

The Influence of Islamic Financial Literacy on Behavior and Decisions to Invest in Gold Instruments

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ABSTRACT

Relentless literalism in finance has reinforced the notion that the Indonesian populace lacks sound financial literacy. This information is contradicted by the minimal understanding of products and exchange services of Islamic financial institutions. This study aims to investigate how gold investing decisions and behavior are affected by Islamic financial literacy. From a population of 31,119 people, 100 respondents from Morotai Island Regency in North Maluku Province were selected as the sample using the purposive sampling technique, with a 0.05 error tolerance. By testing the outer model and inner model, partial least square-structural equation modelling is applied as a data analysis tool. Only 2 of the 9 indicators used to measure the proposed Islamic financial literacy variable met the requirements. Both investment decisions and behavior variable indicators have 3 and 4 qualified indicators, respectively. Several previous studies have used a general measure of financial literacy, but this study measures financial literacy with a specific Islamic financial literacy scale. The results of this study prove that Islamic financial literacy has a positive influence on a person's behavior and his/her decision to invest using gold investment instruments. People who are well-literate in Islamic finance will have an impact on their investing behavior, which will allow them to make wise investment decisions and improve their financial well-being.

Keywords: *Investment Behavior, Investment Decisions, Islamic Financial Literacy*

INTRODUCTION

Indonesia is a country with low financial literacy performance. Its based on the level of their financial health which is at an average of 37.72%. This percentage is still far below Singapore which has reached 61% (OCBC NISP, 2021). It shows that the financial health of Indonesia's generation is not ideal, yet. The low percentage of financial literacy proves that Indonesian people do not have sufficient knowledge about financial management. This fact is supported by the lack of knowledge about financial products and services for bank and non-bank financial service institutions which cause many Indonesians to fall into fraudulent investment practices (OJK, 2021). Increasing people' efforts to defend their rights as financial consumers is made easier by financial literacy. Although there is a greater chance of fraud, there is a decreased chance of suffering losses as a result of fraud when people get well literate (Zheng et al., 2024).

Knowledge of financial management is one of the three main indicators of financial literacy (OECD, 2022). Considering the complexity of today's financial instruments and the importance of knowledge in making financial decisions, comparing credit card offers, choosing a payment method, deciding how much to save, where to invest, and how to get the best loan, financial literacy is a main factor in supporting individual financial well-being (Lusardi, 2008).

Investment with gold instruments has become an alternative instrument in the complexity of investment instruments since the issuance of a fatwa (legal opinion) by The International Islamic Fiqh Academy in 1988 which legitimized the use of many Islamic financial products (Warsame & Ileri, 2016). Investors prefer to invest in gold over other assets due to asset security, low volatility, and consistent returns from year to year (Qureshi et al., 2018). Gold investment also shows consistency in providing returns for investors compared to the volatility of common stocks (Pattnaik et al., 2023). In Indonesia, the number of investments with gold instruments has increased since the issuance of the fatwa of the Indonesian National Sharia Council - Indonesian Ulema Council (DSN-MUI) Number 25/DSN-MUI/III/2002 concerning *rahn* (Habibah, 2017).

The results of the 2019 National Financial Literacy and Inclusion Survey (SNLIK) found that investment is a financial instrument that receives the least interest from Indonesians compared to savings to achieve financial welfare goals even though the returns obtained from investments are more promising than savings (OJK, 2021). North Maluku is one of the provinces with the lowest number of investors in Indonesia with a percentage of 0.95% (KSEI, 2022). The 2019 SNLIK proves that the financial behavior of the people of North Maluku Province has not been wise in maximizing investment products offered by financial and non-financial institutions.

There is a fairly high disparity in the Financial Literacy Index in each province in Indonesia. North Maluku is included in the 5 provinces with the lowest Islamic Financial Literacy Index in Indonesia (Otoritas Jasa Keuangan, 2021). The level of financial literacy, which can eventually accelerate general economic growth, is positively correlated with financial inclusion (Abbas et al., 2023; Ahsan & Ahmed, 2023). (Sharma, 2016) specifically stated that financial inclusion has a close relationship with increasing gross domestic product (GDP). Morotai Island Regency is the regency with the lowest GDP of all Regencies in North Maluku Province in 2020 (BPS Provinsi Maluku Utara, 2021). This low GDP indicates a low level of literacy and financial inclusion among people in Morotai Island.

