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Islamic Financial Literacy in Malaysia: Evidence from A Young Muslim Population

Wan Rasyidah Wan Nawang*, Fuadah Johari, Syadiyah Abdul Shukor, Syahidawati Shahwan, Mahdhir Abdullah
Islamic Business and Management Research Cluster,
Islamic Finance and Wealth Management Institute (IFWMI),
Faculty of Economics and Muamalat,
Universiti Sains Islam Malaysia
Email: wrasyidah@usim.edu.my

* *Corresponding Author*

Abstract
Purpose: This study aims to assess the level of Islamic financial literacy among Malaysian Muslims, focusing on their understanding of core Islamic finance principles, prohibited elements, and commonly used financial instruments.
Design/methodology/approach: A quantitative survey was conducted among 419 Malaysian Muslim respondents aged between 18 and 43. A structured questionnaire consisting of ten items was developed to evaluate their knowledge on key concepts such as riba (interest), gharar (uncertainty), and Islamic financial instruments including Mudharabah, Musharakah, Ijarah, and Murabahah. The data was analysed using Statistical Package for Social Science (SPSS) with descriptive statistics, examining frequency and percentage to fully understand the characteristics and distribution of the responses.
Findings: The results indicate a high overall level of Islamic financial literacy among the respondents. Nearly all the participants correctly identified the prohibition of interest (98.3%) and demonstrated strong understanding of profit-sharing instruments like Mudharabah (99.8%) and Musharakah (97.8%). However, a notable gap was found in the area of prohibited transactions, with only 47% answering correctly on the rule against selling a commodity before possession.
Research limitations/implications: The study was limited to a specific demographic, namely Malaysian Muslims aged 18-43 and thus may not reflect literacy levels in other age groups or regions. The questionnaire, while comprehensive, covered only selected areas of Islamic finance. In addition, the analysis relied primarily on descriptive statistics, which limits the depth of inference that can be drawn from the findings.
Practical implications: The findings highlight the need for targeted educational initiatives to address gaps in public understanding of nuanced transactional rules in Islamic finance. Institutions and policymakers could use these insights to develop more effective financial literacy programmes.
Originality/value: This study provides empirical evidence of Islamic financial literacy levels among a young Malaysian Muslim demographic, offering valuable insights into both strengths and shortcomings in public knowledge. Islamic financial literacy remains in its infancy, with much of the existing literature still heavily focused on conventional financial literacy. By addressing this gap, the study contributes to ongoing efforts in enhancing Shariah-compliant financial awareness and planning in Muslim-majority societies.

Keywords: Islamic Financial Literacy, Shariah-Compliant Finance, Malaysian Muslims, Public Awareness, Young Adults

Introduction

Malaysia has long been recognised as a global leader in Islamic finance, supported by a robust regulatory framework, active government initiatives, and strong institutional infrastructure. Key policies such as the Malaysia International Islamic Financial Centre (MIFC) and Bank Negara Malaysia's Financial Sector Blueprint 2022-2026 underline the country's ambition to solidify its position as a premier hub for Islamic financial services. These frameworks aim to enhance financial inclusion, ethical finance, and value-based intermediation, all grounded in Shariah principles.

Yet, despite these advancements, a persistent and troubling gap remains between the availability of Islamic financial products and the public's understanding of their underlying principles. Recent statistics show that 65% of Malaysian Muslims choose only Shariah-compliant banking and investment products (Hong Leong Bank, 2024), and 77% of Millennials and Gen Z consumers reportedly use Islamic banking in some form (Hisham, 2024). But informed usage is not an automatic indication of these high adoption rates. As demonstrated by Bashir et al. (2021), knowledge about key Islamic finance concepts like riba (interest) and gharar (uncertainty) seem lacking in many Islamic bank customers. Shinkafi et al. (2023) and Abdullah et al. (2023) likewise revealed low understanding about Islamic product structures, contractual principles, and ethical elements.

