

## Islamic Financial Literacy as an Improvement in the Quality of Islamic Bank

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### **Abstract:**

*Islamic financial literacy is a problem that still occurs in the existence of Islamic banking, so that in-depth studies continue to be carried out to determine the effectiveness of Islamic financial literacy on the quality of Islamic banks. The purpose of this study is to determine Islamic financial literacy can improve the quality of Islamic banks. The research method uses a qualitative approach from various reference sources and literature related to this research theme. The results of the study confirm that there is a link between Islamic financial literacy and the quality of Islamic banks from various previous studies that support this research.*

**Keywords:** *Islamic Financial Literacy, Sharia Banking Quality.*

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### **Introduction**

Sharia Banking is a banking system developed based on Islamic Sharia (law). The effort to establish this system is based on the prohibition in Islam not to collect or borrow with interest or what is called usury and the prohibition of investing in businesses that are categorized as illegitimate, where this cannot be guaranteed by the conventional banking system.

The rapid development of assets and the number of offices is a good progress towards the popularity of banking. However, Islamic Banking currently does not yet have a distinctive type of business. According to Heru Kristiyana, the chief executive of the banking supervisor of the Financial Services Authority (OJK), said that Islamic banking needs to have differentiation or differences in doing business. Sharia Bank products are still lacking in variety, making it a difficult choice for the community (Uly, 2020).

Limited understanding from the community is a problem related to Literacy. Financial literacy is important in influencing people to use Islamic banking products or not. Financial literacy has an understanding of how a person thinks about his financial condition so that he knows how to make decisions in financial management to make it better (Pradesyah, 2017).

Islamic financial literacy is an interesting matter to study, where logically, with a high level of Muslim population, the level of Islamic financial literacy should show good numbers (Sihotang, Hasanah and Nasution, 2021). The Islamic financial literacy index in Indonesia was first carried out by the OJK in 2016 through the National Financial Literacy and Inclusion Survey (SNLIK).

Thus, this study will examine how Islamic financial literacy is for developing the quality of Islamic banks. Of course, this is still an in-depth study by various parties, both in Islamic banking and at the regulatory level.

## **Literature Review**

### ***Islamic Financial Literacy***

The goals of financial literacy according to the Financial Services Authority (OJK) are as follows: First, being able to increase individual literacy from low literacy (Less literate) or not literate (Not Literate) to become well literate. Second, increase the number of users of financial services products. Individuals with a high level of understanding of financial literacy are able to determine financial products and services that suit their needs, correctly understand the benefits and levels of risks, understand their rights and obligations and believe in what is the decision to use financial products and services that can improve their welfare. OJK, 2014).

Referring to the definition of financial literacy by OJK, Islamic financial literacy can be interpreted as consumers of Islamic financial products and services. The general public is expected not only to know and understand Islamic financial service institutions and Islamic financial products and services, but also how to change and improve behavior in Islamic financial management so as to improve people's welfare.

According to (Setiawan, 2015) in measuring the level of financial literacy in society, of course it is influenced by several indicators, namely: gender, occupation, income, education level, and age.

### ***Sharia Banking Quality***

Quality in the view of Islam states that, Islam teaches if you want to provide something in the form of services or services, you should provide quality as in Al-Baqarah verse 267 which

means: O you who believe! Spend some of the results of your good efforts and some of what We remove from the earth for you. Do not choose what is bad for you to spend, even though you yourself do not want to take it but by squinting (reluctantly) towards it. And know that Allah is Rich, Most Praised. The verse explains that the quality of something is very important to pay attention to. Islamic banks as Islamic financial institutions need to pay attention to and improve their quality.

There are eight dimensions of quality put forward by (Garvin, 1987), namely: (a) Performance; (b) Features; (c) Reliability; (d) conformance; (e) Durability; (f) Serviceability, (g) Asthetic; (h) Perceived Quality.

There are 3 factors according to research (Suryani, 2014), namely: (1) Quality of Service, which is a factor of communication reliability in the absence of errors in transactions, paying attention to queuing problems, employees being able to explain the products offered and the ability of employees to correct errors that occur; (2) Product differentiation, providing attractive and innovative products and services so as to provide many choices according to customer needs. One of the product innovations in Islamic banking according to (Hariani MD, Rahmayati and Mujiatun, 2020) is to use the Fintech (Financial Technology) business model so that information can be easily accessed by customers; (3) Physical aspects, pay attention to the appearance and tidiness of employees to the cleanliness of the room.

