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## Islamic financial literacy: Determinants, measurement, and outcomes

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### ABSTRACT

Islamic Financial Literacy (IFL) has become an important topic at the intersection of financial literacy, Islamic economics, and inclusive development. Although research on IFL has expanded, the field remains conceptually fragmented because studies vary in how they define, measure, and interpret the construct. This article presents a systematic literature review focused on three issues: determinants, measurement, and outcomes of IFL. The review shows that the most recurrent determinants are education, income, religiosity, demographic background, financial experience, and institutional access, although their effects differ across contexts. The literature also reveals substantial diversity in measurement practices. Some studies adapt conventional financial literacy scales, whereas others develop Islamic-specific instruments covering riba, profit-and-loss sharing, zakat, takaful, sukuk, and other Shariah-compliant concepts. This lack of measurement standardization weakens comparability across studies. In terms of outcomes, higher IFL is generally associated with better financial behavior, stronger intention to use Islamic products, improved financial management, greater market discipline, and higher financial well-being. Overall, the review argues that future IFL research requires clearer construct boundaries, more rigorous measurement, and stronger comparative evidence.

**Keywords:** Islamic financial literacy; systematic literature review; financial behavior; measurement; determinants; financial well-being

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## 1. INTRODUCTION

Financial literacy has become one of the most frequently discussed concepts in contemporary economic and policy debates because it influences how individuals understand financial products, evaluate risk, manage debt, accumulate savings, and plan for the future. In both developed and developing economies, financial decisions are increasingly made in environments characterized by product complexity, digital intermediation, information asymmetry, and higher exposure to credit and investment risk. For this reason, scholars have long argued that financial literacy is not simply a technical skill but a basic capability linked to individual welfare and macroeconomic resilience (Lusardi & Mitchell, 2014; Remund, 2010). A financially literate population is generally better equipped to navigate financial markets, compare available options, and avoid costly errors in borrowing, saving, and investment.

Within this wider conversation, the expansion of Islamic finance has created the need to reconsider what financial literacy means in contexts where financial decisions are expected to comply with Shariah principles. Islamic finance is not defined only by the availability of distinct products; it is anchored in a normative framework that prohibits *riba*, discourages excessive uncertainty and speculation, and encourages ethical allocation of wealth and risk-sharing arrangements. As a result, the knowledge required to make informed decisions in Islamic financial settings is not identical to the knowledge captured by conventional financial literacy measures. A person may understand inflation, diversification, and time value trade-offs in a conventional sense while still lacking the ability to judge whether a given financial contract aligns with Islamic principles. This is where the concept of Islamic Financial Literacy becomes analytically important (Antara et al., 2016; Ahmad et al., 2020).

Islamic Financial Literacy is commonly understood as the capacity to comprehend and apply financial knowledge in a way that is consistent with Islamic teachings. Yet the literature does not fully agree on its boundaries. Some studies define it narrowly as knowledge of Islamic financial products and institutions. Others broaden the concept to include awareness of halal and haram transactions, familiarity with zakat and waqf, understanding of profit-and-loss sharing contracts, attitudes toward Islamic financial products, and the practical ability to act in accordance with that knowledge (Dinç et al., 2021; Durak et al., 2020). This conceptual diversity reflects the relatively early stage of the field, but it also creates a problem. If researchers use the same term to describe different cognitive, moral, and behavioral dimensions, then empirical findings become difficult to compare.

The problem is not merely definitional. It directly affects how scholars interpret determinants and outcomes. For example, if religiosity is embedded into the measurement of IFL, then strong correlations between religiosity and IFL may partly reflect circular measurement rather than a genuinely distinct causal relationship. Likewise, if a scale treats financial behavior as part of literacy rather than as a separate outcome, then findings linking IFL to financial behavior become conceptually blurred. These issues have become more visible as IFL research has expanded from exploratory discussions into empirical work examining consumer decisions, investment intentions, financial inclusion, market discipline, and well-being (Gunawan et al., 2021; Roemanasari et al., 2022; Widyastuti & Soma, 2023; Wijaya et al., 2024).

Indonesia, Malaysia, Turkey, and several Gulf countries have become major empirical sites in this literature because they combine growing Islamic finance sectors with sizable Muslim populations and strong policy interest in financial inclusion. Indonesia is especially important because it offers a large Muslim-majority market with expanding Islamic banking, *takaful*, and Islamic capital market activity, while at the same time still facing gaps in literacy and adoption. This makes IFL a significant issue not only for individual choice but also for the broader development of Islamic financial ecosystems. When public understanding of Islamic finance remains shallow, growth in Islamic financial institutions may not automatically translate into greater participation or improved financial welfare.