Empirical findings suggest that this phenomenon is more prominent among the younger populace (e.g., Abdullah et al., 2023; Bashir et al., 2021; Hisham, 2024; Shinkafi et al., 2023). Malaysian youths aged between 18 and 43 are highly significant as drivers of the current economy as well as leaders and decision-makers in the future. This demographic segment–being digital natives–is predisposed to fintech, mobile banking, and digital financial platforms which generally provide Islamic finance products. But rather than being grounded in knowledge of Shariah principles, their financial decisions are often influenced by peers, branding, social trends, and the need for convenience. Their high technological competence does not essentially equate to financial wisdom, particularly when Islamic financial ethics and contracts are involved. A notable concern is that their financial behaviour is often characterised by unwary spending, credit reliance, and poor financial planning, all hallmarks of conventional financial systems.

Beyond Malaysia, the issue of poor financial literacy is in fact a global concern (Garg & Singh, 2018; Lusardi, 2019; Suhaimi, 2024; Schnabel, 2025). In the context of Muslim majority countries, an additional concern is the poor understanding of Shariah financial systems. Malaysian youths are hence facing two challenges: low financial knowledge in general and unfamiliarity with Islamic finance principles. This renders their inability to make financial decisions that are both prudent and ethical, highlighting the need for strategic interventions.

Complementing theoretical implications, this issue has actual financial repercussions on this demographic group. Such consequences have received growing research attention (Abdullah, 2025). Mohamed Radhi and Sallehuddin (2024) cited the Consumer Credit Oversight Board which reported that Malaysia's Buy Now Pay Later (BNPL) debt has reached RM1.42 billion, with a majority of the 3.7 million account holders falling between the ages of 21 and 45. Additionally, the Department of Insolvency Malaysia (2025) recorded 25,578 individual bankruptcy cases between 2021 and May 2025, with 54.49% involving individuals aged 44 and below. Ethnic Malays, who are predominantly Muslims, constituted the highest proportion of these cases (57.15%). These figures reflect a critical lack of financial prudence and awareness, suggesting that the mere availability or adoption of Islamic financial tools is insufficient to ensure ethical or informed financial behaviour. In the absence of solid Islamic financial literacy, the values embedded within Shariah-compliant finance, justice, transparency, risk-sharing, and wealth purification, risk being overlooked.

Although the importance of Islamic financial literacy is widely acknowledged by academics and policymakers alike, much of the existing research in Malaysia had focused on conventional financial literacy or on older, rural, or lower-income populations. Studies dedicated specifically to Islamic financial literacy remain limited, and even fewer had focused on the young demographic. This presents a substantial research gap, given the increasing involvement of younger Muslims in digital Islamic finance. Their lack of exposure to formal Islamic financial education, in both school curricula and public campaigns, further exacerbates the issue. Without empirical data that captures the actual literacy levels, attitudes, and financial behaviours of young Muslims, the development of effective, targeted educational programmes remains a challenge. Addressing this gap is essential if Malaysia is to sustain its Islamic finance ecosystem through the next generation.

Accordingly, this study aims to assess the level of Islamic financial literacy among young Malaysian Muslims aged 18 to 43. Specifically, it examines their understanding, awareness, and application of key Islamic financial principles, such as the prohibition of riba, the importance of zakat (wealth purification), ethical debt management, and the use of Shariah-compliant financial instruments. The study seeks to uncover not only their conceptual knowledge, but also their behavioural patterns and attitudes toward Islamic finance. By identifying areas of strengths and weaknesses, this research hopes to contribute evidence-based insights that can inform the design of more effective financial literacy initiatives tailored to the needs of the young generation.

Literature Review

Definition and Scope of Islamic Financial Literacy

Islamic financial literacy has gained increased academic attention only in recent years, despite the steady growth of Islamic banking and finance over the past four decades. Unlike conventional financial literacy, which is widely researched and theoretically well-established, Islamic financial literacy is still in its nascent stage (Abdullah et al., 2023) and continues to evolve (Wan Jusoh et al., 2025). Much of the existing literature focuses on conventional financial knowledge, with limited frameworks and instruments tailored to Islamic finance principles (Harun et al., 2024; Nasir et al., 2023).

The nascency of Islamic financial literacy means that there is yet any single definition for it. But scholars have proposed numerous definitions to aid comprehension. Antara et al. (2016) delineate Islamic financial literacy as one's level of knowledge regarding Islamic financial contracts. Lahsasna (2016) adds that it entails one's capacity to understand key financial concepts like money, debt, saving, spending, and zakat, and the difference between Shariah-compliant and non-compliant elements like riba, maysir, bribery, gharar, and deception. Setiawati et al. (2018) describe the concept as one's ability to grasp and adopt Shariah-compliant financial practices like halal investing, zakat, waqf, as well as prevention of riba and gharar. Highlighting the main philosophical distinction between Islamic and conventional financial literacy, Dinc et al. (2021) emphasised on interest-based transactions. Abdullah et al. (2022) further argue the need to expand understanding on Islamic financial literacy to incorporate long-term financial planning, accountable debt management, and purification of wealth.

