

The Effect Of Islamic Financial Literacy, Religiosity, And Lifestyle On Decision To Use Islamic Bank Products For Millennial Generation In Greater Jakarta

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ABSTRACT

This study aims to analyze the effect of Islamic financial literacy, religiosity, and lifestyle on the decision to use Islamic bank products for the millennial generation in Greater Jakarta. The data in this research were obtained by distributing questionnaires that consist of 100 Islamic bank customers as samples and using the purposive sampling technique. Partial Least Square was used as the method of data analysis. The results indicated that Islamic financial literacy, religiosity, and lifestyle have effects on the decision to use Islamic bank products in the Millennial generation. It is suggested for Islamic banks to continue the socialization of Islamic financial literacy to gather more Islamic bank customers. In addition, Islamic banks also need to develop their systems and products that apply to sharia principles and the millennial lifestyle as well.

Keywords: Islamic financial literacy, religiosity, lifestyle, decision to use Islamic bank products, Millennial generation.

INTRODUCTION

Problem Identification

The annual growth of Islamic banks in Indonesia has been very impressive. Until 2020, the assets increased up to 593,948 billion, while the Third-Party Funds (TPF) also continuously increased up to 465,977 billion, which was followed by an increase in disbursed financing up to 383,944 billion. This shows that Islamic bank products are starting to be demanded by Indonesian. However, the growth of Islamic banks has not been equal to the demand for Islamic financial service products since the level of Islamic financial inclusion in Indonesia only reached 9.1% (OJK Financial Literacy National Survey, 2019). Financial literacy is knowledge, competence, and skills that influence attitudes and behavior to improve the quality of decision-making in financial management (Fitroh, 2019). Moreover, it is the key to personal financial management to improve their living standard (Kaban & Safitry, 2020). Conventional financial literacy has almost the same meaning as Islamic financial literacy. According to Rahim et.al (2016), Islamic financial literacy is knowledge, skills, and attitudes in decisions to manage financial resources according to Islamic teachings. Thus, it is necessary to examine why the level of Islamic financial literacy in Indonesia is still low.

Low financial literacy will affect consumers in making decisions to use products (OJK, 2017). In decision-making, consumers will go through several stages as stated by Kotler and Keller (Usman, Sobari, & Sulthani, 2020). These stages are problem recognition, information search, evaluation of alternatives, purchase decisions, and postpurchase behavior. It also applies to consumers in every generation.

Nowadays, generally in this world and particularly in Indonesia, there is a division of cultural classes based on generation. The first generation is the Baby Boomers generation. This generation was born in 1944-1964. The characteristic of this generation is very strict with the prevailing customs. The second generation is the X generation. It is the result of the Baby Boomers' generation's upbringing. This generation was born in 1965-1980. The X generation has different characteristics from the Baby Boomers generation. They think well to get optimal results but tend to be consumptive. The third generation is the Y generation or Millennials. They were born in 1981 to the early 2000s. Millennials are acknowledged to be the next national generation. Dr. H. Mukhlis Hanafi, MA states that "Millennials like things obtained instantly, prioritize emotions over ratios and feelings that cause their logical reasoning to be dull" (Lufaei, 2020).

Unfortunately, these characteristics are not in line with Islamic teaching which is to check the information obtained before making a decision. Whereas religion is the core of cultural values that play a very important role in daily life (Geertz, 1993). This is evidenced by some researches from Hasna (2019) and Sari & Anwar (2018), who stated that the level of religiosity affects product purchasing decisions, but how big the Millennial generation understands this Islamic teaching still needs to be researched further.

Research Purposes

Research on Islamic financial literacy, religiosity, and lifestyle is still lack in Indonesia, especially which focuses on the Millennial generation, the nation's successor as the research object. Therefore, it is necessary to conduct research related to this matter. In this study, the identification of the effect of Islamic financial literacy, religiosity, and lifestyle on decisions to use Islamic bank products in the Millennial generation was carried out.

LITERATURE REVIEWS

Previous Research

Research on financial literacy has been widely studied. However, in Indonesia, research on Islamic financial literacy is still few. Khosasi (2017) was researching Islamic financial literacy and marketing as variables. In his research, the results showed that the financial

literacy variable did not significantly affect to decide to use bank products. Meanwhile, researches on Islamic financial literacy which were conducted by Mutia (2020)) and Aisyah & Wicaksana (2019) had different results. The results showed that financial literacy had a significant effect on to use of Islamic bank products.