According to (Nuraini, 2020) Islamic banks that improve their quality will be able to provide satisfaction to customers. Customer satisfaction can affect customer loyalty which will certainly have a major impact on market share and company profitability (Octavia, 2019).

## **Method**

This research is a literature review in the form of explanations about theories, findings of previous research, as well as research results obtained from various reference sources as the basis for discussion in research (Setyosari, 2010). Study literature review is a systematic, explicit and reproducible method to identify, evaluate and synthesize research works and the results of ideas that have been generated by researchers and practitioners.

## **Result and Discussion**

According to Laila (2019), the implementation of financial literacy can be done by teaching financial literacy education in accordance with the basic competencies that already exist

in subjects, such as Mathematics and Social Studies. Teachers can teach economics and social science material as a form of effort to improve people's lives by introducing types of businesses and carrying out activities to make a work and sell it. The Government of Indonesia, through Bank Indonesia, since 2011 Bank Indonesia (BI), has shown its seriousness in implementing financial inclusion programs by holding financial education programs. Bank Indonesia, together with the Ministry of National Education, developed financial inclusion curriculum standards at the primary and secondary school levels. Financial education is one of the five pillars supporting financial inclusion policies. The other four are increasing the capacity of the community to obtain financial services, supporting regulations, increasing intermediation, and policy reforms.

Building a financial financial ecosystem, especially for all people, has become a worldwide concern, especially for low-income people. Efforts to increase financial inclusion are one of the strategies to increase inclusive growth. The key problem why the formal financial system is not inclusive is due to the fact that financial inclusion and financial literacy capabilities have not been integrated into education and related regulations. According to the Organization for Economic Co-operation and Development or OECD (2016) financial literacy is defined as understanding and knowledge of the theory and risks of financial transactions, as well as management skills, motivation, and confidence to apply the knowledge and understanding they have in order to make effective financial decisions. , aims to improve personal and community financial well-being, and every individual can participate in the economy. Financial understanding is very important in order to make a decision to improve their financial well-being and to guard against economic crisis conditions. Several concepts of applied literacy have been applied and integrated into the elementary school learning curriculum, including anti-corruption values. The introduction of knowledge related to anti-corruption values has been carried out by several legal institutions such as the prosecutor's office, the Corruption Eradication Commission and implemented by educational institutions by incorporating these values. anti-corruption in certain lessons, such as religious education, morals and Pancasila, economics, and others. However, knowledge of financial literacy is still carried out by only a few parties, such as the Financial Services Authority and Bank Indonesia.

Increasing knowledge related to financial literacy and the values of corruption is a form of social investment to increase Indonesia's human capital in the future which should be implemented not only in academic circles but also in the social context. (Wahyuni, 2015) At a basic level, the concept of financial literacy can be included in learning mathematics and social

sciences. Financial literacy can also be included in the form of games or interest and talent development programs.

Research on this literacy variable has also been carried out by previous researchers, namely research by (Ruwaidah, 2020) "The Effect of Islamic Financial Literacy and Shariah Governance on Student Decisions in Using Islamic Banking Services" which states that Islamic financial literacy has a significant effect.

Based on the results of the author's research and supported by previous research which states that literacy affects the quality of Islamic banks. Islamic financial literacy is a customer's understanding of products and services in Islamic banking. Literacy is also an important point in the OJK road map for 2020-2025 which is contained in the sixth point, namely increasing public literacy.

This is certainly the duty of Islamic banks to carry out programs that are carried out massively as an effort to increase public literacy so that they understand and know more about Islamic banking. If the public understands and is well acquainted with Islamic banking, of course this will be a consideration for the community to transact and use the products available at Islamic banks. The more people who transact and use the products of Islamic banks, of course, the quality of Islamic banks will increase.

### **Conclusion**

Financial literacy is one component in improving the quality of human resources, this component is used to improve financial welfare. Financial literacy programs can also provide individual benefits, including preventing financial crimes, avoiding consumer debt, increasing individual economic capacity, and being prepared to face financial shocks. Several principles that need to be applied for the development of an effective financial literacy program include a clear vision and mission, connected to standard standards, all programs related to financial literacy must be relevant, Community-focused, Integration with curriculum, adequate resources, continuous evaluation, and learner centered.

### **Acknowledgment**

This research was supported by the Directorate of Research and Community Service (DRTPM) and the researchers would like to thank them for their help and support so that this research could take place smoothly.

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