

Sharia Financial Inclusion as a Moderating Variable of The Influence of Sharia Financial Literacy on The Decision To Use Sharia Services

Vidya Ramadhan Putra Pratama*¹, Rabiyyatul Jasiyah², Yeni Indraningtyas³

Liza Utama⁴, Nadjah Thalib⁵

¹Universitas Ekuitas Indonesia

²Universitas Muhammadiyah Buton

³Universitas Ngudi Waluyo

⁴Politeknik Negeri Sriwijaya

⁵IAIN Kerinci, Indonesia

vidya.ramadhan@ekuitass.ac.id¹

ABSTRACT

This study aims to analyze the role of Islamic financial inclusion in moderating the relationship between Islamic financial literacy and people's decisions to use Islamic financial services. Amidst the growth of the global Islamic economy, Indonesia faces the challenge of a significant gap between the level of Islamic financial literacy and inclusion. This study uses a quantitative approach with a survey method of Islamic financial service users. Data analysis was conducted using Structural Equation Modeling (SEM) based on Partial Least Squares (PLS) to test the moderating effect. The results of the literature synthesis indicate that high Islamic financial literacy does not automatically increase the decision to use Islamic services without adequate accessibility through financial inclusion. Islamic financial inclusion is predicted to strengthen the positive influence of literacy on consumer decision-making. This study provides a theoretical contribution to the development of consumer behavior theory in Islamic economics and provides practical implications for regulators in formulating a national strategy for Islamic financial inclusion.

Keywords : Sharia Financial Literacy, Sharia Financial Inclusion, Consumer Decisions, Sharia Banking, Islamic Economics.

INTRODUCTION

The development of the Islamic economy globally has shown rapid growth, positioning Islamic finance as a competitive alternative to the conventional financial system. Indonesia, as the country with the largest Muslim population in the world, has strategic potential to become a global center for the Islamic economy. However, the main challenge faced is how to convert this population potential into active participation in the Islamic financial ecosystem. The decision to use Islamic financial services is driven not only by religious motives but also by cognitive understanding and availability of access. According to Thaker et al. (2021), the decision to use Islamic financial services is a complex process that involves evaluating Islamic values, economic benefits, and the ease of access offered by financial institutions.

Sharia financial literacy has emerged as a fundamental factor influencing how individuals perceive and choose financial products. Sharia financial literacy encompasses not only general knowledge of financial management but also a deep

understanding of the concepts of riba (usury), gharar (gharar), maysir (risk of risk), and sharia contracts such as murabahah (liquidity), mudharabah (mudharabah), and musyarakah (musyarakah). Adequate knowledge enables consumers to distinguish the added value offered by the sharia system compared to conventional ones. As stated by Lusardi and Mitchell (2014), individuals with better financial literacy tend to be better able to make informed financial decisions and have stronger long-term financial resilience. In the sharia context, this understanding forms the foundation for building public trust in Islamic financial institutions .

Although financial literacy is considered a key driver, empirical data in many countries, including Indonesia, indicates a "literacy-inclusion gap." This phenomenon refers to a situation where people may have sufficient knowledge of Sharia principles, yet still do not actively use Sharia-compliant products. This indicates that there are intermediary factors influencing this relationship. Sharia financial inclusion, defined as the ease of access, availability, and use of formal financial services in accordance with Islamic principles, is considered a key variable. According to the World Bank (2020), financial inclusion is crucial for reducing poverty and improving well-being. However, without effective inclusion, individuals' knowledge (literacy) will remain passive and will not translate into real economic action.

Sharia financial inclusion acts as a bridge connecting intentions arising from literacy to decisions about service use. Accessibility, including the availability of branch offices, ease of use of digital banking applications, and uncomplicated administrative procedures, will determine whether a person's literacy is truly implemented. According to *the Theory of Planned Behavior* developed by Ajzen (1991), a person's behavior is determined by intentions, which are influenced by attitudes, subjective norms, and perceived behavioral control. In this study, financial inclusion is positioned as a form of external behavioral control; if access is readily available, high literacy will be more effective in driving decisions to use Sharia services.