Research conducted by (Cupák et al., 2022) showed that financial literacy and investor confidence are positively related to the possibility of investing in equity, both analyzed partially

and simultaneously. Research conducted by (Fong et al., 2021) found that financially intelligent individuals (well-literate) are more likely to make better financial decisions. Moreover, research conducted by (Kumar et al., 2022) showed that financial skills and behavior have a significant impact on people's forethought in making financial decisions.

Many studies have examined how financial literacy shapes financial behavior and decisions, such as (Azizah & Mulyono, 2020) proving that financial literacy and investment behavior meets the criteria of reflective correlation. Study by (Kethi Reddi & Nikhila Vangaveti, 2021; Sayinzoga et al., 2016) found that financial literacy is an important factor influencing investor behavior in investing. Financial literacy and the decision to save in Islamic banks are significantly correlated, according to study by (Rachmatulloh & Solekah, 2021). This implies that the decision to save in Islamic banks is more influenced by a higher level of financial literacy. Meanwhile, (Garg, 2021) claimed that the traditional value of gold influences investor behavior to invest in gold. Some of these studies used general financial literacy measures. However, this study used a specific measure of Islamic financial literacy as the Islamic financial literacy scale developed by (Dinc et al., 2021). In this study, the indicators used to measure Islamic financial literacy are not only focused on knowledge, behavior, and attitudes, but also sharia awareness.

Based on the facts stated in previous studies in table 1, financial literacy is a crucial factor that influences a person's decision to invest. If the previous research used financial literacy variables in general, this study used financial literacy with an Islamic principle approach. The role of Islamic investment ethics is very helpful in preventing fraudulent investments because it uses the principle of caution in making investments (Alam et al., 2023). So, this study is intended to examine the effect of Islamic financial literacy on behavior and investment decisions with gold instruments in the people of Morotai Island Regency. The Islamic principle approach to the financial literacy variable is used on the grounds that most of the people in this research object adhere to Islamic beliefs.

LITERATURE REVIEW

The investment decision has been analyzed using various theories. Such as Theory of Interest and behavior (Fisher, 1930); choice theoretic approaches (Hirshleifer, 1965); as well as possibility theory (Mohamed & McCowan, 2001). Many theories have been used by previous researchers because investment decision issues can be identified from various perspectives and dimensions. However, there is also ample evidence that financial literacy is correlated with portfolio decisions because financial literacy allows one to access better investment opportunities (Jappelli & Padula, 2013). The results of research conducted by (Li et al., 2020) suggest that financial knowledge is a very important factor in making a financial investment decision.

Financial literacy is a combination of awareness, knowledge, skills, attitudes, and behaviors required to make the right financial decisions and ultimately achieve individual financial well-being (OECD, 2022). According to (Ariffin et al., 2017) financial literacy is a person's capacity to make the right choices in controlling their own funds. Financial literacy has been highlighted as a key input for making financial decisions that enable investors to increase the productivity of their financial capital (Cupák et al., 2022).

Investment behavior is an orientation toward the description of the investment decision-making process to help build the right investment strategy (Majewski & Majewska, 2022). It

includes investing and divesting an investment product (Zhao et al., 2018). In the field of financial behavior, it has been known and proven that financial literacy influence investment behavior (Azizah & Mulyono, 2020; Garg, 2021; Kethi Reddi & Nikhila Vangaveti, 2021; Sayinzoga et al., 2016).

The investment decision is the condition underpinning the individual to make an investment decision. These conditions include a comparison of investment instrument offerings, investment risk assessment, choosing a payment method, deciding how much to invest, where to invest, and how to get the best investment (Lusardi, 2008). The benefits of financial literacy are to reduce costs for processing information and minimize barriers to investment (Awais et al., 2016).

Financial literacy is often overlooked by researchers even though this factor can be an important predictor of financial behavior (Lusardi, 2008). Financial literacy has also been shown to affect saving and investment behavior (Lusardi, 2019). Financial literacy has been highlighted as a key input for sound financial decision making which allows investors to increase the productivity of their financial capital (Cupák et al., 2022). Empirical studies have shown that there is a significant relationship between financial literacy and investment decisions (Cupák et al., 2022; Kumar et al., 2022; Lusardi, 2008) and the factor that most influences investment decisions is religiosity (Hassan Al-Tamimi & Anood Bin Kalli, 2009).

