



## IMPACT OF SHARIA FINANCIAL LITERACY ON MSME INTEREST IN USING SHARIA FINANCIAL PRODUCTS IN PALOPO

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### ABSTRACT

**Purpose:** This study aims to examine the influence of Islamic financial literacy on the interest in using Islamic financial products among Micro, Small, and Medium Enterprises (MSMEs) in Palopo City. **Methodology:** A quantitative survey approach was employed using purposive sampling. Data were collected from 56 MSME respondents via online questionnaires and analyzed using linear regression with SmartPLS 4. **Results:** The analysis revealed that Islamic financial literacy—comprising knowledge of Islamic financing, investment, and insurance—has a positive and significant effect on the interest in using Islamic financial products. **Findings:** The study confirms that greater understanding of Islamic finance principles enhances MSMEs' willingness to engage with Sharia-compliant financial services. **Novelty:** This research provides empirical evidence from MSMEs in a regional Indonesian context, focusing specifically on the role of financial literacy in shaping Islamic financial product adoption. **Originality:** Unlike prior studies, this work integrates multiple dimensions of Islamic financial literacy and targets the under-researched MSME sector in Palopo City. **Conclusions:** Improving Islamic financial literacy is critical to encouraging ethical financial decisions and increasing the adoption of Sharia-compliant products among MSMEs. **Type of Paper:** Quantitative Empirical Research Paper.

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## INTRODUCTION

In this age of globalization and advanced digitalization, an understanding of finance is a crucial skill for everyone, especially for the younger generation who will be the leaders of the future. A good understanding of finance not only helps people manage their personal finances wisely, but also plays an important role in achieving sustainable economic prosperity. An understanding of Islamic finance, which is based on Islamic principles, provides a different perspective that can help individuals and communities to manage their finances in accordance with Islamic ethical and moral values (Hakim, n.d. 2020). Financial understanding relates to a person's ability and skills in managing finances, which can also be referred to as a driver of awareness, knowledge, skills, attitudes, and resulting behaviors that are important for making sound financial decisions and ultimately achieving personal financial well-being (Ismanto, 2018).

With sufficient knowledge about Islamic financial literacy which includes Islamic banking concepts, systems, products, and services, people can easily make decisions that suit their needs. Conversely, a lack of understanding among the public will reduce interest in using the products and services offered by Islamic banks (Adiyanto et al., 2021).

Indonesia is the fourth most advanced Islamic economy in the world according to the State of the Global Islamic Economy Report 2020-2021. This rapid growth in the Islamic finance and banking industry is driven by Indonesia's predominantly Muslim population. Indonesia is also in the top ten in all areas, such as Islamic finance, halal tourism, fashion, pharmaceutical and cosmetic products, media and entertainment, and halal food and beverages (Qurratu'ain, 2022). In August 2022, the proportion of the Islamic banking market in Indonesia reached 7.03 percent. This figure is relatively small when compared to Indonesia's Muslim-majority population, while the market share of Islamic banking in Malaysia, where the population is not Muslim-majority, has reached 20 percent (antaranews, 2022).

Products are everything in the form of offers, requests that can fulfill human life and have value, one example is credit, savings, and so on. Customers relate to the profit margin that can be received by the way the company provides service products and customers provide product value for the expectations or desires that have been received from the company (levya, 2018).

According to a report from Indonesia's OJK (Financial Services Authority), financial literacy in the country still needs to be improved, through various programs designed to increase basic financial knowledge among citizens, (OJK 2023). Financial Literacy Annual Report. Meanwhile, financial inclusion can be defined as the readiness of access to various financial institutions and service products that are tailored to the needs and abilities of the community, with the aim of improving the quality of life of the community (OJK 2019).

Increased understanding of Islamic finance is very important to maintain the financial stability of individuals and communities. Islamic finance knowledge includes a deep understanding of the principles of Islamic economics, the structure of Islamic finance, and financial management in line with Islamic teachings. The implementation of the Islamic financial system is not only intended for Muslim individuals or groups, but can also benefit the entire community.