Despite the increasing attention to IFL, the literature remains scattered across different disciplines and publication outlets. A number of studies focus on scale development and conceptualization, while others

examine behavior, investment intention, entrepreneurship, or well-being. Methodological designs also differ widely. Many rely on cross-sectional surveys, some emphasize psychometric validation, and others treat IFL as a component of broader models involving religiosity, social influence, trust, or financial inclusion. As a consequence, the field now contains a growing body of evidence but not always a coherent cumulative structure.

The increasing digitalization of finance further broadens the relevance of literacy beyond traditional banking and face-to-face financial transactions. Evidence from Indonesia's digital payment ecosystem shows that digital financial literacy is associated with stronger financial skills and clearer financial goals, while related work also links digital financial literacy to savings, expenditure patterns, and prospective financial behavior (Ardini et al., 2024; Fahlevi et al., 2024). For Islamic Financial Literacy research, this matters because Shariah-based financial decision-making increasingly takes place through the same digital ecosystem. In other words, future IFL studies need to pay more attention to the overlap between Islamic financial knowledge, digital financial capability, and technology-mediated consumer behavior.

This article addresses that issue through a systematic literature review of Islamic Financial Literacy research. The review is organized around three central questions. First, how has IFL been defined and measured in the literature? Second, what determinants are most consistently associated with IFL? Third, what kinds of financial and behavioral outcomes are linked to higher IFL? By focusing on these three questions, the article aims to clarify the state of the field, identify conceptual and methodological patterns, and map the most important research gaps. The contribution of this review is not to propose a single final definition of IFL, but to synthesize existing scholarship in a way that sharpens analytical boundaries and supports future research design.

## **2. LITERATURE REVIEW**

### **2.1. Conceptual Foundations of Islamic Financial Literacy**

The starting point for understanding Islamic Financial Literacy is the broader concept of financial literacy itself. In mainstream research, financial literacy generally refers to the knowledge and capability needed to make informed and effective financial decisions. That definition usually includes understanding core concepts such as interest rates, inflation, risk diversification, budgeting, and long-term planning (Lusardi & Mitchell, 2014; Remund, 2010). However, Islamic finance introduces another layer to this discussion because not all financially rational decisions in a conventional sense are considered acceptable from a Shariah perspective. The framework of Islamic finance is not purely instrumental; it is normatively structured around compliance, justice, responsibility, and the avoidance of prohibited transactions.

This difference explains why IFL cannot simply be treated as conventional financial literacy plus a few Islamic terms. Antara et al. (2016) were among the scholars who highlighted that IFL should be understood together with halal literacy because economic decisions in Muslim markets are often embedded in a broader ethical and consumption ecosystem. In this view, IFL is not only about selecting a bank account or financing contract. It is also about understanding how financial practices relate to permissible consumption, religious obligations, and moral accountability. Such a view moves the discussion beyond product familiarity toward value-oriented economic reasoning.

Ahmad et al. (2020) further strengthened the conceptual foundation of the field by arguing that IFL emerges from the specific growth of Islamic financial institutions and the need for consumers to engage with them in an informed manner. Their work shows that IFL is often framed as a form of human capital relevant to financial behavior. Yet their discussion also hints at a central tension in the literature: scholars want IFL to be distinctively Islamic, but they often draw heavily from general financial literacy frameworks to build its indicators. As a result, some studies emphasize cognitive knowledge, while others mix knowledge with attitudes or actual financial practices.

Dinç et al. (2021) addressed this problem more directly by arguing that IFL requires a scale that captures the full scope of Islamic finance rather than reducing the concept to Islamic banking alone. This is a major point. In much of the early literature, knowledge of Islamic banking products dominated the measurement of IFL, even though Islamic finance also includes takaful, sukuk, zakat-related financial decisions, Islamic capital market participation, and broader principles regarding risk-sharing and prohibited transactions. When the concept is narrowed excessively to Islamic banking literacy, it risks misrepresenting the actual domain of competence that IFL is supposed to describe.

Durak et al. (2020) add another useful layer by linking IFL to entrepreneurship among university students. Their work suggests that IFL has practical relevance not only for household financial management but also for entrepreneurial decision-making. This reinforces the idea that IFL should be viewed as a capability with behavioral and developmental implications, not just a set of abstract religious-financial facts. At the same time, it also reveals how context-sensitive the concept can be. The meaning and significance of IFL may differ for investors, consumers, micro-entrepreneurs, students, or households, even though the same term is used across these populations.

A productive way to interpret the conceptual landscape is to separate IFL into at least three interrelated dimensions. The first is cognitive understanding, which includes knowledge of Islamic financial contracts, institutions, and principles such as the prohibition of riba, the avoidance of gharar, and the permissibility of profit-sharing models. The second is evaluative judgment, which refers to the ability to assess whether a financial product or practice is compatible with Islamic principles. The third is practical application, meaning the translation of knowledge and judgment into actual financial behavior. Many studies move across these dimensions without fully separating them, which is one reason the literature appears inconsistent.

