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Islamic Financial Literacy and Intention to Use Islamic Banking: A Role of Financial Considerations

Lubna Khan [*] Imtiaz Arif [†]

Abstract: *This paper investigates the elements that effects the individual's intention to use the Islamic banking services in Pakistan and, also assess the moderating effects of financial considerations (taken as perceived potential risk and perceived financial risk). The conceptual framework is developed using Theory of Planned Behaviour (TPB) model that links Islamic financial literacy (IFL), reputation, social and religious values with attitude and intention to use Islamic banking. The data has been collected from individuals who intend to use Islamic banking in the future. Findings reveal that IFL has a significant and positive impact on the attitude and further intention towards the Islamic banking services. Alongside, reputation, religious and social values also influence the attitude and intention of a person to use Islamic financing. Moreover, financial consideration also intensifies the nexus between attitude and intention to use Islamic banking. The research provides substantive implications regarding Islamic financial literacy that will help policymakers of Pakistan to formulate policies that enhance Islamic financing among individuals. This present study provides the evidence regarding the Islamic financial literacy (IFL) and its effect on intention of using Islamic banking. Additionally, it contributes the contemporary literature by adding evidences regarding financial consideration.*

Keywords: Islamic financial literacy (IFL); theory of planned behaviour (TPB); attitude & intention; financial consideration; social and religious values.

Introduction

Financial institutions play an essential role in mobilizing the money in the economy, as they act as an intermediary between contractual parties. One of the important factors of the contract is symmetric information, it is considered an important assumption that leads to the success of competitive markets. In most of the emerging countries, asymmetric information between both the parties causes serious problems. A study pointed out that asymmetric information in the financial markets increases the level of uncertainty and reduces investor confidence that adversely affects the financial system (Bhaskar & Mishra, 2017; Anwar, Khan, & Rehman, 2017; Sadiq & Khan, 2019).

In addition, information asymmetry in the financial markets can be possible, if the financial literacy is very low. Past studies suggest that low financial literacy decreases

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the trust and confidence in the financial market (Shen, Lin, Tang, & Hsiao, 2016; Jäntti, Kanbur, & Pirttilä, 2014). Some studies also found out that the global financial crisis of 2007-2008 was also partially instigated by the low level of financial literacy. The low level of financial literacy leads to high debt problems such as high default loans and higher costs (Ibrahim, Harun, & Isa, 2010; Disney & Gathergood, 2013).

The Islamic viewpoint suggests that Muslims need to know more than just a financial knowledge. They need to understand whether the products and services they are using provided by Islamic institutions are following Islamic rules and regulations. Therefore, Islamic financial literacy is as crucial as the conventional financial literacy. Muslims should be aware of the Islamic laws and the elements which are included in their contract. Violation of any of the elements will breach the contract. Hence, it is the responsibility of the Muslims using Islamic financing to have financial literacy about the instruments offered by Islamic financial institutions.

The term Islamic financial literacy (IFL) is normally used to define the skills and knowledge of an individual to comprehend the information in the Islamic financial contracts (Antara, Musa, & Hassan, 2016). It is needed for the customers of Islamic institutions to understand the legality and the prohibition of the financial products and services. The level of Islamic financial literacy influences the customers to use Islamic financial products and services. It is evident from the past literature that Islamic financial literacy is an important determinant of individual's attitude, that further leads to intention to use Islamic products and services.

Other than Islamic financial literacy, there are several other factors that have been studied previously to investigate the attitude and further intention to use Islamic banking services. These factors are reputation, awareness, cost and benefits, bank image, and others. Thus, the present study contributes by investigating the influence of Islamic financial literacy and its effect on the attitude and intention to use Islamic banking. Moreover, we also test the intensity of financial consideration between the nexus of attitude and intention towards Islamic banking.

Literature Review

Islamic financial literacy (IFL)

Islamic financial literacy (IFL) is defined as an individual's financial skills, knowledge, and attitudes to understand and analyze the financial information in accordance with Islamic teachings. Muslims seeking financing from different financial institutions faced several challenges. One of the most fundamental challenges is to know whether the financing methods and instruments are shariah compliant. The other challenge is to comprehend the financial terms that are used in Islamic financing. Investors should be knowledgeable about the economic and financial factors that influence their solvency. For example, the length of financing and interest payments, inflation and growth rates. While these factors are crucial, many people might find it difficult to understand.