There is a common theme to all these definitions: Islamic financial literacy refers to the knowledge and application of Shariah-based financial principles, underlining ethical financial behaviour, cognizance of *haram* elements like riba and gharar, and incorporation of spiritual values into personal financial management such as wealth purification and social duty.

Evolution of Islamic Financial Literacy Measures

The evolution of Islamic financial literacy measurement tools reflects an upward trend in understanding Shariah-based knowledge and ethics. Antara et al.'s (2017) Islamic Financial Intelligence Quotient (i-FiQ) is based on Huston's (2010) general financial literacy framework. The i-FiQ measures knowledge about Shariah contracts like Mudarabah, Musharakah, Ijarah, Murabahah, Istisna', and Qard Hasan. Shifting to a more practical application, Nawi et al. (2018) categorised the measurement items as money management, Islamic banking, takaful, and Shariah-compliant investments. Biplob and Abdullah (2019) added a value-driven dimension based on Maqasid al-Shariah, notably maal (wealth) protection, and associated financial literacy with ethical behaviour like responsible spending, debt repayment, and community welfare.

Broadening the scope of earlier Islamic banking tools, Dinc et al. (2021) introduced a scale entailing the dimensions of Islamic financial knowledge, attitude, behaviour, and awareness. It demonstrates the expansiveness of the Islamic finance ecosystem which includes takaful and Islamic capital markets. Focusing on a more holistic view, Abdullah et al. (2022) advocated for a Shariah-oriented scale embedding moral responsibilities for individuals, creditors, financial institutions, and the general public alike. The scale emphasises responsible borrowing, equity-based financing, and redistributive mechanisms such as zakat and sadaqah.

Global Perspectives on Islamic Financial Literacy

Whilst the growing field of Islamic financial literacy research continues to be measurement-based, cross-country findings on literacy levels have begun to emerge. Antara et al. (2017) found that riba awareness is high in Malaysia, but not on specific contracts like Istisna' and Qard Hasan. Likewise in Indonesia, Dinc et al. (2021) found high literacy levels with regards to basic Islamic banking concepts but not takaful or Islamic capital markets. Biplob and Abdullah (2019) found moderate Islamic financial literacy levels in Bangladesh, but very low knowledge and ethical financial behaviour consistent with Maqasid al-Shariah.

The trend also varies regionally. Nawi et al. (2018) found high levels of Islamic banking product knowledge among Malaysian university students compared to their peers in Turkey (Dinc et al., 2021), although both groups are familiar with equity-based contracts like Musharakah. Meanwhile, whilst there is a high general awareness about Islamic finance in the Gulf region, practical application and responsible borrowing are low (Abdullah et al., 2022).

All these findings suggest high levels of basic Islamic finance awareness (notably riba prohibition) in Muslim-majority countries, but knowledge about diverse contracts, investment mechanisms, and behavioural dimensions is low. Hence, there is a need for advanced instruments for measuring knowledge and capturing the ethical and behavioural dimensions of financial decision-making.

Nurhidayah et al. (2021) revealed that their Indonesian respondents yielded low scores across a majority of Islamic financial literacy items, except for the item denoting Islamic finance as interest-free (riba-free) which yielded a 91% correct response rate. The public's imbalanced knowledge of Islamic financial principles highlights the crucial need to refine and simplify instruments so that literacy levels can be accurately measured.

In summary, research on Islamic financial literacy, though still developing, shows that awareness of riba is consistently high across Muslim-majority countries, but deeper knowledge of specific contracts (e.g., Istisna', Qard Hasan, Musharakah) and practical applications remains limited. Studies in Malaysia, Indonesia, Bangladesh, Turkey, and the Gulf highlight gaps between knowledge and ethical behaviour, as well as regional variations in literacy levels. While university students and the general public demonstrate familiarity with basic concepts, they struggle with more complex instruments, pointing to the need for refined and simplified measurement tools that capture both knowledge and behavioural dimensions of Islamic finance.

