

# Exploring the Conceptual Definition of Islamic Financial Literacy from the Quran and Sunnah

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## Abstract:

The recurring financial crisis calls for increasing attention on the crucial role of financial literacy. Recent literature covering both theoretical and empirical work on financial literacy mainly focus on the conventional perspective of financial literacy. Since some of the elements are not compatible with the rapidly growing segment of the Islamic financial services industry, there is a pressing need to explore the concept of financial literacy from the Shariah perspective. This paper seeks to explore the conceptual definition of financial literacy from the basic sources of Shariah, namely, the Quran and the Sunnah. Thus, a qualitative approach involving in-depth interviews were employed to achieve the objective of the study. Next, a qualitative data analysis approach involving data condensation, data display, conclusion drawing were carried out. The findings of the analysis reveal that the Shariah primary sources do provide a comprehensive and sound economic guidance on prudent wealth and financial management at the individual level. Thus, Islamic financial literacy can be broadly defined as management of wealth and finance according to the Shariah, which are based on the following broad themes, namely, principle of moderation, spending based on priority, compulsory and voluntary spending, saving and investment, prudent use of debt. A sufficient understanding of these themes will promote sound financial management behavior and practices. Thus, there must be a concerted effort by policy makers, government agencies, higher education providers, industry players as well as religious teachers to widely disseminate the Shariah guidance on proper management of wealth to all levels of the society through workshops, seminars, religious classes, employee training as well embedded in the school and tertiary education curriculum.

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## 1. INTRODUCTION

The recent global financial crisis reveals the importance of increasing consumer financial literacy especially in dealing with the growing sophistication and complexity of new financial products. Indeed, Lusardi (2019) asserts that financial literacy which serves as an essential indicator of the ability to make sound financial decisions “should be seen as a fundamental right and universal need” of every individual. It is

observed that low levels of financial literacy globally have adverse implications not only to individuals but the society at large. (Lusardi, 2019). Over the past decade, the body of research on financial literacy has expanded significantly in the attempt to provide insights to assist policy makers and academia to properly address the issue of low financial literacy. Nonetheless, the growing body of knowledge on financial literacy does not adequately address the unique features of

a rapidly growing segment of the global financial system, the Islamic financial services industry.

Initially established to provide Shariah-compliant financial services to meet the needs of the Muslim, the Islamic financial services industry is becoming an increasingly significant component of the global financial system. More importantly, Muslims are obligated to manage all aspects of their life according to the Shariah precepts. Therefore, Islamic financial literacy is very important for Muslims because it is considered as a religious duty. In addition, Lukonga (2015) highlights the need to equip Islamic finance consumers with sufficient level of financial literacy to make sound financial decision making as well as preventing possible exploitation by unethical Islamic finance providers. As the industry continues to develop and mature, there is a pressing need to develop a framework for Islamic financial literacy as part of the initiative to promote the stability and survival of the Islamic finance industry (Biplob, 2019). Highlighting the crucial role of Islamic financial literacy, Lahsasna (2016) emphasize that the ruling governments are responsible to ensure that their citizens are equipped with the basic knowledge of the Islamic financial system. Lahsasna further caution that the most critical challenge is the behavior of the Muslims themselves who are ignorant of both financial knowledge and Islamic financial knowledge. Thus, there should be concerted initiative to develop financially literate Muslim generation globally as part of the strategy for empowering the economic well-being of the *ummah*. (Hashim, 2014).

Thus, this paper seeks to explore the conceptual definition of Islamic financial literacy. Firstly, a perusal of the Quran and Sunnah will be carried out to identify general principles which serve as the foundation to build the conceptual definition for Islamic financial literacy. Secondly, a

qualitative approach involving semi-structured interview with Shariah experts were conducted to explore the applicability of these general guidance in contemporary setting. Thirdly, the findings and discussion followed by the conclusion.