The conceptual challenge is therefore not that the field lacks ideas, but that it contains too many overlapping interpretations. Some scholars implicitly treat IFL as Islamic financial knowledge. Others treat it as a broader form of Islamic financial capability. Still others fold in religiosity, ethical commitment, or financial behavior. The absence of a consistent boundary makes it difficult to compare results across studies. A central task for the literature is to decide whether IFL should remain a narrow cognitive construct or whether it should explicitly become a multidimensional capability framework. Until that is clarified, the field will continue to generate findings that are interesting but not fully cumulative.

## **2.2. Measurement of Islamic Financial Literacy**

The measurement of IFL is one of the most important and contentious areas in the literature. The central issue is straightforward: a construct can only be studied rigorously if there is reasonable agreement about how to operationalize it. Yet in the case of IFL, scholars continue to use different sets of indicators, different scoring procedures, and different assumptions about what should be included. The result is a body of research that is rich in empirical activity but limited in comparability.

Ahmad et al. (2020) measured IFL using indicators linked to subjective knowledge of Shariah compliance and knowledge of riba and profit-sharing. Their work is important because it demonstrates that even relatively concise indicators can identify meaningful dimensions of IFL. However, it also reflects a narrower operational focus that prioritizes core Islamic finance principles over a more comprehensive mapping of product domains. By contrast, Dinç et al. (2021) explicitly sought to build a broader scale that would cover all segments of the Islamic financial sector. Their effort is one of the clearest attempts to move the literature toward a more standardized measurement framework.

The contribution of Dinç et al. (2021) lies not only in the number of items they considered, but also in their insistence that IFL should not be reduced to familiarity with a single financial sub-sector. A scale that covers Islamic banking but ignores takaful, investment products, and other components of the Islamic financial system may underestimate the construct. More importantly, it may distort empirical interpretation. Someone could be classified as financially literate within Islamic banking while still lacking knowledge about broader Islamic financial instruments or decision contexts.

Durak et al. (2020) likewise show that measurement choices matter because the level of IFL observed among university students is tied to the structure of the instrument used. If the scale prioritizes basic principles, it captures one kind of literacy. If it includes decision scenarios, entrepreneurial implications, or applied financial judgments, it captures another. This reinforces a basic point in measurement theory: the observed strength of a variable is partly a function of the way it is operationalized.

A major problem in the literature is the mixing of objective and subjective literacy. Objective literacy refers to demonstrable knowledge assessed through right-or-wrong questions. Subjective literacy refers to self-assessed confidence or perceived understanding. In conventional financial literacy research, these two do not always move together. The same problem appears in IFL research. Respondents may report that they understand Islamic finance while demonstrating only partial knowledge when assessed more directly. Studies that rely heavily on self-perception can therefore overestimate literacy levels, especially in contexts where religious identity creates social pressure to appear knowledgeable about Shariah-compliant finance.

Another recurring measurement issue concerns the relationship between literacy and behavior. Some studies treat behavior as an outcome of IFL, while others incorporate behavioral items into the literacy construct itself. This is methodologically risky. If paying bills on time, preferring Islamic finance, or using certain financial products is coded as part of literacy, then later claims that IFL predicts financial behavior become tautological. For stronger causal analysis, knowledge, evaluation, and behavior should be distinguished unless the researcher is explicitly studying a multidimensional capability construct.

The same concern applies to religiosity. In many Muslim-majority settings, religiosity influences awareness, preferences, and trust in Islamic finance. But if the scale itself includes items that effectively measure religious commitment, then empirical models may blur the distinction between Islamic financial literacy and religious orientation. Wijaya et al. (2024) are particularly useful here because they analytically separate religiosity and financial literacy in examining their effects on financial management behavior and well-being. This kind of separation makes the findings more interpretable and avoids circularity.

A better measurement agenda for future IFL research should include at least four design principles. First, researchers should clearly separate objective knowledge from self-assessed confidence. Second, they should define whether their construct is narrow literacy or broader capability. Third, they should ensure domain coverage across major Islamic finance segments rather than focusing exclusively on banking. Fourth, they should report validity and reliability tests transparently, including factor structure, internal consistency, and justification for item selection. Without these steps, IFL research will continue to produce data that look precise statistically but remain difficult to interpret across contexts.

### **2.3. Determinants of Islamic Financial Literacy**

The determinants of IFL constitute one of the most active areas of empirical research. Across the literature, several predictors appear repeatedly: education, income, age, gender, religiosity, financial experience, institutional access, and social environment. Yet the relative importance of these determinants varies considerably from one study to another. That variability is not surprising because IFL is shaped by both individual-level resources and contextual opportunities. What matters most in one population may not matter in another.