Understanding the concept of IFL is critical to Muslims because it helps them adhere to their faith untainted. In order to widen the spectrum of Islamic financing, IFL should be enriched. Antara et al. (2016) investigated IFL as an individual skill and knowledge that shapes the attitude and intention towards Islamic banking services. Past studies emphasized the role of religion in financial decision making. It is found that the level of religiosity influences individuals' risk-taking and financial decision-making (Mahdzan, Mohd-Any, & Chan, 2017; Benjamin, Choi, & Fisher, 2016). Other studies have also identified the link between risk aversion and religion. Hence, it is evident from the previous work that the higher level of IFL not only increases the risk-taking behaviour but also subsequently increases the attitude to use Islamic banking services. After the above-mentioned, following is hypothesized as:

H_1 : *Islamic financial literacy has a positive impact on the attitude to use Islamic banking services.*

Reputation

The reputation of a bank plays a crucial role in influencing the attitude of an individual that further leads to the intention towards Islamic banking. Souiden and Rani (2015) endorsed the relationship and stated that a bank's reputation is a common factor that an individual considers when using banking services. Previous studies indicated that religion is not the only factor that an individual considers when choosing Islamic banks, instead the efficacy of services and reputation are also essential factors (Di Bella & Al-Fayoumi, 2016; Hamzah, Ishak, & Nor, 2015). Reputation can be considered a crucial factor because of the fraudulent act of various financial institutions. It does not only shatter the trust but also negatively affects the attitude of customers (Gruber, 2011; Varela-Neira, Vázquez-Casielles, & Iglesias, 2010). Based on the above-mentioned studies, the hypothesis is as under:

H_2: *Reputation of a bank has a positive impact on the attitude to use Islamic banking services.*

Social and religious values

Past studies have highlighted that a person's attitude may also be influenced by social and religious norms. An individual strong religious belief will try to behave in accordance with the teachings of Islam. Muslichah and Sanusi (2020) found a strong and positive link between religion and customer intention. In addition, social pressure or influence is also an inevitable factor that affects a person's attitude. Studies highlighted strong relation between the social values and the attitude of individuals towards adopting financial products. Based on the above discussion, the following hypotheses are developed:

H_3 : *Social values have a positive impact on the attitude to use Islamic banking services.*

H_4: *Religious values have a positive impact on the attitude to use Islamic banking services.*

Attitude and intention towards Islamic financing

Attitude is regarded as a key factor that influences the behavioral intention of an individual. In this context, this means that an attitude of an individual affects the intention to use Islamic banking services. Lajuni, Wong, Yacob, Ting, and Jausin (2017) and other relevant studies found out that attitude is an instrumental factor that predicts the behavioral intention of a person using Islamic banking. The above discussion hypothesized the following statement:

H_5 : *Attitude has a positive impact on the intention to use Islamic banking services.*

Financial considerations as a moderator

Financial consideration is further explained by perceived financial risk and perceived potential benefits. Perceived financial risk can be defined as the possibility of financial loss as a result of taking some financial decisions. The concept has been widely discussed in the literature and associated with the importance of perceived risk. It has been shown that perceived risk influences the behavioral intention of customer (Bashir & Madhavaiah, 2015).