The religiosity factor is categorized as an indicator of financial knowledge in the Islamic financial literacy dimension (Rahim, 2014; Rahim et al., 2016). The main difference between conventional financial literacy philosophy and Islamic financial literacy is the orientation of individuals or communities in engaging in interest-based transactions (Dinc et al., 2021). Islamic financial literacy is a person's ability from the aspect of knowledge, attitude and behavior of Islamic finance in managing finances based on Islamic finance principles (Setiawati et al., 2018). Therefore, in this study we use the Islamic financial literacy scale to construct hypotheses and explain research findings.

Hypothesis Development

Security, the traditional value of gold, and a higher expected rate of return are the main factors influencing investors' behavior toward buying gold. The results of the analysis of the variables of financial literacy and investment behavior showed that these two variables meet the criteria for reflective measurement (Azizah & Mulyono, 2020). The study results of (Sayinzoga et al., 2016) concluded that increasing financial literacy is an important factor in explaining changes in financial behavior. However, research by (Kethi Reddi & Nikhila Vangaveti, 2021) asserted that there is a positive and significant relationship between knowledge and cautious behavior in investing. Knowledge of good financial management will certainly influence a person's behavior in making investment a means of better personal financial management. Knowledge of financial products is a core indicator of Islamic financial literacy. Based on the information from the research results that have been described previously, we formulated the first hypothesis of this study as follows:

H₁: Islamic Financial literacy has a positive effect on investment behavior.

The results of research (Cupák et al., 2022; Fong et al., 2021; Hassan Al-Tamimi & Anood Bin Kalli, 2009; Kumar et al., 2022) found that financial literacy has a positive and significant influence on investment decisions. Research (Awais et al., 2016; Lusardi, 2008) showed that

financial literacy (including knowledge about inflation) is a determining factor that helps make the right investment decisions. An important indicator of a person's ability to make financial decisions is the level of financial literacy (Lusardi, 2019). A person's decision to use the best instrument to use in managing their finances will be greatly influenced by their level of financial literacy. Good Islamic financial literacy will enable someone to easily make decisions on what instruments are most effective for investing. Based on the empirical analysis of the previous studies described above, we formulate the second hypothesis of this study as follows:

H₂: Islamic Financial literacy has a positive effect on investment decisions.

Table 1
Previous Study

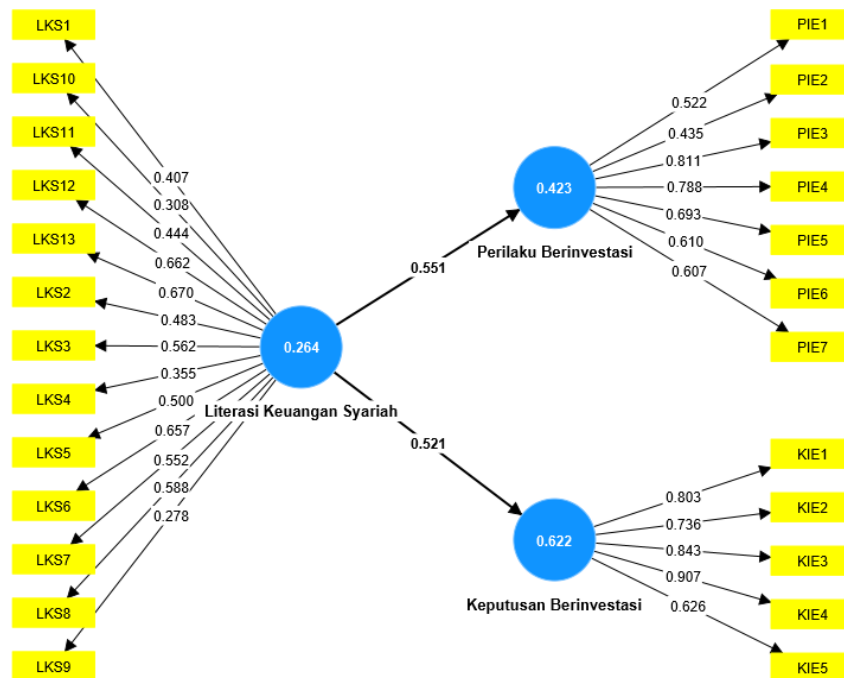
Author	Independent variable	Dependent Variables	Sig	%
(Cupák et al., 2022)	Investor Confidence and High Financial Literacy	Investments in Risky Assets	0,283	0,01
(Kumar et al., 2022)	Skills, Digital Financial Literacy, Capability, and Autonomy	Financial Decision Making and Well-being	0.245	0,01
(Kethi Reddi & Nikhila Vangaveti, 2021)	Cautious Investment Behavior (CIB), Fear of Risk (FOR), and Knowledge and Environment of Investors (KEI)	Investor's Behaviour	0.688	0,5
(Fong et al., 2021)	Financial Literacy	Financial Decision Making	0,92	0,01
(Garg, 2021)	Investor Behaviour	Gold as an Investment Avenue	0,62	0,1
(Rachmatulloh & Solekah, 2021)	Islamic Financial Literacy, Religiosity, and Service Quality	Decision to save in Sharia Bank	0,96	0,1
(Azizah & Mulyono, 2020)	Financial Literacy and Self-control	Investment Behaviour	0,94	0,5
(Sayinzoga et al., 2016)	Financial Literacy	Financial Behaviour	0.1379	0,01
(Hassan Al-Tamimi & Anood Bin Kalli, 2009)	Financial Literacy	Investment Decisions	0.945	0,01