## 2. LITERATURE REVIEW

### 2.1 Underlying concept of Islamic financial literacy

Shariah compliance is the essence of contemporary Islamic finance. In other words, Islamic finance represent the assertion of religious teachings into economic and financial aspects of life. According to Siddiqi (2006), a separate financial system which specifically caters for the needs of the Muslims is a necessity (*dharurah*) because of the following two reasons: the presence of *riba* in the existing financial system, and secondly, the incompatibility of the conventional financial system in achieving the goals of the Shariah. Thus, regulating the economic and financial affairs of mankind must be seen as part and parcel of the Shariah which is premised on the objectives to safeguard and protect the interest of mankind in this world and the hereafter. Human welfare is realized by safeguarding the following five essentials—faith, life, intellect, progeny and wealth (Al-Shatibi, n.d.). The primary objectives of the Shariah concerning the community's wealth are to ensure its preservation and growth (Ibn Ashur, 2006)

The Shariah has outlined a complete and comprehensive guidance to achieve the objective of the preservation of wealth. Wealth preservation is achieved by protecting its particular components, thus explaining why most of the economic regulations is related to the protection of individual wealth and property. (Ibn Ashur, 2006) Since economic affairs of mankind fall under those aspects of life that are dynamic and continuously developed over time, the Shariah

guidance on economic and financial activities in the Quran are set out in the form of general principles and broad guidelines. In his analysis of the Quranic guidance on good financial behavior, Hashim (2014) identifies the following three broad themes; namely wise spending, savings for future needs and avoiding debt burden.

#### Wise spending

The basic concept pertaining to spending is derived from the understanding that all wealth belongs to God. Since human possession of wealth in this world is a trust, acquisition and utilization of wealth is subjected to God's will. Accordingly, wealth which is rightfully acquired, earned and utilized can be a source of great rewards from Allah and serves as an effective means of purification of human being. As Allah's representative on this earth, man is given the authority to fully utilize all things that have been created by Allah. (Qur'an 2:168). All these are considered as blessings and favours from Allah which must be enjoyed as an act of gratitude and appreciation. In contrast, renouncing or forbidding oneself and others from enjoying and benefiting from Allah's bounty is condemned. The Quran says: "And those who, when they spend, are neither prodigal nor grudging; and there is ever a firm station between the two." (Qur'an 25: 67)

Accordingly, Hashim (2014) asserts that wise spending is one of the key aspects of financial literacy since it is discretionary, subjective and requires knowledge and wisdom. Thus, knowledge on permissible and non-permissible means and ways of earning and spending is also a crucial part of wise spending. The ideal expenditure pattern in conformity with Islamic values would be one that reflects simplicity and modesty (Chapra, 1985). Moderation means the quality of being moderate and avoiding extremes, or to be within limits that

are not excessive (Abdullah & Adnan, 2011). Hashim (2014) further notes that exercising moderation in spending is considered as one of the important characteristics of "a righteous servant". (Quran 25:67) while wasteful spenders are likened to the devil. Islam does not stop one from buying things but must not be excessive and wasteful in the spending. One should ensure that they spend moderately, avoid wastage and not to buy any food that are *haram*. Any conduct that exceed the limits of moderations are not acceptable in Islam because they are considered against the society's benefit (Ahmad & Raed, 2011).

Knowledge of understanding the objectives of the Shariah serves as general guidance in setting the correct priorities in spending wealth. Therefore, spending or consumption should be prioritized based on three categories, namely, *daruriyyat* or basic needs (necessity), the *hajiyyat* or comforts (complementary benefits) and the embellishments or *tahsiniyyat* (luxuries) (Dusuki and Bouheraoua, 2011). Under the Shariah rulings, spending can be divided into compulsory and voluntary spending. According to Yusuf al-Qaradhawi in Mohamad Dahlan (2010), there are two aims of spending which is spending in the way of Allah S.W.T and spending for themselves and family. Spending wealth for the cause of Allah S.W.T is considered as the best trade and highly encouraged as this will lead the Muslims to be successful in the world and hereafter. Spending for family is the responsibility of the husband as derived from the following hadith of the Prophet:

It has been narrated on the authority of Ibn 'Umar that the Prophet (May be upon him) said: "Beware. Everyone of you is a shepherd and everyone is answerable with regard to his flock. The Caliph is a shepherd over the people and shall be questioned about his subjects (as

to how he conducted their affairs). A man is a guardian over the members of his family and shall be questioned about them (as to how he looked after their physical and moral well-being). A woman is a guardian over the household of her husband and his children and shall be questioned about them (as to how she managed the household and brought up the children). A slave is a guardian over the property of his master and shall be questioned about it (as to how he safeguarded his trust). Beware, every one of you is a guardian and every one of you shall be questioned with regard to his trust". (Sahih Muslim, Book 33, No. 1829a)