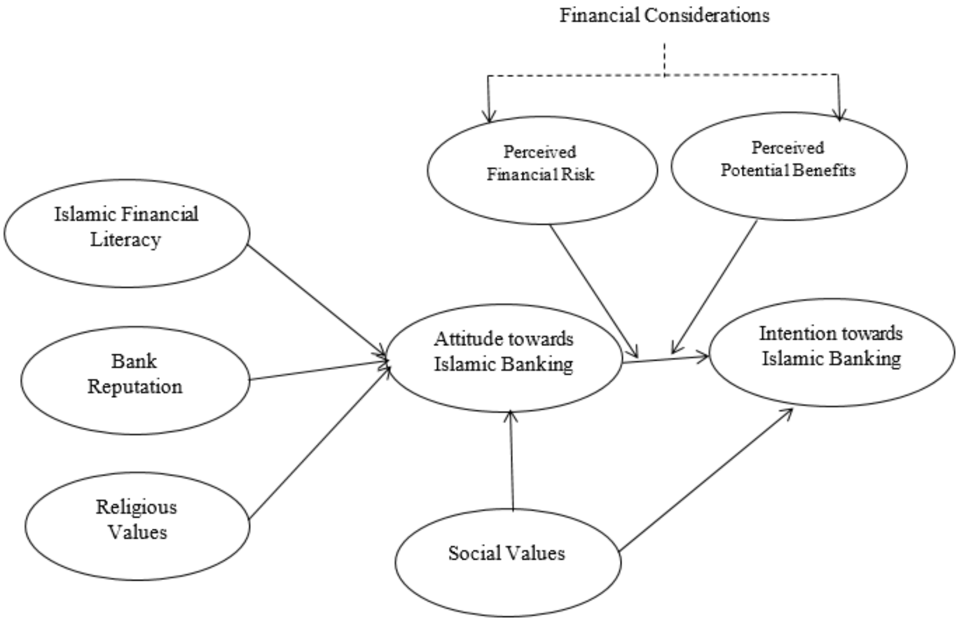
On the other side, perceived potential benefit is explained as the perception of gaining benefits as a result of some actions. These potential benefits could be tangible or intangible. Tangible benefits include profit and loss sharing, etc; while intangible benefits include the inner satisfaction of customer. Other studies such as Liu, Brock, Shi, Chu, and Tseng (2013) stated that perceived potential benefits significantly affect the behavioral intention of customers. In this case, the use of Islamic banking services will increase if customers perceive receiving high potential benefits with low financial risk from Islamic banking institutions. Based on the given evidence, the following hypotheses are developed:

H_6 : *Perceived financial risk has a positive impact on the intention to use Islamic banking services.*

H_7 : *Perceived potential benefits has a positive impact on the intention to use Islamic banking services.*

After conducting a comprehensive review of literature, the following conceptual framework has been developed. The conceptual framework is supported by the theory of planned behavior proposed by Ajzen (1985). With this theory, the study tried to understand the complex behavior of humans. In the context of Islamic finance, the model is developed to comprehend the intention of customers to use Islamic banking. According to TPB, intention is influenced by the attitude of individual and attitude is also influenced by certain factors. In this case, the attitude of customers towards Islamic financing can be influenced by IFL, bank's reputation and social and religious norms. Moreover, past literature also indicated that financial consideration is a key factor that influence the intention of a customer.

Figure 1
Conceptual Framework



Methodology

Sample

In this research, data was collected from a total of 170 respondents who were conventional banks customers but were willing to use Islamic banking in future. Since the willingness of customers to use Islamic banking is important for the growth of Islamic banks, these respondents were chosen based on their potential to use Islamic banking products and services in future. Non-probability purposive sampling techniques was used to draw the sample. The target population is bank customers, who own a bank account in the conventional banks of Pakistan only and are intend to use Islamic banking services in future. To ensure that these respondents can be a potential customer of Islamic banks, a question was included that filters the targeted respondents. In order to collect the data, we mainly targeted conventional banks located in Karachi, Pakistan based on their size and branches available across country.

Data Collection Instrument

The present study utilizes the quantitative research methods in which the research instrument, i.e. questionnaire was used to collect the data from relevant participants. The questionnaire was designed in consideration of the studied research model. The survey instrument primarily consists of two sections: one is the respondents' profile and the other is about the measurement of the theoretical model.

Table 1
Descriptive Statistics

Demographics	Frequency	(%)
Gender		
Male	103	60.6
Female	67	39.4
Age		
21-30	116	68.2
31-40	34	20
41-50	12	7.1
Above 50	8	4.7
Qualification		
Undergraduate	15	8.8
Graduate	74	43.5
Post-Graduate	74	43.5
Others	7	4.1
Total	170	100

All the measurement items of the variables were adapted from previous studies. Adapted from the measurement scale of Islamic financial literacy (IFL) derived by Antara et al. (2016), we used 10 of the IFL items that were measured on a five-point Likert scale. In addition, six measured items were used to measure reputation of the Islamic banks, which were adapted from Albaity and Rahman (2019). Eight items of both attitude towards Islamic banking and intention to use Islamic banking were derived from Albaity and Rahman (2019). Moreover, financial consideration is further divided in to two dimensions: perceived financial risks and perceived benefits. The former construct consists of seven items that were adopted from Heaney and Goldsmith (1999); Featherman and Pavlou (2003). The latter construct has five items which were adopted from Xue (2015); Lee (2009).