Financial literacy relates to a person's ability to explain and apply various financial skills, such as how to manage money, invest, plan for retirement, and make wise financial decisions. These skills are crucial to support individuals in managing their financial resources efficiently, so that they can achieve their financial goals and avoid debt problems. World Bank. (2023). Financial Literacy: Insights and Trends.

Based on previous research conducted by Marlina in 2020, it was found that promotions from banking institutions attracted non-Muslims to use Islamic bank products in Tasikmalaya. The results of this study indicate the importance of education regarding Islamic finance which can help increase public understanding of Islamic financial services. Meanwhile, according to Mochamad Reza Adiyanto in 2021, there is a positive effect of Islamic financial literacy on interest in using Islamic banking products, with a regression coefficient of 0.723 and a significance of 0.002. The results of the determination analysis of the literacy variable show that the contribution of Islamic financial literacy to the interest in using Islamic banking products is 68.9%, while the remaining 31.1% comes from other factors not described in this study. This study provides managerial advice that shows the need for active and frequent socialization of Islamic finance to the public to increase their interest in utilizing Islamic financial products, especially products from Islamic banks.

A study conducted by Echahabi and Aziz in 2012 in a journal referenced by Kuat Ismanto in 2018 revealed that respondents were less interested in Islamic banks, which was more due to services and products that were considered unattractive by the public.

Based on information from South Sulawesi, the Islamic banking sector experienced good progress in December 2023. Islamic banking assets increased by 14.73% to 14.58 trillion, while the collection of Third Party Funds (DPK) rose by 18.89% to Rp10.22 trillion, and the distribution of financing also grew by 13.28% to Rp11.86 trillion. The intermediation ratio of Islamic banking

remains high, reaching 116.13% with a healthy level of Non-Performing Financing at 2.42%. Especially in terms of lending to MSMEs in South Sulawesi in December 2023, there was an increase of 9.50% compared to last year, reaching Rp60.32 trillion, with a market share of 39.00% of the total credit provided by commercial banks in the area.

In research on Islamic financial literacy and interest in using Islamic financial products, several basic theories can be used as a foundation. First, the Theory of Planned Behavior explains that individual behavior is influenced by intention, which is formed from attitudes towards the behavior, subjective norms, and behavioral control. In this context, a positive attitude towards Islamic financial products and support from the social environment can increase an individual's intention to use these products. Furthermore, Financial Behavior Theory emphasizes the importance of financial knowledge and understanding in influencing individual financial decisions. Good Islamic financial literacy can increase understanding of Islamic products, thus encouraging individuals to invest or utilize these financial services.

In the context of the increasing development of the Islamic economy, an understanding of Islamic financial literacy is very important. However, although this literacy has the potential to increase public participation in Islamic financial products, the level of use of these products among Micro, Small and Medium Enterprises (MSMEs) is still low. Therefore, this research question arises: How does the level of Islamic financial literacy affect the interest in using Islamic financial products among MSMEs in Palopo City? In addition, this study will also examine the extent to which Islamic financial literacy affects the decision of MSMEs to use Islamic financing products, and whether there is a significant relationship between understanding Islamic investment and MSMEs' interest in investing in Islamic financial products.

### **Hypothesis Development**

#### **Islamic Financing**

Financing refers to efforts to raise funds made by the government, financial institutions, and various other parties to support the growth of MSMEs in terms of capital and, Islamic financing is a type of financing carried out in accordance with sharia rules. This financing is given to the business sector by applying the principles regulated by sharia (Dwi and Abdullah Salam, 2019).

Islamic financing is designed to help customers find a way out of their financial difficulties, while maintaining the principles of sharia and providing them with convenience. This allows sharia-compliant financial and banking activities to be seen as a platform for modern society to support and collaborate with each other (Yuli et al., 2023). Members can use murabaha financing as an additional source of funds to expand their business, which in turn is useful to fulfill business needs, increase the number of products, and other purposes (Sihotang and Nur Elyana, 2024). In addition, the government also plays a significant role in encouraging and providing support for the development of MSMEs (Putri, 2021).