Source: Processed research data (2023)

METHOD

Primary data was collected from the workforce population who had worked in 6 sub-districts in Morotai Island Regency, a total of 31,119 people (BPS Morotai Island Regency, 2022). Questionnaires were administered to a sample of 100 people selected using the slovin formula with an error tolerance of 0.05%. The sample criteria are people who have sufficient income to fulfill their needs and can be allocated for investment as well as people who have investments in gold instruments. Each variable in this study is measured by the following indicators. The Islamic financial literacy variable was measured using 4 indicators namely knowledge, behavior, attitude, and concern with 13 questions that had been tested for validity and reliability (Dinc et al., 2021). Investment behavior was measured by seven questions adapted from research by (Ariffin et al.,

2017). The investment decisions in gold instruments were measured using 3 indicators, namely investment security, expectations of high-profit levels, and traditional values or religiosity with 5 questions (Garg, 2021). Data quantitative approach with Partial Least Square-Structural Equation Modeling (PLS-SEM) is used to predict the relationship between latent variables (Avkiran & Ringle, 2018). SmartPLS 4 is used to test the models and hypotheses proposed in this study. The path analysis model with PLS-SEM consists of two evaluations, namely the evaluation of the structural model (inner model) which is used to examine the relationship between latent variables, and the evaluation of the measurement model (outer model) to examine the relationship between latent variables and their indicators (Hair et al., 2017). Evaluation of the outer model is carried out using a reflective measurement model consisting of internal consistency, indicator reliability, convergent validity, and discriminant validity (Avkiran & Ringle, 2018).



Source: SmartPLS4 result, Graphical output (2023)

Figure 1
The Proposed Research Model

Table 2
Variable Operational Definitions

Variable	Definition	Indicators	Code
Islamic Financial Literacy	Financial literacy is a combination of awareness, knowledge, skills, attitudes, and behaviors needed to make the right financial decisions and ultimately achieve individual	I cannot accept an investment if the contract is not clearly explained	LKS1
		I will not invest in a business if the goal is to harm the people and environment	LKS2
		There are alternative interest-free institutions and instruments for investments	LKS3

