






Developing and Validating an Islamic Financial Literacy Index: A Shariah-Based Assessment of Malaysian Generation Y

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ABSTRACT: The global emphasis on financial literacy has led to the development of numerous institutional frameworks; however, most existing measures are grounded in conventional financial paradigms and do not adequately reflect the Shariah principles underpinning Islamic finance. Addressing this gap, the present study develops an Islamic Financial Literacy (IFL) framework and index tailored to the Malaysian Y generation. Specifically, the study aims to: (1) identify the conceptual basis of IFL from the Qur'an and Hadith, (2) develop and validate an IFL construct, (3) examine the determinants of IFL, and (4) construct an index to assess the level of IFL. A mixed-methods triangulation design was employed, combining qualitative interviews with Shariah scholars and industry experts and a quantitative survey of 800 respondents from Malaysian public universities. The qualitative phase used thematic analysis to derive the core IFL dimensions, namely moderation in spending, priority-based spending, compulsory and voluntary spending, saving and investment, and prudent debt usage. In the quantitative phase, the construct was validated using exploratory factor analysis, supported by Kaiser–Meyer–Olkin and Bartlett's tests, factor loadings, eigenvalues, and reliability assessment. Ten of the eleven items were retained as a valid and reliable single-factor measure. The IFL index was then constructed from 20 knowledge-based items derived from the validated themes and scored based on the proportion of correct responses. Correlation and multiple regression analyses showed that Underlying Principles and Financial Education Exposure significantly predicted IFL, while Social Influence was not a significant predictor in the regression model. The index results revealed a moderate level of IFL, with an average correct response rate of 60%. Higher IFL scores were associated with higher income, academic occupation, and a greater number of dependents. The findings contribute a Shariah-grounded and empirically validated measure of financial literacy that may support policy, education, and future Islamic finance research.

Keywords: Islamic financial literacy, Financial literacy index, Shariah-compliant finance, Financial education, Financial behavior, Maqasid al-shariah.

I. INTRODUCTION

The significance of financial literacy among the general population has garnered increasing global attention. Study [1] emphasizes that financial literacy, as a key determinant of individuals' ability to make informed financial decisions, should be seen as a fundamental right and universal need. Despite its critical importance, studies show that financial literacy remains low worldwide, including in advanced economies [2]. This ubiquitous ignorance of the financial world has great implications for individuals, as well as for

society as a whole. Financial literacy is also positively associated with positive financial behavior, which includes saving, investing, debt, and borrowing on an individual level. Evidence shows that people with financial literacy have more cautious debt behavior, while financial illiteracy is often connected with difficulties in coping with debt duties [3]. More critically, [1] warns of the compounded risks posed by the intersection of low financial literacy, the rise of mobile payment technologies, and alternative financial services, which may further exacerbate wealth inequality.

In Malaysia, concerns over financial literacy and household debt remain pressing. As of December 2024, Malaysia's household debt stood at RM1.63 trillion equivalent to 84.2% of GDP while household financial assets amounted to RM3.4 trillion (178.2% of GDP). Notably, one-third of households had a Debt-Service Ratio (DSR) exceeding 60%, although the median DSR was around 34% for outstanding loans and 41% for new loans [4]. Earlier in the same year, housing loans made up 61% of total household debt, followed by vehicle loans (13.5%) and personal financing (12.4%) [5]. These figures reflect Malaysia's persistent high-debt environment amid rising living costs and growing dependency on credit-based consumption, especially among younger generations. In terms of financial literacy, the [6] global survey indicated that while Malaysia showed improvement, financial vulnerability remained a concern 61% of adults reported they would be unable to cover an unexpected RM1,000 expense. Furthermore, knowledge disparities persist, with only 66% of Malaysian women scoring well on basic financial literacy measures, compared to higher scores in neighboring countries such as Thailand and Singapore. The situation is particularly critical among Malaysian youth, who increasingly turn to high-cost borrowing through personal loans, credit cards, and Buy-Now-Pay-Later (BNPL) schemes [7]. This trend, coupled with weak financial planning, exacerbates household debt risks, especially for lower-income groups and new graduates with unstable income streams [8].

Recognizing the need for a financially literate population, the Malaysian government introduced the National Strategy for Financial Literacy 2019–2023, a collaborative effort led by Bank Negara Malaysia to promote informed financial decision-making and long-term behavioral change [9]. Being dual in nature (conventional and Islamic) Malaysia feels the growing importance of Islamic finance. However, current financial literacy measures frequently do not take into account Sharia'h principles which exposes the necessity of Islamic financial literacy as a religious requirement for Muslims to conduct their financial allocation based on Islamic rules. With the maturing and growth of the Islamic finance industry, the need for developing an all-encompassing Islamic financial literacy framework is even more pressing to ensure the enduring stability and sustainability of the industry. Indeed, as [8] suggests, it is necessary to arm consumers of Islamic financial products with the requisite financial knowledge not only to enable them make informed financial decisions but also to protect them from potential abuse by unscrupulous providers. [10] highlights the importance of Islamic financial literacy with a sense of urgency, urging governments to adopt preemptive policies of educating the population in the basics of the Islamic financial system. Most importantly, [10] points to a significant problem: the general ignorance, among many Muslims, of both traditional and Islamic finance. Given this, [11] argues that a collective world-wide move to develop a generation of financially literate Muslims could be a crucial move in promoting the economic empowerment and welfare of the ummah.

Despite a host of international efforts, financial literacy is relatively low in many countries, including high-income ones, preventing people from making good financial decisions [12]. Studies reveal financial literacy impacts on saving, borrowing, and retirement planning and that this is particularly relevant for vulnerable groups such as women, youth, and the elderly [13]. In Malaysia, financial literacy is also an issue; only 36 percent of the public is considered financially literate [14]. Surveys also show the poor financial behaviour of youth particularly the dependence on high-cost borrowing and the increase in bankruptcy rates (60% of bankrupts are aged 18–44) [15]. It affects the quality of working life and job performance, with potential adverse effects on overall well-being [16, 17]. Interest in financial literacy is growing in Malaysia, with studies linking high literacy to better financial wellbeing and decision-making. However, current measures are based on conventional finance, which may not align with Islamic principles. As Islamic finance grows globally, there is a need for an Islamic financial literacy framework that includes religious values, such

as moderation in spending and ethical debt use [18, 19]. This study proposes developing a new index tailored to assess Islamic financial literacy based on these principles.

Conventional financial literacy frameworks generally refer to an individual's ability to understand and apply core financial concepts such as budgeting, saving, borrowing, interest rates, inflation, and investment diversification in order to enhance personal financial well-being. These frameworks are largely developed within a conventional consumer-finance paradigm and are primarily concerned with improving financial knowledge, attitudes, and behavior for effective market participation. In contrast, Islamic financial literacy is grounded in the Qur'an, Sunnah, and the objectives of Shariah, and therefore extends beyond technical financial competence to include compliance with ethical and legal rules governing financial conduct. While conventional financial literacy emphasizes financial efficiency and informed decision-making, Islamic financial literacy additionally requires knowledge of prohibited elements such as *riba*, *gharar*, and *maysir*, as well as awareness of *zakat*, lawful earnings, moderation in spending, priority-based expenditure, prudent debt management, and Shariah-compliant saving and investment practices. Therefore, although conventional financial literacy offers a useful conceptual base, it does not sufficiently capture the moral, legal, and socio-economic dimensions that shape financial behavior in Islam. This distinction underscores the need for a dedicated Islamic financial literacy framework, particularly in Malaysia's dual financial system where Muslim consumers must navigate both conventional and Shariah-compliant financial products.

This study intends to develop an index to assess the level of Islamic financial literacy among Malaysian Y generation. At the initial stage, a qualitative approach will be used in order to meet the first objective, followed by statistical analysis comprising of factor analysis, correlation analysis as well as multiple regressions. The respondents for the qualitative aspects involved focus group comprising the Shariah scholars and experts from the relevant industry. The respondents for the quantitative aspects of the study include the Y generation in the Malaysian Peninsular based on the following regions: the northern zone, the eastern zone, central zone and the western zone.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1. UNDERLYING CONCEPT OF ISLAMIC FINANCIAL LITERACY

Shariah compliance is the foundation of modern Islamic finance, integrating religious principles into economic and financial matters. [20] emphasizes the need for a separate Islamic financial system due to the presence of *Riba* and the incompatibility of conventional finance with Shariah goals. The Shariah aims to protect human welfare by preserving essentials like faith, life, intellect, progeny, and wealth (Al-Shatibi). Specifically, it guides the preservation and responsible use of wealth [21], offering broad principles such as wise spending, saving for the future, and avoiding excessive debt [11].

2. WISE SPENDING

Wealth in Islam is considered a trust from Allah, and its gain and expenditure should follow His wishes [22]. Wealth, when legitimately earned and spent, it becomes a means of spiritual purification, and divine reward. Islam teaches moderation, spending in such a way that one is neither extravagant nor stingy [23]. Wise spending which is controlled by knowledge and discretion is crucial to financial literacy [11]. Studies in [24, 25] affirm simplicity and moderation as important indicators of expenditure, and [25] warn against extravagance. In Islam the scope of spending priorities is dictated by the *maqasid* of Shariah and can be classified into necessity (*daruriyyat*), complementary need (*hajiyyat*) and perfections (*tahsiniyyat*) [26]. Work [23] suggests expenditure should be above all for the pleasure of Allah and maintaining one's dependents as exemplified in the Hadith of the Prophet [28]. *Zakat*, an obligatory act, is one of the critical means for establishing an equitable wealth distribution and a firm socio-economic structure. Charitable giving (in the form of charity, *waqf*, and *sadaqah*) is also strongly advocated [29] to increase social welfare and spiritual advancement.

3. SAVINGS AND INVESTMENT

As [11] notes, saving for future exigencies is also an aspect reinforced by the advice in Surah Yusuf, which underscores the need to save resources during times of plenty for future uncertainty [30]. In his explication, Hashim links the historical background of the verse with personal financial needs that are relevant today, such as savings for emergencies, pay for their children, assets or cars and religious obligations such as Hajj and Umrah. According to the above, a Premium saving is in accordance with the Sunnah of the Prophet Muhammad (s.a.w) who kept provisions for his (family) for a year during his life time and was known that it was part of his Sunnah; Imam Bukhari reported a hadith related to this. On the basis of this religious scholarship, Hashim contends that saving should be included in the foundational tenants of Islamic financial literacy and education. Savings are essential for the accrual of wealth which is essential to wealth preservation in Islam. And certainly, it is strongly recommended to invest into halal enterprise which makes positive influence on social life. Thus, encouraging savings attitude among the youth is of primary importance in developing a framework of financial development and bringing Islamic economy in the heart of the society.

