

FINANCIAL LITERACY CAPABILITIES IN INCREASING FINANCIAL INCLUSION THROUGH SHARIA FINTECH

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ABSTRACT

Studies on financial literacy in increasing financial inclusion and the use of sharia financial technology in banking make it easier for customers to plan financial goals. The purpose of this study is to determine the ability of financial literacy to increase the understanding and use of sharia financial technology and the ability of financial literacy to increase financial inclusion and the ability of sharia financial technology to increase financial inclusion. Using quantitative methods with SEM analysis. The result it was found that the ability of financial literacy has an effect on sharia financial technology with an estimated value of 1.038 (103.8%), a significant 0.000. The same results were also found in the ability of financial literacy to influence financial inclusion with an estimated value of 0.633 (63%), a significant 0.000. However, the financial capability of Islamic technology has no effect on financial inclusion with an estimated value of 0.055 (5.5%), a significant 0.576. Financial literacy helps economic development in dealing with economic complexity and instability. Financial well-being and financial literacy are two important factors in determining an individual's quality of life.

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1. INTRODUCTION

Recent trends in the sector and financial services increasingly emphasize the importance of financial literacy because a lack of financial knowledge will lead to bad financial choices and decisions that can ultimately result in unwanted financial consequences and economic conditions. Financial literacy helps economic development in dealing with economic complexity and instability. Financial well-being and financial literacy are two important factors in determining an individual's quality of life.

Accumulative OJK consumer service statistics (data as of 1 January 2013 to 30 September 2021) show that the trend of OJK consumer services, including questions, information and complaints, tends to increase from 2013 to 2021. This is an interesting finding considering the literacy and inclusion index. Indonesian public finance increased from 2013, 2016 to 2019. Data on the level of literacy and public financial inclusion and public awareness regarding financial products and services.

Viewed per industrial sector, the highest demand for consumer services came from the Miscellaneous sector (48.50%), Banking (23.26%) and IKNB Fintech (13.49%) and the lowest demand for consumer services related to the Pension Fund IKNB sector (0.20%), IKNB - Others (0.51%) and Capital Market (2.06%). This condition is directly proportional to Indonesia's level of

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financial literacy where the level of financial literacy in the Banking sector is the highest, while the level of financial literacy in the Capital Markets sector is the lowest. This trend shows that basic knowledge related to financial literacy is not enough to become capital in accessing financial products and services, considering that currently financial products and services are increasingly complex and sophisticated.

Based on the financial services sector, the financial literacy of the Indonesian people has also increased from year to year. In the 2019 SNLIK, all sectors showed an increase from the 2016 survey. The sector with the highest percentage of financial literacy was banking (36.12%) and the lowest was Microfinance Institutions (LKM) of 0.85%.

Development of Sharia Fintech in 2020. Throughout 2020, from the funding provider perspective, P2PL fintech was able to manage 25,621 bank accounts with 64,573 bank funding transactions. This amount has provided funding to 83,184 borrower accounts with 169,461 funding transactions. Fintech P2PL was able to channel funding of IDR 1,269.90 billion. At the end of the year, outstanding funding was recorded at IDR 589.73 billion with a 90-day Payment Success Rate (TKB90) at the end of 2020 of 95.22% or meaning bad funding of 4.78%. The contribution of sharia P2PL fintech to the outstanding industry funding is 3.85%.

Therefore, it is necessary to level educational materials, from basic, intermediate and advanced levels in an effort to increase public financial literacy given the increasingly complex and sophisticated financial products and services. The importance of financial literacy is illustrated by the results of research related to the 2021 Financial Fitness Index which shows that the Indonesian people's financial health index score is still relatively low at only 37.72. Increasing the contribution and maintaining the stability of the financial services sector is the key to economic development and social welfare. To encourage the contribution of the financial services sector to equity and social welfare,

The purpose of this study was to determine the effect of financial literacy on financial inclusion, financial literacy on financial technology and financial technology on financial inclusion in Bank Aceh customers. So that an understanding of financial literacy is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity.

