

THE URGENCY OF ISLAMIC INVESTMENT LITERACY IN MANAGING MUSLIM PERSONAL FINANCE

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ABSTRACT

The Islamic finance industry has demonstrated positive growth trends in Indonesia. However, the level of literacy regarding Islamic investment remains relatively low, especially among Muslim individuals. A limited understanding of *Sharia*-compliant investment principles and instruments has led to suboptimal financial decisions that may conflict with Islamic values. This study aims to explore the urgency of Islamic investment literacy within the context of personal financial management for Muslims and to identify key challenges and strategies for improvement. Employing a qualitative approach through literature analysis, this article examines the concepts of financial literacy in Islamic perspective, types of *Sharia*-compliant investment instruments, and factors influencing individuals' understanding of Islamic investment products. The findings reveal that Islamic investment literacy is not only an economic necessity but also a spiritual obligation grounded in the *Maqāṣid al-Sharī'ah*, especially the principle of safeguarding wealth (*ḥifz al-māl*). The study recommends that stakeholders—governments, financial institutions, and educational bodies—collaborate to develop structured and sustainable strategies for enhancing Islamic financial literacy.

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1. Introduction

Over the past two decades, Indonesia has emerged as a key player in the global Islamic finance landscape. As the world's most populous Muslim-majority country, Indonesia possesses vast potential for the development and implementation of Islamic financial instruments such as sukuk, Islamic mutual funds, Islamic banking, and sharia-compliant fintech solutions.

However, despite this promising institutional growth, there remains a notable gap between the supply of Islamic financial products and the public's understanding and adoption of them.

This discrepancy is reflected in recent data published by the Indonesian Financial Services Authority (Otoritas Jasa Keuangan, OJK), which reports that the national Islamic financial literacy rate in 2022 stood at a mere 9.14%, in contrast to the general financial literacy rate of 49.68%. This striking contrast suggests that while financial service providers have made significant strides in offering halal financial options, the vast majority of the Muslim population remains unfamiliar with the mechanisms, principles, and benefits of such services.

Financial literacy, as defined by Lusardi and Mitchell (2014), is "the ability to process economic information and make informed decisions about financial planning, wealth accumulation, debt, and pensions." Within the Islamic framework, financial literacy transcends technical comprehension; it encompasses ethical, legal, and spiritual dimensions. Muslims are not only required to pursue lawful (*halal*) income and wealth accumulation but also to ensure that their financial behavior aligns with the overarching goals of Islamic law (*maqāṣid al-sharī'ah*). Therefore, a sound understanding of Islamic investment principles is not merely beneficial but obligatory from both a religious and financial perspective.

Islam prohibits involvement in financial practices involving *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (speculation or gambling), as these elements contradict justice and the preservation of wealth—a core value in *maqāṣid al-sharī'ah*. Unfortunately, due to limited awareness, many Muslims inadvertently invest in conventional products that may contain these prohibited elements. This lack of literacy undermines not only personal financial well-being but also the integrity of Islamic economic ideals.

Investment literacy within the Islamic context thus emerges as a strategic and moral imperative. Without it, Muslim individuals may face difficulties in making informed and sharia-compliant financial decisions, which can lead to long-term negative impacts on both personal finances and religious accountability. Furthermore, low levels of literacy limit participation in the Islamic financial market, hindering its growth and sustainability.

This study, therefore, seeks to explore the concept of Islamic investment literacy in greater depth, examining its definition, role, and relevance in personal financial management for Muslims. It also aims to identify the challenges faced by the public in understanding Islamic investment options and to propose strategic measures for improving financial awareness. Ultimately, this paper emphasizes the necessity of integrating Islamic investment literacy into broader educational, economic, and religious frameworks in order to empower Muslim communities to manage their wealth in a way that is not only financially sound but also ethically and spiritually aligned.

2. Literature Review

Islamic financial literacy is a growing field that reflects not only an individual's ability to understand financial concepts but also the religious and ethical implications of financial behavior within an Islamic framework. In conventional terms, financial literacy refers to one's capacity to process economic information and make informed decisions about financial planning, wealth accumulation, and investment (Lusardi & Mitchell, 2014). However, Islamic financial literacy encompasses a more nuanced understanding. It is not merely about understanding products or instruments, but about evaluating them through the lens of sharia principles.