4. PRUDENT DEBT MANAGEMENT

Islam egregiously does not encourage over-indebtedness and allows only genuine debt and requires cautious adherent to Shariah [31]. The Quran prescribes the form of debt securing proofs, collateral, and witnesses necessary to prevent unfair and contested transactions [32]. Debt is a very serious burden, and the Prophet (Sal Allahu Alaihi wa Sallam) warned us of its emotional and spiritual implications as being as such: "Have Taqwa of Debt, since he said, Debt is something that causes stress at night and loss of honor during the day (Ahmad). From these themes wise spending, saving, and avoiding debt Islam provides comprehensive guidance on managing wealth, forming the basis for Islamic financial literacy [33]. Financial knowledge is essential at both individual and community levels. Beyond conventional literacy, Muslims must understand Shariah rulings on earning, spending, transactions, prohibited elements (like riba, gharar, maysir), conduct (for example, bribery, hoarding), and wealth distribution [34]. They should also grasp concepts of Islamic banking, zakat, inheritance, and ethical business practices to ensure full compliance with Islamic teachings.

5. CONCEPTUAL DEFINITION OF ISLAMIC FINANCIAL LITERACY

The development of Islamic financial literacy (IFL) builds upon the broader concept of financial literacy, which lacks a universally accepted definition but generally involves understanding and using financial information for effective decision-making [35]. Whereas the conventional financial literacy emphasizes knowledge, behavior, and attitudes, the Islamic finance differs based on different principles, therefore it demands a specific framework for the IFL. Since IFL is a new term with no agreed definition yet, some thinkers have been working on its definition so far based on the teachings of Islam. These vary from the capacity to handle financial issues such as inheritance and debt according to Shariah [36] to broader attitudes with a focus on knowledge, awareness, and behavior informed by Islamic values [37]. Recent definitions emphasise wealth management based on Shariah, comprising of moderate living, prioritised spending and debts responsibility.

6. MEASURING ISLAMIC FINANCIAL LITERACY

Islam provides holistic direction on how wealth and finance should be treated, and such a guidance should be the starting point in defining IFL. Muslims are also required to be knowledgeable about the right and wrong of Shariah rulings concerning financial transactions, such as lawful and unlawful earnings, transactions, and the like, such as zakat, inheritance and sadaqah [38]. Considering the significance of IFL, IFL has not yet been adequately defined and measured. In few studies, the researchers attempt some principled-based frameworks from Shariah, such as elements of (riba, gharar) and Islamic financial contracts [39]. Other models assess IFL through dimensions like Islamic financial knowledge, attitudes, behaviors, and understanding of Islamic banking, takaful, and Shariah-compliant investments [40].

III. STUDIES ON ISLAMIC FINANCIAL LITERACY MEASUREMENT MODELS AND GLOBAL FINANCIAL LITERACY INDICES

Recent studies on Islamic Financial Literacy (IFL) measurement models show a clear shift from narrow product-awareness measures toward broader, more rigorously validated instruments. Work [41] developed an Islamic financial literacy scale through a formal scale-development process intended to capture multiple segments of Islamic finance across jurisdictions, rather than limiting measurement to familiarity with Islamic banking terms alone. More recently, Mahdzan et al. proposed an objective IFL measure in Malaysia that covers six domains: general financial concepts, numeracy and computational skills, Islamic financial concepts, savings and investments, borrowing and financing, and financial protection. This is an important development because it moves IFL assessment beyond self-perceptions and attitude statements toward knowledge-based testing of actual competence. A recent review of IFL measurement similarly notes that the field is still emerging, with multiple early initiatives but no universally accepted benchmark, which makes construct clarity, item design, and statistical validation especially important in current IFL research.

At the global level, the most influential benchmark remains the OECD/INFE framework, which measures financial literacy through the interrelated domains of financial knowledge, financial behaviour, and financial attitudes. The OECD/INFE 2023 international survey, using the 2022 toolkit, covered 39 countries and economies and reported that only 34% of adults achieved the minimum target score on overall financial literacy. The same report also extended measurement to digital financial literacy, where only 29% reached the minimum target score across participating countries and economies. Another major reference point is the P-Fin Index developed by the TIAA Institute and GFLEC, which approaches literacy through practical domains such as earning, consuming, saving, investing, borrowing, insuring, understanding risk, and information searching; this functional structure has influenced how researchers think about multidimensional literacy measurement. A key implication for your manuscript is that recent IFL studies and global indices both support a multidimensional and validated index approach, but Islamic financial literacy requires additional Shariah-specific content such as *riba*, *gharar*, *maysir*, *zakat*, moderation in spending, and halal financial decision-making that conventional global indices do not explicitly capture.

IV. UNDERLYING PRINCIPLES

Islamic finance is based on the Shariah which is premised on the ultimate aim of ensuring human wellbeing in this life and the hereafter. Human well-being is realized through the preservation of the five essential elements; namely life, religion, life, intellectual, progeny and wealth. Thus, Islam prescribes broad principles to achieve the objectives pertaining to wealth preservation such as prohibition of unlawful elements of interest (*riba*), contractual uncertainty (*gharar*), gambling (*maysir*); all financial transactions must be backed by underlying real economic activity, promoting risk-sharing as well as emphasis on high ethical standards. Accordingly, [32] asserts that these principles serve to potentially promote the protection of consumers and investors as well as beneficial for financial stability. Another independent variable in this study is underlying principles. According to [41], underlying principle is a fundamental source that becomes the foundation or guideline in the Islamic banking systems. Meanwhile, [38] defined principle as what allow you to live a life consistent with values. Another definition of principle by [33] is a set of theories and ideas related to its understanding. In this study, underlying principles refer to a guideline that encloses the behaviour of Muslims.

Islamic finance refers to the practice of banking and financial activities in accordance with Islamic law, or Shariah, whose primary sources are the Qur'an and the teachings (Sunnah) of the Prophet Muhammad (peace be upon him). A central tenet of Islamic finance is the prohibition of *riba* (interest or usury), *gharar* (excessive uncertainty), and *maysir* (gambling). These prohibitions are intended to promote fairness, transparency, and risk-sharing in financial transactions. Specifically, they aim to prevent the unjust accumulation of wealth in the hands of a few, thereby fostering a more equitable and socially responsible financial system.

V. FINANCIAL EDUCATION EXPOSURE

The organisation for Economic Co-operation and Development (OECD) defines financial education as “the process by which individuals improve their understanding of financial products and concepts, and through information, instruction and/or objective advice develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being and protection” [13]. Work [27] emphasizes that financial education is a critical foundation for enhancing financial literacy. However, despite numerous initiatives and efforts globally, the persistently low levels of financial literacy remain a major concern [35]. In light of this, it is essential to introduce financial education early ideally within the school system to equip future generations with the necessary knowledge, skills, and attitudes to develop positive financial behaviors [37].

Islam stresses the importance of seeking knowledge. Indeed, it is compulsory for every Muslim to acquire relevant knowledge to ensure all aspects of his life comply with the teachings of the Shariah. In particular, the Shariah provides a comprehensive guidance to ensure that all the wealth and resources on this earth are efficiently and optimally managed to benefit all mankind. [9] argue that the objectives of Shariah rulings in financial activities are to facilitate the equitable circulation of wealth within society, promote fair and transparent financial practices, and uphold socio-economic justice. Shariah is the means of realization of these objectives through a complete system of regulations on all transactions, personal and public, to assure that they are ethically and morally in line with the teachings of the Shariah. There are several reasons why financial education is important in Islam: Firstly, Muslims have an obligation to deal justly with the financial rights that others have over them e.g., the needy, creditors, and relatives. They are required to give more than just the commonly paid zakat, and must ensure that they fulfill all that is owed. Such information is crucial not only for financial planning but in order to meet religious and social obligations. The given below Quranic verse shows the importance of financial education for Muslims: “To (benefit) everyone, we have appointed shares and heirs to property left by parents and relatives. To those, also, to whom your right hand was pledged, give their due portion. For truly Allah is witness to all things”. (4:33)

Work [17] observes that awareness of Islamic financial literacy remains low, even among educated elites. [14] emphasizes its importance, noting that wealth preservation is a key objective of Shariah. However, challenges such as limited political will, lack of trained educators, inadequate materials, and poor infrastructure hinder its development. Lahsasna also points to the general lack of financial awareness among Muslims as a major barrier. Similarly, [42] stress the need to promote financial education among young employees to equip them with the skills and knowledge for sound financial decision-making and long-term well-being.

VI. SOCIAL INFLUENCE

Social influence has been defined in various ways. [43] describes it as a change in an individual's thoughts, feelings, attitudes, or behaviors resulting from interaction with others. Similarly, [44] define social influence as the perceived social pressure surrounding a particular behavior, a concept echoed by [45], who refers to it as the pressure to perform or not perform a given action. Numerous studies have explored the relationship between social influence and financial behavior, particularly its impact on financial decision-making.

This is consistent with the existing evidence about low-financial-literacy individuals relying heavily on informal sources (e.g. parents, friends and acquaintances) for financial advice. Work in [15] showed that informal advice has a beneficial effect to saving and investments in some circumstances. Work in [46] found that, compared with their less literate counterparts, they rely less on peers and family and more on professional financial advisors. This finding is also reinforced by [47] who showed that respondents accessing a greater variety of external information sources have higher financial literacy scores in general. Likewise, [48] observed that individuals with low financial literacy were more likely to rely on unofficial consultations. Taken together, these results exemplify the association between the level of financial literacy and type of financial advice being sought. Study [49] identified parents and life experiences as key sources

of financial literacy, alongside formal and experiential learning. The study emphasized the role of parents, friends, financial planners, and media as significant influences on students' financial literacy, often surpassing the impact of formal classroom instruction. Based on these findings, Lew suggests that financial literacy initiatives should target families and workplaces. Likewise, [19] highlights that the lack of accessible financial information, financial constraints, and insufficient government efforts contribute to persistently low levels of financial literacy among the general public. Based on the above discussions the hypothesis of this study is developed as follows:

- Ho1 = There is no relationship between underlying principles, financial education, social influence and Islamic Financial Literacy.
- Ha1 = There is a relationship between underlying principles, financial education, social influence and Islamic Financial Literacy.
- Ho2 = There is no significant influence of underlying principles, financial education and social influence towards Islamic Financial Literacy.
- Ha2 = There is a significant influence of underlying principles, financial education and social influence towards Islamic Financial Literacy.

