

Untapping the Determinants of Islamic Financial Behaviour among Young Generations

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Abstract

Research Originality: The originality of this research lies in its integrated examination of psychological, social, and educational determinants of Islamic financial behaviour within a localized Malaysian context.

Research Objectives: Grounded in the Theory of Planned Behaviour, the research investigates how Islamic financial literacy, financial risk attitude, parental financial socialization, and financial self-efficacy influence financial behaviour.

Research Methods: A structured questionnaire was distributed to 358 respondents aged 18 to 30, and the data were analyzed using covariance-based Structural Equation Modelling (CB-SEM).

Empirical Results: The study reveals two significant findings: parental financial socialization and financial self-efficacy strongly predict Islamic financial behaviour, while financial literacy and risk attitude show insignificant relationships.

Implications: Policymakers should embed Islamic financial literacy in national youth programs, educators must integrate hands-on financial training into curricula, and Islamic finance providers are encouraged to offer youth-friendly, Shariah-compliant products supported by educational outreach and family-involved financial awareness initiatives.

Keywords:

Islamic financial behaviour; Islamic financial literacy; parental financial socialization; financial self-efficacy; young generations

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INTRODUCTION

Financial inclusion in Malaysia has made significant progress in recent years, driven by strong policy measures and technological advancements. The country has witnessed substantial improvements in the accessibility of financial services. The percentage of adults with access to formal financial institutions and digital financial services has increased from 46 percent in 2011 to 96 percent in 2020. Bank Negara Malaysia has played a pivotal role in fostering an inclusive financial ecosystem by promoting financial literacy, supporting microfinance initiatives, and facilitating the expansion of mobile banking. Additionally, Malaysia's commitment to the Sustainable Development Goals (SDGs) has underscored the importance of financial inclusion in reducing poverty and stimulating economic growth. According to a World Bank report, Malaysia's financial inclusion efforts have significantly reduced the unbanked population, contributing to overall economic stability and resilience (World Bank, 2023).

Previous studies have also shown that increased financial inclusion does not automatically translate into responsible financial behaviour. For instance, Indana & Pambekti (2022) stressed that in Islamic finance, balanced and ethical financial behaviour, including thrift, financial prudence, and Shariah-compliance, is central to both personal and societal well-being. However, such ideals are not always reflected in the daily financial choices of the young generation.

Nevertheless, the positive fact of financial inclusion in Malaysia is not aligned with the trends of personal financial behaviour. In fact, many personal financial behaviour issues arise among individuals in Malaysia. Among them, the ongoing issue of inadequate retirement savings among Malaysians presents a significant financial behaviour challenge. Despite various financial inclusion efforts, a substantial portion of the population remains financially vulnerable, with many individuals lacking sufficient retirement savings to ensure a secure and comfortable post-retirement life.

The matter at hand is fundamentally associated with financial behaviour, given the substantial living expenses, inadequate wage growth, and a dearth of robust financial literacy that collectively exacerbate this predicament. Of concern, the Employees Provident Fund (EPF) revealed that as of September 30, 2023, 6.3 million members under the age of 55, constituting 48 percent of such members, possessed less than RM10,000 in their accounts (New Straits Times, 2023). This confluence of factors imperils individual financial stability and strains the national economy, thus underscoring the compelling necessity for all-encompassing policy interventions and intensified financial education initiatives to foster improved financial behaviour and safeguard enduring financial well-being.

Then, the insurance penetration rate in Malaysia has achieved a commendable 40 percent, whereas family takaful penetration lags at 20 percent. This notable incongruity underscores a substantial disparity in the adoption of takaful within Malaysia's predominantly Muslim populace. This conspicuous variance draws attention to an underlying concern in Islamic financial behaviour, indicating that a significant proportion of Muslims abstain

from enrolling in *takaful* products. This occurrence necessitates comprehensive research into Islamic financial behaviour to comprehend the impediments to adoption.