Within the Islamic tradition, wealth (*māl*) is viewed as both a blessing and a trust from Allah, which must be managed with care, transparency, and in accordance with divine law. This theological underpinning transforms financial literacy from a technical skill into a religious responsibility. As Chapra (2000) asserts, Islamic economics is not solely aimed at maximizing material wealth, but also at ensuring justice, ethical conduct, and social welfare. The importance of literacy in Islamic finance lies in its potential to guide individuals in making decisions that preserve wealth while simultaneously avoiding prohibited elements such as *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling or speculation).

Investments that comply with sharia principles are characterized by a commitment to risk-sharing, fairness, and transparency. These characteristics are embedded in classical Islamic contracts such as *mudharabah* (profit-sharing), *musyarakah* (joint venture), *murabahah* (cost-plus sale), and *ijarah* (leasing). Unlike conventional investments that prioritize returns regardless of source, Islamic investments are rooted in ethical screening processes. Institutions such as the Dow Jones Islamic Market Index and Jakarta Islamic Index implement filters to exclude businesses that engage in non-halal activities like alcohol, gambling, pornography, and interest-based banking. In Indonesia, these standards are formalized by the Fatwa DSN-MUI No. 40/DSN-MUI/X/2003, which outlines guidelines for sharia-compliant capital markets.

Understanding these principles is essential for Muslim investors who wish to preserve not only the value of their assets but also the spiritual purity of their wealth. The Qur'an repeatedly emphasizes the avoidance of unjust gain. In Surah Al-Baqarah (2:275), Allah says, "Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity... But Allah has permitted trade and has forbidden interest." This distinction highlights the importance of discerning between lawful (*halal*) and unlawful (*haram*) financial practices, which is only possible through adequate literacy.

The higher objectives of Islamic law, known as *maqāṣid al-sharī'ah*, further reinforce the urgency of Islamic investment literacy. Among these objectives is the preservation of wealth (*hifz al-māl*), which encompasses the ethical acquisition, management, and distribution of

resources. As Dusuki and Bouheraoua (2011) explain, investments should not only be free from prohibited elements but also contribute to societal welfare and economic justice. A well-informed investor, guided by Islamic literacy, is more likely to avoid exploitative schemes and direct their funds toward activities that are both profitable and socially responsible.

Research in the field has shown a strong correlation between financial literacy and sound financial behavior. Lusardi and Mitchell (2007) observed that individuals with higher financial literacy are more likely to save, avoid debt traps, and plan for long-term financial goals. In the Islamic context, similar findings have emerged. Studies such as Laily (2020) reveal that Muslim consumers who possess a clear understanding of Islamic investment principles are significantly more inclined to engage in *halal* investment activities. This is not surprising given that the knowledge of Islamic investment mechanisms increases not only confidence but also religious motivation in making financial decisions.

Despite these benefits, several barriers continue to hinder the growth of Islamic investment literacy. One of the primary obstacles is the lack of integration of Islamic finance in formal education systems. Financial education, where available, often focuses on conventional banking and neglects the distinct features of Islamic finance. Terminology also poses a challenge; complex Arabic terms such as *istisna'*, *wakalah*, or *sukuk* can be intimidating to laypeople. Moreover, there is a general skepticism among the public regarding the true sharia compliance of products offered by Islamic financial institutions. This trust deficit may arise from inconsistent implementation or from a lack of transparency in marketing and operations. Additionally, limited outreach and poor promotional strategies by Islamic financial providers have further compounded the problem, leaving potential investors unaware of the benefits and availability of sharia-compliant options.

In sum, the literature points to a clear link between Islamic investment literacy and the capacity of Muslim individuals to manage their personal finances ethically and effectively. It reveals the multidimensional nature of literacy—encompassing religious awareness, technical understanding, and ethical reasoning. Without such literacy, Muslims are vulnerable to making financial decisions that not only reduce economic efficiency but also contravene their spiritual obligations. Therefore, promoting Islamic financial literacy is not merely a matter of financial inclusion but an essential step toward aligning individual behavior with the higher objectives of Islamic law.

3. Data and Research Methods

This research adopts a qualitative-descriptive method using library research as its primary approach. This methodological framework allows the researcher to gather and synthesize data from a wide range of textual sources such as books, peer-reviewed journals, fatwas from Islamic scholars and institutions, official reports, and other credible documents relevant to the

topic of Islamic investment literacy.