VII. FORMAL CONCEPTUAL MODEL

The study proposes a formal conceptual model in which Islamic financial principles derived from the Qur'an, Hadith, and the objectives of Shariah serve as the normative foundation of Islamic financial literacy, which is then reflected in financial literacy behavior. In this model, principles such as the prohibition of riba, gharar, and maysir, together with moderation in spending, priority-based expenditure, zakat, saving, halal investment, and prudent debt management, shape the individual's understanding of proper financial conduct. Islamic financial literacy therefore, functions as the mechanism through which these principles are translated into behavior. The behavioral dimensions identified in this study moderation in spending, compulsory and voluntary spending, saving and investment, and avoiding unnecessary debt represent the practical expression of Islamic financial literacy in everyday life. Accordingly, the model may be summarized as Islamic financial principles → Islamic financial literacy → Islamic financial behavior, with Underlying Principles, Financial Education Exposure, and Social Influence acting as important enabling determinants. Figure 1. Presents the conceptual model linking Islamic financial principles with financial literacy.

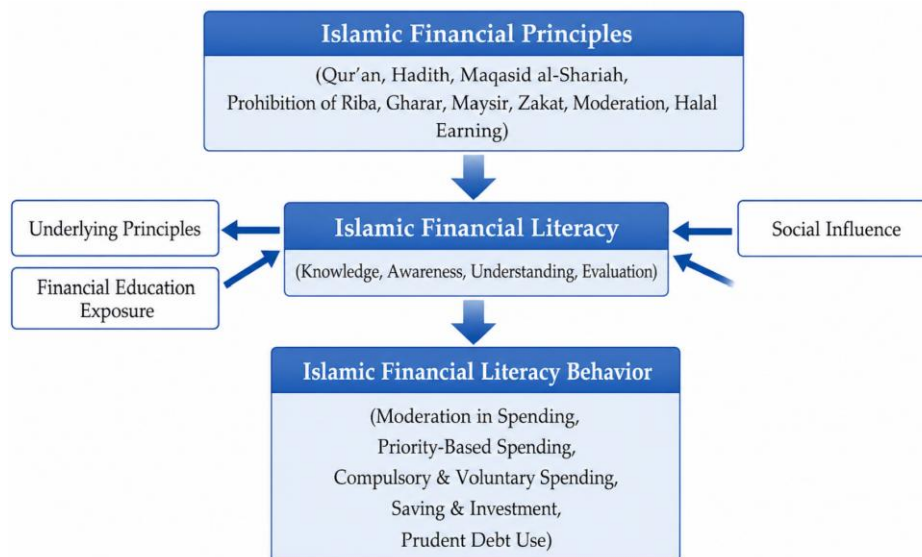


FIGURE 1. Conceptual model.

VIII. RESEARCH METHODOLOGY

To achieve the objectives of the study, a triangulation method combining both the quantitative and qualitative method is employed. Hence, data collection is conducted via focus group interview and survey questionnaire in order to meet the research objectives. Specifically, an exploratory factor analysis, descriptive and inferential study will be employed. Figure 2 illustrates the conceptual framework of the study by presenting the hypothesized relationships among the key variables. The three exogenous variables Underlying Principles, Financial Education Exposure, and Social Influence are positioned as the main determinants of Islamic Financial Literacy. These variables are expected to shape the extent to which individuals understand and internalize Shariah-based financial knowledge. The central construct, Islamic Financial Literacy Dimensions, represents the core domains identified in this study, including moderation in spending, priority-based expenditure, compulsory and voluntary spending, saving and investment, and prudent debt use. The framework further indicates that these literacy dimensions may influence Islamic Financial Literacy Behavior, which refers to the practical application of Islamic financial knowledge in daily financial decisions. Thus, the figure highlights that Islamic financial literacy is not only a matter of conceptual understanding but also a basis for actual financial conduct consistent with Shariah principles. Overall, the framework provides a visual summary of how the study links foundational determinants to Islamic financial literacy and its behavioral expression.

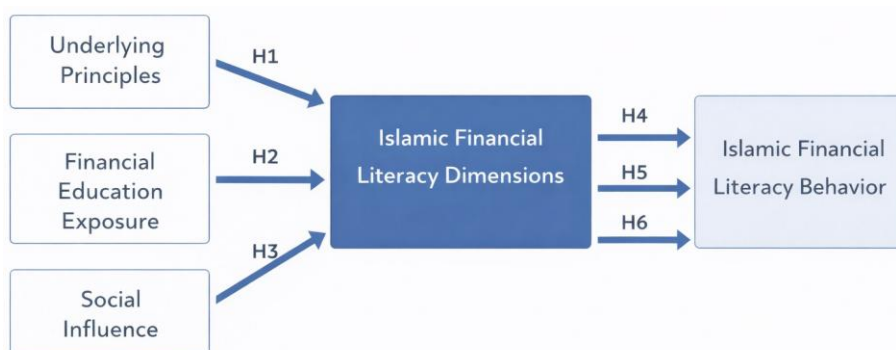


FIGURE 2. Research framework.

This study employs a qualitative research methodology to investigate the conceptual understanding of Islamic financial literacy. In line with its exploratory aim, the research relies on in-depth interviews to capture nuanced perspectives on the subject. Four key informants participated in the interviews, comprising one academic and three industry practitioners, all of whom possess extensive expertise in Muamalat and Shariah. The sample size aligns with qualitative research standards, which typically recommend engaging three to ten participants [13]. As emphasized by [16], the data collection process in qualitative research continues until thematic saturation is achieved that is, when additional interviews no longer yield new or significant insights.

Purposive sampling was employed, as it is considered one of the most effective techniques in qualitative research. This approach allows researchers to deliberately select individuals with specific knowledge relevant to the study, while enabling data collection and analysis to occur simultaneously [22]. Interview protocol was created before the groups in order to guide the course of the groups and what the primary questions were to be asked as well as how the groups would open and close [9]. The protocol was reviewed and approved by content and construct validation experts prior to use. All interviews were held based on verbal consent of the informants and tape-recorded to ensure accuracy. The recordings were afterwards transferred to a non-verbatim written version.

Data analysis was underlain according to the three-stage architecture advocated by [28] data condensation, data display, and conclusion drawing/verification. Data extraction the raw interview data

were harvested, abstracted and condensed into workable formats. Coding to be a part of this step was done by giving some short labels or phrases that summarized the informant's key expressions or ideas; thus, connecting the data to larger themes and concepts [37]. The second step, display of data, entailed arranging the coded data in a systematic and visual manner to support interpretation. This step provided the researcher with the opportunity to discern themes, associations, and lessons that pertained to the research questions. The importance of this is underscored by [29] quite critically through this step, and in particular during writing and interpretation of qualitative research. The final step drawing conclusions and validation – concentrated on identifying patterns and themes and how they answered the research question; and these were validated through constant reference to the raw text and data displays [32]. This meticulous method of process leads the researcher generate a sound conclusion and to construct a coherent concept of Islamic financial literacy.

1. POPULATION OF THE STUDY

The population of this study comprises the Malaysian Y generation (aged 20–39) residing in Peninsular Malaysia, which is categorized into four regions: northern (Perlis, Kedah, Penang, Perak), central (Selangor, Kuala Lumpur, Putrajaya), eastern (Kelantan, Terengganu, Pahang), and southern (Negeri Sembilan, Melaka, Johor). The total population is 12,004,000. The sampling frame includes 18 public universities within these regions, with a total of 48,278 staff members. Based on [50], a sample size of 384 is sufficient. A probability sampling method was applied, using cluster sampling and proportionate stratified random sampling techniques to select respondents. The sample was drawn from public university staff because they represent an accessible, diverse, and educated segment of Generation Y, making them relevant for studying financial behaviors and literacy, while allowing efficient and structured data collection across Malaysia's regions.

2. INSTRUMENT DEVELOPMENT PROCESS

The instrument used in this study was developed through a systematic multistage procedure comprising item generation, validation, and reliability assessment, consistent with established scale-development practices in the behavioural and social sciences. In general, rigorous instrument development requires a clear conceptual definition of the construct, careful generation of items from theory and evidence, expert-based validation, and empirical assessment of dimensionality and internal consistency.

At the item-generation stage, the instrument for IFL was derived from both theoretical and empirical foundations. Conceptually, the IFL items were anchored in the Qur'an, Hadith, and Shariah principles relating to wealth management, particularly moderation in spending, priority-based expenditure, compulsory and voluntary spending, saving and investment, and prudent debt usage, as identified in the qualitative phase of this study. These themes were further refined through in-depth interviews with Shariah scholars and practitioners, enabling the translation of normative Islamic financial principles into measurable behavioural indicators. In parallel, the items for the explanatory variables Underlying Principles, Financial Education Exposure, and Social Influence were adapted from relevant financial literacy and Islamic financial literacy literature and then contextualised for Malaysian Generation Y. Such an approach is consistent with recommended practice that scale items should emerge from both conceptual definitions and substantive domain evidence rather than from arbitrary item selection.

At the validation stage, the draft instrument underwent face validity, content validity, and construct validity procedures. Face validity was used to assess whether the wording, sequence, and overall presentation of the items were clear and understandable to the intended respondents. Content validity was then established through expert review to determine whether the items adequately represented the conceptual domains of Islamic financial literacy and its determinants. Following this, construct validity was examined empirically using Exploratory Factor Analysis (EFA), which is appropriate when a scale is being developed or refined and when the underlying dimensional structure still requires empirical confirmation. Best-practice guidance on scale validation recommends that EFA be used to assess whether the observed items cluster meaningfully around the intended latent construct before further hypothesis testing is undertaken.

Before factor extraction, the suitability of the data for EFA was assessed using the Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy and Bartlett’s Test of Sphericity. In line with accepted practice, KMO values above the minimum acceptable level and a significant Bartlett’s test indicate that the correlation matrix is appropriate for factor analysis. Item retention was then guided by commonly accepted criteria, including satisfactory factor loadings, eigenvalues greater than one, and acceptable cumulative explained variance. To facilitate interpretability, Varimax rotation was applied in order to obtain a simpler and more stable factor structure. On this basis, 10 of the 11 Islamic financial literacy items were retained as valid indicators of the construct. These procedures are consistent with standard recommendations in multivariate analysis and instrument validation research.