This interest in youth financial behaviour is well-founded, as prior research has shown that financial knowledge, self-efficacy, and locus of control significantly influence Islamic financial behaviour among Generation Z (Pahlavi et al., 2022). These findings highlight the formative role of psychological and educational factors in developing ethical financial habits among young adults. Islamic finance has become a pivotal element of the global financial system, with Malaysia recognized as a leading hub for Islamic banking, *takaful*, and capital markets. Despite its progress, concerns remain about whether financial inclusion, especially among youth, translates into sound Islamic financial behaviour. University students, as part of the young generation, are transitioning into financial independence, making their financial behaviour a critical area of study.

Islamic financial behaviour refers to actions that comply with Shariah principles, including the avoidance of *riba* (interest), *gharar* (excessive uncertainty), and *haram* (prohibited) activities, while promoting *halal* investments and prudent money management (Indana & Pambekti, 2022). Past studies have emphasized the role of financial literacy in fostering sound financial behaviour (Antara et al., 2016; Nawi et al., 2018). However, evidence suggests that literacy alone may not be sufficient; psychological factors such as financial self-efficacy (Farrell et al., 2016; Mathew et al., 2024) and social influences like parental financial socialization (Mohamed, 2017; Sundarasan et al., 2016) also play significant roles.

Islamic financial knowledge influences the financial behaviours of youth. There is a positive link between Islamic financial attitudes and financial knowledge, as well as between financial knowledge and behaviour. Islamic financial awareness strengthens the relationship between financial attitudes and behaviours. This condition highlights the need for targeted financial education programs to improve young people's Islamic financial literacy and behaviour (Ergün, 2024). Moreover, while financial risk attitude has been widely examined in conventional finance (Cameron et al., 2014; Kannadhasan, 2015), its influence within the Islamic finance context remains underexplored. Islamic finance emphasizes ethical risk-sharing rather than speculative risk-taking, raising questions about how young Muslims perceive and act on financial risks (Kayed & Hassan, 2011).

Despite these insights, past literature has mainly remained fragmented. Many studies have isolated variables such as financial literacy or self-efficacy without considering their interaction in a single predictive framework. Few studies have been context-specific, and even fewer have addressed Islamic financial behaviour in smaller states like Perlis, which may feature distinct socio-cultural and economic dynamics. A notable gap in previous studies is their limited focus on integrated models that simultaneously examine multiple determinants of Islamic financial behaviour. Many existing studies have been fragmented, focusing solely on either financial literacy or singular psychological factors, without

considering their combined effect. Furthermore, there is a lack of research examining how these determinants interact within specific Malaysian states, such as Perlis, where cultural and socio-economic factors may uniquely shape financial behaviours. Most prior research also tends to generalize findings across broad youth populations, overlooking the unique context of university students who face distinctive financial pressures and opportunities.

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METHODS

This study investigates the determinants of Islamic financial behaviour among the young generation in Malaysia, with university students in Perlis serving as the representative sample. The respondents' criteria were clearly defined to ensure relevance to the study's objective: participants must (i) be aged between 18 and 30 years, (ii) be currently enrolled as full-time students, and (iii) be studying at one of the four higher education institutions in Perlis, namely Universiti Islam Antarabangsa Tuanku Syed Sirajuddin (UniSIRAJ), Universiti Malaysia Perlis (UniMAP), Universiti Teknologi MARA (UiTM), and Politeknik Tuanku Syed Sirajuddin (PTSS). These criteria were set to capture individuals within the young generation who are actively transitioning into financial independence.

The study employed a convenience of non-probability sampling technique to distribute the questionnaires, a method frequently utilized in behavioural intention research (Ali et al., 2015; Fernandes et al., 2017; Gerrard & Barton Cunningham, 2003; Lee, 2009). This technique was chosen for its practicality and efficiency in accessing a readily available pool of respondents, particularly in exploratory studies where comprehensive sampling may not be feasible. Moreover, convenience sampling is particularly suitable for studies focusing on specific populations, such as young generations among university students (Teddlie & Yu, 2007).