Referring to several examples of previous research as a guide and also as material for comparison in this study. In general, previous research has said about behavioral intention in using Islamic fintech compared to planned behavior and use of technology (Darmansyah et al, 2019), but this research is still limited, especially in the context of using Islamic fintech. Thus the aim of the research is to find out the combination of awareness, knowledge, skills, attitudes and behavior related to finance regarding people's understanding of financial literacy towards financial inclusion, financial literacy towards financial technology and financial technology towards financial inclusion.

2. METHOD

Financial literacy

OJK (2021) says that Financial literacy is knowledge, skills and beliefs that influence attitudes and behavior to improve the quality of decision-making and financial management in order to achieve prosperity. further Reserve Bank of India (2020) defines financial literacy as a combination of awareness, knowledge, skills, attitudes and behavior related to finance needed to make good financial decisions and ultimately achieve individual financial well-being.

Financial technology

According to Santi (2017) financial Technology, The National Digital Research Center (NDRC), in Dublin, Ireland, defines fintech as innovation in financial services or "innovation in fintech financial services which is an innovation in the financial sector that gets a touch of modern technology. Financial transactions through fintech include payments, investments, borrowing money, transfers, financial plans and comparisons of financial products. Meanwhile, according to Bank Indonesia circular letter No.18/22/DKSP concerning the Implementation of Digital Financial Services (2016) it explains that digital financial service activities are the use of mobile-based or web-based technology in payment and financial system service activities carried out in collaboration with third parties. in the context of financial inclusion.

Financial inclusion

According to Halim (2016) financial inclusion is defined as an effort to reduce all forms of price and non-price barriers to public access in utilizing financial services. Furthermore, the Global Financial Development Report (2014) financial inclusion is a situation where most individuals can use available financial services and minimize the existence of groups of individuals who do not understand the benefits of access to finance through access that is already available without high costs.

Hypothesis Development

In order to more easily understand the relationship between theoretical concepts in accordance with the objectives and formulation of the problem in this study, it can be presented in the form of the following conceptual framework.

