, including leases (Ijarah) with varied buyback options, purchases with delayed delivery of the product (Salam for basic products and

Istisna' for manufactured goods), and selling involving markup and postponed payments (Murabahah). Pure lending is allowed only when essential (Qard, commonly utilized for current deposits). Second, two-modal financing is analogous to profit-and-loss sharing (PLS). Profit-sharing and loss-bearing (Mudarabah), in which the financier provides capital and the beneficiary provides labour and skills (profits are shared, but losses are borne by the financier, who has no right to intervene in the management of the financed operation unless negligence, misconduct, or breach of contract can be proven). Furthermore, pure profit-and-loss sharing (Musharakah) exists, whereby both partners finance the project with equity-like financing and divide profits and losses. The second Islamic financing product is the provision of services, such as agency contracts (Wakalah), which are increasingly used for money market transactions, or safekeeping contracts (Wadi'ah), which are used for current deposits (Hussain et al., 2015).

### ***Household Financial Literacy***

Based on the macroeconomics perspective, financial literacy is a critical component that drives economic growth and ensures the country's financial stability (Potrich et al., 2015). Financial literacy is the awareness, information, abilities, attitudes, and habits required to make sound financial decisions (Koomson et al., 2021). It is becoming a significant provision for housewives to avoid financial blunders (mismanagement) (Lusardi & Tufano, 2015). Good financial management is aided by financial literacy, which improves people's life (Crossan et al., 2011). It would help if you were financially literate as a housewife (Calamato, 2010). Financial security will be harder to obtain under management (Swiecka et al., 2020). Financial literacy encourages households to save, invest, and obtain credit or financing (Potrich et al., 2015).

Findings (Suarti, 2016) states that housewives play an important role in managing and managing family finances (Pati et al., 2014). Due to a family's high-income level, without proper financial management, financial security will be difficult to achieve (Swiecka et al., 2020). Financial literacy encourages households to have savings, insurance and investments, credit or financing (Potrich et al., 2015). Does not apply good financial behaviour and lacks skills in dealing with economic shocks (Angela et al., 2009).

### ***Financial Literacy***

Financial literacy combines financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and achieve individual financial well-being (Preston et al., 2023). The five components of financial literacy are knowledge of financial concepts, communication of financial concepts, personal finance management, decision-making abilities, and confidence in future financial planning (Rozikin & Sholekhah, 2020). According to (Furrebøe et al., 2022), Financial literacy contains two dimensions of human capital: knowledge gained through education or experience and the ability and confidence to apply this knowledge. Making wise financial decisions requires understanding finances (Makhija, 2022). This is also expressed by (Díaz & Jiménez, 2022) that it is not only having financial knowledge but must be able to practice it in financial decisions. The ability, knowledge, and attitude of a person to comprehend and analyze financial information from Islamic financial institutions is known as Islamic financial literacy (Albaity & Rahman, 2019).

A financially literate person can comprehend, assess, manage, and discuss personal financial decisions that impact their material security. Additionally, he or she must be able to discriminate between financial options and naturally participate in conversations about money and financial matters (Ganesan et al., 2020).

In addition, (Albaity & Rahman, 2019) stated that Islamic Financial Literacy is the level of information and expertise a person possesses to comprehend the significance of Islamic financial services, which influences their attitude towards the purpose of utilizing Islamic financing. Knowledgeable and competent women can make better financial decisions and demonstrate these skills. Financial numeracy, savings and investments, borrowing, insurance, risk and return, and other topics were covered in the questionnaire's questions to gauge respondents' level of financial knowledge (Rai et al., 2019). Based on (Rozikin & Sholekhah's, 2020) research, Islamic financial literacy positively and significantly impacts the intention to save in Islamic banks. Research by (Muslichah & Sanusi, 2019) found that financial literacy affects the intention to use Islamic banking products. Compared to other relationships, the impact of Islamic financial literacy on the intention to adopt Islamic banking products is more pronounced. Raising financial literacy is crucial for boosting the interest of market players in using Islamic products.