Method

A quantitative, cross-sectional survey design was employed in this study to evaluate the Islamic financial literacy of young Malaysian Muslims between the ages of 18 and 43, i.e., the target population. Being cross-sectional in nature, the data collection at a single point in time allowed for a comprehensive analysis of the targeted demographic group. Using purposive sampling, 419 individuals were purposely chosen for the study based on the set inclusion criteria. The screening questions at the beginning of the questionnaire ensured that all the respondents are: (i) of Malaysian nationality, (ii) of Islamic faith, and (iii) aged between 18 and 43.

A self-administered online questionnaire was distributed via social media platforms and emails. The introductory section outlined the study's objectives, along with a consent statement affirming voluntary participation. There are two sections to the questionnaire: Section 1 for capturing the demographic data, and Section 2 for assessing Islamic financial literacy.

Antara et al.'s (2017) scale was used for measuring Islamic financial literacy due to its clarity, simplicity, and alignment with basic Islamic finance concepts. The original scale has 12 dichotomous items for assessing knowledge of Islamic principles like riba, gharar, and contracts like Mudharabah, Musharakah, Ijarah, Murabahah, Istisna', and Qard Hassan, scored as correct (1) or incorrect (0). Following expert feedback and pre-testing, the scale underwent refinements to boost clarity and lessen cognitive overload. Being technically complex, the items for Istisna' and Qard Hassan were reduced to a single question each. A general item for multiple Islamic finance terms was likewise reduced to a single, targeted question. Ultimately, the final instrument has 10 items akin to that of Nurhidayah et al. (2021), rendered to be conceptually clear and suitable for mass administration.

The instrument's validity and clarity were ensured via expert review and pilot testing involving 30 sample respondents. SPSS version 26.0 was used for data analysis. Response patterns and trends were identified and summarised using descriptive statistics by means of frequencies, percentages, means, and standard deviations. The Kuder-Richardson Formula 20 (KR-20), which is apt for instruments with dichotomous items, was used to assess the IFL scale's internal consistency. A KR-20 coefficient of 0.81 was yielded, suggesting satisfactory reliability and the scale's consistent measurement of the intended Islamic financial literacy construct.

Findings

Demographic Profiles

Based on the demographic profile of 419 respondents, the gender distribution was relatively balanced, with 51.8% male and 48.2% female. The majority of respondents were between 23 to 27 years old (40.3%), followed by those aged 33 to 37 (16.7%), 28 to 32 (15.0%), and 18 to 22 (14.8%), with the smallest group being between 50 and 54 (5%). Most of the respondents were single (59.9%), while 37.9% were married. In terms of education level, over half were Bachelor's degree holders (50.1%), followed by diploma holders (22.7%), Master's degree (10.0%), professional qualifications (5.5%), other qualifications (5.0%), primary or pre-university level (4.3%), and PhD holders (2.4%). Regarding employment status, 32.0% worked in the private sector, 22.4% in government or semi-government sectors, 15.5% were self-employed, 13.8% were students, 8.8% were business owners, and 7.4% were unemployed. In terms of monthly income, 36.3% earned between RM2,000 and RM3,999, 34.4% earned RM1,999 and below, 18.9% earned between RM4,000 and RM5,999, while the smaller percentages earned RM6,000 to RM7,999 (6.7%), RM8,000 to RM9,999 (1.4%), and RM10,000 and above (2.4%). The detailed profile of the respondents is presented in Table 1.

Table 1: Demographic Profile

Criteria	Category	Number	Percentage
Gender	Male	217	51.8
	Female	202	48.2
Age Group	18-22	62	14.8
	23-27	169	40.3
	28-32	63	15.0
	33-37	70	16.7
	50-54	15	5%
Marital Status	Single	260	62.0
	Married	159	37.9
Education Level	Primary or Pre-Uni	18	4.3
	Diploma	95	22.7
	Bachelor's degree	210	50.1
	Master's	42	10.0
	PhD	10	2.4
	Professional	23	5.5
	Other	21	5.0
Employment	Private Sector	134	32.0
	Government/ Semi Government Sector	94	22.4
	Business Owner	37	8.8
	Self-Employed	65	15.5
	Unemployed	31	7.4
	Student	58	13.8
Monthly Income	RM1,999 and below	144	34.4
	RM2,000 - RM3,999	152	36.3
	RM4,000 - RM5,999	79	18.9