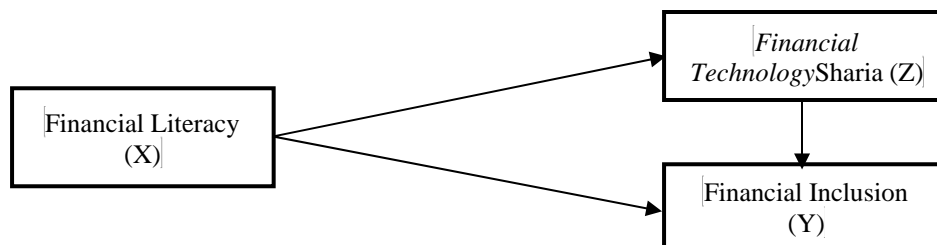


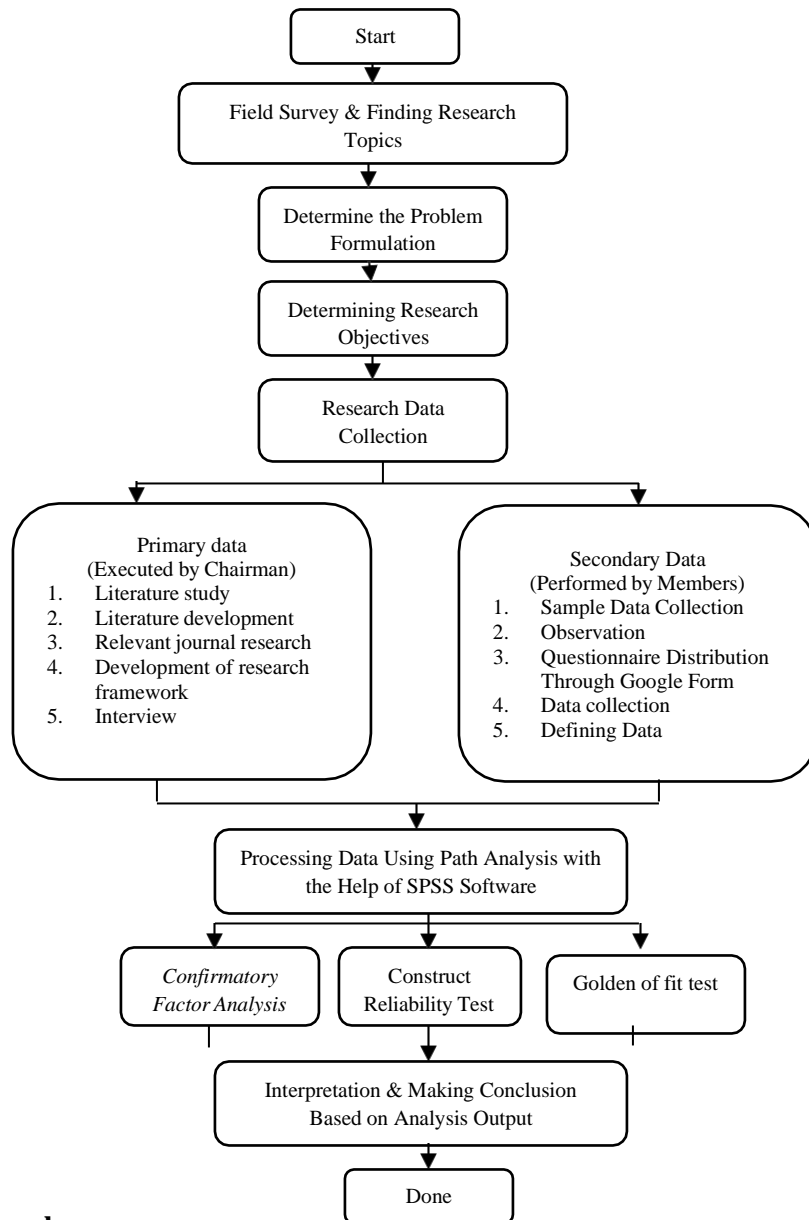
Figure 1. Conceptual Framework

Research hypothesis

- H1: financial literacy affects Islamic financial technology
- H2: financial literacy has an effect on financial inclusion
- H3: financial technology has an effect on financial inclusion

Research design

This design was made based on the steps and stages of carrying out research in the field, starting from surveys, finding topics, determining problem formulation, objectives and data collection, data processing used and ending with interpretation and conclusions.



Population and Sample

The sample size ranges from 5 – 10 times the number of parameters/indicators in one research model. The number of indicators in this research model is 15 indicators. The number of samples can be 5-10 times the number of indicators in the model, this study took a sample of 10 times the number of indicators (15x10) = 150 samples.

Measurement

Suitable sample size and ideal in analysisStructural Equation Model (SEM) with AMOS Softwareis 100 – 200 with the maximum likelihood (ML) estimation technique.

Data Collection Techniques

Data collection techniques in this study used a method by distributing questionnaires to respondents using the Googleform platform, interviews and observations involving 2 students as research assistants.

Research Model

When the data has been collected and surveyed in the field, then the data is managed using Structural Equation Model (SEM) Analysis to test a series of relationships simultaneously.

Data analysis technique

The Structural Equation Model formulated in this study is as follows:

Sub-structural 1

$$\text{Financial Literacy (LK)} = \beta_1\text{FT} + \beta_2\text{IK} + z_1$$

Sub-structural 2

$$\text{Technology Finance (FT)} = \beta_2\text{IK} + z_2$$

Information:

LK = Financial Literacy

FT = Sharia Financial Technology

IK = Financial Inclusion

3. RESULTS AND DISCUSSION

Before the data is analyzed, validity test/Confirmatory Factory Analysis (CFA) test, Construct Reliability Test and SEM Assumption Test are carried out. So that the data has passed the test and then the results of the analysis will be displayed.

