THE IMPACT OF FINANCIAL LITERACY, DIGITAL FINANCE, AND DEMOGRAPHICS ON ISLAMIC FINANCIAL INCLUSION

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Abstract

The aim of this study is to analyze the impact of financial literacy, digital finance, and demographic factors such as gender, age, education level, and income on the dependent variable of Islamic financial inclusion in Jenar District. This research uses quantitative data obtained from primary sources. The data was analyzed using multiple linear regression analysis with SPSS software. The results of the t-test indicate that both financial literacy and digital finance influence Islamic financial inclusion. On the other hand, demographic factors do not have an impact on Islamic financial inclusion. Additionally, the results of the F-test show that the dependent variable is jointly influenced by all independent variables.

Keyword: *Financial Literacy, Digital Finance, Demographics, Financial Inclusion*

A. INTRODUCTION

Islamic banking in Indonesia continues to experience positive growth, with increasingly solid resilience, which will enhance public trust. This is reflected in the Capital Adequacy Ratio (CAR) of Islamic Commercial Banks (BUS), which stood at 25.55% in January 2024, up slightly from 25.41% in 2023. The same report also indicates an increase in the number of Islamic Commercial Banks (BUS), from 13 to 14. In total, there are now 206 institutions, including BUS, UUS, and BPRS (OJK, 2024). This means that there will be a reduction in the unbanked community due to the fulfillment of elements of access, product availability, and financial services. It is further emphasized by the dominance of the banking sector in driving financial inclusion, which reached 74.03%, significantly higher than other financial institutions, such as fintech, which accounted for only 2.56% (Otoritas Jasa Keuangan, 2022).

Central Java Province ranks fourth in terms of financial inclusion, with a percentage of 85.97%, surpassing the national average. However, this percentage does not guarantee equal distribution at the lowest government, particularly at the Jenar District, Sragen Regency. Despite being one of the regencies with a relatively well-developed banking sector, which includes 26 conventional and Islamic banks (Sragen, 2023), the situation in Jenar is different. Interestingly, the only available banking services in Jenar are a mobile cash van from Bank Jateng Syariah and the PT BPR BKK Karangmalang Jenar Branch. Meanwhile, the majority of Islamic banking offices are concentrated in urban areas, with the nearest Islamic bank located 16 kilometers away from Jenar District. Initial observations suggest that the financial inclusion rate in Jenar, particularly in the Islamic banking sector, remains low.

Table 1. Initial observation.

Information	*Yes*	*No*
Active customers of sharia bank	15%	85%
Sharia bank savings account holders	21%	79%
Sharia bank financing customers	8%	92%
Users of the sharia bank service system	21%	79%

The percentage was obtained from a survey of 100 participants conducted using Google Forms, primarily aimed at the citizens of Jenar District. This data evidences the underutilization of financial inclusion through Islamic banking in the studied area. Financial inclusion, as defined by the Consultative Group to Assist the Poor (CGAP), pertains to the accessibility of financial products and services for all societal sectors, enabling them to efficiently meet their needs. The objective is to raise the community's general standard of living and wellbeing (Peraturan Otoritas Jasa Keuangan, 2016). The assessment of Islamic financial inclusion relies on the parameters specified by (Yanti, 2019), encompassing access, usage, quality, and welfare.

From the statement above, Islamic financial inclusion, particularly in the banking sector, can be influenced by several variables, the first of which is financial literacy. According to Chen and Volpe

(1998), financial literacy is the knowledge needed to manage or organize finances (D. R Pulungan, 2019). Financial literacy assists people in choosing the best financial solutions by assisting them in understanding financial services and products (Hasan & Hoque, 2021). The OECD (2016), as cited in (Soetiono & Setiawan, 2018), financial literacy indicators cover three main aspects, financial knowledge, financial behavior, and financial attitudes. Research by (Sari & Kautsar, 2020), and (D. R Pulungan, 2019) shows that financial inclusion and financial literacy are positively correlated.