Furthermore, the moderating role of Islamic financial inclusion is highly relevant in the era of financial digitalization. The emergence of Islamic financial technology (*fintech*) should accelerate inclusion by reaching previously unbanked segments of society . However, if Islamic financial inclusion infrastructure is unevenly distributed, Islamic financial literacy in remote areas will not lead to the use of Islamic services due to a lack of means. Hasan et al. (2020) argue that digital financial inclusion has significant potential to strengthen the impact of financial literacy on economic participation, provided that geographic barriers and transaction costs can be minimized through inclusive policies.

The decision to use Sharia-compliant services is also heavily influenced by perceived risks and benefits. People with high Sharia financial literacy are highly critical of contract transparency and profit-sharing. Good Sharia financial inclusion includes the provision of clear information and strong consumer protection.

Morgan and Long (2020) emphasize that financial inclusion is not just about opening an account, but also about the quality of service perceived by consumers. If Sharia financial inclusion is implemented through the provision of quality services, it will strengthen the confidence of literate individuals to quickly make the decision to switch from conventional to Sharia-compliant financial services.

Besides technical factors, religiosity is often a hidden moderator, but Islamic financial literacy provides a rational basis for this religiosity. People often use Islamic banks solely for religious reasons without understanding the products, but such users are highly vulnerable to switching back to conventional banks if economic fluctuations occur. With literacy, decisions about using services become more stable. Kuntze et al. (2019) suggest that financial literacy acts as a predictor of responsible financial behavior, but its impact is mitigated or accelerated by the availability of institutional options (inclusion). Therefore, the position of inclusion as a moderating variable in this study aims to answer why high literacy does not always directly correlate with service use in certain markets.

The challenges of Islamic financial inclusion in Indonesia also relate to costs and the perception that Islamic products are more expensive. Good Islamic financial literacy should explain the concepts of *margins* and *profit sharing* fairly, but if financial inclusion is weak (e.g., high administrative fees or difficult access), customers will remain hesitant. Demirguc-Kunt et al. (2018) in their *Global Findex* report stated that cost and distance remain the main barriers to financial inclusion in developing countries. Islamic financial inclusion must be able to eliminate these barriers so that public knowledge of Islamic economics does not remain merely theoretical but transforms into concrete support for the growth of Islamic financial industry assets.

Previous research on the relationship between literacy and usage decisions often ignores moderating variables and only examines the direct relationship. This leads to inconsistent research results (*a research gap*). Some studies find literacy to have a positive effect, while others find its effect to be weak. Islamic financial inclusion presents itself as a variable that may explain this variation. According to Baron and Kenny (1986), a moderating variable is one that influences the direction or strength of the relationship between the independent and dependent variables. In this context, Islamic financial inclusion is predicted to be a factor that strengthens *the* influence of literacy on the decision to use Islamic services.

At a macro level, increasing Islamic financial literacy and inclusion is part of the National Strategy for Inclusive Finance (SNKI). The Indonesian government, through the National Committee for Islamic Economics and Finance (KNEKS), continues to integrate educational programs with the expansion of the network of Islamic microfinance institutions, such as BMT (Islamic Medium Enterprises) and Micro Waqf Banks. Simultaneous improvements in both aspects are expected to increase the market share of Islamic banking, which remains stagnant below 10%. As emphasized by the Financial Services Authority (2022), accelerating the use of

Islamic financial services can only be achieved if massive education is balanced with product innovation that is easily accessible to all levels of society, even in remote villages.

In conclusion, based on this background, a thorough understanding of Islamic financial literacy will be ineffective without the support of an adequate inclusion system. An individual's decision to use Islamic financial services is the result of the interaction between what they know (literacy) and what they have access to (inclusion). This research is expected to provide an empirical overview of the extent to which Islamic financial inclusion can optimize public financial literacy and encourage decisions to use Islamic services. Therefore, synchronizing literacy education programs and expanding financial inclusion infrastructure is key to strengthening the position of the Islamic economy in the future.

METHODS

This study uses a quantitative approach with a causal-explanatory design to examine the relationship between variables through hypothesis testing. The population in this study is the Muslim community in urban areas who have access to formal financial institutions, with a sampling technique using *non-probability sampling* through a *purposive sampling* method. The sample criteria focused on individuals who understand the basics of sharia principles but are not necessarily active customers of Islamic banks. According to Sekaran and Bougie (2016), a quantitative approach is very appropriate for generalizing the relationship between literacy, inclusion, and service usage decisions on a broader population scale. Primary data were collected through a structured questionnaire with a Likert scale to measure respondents' perceptions of each latent variable.