In addition, previous research conducted by Hasanah, R. A., & Alamsyah, H. (2020), which states that Islamic financing has a significant influence on MSMEs' interest in using Islamic financial products because MSMEs have an understanding of sharia values, such as the prohibition of usury, gharar (uncertainty), and maisir (speculation), and are more likely to choose Islamic financing and the advantages of murabahah (sale and purchase), mudharabah (profit sharing), and musyarakah (cooperation) sharia contracts are considered fairer and more transparent for MSMEs compared to conventional financial products. In addition, it provides more flexible financing schemes according to the needs of MSMEs and increases the reach and accessibility of Islamic financial services (Abdurrahman, A., & Suryani, N. 2022).

Financing theory examines the composition of capital, i.e. a firm's decision to combine debt and equity to support its operations. Modigliani and Miller (1958) argue that in a perfect market, the value of a firm will not be affected by the composition of capital. However, in imperfect market conditions, where there are taxes and bankruptcy costs, capital composition can affect firm value (Brealey, Myers, and Allen, 2023).

*H1. It is suspected that Islamic financing has a positive effect on interest in using Islamic financial products.*

**Sharia Investment**

Islamic investment is a type of ownership that invests capital with the intention of making a profit, but it must be in accordance with the teachings of the Qur'an and Hadith. Shariah investment should not involve prohibited practices, such as usury, gharar and maisir. Shariah-compliant investments should be focused on halal business activities that provide benefits to the community, not solely for the pursuit of profit. This shows that more and more people are adopting and utilizing Islamic financial services, in line with the increasing demand for financial solutions that comply with Islamic principles in Indonesia (OJK).

One of the key features of sharia-compliant investment instruments relates to compliance with sharia principles, such as uncertainty, prohibition against interest, and gambling. (Nugroho, 2023). To ensure that sharia values are adhered to, sharia investment instruments utilize agreements that have been adapted and are in accordance with Islamic law. Islamic investments usually use ijarah muntahiya bittamlik and murabahah agreements. (Nugraha Triyan Putra et al., 2023).

The previous research explains that Siregar & Yusran (2019), which states that public interest in Islamic investment is not significant due to limited understanding and the perception that Islamic products are more expensive than conventional products.

*H2. It is suspected that Islamic investment has a positive effect on interest in using Islamic financial products.*

**Sharia Insurance**

Islamic insurance is a form of risk management that complies with Islamic principles and involves contributions from operators and participants collectively. The guidelines contained in the Qur'an and Sunnah are the basis for sharia, besides that Islamic insurance can be trusted as long as it follows sharia guidelines to provide the necessary protection and maintain economic stability in the long term (Nurjannah et al., 2023).

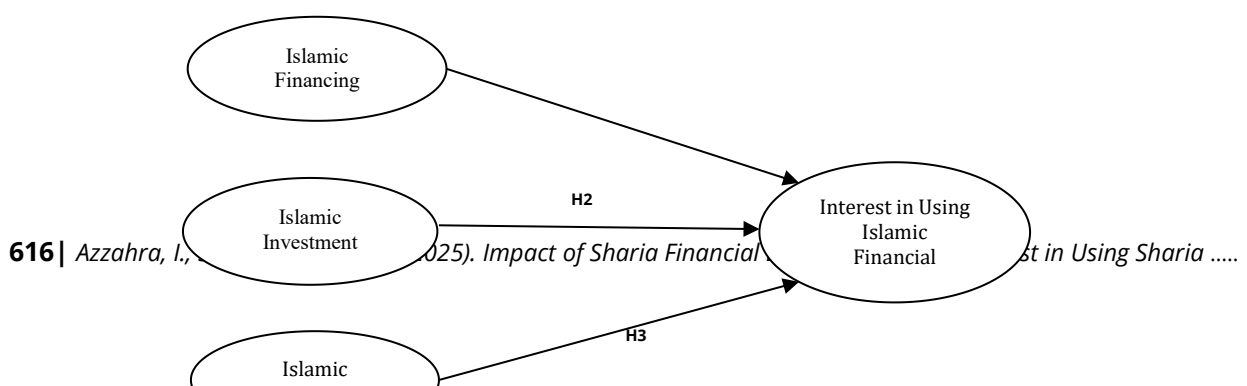
Factors that encourage the growth of Islamic insurance in Indonesia include 1) Increase in the number of Islamic insurance units, 2) Increase in the number of marketing personnel for Islamic insurance, 3) Establishment of clear rules for Islamic insurance, 4) Increased public understanding of finance (Safira et al., 2022).