Yulianto (2018) studied that religiosity had a positive effect on saving and financing decisions in Islamic financial institutions as the same result for the research from Zuhirsyan & Nurlinda (2018) Meanwhile, Zakaria et al's research (2020) showed that financial literacy and religiosity had no effect on student interest for saving in Islamic banks. Wahidah (2018) researched lifestyle, it showed that lifestyle had a positive and significant effect on purchasing decisions. Meanwhile, according to Ulya (2020), lifestyle did not affect the decision to use Islamic bank products.

Thinking Framework

Islamic financial literacy is defined as knowledge, skills, and attitudes in decisions to manage financial resources according to Islamic teachings. Research conducted by Mutia (2020) and Aisyah & Wicaksana (2019) states that Islamic financial literacy has a positive and significant effect on the decision to use Islamic bank products. McDaniel & Burnett (1990) defined religiosity as the trust level to God and following the belief principles and practicing them. Rahim et al, (2016) undertook to develop construction Islamic financial literacy and determinants such as hopelessness, religiosity, and financial satisfaction. The results of the study show that religiosity has a significant positive effect on Islamic financial literacy. In addition, according to Kotler & Keller (2010), the decision Purchases are influenced by cultural, social, personal, and psychological factors. For the cultural factor, it is included religion sub-culture and age sub-culture (Schiffman & Kanuk, 2007). Age sub-culture can influence purchasing decisions because each age segment or generation has a specialty different lifestyle (Schiffman & Kanuk, 2007). Previous research conducted by Wahidah (2018) showed lifestyle, had a positive and significant effect on the decision to use Islamic Bank products.

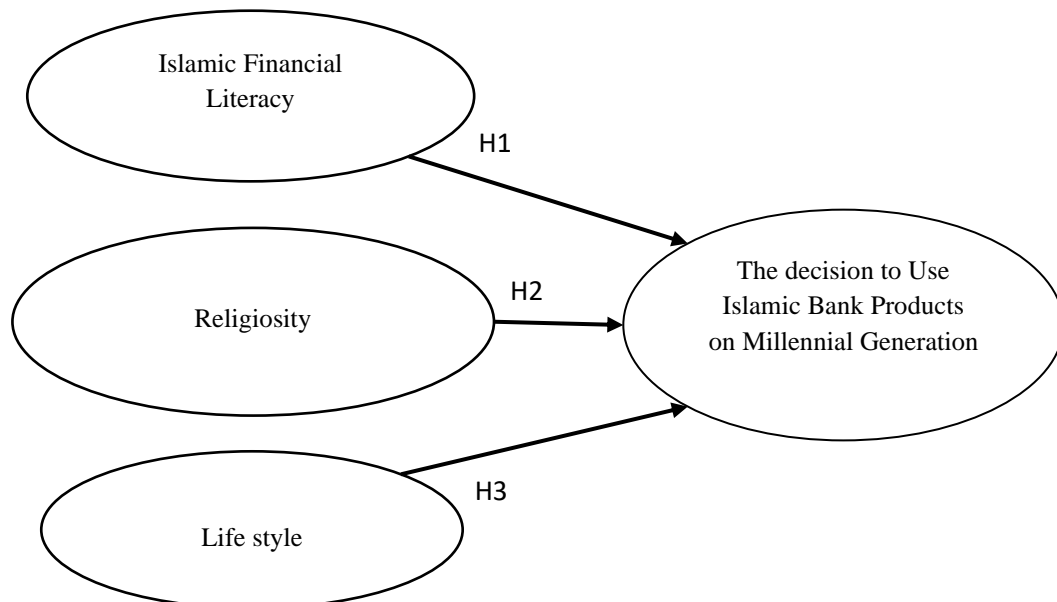


Figure 1 Thinking Framework

The Development of The Hypothesis

H01: Islamic financial literacy directly affects the decision to use Islamic bank products.

H02: Religiosity directly affects the decision to use Islamic bank products.

H03: Lifestyle directly affects the decision to use Islamic bank products.