Another important compulsory spending is zakat. As the third pillar of Islam, zakat plays an important role to ensure socio-economic stability against concentration of wealth as well as reducing the gap between the rich and poor. It is an effective tool to eradicate poverty. Other than serving the divine purpose, zakat also serves spiritual, social and economic purposes. Besides the compulsory spending, Islam highly encouraged voluntary spending to help others in need, as stated by Prophet Muhammad PBUH: "Blessed is the wealth of a Muslim from which he gives to the poor, the orphans and the needy traveler". Properly implemented, the instruments of *awqaf* and *sadaqah* can greatly contribute to economic empowerment of the Muslim community around the world.

#### Savings for future needs

Hashim (2014) based his argument of the importance of savings for future needs based on the verses from Surah Yusuf which imply the importance of saving for future needs. (Quran (12): 47-47). In his analysis of the verse, Hashim

(2014) relate the context of the verse to contemporary notion of savings for meeting various future needs such as emergency purposes, child education, purchasing house or car, going for *hajj* or *umrah*. As reported by Imam Bukhari, savings habit is a *sunnah* of our beloved Prophet s.a.w. The hadith stated that: "Rasulullahs.a.w kept basic food for his family and it was enough to last them for a year". Hashim further proposes that the saving behavior should be incorporated in the Islamic financial literacy or education.

Savings is closely related to wealth creation and accumulation. It is important to note that wealth preservation also covers creation and accumulation of wealth. Investment in *halal* activities and businesses that benefit the society at large is highly encouraged in Islam. Thus, it is important to inculcate the saving behavior among the younger generations

#### Avoid debt burden

Finally, the broad theme pertaining to good behavior derived from the Quran is to avoid debt burden. In general, the Shariah is very careful when it comes to the permissibility of debt transaction. Incurring debt in accordance with the Shariah is permissible especially for those in need (Bakri, 2011). In particular, the Quran provides a detailed description for a proper debt transaction to take place. Documentation of debt is strongly encouraged to avoid future disputes and protect the interest of all parties. (Quran 2:282) Furthermore, the provision of collateral as well as ensuring the presence of witness also reflect the precautionary measures established by the Shariah. The Shariah guidance pertaining to debt is very stringent. The Quran and Sunnah highly emphasize the importance of debt repayment which should not be taken lightly due to its grave implication on one's fate during this life and afterlife. The prophet (PBUH) also caution against the emotional effect of taking debt in a

hadith: “Be wary of debts, indeed it is sadness at night and a disgrace in the day.” (Imam Ahmad)

Based on the broad themes derived from the Quran and Sunnah, Islam provide a complete and comprehensive guidance on how one can manage his wealth and finance. This guidance should serve as the underlying basis in developing the conceptual definition of Islamic financial literacy. In other words, Muslims must be knowledgeable about the various rules and regulations affecting their economic and financial dealings. (Ahmad, 2010; Hashim, 2014; Lahsasna, 2016; Biplob and Abdullah, 2019) The Quran, as the ultimate source of knowledge, highlights that fact that financial knowledge is important not only at the individual level but at the community as well (Ismail, Possumah and Taufiq, 2015). Thus, in addition to the basic financial knowledge typically embedded in financial literacy, Muslims have to know additional rulings pertaining to wealth management such as permissible and non-permissible ways of earning and spending money, permissible and non-permissible transactions and services, prohibited elements such as interest, uncertainty, gambling, prohibited conduct such as bribery, hoarding, misrepresentation, wealth purification such as zakat and charity, as well as distribution of wealth such as inheritance (Lahsasna, 2016; Hashim, 2014). Furthermore, individuals should understand the concept of money, business, banking, zakat, inheritance and Islamic way of earning money, permissible financial transaction and services, and non-permissible practices in business and finance (Saba & Lahsasna, 2015). Having these knowledge will ensure full compliance to the Shariah in one’s economic and financial dealings.