Criteria	Category	Number	Percentage
	RM6,000 - RM7,999	28	6.7
	RM8,000 - RM9,999	6	1.4
	RM10,000 and above	10	2.4

Descriptive Statistics

The item-level descriptive statistics are presented in Table 2. The majority of respondents answered most items correctly. For instance, items IFL1, IFL2, IFL5, IFL6, and IFL7 each recorded correct response rates of 98% or higher, indicating strong familiarity with foundational Islamic finance principles. Among these, item IFL5 showed the highest accuracy, with 99.8% of participants selecting the correct response (SD = .049). In contrast, item IFL4, “It is allowable to sell a commodity before it comes under our control”, was answered correctly by only 47% of respondents (SD = .500), suggesting a notable gap in understanding regarding ownership requirements in Islamic commercial transactions.

Each item on the Islamic finance literacy scale is summarised as follows. Item IFL1 assessed the fundamental concept that “Islamic method of finance is interest free”. This was correctly identified by 98.3% of respondents (SD = .128), reflecting a widespread understanding of the prohibition of riba in Islamic finance. Similarly, item IFL2, which addressed the concept of gharar, defined as uncertainty and deception, was also correctly answered by 98.3% (SD = .128), indicating strong awareness of its impermissibility.

Item IFL3 asked whether “Perseverance of wealth is one of the objectives of Islamic finance” and was answered correctly by 96.9% of participants (SD = .174). This suggests that most of the respondents recognised the emphasis on wealth preservation as an objective within the Islamic financial framework. In contrast, item IFL4 challenged a common misconception. With only 47% correct responses, this reflects insufficient understanding of the requirement that a commodity must be in one’s possession prior to sale (SD = .500), pointing to a key area for further educational emphasis.

Item IFL5 focused on the concept of Mudharabah, stating that an Islamic financial institution may invest with clients based on profit sharing. This item had the highest correct response rate at 99.8% (SD = .049), suggesting that the principle of profit-sharing partnerships is well understood among the respondents. Item IFL6, regarding Musharakah, a profit and loss sharing arrangement, was answered correctly by 97.9% (SD = .145), reflecting similarly high levels of familiarity.

Item IFL7 tested understanding of Ijarah (lease financing) and was answered correctly by 98.3% (SD = .128), demonstrating that leasing as a Shariah-compliant financing option is well known. Item IFL8, which described Murabahah as a trade-based financing model, was correctly answered by 95% of the participants (SD = .218), indicating a strong grasp of this commonly used structure in Islamic financial institutions.

Item IFL9, concerning Istisna, was answered correctly by 92.8% of the respondents (SD = .258). While this is still high, the slightly lower percentage compared to other items suggests that this mode of industrial or project-based financing is less familiar. Lastly, item IFL10, related to Qard Hassan (benevolent loans), was correctly answered by 95.7% (SD = .203), showing substantial awareness of this charitable and socially focused form of financing.

In summary, the findings indicate a high level of literacy in Islamic finance among the respondents, with nearly all items answered correctly by a large majority. The significantly lower performance on item IFL4 points to a specific conceptual misunderstanding regarding ownership and sale, highlighting a potential area for targeted educational efforts.

Table 2: Descriptive Statistics for the Islamic Finance Literacy Scale

Item Code	Statement	Correct (N)	Incorrect (N)	Percentage (%)	Std. Deviation
IFL1	Islamic method of finance is interest free.	412	7	98.3	.128
IFL2	Gharar refers to uncertainty and deception and not allowable in Islamic finance.	412	7	98.3	.128
IFL3	Perseverance of wealth is one of the objectives of Islamic finance.	406	13	96.9	.174
IFL4	It is allowable to sell a commodity before it comes under our control.	197	222	47.0	.500
IFL5	An Islamic financial institution may invest with you according to profit sharing method (Mudharabah).	418	1	99.8	.049
IFL6	An Islamic financial institution lends money according to profit/loss sharing method (Musharakah).	410	9	97.9	.145
IFL7	An Islamic financial institution provides lease financing (Ijarah).	412	7	98.3	.128
IFL8	An Islamic financial institution provides trade financing method where the institution purchases goods for the customer and resells them with an agreed profit margin (Murabahah).	398	21	95.0	.218
IFL9	An Islamic financial institution provides industrial financing (Istisna) to fund the manufacturing or construction of a project based on customer orders.	389	30	92.8	.258
IFL10	An Islamic financial institution may provide benevolent loans (Qard Hassan).	401	18	95.7	.203