There are quite a number of previous studies that have examined the topic of Islamic insurance. The existing studies have discussed the challenges and obstacles faced in the development of Islamic insurance, such as regulatory issues and the understanding of insurance actors regarding sharia principles (Nasution & Lubis, 2023). There are also studies that specialize in contracts and transaction methods applied in Islamic insurance, in addition, there are those who have analyzed Islamic insurance in terms of literacy and the views of the community as potential customers of Islamic insurance (Handayani et al., 2023). In addition, research according to Surepno & Sa'diyah (2022) states that understanding Islamic finance, including Islamic insurance, has a positive effect on the performance of MSMEs. This reflects that increasing literacy about sharia products can increase the trust and interest of MSME players in using sharia-based financial services.

*H3. It is suspected that sharia insurance has a positive effect on interest in using Islamic financial products.*

Based on the description of the research hypotheses (Figure 1), we can depict the research model and proposed hypotheses as follows.

**Figure 1. The Proposed Research Model**



*Source : Data Processed, 2025*

## **METHOD**

### **METODE ANALISIS**

#### **Population and Sample**

Data analysis techniques have the aim of obtaining important information contained in the data and utilizing the results to solve a problem. This research applies the survey method because it relates to public attitudes, the survey was chosen because of its efficiency in collecting representative data from a large population in a short time. The purpose of this research is to test hypotheses that serve to explain the relationship and impact between various variables. The data source used in this research is primary data obtained through questionnaires.

his study applied the purposive sampling method, which selects samples based on criteria that are in accordance with the research objectives. Data were collected through the distribution of questionnaires to respondents, where each item was rated using a Likert Scale with a score range from 1 to 5. The questionnaire included questions related to all dependent variables related to interest in using Islamic financial products, as well as independent variables focusing on the level of Islamic financial literacy, covering aspects of Islamic financing, Islamic investment, and Islamic insurance. The subjects of this study were MSMEs located in Palopo City with a total of 56 MSMEs involved. To facilitate the distribution process, the questionnaire was made through Google Form which resulted in the final sample. The sampling technique used in this study was to make the entire population as a sample. This research was conducted at MSMEs in Palopo City, and the data linear regression analysis was processed using the SmartPLS 4 program.

The research instrument used was a closed-ended questionnaire consisting of several sections. The first section collected respondents' demographic data, such as name, age, gender, business type and business turnover. The second part measured the umkm's perception of training effectiveness using a 5-point Likert scale, ranging from "strongly disagree" to "strongly agree". And the third part was the physical distribution of the questionnaire for 2 weeks. Prior to the main data collection, a pilot study was conducted to ascertain the validity and reliability of the instruments, to ensure that they could measure the variables accurately and consistently.

Hypothesis testing (see Figure 1) was carried out using causality or causal relationships techniques through partial least squares (PLS-SEM). This study uses SmartPLS 4 as the software package. PLS-SEM is an effective technique in estimating causal relationships in theoretical models based on empirical data.

**Table 1: Outer Loading**

Variable	Grain	Factor Loading	Information	Component Reliability
Sharia financing	PS.1	0.871	Valid	0.918
	PS.2	0.844	Valid	
	PS.3	0.823	Valid	
	PS.4	0.829	Valid	
	PS.5	0.785	Valid	
Sharia Investment	IS.1	0.873	Valid	0.912
	IS.2	0.837	Valid	
	IS.3	0.858	Valid	
	IS.4	0.748	Valid	
	IS.5	0.787	Valid	
Sharia Insurance	AS.1	0.746	Valid	0.879
	AS.2	0.794	Valid	
	AS.3	0.818	Valid	
	AS.4	0.711	Valid	
	AS.5	0.775	Valid	
Interest in Using Sharia Financial Products	MMPKS.1	0.882	Valid	0.906
	MMPKS.2	0.848	Valid	
	MMPKS.3	0.846	Valid	
	MMPKS.4	0.748	Valid	
	MMPKS.5	0.723	Valid	