Education is among the most consistent determinants. Individuals with higher levels of formal education generally have better access to information, stronger analytical skills, and greater familiarity with financial concepts. In the IFL literature, education often improves the ability to understand Islamic finance terminology and evaluate product structures. Ahmad et al. (2020) identify education as one of the important drivers of literacy. This pattern is broadly consistent with mainstream financial literacy research, which has long shown that schooling is positively associated with financial knowledge (Lusardi & Mitchell, 2014). However, the effect of education on IFL should not be overstated. General education may raise cognitive capacity, but it does not automatically ensure familiarity with Shariah-compliant finance if exposure to Islamic financial content remains limited.

Income is also regularly associated with higher IFL. Higher-income individuals often engage with a wider range of financial products and may have greater motivation to seek information about investment and financing options. They may also be more likely to encounter Islamic banking, takaful, or Islamic capital market products in practice. Still, the income effect can be ambiguous. In some contexts, income may reflect access rather than knowledge. Individuals with low income may have low IFL not because they lack intellectual capacity, but because they operate in financial environments with fewer Islamic options or less institutional outreach.

Religiosity is often treated as a distinctive determinant of IFL because Islamic finance is anchored in religious norms. In many studies, more religious respondents report stronger awareness of Islamic finance and greater preference for Shariah-compliant products. Yet the literature shows that religiosity alone does not guarantee high literacy. A person may care deeply about religious compliance while still lacking precise knowledge about how Islamic financial contracts work. Wijaya et al. (2024) are important in this respect because they show that religiosity and financial literacy both matter, but literacy exerts a substantial effect on financial management behavior and well-being beyond religiosity itself. This suggests that moral orientation and financial competence should be treated as related but distinct determinants of financial outcomes.

Gender and age also appear frequently, although the results are mixed. Some studies find that men report higher literacy or more confidence in financial matters, while others show no meaningful difference after controlling for education or exposure. Widayastuti and Soma (2023), for instance, introduce gender as a moderator in the relationship between IFL and market discipline, indicating that gender may shape how literacy translates into financial behavior rather than simply determining literacy levels directly. Age effects are similarly context-dependent. Younger populations may be more open to digital financial learning and innovation, whereas older populations may have more accumulated experience but less exposure to newer Islamic financial products.

Financial experience is another strong determinant. Individuals who already use Islamic banking services, participate in Islamic investment, or have previous engagement with Shariah-compliant contracts tend to show higher literacy. This is partly a learning-by-doing effect. Experience gives consumers opportunities to recognize terminology, compare products, and internalize practical distinctions between Islamic and conventional finance. However, reverse causality is also possible. More literate individuals may be the ones who choose Islamic financial services in the first place. This is one reason why cross-sectional studies should be interpreted cautiously.

Social and institutional context matters as well. Exposure through family, community organizations, religious networks, educational institutions, and media channels can shape awareness of Islamic finance. Gunawan et al. (2021) demonstrate how a specific community setting influences the observed level of IFL and related financial behavior. This reminds us that literacy is not developed in a vacuum. Public campaigns, institutional trust, product visibility, and the local strength of Islamic finance infrastructure all condition how literacy is acquired and used.

Taken together, the determinants literature suggests that IFL is best understood as a product of both personal capacity and contextual embedding. Education, income, religiosity, and experience matter, but their effects are filtered through access, institutions, and population-specific characteristics. One implication is that policy interventions should not assume that literacy deficits are purely educational. In many settings, the problem may also reflect weak outreach, limited product transparency, or low institutional credibility.

#### **2.4. Outcomes of Islamic Financial Literacy**

The growing interest in IFL is driven not only by conceptual curiosity but also by the expectation that literacy should matter for real financial outcomes. Most empirical studies in the field examine whether higher IFL is associated with better financial behavior, stronger intention to use Islamic products, improved financial management, wider inclusion, or higher well-being. The general direction of findings is usually positive, but the strength and mechanism of these relationships vary.

One of the most frequently discussed outcomes is financial behavior. [Gunawan et al. \(2021\)](#) show that IFL is connected to financial behavior within the Muhammadiyah community in Medan City, even though the community's knowledge level remains relatively low. Their findings are revealing because they suggest that good financial behavior can coexist with limited Islamic financial knowledge, perhaps because habits, community norms, or conventional prudence partly compensate for weak formal literacy. This means that IFL may contribute to behavior, but behavior also depends on non-cognitive influences.

Investment intention is another major outcome. [Roemanasari et al. \(2022\)](#) find that Islamic financial literacy and financial behavior both shape investment intention. This is consistent with the idea that individuals are more willing to engage with Islamic investment when they understand the products and trust their compatibility with Islamic principles. Yet the pathway is not purely cognitive. Literacy likely operates alongside risk perception, trust, social influence, and prior experience. In practical terms, this means that increasing literacy alone may not be enough to expand Islamic investment participation if institutional trust or product accessibility remains weak.