Findings and Discussion

The gathered data was initially screened through SPSS that eliminates the impurities in the dataset as recommended by Hair, Ortinau, and Harrison (2010). After that, the proposed research framework was analyzed using Structural Equation Modeling through Smart PLS. In this research, PLS-SEM is used because it is considered as the most suitable technique when the model is complex and sample size is small (Hair Jr. et al., 2014). Hence, the data is analyzed and discussed in two phases, measurement model testing (Outer) and structural model testing (Inner).

Measurement model testing

The outer measurement model describes the relationship of latent variables with its observed variables. It can be evaluated through construct reliability, convergent validity and discriminant validity.

Construct reliability

It measures the internal consistency of the research instrument. Composite reliability (CR) is an indicator that determines the reliability of each variable. Table 2 reports the results of construct reliability. It shows that the values of CR of all the latent variables are above 0.7, as suggested by Hair Jr, Sarstedt, Matthews, and Ringle (2016). Hence, it is concluded that the research instrument, i.e. questionnaire, is reliable.

Convergent validity

It refers to the degree of relationship between the measures of a particular construct.

Table 2
Reliability and Convergent Validity

Construct	Items	Loading	CR	AVE
AIB	AIB1	0.842	0.911	0.720
	AIB2	0.844		
	AIB3	0.889		
	AIB4	0.818		
BR	BR1	0.650	0.871	0.530
	BR2	0.718		
	BR3	0.697		
	BR4	0.781		
	BR5	0.811		
	BR6	0.698		
IFL	IFL1	0.681	0.785	0.550
	IFL6	0.755		
	IFL7	0.785		
IIB	IIB1	0.906	0.953	0.804
	IIB2	0.873		
	IIB3	0.904		
	IIB4	0.920		
	IIB5	0.880		
PFR	PFR2	0.890	0.898	0.815
	PFR3	0.916		
PPB	PPB1	0.754	0.864	0.615
	PPB2	0.813		
	PPB3	0.819		
	PPB5	0.747		
RV	RV1	0.808	0.911	0.596
	RV2	0.808		
	RV3	0.821		
	RV4	0.800		
	RV5	0.889		
	RV6	0.623		
	RV7	0.614		
SV	SV1	0.883	0.930	0.768
	SV2	0.903		
	SV3	0.868		
	SV4	0.850		

Basically, convergent validity determines whether the theoretically interrelated measures are related statistically or not. The value of average variance extracted (AVE) and factor loadings are parameters through which convergent validity can be assessed. Table 2 illustrates the values of AVE and factor loadings. As per the criteria suggested by Hair Jr, Sarstedt, Hopkins, and Kuppelwieser (2014), the AVE value should be greater than or equal to 0.5, and that the factor loadings should be greater than 0.7. The factor loadings that are greater than 0.6 is also accepted when the composite reliability is greater than 0.7. In our case, the value of AVE for each construct is greater than 0.5 and the factor loadings are also greater than 0.6. With the help of these statistics, it can be ensured that the convergent validity of each construct is established.

Discriminant validity

It is defined as the degree to which items of a single construct must be discriminant with the items of another construct. In this study, we used three different methods to ensure discriminant validity: Fornell and Larcker (1981) criteria, Cross Loadings, and Heterotrait-Monotrait (HTMT) criteria. Tables 3, 4 and 5 contain the results of all the different criteria. According to the Fornell and Larcker (1981) criteria, all the diagonal values should be greater than their off-diagonal values. The diagonal value also represents the square root of AVE. It shows that all the diagonal values are greater than their off-diagonal values and hence fulfills the criteria and discriminant validity is established.

The Heterotrait-Monotrait (HTMT) is the second method that indicates the discriminant validity of the construct. If all the ratios of HTMT is less than 0.95, it ensures that discriminant validity is established. Table 4 shows the measures of HTMT, it illustrates that all ratios are less than the prescribed limit of 0.95 suggested by Henseler, Ringle, and Sarstedt (2015), hence it concludes that all construct ensure discriminant validity.