At the reliability-testing stage, the internal consistency of the retained items was evaluated using Cronbach’s alpha, which remains one of the most widely used coefficients for assessing the extent to which items in a scale measure the same underlying construct. Although alpha should not be interpreted mechanically, the literature generally treats values around 0.70 or above as indicating acceptable internal consistency for research use, particularly in exploratory settings. Reliability assessment was conducted for both the dependent and independent variable scales before proceeding to descriptive, correlational, and regression analyses. This step was necessary to ensure that the instrument was sufficiently consistent and stable for subsequent empirical testing.

3. DATA ANALYSIS TECHNIQUE

The study used a seven-point Likert scale (1 = strongly disagree to 7 = strongly agree) to measure dependent and independent variables. Instrument validity was ensured through face, content, and construct validity. Due to limited prior literature, the study relied on recent research in financial literacy. Data were analyzed using exploratory factor analysis, reliability tests, descriptive statistics, correlation, and multiple regression. Factor analysis included KMO (>0.5), Bartlett’s test ($p < 0.05$), MSA (>0.5), and partial correlations (<0.7) as prerequisites (Meyers et al., 2006). Varimax rotation with a loading factor of 0.5 was used, and components were retained if eigenvalues exceeded 1 and cumulative variance surpassed 60% [49]. Correlation analysis assessed relationships between variables using Pearson’s r , categorized as poor (0–0.299), moderate (0.3–0.499), and strong (0.5–1.0) [43]. Multiple regression was conducted to examine the influence of Underlying Principles, Financial Education Exposure, and Social Influence on Islamic Financial Literacy.

IX. RESULTS AND DISCUSSION

1. QUALITATIVE DATA

1.1 Definition of Islamic Financial Literacy

To explore the conceptual definition of Islamic financial literacy, in-depth interviews were conducted with selected informants. The discussions aimed to understand whether the general Muslim population possesses adequate knowledge to manage household finances and the types of knowledge required for effective financial management. Most informants agreed that while Muslims generally have some understanding of managing finances, they often lack the awareness and discipline to apply this knowledge effectively. R1 observed a growing awareness among the public, attributing this to government initiatives promoting financial literacy. He explained that in Islam, financial management involves the handling of both property and money, with the term *al-mal* encompassing all forms of wealth. He further categorized individuals into those capable of managing finances typically mature and knowledgeable and those unable, such as children and orphans. R2 emphasized the importance of acquiring financial knowledge, dividing it into worldly financial affairs and those related to the hereafter. R3 noted that the lack of financial awareness stems from inadequate skills and knowledge, and he attributed the overuse of debt to peer influence and cultural norms. R4 highlighted four key aspects of financial management in Islam: saving, investment, security, and *Takaful*. He stressed that managing finances is a religious obligation, as Islam encourages

wealth accumulation to enable the payment of zakat, which not only benefits the community but also brings barakah (divine blessings). All informants agreed that Muslims should be aware of their financial position, spend based on necessity, and adhere to the principle of moderation. R1 emphasized the importance of continuous learning, while R2 highlighted Muslims' responsibilities towards themselves, their families, and their communities. R4 reiterated the need to understand one's financial condition and the importance of saving, investing, and preparing for emergencies. He also pointed out that excessive debt often results from spending beyond one's means. The overall consensus among the informants was that Islam places a strong emphasis on acquiring and applying financial knowledge, a point clearly stated by R3 who remarked, "Knowledge is the key element in our life to achieve a peaceful life".

1.2 Moderation in Spending

The concept of moderation (wasatiyyah) plays a crucial role in guiding Muslims in both their daily lives and financial decision-making. All informants unanimously agreed that this principle is not only important but also essential and obligatory for Muslims to uphold. They emphasized that adhering to moderation is fundamental in managing financial activities responsibly. The following are statements from the informants supporting this view:

- R1 – "...the concept of moderation is a key element in finance. When moderation serves as a key element in life and managing finance, then the debt problem will not happen..." (R1, P116)
- R2 – "...this is because moderation is a key element in our life. When we follow it, thus the wasteful will not occur. In addition, people should know concept of moderation in any situation to achieve satisfaction..." (R2, P120)
- R3 – "...it is important to practice this concept in managing finance because Prophet Muhammad (PBUH) is a model of moderation..." (R3, P 125)
- R4 – "...the concept of moderation to be a priority to determine whether the person is literate in Islamic finance..." (R4, P129)

It is important to emphasize that the concept of moderation (wasatiyyah) is inherently relative. All informants agreed that moderation in financial matters is not absolute but depends largely on an individual's level of income (R1, P116; R2, P121; R3, P125; R4, P129). R2 further stressed that the application of moderation should be aligned with the principles of Maqasid al-Shariah namely dharuriyyat (necessities), hajiyyat (needs), and tahsiniyyat (luxuries) to ensure sound financial decision-making. When Muslims internalize the principle of moderation, they are better positioned to avoid excessive spending and manage their finances responsibly. It is also worth noting that, due to its subjective nature, there is no fixed standard or level of moderation applicable to all; what is considered moderate varies from one individual to another based on financial capacity. Significantly, the informants suggested that the concept of moderation should be especially emphasized among the middle- and lower-income groups, as these segments represent the highest proportion of individuals facing debt-related issues in Malaysia.

1.3 Spending based on Priority

Muslims are encouraged to spend according to their needs rather than their wants. All informants unanimously agreed on the importance of prioritizing needs over desires in financial decision-making. In Islam, spending should be guided by the principles of Maqasid al-Shariah, which emphasize the protection and fulfillment of essential needs (dharuriyyat), supportive needs (hajiyyat), and complementary needs (tahsiniyyat). By adhering to these principles, Muslims can ensure their financial behavior aligns with Islamic values and promotes overall well-being" (R1, P116) (R2, P121) (R3, P125) (R4, P129). Thus, from the interview, it shows that it is important to spend according to the necessity. In addition, the spending must be based on the guidance of the Maqasid Shariah which are dharruriyat, hajiyyat and tahsinniyat. R2 asserts that the Shariah guidance on priority-based spending is related to the concept of moderation.

1.4 Compulsory Spending

In this theme, all informants agreed that the husband is responsible to provide the expenditures for the whole family such as providing housing, support parent, child or wife. The husband should provide nafkah

according to the priority. In addition, three of four informants said that the husband or man should give the nafkah according to the priority which are themselves, dependent (wife and sons), parents, siblings/nephew and others (else from nephew and siblings). This is because, when husband buy the necessity to his self, directly he will spend and fulfil his family necessity. However, the spouse's or wife daily needs such as cosmetics, shampoo, perfume and others should be provided by husband (R3). According to Informant R2, "...the husband must provide nafkah (financial support) according to a specific order of priority first to his dependents (wife and children), then to himself, followed by his parents, and subsequently to siblings, nephews, and others" (R2, P121). R2 further emphasized that the husband should prioritize the needs of his immediate family, exclude his parents, when allocate nafkah. As the head of the household, it is his duty to ensure the well-being of his wife and children. If he prioritizes his own needs over theirs, it may be perceived by the community as a failure to fulfill his responsibilities as a husband. Hence, the husband's family should come before his personal interests (R2, 2016). Regarding the obligation to support parents, all informants concurred that this responsibility depends on the specific context. It becomes obligatory when the parents are in need. Nonetheless, the informants collectively encouraged offering nafkah to parents in all circumstances as a gesture of respect and gratitude.

1.5 Voluntary Spending

Muslims who are literate in Islamic financial principles are more likely to spend their wealth in accordance with the teachings of Allah (S.W.T). All informants supported this view, highlighting that financial literacy influences Muslims to allocate their wealth for righteous purposes such as sadaqah (charitable giving) and zakat (obligatory almsgiving) (R1, P117; R2, P122; R3, P126; R4, P130). They emphasized that a financially literate Muslim understands that wealth is a trust from Allah and does not truly belong to the individual. As a result, such individuals are more inclined to fulfill their religious duties, including giving sadaqah and paying zakat. However, R3 stressed that all wealth must be earned through lawful (halal) means in order for it to be eligible for these acts of worship. Additionally, R1 pointed out that Islam encourages Muslims to strive for financial success. This is because wealth, when managed responsibly, can be used to support others and contribute to the well-being of the community through charitable acts.

1.6 Saving and Investment

The concepts of saving and investment are highly encouraged in Islam, as they align with the goal of financial stability and community support. Islam promotes wealth accumulation through lawful means so that Muslims can fulfill obligations such as zakat and sadaqah. As noted by R2, investment income can be used for zakat, which directly benefits the asnaf (eligible recipients) and has greater value than simply holding money (R2, P122). Investment profits can also support one's family and the broader community, provided the transactions comply with Shariah principles. R4 emphasized that investment is for the future, while saving is essential for emergencies and should ideally begin early in life. Although saving is not obligatory, R1 noted that it is strongly encouraged to prevent irresponsible spending (R1, P118).

1.7 Avoiding Debt

In Islam, debt is permissible for those in genuine need, but it must be taken based on necessity, not desire. R1 emphasized that Muslims should only borrow for beneficial purposes and with a clear intention to repay. Islam also encourages lending to those in need, as it is seen as more rewarding than charity. As R4 noted, "Giving a loan is more important than giving charity because those who ask to borrow truly need it" (R4, P131). Moreover, Islam encourages creditors to be compassionate by offering extensions or reducing the repayment amount. R1 added that while debtors may repay more than they borrowed as a gesture of gratitude, creditors are strictly prohibited from demanding extra, as this would constitute *riba* (interest), which is forbidden in Islam (R1, P118). All informants agreed that many individuals fall into debt due to a lack of financial awareness and poor money management.

Interview findings reveal that Islamic financial literacy encompasses key themes such as moderation in spending, priority-based spending, compulsory and voluntary spending, savings and investment, and prudent use of debt. It is broadly defined as the management of wealth and finance in accordance with

Shariah principles, serving as a foundation for sound financial behavior. In addition to general financial guidance, Shariah outlines detailed rulings on permissible and prohibited earnings and expenditures, including interest, uncertainty, gambling, bribery, hoarding, misrepresentation, and the importance of wealth purification through zakat and charity, as well as inheritance laws and business ethics [34]. This aligns with [39] identification of three key Quranic financial lessons: wise spending, saving for the future, and avoiding debt. However, interviews also highlight a lack of awareness among Muslims regarding this knowledge. Work [39] noted that ignorance among Muslims remains a major challenge to improving Islamic financial literacy. Furthermore, the identified themes align with five of the eight functional areas in the P-Fin Index used in the U.S. to assess financial literacy earning, consuming, saving, investing, and borrowing suggesting that Islamic financial literacy provides a solid framework for effective financial decision-making.