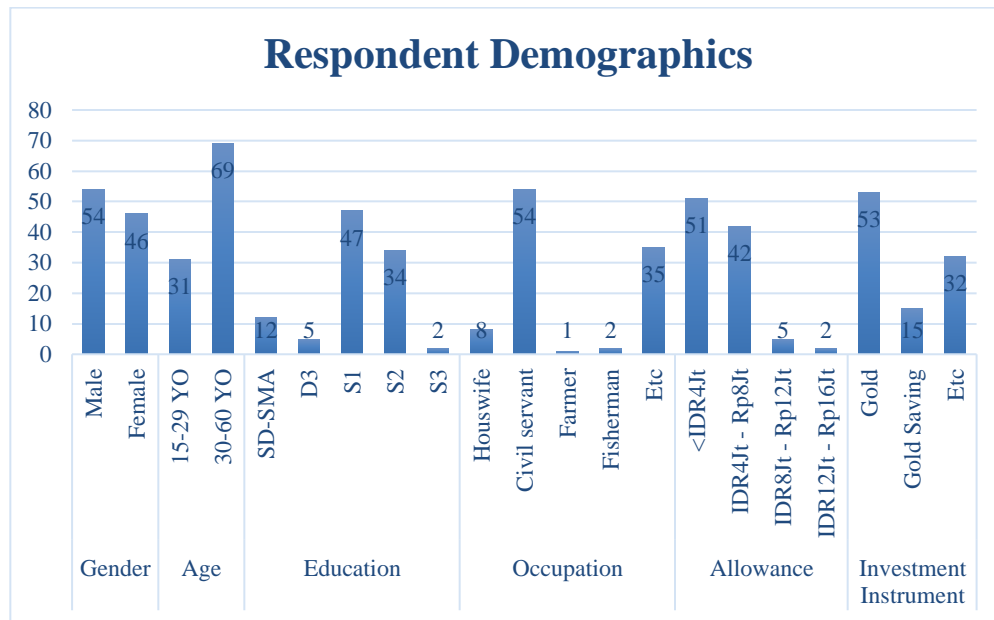
Variable	Definition	Indicators	Code		
financial well-being	(OECD, 2022). The main difference in philosophy between conventional and Islamic financial literacy is the orientation of individuals or communities in engaging in interest-based transactions (Dinc et al., 2021).	I can manage my funds without involving interest	LKS4		
		Interest disrupts the distribution of income in the business	LKS5		
		Communities must collaborate in overcoming difficulties	LKS6		
		Communities must support each other financially.	LKS7		
		The purpose of using the funds must be known by the donor	LKS8		
		I cannot receive interest income	LKS9		
		I will borrow funds with low-profit sharing	LKS10		
		I will accept any solution that is good for me to meet my financial needs (with or without interest)	LKS11		
		I don't mind inviting others to be my business partners	LKS12		
		I will invest and become a partner in the sharia business	LKS13		
		Investment Behavior	Investment behavior is an orientation toward the description of the investment decision-making process to help build the right investment strategy (Majewski & Majewska, 2022).	I regularly save money for the future	PIE1
				Before investing, I often do a comprehensive analysis (detail)	PIE2
				To invest, I often compare prices before buying gold	PIE3
To invest, I often consider the price of gold when I sell it	PIE4				
I always have a reserve fund in case I fail in my investment	PIE5				
I save money to make investments	PIE6				
I invest to achieve a certain goal (profit)	PIE7				
Investment Decision	An investment decision is a condition underpinning the individual to make an investment decision. These conditions include a comparison of investment instrument offerings, investment risk assessment, choosing a payment method, deciding how much to invest, where to invest, and how to get the best investment (Lusardi, 2008).	I consider gold as a safe and special investment instrument	KIE1		
		I thought that owning gold would help me avoid inflation	KIE2		
		I prefer to buy gold because it provides financial protection against economic uncertainties	KIE3		
		Investment risk with gold instruments is lower than with other investment instruments	KIE4		
		I have gold or gold savings	KIE5		

Source: Processed primary data (2023)

RESULTS AND DISCUSSION

Respondent Demographics

Questionnaires were administered to respondents using Google Forms. 166 respondents filled out the questionnaire. Only 100 questionnaires met the sample criteria and were used in data analysis. Figure 2 and table 3 displays the distribution of questionnaires completed by research participants.



Source: Processed primary data (2023)

Figure 2
Respondent Demographics

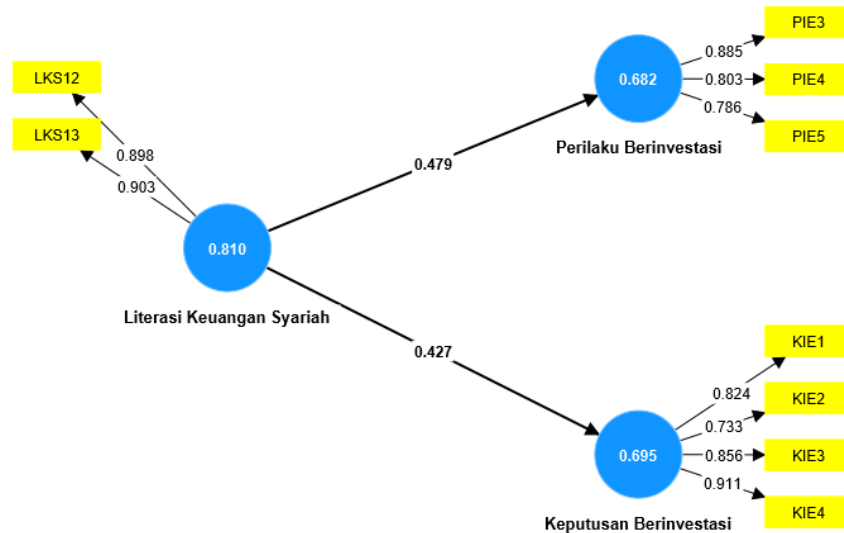
Table 3
Demographic Variables of the Respondents