Source : Data Processed, 2025

**Outer Loading**

For the convergent validity value (Table 1), the factor loading value for each construct is obtained at > 0.60. The factor loading values for the constructs are as follows: Islamic financing (PS1 = 0.871; PS2 = 0.844; PS3 = 0.823; PS4 = 0.829; PS5 = 0.785), Islamic investment (IS1 = 0.873; IS2 = 0.837; IS3 = 0.858; IS4 = 0.748; IS5 = 0.787), Islamic insurance (AS1 = 0.746; AS2 = 0.794; AS3 = 0.818; AS4 = 0.711; AS5 = 0.775) and interest in using Islamic financial products (MMPKS1 = 0.882; MMPKS2 = 0.848; MMPKS3 = 0.846; MMPKS4 = 0.748; MMPKS5 = 0.723). Furthermore, the AVE (average variance extracted) value for each construct is > 0.50. The AVE values are: Islamic financing = 0.691; Islamic investment = 0.676; Islamic insurance = 0.592; and interest in using Islamic financial products = 0.659).

**Table 2: Average Variance Extracted (AVE)**

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Sharia financing	0.889	0.902	0.918	0.691
Sharia Investment	0.880	0.896	0.912	0.676
Sharia Insurance	0.847	0.903	0.879	0.592
Interest in Using Sharia Financial Products	0.870	0.886	0.906	0.659

Source : Data Processed, 2025

From the table above, it can be concluded that the AVE value for each construct, namely Islamic financing = 0.691, Islamic investment = 0.676, Islamic insurance = 0.592, and interest in using Islamic financial products = 0.659, the four constructs already have a value of more than 0.50, meaning that the three constructs are declared valid.

### Outer Model Reliability Test

Reliability is a consistent measure of indicators in measuring their variables. The values used to determine the level of reliability of the SEM model are Composite reliability and Cronbach Alpha. This type of reliability serves to determine the level of internal reliability of variable indicators.

**Table 3: Composite Reliability**

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Sharia financing	0.889	0.902	0.918	0.691
Sharia Investment	0.880	0.896	0.912	0.676
Sharia Insurance	0.847	0.903	0.879	0.592
Interest in Using Sharia Financial Products	0.870	0.886	0.906	0.659

Source : Data Processed, 2025

Based on the results of the control test (Table 3), the composite reliability value for each latent construct was found to be greater than 0.70. For the composite reliability value of Islamic financing construct = 0.918, Islamic investment construct = 0.912, Islamic insurance construct = 0.879 and interest in using Islamic financial products construct = 0.906. So, Islamic financing, Islamic investment, Islamic insurance, and interest in using Islamic financial products already have good reliability or are categorized as reliable.

**Tabel 4: Cronbach's Alpha**

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Sharia financing	0.889	0.902	0.918	0.691
Sharia Investment	0.880	0.896	0.912	0.676
Sharia Insurance	0.847	0.903	0.879	0.592
Interest in Using Sharia Financial Products	0.870	0.886	0.906	0.659

Source : Data Processed, 2025

Judging from the table above, it shows that the value of Islamic financing = 0.889, Islamic investment = 0.880, Islamic insurance = 0.847, and interest in using Islamic financial products = 0.870. Because each of the above values has exceeded the 0.70 number, it can be said that the above values have met the Cronbach's alpha requirements.

### Inner Model Evaluation R Square Value

The R square value is one of the metrics used in evaluating the internal model stage. The limit criteria for the R square value are as follows: 0.25 is considered weak, 0.50 is considered moderate, and 0.75 is considered strong (Hair et al., 2011). Based on the analysis results (Table 6), the R square value for the employee performance construct can be determined.

**Table 5: R Square**

	R-Square	Adjusted R-square
Interest in Using Sharia Financial Products	0.897	0.891

Source : Data Processed, 2025

The R square value for the Islamic financial product construct is 0.897 which is interpreted as the variability of the Islamic financial product construct that can be explained by Islamic financing, Islamic investment and Islamic insurance in the research model, which is 88% (strong category).