2. QUANTITATIVE DATA

2.1 Level of Islamic Financial Literacy among Malaysian Y Generation

Descriptive analysis was employed to assess the level of Islamic financial literacy among Malaysia's Generation Y. This method was also used to examine the performance of each item within the Islamic financial literacy construct, using mean and standard deviation values. The items were measured on a seven-point Likert scale, where higher values indicate a stronger or more favorable response. Specifically, values closer to seven represent a higher level of agreement or understanding, while values closer to one indicate weaker responses. Table 1 below presents the descriptive statistics for all items under the Islamic financial literacy construct.

Table 1. Level of Islamic financial literacy among Malaysian y generation.

Islamic Financial Literacy Item	Mean	Std. Deviation
IFL10 I spend within my income/salary	5.72	1.225
IFL11 I provide dwellings for my family	5.14	1.665
IFL12 I must pay zakat when the conditions are met	6.09	1.260
IFL13 I saved money for performing umrah / hajj	5.62	1.371
IFL14 I only buy goods when necessary	5.8	1.186
IFL15 I provide for the household expenses	5.04	1.534
IFL16 I set aside some of my money for charity	5.15	1.243
IFL17 I provide financial support for my parents	5.62	1.334
IFL18 I save every month for future needs	5.6	1.323
IFL19 I always donate from my monthly income	5.34	1.284
IFL20 I incur debt only when necessary	5.35	1.715

Table 1 presents the mean and standard deviation values for the model variables. Overall, all items recorded moderately high mean scores, indicating a general level of agreement among respondents. The standard deviation values, which range from 1.186 to 1.715, suggest a noticeable degree of variability in the responses. This indicates that participants differed in their views and understanding of the items measured in the questionnaire.

2.2 The Relationship between the Determinants and Islamic Financial Literacy

In Table 2 Correlation analysis has been performed to examine the relationship between the determining factors and Islamic Financial Literacy. The items to be analysed is the correlation coefficient (r) which describes the strength of the relationship between two variables. Value (r) is between -1 and +1 where the + and - indicate the direction of the relationship. Value (r) equals 0 indicates no correlation exists between two variables. Meyers et al. (2006) has categorized the value (r) is less than 0 to 0.299 as a poor relation, between 0.3 to 0.499 as moderate and between 0.5 to 1 as a strong relationship.

Table 2. Correlation between determinants and islamic financial literacy.

Variable	Correlation	Significant Level
Islamic Financial Literacy	1.000	.000
Underlying Principles	0.438**	.000
Financial Education Exposure	0.309**	.000
Social Influence	0.127**	.003

** Correlation is significant at the 0.01 level (2-tailed).

Table 2 shows that the underlying principles, financial education and social influence are related to Islamic Financial Literacy at $\alpha \leq 0.05$. The relationship between underlying principles, financial education and social influence with Islamic Financial Literacy are positive with the correlation value of 0.438, 0.309 and 0.127 respectively. The relationship between underlying principles and financial education with Islamic Financial Literacy are considered moderate based on [49] with the value (r) between 0.3 to 0.499; while the relationship between social influence and Islamic Financial Literacy is considered poor as the value (r) is less than 0 to 0.299.

2.3 The Influence of Determinants on Islamic Financial Literacy

A multiple regression analysis was carried out to investigate whether Underlying Principles, Financial Education Exposures and Social Influence could significantly predict Islamic Financial Literacy in Table 3. The results of the regression indicates that the model explained 23.8 percent of the variance and that the model is a significant predictor of Islamic Financial Literacy; $F(3,526) = 54.627$, $p = .000$. Underlying Principles contributed significantly to the model ($B = .438$, $p = .000$) followed by Financial Education Exposures ($B = .126$, $p = .000$), while Social Influence does not contribute significantly to the model.

Table 3. Linear regression result.

Variables	B	T	Significant Level	Tolerance	VIF
Underlying Principles	.438	9.717	.000	.923	1.083
Financial Education Exposure	.126	4.421	.000	.824	1.214
Social Influence	.035	1.320	.188	.872	1.147
Constant	1.991				
R square	.238				
F Value	54.627				
Sig.	.000				

Table 3 presents the findings from the regression analysis. The results from the ANOVA table indicate that the model is statistically significant, with an F-value of 54.627 and a p-value of 0.000. Since the p-value is below the threshold of 0.05, it confirms that the regression model is meaningful and reliable in explaining the relationship between the variables. The R-squared value reveals that 23.8% of the variance in the dependent variable Islamic Financial Literacy can be explained by the three independent variables included in the model. The remaining 76.2% of the variation is attributed to other factors not examined in this study. Based on these results, the final predictive equation for the model is as follows:

$$IFL = 1.991 + (.438 * UP) + (.126 * FEE) \quad (1)$$

2.4 Development of Islamic Financial Literacy Index (I-FL Index)

The IFL index relates to the management of wealth and finance according to the Shariah. The IFL index is built from the existing literature on Islamic financial literacy as well as qualitative exploration of the

opinion of Shariah experts. This study is constrained to use a smaller set of questions which focus on Islamic fundamental concepts derived from the basic sources of Shariah which consist of basic knowledge pertaining to wealth management and finance. The IFL index is based on the responses of 20 questions derived from the following themes; concept of moderation, compulsory and voluntary spending, priority spending, savings and investment as well as prudent use of debt.

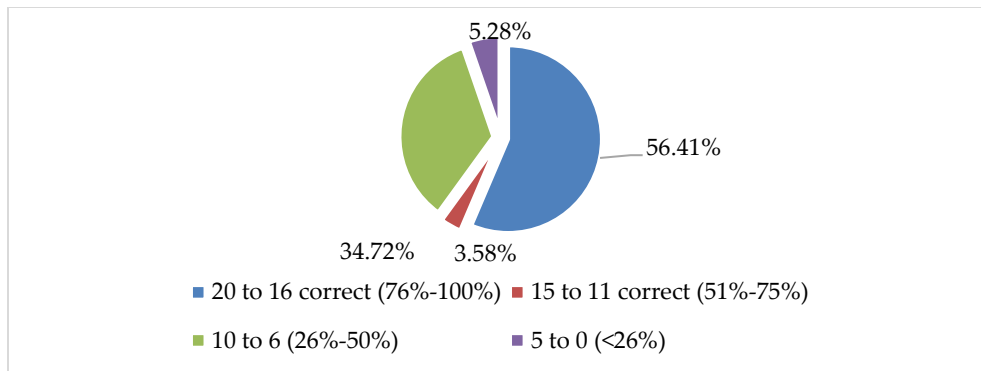


FIGURE 3. The IFL Index: distribution of correct answers among Malaysian y generation.

This survey design provides depth and breadth in producing a robust measure of overall concept of IFL and able analysis of this area to be carried out. This IFL index results is available for demographic groups such as age, gender, education level, income level, no of dependents, education background, type of work, length of service and exposure to financial education, underlying principles, and social influence. This index was developed based on the development of I-FL index based on P_FIN Index by the Teacher’s Insurance and Annuity of America and the Global Financial Literacy Excellence Center (GFLEC) assisted by Green Wald and Associate 2017. On average, the survey shows in Figure 1 that the respondents answered only 60% of these questions correctly.

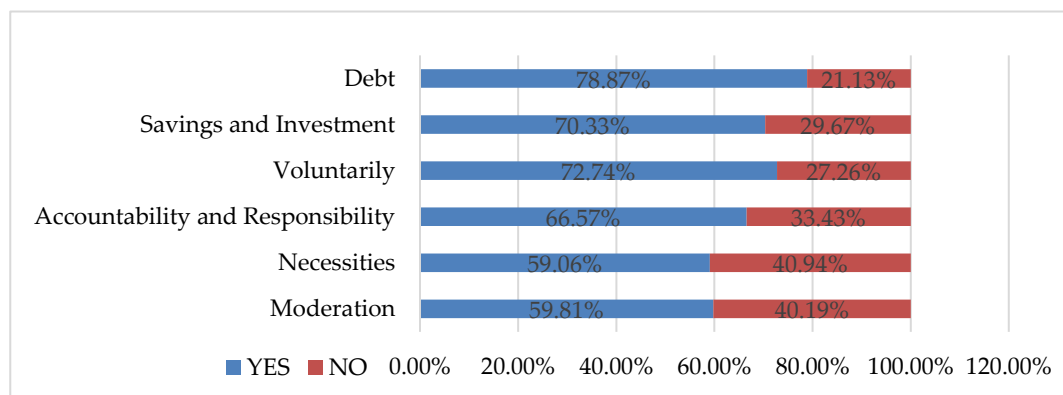


FIGURE 4. The I-FL Index: Knowledge across functional themes Percentage of I-FL Index questions answered correctly and incorrectly.