METHODOLOGY

This study aimed to determine four variables, namely Islamic Financial Literacy (X1), Religiosity (X2), Lifestyle (X3) as the independent variable, and the Decision to Use Islamic Bank Products in Millennial Generation (Y) as the dependent variable. The Operational Variables for each variable were as follows:

Table 1 Operational Variables

| Variable | Definition | Indicators |
|----------------------------------|--|--|
| Islamic Financial Literacy (X1) | Knowledge, skills, and attitudes in decisions to manage financial resources according to Islamic teachings (Rahim et.al, 2016) | - Basic Finance - Loans or Financing - Investment or Saving - Resource Protection or Insurance (Yulianto, 2018) |
| Religiosity (X2) | The trust level to God and following the belief principles and practicing them (McDaniel & Burnett, 1990) | - Ideological - Ritualistic - Experiential - Intellectual - Consequential (Usman et.al, 2020) |
| Lifestyle (X3) | The lifestyle of the Millennial Generation has different individual characters, depending on where they grew up, the economic and social level of their family, being more open to political and economic views makes them more reactive to environmental changes and having more concern for wealth (Lyons, 2002) | - Activity - Interest - Opinion (Kanserina, 2015) |
| The decision to Use Product (X4) | The act of choosing from several choices in buying products and services that will be consumed (Sahir et.al, 2016) | - Product Options - Brand Options - Shop Options - Time Options - Quantity Options (Kotler & Keller, 2010) |

In this study, the research unit was Islamic bank customers of Millennial age and who live in the Greater Jakarta area while the population was respondents who used or had Islamic banking products. Non-probability sampling with purposive sampling type was used as the sampling technique. There were 100 respondents, 17 years above, which indicated they knew and could make an assessment of banking financial institutions.

Primary data were obtained through questionnaires distributed in Google forms to respondents which were filled out or answered by respondents according to their attitudes and perceived understanding. The collected data was entered into the SmartPLS software and rechecked for consistency. PLS is a component-based or variant-based Structural Equation Modeling (SEM) equation, model.

RESULT AND DISCUSSION

Result

Base on respondent gender, 47% of them were female and the rest were male. Meanwhile, their education level, 5% were junior high school, 35% were high school, 8% were Diploma and 52% were higher university degree. Base on respondent age, 4% were under 20 years old, 77% were 20–30 years old, 19% were 31–40 years old. Base on the respondent job, mostly (58%) were students, 25% were private employees, 8% were entrepreneurs, 5% were civil servants/military, and 4% were others.

Evaluation of Outer Model (Measurement Model Test)

Evaluation of outer model or measurement model test is to assess the model's validity and reliability. The indicators for the validity test are Convergent validity and Discriminant validity from the construct (variable) forming indicators. While the indicators for the reliability test are Composite reliability and Cronbach's alpha. However, the use of Cronbach's Alpha to test construct reliability will give a lower value (underestimate) so it is more advisable to use Composite reliability in testing the construct reliability (Ghazali & Latan, 2015).

Convergent validity relates to the principle that the measures of a construct should be highly correlated (Abdillah & Hartono, 2015). Examination of individual item reliability in the evaluation of convergent validity can be seen from the standardized loading factor, which describes the correlation between each measurement item (indicator) and its construct. Find out the convergent validity indicator with smartPLS can be seen from the outer loading value.

The indicator is considered to meet convergent validity if the outer loading value is > 0.70 . However, at the scale development stage research, the outer loading of $0.50 - 0.60$ is still acceptable (Ghazali & Latan, 2015). Based on that, the outer loading value in this study has met convergent validity, because all indicators are > 0.5 . Here are the results of the outer model:

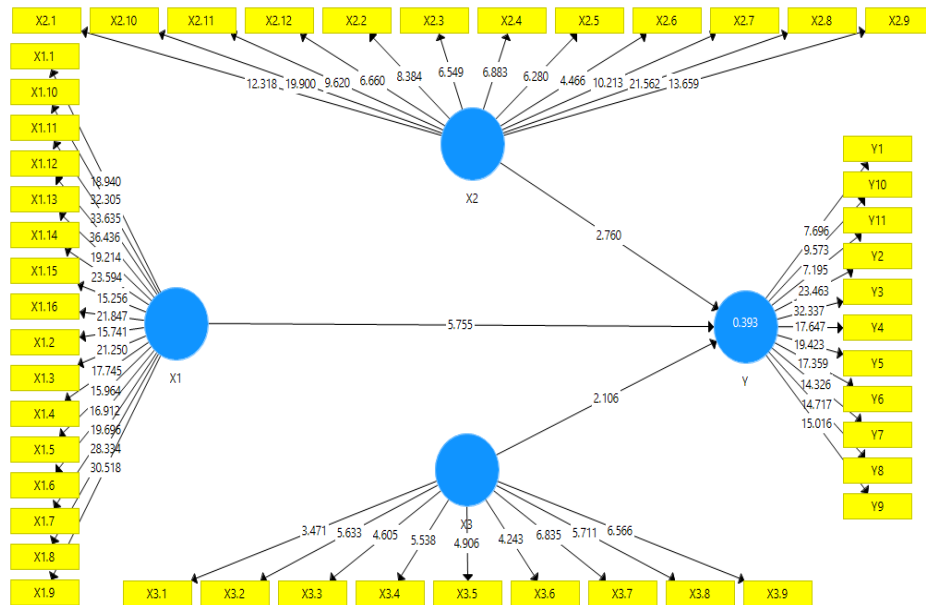


Figure 2. Outer Model Result

According to Ghazali & Latan (2015), Discriminant Validity means finding and comparing this value and the square root of average extracted (AVE). If the value of the square root of the AVE for each construct is greater than the correlation value between the constructs and other constructs in the model, then it is said to have a good discriminant validity value and the expected AVE value is > 0.5 . Find out the discriminant validity indicator with smartPLS can be seen from the Average Variance Extracted (AVE) value. The results of AVE value each variable in this study can be seen in Table 2 below:

Table 2 Average Variance Extracted (AVE)

| Variable | AVE |
|-----------------------------|-------|
| Islamic Financial Literacy | 0.698 |
| Religiosity | 0.512 |
| LifeStyle | 0.569 |
| The decision to Use Product | 0,582 |

Source: SmartPLS 3 Output (2021)

Based on the presented data in Table 2, all variables such as Islamic Financial Literacy, Religiosity, Lifestyle, and Decision to Use Product have AVE value > 0.5 . Therefore, all variables have good discriminant validity.

Composite Reliability is an index that shows how trustable or reliable an instrument is (Ghazali, 2014). In SmartPLS 3.0 to measure the reliability of a construct can be done by looking at the Composite Reliability from the PLS algorithm. The constructor variable is reliable if the Composite Reliability value is > 0.70 and from Table 3 below, all the constructs are > 0.70 . So, all the constructs in this study have good reliability.

Table 3 Composite Reliability (CR)

| Variable | CR |
|-----------------------------|-------|
| Islamic Finance Literacy | 0.974 |
| Religiosity | 0.925 |
| LifeStyle | 0.921 |
| The decision to Use Product | 0,938 |

Source: SmartPLS 3 Output (2021)

Cronbach's Alpha is a tool for measuring the lower limit of the reliability value of a construct (Abdillah & Hartono, 2015). In SmartPLS 3.0 to measure the reliability of a construct with indicators, the second step can be done by looking at Cronbachs Alpha on the PLS algorithm. The construct is reliable if Cronbach's Alpha value is > 0.70 and from Table 4 below, all the constructs in this study are > 0.70 . So, all the constructs have good reliability.

Table 4 Cronbachs Alpha (CA)

| Variable | CA |
|-----------------------------|-------|
| Islamic Financial Literacy | 0,971 |
| Religiosity | 0,911 |
| LifeStyle | 0,908 |
| The decision to Use Product | 0,927 |

Source: SmartPLS 3 Output (2021)

Evaluation of Structural Model / Inner Model

To find out the relation between Islamic Financial Literacy (X1), Religiosity (X2), Lifestyle (X3), and Decisions to Use Product (Y) can be done by evaluating the structural model or the inner model. Evaluation of structural model or inner model is done by Path Coefficient and R-Square. The results of the structural model or inner model are explained as follows:

Path Coefficient Test

Path Coefficient aims to see the effect of the independent variable on the dependent variable. Based on the inner model scheme that can be seen in Table 5 below, the largest path coefficient is indicated by the effect of Islamic Financial Literacy to Decision to Use Product, which is 0.457. Then the second biggest effect is Religiosity, 0.216. The smallest effect is Lifestyle, 0.198.