*H1: Ability has positive impact on Intention to Islamic Financing*

*H2: Attitude has positive impact on Intention to Islamic Financing*

*H3: Knowledge has positive impact on Intention to Islamic Financing*

### **Trusts**

Trust is a clear and concise human tendency (Flavian et al., 2005). Trust is conceptualized and measured through credibility, confidence, reliability, honesty or benevolence (Kantsperger & Kunz, 2010). According to (Lewis & Weigert, 1985), trust involves emotional cognition. Trust influences judgment and expectations (Rigelsberger et al., 2005; Johnson & Grayson, 2005). Trust is earned through views of the object's benevolence, attractiveness, and goodwill (Riegelsberger et al., 2005; Corritore et al., 2003). The basic idea of trust includes willingness, anticipation, confidence, belief, attitude and dependence. The foundation enables an individual or group to act and behave in a way that is consistent with the presence of their beliefs. Actions that have favourable or unfavourable impacts are included. Trust in his abilities, honesty, and integrity is the foundation of this activity (Ahmad & Rusdianto, 2020). Particularly in the service industry, trust is essential for corporate success. It will be challenging to rebuild consumer trust if the business cannot acquire and maintain it. In order to please customers, businesses must encourage customer interaction and handle concerns thoughtfully (Fauzi, Saputra et al., 2022). Particularly in the service industry, trust is essential for corporate success. It will be challenging to rebuild consumer trust if the business cannot acquire and maintain it. In order to please customers, businesses must encourage customer interaction and handle concerns thoughtfully (Fauzi, Saputra et al., 2022). Particularly in the service industry, trust is essential for corporate success. It will be challenging to rebuild consumer trust if the business cannot acquire and maintain it. In order to please customers, businesses must encourage customer interaction and handle concerns thoughtfully (Fauzi, Saputra et al., 2022).

The findings of research on Islamic banking in a two-dimensional model of trust. Furthermore, various levels of customer satisfaction impact the dimensions of trust. In particular, research has indicated that "good" rather than "credibility" has a big impact on customer loyalty, happiness, and a propensity to boost consumer confidence. Building relationships with customers and fostering consumer loyalty and trust depends greatly on care-related factors. Therefore, management should promote behaviours that help clients refer others to the company. People who trust the organization are likelier to remain loyal (Ashraf, 2015). According to (Fauzi, Saputra et al., 2022), direct trust greatly impacts financing interests. (Sekhon et al., 2013) show that trust is fundamental for building individual and organizational relationships in today's financial sector, including the intention to use Sharia bank financing products with the hope of implementing Sharia principles (Hoq et al., 2010).

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*H4: Trust has a positive effect on the intention to use Islamic bank financing.*

## RESEARCH METHOD

This study uses a quantitative approach (Creswell & Clark, 2010 ; Bryan, 2007). This approach is used to identify the influence of housewives' financial literacy factors on their intention to use Islamic bank financing. The research model is illustrated in the following figure;

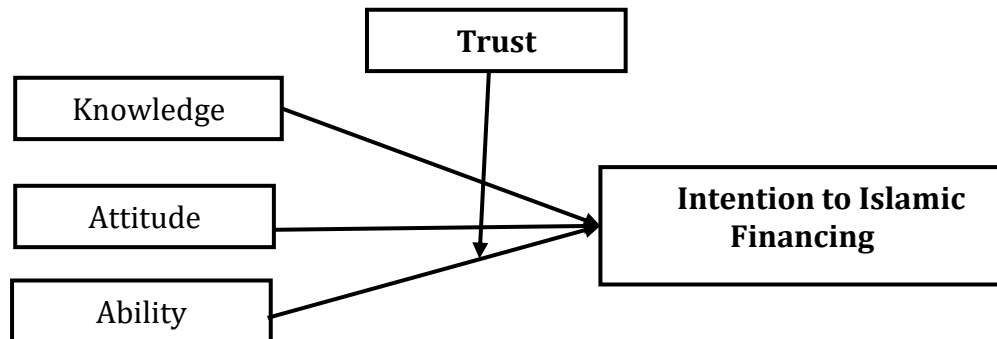


Figure 2. Research Model

### Data collection

This study involved women in Indonesia with accounts in Islamic banking as the research population, using random sampling techniques to select relevant respondents. Questionnaires were distributed online via Google Forms to predetermined populations, and a pilot study conducted from 17 to 24 January 2023 obtained 50 respondents. However, this number is reduced based on validity and reliability tests due to some invalid answers and unreliable questions. After the revised questionnaire was redistributed to predetermined respondents through several WhatsApp (WA) groups from January 25 to February 2, 2023, this redistribution process reached 380 respondents across 32 provinces in Indonesia.