Path Coefisien

The path coefficient is an important number that indicates the direction and strength of the relationship between variables in a study. The range of path coefficient values is 1 to 1. When the value is between 0 to 1, it indicates a positive relationship between the variables, while when the value is between -1 to 0, it indicates a negative between the variables.

**Table 6: Patch Coefficients**

Hypothesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Sharia Financing -> Interest in Using Sharia Financial Products	0.348	0.331	0.125	2.796	0.005
Sharia Investment -> Interest in Using Sharia Financial Products	0.489	0.499	0.118	4.146	0.000
Sharia Insurance -> Interest in Using Sharia Financial Products	0.203	0.211	0.064	3.198	0.001

Source : Data Processed, 2025

According to (Ghozali et al., 2014) Data is said if the loading factor is greater than 0.5. And the validity test results state that the statement indicators representing 4 variables are declared valid at a P value > 0.5. The results of the evaluation of the relationship between the independent variables (Islamic Financing, Islamic Investment, and Islamic Insurance) and the dependent variable (Interest in Using Islamic Financial Products) show significant and relevant findings.

First, the relationship between Islamic Financing and Interest in using Islamic Financial Products has a coefficient of 0.348, which shows a positive influence. This means that the more Islamic Financing increases, the Interest in Using Islamic Financial Products also tends to increase. The T-Statistic value is 2.796 (>1.96) and the P-value is 0.005 which indicates that this relationship is significant. This indicates that Islamic financing is an important factor influencing consumer decisions to use Islamic financial products.

Second, the relationship between Islamic Investment and Interest in Using Islamic Financial Products shows the strongest influence, with a coefficient of 0.489. This means that Islamic investment makes a greater positive contribution than Islamic financing to the interest in using Islamic financial products. The T-statistic value of 4.146 (> 1.96) and P-value of 0.000 (< 0.001) also show a highly statistically significant relationship. This indicates that Islamic investment has a high attractiveness for consumers and is one of the main aspects in encouraging interest in Islamic financial products.

Third, the relationship between Islamic Insurance and Interest in Using Islamic Financial Products also has a positive and significant effect on interest in using Islamic financial products, with a coefficient of 0.203, it shows that an increase of one unit in Islamic insurance will increase interest

in using Islamic financial products by 0.203 units. Although the effect is smaller than that of Islamic financing and investment, and the p-value is 0.001 which indicates that this effect remains statistically significant. This shows that Islamic insurance has an important role, although not as big as Islamic financing and investment.

## **DISCUSSION**

### **The Effect of Islamic Financing on Interest in Using Islamic Financial Products.**

The results of the analysis show that Islamic financing has a very strong and significant influence on interest in using Islamic financial products, with a coefficient of 0.348 and a p-value of 0.005. This value indicates that any increase in Islamic financing directly increases public interest in Islamic financial products. This finding proves that Islamic financing provides convenience for MSMEs, especially those who have difficulty accessing conventional financing, this is in line with previous research, which states that Islamic financing has a significant influence on MSMEs' interest in using Islamic financial products because MSMEs have an understanding of sharia values, such as the prohibition of usury, gharar (uncertainty), and maisir (speculation), and are more likely to choose Islamic financing as well as the advantages of murabahah (sale and purchase), mudharabah (profit sharing), and musyarakah (cooperation) sharia contracts are considered fairer and more transparent for MSMEs compared to conventional financial products conducted by Hasanah, R. A., & Alamsyah, H. (2020). In addition, it provides more flexible financing schemes according to the needs of MSMEs and increases the reach and accessibility of Islamic financial services.

Knowledge is one of the factors in customer decisions to choose financing products, this knowledge has a positive effect on customer decisions. So, the more people are aware and understand Islamic financing, it is one of the factors that cause people to choose Islamic bank products (Septifani, et.al 2017). In addition, considering that Indonesia has the largest Muslim population in the world, the existence of Islamic banks is a matter of pride and happiness for Muslims. This is because Islamic banks can support the growth of Islamic transactions and other muamalah activities in accordance with Islamic principles (Cholida, A. Y. (2022).