[Widyastuti and Soma \(2023\)](#) extend the discussion by linking IFL to market discipline. Their argument suggests that more literate individuals are better able to evaluate the soundness of institutions and respond to financial signals in a disciplined way. This is an important contribution because it broadens the outcome space beyond household behavior. It implies that IFL can also matter for the quality of consumer participation in the financial system. If customers understand Islamic finance more deeply, they may not only choose compliant products but also behave in ways that encourage accountability and better institutional performance.

The relationship between IFL and financial management behavior is especially visible in the work of [Wijaya et al. \(2024\)](#). Their study indicates that financial literacy has a substantial effect on financial management behavior and well-being among Indonesian Muslims. This is one of the most policy-relevant findings in the literature because it moves the discussion from product usage to everyday welfare. If IFL helps households budget better, avoid poor financial decisions, and align financial management with both practical and ethical objectives, then it becomes a meaningful development variable rather than a niche topic within Islamic finance.

There is also a conceptual link between IFL and financial inclusion. Although financial inclusion and literacy are distinct constructs, they often reinforce each other. A population that understands Islamic financial products is more likely to use them, while wider institutional access creates more opportunities to learn by experience. [Hamida et al. \(2023\)](#) show that Islamic financial inclusion matters for household financial well-being. While their focus is inclusion rather than literacy per se, the implication for IFL research is clear: literacy and inclusion should be studied together, because knowledge without access may have limited effect, and access without understanding may produce weak or unsustainable usage.

Entrepreneurship and business-related outcomes are less frequently examined but still important. [Durak et al. \(2020\)](#) connect IFL with entrepreneurship among university students, indicating that Islamic financial knowledge may shape how young people approach opportunity, financing, and business conduct. This opens a broader agenda for research on micro-enterprises, start-up finance, and Islamic financial capability among economically active populations. At present, this part of the literature is still underdeveloped. Overall, the outcome literature points to a positive but conditional role for IFL. Higher literacy is generally associated with better outcomes, yet these benefits are not automatic. The effects of IFL are often mediated or moderated by trust, religiosity, financial behavior, access to institutions, income constraints, and social context. In other words, literacy is an enabling condition, not a standalone solution. This is one reason why simplistic claims that literacy will mechanically solve financial exclusion or poor financial behavior should be treated with caution.

### 3. METHODOLOGY

This study adopts a systematic literature review approach to synthesize the academic discussion on Islamic Financial Literacy. A systematic review is appropriate for this topic because the literature has grown across multiple outlets, uses different methodological traditions, and exhibits noticeable conceptual dispersion. Unlike a traditional narrative review, a systematic review follows a more explicit and transparent logic of identification, screening, selection, and synthesis, thereby strengthening replicability and analytical discipline (Tranfield et al., 2003; Snyder, 2019; Page et al., 2021).

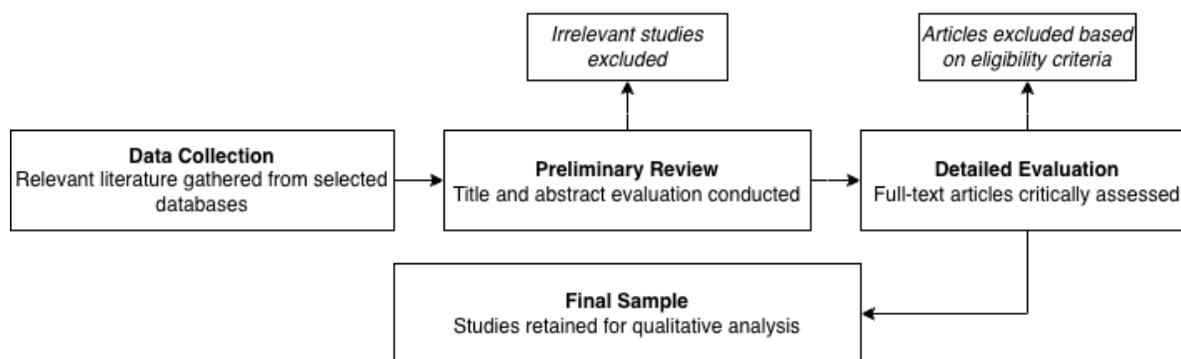
The review was guided by three analytical questions. First, how is IFL conceptualized and operationalized? Second, what determinants are most consistently associated with IFL? Third, what financial and behavioral outcomes are linked to higher IFL? These questions were selected because they represent the three main clusters in the existing literature and because they allow the review to integrate both theoretical and empirical contributions.

The search strategy centered on combinations of keywords such as “Islamic financial literacy,” “Sharia financial literacy,” “Islamic finance literacy,” “financial behavior,” “financial well-being,” “investment intention,” “financial inclusion,” and “market discipline.” The search focused on peer-reviewed journal articles and closely related academic outputs that directly address Islamic financial literacy or treat it as a central explanatory variable. Studies that only discussed general financial literacy without a clear Islamic dimension were excluded unless they provided indispensable conceptual or methodological background. Foundational financial literacy studies were retained selectively to clarify the broader theoretical context in which IFL emerged.