Variables	Descriptions	n	Percentage (%)
Gender	Male	54	54
	Female	46	46
Age	15-29 Years old	31	31
	30-60 Years old	69	69
Education	Primary Education	12	12
	Associate degree	5	5
	Postgraduate	47	47
	Undergraduate	36	36
Occupation	Housewife	8	8
	Civil Servants and Military	54	54
	farmers / fishermen	3	3
	Others	35	35
Monthly Allowance	Less than IDR4.000.000	51	51
	IDR4.000.001 - IDR8.000.000	42	42
	IDR8.000.001 - IDR12.000.000	5	5
	IDR12.000.001 - IDR16.000.000	2	2
Investment Instrument	Gold	53	53
	Gold Savings	15	15
	Others	32	32

Source: Processed primary data (2023)

Evaluation of the Measurement Model (Outer Model)

The research model proposed in this study can be seen in Figure 1. After evaluating each of the indicators proposed in the model, it was discovered that only a few indicators met the qualifications which can be seen in table 2. Indicators that do not meet the qualifications were eliminated in accordance with the theory by (Hair et al., 2017) that indicators with an outer loading value below 0.7 can be considered for elimination because they cannot explain the variables in Research Model. One can observe the legitimate research model that is used in this study in figure 3.



Source: SmartPLS4 result, Graphical output (2023)

Figure 3
Valid Research Model

Internal consistency criteria were used to assess internal consistency between constructs or latent variables in this study. The composite reliability value must have a value of more than 0.7 so that it can be said to be consistent (Avkiran & Ringle, 2018). The evaluation results in table 5 show that the composite reliability value for the three variables is more than 0.7, meaning that the variables proposed in this research model have consistent values between variables.

Indicator Reliability

The reliability indicator criterion is an element in the path analysis model that explains the relationship between indicators and their constructs or latent variables. Indicator reliability is seen in the outer loading value where a high value indicates that the latent variable has a close relationship with the indicator. The outer loading value of indicators in social science research that can be accepted in a PLS-SEM model is greater than 0.7 so indicators which an outer loading value smaller than 0.7 can be considered for elimination from the model (Hair et al., 2017). The test results in table 4 show that the indicators that were not eliminated in the previous test were declared valid because the value of the outer loading was more than 0.7.

Table 4
Outer Loadings Analysis

	Investment Decision	Islamic Financial Literacy	Investment Behavior
KIE1	0.824		
KIE2	0.733		
KIE3	0.856		
KIE4	0.911		
LKS12		0.898	
LKS13		0.903	
PIE3			0.885
PIE4			0.803
PIE5			0.786

Source: SmartPLS4 result, Outer Loadings-Matrix (2023)

Convergent Validity

Convergent validity criteria were used to explain that all items describe the underlying latent constructs. Convergent Validity is seen in the Average Variance Extracted (AVE) value. An AVE value greater than 0.5 is prioritized because it implies that more than 50% of the indicator variance has been accounted for by latent variables and all indicators have explained the underlying latent variables (Avkiran & Ringle, 2018). The test results in table 5 showed that the AVE value for each variable proposed in the model was greater than 0.5, meaning that all indicators have been taken into account by the variables in this study.

Table 5
Construct reliability and validity

Construct (Variable)	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	The average variance extracted (AVE)
Investment Decision	0.857	0.923	0.901	0.695
Islamic Financial Literacy	0.766	0.766	0.895	0.810
Investment Behavior	0.772	0.826	0.865	0.682

Source: SmartPLS4 result, Construct reliability and validity - Overview (2023)

Discriminant Validity

Discriminant validity criteria were used to explain that a variable is truly unique and different from other variables. Establishing discriminant validity implies that a variable can capture phenomena that are not represented by other variables in the model (Hair et al., 2017). The cross-loading value is usually the approach used to assess the discriminant validity of each indicator with the value of an indicator on the related variable must be greater than the cross-loading value of other variables (Hair et al., 2017). The test results in table 6 showed that each indicator proposed to measure each variable had a value greater than the indicators for other variables, meaning that all indicators proposed in this research model had good discriminant validity.