Furthermore, 22 people were eliminated after considering the completeness of the information obtained from 380 respondents to 358. Since the total population in each area was not identified, this sample size was quite representative. This sampling aligns with Lind, (Marchal and Wathen's, 2015) opinion, who said that the population does not always determine the number of samples because the population is not always identified

### Measurement

All constructs in this study were obtained from previous studies. Financial literacy attributes such as Knowledge, ability, trust and attitude were obtained from research by (Koomson et al., 2021), which ultimately affects the intention to use Islamic bank financing products.

### Data analysis

The data in this study were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), recommended by many as a good statistical tool for modelling paths to solve complex multivariate models (Hair et al., 2014). This approach has also been recognized as a flexible, powerful, and superior statistical tool for predictive and theoretical testing (Henseler et al., 2015).

## RESULTS AND DISCUSSIONS

### *Model Measurement*

Measurement model analysis includes the evaluation of indicator loading, mean-variance, and composite reliability, known as convergent validity. Another assessment required is discriminant validity, which consists of factor loading and correlation of latent variables. Convergent and discriminant validity checks aim to achieve content validity confirmed by item factor loading (Hair et al., 2014). The factor loading of the 37 instrument questions is 0.70, indicating that this value contributes more to explaining the latent construct. In general, the measured model constructs are reflectively evaluated by testing convergent and discriminant validity in stages.

### *Convergent validity*

As shown in Table I, the reliability test shows that each latent variable has a Cronbach's alpha value  $> 0.6$  which is considered reliable. Also, the composite reliability of all latent variables is considered good because the value is estimated to be  $> 0.7$ , which is the recommended range (Sekaran & Bougie, 2016). In contrast, AVE was used to assess each latent construct's convergent validity, as (Hair et al., 2014) recommended. The four latent variables have an AVE  $> 0.5$ , which indicates good convergent validity because they meet the criteria. Several items are omitted because the loading factor is less than 0.70, namely K2, K6, Att1, Att2, Ab1 and T1, so the items used only pass the convergent validity test.

**Table 1. Convergent Validity Test and Construct Reliability**

Code	Loadings	CR	AVE		
K1	0.790	0898	0.594		
K3	0.777				
K4	0.781				
K5	0.724				
K7	0.809				
K8	0.741				
Att3	0.919			0921	0.853
Att4	0.928				
Ab2	0.767	0.884	0.604		
Ab3	0.725				
Ab4	0.832				
Ab5	0.803				
Ab6	0.755				
T2	0.845			0893	0.736
T3	0.877				
T4	0.852				
F1	0.799	0.933	0.664		
F2	0.788				
F3	0.850				
F4	0.836				
F5	0.789				
F6	0.836				
F7	0.806				

Source : Research Result (2023)



Based on the table below, the AVE square root score for each construct in each diagonal section is greater than the correlation with the other constructs. This shows that each construct has passed the discriminant validity test because the gauges of the different constructs are not highly correlated.

### **Discriminant validity**

Discriminant validity describes the ability of each latent variable to discriminate against one another (Hair et al., 2014). This explains that the correlation between indicators of the underlying latent variables must be high but weak with the others. Parameter cross-loading values are considered to test discriminant validity in the measurement model. Table II shows that the cross-loading value is  $>0.7$  on one variable and the indicator that measures the latent variable is higher than the other variables.

**Table 2. Discriminant Validity Test**

Variables	Ability	Attitude	Financing	Knowledge	Trusts
Ability	0.777				
Attitude	0.505	0.924			
Financing	0.503	0.638	0.815		
Knowledge	0.521	0.567	0.524	0.771	
Trusts	0.399	0.591	0.533	0.513	0.858

Source : Author's data processing results (2023)

### **The Effect of Financial Literacy on Financing Submissions**

The effect of financial literacy (Ability, Knowledge and Attitude) on financing applications with Trust as a mediating variable can be seen in the table below. If the p-value  $< 0.01$ , then the path is significant at the 99% level; if the p-value  $< 0.05$ , then the path is significant at the 95% level, whereas if the p-value  $> 0.05$ , then the path is not significant.