## **2.2 Developing the conceptual definition of Islamic financial literacy**

Over the past decade, the body of research on financial literacy has expanded significantly. In

the attempt to provide insights to assist policy makers and academia to properly address the issue of global low financial literacy, various aspects of financial literacy have been examined including developing the conceptual definition and measure of financial literacy (Huston, 2009; Remund, 2010; Hung, Parker and Yoong, 2009), determining the level of financial literacy (Al-Tamimi, 2009; Oseifuah, 2010; Lusardi, Mitchell &Curto, 2010), analysing the relationship between demographic factors and financial literacy (Chen &Vlope, 2002; Clercq& Venter, 2009; Delafrooz&Paim, 2011) and also examining the effect of the determinants towards financial literacy (Ali, Rahman & Bakar, 2013).

It should be noted, however, that the existing theoretical and empirical evidence is focusing on the conventional notion of financial literacy. Since Islamic finance is essentially based on a different underlying philosophy as elaborated in the previous section, it is therefore necessary to come up with an Islamic financial literacy framework which can serve as the broad body of knowledge to guide the development of conceptual definition of Islamic financial literacy. It should be noted that the development of conceptual Islamic financial literacy can also benefit from the existing body of knowledge on financial literacy.

Currently, there is no universally accepted definition of financial literacy. Thus, several conceptual definition of financial literacy have been proposed. Huston (2010) defines financial literacy as “a measurement of how well an individual can understand and use personal finance-related information which has two dimensions, understanding and use”. The Organization for Economic Co-operation and Development (OECD, 2012) defines financial literacy as “combination of awareness, knowledge, skill, attitude and behavior necessary

to make sound financial decisions and ultimately achieve individual financial wellbeing. Based on these definitions, various measurement of financial literacy have been developed to assess the level of financial literacy around the world. Recently, Lusardi et al (2017) offer a robust measure of financial literacy (P-Fin Index) by looking at the eight functional areas to make sound financial decisions - earning, consuming, saving, investing, borrowing/managing debt, insuring, and comprehending risk, and go-to information sources.

Several writers have attempted to propose the conceptual definition for Islamic financial literacy. Due to its novelty, there is currently no commonly accepted meaning of Islamic financial literacy (Abdullah & Chong, 2014). Perusal of the literature suggest that various definitions have been proposed based on the specific angle being studied. Ismail, Possumah and Taufiq (2015) proposed quite a specific definition of Islamic financial literacy as a community's ability to process economic information (that is to acquire knowledge) and make decisions (that is the practical part or *'amal*) about financial planning (such as inheritance of property, waqf), *mal* accumulation, debt, and pension. On the other hand, Rahim, Rashid and Hamed (2016) offer a more general definition of Islamic financial literacy, namely the ability of a person to use understanding, awareness, knowledge, skill, and attitude to manage their financial resources efficiently and effectively according to Islamic teaching. Similarly, Taofik Hidajat and Muliawan Hamadani (2017) define Islamic financial literacy as "knowledge of Islamic finance which is used in making financial decisions. Azmi Abdullah, Siti Nur Aqilah, Ab Wahab, Salehudin Sabar, Falah Abu (2017) define IFL as the ability to understand finance based on Sharia compliance. Therefore, maintaining its close link with the general definition of financial

literacy, this study proposes the conceptual definition of IFL as "the ability of a person to use financial knowledge, skill and attitude in managing financial resources according to the Islamic teaching".

### 3. METHODOLOGY AND DATA

This study employs a qualitative approach to achieve the objective of this study, namely exploring the conceptual definition of Islamic financial literacy. Due to the exploratory nature of the study, in depth interviews with selected informants were conducted to gain insight on the conceptual definition of Islamic financial literacy. The interviews were conducted with four informants consisting of one academician and three practitioners. It is important to note that the selected respondents are experts in the *Muamalat* and *Shariah* background. The sample size depends on the qualitative research design which typically range from three to ten informants. Creswell (2014). However, Charmaz (2006) said that researcher stop collecting data when the categories or themes are saturated to the point that no new insight is obtained when gathering fresh data. A purposive sampling was used in this study due to the fact that the purposive sampling is the most strategic and successful in qualitative research design in which the data review and analysis are performed simultaneously with data collection (Blackstones, 2014).