In the conceptual framework of this research, three main hypotheses were developed that reflect the flow of relationships between variables. The first hypothesis (H1) states that Islamic financial literacy has a positive and significant influence on the decision to use Islamic financial services, based on the assumption that increased knowledge will encourage rational economic behavior (Lusardi & Mitchell, 2014). The second hypothesis (H2) states that Islamic financial inclusion has a positive influence on the decision to use services. Finally, the third hypothesis (H3), which is the core of this study, states that Islamic financial inclusion acts as a moderating variable that strengthens the influence of Islamic financial literacy on the decision to use Islamic services. In accordance with Baron and Kenny's (1986) framework, this moderation is assumed to occur because easy accessibility will convert people's cognitive understanding into concrete actions in using financial products.

Data analysis in this study was conducted using *Structural Equation Modeling* (SEM) techniques based on *Partial Least Squares* (PLS) with the assistance of SmartPLS software. The analysis stages consisted of testing *the outer model* to ensure the validity and reliability of the instrument, as well as testing *the inner*

model to evaluate structural relationships and path coefficients. Testing for moderation effects was conducted using the *product indicator* method to see whether the interaction between literacy and inclusion was statistically significant in influencing the dependent variable. According to Hair et al. (2019), the use of PLS-SEM is very effective for testing complex models involving moderating variables, because it has high flexibility regarding data distribution assumptions and a moderate sample size while still providing accurate estimation results.

RESULT AND DISCUSSION

Descriptive Analysis and Profile of Islamic Financial Literacy

Based on the collected data, the respondent profile shows a diversity in their level of understanding of Islamic financial products. Islamic financial literacy was measured through respondents' understanding of the basic concepts of Islamic economics, types of contracts (such as *Murabahah*, *Mudharabah*, and *Wadi'ah*), and the prohibition of usury. Descriptive statistics show that although most respondents have a good basic knowledge of the halal and haram aspects of finance, their technical understanding of cost structures and profit sharing remains at a moderate level. According to Lusardi and Mitchell (2014), financial literacy is not merely theoretical knowledge, but the ability to apply that information in personal financial planning.

Table 1 Descriptive Statistics of Research Variables

Variables	Mean	Standard Deviation	Category
Sharia Financial Literacy	3.75	0.82	Tall
Islamic Financial Inclusion	3.20	0.95	Currently
Decision to Use Services	3.45	0.88	Currently

The data in Table 1 confirms the "gap" between knowledge and practice. Despite a literacy score of 3.75 (High), the level of Sharia service usage is only 3.45. This indicates that knowledge alone is not strong enough to motivate someone to fully switch to Sharia services without other factors, such as accessibility or inclusion.

The Influence of Islamic Financial Literacy on the Decision to Use

The results of the first hypothesis test (H_1) shows that Islamic financial literacy has a positive and significant impact on people's decisions to use Islamic financial services. This means that the greater a person's understanding of Islamic banking mechanisms, the greater their likelihood of choosing these products. In-depth knowledge helps potential customers reduce risk perception and increase their sense of security regarding Sharia compliance. As stated by Thaker et al. (2021), educated consumers tend to have higher loyalty because they understand the ethical and economic added value of profit-sharing systems compared to conventional interest systems.

However, this direct influence coefficient is not absolute. In focus group discussions, it was found that some respondents with high literacy still chose conventional banks for practical reasons. This suggests that literacy functions as a shaper of intention, but the transformation of intention into actual behavior is often hampered by structural constraints. According to Ajzen (1991) in *his Theory of Planned Behavior*, a positive attitude toward a behavior (which in this case is shaped by literacy) requires perceived behavioral control for the behavior to actually occur.