Table 3
Fornell & Larcker (1981) Criteria

	AIB	BR	IFL	IIB	PFR	PPB	RV	SV
AIB	**0.849**							
BR	0.587	**0.728**						
IFL	0.679	0.497	**0.742**					
IIB	0.805	0.601	0.617	**0.897**				
PFR	0.484	0.348	0.445	0.537	**0.903**			
PPB	0.461	0.545	0.334	0.509	0.444	**0.784**		
RV	0.428	0.268	0.362	0.349	0.452	0.438	**0.772**	
SV	0.541	0.542	0.404	0.581	0.392	0.509	0.377	**0.876**

Table 4
Heterotrait-Monotrait Ratio (HTMT)

	AIB	BR	IFL	IIB	PFR	PPB	RV	SV
AIB								
BR	0.693							
IFL	0.936	0.705						
IIB	0.889	0.684	0.810					
PFR	0.588	0.439	0.655	0.626				
PPB	0.534	0.681	0.450	0.573	0.538			
RV	0.479	0.314	0.492	0.376	0.541	0.483		
SV	0.610	0.632	0.545	0.630	0.467	0.600	0.416	

Table 5
Cross Loadings

	AIB	BR	IFL	IIB	PFR	PPB	RV	SV
AIB1	0.842	0.549	0.581	0.699	0.427	0.393	0.266	0.436
AIB2	0.844	0.473	0.543	0.679	0.415	0.378	0.415	0.476
AIB3	0.889	0.512	0.609	0.710	0.406	0.403	0.451	0.484
AIB4	0.818	0.458	0.572	0.645	0.395	0.392	0.318	0.443
BR1	0.393	0.650	0.325	0.447	0.256	0.396	0.199	0.358
BR2	0.471	0.718	0.339	0.429	0.249	0.355	0.192	0.301
BR3	0.410	0.697	0.396	0.414	0.262	0.343	0.262	0.381
BR4	0.425	0.781	0.321	0.407	0.258	0.393	0.163	0.404
BR5	0.458	0.811	0.378	0.499	0.183	0.418	0.164	0.456
BR6	0.399	0.698	0.416	0.424	0.323	0.483	0.196	0.473
IFL1	0.550	0.437	0.681	0.555	0.326	0.275	0.232	0.356
IFL6	0.451	0.310	0.755	0.378	0.339	0.200	0.284	0.278
IFL7	0.492	0.340	0.785	0.414	0.322	0.257	0.291	0.252
IIB1	0.771	0.542	0.596	0.906	0.478	0.459	0.379	0.549
IIB2	0.685	0.444	0.542	0.873	0.518	0.422	0.324	0.522
IIB3	0.686	0.536	0.519	0.904	0.456	0.443	0.280	0.475
IIB4	0.769	0.603	0.604	0.920	0.542	0.495	0.333	0.559
IIB5	0.691	0.564	0.494	0.880	0.408	0.458	0.241	0.494
PFR2	0.415	0.295	0.395	0.452	0.890	0.395	0.395	0.352
PFR3	0.457	0.331	0.409	0.514	0.916	0.407	0.421	0.356
PPB1	0.284	0.415	0.141	0.325	0.231	0.754	0.134	0.433
PPB2	0.318	0.420	0.216	0.382	0.245	0.813	0.245	0.352
PPB3	0.301	0.509	0.212	0.368	0.328	0.819	0.387	0.405
PPB5	0.492	0.375	0.417	0.482	0.522	0.747	0.526	0.404
RV1	0.379	0.227	0.402	0.287	0.358	0.371	0.808	0.248
RV2	0.351	0.161	0.253	0.284	0.358	0.406	0.808	0.304
RV3	0.258	0.149	0.221	0.206	0.338	0.258	0.821	0.175
RV4	0.288	0.155	0.255	0.220	0.289	0.306	0.800	0.221
RV5	0.346	0.179	0.358	0.250	0.375	0.328	0.889	0.296
RV6	0.354	0.284	0.217	0.332	0.398	0.357	0.623	0.353
RV7	0.287	0.266	0.198	0.270	0.289	0.286	0.614	0.408
SV1	0.490	0.481	0.326	0.538	0.372	0.458	0.368	0.883
SV2	0.445	0.445	0.299	0.487	0.237	0.389	0.260	0.903
SV3	0.442	0.449	0.361	0.499	0.362	0.498	0.315	0.868
SV4	0.514	0.517	0.425	0.509	0.393	0.435	0.368	0.850

The cross loading is the third approach, which indicates the discriminant validity among the variables. Table 5 reports the cross loadings of each construct, it shows that all the items are loaded within their respective construct. Therefore, it can be concluded that discriminant validity of all the variables have been established.