The interview protocol were prepared before the interview session. An interview protocol outline the interviewing procedure which consists of the set of questions that includes any word that researchers would say at first, conclusion and interview segments to draw the informant to answer all questions (Jacob & Furgeson, 2012). It should be noted that all the interview questions were initially validated by content and construct expert prior to the actual

interview. All interview which lasted for about 40 to 60 minutes were recorded with the approval of the informants and then transcribed into non-verbatim written form.

The data went through the three steps in the qualitative data analysis process suggested by Miles, Huberman, & Saldana (2014). Specifically, data condensation, data display and conclusion drawing and verification were performed on the collected data. Data condensation is a process of selecting, abstracting, focusing and transformation data that written in the notes and transcription process. Coding is usually a short word that represent the expression of the informant, summative, salient or essence capturing where based on the visual data. Besides that, coding is the process of attaching labels to lines of text (coding unit) (Strauss, 1987). The coding process enable the researcher to link the data with the topic themes, ideas and other abstraction. The second phase which is a data display involves the process of linking the data in an organized manner. Data display help the researcher to organize information and enables them to identify the link with other data and develop the explanations related with the study (Creswell, 2014).

According to Verdenelli & Scagnoli (2013), the data display is an important step in the qualitative data analysis and writing up phase or stage. The final stage involves conclusion drawing and verification. The process of categorization of themes help the researcher to explore and define the concept of Islamic financial literacy. The conclusion drawing is involved the decision what the themes and patterns and how it will help to answer the research questions in the study (Charmaz, 2006). In this stage, the researcher always refers the raw data and data displays as a description statements are made. Finally, the

researcher will able to write up the concrete conclusion about the finding (Charmaz, 2006).

#### 4. FINDINGS AND DISCUSSION

##### Definition of Islamic financial literacy

An in-depth interview with selected informants were conducted in the attempt to explore the conceptual definition of Islamic financial literacy. In particular, the informants were asked whether the general Muslim population have the knowledge on managing the household finance and the type of knowledge required in managing their financial dealings. In general, all informants agreed that most Muslims do have some knowledge on managing their finance, but lacking in the awareness to apply the knowledge. However, R1 observed an increase in awareness due to the government effort to promote awareness among the general public ‘...*mostly community know how to manage but they lack of awareness in managing financial. But now, the awareness was increasing because government was focus in this area*’. (R1, P115).

R1 also shares his thought on the definition of financial management in the following words ‘...*Financial management refertotheal-mal (property )and money. In Islam, the term al-mal refers to the assets and money. Islamic financial management divided to two categories which are person can manage and person can't manage.*’ (R1, P115). R1 further elaborate that the characteristics of those who are able to manage money and property are mature and knowledge, while those who are not able consist of child and orphan. R2 specifically highlight the importance of learning financial knowledge which he categorized into financial *duniawi*(worldly)and financial *ukhrawi*(hereafter). R3 explain that the lack of awareness is due to the fact Muslims do not have the proper skills or financial knowledge to manage

their finance. R3 also attributed the widespread use of debt to influence of peer and culture. R4 emphasized the four important aspect of financial management, namely saving, investment, security and *takaful*. R4 also added ‘.... *It is compulsory to know how to manage their financial position because Islam encourage Muslims to be rich so they will be able to pay zakat which will increase their wealth and get barakah from Allah.*’ (R4, P128).

With regard to the inquiry about the type of knowledge that Muslim should know in managing their wealth, all informants agreed that most of the public are aware of the financial standing and spend based on the necessity and follow the concept of moderation. In this regard, R1 (2016) highlight that Muslims must read a lot to be proficient in managing their finances. R2 asserted that Muslims should know their responsibility towards themselves, family and community. In addition, Muslim should know four important aspects in Islamic finance is saving, investment, moderation and buying goods according the necessity only. R4 stressed the importance of having knowledge on saving, investment, security and *Takaful* in addition to know own financial condition. R4 observed that taking debt is due to spending exceed their income. R4 emphasized the importance of discipline in saving for emergency needs and investment for the future. It can be seen that in Islam emphasize to getting and important of the knowledge. This is also support by R3 who said: ‘.... *This is because knowledge is key element in our life in order to get the peaceful life*’ (R3, P127).