Library research is well-suited for this study because it enables an in-depth exploration of concepts, theories, and regulations that shape the understanding of Islamic investment within the framework of personal financial management. According to Moleong (2016), qualitative library research is appropriate when the goal is to interpret phenomena based on textual data without manipulation of numerical data or field-based observations. This approach is particularly effective for uncovering the philosophical, religious, and theoretical constructs that underlie Islamic financial literacy.

The primary sources of data used in this study include:

- Books on Islamic economics, personal finance, and the *maqāṣid al-sharī'ah*, such as *The Future of Economics: An Islamic Perspective* by M.U. Chapra and *Islamic Finance: Principles and Practice* by Hans Visser.
- Academic journals and research articles from publications like the *Journal of Islamic Accounting and Business Research*, *International Journal of Islamic and Middle Eastern Finance and Management*, and local Indonesian publications such as *Al-Iqtishad* and *Tazkia Islamic Finance and Business Review*.
- Regulatory documents and fatwas, particularly those issued by the Dewan Syariah Nasional Majelis Ulama Indonesia (DSN-MUI), such as DSN-MUI No. 40/DSN-MUI/X/2003 regarding capital markets and DSN-MUI No. 80/DSN-MUI/III/2011 regarding sharia-based investment guidelines.
- Reports from financial regulatory bodies, especially the Survey of National Financial Literacy and Inclusion (SNLIK) published by the Financial Services Authority of Indonesia (OJK), as well as annual reports from Bank Indonesia and sharia-compliant investment managers.

The analytical framework is interpretative and inductive. Texts are analyzed thematically based on keywords such as "Islamic investment," "financial literacy," "personal finance," "sharia compliance," and "*maqāṣid al-sharī'ah*." From these themes, the researcher identifies recurring concepts, patterns, and relationships that support the study's objective of establishing the urgency of Islamic investment literacy in personal financial management.

Furthermore, this research contextualizes theoretical findings within current realities. For instance, the low literacy rates reported by OJK are compared with the actual growth of Islamic investment products such as sukuk retail, Islamic mutual funds, and digital sharia investment platforms like Bibit Syariah and Bareksa Syariah. The disjunction between product availability and literacy reflects the gap that this study seeks to analyze and address.

By combining theoretical exploration with practical observations from reports and policy documents, this methodology ensures that the discussion is grounded both in Islamic

jurisprudential thought and in the economic realities faced by the Muslim community in Indonesia and globally. The interpretative strategy applied here is also aimed at producing normative recommendations—particularly for policymakers, educators, and financial service providers—on how to close the literacy gap and promote inclusive, ethical financial behavior rooted in Islamic values.

4. Finding and Discussion

4.1 Islamic Finance Literacy Gap

Based on data from the Financial Services Authority (OJK), the Islamic financial literacy rate in Indonesia remains significantly low—only 9.14% compared to a general financial literacy rate of 49.68% as of 2022. This gap highlights a serious challenge for the Muslim population: the inability to distinguish between conventional and Islamic financial practices, despite religious motivations to adhere to sharia. Many individuals, while aware of the prohibition of *riba* (interest), lack the practical knowledge to apply that principle in modern investment contexts.

This finding is consistent with previous studies such as Huda et al. (2018), which emphasize the disconnection between religious belief and financial behavior. Without adequate literacy, Muslims are unable to assess investment risk from an Islamic jurisprudence perspective or to select halal investment instruments confidently. This not only increases the likelihood of unethical financial choices but also limits participation in the growing halal investment market.

4.2 Limited Integration in Financial Education

Another prominent issue identified is the limited inclusion of Islamic finance in mainstream financial education. While secular personal finance is taught in various formats—from online courses to high school curricula—Islamic personal finance remains peripheral. Most Muslims acquire their knowledge of Islamic finance informally, often through sermons or anecdotal advice, which rarely cover investment strategies or product analysis in depth.

According to Laily (2020), structured Islamic financial education could dramatically improve investor behavior by reducing misperceptions and building confidence in sharia-compliant financial products. The current absence of such education perpetuates misunderstandings, for example, the belief that Islamic investments are inherently less profitable or more complex to manage.

4.3 Perception of Risk and Return in Islamic Investments

A common finding in the literature and among survey data is the perception that Islamic investments are less lucrative than their conventional counterparts. This assumption discourages many Muslims—particularly young professionals—from participating in halal markets. However, empirical studies, such as those by Nofsinger and Varma (2014),

demonstrate that socially responsible investments (SRIs), including Islamic funds, perform comparably to conventional ones over the long term.