Predictive relevance of the model

The value of R-square explains the predictive relevance of the model. It determines the variance in dependent variable with respect to the change in all independent variables. Table 6 reports the results, which show 58% attitude towards Islamic banking and 70% intention towards Islamic banking explained by their respective independent variables.

Table 6
Predictive Relevance

	R Square	R Square Adjusted
AIB	0.594	0.584
IIB	0.715	0.705

Structural model testing

The structural equation modeling (SEM) was used to examine all the proposed hypotheses. Table 7 reports the path coefficients result of direct relationships. Results indicate that Islamic financial literacy significantly and positively increase the attitude towards Islamic banking (β=0.439, p<0.05). Similarly, bank reputation also increases the attitude towards Islamic banking (β=0.231, p<0.05). Religious and social values also play significant role in shaping the attitude of an individual towards Islamic banking (β=0.137, 0.187, p<0.05). Results also show that social values can also directly affect the intention of an individual towards Islamic banking.

Table 7
Path Coefficients

Hypotheses	Beta	T Stats	P Values
IFL ->AIB	0.439	7.885	0.000
BR ->AIB	0.231	4.029	0.000
AIB ->IIB	0.592	9.938	0.000
RV ->AIB	0.137	1.979	0.048
SV ->AIB	0.187	2.654	0.008
SV ->IIB	0.153	2.657	0.008

In this study, financial consideration is used as a moderator that possibly influences the relationship of attitude and intention towards Islamic banking. Financial consideration is further explained by perceived financial risk (PFR) and perceived potential benefits (PPB). Table 8 reports the results of moderating effects, it shows that the perceived potential benefits significantly decrease the existing relationship of attitude towards Islamic banking and intention towards Islamic banking (β= -0.128, p<0.05). On the contrary, it is found that perceived financial risk has no such effect on the relationship of attitude and intention towards Islamic banking (β= 0.027, p>0.05).

Table 8
Moderating Effects

Hypotheses	Beta	T Stats	P Values
PFR_AIB ->IIB	0.027	0.716	0.474
PPB_AIB ->IIB	-0.128	2.506	0.013

Discussion

The obtained findings of this research suggest that Islamic financial literacy influences the attitude of an individual to use Islamic banking products and services. These results are in accordance with the results of previous studies (Albaity & Rahman, 2019). It means that the more the person is literate about the Islamic financial instruments, the higher the attitude will be to use it. Moreover, other factors such as bank reputation, social and religious values also significantly affect attitude and intention of using Islamic banking products and services. Other than financial literacy, an individual attitude and intention depends on the respective bank's reputation, and their social and religious norms.

The results also found that the dimensions of financial consideration affect the relation of attitude and intention towards Islamic banking products and services. It is noted that perceived potential benefits reduce the effects on intention towards Islamic banking services. However, perceived financial risk has no effect on the intention of investors. It could possibly be justified by the fact that individuals adopt Islamic banking over conventional banking services when they see potential benefits associated with the switch; otherwise, people do not prefer Islamic banking. However, it has become more obvious to customers that their perceived financial risk does not influence their intentions.

Conclusion

The present research aims to analyze the impact of Islamic financial literacy on the attitude and intention of individuals towards Islamic banking. In addition, we also aim to explore the role of financial consideration between the attitude and intention towards Islamic banking. To achieve these objectives, data was collected from individuals who used the services of conventional banking but had the intention to use Islamic banking services in future.

The results revealed that IFL plays a significant role in shaping the attitude of an individual to use Islamic banking. Furthermore, the attitude of an individual leads to their intention to use Islamic banking services. Other than IFL, attitude has also affected by internal and external determinants, such as social and religious values, bank reputation, etc. We also found that financial consideration moderates the relation between attitude and intention towards Islamic banking services. Perceived potential benefits reduce the impact of attitude and intention. However, perceived financial risk has an insignificant impact between the relation of attitude and intention.

Based on the current findings, policymakers should focus more on the promotion of Islamic financial education as findings suggest that the more a person is financially literate, the more positive the attitude towards Islamic banking. Also, Islamic banking institutions should introduce potential benefits that differentiate themselves from conventional banking. For future studies, researchers can expand this study by adding more relevant factors that influence the attitude and intention. The research can also be extended by using specific target audience rather than focusing on the general audience.

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