**Table 3. Path Coefficient Value**

Path	Coefficients	T Statistics	P Values
Ability -> Financing	0.178*	2,386	0.017
Ability -> Trust	0.058ns	0.625	0.532
Ability -> Trust -> Financing	0.010ns	0.536	0.592
Attitude -> Financing	0.370**	4,638	0.000
Attitude -> Trust	0.424**	5,392	0.000
Attitude -> Trust -> Financing	0.075ns	1942	0.053
Knowledge -> Financing	0.132ns	1678	0.094
Knowledge -> Trust	0.242*	2,557	0.011
Knowledge -> Trust -> Financing	0.043ns	1611	0.108
Trusts -> Financing	0.176*	2,203	0.028

Note: \*\*p-value  $< 0.01$ ; \*p-value  $< 0.05$ ; ns = not significant \*\*significance level at 99% and \* significance level at 95%

The relationship between each construct can also be seen in the figure below, which shows each loading factor for each question item, the coefficient value for each path and the R square. R square of 0.488 indicates that variations in the variables of ability, knowledge, attitude in financial literacy and trust can explain variations in the financing application

variable of 48.8%. In contrast, the rest is explained by other variables outside the research model. The R-Square of 0.398 indicates that variables of ability, knowledge, and attitude in financial literacy can explain variations in the trust variable of 39.8%. In contrast, the rest is explained by other variables outside the research model.

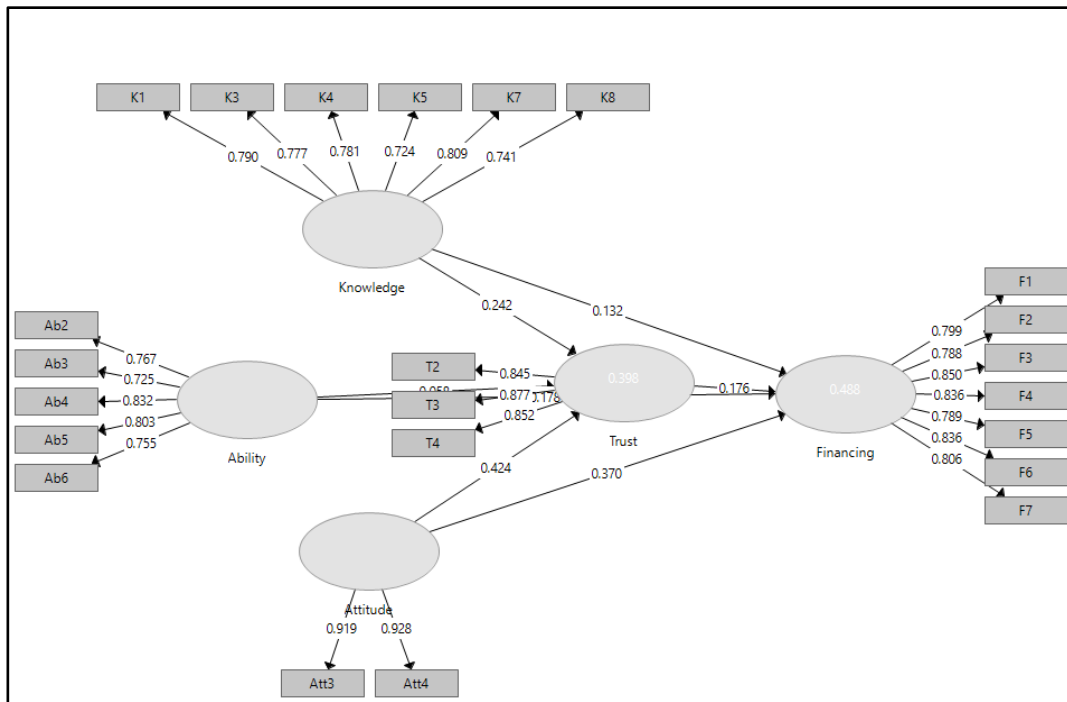


Figure 3. Construct

### Discussion

Empirical tests show support for the hypotheses proposed in this study. The financial literacy dimension of housewives influences the intention to use Islamic bank financing. Thus the, higher financial literacy in a person will tend the intention to use Islamic bank financing. This study supports the research of (Kaushal, 2006), who states that the more financial literacy a person has, the ability to be a good strategic planner and have positive financial behaviour. In line with research (Potrich et al., 2015). Encouraging households to have savings, insurance and investments, credit or financing. As well as creating a tendency to use non-hazardous financing (Angela et al., 2009).