Because IFL is still a relatively specialized field, the review did not restrict itself to one country or one journal category. Instead, the literature was assessed for substantive relevance to the topic. Priority was given to studies that offered one or more of the following: explicit conceptualization of IFL, formal scale development, empirical testing of determinants, or analysis of practical outcomes. Studies that mentioned IFL only in passing, or that used the term without operational clarity, were not emphasized in the synthesis.

The review process followed a staged logic consistent with PRISMA principles (Page et al., 2021). At the identification stage, the search generated a broad pool of studies related to literacy, Islamic finance, and associated behavioral outcomes. At the screening stage, titles and abstracts were reviewed to determine substantive relevance. At the eligibility stage, full texts were examined more carefully to determine whether IFL was central to the analysis rather than merely peripheral. The final selection emphasized studies that made direct contributions to understanding the determinants, measurement, or consequences of IFL.

Thematic analysis was used to synthesize the selected literature. Instead of aggregating effect sizes statistically, the review organized the studies into recurring thematic clusters and then compared how different authors conceptualized the construct, measured it, and linked it to determinants and outcomes. This approach is especially suitable because the field remains methodologically heterogeneous. The reviewed studies differ in population, geography, sample size, instrument design, and modeling strategy, making direct quantitative meta-analysis premature. A thematic systematic synthesis allows these differences to be interpreted rather than flattened. The [Figure 1](#) below summarizes the general review logic.



**Figure 1. Systematic literature review process**

**Source:** Own elaboration

An important consideration in this review is constructed discipline. Since one of the key problems in the literature is the tendency to conflate literacy, religiosity, attitude, and behavior, the synthesis deliberately separates these dimensions wherever possible. This does not mean they are unrelated. On the contrary, the literature suggests that they are strongly interconnected. However, analytical clarity requires separating what counts as literacy itself from what counts as a predictor or consequence of literacy. This principle guided the interpretation of the reviewed studies.

Another important methodological point concerns the use of context. IFL is shaped by institutional settings, religious norms, education systems, and product availability. For that reason, findings from one country cannot automatically be generalized to another. The review therefore pays attention to where evidence comes from and how that context may influence the observed determinants and outcomes. This is particularly relevant in a literature dominated by studies from Indonesia, Malaysia, Turkey, and a smaller set of other Muslim-majority environments.

## **4. RESULTS AND DISCUSSION**

### **4.1. Descriptive Overview of the Literature**

The literature on IFL has expanded noticeably over the last decade, moving from initial conceptual discussions toward more diverse empirical applications. Early contributions were primarily concerned with defining the construct and distinguishing it from conventional financial literacy. Over time, the literature shifted toward scale development, community surveys, behavioral models, and questions about welfare and inclusion. This trajectory suggests that the field has entered a more mature stage, but it has not yet achieved conceptual convergence.

A notable pattern in the literature is geographic concentration. A large share of studies comes from Indonesia and Malaysia, with additional contributions from Turkey and selected Muslim-majority or Islamic finance-oriented contexts. This concentration is understandable because these countries offer active Islamic finance sectors and strong public interest in Shariah-compliant financial systems. At the same time, this creates a limitation. When most evidence comes from a relatively narrow set of institutional environments, it becomes difficult to know whether observed patterns are universal features of IFL or context-specific outcomes of local policy, market structure, and religious culture.

Another descriptive pattern is methodological concentration. Quantitative cross-sectional survey designs dominate the field. Many studies use self-administered questionnaires and employ factor analysis, structural

equation modeling, or regression-based approaches to test relationships among literacy, religiosity, behavior, intention, and well-being. These approaches are useful for identifying statistical associations, but they have inherent limitations. They rarely address causality convincingly, and they often depend heavily on self-reported indicators. Qualitative and mixed-method research remains relatively scarce, even though such approaches could reveal how consumers actually interpret Islamic financial products and why they make particular choices.

A third pattern is the coexistence of conceptual ambition and empirical inconsistency. Many studies present IFL as a construct with distinctive value for Islamic finance development, financial inclusion, and ethical economic behavior. Yet the actual operationalizations used across studies vary enough to make comparison difficult. Some studies define literacy narrowly and test modest relationships. Others use more expansive constructs that mix knowledge, attitude, and behavioral tendency. As a result, the literature is growing in volume faster than it is growing in coherence.

