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# The Relationship Between Literacy, Perception, and Islamic Economics Financial Inclusion Towards Shariah Finance Choices Among The Youth In Medan City

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## Abstract

This Study aims to explore the relationship between financial literacy, perception, and the financial inclusion of Islamic economics on the choice of Islamic finance among the youth in Medan City. Primary data was collected through questionnaires administered to respondents, with the population consisting of young individuals in Medan City within a defined age range. A sample of 100 respondents was surveyed. This study employs descriptive analysis methods to identify and describe the data. The analysis was conducted using Structural Equation Modeling-Partial Least Square (SEM-PLS) to examine the factors influencing the choice of Islamic finance. This research adopts a quantitative approach, analyzing the data statistically. The findings indicate that financial literacy does not have a significant positive relationship with the selection of Islamic finance. However, in contrast, both the perception of and financial inclusion in Islamic economics demonstrate a positive and statistically significant influence on the choice of Islamic finance among the youth in Medan City.

**Keywords:** Literacy; Perception; Islamic Economics Financial Inclusion; Sharia Finance; Youth.

## 1. Introduction

The development of Islamic economics is characterized by the increase of Islamic financial institutions and Islamic business institutions. In addition, the growth of Islamic economics academically is marked by the rise of the opening of Islamic economics concentrations in Islamic or general universities, as well as the spread of institutions and organizations that are concerned with the study and development of Islamic economics [1]. Similarly, in Medan city, the development of Islamic economics extends to various sectors, both financial and non-financial. This development is marked by the emergence of Islamic financial institutions, Islamic economic educational institutions, Islamic hotels, Muslim fashion, Islamic economic forums or organizations, and non-formal studies of Islamic economics [2].

Currently, the government is serious about encouraging the Islamic economic and financial industry to speak internationally. Therefore, the government is strongly committed to building an Islamic economic and financial ecosystem. One of the proofs is Presidential Regulation No.28/2020 on the National Committee for Sharia Economics and Finance (KNEKS). Through this Presidential Regulation, Indonesia enters a new chapter in the development of sharia economy and finance [3]. Public knowledge about Islamic finance is growing along with the increasing complexity of human needs. The knowledge possessed is very useful to be effective for the realization of community welfare related to globalization that we cannot avoid, for example in terms of determining future decisions related to short-term or long-term decisions, especially in managing their finances [3].

According to Krishna, et al (2010) Financial literacy is closely related to the well-being of an individual. Knowledge and skills in managing personal finances are very important in everyday life. Financial literacy helps individuals to avoid financial problems. Financial difficulties are not only a function of income but also arise if there is a mistake in managing their finances [4]. In order to create a qualified population and have good financial intelligence, an understanding of financial literacy is needed, and also the community is required to be able to master the practice and not only master the material in order to keep up with the development of financial markets. It is intended that when making decisions regarding financial management is not wrong. In addition, good financial management will be able to improve the welfare of the individual's life itself. Financial literacy is a person's ability to manage finances, both in obtaining and evaluating information that is generally used in decision making by looking at the consequences that will be received [5].

In addition, consumer perceptions also play an important role in shaping consumer choices to use a type of service from a service company. Every consumer can indeed be motivated to choose a service model, but will not always have the same understanding of the services used. There are certainly many people who will choose to use a service to fulfill their needs and/or desires, without negating the enjoyment when using the service model. There are also people who prefer a service model with an elegant and even luxurious concept, even though in the marketing environment other companies also provide a similar service model at a more affordable price and the best quality service [6].

Based on the results of the Indonesian Financial Literacy National Survey (SNLKI) organized by OJK in 2022, the Financial Inclusion Index in North Sumatra Province was 95.58% or the 2nd highest nationally after DKI Jakarta Province. Even the District / City Financial Access Acceleration Team (TPAKD) throughout North Sumatra (North Sumatra) is encouraged to continue to maintain North Sumatra's Financial Inclusion Index of 95.58% in 2022. Among other things, by encouraging product utilization, as well as counseling prospective consumers so that the selection of a variety of products can suit their needs, rights, obligations, benefits and risks [7].