Figure 4 indicates that most respondents are knowledgeable about prudent use of debt, followed by knowledge about savings and investment, voluntary spending, compulsory spending, priority spending and the concept of moderation

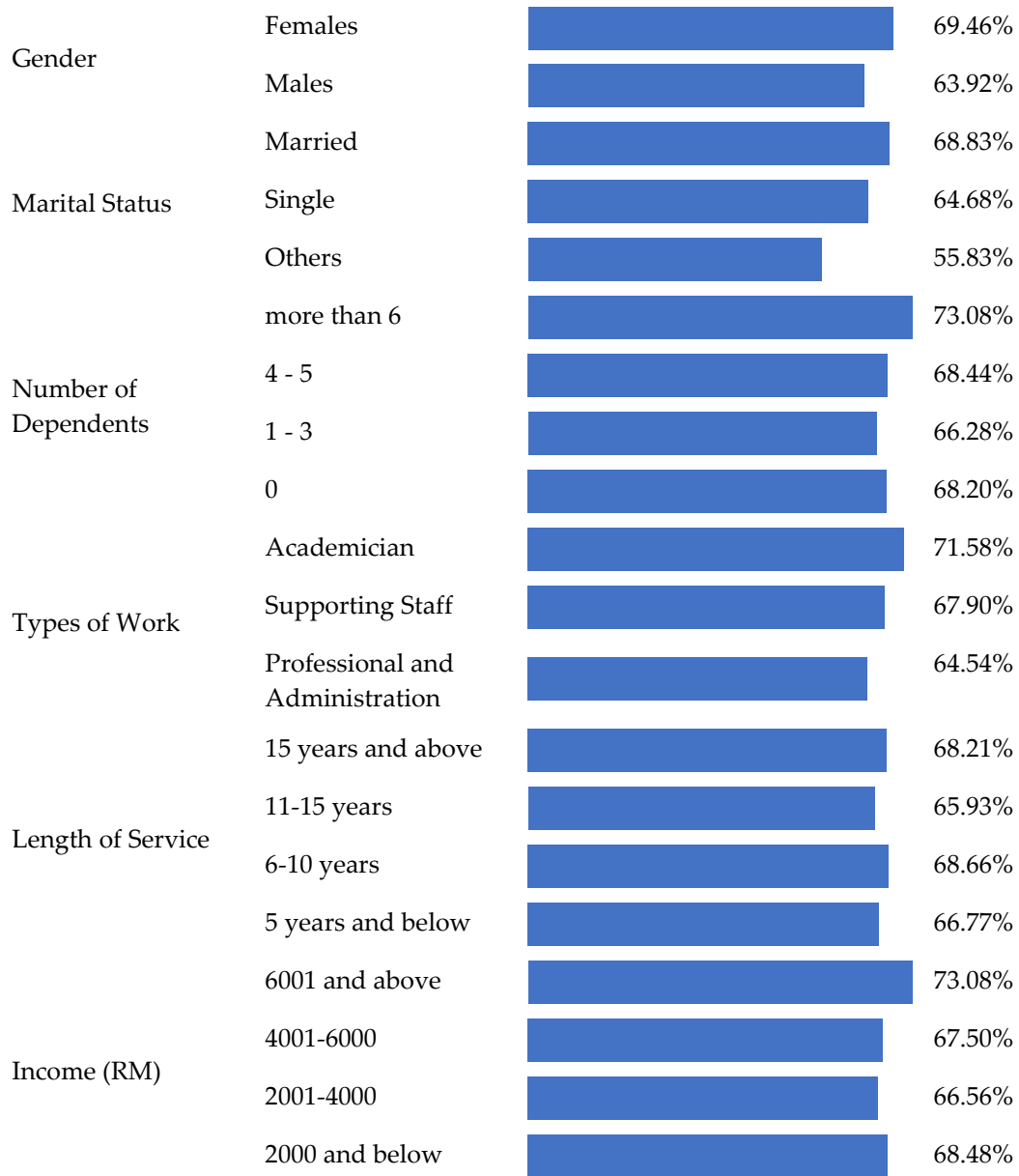


FIGURE 5. Demographic comparison - financial literacy across demographic groups. percentage of i-fl questions answered correctly.

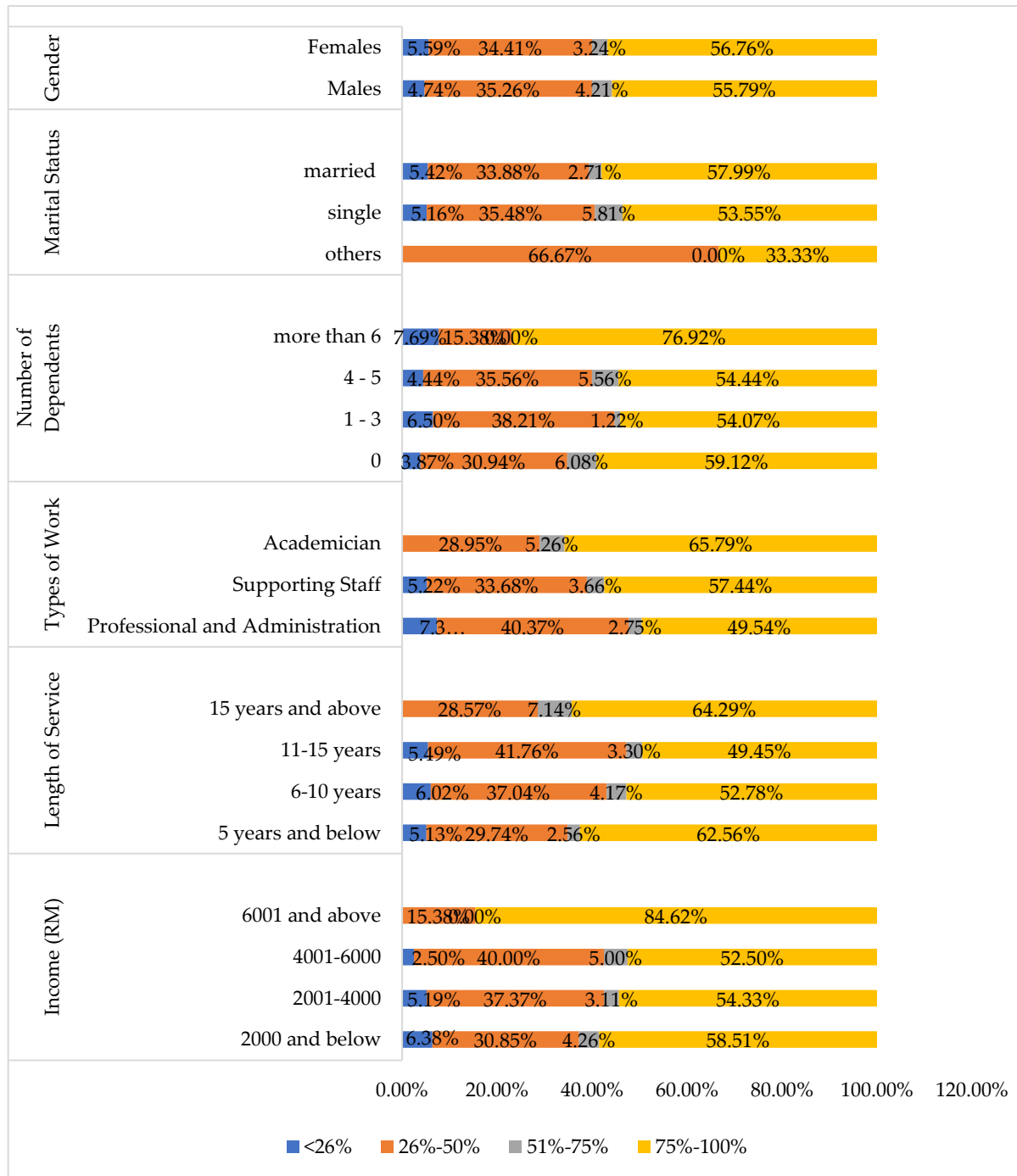


FIGURE 6. Demographic comparisons - distribution of correct answers.

Those with income more than RM6001, those works as academician, and those with more than 6 dependents scored highest (more than 65% in these groups answer more than 15 questions correctly). The results also indicate that Islamic Financial literacy is positively correlated with education.

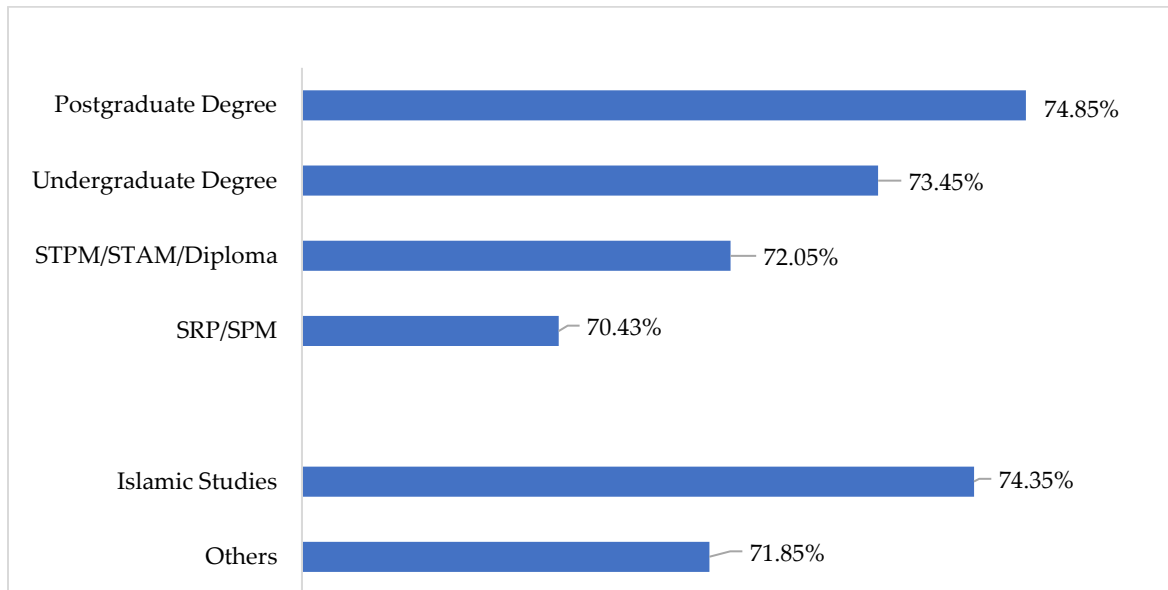


FIGURE 7. Comparison by education level percentage of I-FL questions answered correctly.