#### **4.2. Conceptualization and Measurement of IFL**

The synthesis confirms that measurement remains the strongest source of fragmentation in IFL research. The reviewed literature points to at least three broad measurement models. The first is a principle-based model, which focuses on core Islamic finance concepts such as prohibition of *riba*, risk-sharing, *halal* transactions, and Shariah compliance. [Ahmad et al. \(2020\)](#) fit largely within this tradition. The second is a sectoral model, which extends beyond principles to include knowledge of Islamic banking, *takaful*, investment products, and other segments of the Islamic financial system. [Dinç et al. \(2021\)](#) represent this approach more clearly. The third is a capability model, which includes not only knowledge but also confidence, judgment, and in some cases behavior or intention.

Each of these models has strengths, but each also creates trade-offs. A principle-based model is easier to administer and can capture the distinct Islamic core of the construct. However, it may underrepresent practical financial competence. A sectoral model is more comprehensive, but it risks becoming too broad or too dependent on country-specific product structures. A capability model may be closer to real-world financial functioning, yet it can blur construct boundaries if it incorporates outcomes into the measure itself.

One implication is that future research should specify which measurement philosophy it is following rather than treating all instruments as interchangeable. Researchers should be explicit about whether they are measuring Islamic financial knowledge, Islamic financial capability, or a broader Shariah-compliant financial competence construct. These are related but not identical objects of analysis. Greater precision at this stage would substantially improve the cumulative quality of the field.

The review also suggests that comparative measurement work is urgently needed. At present, many instruments are validated within a single country or population group. This is useful for local policy and contextual understanding, but it does not solve the wider problem of cross-study comparability. A stronger next step would involve adapting and testing a core IFL instrument across multiple settings while allowing for context-specific modules. Such an approach could balance comparability with local relevance.

#### **4.3. Determinants of Islamic Financial Literacy**

The determinant evidence is broad enough to identify several recurring patterns even though effect sizes vary. Education and financial experience appear to be the most consistent predictors. This is not surprising. Understanding Islamic finance requires both abstract comprehension and practical exposure. Income also matters frequently, but probably because it proxies engagement with formal financial systems as much as knowledge itself.

Religiosity stands out as an important but analytically delicate determinant. The literature shows that religiosity often increases interest in Shariah-compliant finance and may motivate individuals to seek Islamic alternatives. However, religiosity is not a substitute for literacy. In fact, one of the most important findings across the literature is that a desire to comply with Islamic principles does not necessarily mean that individuals

understand the technical structure of Islamic financial products. This gap helps explain why some consumers who prefer Islamic finance still hesitate to use it or misunderstand its contractual logic.

Demographic variables such as gender and age should be interpreted more cautiously. Their effects are often weaker and more context-sensitive than broad discussions suggest. Rather than asking whether men or women are inherently more literate, or whether younger or older individuals are more informed, it may be more useful to examine how demographic characteristics interact with education, institutional exposure, digital access, and household roles. [Widyastuti and Soma \(2023\)](#) offer a helpful example by treating gender as a moderating factor rather than a simplistic direct determinant.

Institutional environment is one of the most underappreciated determinants in the literature. Public literacy is partly a reflection of product transparency, availability of outreach programs, the visibility of Islamic financial institutions, and the credibility of Shariah governance. If financial institutions communicate poorly or consumers do not trust compliance claims, literacy may remain low regardless of formal schooling. This suggests that responsibility for IFL does not rest only with individuals. It also lies with regulators, educational institutions, and Islamic finance providers.

#### **4.4. Outcomes Associated with IFL**

The most robust outcome relationship in the literature is between IFL and financial behavior. More literate individuals generally appear better able to manage financial decisions in a way that is both practical and religiously informed. However, the literature repeatedly shows that literacy is not the only factor involved. Habits, social norms, self-control, trust, and access to suitable products all shape actual behavior. This means that IFL has explanatory power, but it works within a broader behavioral system.

Investment intention is another important domain. The literature suggests that when people understand Islamic investment products more clearly, they are more willing to consider participation. Yet intention depends not only on literacy but also on risk perceptions and perceived institutional legitimacy. In some settings, consumers may understand the product but still avoid it because they question its return profile or doubt the authenticity of Shariah compliance. This indicates that the practical influence of IFL depends partly on how institutions translate literacy into trust.

The well-being literature is still smaller but especially significant. [Wijaya et al. \(2024\)](#) show that financial literacy contributes to financial management behavior and well-being among Indonesian Muslims, while [Hamida et al. \(2023\)](#) show that Islamic financial inclusion contributes to household well-being. Taken together, these studies imply that the policy relevance of IFL is broader than financial product uptake. It relates to whether households can manage money more effectively, reduce financial anxiety, and pursue financial decisions that are both sustainable and value-consistent.

The link between IFL and market discipline also deserves more attention. A financially literate public can contribute to a healthier Islamic financial system by making more discriminating choices, rewarding better institutions, and reacting more critically to performance and governance signals. This connects micro-level literacy with meso-level institutional accountability. It is one of the strongest arguments for why IFL matters beyond the household.