Discussion

This study examines Islamic financial literacy levels amongst young Malaysian Muslims, focusing on basic Islamic finance principles, prohibited elements, and popular financial instruments. A majority of the respondents showed strong knowledge of key Islamic finance principles like riba prohibition and gharar avoidance, as well as familiarity with financial instruments like Mudharabah, Musharakah, Ijarah, Murabahah, Istisna, and Qard Hassan.

Essentially, most of the participants were found to have a strong knowledge of basic Islamic finance principles. They managed to recognise that interest, uncertainty, and deception are prohibited in the Islamic finance and banking industry (Habib, 2018). The respondents also showed strong knowledge of profit-sharing and partnership-based contracts, an indication of their awareness regarding the practical applications of Islamic finance (Haniffa & Hudaib, 2010). This current study showed more positive outcomes than Nurhidayah et al. (2021) which reported low scores for almost all their Islamic financial literacy items, except for interest-free financing (91%). This means that despite the basic awareness regarding riba, broader conceptual knowledge may differ substantially across sample groups.

However, this study also found poor knowledge on broader areas of Islamic finance. Only 47% accurately answered the item on the permissibility of commodity selling prior to ownership, indicating poor understanding of the concept of pre-sale possession and ownership (Kamali, 1996). Past studies had noted scepticism regarding the ability of Islamic finance to replace the conventional system, caused mainly by poor user literacy and confidence (Abdullah et al., 2023; Antara et al., 2017; Bashir et al., 2021; Biplob & Abdullah, 2019; Dinc et al., 2021; Hassan & Lewis, 2007; Nawi et al., 2018; Ramlan et al., 2023; Shinkafi et al., 2023). These revelations underscore the need for broader education on Islamic finance concepts, particularly for highly intricate ones.

Conclusion

This study sets out to evaluate the level of Islamic financial literacy among young Malaysian Muslims, motivated by the persistent gap between the complexity of Malaysia's Islamic finance industry and the general public's understanding of its fundamental principles. The findings reveal that while the respondents exhibit a strong grasp of core Islamic financial concepts, such as the prohibition of riba and gharar, as well as knowledge of key financial instruments like Mudharabah, Musharakah, and Ijarah, there remains a significant gap in more nuanced areas, such as the requirement of possession before sale. This specific knowledge deficiency emphasises the need for more targeted educational interventions beyond basic awareness to include a deeper, practice-oriented understanding of Islamic financial ethics and transactions.

The study's contribution lies in its empirical assessment of a critical demographic, namely young adults, who are both economically active and vulnerable to poor financial decisions, as evidenced by national bankruptcy trends. Aligning Islamic financial literacy with the principles of Maqasid al-shariah empowers financial education to enhance knowledge, foster ethical financial behaviour, and promote responsible wealth management guided by Islamic values. From a policy perspective, the findings suggest an urgent need for curriculum development at both secondary and tertiary levels, integrating comprehensive Islamic finance education. Financial institutions, regulators, and educational bodies should collaborate to design literacy programmes that are accessible, culturally relevant, and aligned with Shariah principles. These initiatives will be essential in fostering a financially responsible, ethically guided generation, thereby ensuring the sustainable growth of Malaysia's Islamic finance sector.

This study is subject to several limitations. First, its demographic scope is confined to Malaysian Muslims aged 18-43, and the range of Islamic financial topics covered in the instrument is restricted. Second, the analysis is limited to descriptive statistics, which constrains the ability to uncover deeper associations and causal inferences. Future research should therefore broaden the demographic coverage to include wider age groups and geographic diversity, while also integrating attitudinal and behavioural dimensions of literacy. Employing more advanced inferential techniques, including multi-group comparisons, would enable a more rigorous assessment of differences in Islamic financial literacy across demographic segments. Longitudinal designs could further evaluate how Islamic financial education translates into long-term financial behaviour and well-being.

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