A total of 379 questionnaires were disseminated to the target population. From this distribution, 187 questionnaires were returned, reflecting a considerable initial response. However, upon further scrutiny, only 164 of these responses were deemed complete and usable for the study, resulting in a response rate of 43.27 percent. Of the total

participants, 64 were male (39 percent), and 100 were female (61 percent). Regarding age distribution, most respondents, as many as 96 (59 percent), were aged between 18 and 22 years, followed by 65 (40 percent) in the 23 to 27 years age bracket. A small percentage of 1 percent (2) fell within the 28 to 32 years age group, and 1 (1 percent) was over 32 years.

Regarding educational attainment, 121 students (74 percent) were pursuing a bachelor's degree, 35 (21 percent) had a diploma, 6 (4 percent) had completed SPM/STPM, and one each (1 percent) were pursuing a master's degree and a PhD. The students were from various universities: 83 (51 percent) were from Universiti Malaysia Perlis, 45 (27 percent) from Universiti Teknologi MARA Arau, 27 (16 percent) from Politeknik Tuanku Syed Sirajuddin, and 9 (5 percent) from Universiti Islam Antarabangsa Tuanku Syed Sirajuddin.

The year of study distribution showed that 78 respondents (48 percent) were in their second year, 37 (23 percent) in their first year, 35 (21 percent) in their third year, and 14 (9 percent) were in their fourth year or beyond. When it comes to income sources, 56 students (34 percent) relied on education loans, another 55 (34 percent) were self-funded or supported by family, 50 (30 percent) received scholarships, and 3 (2 percent) had part-time jobs. The total monthly income for most students (125, 76 percent) ranged from RM 1001 to RM 2500. About 13 respondents (8 percent) had a monthly income of RM 0 to RM 1000, 12 (7 percent) earned between RM 2501 and RM 4000, 4 (2 percent) had an income of RM 4001 to RM 5500, and 10 (6 percent) earned more than RM 5501.

All items measuring the constructs in this study were adopted from previously validated instruments based on the underlying Theory of Planned Behaviour. The dependent variable of this study is Islamic financial behaviour, which refers to financial practices that follow Shariah principles, such as avoiding *riba* (interest), saving and investing in *halal* products, and managing money responsibly. It was measured using five items adapted from previous studies (Potrich et al., 2016; Susan, 2020). These items assess behaviours like keeping savings in Shariah-compliant products, planning finances before big purchases, saving regularly, setting financial goals based on Islamic values, and investing in Islamic financial instruments.

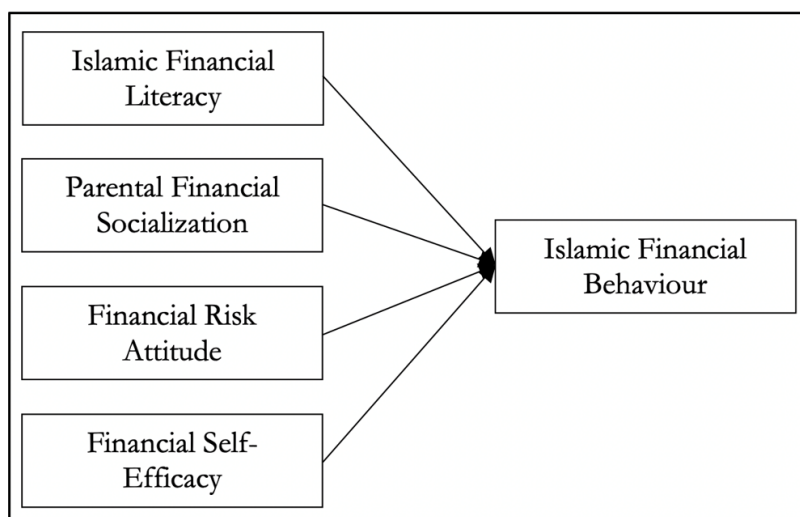
The independent variables in this study include Islamic financial literacy, parental financial socialization, financial risk attitude, and financial self-efficacy. Islamic financial literacy measures students' understanding of key Islamic finance concepts, such as *riba* (interest), *gharar* (uncertainty), and Shariah-compliant financial practices (Albaity & Rahman, 2019). Parental financial socialization assesses the influence of parents or guardians on students' financial habits, including discussions about money, saving, and role modelling responsible financial behaviour (Li et al., 2021; Shim et al., 2010).