#### **4.5. Critical Analysis and Research Gaps**

A cross-thematic reading of the literature reveals five major gaps. The first is conceptual ambiguity. IFL is still used to refer to multiple related but distinct constructs. Until scholars agree more clearly on whether it is a narrow knowledge variable or a broader capability construct, the literature will continue to generate interpretive confusion.

The second gap is measurement inconsistency. The lack of standardized instruments prevents meaningful comparison across studies. Even when studies report strong statistical relationships, those relationships may not be directly comparable because the underlying measures capture different things. This is especially problematic when literacy is conflated with religiosity or behavior.

The third gap is methodological overreliance on cross-sectional self-report surveys. Such designs are useful for initial mapping, but they limit causal interpretation and may inflate relationships through common-method bias. Longitudinal studies, experimental financial education interventions, and mixed-method designs would significantly strengthen the field.

The fourth gap concerns underexamined populations and settings. Much of the literature focuses on students, specific communities, or general Muslim consumers in a small number of countries. There is far less work on rural households, informal workers, micro-entrepreneurs, women-led enterprises, older adults, and non-Muslim users of Islamic finance. Comparative cross-country work is also limited.

The fifth gap is weak integration between literacy research and institutional analysis. Many studies treat IFL as an individual characteristic without sufficiently examining how product design, regulation, disclosure quality, digital channels, and trust in Islamic institutions shape literacy acquisition and usage. A more complete research agenda would connect personal knowledge with institutional conditions.

A related frontier concerns emerging digital assets and crypto-based innovation within Islamic finance. Recent studies discussing Shariah-compliant cryptocurrency and the Sharia issues surrounding Bitcoin and blockchain technology indicate that future IFL research should not be limited to banking, takaful, or conventional Islamic investment products alone. It should also examine whether consumers possess the knowledge and evaluative capacity required to assess novel digital financial instruments from a Shariah perspective (O. P. Dahlan, 2025; S. P. Dahlan, 2025). This is especially important because digital finance is expanding faster than the educational and regulatory frameworks that would help ordinary users distinguish between innovation, speculation, and Shariah compliance.

Based on these gaps, future research should move in three directions. First, it should build and test more rigorous, modular measurement instruments that distinguish knowledge, confidence, judgment, and behavior. Second, it should adopt stronger research designs that allow more credible inference about causal pathways. Third, it should frame IFL as part of a wider ecosystem of education, inclusion, governance, and consumer trust. This would make the field more theoretically grounded and more useful for policy.

## 5. CONCLUSION

This study reviewed the literature on Islamic Financial Literacy with particular attention to determinants, measurement, and outcomes. The review shows that IFL has become a substantial area of inquiry within Islamic economics and finance, but the field is still developing its conceptual and methodological foundations. The literature consistently indicates that IFL matters. It is associated with financial behavior, investment intention, market discipline, financial management, inclusion, and well-being. At the same time, the field remains fragmented because studies define and measure literacy in different ways. The evidence suggests that IFL should be understood as more than familiarity with Islamic banking terms. At minimum, it includes knowledge of Shariah-compliant financial principles and the ability to evaluate financial choices accordingly. In broader formulations, it also includes practical capability to apply such knowledge in real financial decisions. Education, income, religiosity, financial experience, and institutional exposure emerge as recurring determinants, but their influence varies by context.

The strongest conclusion from this review is that clarity now matters more than quantity. The field does not only need more studies; it needs sharper construct boundaries, better instruments, and stronger designs. Without that, empirical growth will continue to outpace theoretical consolidation. For researchers, the immediate agenda is to standardize measurement and expand comparative work. For policymakers and practitioners, the implication is that improving IFL requires more than information campaigns. It also requires accessible institutions, credible Shariah governance, and consumer-facing communication that translates Islamic finance from abstract principle into practical understanding.

Despite the contributions of this review, it has limitations. As a literature-based study, it depends on the conceptual quality and methodological rigor of the underlying publications. It also reflects the uneven

geographical distribution of the available evidence. Nevertheless, by synthesizing the field around its central themes, the study provides a clearer map of what is known, what remains contested, and where future Islamic Financial Literacy research should go.

### **Ethical Approval**

This study did not require ethical approval because it is based exclusively on published literature and did not involve human participants, animals, or identifiable personal data.

### **Informed Consent Statement**

Not applicable because this study is a systematic literature review and did not involve direct data collection from participants.

### **Authors' Contributions**

Conceptualization, D.R.A. and S.P.D.; methodology, D.R.A. and S.P.D.; formal analysis, D.R.A. and S.P.D.; writing – original draft preparation, D.R.A.; writing – review and editing, S.P.D.

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No potential conflict of interest was reported by the authors.

### **Data Availability Statement**

No new data were created or analyzed in this study. All arguments and interpretations are based on published sources cited in the reference list.

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