Partially, the results of the analysis show that the profit sharing variable does not have a significant influence on MSMEs' interest in applying for financing at Islamic financial institutions. This indicates that the profit-sharing scheme is not the main factor influencing MSMEs' decision to access Islamic financing. However, the profit-sharing variable still has a positive influence even though it is not significant, with an influence of 7.2% (Abdul Jalil & Sitti Azizah Hamzah, 2020).

In contrast, the capital requirement variable has a significant influence on MSMEs' interest in applying for financing at Islamic financial institutions, with the amount of influence reaching 42.2%. This finding shows that capital needs are the main factor that encourages MSMEs to use Islamic financing services.

However, the reality is not always in line with expectations. Despite the availability of Islamic financial institutions, the sector faces various challenges. One of the main challenges is the religious factor, particularly the spiritual dimension, which influences a person's consideration in using Islamic banking services. Data shows that the higher the level of individual religiosity, the greater the influence in choosing Islamic banking (Muhammad Ikbah Falevy & Suryani, 2022).

In addition, the low public interest in utilizing Islamic bank products and services is also an obstacle. This is due to the lack of public knowledge about the products offered by Islamic banks. This lack of information has a direct impact on the low public interest in saving or using other services at Islamic banks (Resti Fadhilah Nurrohmah & Radia Purbayati, 2018).

Nonetheless, the positive and significant relationship found in this analysis suggests that sustainable Islamic financing is essential to maintain and increase MSMEs' interest in using Islamic financial products. Thus, an Islamic financing development strategy that focuses on public education, product innovation, and strengthening the spiritual dimension can be an important step to face this challenge while promoting the growth of the Islamic finance sector in the long run.

### **The Effect of Sharia Investment on Interest in Using Sharia Financial Products**

This study shows that Islamic investment has a very strong relationship with public interest in using Islamic financial products. This is evidenced by the coefficient value of 0.489 and a very high significant level of P-value 0.000 ( $p < 0.001$ ). This means that the more someone is involved in Islamic investment, the greater their overall interest in using Islamic financial products. The main factor that makes Islamic investment so attractive is that it is stable and free from speculation or high-risk transactions. This characteristic is very important, especially for small and medium enterprises (MSMEs) who need funding with controlled risks. By choosing Islamic investments, such as usury or uncertainty. This is in line with previous research, which states that Islamic investment has a positive impact on interest in using Islamic financial products. This study shows that Islamic financial literacy has a positive effect on interest in investing in the Islamic capital market. Although this study focuses on students, these findings are relevant for MSME players, because increasing Islamic financial literacy can encourage their interest in using Islamic financial products (Arif Fadillah, 2022).

However, these results contradict previous research which states that public interest in Islamic investment is low due to a lack of understanding of these products and the assumption that Islamic financial products are more expensive than conventional products. This difference may be due to changes in public understanding, the influence of Islamic product promotion, or positive experiences felt by users of these Islamic products, (Siregar & Yusran 2019), the results of this study highlight the importance of an integrated approach in promoting Islamic financial products so that combining Islamic investment with other products and can be an effective strategy to attract more users, especially as the benefits of stability and compliance with sharia principles are increasingly recognized.

However, in contrast, the study shows that Islamic financial literacy has a significant influence on investment interest in the Islamic capital market. Improving Islamic financial literacy can encourage public participation in Islamic investment, supporting inclusive and sustainable economic growth. Broader education and innovation of Islamic investment products are needed to increase investor interest and confidence. Thus, Islamic financial literacy is a key factor in the development of the Islamic capital market in Indonesia, by Dini Selasi et al (2024).

Finally, research by Mauliza & Sophisticated (2023) can be concluded that investment knowledge has a positive and significant effect on interest in investing in Islamic stocks. So the more investment knowledge a person has, the greater the interest in investing in Islamic stocks. From these results, it is hoped that investment galleries in Indonesia will be more active in providing education. This education is not only intended for members of the investment gallery itself, but also for people who are not members of the investment gallery so that they are not trapped in fraudulent investments, this shows that understanding and accessibility to Islamic investment can increase the interest of MSME actors in using Islamic financial products.