### **Moderation in spending**

The concept of moderation act as an important key to the Muslim to life in the world and regarding to make the decision in the financial activities. All the informants said that this

concept is important and compulsory to the Muslim and must to follow it. The statement from the informants as below:

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 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 should be emphasized that the concept of moderation is relative. All informants agreed that ‘*the concept of moderation is relative and depends to the income.*’ (R1, P116) (R2, P121) (R3, P125) (R4, P129). Moreover, the concept of moderation should be related with *Maqasid Shariah* which are *Dharruriyat*, *Hajiyyat*, and *Thasinniyatto* make good decision in the financial activities (R2). Therefore, when Muslims implement moderation in themselves, they will be able to avoid over spending. It should be noted that concept of moderation is subjective depending on the amount of income. In other words, there is no standard or level of moderatio to beset for the Muslims to follow. More importantly, the informant suggest that the



concept of moderation should be emphasized to the middle and lower income who represented the highest percentage of those having debt problems in Malaysia.

### Spending based on priority

Muslims must spend according to their needs and not to their wants. All informants agreed on the importance of spending based on needs and not wants. In Islam, Muslims must follow Maqasid Shariah when spending' (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 Thasinniyat*. R2 asserts that the Shariah guidance on priority based spending is related to the concept of moderation.

### 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 informant 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 fulfill 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 R2 '...the husband must give the *nafkah* according to priority which are dependent (wife and sons), ourselves, parents, siblings/nephew and others (not nephew and siblings)' (R2, P121). In addition, husband should be giving *nafkah* to his family excluding parents

in priority giving the *nafkah*. This is because husband has to fulfill all the needs of his family. The husband is the head of the family. Therefore, when he gave priority to fulfill his needs rather than his family, the community will say that he did not perform his responsibilities as husband. Therefore, the husband should give priority to the family rather than himself (R2,2016).

Pertaining to providing *nafkah* to the parents, all informants agreed that giving *nafkah* to the parents depends on specific circumstances. This means that it is obligatory to provide *nafka* to parents who are in need. However, all informants encouraged giving *nafkah* in any situation as a form of appreciation.

### Voluntary spending

Muslims who are literate in Islamic financial literacy will spend his wealth for the sake of Allah (S.W.T). This statement also supports by the informants 'when the people are literate in finance it will influence them to spend their wealth in the way of Allah such as *sadaqah* and *zakat*' (R1, P117) (R2, P122) (R3, P126) (R4, P130). In addition, when a Muslims are literate in Islamic financial literacy will know that the wealth is not belonging to them. Thus, Muslims will give the *sadaqah* and pay the *zakat*. However, all the wealth must be earned in lawful manner. (R3). Furthermore, Islam encourage Muslim to be a rich. This is because when Muslim became rich, they can help other people by giving *sadaqah* and *zakat* (R1).

### Saving and Investment

The concept of saving and investment in Islam should be emphasized in Muslims. This is because Islam encourage his followers to be a rich person. From that, Muslim can be paying the *zakat* and giving *sadaqah* to the needy person. That is why Islam encourages Muslim to invest as stated by R2 'this is because income from the investment

will be used for paying the zakat. In addition, zakat is more valuable than money that can distribute directly to the zakat recipients' (R2, P122). Thus, it can be seen zakat is more valuable than money because it can delivered directly give to the *asnaf* and will enhance their lives. Also, the profit of investment can give benefit to the family and community and Muslims are allowed to invest if transactions follow the Shariah.

Furthermore, the purpose of investment is for the future while saving for the emergency (R4). However, R4 suggest that saving should be done early in life. Islam also encourage saving rather than spending wealth in inappropriate ways. R1 said 'saving is not compulsory in Islam, but highly encourage Muslims will not spend their money inappropriately' (R1, P118).

### **Avoiding debt**

Debt is a permissible in Islam for those who really need it. However, the debtor must borrow the money based on their needs and not wants. Furthermore, Muslims should take a debt for a good purpose (R1). In addition, the debtor must have intention to repay it. Islam encourage to give the debt to the needy person because they really need it for their life. R4 (2016) said '.... between the giving debt and charity, giving the debt is more important than charity because who are ask for borrow the money shows that they really need it'. (R4, P131).