Financial risk attitude captures youths' willingness to take risks in financial decisions, such as investing in Islamic financial products and managing credit (Ali et al., 2015; Keller & Siegrist, 2006; Potrich et al., 2016; Susan, 2020). Lastly, financial self-efficacy reflects

students' confidence in managing their finances, including their ability to solve financial problems, meet goals, and handle financial challenges effectively (Lown, 2011; Oquaye et al., 2022; Serido et al., 2013). These items were explicitly modified to examine university students' Islamic financial behaviour. All questions employed a five-point Likert scale, with one indicating "strongly disagree," 2 indicating "disagree," 3 indicating "neutral," 4 indicating "agree," and five indicating "strongly agree." The figure below illustrates the theorized framework for the current study.

The questionnaire responses were meticulously coded and entered into the Statistical Package for the Social Sciences (SPSS) Version 26 for initial data analysis. Additionally, the study employed partial least squares (PLS) using Smart-PLS Version 3.3.7 to evaluate both the measurement and structural models, in line with recommendations by Hair et al. (2010). Two primary considerations drove the choice of PLS. First, PLS is particularly well-suited for exploratory research, as highlighted by Henseler et al. (2009) and Chin & Newsted (1999). Its ability to handle complex models and smaller sample sizes makes it ideal for studies aiming to develop theoretical insights rather than confirm established theories. Second, PLS has recently gained significant traction in individual and service research fields, as noted by Sarstedt (2008). This growing popularity underscores its effectiveness in analyzing data where traditional covariance-based techniques may fall short.

Figure 1. Theoretical Framework



The measurement model was assessed to ensure the reliability and validity of the constructs. Convergent validity was first tested using factor loadings, composite reliability (CR), and average variance extracted (AVE), following Hair et al. (2010). Factor loadings above 0.708 indicate that items effectively measure their respective constructs. In this study, several items, including IFB5, IFL3, IFL5, FRA1, FRA2, FRA6, FRA7, FSE5, and FSE6, did not meet this threshold and were therefore removed from further analysis. The remaining items showed satisfactory factor loadings, confirming that they

appropriately represent their constructs. Composite reliability for all constructs exceeded the recommended value of 0.70, demonstrating strong internal consistency.

Similarly, AVE values were above 0.50 for all constructs, indicating that each construct captured a substantial proportion of variance in its indicators. Discriminant validity was also examined using the Fornell-Larcker Criterion, latent variable correlations, and the Heterotrait-Monotrait Ratio (HTMT). The square roots of the AVE for each construct were greater than the corresponding correlation coefficients, confirming that the constructs were distinct from one another (Fornell & Larcker, 1981). Overall, the results confirmed that the measurement model satisfied all criteria for convergent and discriminant validity, supporting its suitability for subsequent structural model assessment.

RESULTS AND DISCUSSION

The results of the structural model analysis, including significant standardized path coefficients, t-values for each relationship, and squared multiple correlations (R^2) for the constructs, are presented in Table 1 and visualized in Figure 2. The hypothesized model explained a moderate amount of variance in the dependent variable, Islamic financial behaviour, with an R^2 value of 0.245. This R^2 value indicates that 24.5 percent of the variation in Islamic financial behaviour can be explained by the four variables: Islamic financial literacy, financial risk attitude, parental financial socialization, and financial self-efficacy. At the same time, the other un-included variables may explain the other 75.5 percent.

Table 1. Results for the model's structural assessment.

H	Relationship	Standard Beta	Standard Error	t-value	Results
H1	IFL --> IFB	0.148	0.078	1.693	Unsupported
H2	FRA --> IFB	-0.034	0.102	0.312	Unsupported
H3	PFS --> IFB	0.194	0.091	2.068*	Supported
H4	FSE --> IFB	0.352	0.088	3.914**	Supported