The second variable is digital finance. Financial services delivered via mobile devices, computers, the internet, or cards linked to a reputable digital payment system are referred to as digital finance (Ozili, 2018). For this variable, the indicators are based on Davis (1989), as cited in (Sari & Kautsar, 2020) who identified three key aspects: ease of use, usage, and perceived benefits to the user. There appears to be a divergence in findings between studies, such as (Michelle, 2016), that the main reason financial institutions use digital financial services is to save the operational expenses associated with setting up and maintaining branches, thereby improving profitability and financial performance, rather than promoting financial inclusion. However, findings from (Ozili, 2018) and (Durai & Stella, 2019) indicate that digital finance exerts influence on financial inclusion.

The third variable pertains to demographics. According to Nitisusastro (2012), demographics are related to population problems involving a variety of factors in a given area, such as gender, age, educational background, and income (Nggadas et al., 2023). The findings of (Sari & Kautsar, 2020) indicate that gender,whether male or female, does not influence the degree of financial inclusion. Nevertheless, variables such as age, educational attainment, and income were identified as having a favorable and considerable influence on financial inclusion. This contrasts with findings from (Zins & Weill, 2016), research indicated that men generally exhibit elevated degrees of financial inclusion. Additionally, research by (Roy & Chaterjee, 2016) identified a negative correlation, indicating that age does not influence the degree of financial inclusion. (Akileng et al., 2018) it was determined that education did not have effect on financial inclusion, while (Hutabarat, 2018) determined that income exerts no influence on financial inclusion.

The purpose of this study is to examine how financial literacy, digital finance, and demographics affect Islamic financial inclusion. Analyzing financial literacy, the adoption of digital finance, and understanding demographic factors will provide a strong foundation for developing more effective policies and strategies to promote Islamic financial inclusion in Jenar Sub-district.

B. HYPOTHESIS DEVELOPMENT

A high degree of financial literacy enables individuals to effectively utilize information about diverse financial facilities, functions, potential hazards, and their rights and duties when engaging with financial products or services in society. This, consequently, prompts individuals to acknowledge and utilize financial products and services, resulting in enhanced financial inclusion (Hutabarat, 2018). Research conducted by (Sari & Kautsar, 2020) and (D. R Pulungan, 2019) yielded positive outcomes.
H_1 : Financial literacy has a positive effect on Islamic financial inclusion.

Given the swift expansion and rivalry within the technology sector, the provision of services, especially access, must be convenient and universally available at all times. Digital finance is necessary for facilitating access to financial services, hence promoting financial inclusion. Studies conducted by (Ozili, 2018), and (Durai & Stella, 2019) demonstrate that digital finance positively and significantly influences financial inclusion.
H_2 : Digital finance has a positive effect on Islamic financial inclusion.

Concerning the impact of gender on financial inclusion, from Ndouna & Zogning (2022) as cited in (Sherwani et al., 2023) indicate that men, especially those who are heads of households, possess enhanced opportunities to oversee finances and assume more obligations. Consequently, they are more inclined to make financial judgments, encompassing utilization and access of financial services. As age, education, and income levels rise, individuals often show improved financial management abilities and an increased probability of financial inclusion. (Sari & Kautsar, 2020), discovered that age, education, and income levels favorably and considerably influence financial inclusion. Furthermore, research by (Zins & Weill, 2016) indicated favorable outcomes, demonstrating that men generally exhibit higher degrees of financial inclusion, so implying that gender affects financial inclusion levels.
H_3 : Demographics has a positive effect on Islamic financial inclusion.

C. RESEARCH METHODS

This study utilizes a quantitative research methodology utilizing SPSS for data analysis, depending on numerical data collected from the first phase to the final outcomes. Data collection was conducted by a survey method utilizing Likert scale questionnaires distributed in Jenar District, Sragen Regency (Hardani et al., 2020). Due to the unknown population size, the sampling method adheres to the procedure described by (Hair et al., 2013), wherein size of the sample is calculated by multiplying the number of indicators by a factor ranging from 5 to 10. Based on this guideline, the formula is as follows:

$$n = 14 \text{ (number of indicator) } x\ 6$$

The determined sample size is 84 respondents, rounded to 90 respondents (Hair et al., 2013). This study utilized a purposive sampling methodology, which includes choosing samples based on specified, preset standards. The characteristics of the sample criteria are as follows:

1. Residents of Jenar District.
2. Individuals who are users of digital finance in Islamic banking.

D. RESULTS AND DISCUSSION

4.1 Results

This study has undergone multiple testing phases. The results of the validity test demonstrate that the statements employed in the survey are valid. The reliability test produced a Cronbach's alpha of 0.955 > 0.60, so validating that the instrument is extremely dependable. The normality test findings indicated a significance value of 0.164 > 0.05, suggesting that the residuals adhere to a normal distribution (Abdullah, 2015). The multicollinearity test results indicated an absence of multicollinearity, and there were no indications of heteroscedasticity in the data.