Moreover, Islamic investment products such as sukuk and Islamic mutual funds have shown resilience during financial downturns. This was evident during the global financial crisis of 2008 and more recently during the COVID-19 pandemic. The ethical screening inherent in Islamic investments, such as avoiding highly leveraged companies, may offer protective effects during periods of market volatility.

4.4 Challenges in Digital Platform Adoption

The rise of digital platforms has made investing more accessible, yet many Muslims remain hesitant to use Islamic investment apps like Bibit Syariah or Bareksa Syariah. This hesitation is partly due to digital illiteracy but also stems from low trust in the sharia compliance of these platforms. Users are unsure whether the digital interfaces, third-party custodians, or product issuers truly adhere to Islamic principles.

This challenge suggests that improved transparency and education by platform developers is needed. Companies must do more than simply label products as "sharia-compliant"; they must also explain the screening mechanisms, fatwa references, and ongoing compliance processes used to ensure alignment with Islamic jurisprudence.

4.5 The Role of Maqāṣid al-Sharī'ah in Financial Behavior

The concept of *maqāṣid al-sharī'ah*—the higher objectives of Islamic law—is underutilized in shaping financial behavior. Many Muslims are unaware that investing in line with sharia not only avoids what is forbidden but actively contributes to the preservation of wealth (*ḥifẓ al-māl*), one of the five main maqāṣid. When understood properly, this concept transforms investment from a profit-maximizing activity into a form of ibadah (worship).

As Dusuki and Bouheraoua (2011) point out, investments aligned with *maqāṣid al-sharī'ah* promote not only individual benefit but also communal welfare. This implies that literacy programs should go beyond product knowledge and include moral reasoning, encouraging Muslims to invest in ventures that support employment, sustainability, and economic justice.

4.6 Trust Deficit in Islamic Financial Institutions

Another key issue found is the low level of public trust in Islamic financial institutions. Many consumers express skepticism about whether Islamic banks and investment managers truly operate according to sharia. This perception is worsened by inconsistent fatwas, lack of standardization in sharia auditing, and limited public communication from the institutions themselves.

Warde (2000) argued that the credibility of Islamic finance depends not only on compliance but on visible compliance. Islamic financial institutions must be proactive in educating clients about how compliance is maintained, including transparency in fee structures,

contract terms, and the use of sharia supervisory boards.

4.7 Potential of Religious Institutions and Community Leaders

Finally, the findings highlight the untapped potential of religious leaders and Islamic organizations in promoting investment literacy. Since many Muslims look to scholars and clerics for halal guidance, these actors can play a pivotal role in bridging the information gap. If equipped with modern financial knowledge, community leaders could deliver sermons and educational content that integrate Islamic jurisprudence with practical investment advice.

This model aligns with the prophetic tradition, where economic and religious teachings were not separated. A return to this holistic approach could significantly increase awareness and trust in Islamic investment products, especially in rural and underserved areas.

5. Sub-Chapter of Result and Discussion

5.1 The Disconnect Between Religious Awareness and Financial Action

While the majority of Muslims are aware that *riba* (interest) is forbidden in Islam, this knowledge often does not translate into practical action. Many still deposit money in interest-bearing accounts or invest in conventional funds. The underlying reason is the lack of practical understanding of sharia-compliant alternatives and how to access them.

As indicated by Lusardi and Mitchell (2014), financial literacy alone does not guarantee rational economic behavior unless coupled with access and contextual relevance. In Islamic finance, this is more pronounced: religious values must be supported by operational literacy and trust in Islamic financial products.

5.2 Misinformation About Halal Investment Profitability

Another layer in the discussion is the prevailing misconception that Islamic investments yield lower profits. This stereotype persists despite market data that show competitive and resilient performance of Islamic financial products during volatile economic periods. For example, sukuk (Islamic bonds) have proven less volatile in times of crisis due to their asset-backing and prohibition on speculation (Ali & Nisar, 2020).

This suggests that educational interventions must focus not only on what is halal, but also on the performance capabilities of *halal* instruments, using comparative data and performance benchmarking to build investor confidence.

5.3 The Role of Islamic Financial Literacy in Youth Behavior

Young Muslims, especially those in urban centers, are increasingly exposed to investment opportunities through digital platforms. However, as digital investment tools emerge, so too do risks of misguidance, especially from influencers or peer groups with little knowledge of sharia principles.