Table 1. Table of Development of Islamic Financial Assets Indonesia in the Past 5 Years

Year	Asset
2020	Rp 1.497,44 Triliun
2021	Rp 2.050,44 Triliun
2022	Rp 2.375,84 Triliun
2023	Rp 2.450,55 Triliun
2024	Rp 2.883,67 Triliun

Source: Otoritas Jasa Keuangan Indonesia

## 2. Literature Review

### 2.1 Choices

According to KBBI (Kamus Besar Bahasa Indonesia), choice is what is chosen or the result of choosing. Choice can also be interpreted as the chosen path or effort that can be done. Meanwhile, people/parties who make choices are called choosers (KBBI, 2024). Mankiw in his book says that to get something we like, we usually have to give up other things that we also like. Making decisions requires exchanging one goal for another. When people are grouped into societies, they will face a variety of choices or trade-offs [8].

### 2.2 Finance

Finance in KBBI is defined as everything related to money, the ins and outs of money, money matters and the state of money. Finance is the science and art of managing money that affects the lives of every person and every organization. Finance deals with the processes, institutions, markets, and instruments involved in the transfer of money between individuals as well as between businesses and governments [9]. in this case the finance in question is sharia finance. sharia finance has at least 4 basic principles, namely, halal and good, apply willingly, be fair and avoid doubt, help each other and avoid excessive risk [9].

#### 2.2.1 Sharia Finance Choices

Sharia financial choices are financial product that can be chosen as a medium for financial transactions. sharia financial choices can be grouped into 8 types of choices, namely sharia banks, sharia pawnshops, sharia insurance, sharia capital markets, sharia mutual funds, sharia bonds, sharia cooperatives and sharia people's credit banks [10].

### 2.3 Literation

Financial literacy relates to a person's competence to manage finances. The definition of financial literacy according to Vitt et. al. namely personal financial literacy is the ability to read, analyze, manage and communicate about personal financial conditions that affect material well-being.

material well-being. This includes the ability to distinguish financial choices, discuss money and financial matters without discomfort, plan for the future and respond competently to life events that affect daily financial decisions, including events in the economy in general [11].

### 2.4 Perception

According to Sarlito, perception is the ability of a person to organize an observation, these abilities include Ability to distinguish, Ability to categorize, Ability to focus [12]. Therefore, a person may have a different perception even though the object is the same. This is possible because of differences in terms of the value system and personality traits of the individual concerned. Meanwhile, according to Leavit (1978) perception has a narrow sense and a broad sense. In a narrow sense, perception is a vision

of how someone sees something and in a broad sense, perception is a view or understanding that means how someone views or interprets something.

### 2.5 Financial Inclusion

Financial inclusion is the provision of access to financial services to the entire population, especially the poor and other excluded populations. Everyone has the right to get full access and services from financial institutions in a convenient, informative, affordable and timely manner without discrimination and in full respect of their dignity. The World Bank describes financial inclusion as the range, quality and availability of financial services to the underserved and financially excluded. In the Global Financial Development Report 2014, the World Bank also explains that financial inclusion is a situation where most people can utilize available financial services and provide education to groups of people who are not yet aware of the benefits of access to finance through access that is already available without high costs [13].

#### 2.5.1 Islamic Economics Financial Inclusion

In Islamic economics, vertical and horizontal relationships are the things that underlie this economic system. Unlike the others, Islamic economics is formed not only because of the interaction of fellow human beings, but also because there is an upward relationship with Allah SWT. so there are rules or laws that must be obeyed and obeyed. Therefore, Islamic economics is an integral part of the teachings of Islam. there are several objectives of Islamic economics including the achievement of *Falah*, fair and equitable distribution, the availability of basic needs, and the establishment of social justice. These principles are then the basis for the formation of sharia-based financial products which ultimately implement the financial inclusion of the Islamic economy itself. Therefore, sharia financial inclusion itself can be interpreted as the availability of facilities to access Islamic finance that does not collide with the principles of sharia which can then be measured by referring to the availability, accessibility and use of Islamic economic financial inclusion itself [9].

### 3. Research Method

The type of data used is primary data using a survey method by distributing questionnaires using a Likert scale to the population. This study uses a quantitative approach to determine the relationship between literacy, perceptions and Islamic economics financial inclusion towards shariah finance choices among the youth. This study uses one endogenous variable and three exogenous variables. Endogenous variable in this study is the choice of Islamic finance, while the exogenous variables in this study are literacy, perception and islamic economics financial inclusion. The population in this study is the young generation in Medan City, namely young men and women with an age range of 15-39 years which totaling 1,006,523 million people. In this study, the sampling technique used was accidental sampling. Namely any patient who happened to meet the researcher could be used as a sample, if it was deemed that the person who happened to be met was suitable as a data source.