Regression Analysis

This study's multiple linear regression equation indicates a financial inclusion coefficient of 0.276, if all variables are held constant. According to the financial literacy regression coefficient of 0.364, there will be a 0.364 increase in Islamic financial inclusion for every unit increase in financial literacy. In the field of digital finance, Islamic financial inclusion will rise by 0.666 for every unit growth in financial inclusion. Conversely, the demographic variable's value of -0.058 indicates that a rise in demographic characteristics will result in a drop of Islamic financial inclusion by 0.058.

F Statistic

The test results indicate an F-calculated value of 298.804 with a probability of 0.000. Thus, it can be concluded that the independent variable taken together have a significant impact on the dependent variable, Islamic financial inclusion.

t Statistic

Table 2. t statistic

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.276	.126		2.183	.032
	Financial Literacy	.364	.057	.345	6.402	.000
	Digital Finance	.666	.054	.677	12.291	.000
	Demographics	-.058	.024	-.079	-2.363	.020

The results of the T-statistic test above indicate that the demographic variable is not significantly related to Islamic financial inclusion, leading to the decision to accept H0 and reject H1. In contrast, the financial literacy and digital finance variables show a significant impact on Islamic financial inclusion, with the decision to accept H1 and reject H0.

4.2 Discussion

The Impact of Financial Literacy on Islamic Financial Inclusion.

The research findings indicate a positive impact on Islamic financial inclusion in the Jenar subdistrict, with one of the key contributing factors being the level of financial literacy. Thus, the financial literacy of the community has a positive effect on their participation in Islamic financial inclusion in the region. This can be attributed to the growing awareness among the public about the significance of financial literacy and expertise for both the now and the future. In this context, the role of the government and financial institutions is crucial in providing support to the community to create a more inclusive Islamic banking sector. The results of this study align with the findings of previous research (Sari & Kautsar, 2020) and (D. R Pulungan, 2019).

The Impact of Digital Finance on Islamic Financial Inclusion

Alongside financial literacy, the results for the digital finance variable in this study align with prior research (Ozili, 2018), and (Durai & Stella, 2019) which show a positive impact on Islamic financial inclusion. As technology continues to advance, the community in Jenar subdistrict, in particular, is required to stay attuned to these developments in order to keep pace. This progress enables the public to more easily familiarize themselves with and become users of Islamic banking services through digital finance. The availability of access and the rapid expansion of digital finance in banking institutions further facilitate this process.

The Impact of Demographics on Islamic Financial Inclusion.

In the context of this study, it was found that demographics do not have a significant impact. In other words, this research reveals that demographic factors do not significantly affect the level of public participation in financial services, particularly Islamic banking, in the region, which is consistent with the findings of (Roy & Chaterjee, 2016). As digital finance has expanded, technology is even more important in promoting Islamic financial inclusion. The use of mobile devices and the internet allows individuals from various backgrounds to access financial services, thereby fostering more inclusive and equitable Islamic financial participation through technology.

E. CONCLUSION

Digital finance is the most major element affecting Islamic financial inclusion in the Jenar District, followed by financial literacy. Conversely, the demographic variable exhibits no influence on Islamic financial inclusion. It is expected that this study would help relevant parties create thoughts and make decisions. Furthermore, it is expected that institutions such as the OJK, Bank Indonesia, and the government will collaborate to promote education on Islamic financial services to all segments of society. A focus on fostering an understanding of and skills in Islamic finance from an early age should be a primary objective for the relevant institutions, encouraging collaboration with educational organizations to achieve this goal. To further advance the development of this research, improvements are necessary. There are limitations in this study, such as the independent variables used, and future research should consider adding other variables, such as occupation, marital status, or the proximity of financial institutions. Additionally, to strengthen the research, the accuracy of model selection is crucial, and employing mediation models could be beneficial. Supporting evidence, such as interviews, is highly recommended for future studies to enhance the research's validity. Expanding the scope of the research would also contribute to more concrete and comprehensive findings.

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