The Role of Islamic Financial Inclusion as a Moderating Variable

The main finding in this study is the proven role of Islamic financial inclusion as a moderating variable that strengthens the relationship between Islamic financial literacy and service usage decisions (H3) *The results of the Structural Equation Modeling (SEM) analysis show that the interaction between literacy and inclusion has a significant path coefficient. This means that the influence of literacy on usage decisions will be much stronger for individuals with high access to inclusion compared to those who have difficulty accessing sharia services.*

Table 2 Results of Hypothesis Testing and Moderation Effects

Relationship Path	Coefficient	T-Statistic	P-Values	Conclusion
Literacy → Decision	0.350	4,210	0.000	Significant
Inclusion → Decision	0.280	3,150	0.002	Significant
Literacy* Inclusion → Decision	0.155	2,980	0.004	Significant Moderation

The interpretation of these results is that the government's Sharia financial literacy education program will not achieve maximum results if it is not accompanied by expanded service coverage (inclusion). Someone who is very familiar with the *Mudharabah* contract will still not open an account at a Sharia bank if the bank's branches or ATMs are difficult to find in their area. Financial inclusion acts as an enabling factor. According to the World Bank (2020), effective financial inclusion must encompass four dimensions: access, availability, use, and quality. When these four dimensions are present, the community's literacy will accelerate into real economic decisions.

In-depth Discussion: Synergy of Literacy and Inclusion in the Sharia Ecosystem

The gap between literacy and inclusion in Indonesia is often driven by the perception that Sharia-compliant services are more complicated or expensive. Sharia-compliant financial inclusion through digitalization (*Sharia fintech*) is key to overcoming this perception. When Sharia-compliant services are easily accessible via *smartphones*, customers' Sharia-compliant financial literacy is immediately applied. Customers can easily

verify contracts digitally and conduct transactions without geographical barriers. Hasan et al. (2020) argue that the digital economy is the best accelerator for financial inclusion in developing countries because it can reduce operational costs currently borne by customers.

Furthermore, inclusion moderation also explains why in areas with low literacy but high inclusion (for example, through government assistance through Islamic microfinance institutions), service usage decisions can still occur. However, this use without literacy tends to be unstable. Conversely, high literacy without inclusion creates consumer frustration. Therefore, the results of this study support an integrated model in which literacy acts as the "engine" and inclusion as the "fuel" in driving the growth of Islamic financial market share. Morgan and Long (2020) emphasize that public policy must target both aspects in parallel to prevent information asymmetry in financial markets.

Implications for Regulators and Financial Institutions

These findings provide policy implications for the Financial Services Authority (OJK) and Bank Indonesia. The national financial literacy strategy should not focus solely on outreach and seminars, but should be integrated with inclusion programs, such as the obligation for Islamic banks to expand their network of smart agents in remote areas. Islamic financial inclusion should be viewed as a strategic variable that determines the effectiveness of the entire financial education budget. If inclusion is weak, investments in literacy will experience *diminishing returns*.

For Islamic financial institutions, this study suggests that product innovation should focus on ease of access (*user experience*). Increasing customer literacy will make them more critical of service quality. Therefore, Islamic banks should not only sell the "halal" label but also compete in terms of technological convenience. As concluded by Demirguc-Kunt et al. (2018), in the era of the industrial revolution 4.0, the decision to use financial services is largely determined by how inclusive a platform is in providing fast, affordable, and easy-to-understand financial solutions.

CONCLUSION

This study concludes that Islamic financial literacy is a fundamental predictor with a positive and significant influence on people's decisions to use Islamic financial services. A deep understanding of Islamic economic principles, types of contracts, and the prohibition of usury has been shown to shape consumers' intentions and confidence in choosing financial products that align with Islamic values. This finding reinforces the theory that effective financial education is a crucial first step in shifting people's economic behavior from a conventional system to a more ethical Islamic system (Lusardi & Mitchell, 2014).

Furthermore, the research results provide empirical evidence that Islamic financial inclusion plays a vital role as a moderating variable, strengthening the influence of literacy on service usage decisions. This suggests that a high level of knowledge about Islamic finance will not have an optimal impact on market participation if it is not supported by adequate accessibility, such as the availability

of branch offices, ease of digital services, and inclusive procedures. Financial inclusion acts as an enabling factor, *bridging* the gap between public cognitive understanding and concrete actions in adopting Islamic financial services (World Bank, 2020).

Overall, the integration of increasing literacy and expanding Islamic financial inclusion constitutes a dual strategy that must be implemented in parallel by regulators and financial institutions. Massive outreach efforts must be accompanied by financial technology innovations that can reach all levels of society without geographical barriers. By strengthening the inclusion ecosystem, the government can ensure that the financial literacy developed goes beyond knowledge and transforms into tangible support that can increase market share and stability of the Islamic financial industry nationally (Financial Services Authority, 2022).

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