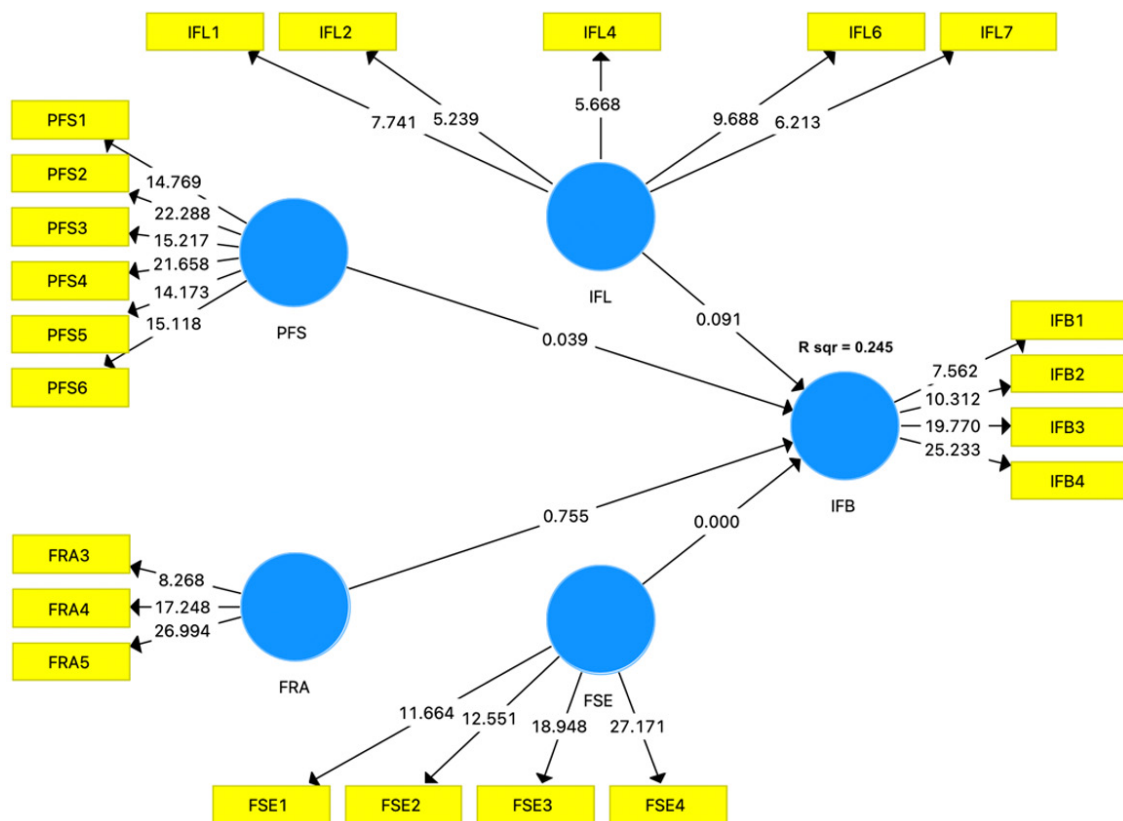
Note: ** $p < 0.01$; * $p < 0.05$
Source: Data processing.

Table 1 summarizes the results of the structural model assessment for the study's hypothesis testing. Two out of four hypothesized relationships indicated statistically significant findings. The two hypotheses are the relationship between parental financial socialization and financial self-efficacy toward Islamic financial behaviour. Specifically, parental financial socialization and financial self-efficacy toward Islamic financial behaviour were statistically significant. The other results portrayed an insignificant influence of Islamic financial literacy on financial risk attitude toward the measured variable.

The results demonstrated that the Theory of Planned Behaviour (TPB) model could explain 24.5 percent of the variance in Islamic financial behaviour among young university students. This finding underscores the model's moderate explanatory power in understanding the financial behaviours within this demographic. The analysis revealed that parental financial socialization and financial self-efficacy were significant determinants of youth's Islamic financial behaviour. Specifically, the influence of parents on youths' financial attitudes and practices, alongside the students' confidence and control over their financial decisions, were critical factors in shaping their adherence to Islamic financial principles.