Table 6
Cross Loadings Analysis

	Investment Decision	Islamic Financial Literacy	Investment Behavior
KIE1	0.824	0.323	0.484
KIE2	0.733	0.204	0.258
KIE3	0.856	0.341	0.413
KIE4	0.911	0.474	0.537
LKS12	0.375	0.898	0.430
LKS13	0.394	0.903	0.432
PIE3	0.539	0.494	0.885
PIE4	0.395	0.293	0.803
PIE5	0.345	0.355	0.786

Source: SmartPLS4 result, Discriminant Validity-Cross loadings (2023)

Evaluation of the Structural Model (Inner Model)

Evaluation of the structural model (inner model) was carried out after the evaluation results of the measurement model (outer model) supporting the estimated variables. This evaluation is an attempt to find evidence to support the relationship between the independent and dependent variables in the model (Avkiran & Ringle, 2018). The main criterion for assessing the inner model is the coefficient of determination (R^2) which represents the amount of variance explained for each dependent variable (Hair et al., 2012).

Table 7
Path Coefficients (Inner Model)

Construct (Variable)	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
LKS -> KIE	0.427	0.440	0.108	3.946	0.000
LKS -> PIE	0.479	0.484	0.106	4.501	0.000

Source: SmartPLS4 result, bootstrapping-path coefficients (2023)

Influence of Islamic Financial Literacy on Behavior to Invest in Gold Instruments

The results of the hypothesis test in table 7 showed that the original sample or the path coefficient of the Islamic financial literacy variable on investment behavior was positive, namely 0.479, meaning that Islamic financial literacy had a positive effect on investment behavior. The p-values of the relationship between the two variables are 0.000, less than 0.05, meaning that the Islamic financial literacy had a significant influence on investment behavior. These results prove that hypothesis 1 proposed in this study was accepted (Islamic financial literacy had a positive and significant effect on investment behavior). This means that a good level of Islamic financial literacy can shape a person's behavior to streamline his financial management through effective investment. The choice to invest using gold instruments itself was chosen because of financial behavior formed from good financial knowledge. The results of this study support the findings of Kethi's study indicated that Investment environment and knowledge are related to cautious investing behavior (Kethi Reddi & Nikhila Vangaveti, 2021).

Influence of Islamic Financial Literacy on Decisions to Invest in Gold Instruments

Table 7 showed that the original sample value or path coefficient of the Islamic financial literacy variable on investment decisions was positive, namely 0.427, meaning that Islamic financial literacy had a positive effect on investment decisions. The p-value of the relationship between the two variables was 0.000, less than 0.05, meaning that the Islamic financial literacy had a significant influence on family planning. These results prove that hypothesis 2 proposed in this study was accepted (Islamic financial literacy had a positive and significant effect on investment decisions). This means that a person's decision to use gold as a means of investment is largely determined by the level of financial literacy. Good Islamic financial literacy can make a person more selective in choosing investment instruments to use. The results of this study support the findings of (Awais et al., 2016; Cupák et al., 2022; Fong et al., 2021; Hassan Al-Tamimi & Anood Bin Kalli, 2009; Kumar et al., 2022; Lusardi, 2008) which indicated that one important factor that influences financial decision-making is financial literacy.

CONCLUSION

This study is intended to examine the effect of financial literacy on behavior and decisions to invest in gold instruments. From the results of the structural model test (inner model), it can be concluded that financial literacy has a positive and significant influence on behavior and decisions to invest in gold instruments. The results of this study prove that people who have good financial literacy will have good investment behavior so which has an impact on decision-making in choosing good investment products and services for their financial management.

This study does not provide a proxy for investment decision variables with gold instruments specifically. The indicators used to measure investment decision variables are still general. Therefore, further research can be conducted to cover the shortcomings of this research by making the traditional and spiritual value of gold a proxy variable for investment decisions with gold instruments. The results of this study can be used by the local government of Pulau Morotai Regency and financial institutions that operate with the Islamic financial system there to educate the public regarding the importance of Islamic financial literacy. This education is important considering that the level of Islamic financial literacy in North Maluku Province is still minimal based on the survey results from Otoritas Jasa Keuangan in 2021. Meanwhile, the results of this study prove that Islamic financial literacy is closely related to financial behavior and investment decisions.

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