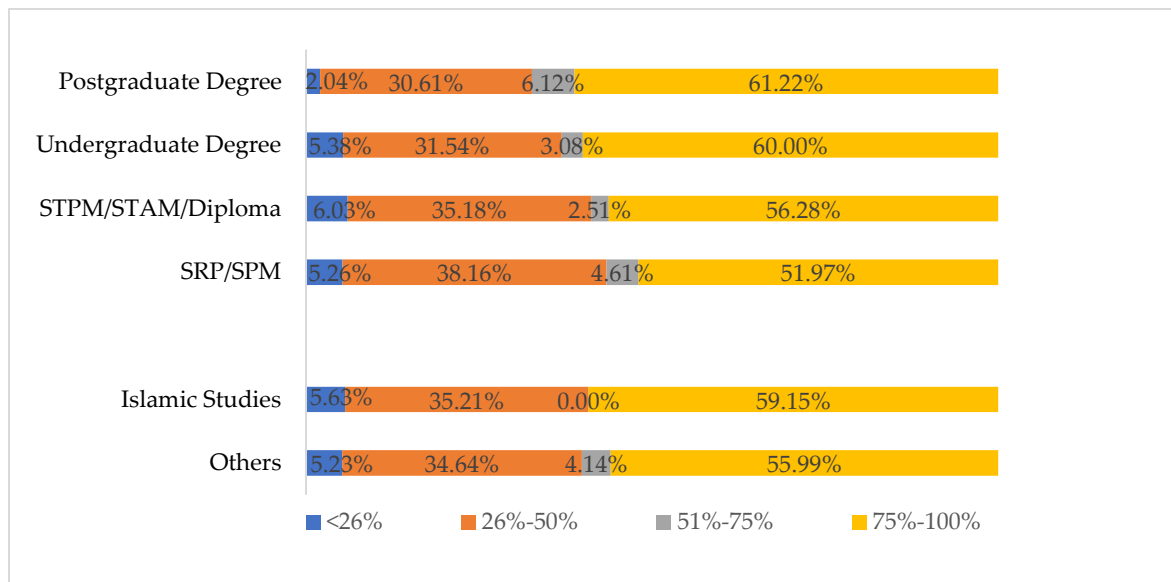


FIGURE 8. I-FL Index: distribution of correct answer to index question (based on education).

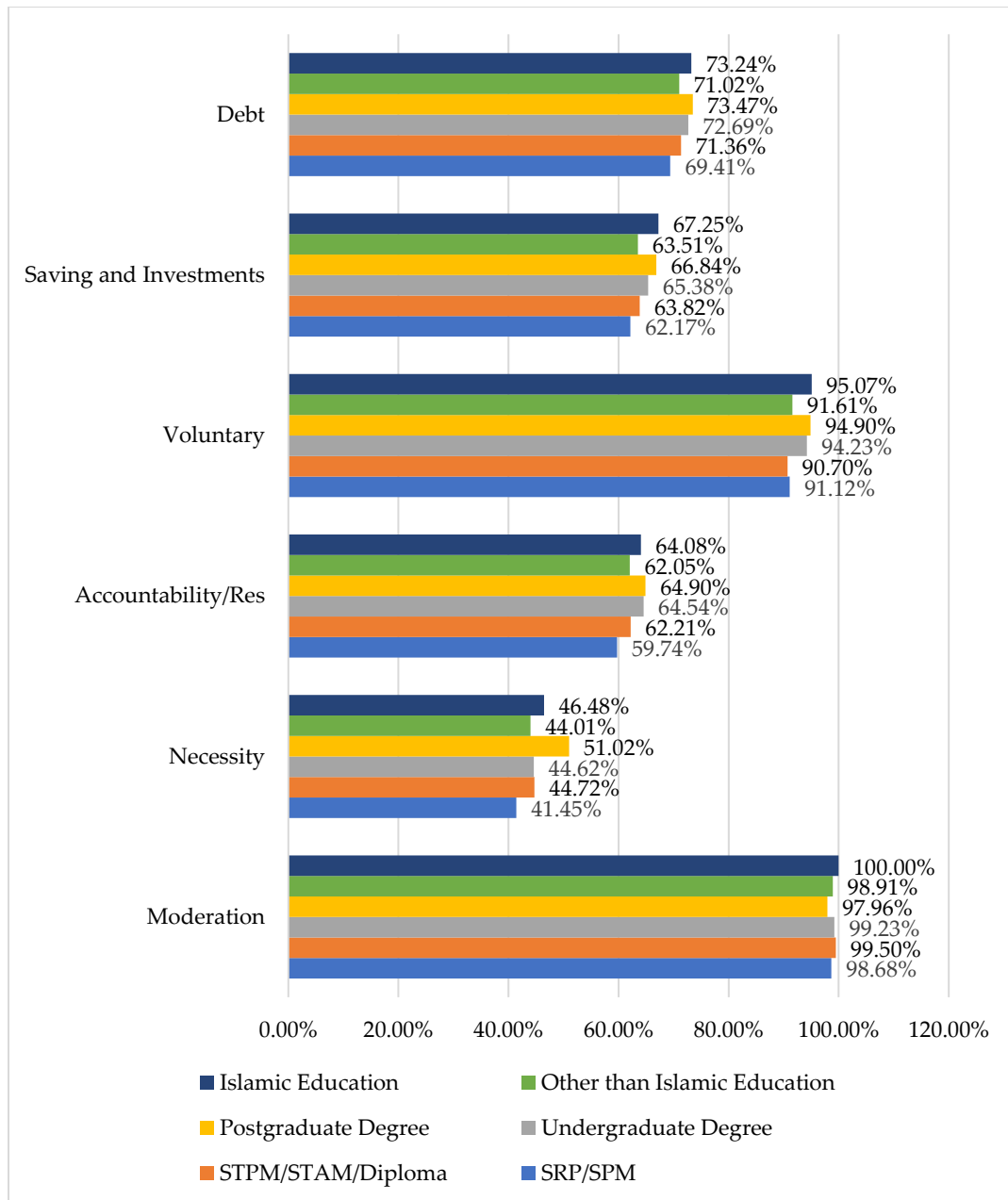


FIGURE 9. I-FL Index: distribution of correct answer to functional themes (based on education).

The results indicate that the theme Voluntary and Moderation have more than 90% correct answer based on the education background and type of background. However, necessity has the lowest correct answer (less than 50%) compared to other functional themes of Islamic Financial Index.

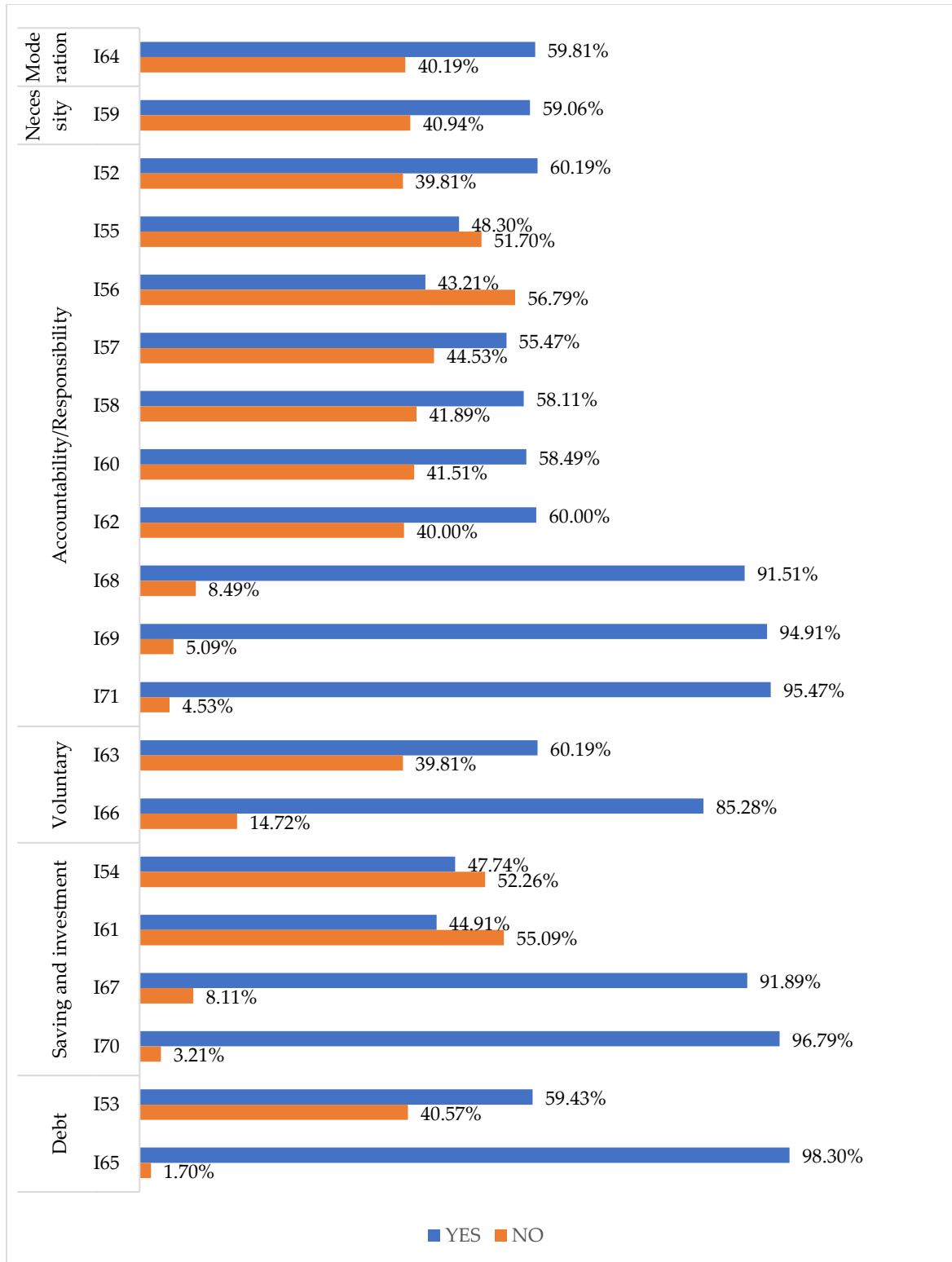


FIGURE 10. I-FL Index: distribution of correct answer according to themes.

X. DISCUSSION

The findings of this study show that the level of Islamic financial literacy among Malaysian Generation Y is still at a moderate level, as indicated by the average correct response rate of 60 percent in the I-FL Index. This result suggests that, although respondents have some basic understanding of Islamic financial matters, their overall level of knowledge is still not sufficiently strong. This finding is in line with previous studies which reported that the level of Islamic financial literacy among individuals is generally not high and that many Muslims still lack adequate understanding of important Shariah-based financial concepts [41]. Work [42] found that, even when respondents were exposed to Islamic financial matters, their knowledge remained uneven across different domains, especially when objective measurement was used instead of self-assessment. Similarly, [49] found that Islamic financial literacy among university students was still developing and influenced by several personal and educational factors. Therefore, the present finding confirms that Islamic financial literacy remains an important issue even in Malaysia, where the Islamic finance industry is relatively well developed [43].