Research by Rahmawati (2022) shows that among millennials, Islamic financial literacy is often perceived as secondary to convenience or social trends. This indicates a need for Islamic youth financial education embedded in popular media formats, online courses, and Islamic school curricula that make sharia principles relevant and digestible.

5.4 The Invisibility of Maqāṣid al-Sharī'ah in Daily Investment Decisions

Although *maqāṣid al-sharī'ah* are central to Islamic jurisprudence, they are rarely discussed in personal finance settings. The principle of *ḥifẓ al-māl* (protection of wealth), for instance, emphasizes not just avoiding loss, but investing in ways that preserve capital, avoid harm, and benefit the broader community.

If Muslims were educated on *maqāṣid*, they would likely favor ethical, sustainable, and socially responsible investments—not only because they are halal, but because they fulfill Islamic ethical objectives. As Dusuki & Bouheraoua (2011) noted, promoting *maqāṣid*-aligned financial behavior can be a transformative tool in reshaping not just individual portfolios but society's economic structure.

5.5 Institutional Challenges: Fatwa Standardization and Consumer Trust

Trust is the currency of Islamic finance. However, a lack of standardization in fatwas and sharia audits has contributed to public skepticism. For instance, differences between DSN-MUI fatwas and international bodies like AAOIFI can cause confusion among investors. Additionally, inconsistencies in how institutions implement sharia boards lead to perceptions of superficial compliance.

Warde (2000) describes this phenomenon as “form without substance,” where Islamic finance risks becoming a label rather than a genuine religious framework. Clear and harmonized guidance, as well as independent, transparent sharia audits, are necessary to restore consumer trust and engagement.

5.6 Community-Based Strategies to Improve Literacy

A final sub-theme involves leveraging Islamic community networks to improve investment literacy. Mosques, *pesantren* (Islamic boarding schools), and community centers can serve as grassroots financial education hubs. Their influence, especially in rural or less-connected areas, could fill gaps left by formal institutions.

For instance, structured programs where *ustadz* are trained in basic Islamic financial planning could integrate investment principles into sermons and study circles. This grassroots approach respects the authority structure of religious communities while promoting behavioral change aligned with Islamic values.

6. Conclusion

This study has examined the urgency of Islamic investment literacy within the context of Muslim personal financial management. Through qualitative analysis supported by existing literature, regulatory reports, and sharia guidelines, the research confirms a critical gap between the growing accessibility of sharia-compliant investment instruments and the general Muslim population's ability to understand and utilize them effectively.

Several important conclusions can be drawn:

1. **Islamic financial literacy remains disproportionately low**, especially when compared to general financial literacy rates. Despite the widespread religious rejection of *riba*, many Muslims lack practical alternatives and fail to align their investment behavior with Islamic ethical pr

principles.

2. There is a **pervasive misconception** that Islamic investments are less profitable or more difficult to manage than conventional investments. This myth is challenged by research demonstrating the competitive performance and ethical advantage of Islamic instruments such as sukuk and Islamic equity funds.
3. The lack of **structured and standardized education** in Islamic financial principles—especially in mainstream and religious educational institutions—has left many Muslims relying on informal, inconsistent sources of knowledge. This has resulted in both confusion and low confidence.
4. **Trust issues persist** regarding the actual compliance of Islamic financial products with sharia. Inconsistent fatwas, limited regulatory transparency, and insufficient public education have contributed to this skepticism.
5. The *maqāṣid al-sharī'ah*, though central to Islamic economic theory, are rarely invoked in daily investment decision-making. A greater emphasis on objectives such as *hifẓ al-māl* and *taqwīm al-iqtisād* (economic rectification) could reframe investment as a holistic religious and social act.
6. Finally, the research suggests that **Islamic community institutions—mosques, pesantren, and religious leaders—can play a transformative role** in improving literacy and trust. Empowering them with appropriate training and financial tools is crucial for grassroots financial reform.

In light of these conclusions, the study recommends a coordinated approach to improving Islamic investment literacy, involving:

- Government-led literacy campaigns tailored to Islamic principles.
- Integration of Islamic finance modules into school and university curricula.
- Standardization of fatwas and compliance mechanisms across institutions.
- Greater involvement of religious leaders in financial education efforts.

Improving Islamic investment literacy is more than a technical initiative—it is an act of **economic empowerment, spiritual obedience, and social justice**. For Muslims to fulfill their obligations to manage wealth ethically and effectively, they must be equipped not only with faith but with the tools to act on it in the modern financial world.

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