The sample criteria in this study are that the sample already has an account in one or more Islamic financial products or the sample has transacted at least once in Islamic financial products. The number of samples in this study was determined by the Slovin formula:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{1.006.523}{1 + 1.006.523 \times (0,10)^2}$$

$$n = \frac{1.006.523}{1 + (1.006.523 \times 0,01)}$$

$$n = \frac{1.006.523}{1 + 10.065,23}$$

$$n = \frac{1.006.523}{10.006,23}$$

$$n = 100,58$$

Based on the results of the above calculations, a result of 100,58 was obtained. Therefore, to make it easier for the author to determine the sample, the number of samples will be rounded up to 100, so that the sample that the author must obtain is 100 young generation respondents who choose sharia finance in Medan City.

### 2.5.1 Data Analysis Technique

Testing the hypothesis of this study using descriptive statistical analysis and a Structural Equation Model (SEM) approach based on Partial Least Square (PLS). PLS is a structural equation model (SEM) based on components or variants that are analysed using SmartPLS which includes two stages, namely:

1. Outer model test (measurement model), to test the construct validity and reliability of each indicator
2. Test the Inner model (structural model), to determine whether there is a relationship between variables using the t test from PLS itself.

## 4. Results and Discussion

To determine the relationship between exogenous and endogenous variables, hypothesis testing is carried out by looking at the P Values, T-Statistics and Path Coefficients.

Table 2. Hypothesis Test Result

	Original Sample (O)	T-Statistics (O/STDEV)	P Values
LITERATION $\rightarrow$ SHARIA FINANCIAL CHOICES	0.111	1.009	0.313
PERCEPTION $\rightarrow$ SHARIA FINANCIAL CHOICES	0.441	3.595	0.000
ISLAMIC ECONOMICS FINANCIAL INCLUSION $\rightarrow$ SHARIA FINANCIAL CHOICES	0.395	4.490	0.000

Source: Researcher Processed Data

Based on table 2, the path coefficient value of each variable can also be seen in the Original Sample (O) column. then the relationship between each variable can be explained as follows:

1. The path coefficient of the literacy variable on the choice of sharia finance ( $\eta$ ) is positive, namely 0.111 with a p value (probability) of (0.333 > 0.05) and also a statistical t value of (1.009 < 1.64). This shows that literacy does not have a significant positive relationship with the choice of sharia finance.
2. The path coefficient of the perception variable on the choice of sharia finance ( $\eta$ ) is positive, namely 0.441 with a p value (probability) of (0.000 < 0.05) and also a statistical t value of (3.595 > 1.64). This shows that perception has a significant positive relationship direction towards the choice of sharia finance.
3. The path coefficient of the islamic economics financial inclusion variable on sharia financial choice ( $\eta$ ) is positive, namely 0.395 with a p value (probability) of (0.000 < 0.05) and also a statistical t value of (4.490 > 1.60). This shows that Islamic economic financial inclusion has a significant positive relationship direction towards the choice of sharia finance.

## 5. Conclusions

In this research and discussion, it can be seen and also concluded the relationship between exogenous latent variables and their endogenous latent variables. Based on the tests that have been carried out on exogenous and endogenous latent variables, it is known that the first exogenous latent variable, namely literacy, does not have a significant relationship with sharia financial choices. This also means that literacy has no relationship and is not a significant reason for the sharia financial choices of the youth in Medan city. It can also be said that literacy is not significantly related to increasing the number of users as well as increasing sharia financial assets. However, it is different with the other 2 variables. The second exogenous latent variable, namely perception, has a significant relationship with its endogenous latent variable, namely sharia financial choice. This also shows that the perceptions of the younger generation in Medan city are related to their sharia financial choices. Similarly, the third exogenous latent variable, namely Islamic economic financial inclusion, also has a positive and significant relationship with the sharia financial choices of the youth in Medan city. This also means that Islamic economic financial inclusion is related to the youth in Medan city in choosing their sharia financial choices. In addition, the two latent variables are also associated with an increase in the number of sharia financial users as well as an increase in sharia financial assets.

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