Table 5 Path Coefficient

| Variable | The decision to Use Product |
|----------------------------|-----------------------------|
| Islamic Financial Literacy | 0,457 |
| Religiosity | 0,216 |
| LifeStyle | 0,198 |

Source: SmartPLS 3 Output (2021)

R-Square

R-square (R^2) or the coefficient of determination is a tool to measure how much of the endogenous variable is influenced by exogenous variables. If the $R^2 > 0.67$ indicates good

category, 0.33 – 0.67 means medium category and 0.19 – 0.33 means weak category (Ghazali, 2014). The R-Square of this study is as follow:

Table 6 R-Square

| Endogen Variable | R ² |
|-----------------------------|----------------|
| The decision to Use Product | 0,398 |

Source: SmartPLS 3 Output (2021)

Based on Table 6 above, the model can provide an R-square of 0.398 which can be interpreted that the variability of the decision to use product construct can be explained by the variability of Islamic financial literacy (X1), religiosity (X2), and lifestyle (X3) is 39.8%. This R² is between 0.33 – 0.67 so it is a medium category.

Hypothesis Test

The hypothesis test is conducted by looking at the value of T-Statistics and P-value, if P-value < 0.05 then the research hypothesis can be accepted. Based on Table 7 below, all the hypothesis in this study is accepted.

Table 7. Hypothesis Test

| Hypothesis | Effect towards Decision to Use Product | T-Statistic | P-Value | Result |
|------------|--|-------------|---------|----------|
| H1 | Islamic Financial Literacy | 5.755 | 0.000 | Accepted |
| H2 | Religiosity | 2.760 | 0.006 | Accepted |
| H3 | LifeStyle | 2.106 | 0.036 | Accepted |

Source: SmartPLS 3 Output (2021)

Discussion

Based on the results, it proves that the Islamic financial literacy variable has a positive effect on the decision to use Islamic bank products in the Millennial generation with a coefficient value of 0.457. It means a 45.7% increase or decrease in decisions to use Islamic bank products can be explained by the Islamic financial literacy variable. This value is the medium category in the other words, Islamic financial literacy has a contribution to the decision to use Islamic bank products. This hypothesis result confirms the research conducted by Mutia (2020) and Aisyah & Wicaksana (2019) which stated that Islamic financial literacy had a significant effect on the decision to use Islamic bank products. It also proves the statement submitted by OJK (2017) that high or low financial literacy affects to decision to use financial products.

For the second hypothesis result, it can be concluded that the religiosity variable has a positive effect on the decision to use Islamic bank products with a coefficient value of 0.216. It means a 21.6% increase or decrease in the decision to use Islamic bank products can be explained by the religiosity variable. It is a weak category but it can be stated that religiosity has a contribution to the decision to use Islamic bank products. This result confirms the research conducted by Zuhirsyan & Nurlinda (2018) which states that religiosity has a positive and significant effect on the decision to choose an Islamic bank and confirms Yulianto (2019) and Rahim et al, (2016) researches. It also proves the theory

of Kotler & Keller (2010) which states that purchasing decisions or product use are influenced by cultural, social, personal, and psychological factors. Cultural influence is an important factor that can influence how consumers judge and ultimately choose or reject products, the culture in question includes religious subcultures (Schiffman & Kanuk, 2007). Religious identity can influence decision-making because consumer behavior is influenced by religion in terms of products that are symbolically and ritualistically related to beliefs in that religion.

For the third hypothesis result, it can be concluded that the lifestyle variable has a positive effect on the decision to use Islamic bank products with a coefficient value of 0.198. It means a 19.8% increase or decrease in the decision to use Islamic bank products can be explained by lifestyle variables. It is a weak category but it can be stated that lifestyle has a contribution to the decision to use Islamic bank products, especially in the Millennial generation. This is in line with the research conducted by Febriana Wahidah (2018) which states that lifestyle has a positive effect on the product purchasing decision.

Again, it proves the theory of Kotler & Keller (2010), especially the age subculture theory (Schiffman & Kanuk, 2007), that age subculture effect to purchasing decision, because each age segment or generation has a different special lifestyle. The Millennial generation likes creative ideas and applies them in daily life which is an important factor in influencing the decision to use Islamic bank products.

CONCLUSIONS AND RECOMMENDATIONS

It is approved by this study that Islamic financial literacy, Religiosity, and Lifestyle affect the decision to use Islamic bank products. Suggested for further researchers to add new variables or indicators to produce a broader picture of the research problem. In addition, it is also recommended to use more samples, so the analysis results are more accurate. Islamic banks must continue the socialization of Islamic financial literacy to increase more Islamic bank customers. Moreover, Islamic banks also need to develop systems and products that apply to sharia principles and the millennial lifestyle as well.

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