Also, Islam encourage the creditor to reduce amount of money to the debtor when pay it. R1 stated '... Islam recommended the lender to decrease the total money owed by the creditor and give extension in time to settle the debt'. (R1, P118). R1 further explains that the debtor is encouraged to pay the debt more than the borrowed amount as a token of appreciation to the creditor who has helped him in during his need. On the other hand, the creditor is prohibited to

impose or increase the total of debt because it can be considered as a *riba* or interest which is strictly prohibited in Islamic (R1). All the informants agreed that many people are trapped in debt because of their lack of awareness of the importance of managing their finance.

The analysis of the findings from the interview indicate that the conceptual definition of Islamic financial literacy is based on the following interrelated themes, moderation in spending, priority-based spending, compulsory spending, voluntary spending, savings and investment as well as prudent use of debt. Thus, Islamic financial literacy can be broadly defined as management of wealth and finance according to the Shariah, which can be classified under the following themes, namely, principle of moderation, spending based on priority, compulsory and voluntary spending, saving and investment, prudent use of debt. As mentioned earlier, these themes serves as the basic guidance in managing finance at the individual level. It should be noted that a sufficient understanding of these themes will promote sound financial management behavior and practices.

In addition to the broad guidance in managing wealth, the Shariah also provide a more detailed and comprehensive guidance on various rulings on permissible and non-permissible ways of earning and spending money, permissible and non-permissible transactions and services, prohibited elements such as interest, uncertainty, gambling, prohibited conduct such as bribery, hoarding, misrepresentation, wealth purification such as zakat and charity, as well as distribution of wealth such as inheritance, the concept of money, business, banking, zakat, inheritance and Islamic way of earning money, permissible financial transaction and services, and non-permissible practices in business and finance (Lahsasna, 2016; Hashim, 2014). Muslims need to equip themselves with this knowledge to ensure

that all their economic and financial dealings fully comply with the Shariah guidance.

This findings concur with Hashim's (2014) analysis of the Quranic guidance on financial knowledge which identify three important lesson from the Quran, namely wise spending, savings for future needs and avoiding debt. This indicate that Islam already provide the important financial knowledge to ensure human well-being. Good understanding of these themes should provide a basic guidance for managing one's financial position. However, the findings from the interview also reveal that most of the Muslims are lacking in their awareness of this important knowledge. Similarly, Lahsasna (2016) has mentioned that the ignorant behavior of the Muslims as the most critical challenge of enhancing the level of Islamic financial literacy.

It should be noted that all these themes, namely moderation in spending, priority-based spending, compulsory spending, voluntary spending, savings and investment as well as prudent use of debt also match with five of the eight functional areas in the P-Fin Index used to assess the level of financial literacy of the adult population in USA, namely, earning, consuming, saving, investing, borrowing/managing debt. This indicate that the conceptual definition of Islamic financial literacy should provide a good guide to facilitate sound financial decision making.

## 5. CONCLUSION

There is a pressing need to explore the concept of financial literacy from the Shariah perspective since the existing financial literacy literature is not fully compatible with the underlying philosophy of Islamic finance. This paper seeks to explore the conceptual definition of financial literacy from the basic sources of Shariah, namely, the Quran and the Sunnah through a perusal of the basic sources of the Shariah followed by a qualitative

approach involving in-depth interviews. Therefore, this study propose that Islamic financial literacy can be broadly defined as management of wealth and finance according to the Shariah which is based on the following themes, namely, principle of moderation, spending based on priority, compulsory and voluntary spending, saving and investment, prudent use of debt. The findings of the analysis reveal that the Shariah primary sources do provide a comprehensive and sound economic guidance on prudent wealth and financial management at the individual level. It can be concluded that a sufficient understanding of these themes will promote sound financial management behavior and practices. Future research should develop a framework for developing Islamic financial literacy by expand the conceptual definition and operationalizing its constructs and develop validated instrument to assess the level of Islamic financial literacy of the Muslim ummah around the world. Equally important, there must be a concerted effort to increase the awareness of the importance of Islamic financial literacy by policy makers, government agencies, higher education providers, industry players as well as religious teachers to widely disseminate the Shariah guidance on proper management of wealth to all levels of the society.

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