Full Model Test Before Modification

Testing the SEM model is intended to test the extent to which the basic model constructed in the research can fulfill the goodness of fit criteria and can describe the conditions that occur in the research. The following is presented in the image below:

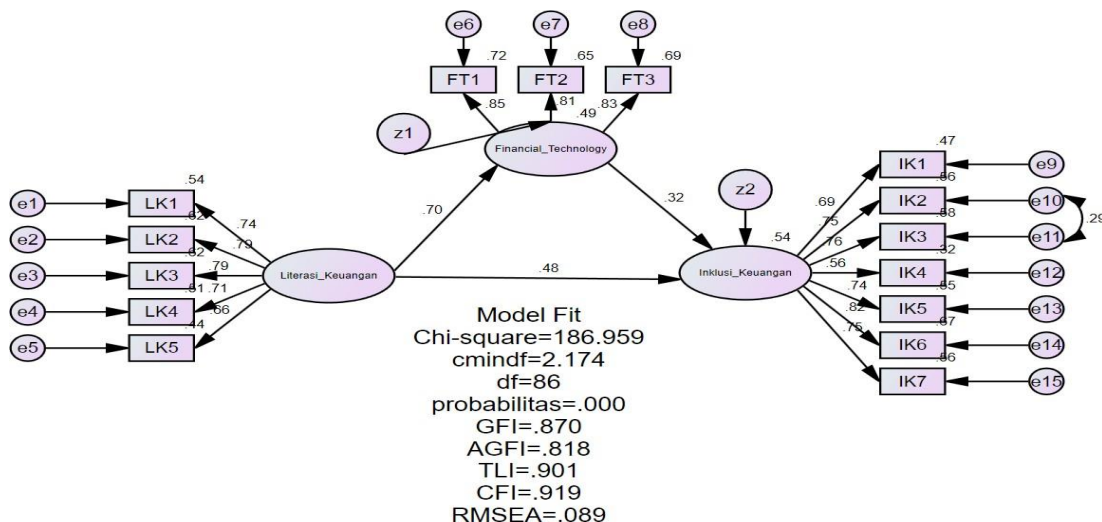


Figure 2. Full Model Construct Before Modification

The results of the goodness of fit before model modification were taken into account in detail and the resulting model evaluation showed that all value criteria were still marginal. Modifications need to be made by connecting the error covariances.

Full Model Test After Modification

The results of testing the SEM model are intended to test the extent to which the basic model constructed in the research can fulfill the goodness of fit criteria and can describe the conditions that occur in the research. The following is presented in the image below:

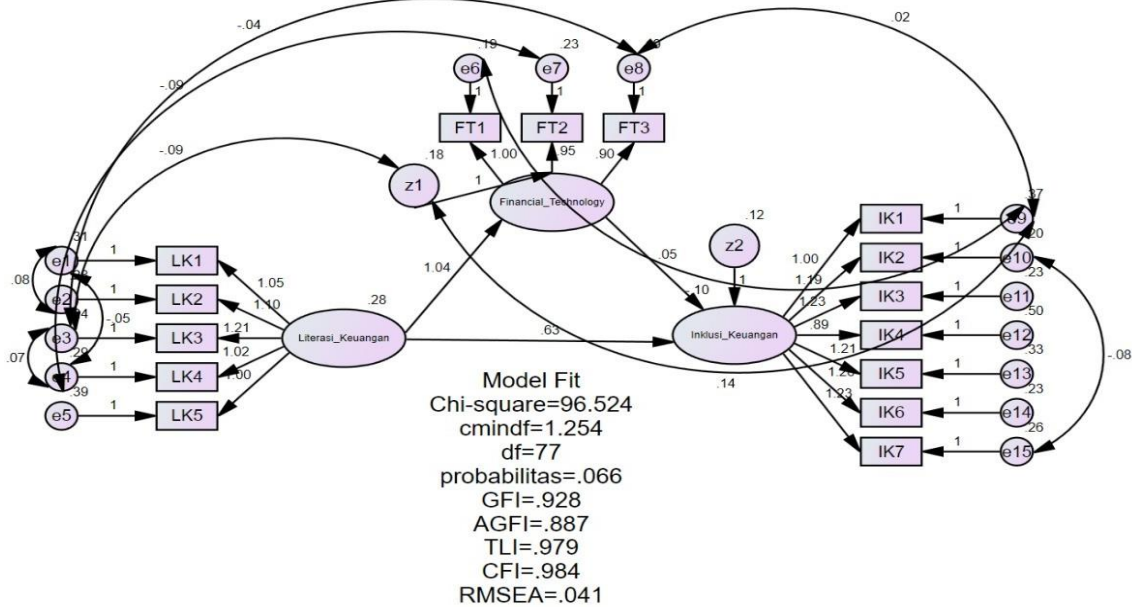


Figure 2. Full Model Construct After Modification

The results of the goodness of fit after the modification of the model have been taken into account in detail and the evaluation of the resulting model shows that all the value criteria set are better than before, meaning that the model is feasible to use.

Discussion

The results of the data analysis that has been carried out to see how much influence the ability of exogenous variables has on intervening variables and endogenous variables, the magnitude of the influence of the abilities of exogenous variables on endogenous variables, and the magnitude of the influence of the ability of intervening variables on endogenous variables, data analysis will be explained in the discussion below.

		Estimates	SE	CR	P	Label
Financial_Technology	<--- Financial_literacy	1.038	.150	6,903	***	par_13
Inclusion_Financial	<--- Financial_literacy	.633	.176	3,594	***	par_14
Inclusion_Financial	<--- Financial_Technology	.055	.098	.559	.576	par_15

1. The Influence of Financial Literacy Ability on Sharia Financial Technology

The results of the study found that financial literacy skills had an effect on sharia financial technology with an estimated value of 1.038 (103.8%), a significant 0.000. The magnitude of the

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ability of financial literacy in increasing the role of sharia financial technology is very significant, how important the level of public literacy understanding of financial sector problems confirms that a lack of knowledge will direct choices and decision-making which are fatal and ultimately result in financial consequences and welfare conditions will decrease. The importance of financial literacy is very much needed so that the wider community can determine financial products and services that suit their needs, the public must correctly understand the benefits and risks, know the rights and obligations and believe that the selected financial products and services can improve people's welfare. Level of financial literacy knowledges a process by which financial consumers/investors increase their understanding of financial products, concepts and risks through objective information, instructions and/or advice, develop skills and confidence to become more aware of financial risks, to make informed choices to know how to take action effective way to improve their welfare (National Strategy for Financial Education 2020). Findings in the field show that the financial literacy index of the Indonesian people in 2019 shows a figure of 38.03%, which means that out of every 100 people in the population there are around 38 people who are well literate. These results show an increase from the previous survey, namely 29.7% in 2016 and 21.8% in 2013 (SNLKI 2021). MIncreasing the literacy of someone who was previously less literate or not literate becomes well literate and will also increase the number of users of financial products and services.

2. Effect of Financial Literacy Ability on Financial Inclusion

The results of the study found that financial literacy skills had an effect on financial inclusion with an estimated value of 0.633 (63%), a significant 0.000. A high level of financial literacy is also believed to be able to increase welfare because with an increased level of financial literacy, people can make better financial decisions so that family or personal financial planning becomes more optimal, which in turn can increase welfare. Financial skills can help a person to understand the world of economics and assist in making financial decisions, promoting business and ultimately increasing economic growth. Based on Sethi and Ascharya (2018), financial literacy and inclusion have a positive impact on the economy and social welfare (increasing living standards and reducing poverty rates). According to Sethi and Ascharya (2018), financial literacy policies will encourage demand-side public participation in using financial product and service facilities. Financial inclusion policies in the form of increasing capacity, access, distribution, and diversification of product segmentation will lead to an increase in the supply-side of public participation in using the facilities and services of financial products and services. Data from the 2021 National Financial Literacy and Inclusion Survey (SNLIK) shows a financial literacy index of 38.03% and a financial inclusion index of 76.19%. Although still relatively low, this figure has increased compared to the 2016 SNLIK results, namely the financial literacy index of 29.7% and the financial inclusion index of 67.8%. This shows that the Indonesian people in general do not understand well the characteristics of the various financial products and services offered by formal financial service institutions, even though financial literacy is an important skill in the context of community empowerment, individual welfare, consumer protection, and increasing financial inclusion.