In more detail, Based on Table 3, it was revealed that women's financial ability refers to the ability to receive a loan, also known as financial capacity ( $\alpha = 1\%$ ), with a coefficient value of 0.178. This result can be interpreted that the housewife's ability level influences their intention to use Islamic financing. When looking at the results of respondents' responses on variable ability indicators, most respondents answered "agree" to "strongly agree". When asked about their intention to use Islamic financing, most also answered "agree" to "strongly agree". In this case, a housewife's financial ability means having financial literacy, financial capacity and financial inclusion, so it influences the intention of housewives to take Islamic bank financing. This finding aligns with (C.J., Rooij, Lusardi, & Alessie, 2012) that the ability to manage finances increases their financial well-being, especially during retirement. Housewives with good financial management skills will have a high anticipatory spirit, invest and intend to leave a legacy for their family (Iram et al., 2021).

Even the ability to recognize the profile of financial products will improve the skills for financial planning, investment, and credit and financing budgets (Twumasi et al., 2022).

Likewise, women who know financial management have skills in managing personal finance, making the right financial decisions, and having the confidence to plan their financial needs in the future (Abdullah et al., 2017). As shown in Table 3, the financial knowledge of the housewife showed that it refers to the knowledge to receive a loan, also known as financial capacity. ( $\alpha = 1\%$ ) with a coefficient value of 0.370. This result can be interpreted that the housewife's knowledge level influences their intention to use Islamic financing. When looking at respondents' responses on variable knowledge indicators, most answered "agree" to "strongly agree". When asked about their intention to use Islamic financing, most also answered "agree" to "strongly agree". This is because housewives always allocate their income to consumption, working capital, saving, investment, and social-religious spending (Lacnhace, 2014). In overcoming the financial deficit, housewives already know that credit or financing is needed (C.J. et al., 2012).

Attitude is one of the main internal influences influencing one's decision-making process, in this case, the housewife (Muslichah & Sanusi, 2019). Table 3 shows that the financial attitude of women refers to the ability to receive a loan, also known as financial capacity ( $\alpha = 1\%$ ), with a coefficient value of 0.132. This result can be interpreted that the level of attitude of the housewife influences their intention to use Islamic financing. When looking at the results of respondents' responses on variable ability indicators, most respondents answered "agree" to "strongly agree". When asked about their intention to use Islamic financing, most of them also answered "agree" to "strongly agree" This fact means that the attitude of the housewife increases their intention to use Islamic financing. This finding is consistent with the research of (Hassan and Anood, 2009), which states that attitude influences the intention make a housewife's decision to use Islamic financing.

The trust variable was found to have a negative relationship with the intention to use Islamic financing. This study is not in line with several studies discussing aspects of appropriate behaviour and their role in determining the intention to use Islamic bank financing (Hoq et al., 2010; Osman et al., 2009; Butt, 2011). This means that the higher the level of trust in Islamic banks, the higher the intention to use financing products. Therefore, these findings support the view of trust as ammunition in establishing positive synergy between the bank area and customers.

## **CONCLUSION AND RECOMMENDATION**

Financial literacy is fundamental in maintaining the stability of the household economy. Housewives' financial literacy is a fundamental provision that influences mothers' intentions to use Islamic bank financing products. Not limited to this, financial literacy also fosters housewives' trust in Islamic bank products. In the end, it also contributes to determining the intention of housewives in using Islamic bank financing products. With regard to the recommendations for policy implementation from this study, the government together with financial industry institutions must always focus on implementing financial inclusion, especially for housewives in order to achieve financial literacy for mothers and have a positive impact on household financial management, increasing savings, investment

and access to products financial industry products including financing, so as to avoid moneylenders. In the end, it will also have a positive impact on Indonesia's economic growth.

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