Another important finding of this study is that Underlying Principles have a significant positive relationship with Islamic financial literacy and also contribute most strongly to the regression model. This finding is consistent with the concept of Islamic financial literacy itself, which is not only concerned with general financial knowledge but also with understanding the fundamental principles of Shariah in financial management. In Islam, knowledge of prohibited elements such as *riba*, *gharar*, and *maysir*, as well as awareness of moderation in spending, *zakat*, lawful earnings, and ethical financial conduct, forms the basis of proper financial behavior. This result is consistent with the study by [41], who emphasized that Islamic financial literacy should be measured through a broader framework that reflects the unique principles of Islamic finance rather than merely awareness of Islamic banking products. It is also supported by recent review evidence showing that knowledge of Islamic financial principles and financial awareness are among the most common determinants of Islamic financial literacy in the existing literature [45]. Thus, the present study supports the view that a stronger understanding of Islamic financial principles leads to a higher level of Islamic financial literacy.

The findings also reveal that Financial Education Exposure has a significant positive effect on Islamic financial literacy. This means that respondents who are more exposed to financial education are more likely to possess higher Islamic financial literacy. This finding is in line with many previous studies which found that education plays a major role in improving financial literacy, including Islamic financial literacy [45]. Recent review evidence also shows that educational factors are one of the main recurring themes in the determinants of Islamic financial literacy [45]. In the context of this study, this result indicates that Islamic financial literacy does not develop automatically through general social experience alone, but requires proper educational support. This supports the argument that financial education should be strengthened, especially with content that is relevant to Islamic financial principles and Shariah-compliant financial decision-making.

However, although Social Influence was found to have a positive and significant relationship with Islamic financial literacy in the correlation analysis, it did not contribute significantly in the multiple regression model. This finding suggests that social influence may be associated with Islamic financial literacy at the general level, but its independent effect becomes weak once other variables, particularly Underlying Principles and Financial Education Exposure, are taken into account. This finding is partly different from some earlier studies which highlighted the role of parents, peers, and social surroundings in shaping financial literacy and Islamic financial literacy [47]. Nevertheless, the present result indicates that, in the case of Islamic financial literacy, social influence alone may not be sufficient to explain literacy unless it is supported by correct knowledge and structured education. In other words, social surroundings may help create awareness, but they may not necessarily provide the depth of understanding needed for sound Islamic financial decision-making. This may explain why its effect became insignificant in the regression analysis.

The study further shows that respondents performed differently across the various themes of the I-FL Index. The results indicate that most respondents were more knowledgeable in the area of prudent use of debt, followed by savings and investment, voluntary spending, compulsory spending, priority spending,

and moderation. This finding suggests that Islamic financial literacy is not uniform across all domains, but differs according to the type of financial knowledge being assessed. This result is consistent with more recent Islamic financial literacy measurement studies, which argued that Islamic financial literacy is a multidimensional construct and should not be treated as a single undivided concept [47]. For example, Work [60] showed that respondents may perform better in some financial literacy domains than in others, depending on the nature of the items and the type of knowledge required. Therefore, the present study contributes to the existing literature by showing that Islamic financial literacy should be understood through several Shariah-based dimensions, including moderation in spending, priority-based spending, compulsory and voluntary spending, saving and investment, and prudent use of debt.

XI. POLICY RECOMMENDATIONS

Based on the study's findings, several key policy recommendations are proposed to enhance IFL in Malaysia and beyond. First, there is an urgent need to develop and standardize a comprehensive Islamic financial literacy framework grounded in Shariah principles such as moderation, priority-based spending, zakat, savings, and the prudent use of debt. This framework should be formulated in collaboration with Shariah scholars, academics, and financial industry practitioners to ensure both religious alignment and practical applicability. Moreover, Islamic financial literacy needs to be incorporated as part of curricular at the national level, specifically as part of Islamic Studies and Economics studies at both school and university levels. Appropriate Curriculum and Content Curriculum modules that are age-specific and relevant to the situation would contribute to the inculcation of the right financial values from a young age and encourage good financial behavior based on Islamic principle.

The IFL Index constructed in this study wide should be refined and adopted as a national benchmark to establish and monitor targets. The index can be used as a device for identifying the areas of knowledge, between demographic groups, for which future targeted financial education must be undertaken. It is also important to train religious teachers, mosque leaders, and schoolteachers to teach Islamic financial education in an appropriate manner. National training and certification programs could harness these influencers to help disseminate information. A national educational campaign is also required to challenge those who consider that Islamic finance relates to only the elite and to change the perceptions on rules of zakat, crediting and investment. Performing such feature marketing on social networks and inviting Islamic finance institutions, NGOs, and community organizations to co-create them. Even at the level of third-level education, and with a particular emphasis on public universities, the encouragement of universities to run workshops and research programmes dedicated to IFL as well as promoting student engagement such as through financial literacy clubs or seminars is essential.

Community-based initiatives, particularly in rural or underserved areas, should be supported through funding and collaboration with local mosques and community centers. At the same time, technology should be leveraged to reach a wider audience. Developing mobile apps, online courses, and interactive tools (e.g., zakat calculators and budgeting planners) can make Islamic financial education more accessible and engaging. Peer-pressure can also be affected by giving stimulus incentives to financial intermediaries to engage in public financial education as their social corporate responsibility. These outreach bodies can help by working together to devise financial products which are simple and Shariah compliant, and involve an educational element. Finally, ongoing research is important. The government and universities may explore the potential of funding researches to continue refining the IFL constructs, to construct the validated measurement instruments, and to pave the way for the sharing of an Islamic financial literacy conceptual framework internationally that is applicable for various contexts.

XII. CONCLUSION

This study intended to develop an index to assess the level of Islamic financial literacy among Malaysian y generation. At the initial stage, a qualitative approach is used in order to meet the first objective, followed by statistical analysis comprising of factor analysis, correlation analysis as well as multiple regressions. The

findings show that the current financial literacy measures are not fully aligned with the foundational principles of Islamic finance. To address this gap, this study aimed to develop a framework for IFL that reflects Shariah principles and caters to the growing global Muslim population. The study had four key objectives: (1) identifying the conceptual basis of IFL from the Quran and Hadith, (2) developing an IFL construct, (3) examining factors influencing IFL among Malaysia's Y generation, and (4) creating an index to assess their IFL level. A mixed-methods approach was employed, involving interviews with Shariah experts and a survey of 800 public university staff from the Y generation. The qualitative findings highlighted key themes derived from Shariah moderation, priority-based spending, compulsory and voluntary spending, saving, investing, and prudent debt use as essential to Islamic financial management. These themes were incorporated into a construct tested via exploratory factor analysis, which validated 10 out of 11 items. Correlation analysis showed that Underlying Principles, Financial Education, and Social Influence significantly influence IFL. Multiple regression confirmed that Underlying Principles and Financial Education are significant predictors. The IFL Index revealed an average correct response rate of only 60%, with the highest accuracy in managing debt and the lowest in understanding necessity-based spending. Higher scores were associated with individuals earning above RM6001, working in academia, and having more dependents. Many respondents lacked basic knowledge in key Shariah financial principles. Future research should expand the IFL framework and validate it across Muslim populations globally. Moreover, there must be collaborative efforts among policymakers, educational institutions, religious leaders, and financial bodies to increase awareness and promote Islamic financial literacy at all societal levels.

Funding Statement

This research was funded by the Fundamental Research Grant Scheme (FRGS), Ministry of Higher Education (MOHE), Project ID: (13027).

Author Contributions

M. Y. I.: Conceptualization, Methodology, Investigation, Data Curation, Formal Analysis, Writing – Original Draft. R. A. R.: Supervision, Conceptualization, Validation, Writing – Review & Editing. Z. Z.: Methodology, Validation, Formal Analysis, Writing – Review & Editing. Z. A.: Supervision, Theoretical Framework Development, Visualization, Writing – Review & Editing. H. M. T.: Project Administration, Resources, Supervision, Writing – Review & Editing, Final Approval of the Manuscript.

Conflicts of Interest

The authors declare that there is no conflict of interest.

Data Availability Statement

Data are available from the authors upon request.

Acknowledgment

The authors gratefully acknowledge the financial support provided by the Fundamental Research Grant Scheme (FRGS), Ministry of Higher Education (MOHE), under Project ID: 13027. This funding was instrumental in facilitating the successful completion of this research.

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Appendix

- Factor Analysis Result

Item Code	Item Statement	Factor Loading	Communality	Decision
IFL10	I spend within my income/salary	0.712	0.507	Retained
IFL11	I provide dwellings for my family	0.641	0.411	Retained
IFL12	I must pay zakat when the conditions are met	0.768	0.590	Retained
IFL13	I saved money for performing umrah / hajj	0.703	0.494	Retained
IFL14	I only buy goods when necessary	0.781	0.610	Retained
IFL15	I provide for the household expenses	0.622	0.387	Retained
IFL16	I set aside some of my money for charity	0.734	0.539	Retained
IFL17	I provide financial support for my parents	0.689	0.475	Retained
IFL18	I save every month for future needs	0.756	0.572	Retained
IFL19	I always donate from my monthly income	0.671	0.450	Retained
IFL20	I incur debt only when necessary	0.428	0.241	Removed

- Summarizing the index construction formula and weighting scheme

Component	Description	No. of Items	Scoring Rule	Weighting Scheme	Formula Contribution
Moderation in spending	Measures whether respondents understand and apply moderation in financial decisions.		Correct answer = 1; Incorrect answer = 0	Equal weight	Sum of correct responses within the theme
Priority-based spending	Measures knowledge of spending according to necessity and Shariah priorities.		Correct answer = 1; Incorrect answer = 0	Equal weight	Sum of correct responses within the theme
Compulsory spending	Measures knowledge of obligatory financial responsibilities such as nafkah and zakat.		Correct answer = 1; Incorrect answer = 0	Equal weight	Sum of correct responses within the theme

Voluntary spending	Measures knowledge of voluntary charitable spending such as sadaqah.	Correct answer = 1; Incorrect answer = 0	Equal weight	Sum of correct responses within the theme
Saving and investment	Measures knowledge of Shariah-compliant saving and investment practices.	Correct answer = 1; Incorrect answer = 0	Equal weight	Sum of correct responses within the theme
Prudent use of debt	Measures knowledge of necessity-based borrowing and debt discipline.	Correct answer = 1; Incorrect answer = 0	Equal weight	Sum of correct responses within the theme
Overall, I-FL Index	Composite index based on all knowledge items.	20 Correct answer = 1; Incorrect answer = 0	All items equally weighted	Total correct answers / 20 × 100