The findings imply that parental financial socialization is crucial in shaping youth's Islamic financial behaviour. Youth who reported positive financial socialization from their parents or guardians are more likely to exhibit financial behaviours aligned with Islamic principles, such as prudent money management, avoidance of excessive debt, and ethical financial decision-making. This result aligns with previous research highlighting the importance of parental influence on financial attitudes and behaviours (Jorgensen & Savla, 2010; Shim et al., 2010). Studies have consistently shown that parental involvement in financial education significantly impacts young adults' financial literacy and behaviour, suggesting that early financial socialization at home sets the foundation for future financial practices (Gudmunson & Danes, 2011).

Figure 2. Results for Structural Model Assessment



The study suggests that interventions to improve the Islamic financial behaviour of young university students should involve parents or guardians. Financial education programs that include components for parental involvement can reinforce positive financial practices at home, thereby enhancing the overall effectiveness of these initiatives. This approach is supported by research indicating that family financial socialization is critical in shaping financial literacy and behaviours in young adults (Danes & Haberman, 2007). By fostering open communication about financial matters and demonstrating sound financial management, parents can significantly influence their children's ability to navigate financial decisions in accordance with Islamic values. This finding is consistent with findings that suggest parental financial teaching and modelling are linked to better financial outcomes in children and young adults (Shim et al., 2009).

Furthermore, involving parents in financial education programs aligns with the social learning theoretical framework, which posits that individuals learn behaviours and attitudes by observing and imitating significant others (Bandura et al., 1977). By actively engaging parents in their children's financial education, programs can effectively leverage this social learning process to promote Islamic financial principles. This finding is aligned with the previous empirical work by Albaity & Rahman (2019), Li et al. (2021), and Susan (2020).

The second significant finding is the relationship between financial self-efficacy and Islamic financial behaviour. Financial self-efficacy, which encompasses students' confidence in their ability to manage their finances, find solutions to financial challenges, and their enthusiasm to make progress toward financial goals, plays a crucial role in shaping their financial behaviour per Islamic principles. These findings parallel previous empirical work such as Danes & Haberman (2007), Dew & Xiao (2013), Jariwala (2015), Mindra & Moya (2017), and Shim et al. (2009).

The study's implications for this relationship are multifaceted. First, enhancing students' financial self-efficacy can lead to more prudent and responsible financial behaviours, as individuals who believe in their financial capabilities are more likely to make informed and ethical financial decisions. This finding aligns with previous research indicating that higher financial self-efficacy is associated with better financial management and lower levels of financial distress (Farrell et al., 2016; Kempson et al., 2017). By fostering a strong sense of financial self-efficacy, educational interventions can empower students to adhere to Islamic financial practices, such as avoiding excessive debt and engaging in ethical investments.

Moreover, the findings suggest financial education programs should include components that boost students' financial self-efficacy. Practical training that equips students with the skills to manage their finances, solve financial problems, and set and achieve financial goals can significantly enhance their confidence in their financial abilities. This approach is supported by the social cognitive theory, which posits that self-efficacy influences the choices individuals make, the effort they put forth, and their persistence in the face of challenges (Bandura, 1986). By increasing financial self-efficacy, students

are more likely to engage in consistent and disciplined financial behaviours that align with Islamic values.

Additionally, promoting financial self-efficacy can help mitigate the impact of financial stress and uncertainty. Students with higher financial self-efficacy are better equipped to handle financial setbacks and are more resilient in pursuing their financial goals. This resilience is critical in the context of Islamic financial behaviour, where adherence to ethical and responsible financial practices is paramount. By encouraging a proactive and confident approach to financial management, educational programs can support students in maintaining financial stability and adhering to Islamic financial principles, even in the face of economic challenges.

Nevertheless, two hypothesized relationships were found to be insignificant. Firstly, the relationship between Islamic financial literacy and financial behaviour did not yield significant. This finding is surprising given that numerous studies have typically shown a positive association between financial literacy and financial behaviour. The implications of this unexpected result suggest that while Islamic financial literacy is undoubtedly important, it alone may not be sufficient to drive Islamic financial behaviour among university students. This result implies that other factors, such as financial self-efficacy and parental financial socialization, may play more dominant roles in influencing these behaviours. It indicates a potential gap between knowledge and action, where students may possess theoretical understanding but fail to translate this knowledge into practice due to a lack of confidence or inadequate financial socialization.