3. The Influence of Islamic Financial Technology on Financial Inclusion

The results of the study found that the financial capability of Islamic technology had no effect on financial inclusion with an estimated value of 0.055 (5.5%), a significant 0.576. Currently there is still a fairly high gap between the financial literacy index of 38.03% and financial inclusion of 76.19%, meaning that out of every 100 people there are around 76 people who are inclusive but only around 38 people who are well literate, besides that, you need to know the understanding of financial literacy towards financial inclusion has differences between men and women. The male financial inclusion index has a higher level of financial inclusion. In 2016, the male financial inclusion index was 69.6%

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and rose to 77.2% in 2019. Meanwhile, women were 66.2% in 2016 and increased to 75.2% in 2019. The Global Findex data released by the World Bank has also shown the gap between women and men. According to these data, 56% of adults worldwide who do not have a bank account are women. Globally 72% of men have a bank account compared to 65% of women. This trend is similar in developing countries where 67% of men and only 59% of women have a bank account. However, unlike other developing countries, in Indonesia, more women have bank accounts than men. Women and men are also relatively equal in terms of the possibility of having an active bank account, namely women as much as 51% and men as much as 46%. This achievement was contributed by payments from the government's social assistance program in the form of cash transfers to the accounts of women from beneficiary families. Furthermore, the latest data from FII in 2018 shows that there is no significant gender gap, with 55.7% of men and 55.6% of women having a bank account. In fact, women have a faster increase in bank account ownership than men. From 2016 to 2018, the number of bank account holders for women grew by 23.9%, compared to only 17.3% for men. Government non-cash assistance contributes to reducing the gender gap in bank account ownership because the assistance program requires the mother (or woman in the household) to be the main beneficiary. Muzdalifa, Inayah Aulia Rahma, Bella Gita Novalia (2018) stated that the existence of Fintech can be one of the driving ingredients for a movement to help improve finance for MSMEs, especially those in lower middle class society through Islamic financial institutions.

4. Conclusion

The results of this study conclude that the large ability of financial literacy in increasing the level of use of Islamic financial technology in increasing financial inclusion in Bank Aceh is very influential and significant, directly financial literacy is also able to increase financial inclusion, but the use of Islamic financial technology not all people can understand it. In this study, financial technology is not able to increase financial inclusion, seen from the lack of public understanding accompanied by people's behavior that does not attach importance to digital technology, which can now easily help all household needs and needs. The implications of this research end in the study of changes in behavior patterns and attitudes of the community in determining financial goals. Currently, Bank Aceh's customers are more oriented to their daily basic needs and to sustain life. However, it is hoped that this understanding of financial literacy towards financial inclusion will add to an even more important understanding in setting financial goals such as saving, making investments, increasing loan ceilings, looking for work, preparing financial plans and developing independent businesses. The results of this study are also still limited in the provision of data, time and use of analytical tools. It is possible in the future to be able to use more valid data by using more accurate analytical tool models. However, it is hoped that this understanding of financial literacy towards financial inclusion will add to an even more important understanding in setting financial goals such as saving, making investments, increasing loan ceilings, looking for work, preparing financial plans and developing independent businesses. The results of this study are also still limited in the provision of data, time and use of analytical tools. It is possible in the future to be able to use more valid data by using more accurate analytical tool models. However, it is hoped that this understanding of financial literacy towards financial inclusion will add to an even more important understanding in setting financial goals such as saving, making investments, increasing loan ceilings, looking for work, preparing financial plans and developing independent businesses. The results of this study are also still limited in the provision of data, time and use of analytical tools. It is possible in the future to be able to use more

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