Finally, the positive and significant value of Islamic investment indicates that interest in using Islamic financial products reaches the optimal aspect of considering both aspects, as an integral part of MSMEs' interest in using Islamic financial products. In your study, both Islamic investment and interest in using Islamic financial products proved to be more effective in increasing MSMEs' interest than focusing on one aspect alone. This confirms that an integrated and holistic approach achieves long-term and future success.

### **The Effect of Sharia Insurance on Interest in Using Sharia Financial Products**

This study shows that sharia insurance has a significant influence on public interest in using sharia-based financial products, as well as having a positive impact on the development of MSMEs in Palopo City. This proves that Islamic insurance plays an important role in supporting some MSMEs in the region. Sharia insurance is based on Islamic sharia principles, such as mutual assistance (ta'awun), risk sharing (takaful), and avoiding prohibited elements such as riba (interest), gharar (uncertainty), and maysir (gambling). With these principles, sharia insurance is more in line with the values embraced by MSME players who want to run their businesses according to Islamic law. This

finding is also in line with previous research which shows that understanding of Islamic finance, including Islamic insurance, can improve the performance of MSMEs, which means that the better the understanding of MSME players about Islamic financial products, the greater their trust and interest in using these services (Surepno & Sa'diyah 2022).

In addition, Islamic insurance literacy has a positive effect on customer interest in using Islamic insurance products and increasing understanding of Islamic insurance and encouraging public interest, including MSME players, to take advantage of Islamic financial products that are run based on Islamic principles, thus providing security and trust to MSME players who are predominantly Muslim, besides that they believe that this insurance is free from usury, gharar, and easier to access other financial services, such as Islamic financing for business development, stated by Tri Sadewo, N. (2018). Similarly, research by Ramadhan (2023) found that Islamic insurance literacy has a significant effect on public interest in Islamic life insurance in Banda Aceh. In addition, another study shows that Islamic financial literacy and Islamic branding together have a positive effect on increasing interest in using Islamic financial products. However, it should be noted that low Islamic insurance literacy can be an obstacle in increasing public interest in Islamic financial products. Therefore, efforts to increase Islamic insurance literacy among the public are important to encourage the growth of the Islamic finance industry.

Finally, the positive and significant value of Islamic insurance indicates that interest in using Islamic financial products reaches the optimal aspect of considering both aspects, as an integral part of MSMEs' interest in using Islamic financial products. In the study, sharia insurance and interest in using Islamic financial products proved to be more effective in increasing MSMEs' interest than focusing on one aspect alone. This confirms that an integrated and holistic approach achieves long-term and future success and is ready to face future challenges.

## CONCLUSION

From the results of research and data analysis regarding the level of Islamic financial literacy on interest in using Islamic financial products, that a strong understanding of Islamic financial literacy has a positive effect on people's interest in using Islamic financial products. Literacy that includes the understanding, mechanisms, and services of Islamic banking is vital to improve the right financial decisions. And these three elements (Islamic financing, Islamic investment, and Islamic insurance) have a significant influence on people's interest in Islamic financial products. Especially, Islamic investment shows the most striking effect on MSME players. In addition, although Indonesia has great potential in the Islamic finance industry, the level of use of Islamic financial products is still low. These implications suggest that, improving Islamic financial literacy is crucial in supporting sound financial decisions among MSMEs, in accordance with financing theory which states that knowledge and understanding of financial products can increase participation in the Islamic financial system, which ultimately contributes to the economic welfare of the community.

Based on the conclusions made above, it is recommended that Islamic financial institutions conduct more intensive education and socialization programs to improve Islamic financial literacy in the community, especially among the younger generation and MSMEs, Islamic banking institutions need to develop products and services that are more attractive and in accordance with the needs of the community. This includes improving service quality and transparency in fund management. In addition, cooperation between Islamic financial institutions and the government is needed to formulate policies that support the growth and inclusion of Islamic finance, as well as provide incentives for the community to participate. Hopefully, further research is needed to explore other factors that influence public interest in Islamic financial products, as well as to evaluate the effectiveness of educational programs that have been implemented or a larger sample size.

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