Justifying this finding, it is essential to consider the context in which financial literacy is applied. Previous research has highlighted that financial knowledge does not automatically lead to better financial behaviour unless accompanied by the ability to apply this knowledge effectively in real-life situations (Lusardi & Mitchell, 2014). For instance, Lusardi & Mitchell (2011) argue that financial literacy must be complemented by self-efficacy and supportive social environments to be impactful (Lusardi & Mitchell, 2011). Similarly, Mandell & Klein (2009) found that without practical experience and reinforcement, financial education alone has limited effects on behaviour (Mandell & Klein, 2009).

Moreover, this finding may indicate that Islamic financial literacy, as measured in this study, might not fully capture the practical application or the emotional and psychological factors that influence financial behaviour. According to Huston (2010), financial literacy encompasses knowledge and the ability to use this knowledge (Huston, 2010). Therefore, interventions aiming to improve Islamic financial behaviour should not only focus on imparting knowledge but also on enhancing practical financial skills, building confidence, and creating supportive environments that encourage the application of financial knowledge.

Another unfavourable finding is the relationship between financial risk attitude and Islamic financial behaviour. Financial risk attitude, the maximum uncertainty an individual is willing to accept while making financial decisions, is crucial in influencing

financial behaviour. However, this study found no significant relationship between financial risk attitude and Islamic financial behaviour among university students. The finding is contrary to the previous empirical works such as García & Vila (2020), Oladapo et al. (2019), and Raut (2020).

The implications of this finding suggest that financial risk attitude may not play as pivotal a role in shaping Islamic financial behaviour as previously thought, at least within this demographic. This result indicates that university students' financial decisions aligned with Islamic principles may be influenced more by their self-efficacy and socialization than their risk tolerance. This finding challenges the assumption that willingness to accept financial risk is a primary driver of financial behaviour in the context of Islamic finance, where ethical considerations and adherence to religious principles may overshadow risk preferences.

Justifying this finding, it is essential to consider the unique characteristics of Islamic financial behaviour. Islamic finance principles emphasize ethical considerations, avoidance of excessive risk (*gharar*), and prohibitions on interest (*riba*), which might lead individuals to make financial decisions based on religious and ethical guidelines rather than personal risk tolerance. According to Kaye & Hassan (2011), Islamic finance principles promote risk-sharing and ethical investment, which might reduce the impact of individual risk attitudes on financial behaviour (Kaye & Hassan, 2011). Moreover, a study by Gerrans et al. (2015) suggests that while risk tolerance is a significant factor in conventional financial decision-making, its influence may be moderated by cultural and religious factors in the context of Islamic finance (Gerrans et al., 2015).

Additionally, the insignificance of financial risk attitude in this study may reflect the educational and socio-economic background of university students. Research by Roszkowski & Grable (2005) indicates that younger individuals, such as university students, may have less experience and lower financial stakes, resulting in less variation in their risk attitudes and financial behaviours (Roszkowski & Grable, 2005). This finding suggests that factors such as social influences and self-efficacy are more influential in shaping Islamic financial behaviour among this group.

CONCLUSION

This study examined the factors influencing Islamic financial behaviour among young generations, focusing on Islamic financial literacy, financial risk attitude, parental financial socialization, and financial self-efficacy. The findings revealed that parental financial socialization and financial self-efficacy are significant predictors of Islamic financial behaviour, highlighting the critical role of family influence and students' confidence in financial management. Conversely, Islamic financial literacy and financial risk attitude were not significantly related to financial behaviour, suggesting that knowledge and risk-taking attitudes alone do not guarantee Shariah-compliant financial practices. These results emphasize that while knowledge is important, confidence

and supportive social environments play a stronger role in shaping Islamic financial behaviour.

From a policy perspective, financial education programs should involve parents or guardians to reinforce positive financial habits at home. Additionally, programs should focus not only on increasing financial literacy but also on building youths' financial confidence and practical skills. Policymakers and Islamic financial institutions can use these insights to develop targeted interventions that foster responsible financial behaviour aligned with Islamic principles, contributing to broader financial inclusion and stability.

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