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# SHARIA FINANCIAL LITERACY IN PERSONAL FINANCIAL PLANNING

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**Abstract:** Financial literacy is an important thing that is needed by everyone. This literacy is very necessary when an individual is about to make his personal financial decisions. Where an understanding of financial literacy will help in considering and making financial decisions, according to the conditions of each individual. Limited financial literacy will result in inaccurate financial decision making and lack of financial planning for the future. Limited financial literacy in a person will also lead to undirected spending and can make wrong financial decisions. Which will have an impact on his personal life and well-being. Someone who has a good level of financial understanding, will focus more on their personal financial planning to avoid adverse financial impacts in their lives and avoid mistakes in financial planning. Islamic financial literacy is important for individuals, especially Muslims, to be used as considerations in making financial decisions and making financial planning in accordance with Islamic Sharia. Good knowledge and skills in managing individual finances is needed to be able to make personal financial planning. Education on financial management is needed to increase understanding of personal financial management. The method used in this article is a systematic review sourced from references from various journals in the form of empirical research and conceptual

studies then online literature sources. This article aims to conduct a systematic review sourced from references in various journals in the form of empirical research and conceptual studies to identify the findings and contributions resulting from the previous studies.

**Keywords :** Financial Literacy; Shari'a Financial Literacy; Personal Financial Planning

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## INTRODUCTION

Financial literacy is a basic need for everyone to avoid financial problems. Financial literacy is an inseparable part of one's life because financial literacy is the key to making better financial decisions. Financial Literacy itself is the knowledge to be able to make financial choices, discuss money and matters related to finance, as a means to plan for the future, and serve as a basis for understanding someone to take part in making decisions related to finance in everyday life.

Islamic financial literacy index in Indonesia is still low. Based on the agency's data, the index did not reach 10 percent or only 8.93 percent. "Meanwhile, the national literacy index is 38.03 percent," said Wimboh in the Sharia Economic Outlook entitled 'Economy Sharia Indonesia 2021' which will be held virtually, Tuesday, January 19, 2021. This is certainly a challenge for the government and related institutions to be able to strive so that the Islamic financial literacy index can increase and not be far behind the national financial literacy index.

The low grade of public financial literacy causes the use of money outside of needs, where people use money only to fulfill desires. This indicates the importance of understanding financial literacy among the public within controlling personal finances. Limited financial literacy will result in inaccurate financial decision making and lack of financial planning for the future. Limited financial literacy in a person will also lead to undirected spending and can make wrong financial decisions.

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Financial knowledge and literacy or financial education in accordance with financial goals will help someone in planning financial management effectively and efficiently in accordance with their respective financial goals, so that someone can more effectively optimize the income they have earned from every business they have worked on and the value of the income. so that they get the blessing from the nominal they have obtained and the individual will get greater benefits to improve the standard of living of a person and the surrounding environment in need.

Having good financial literacy will make it easier for us to achieve various goals in life. Whether saving for future needs, doing business, or managing debt well. People who have good financial literacy will not be easily influenced by financial fraud, for example, as is the case in society, especially those related to the use of illegal fintech. The high number of reports submitted to both Consumers Association From Indonesia (YLKI) and Financial Services Authority (OJK) regarding the losses suffered by the public due to using illegal fintech services is due to attractive offers, both related to the ease of the loan process and the absence of collateral that must be met. Regardless of the interest rate, fees, punishment and loan term. So many people are deceived. This should be avoided if the community has a great grade of financial literacy. So they will be extra careful in making financial decisions.

Based on several previous studies, the meaning of financial literacy is knowledge of financial concepts and the ability to evaluate financial attitudes and evaluate financial instrument information in making decisions which are then implemented in financial behavior. Furthermore, in the construct of Islamic finance, it can be stated that Islamic financial literacy is a person's ability in terms of knowledge, attitudes and behavior of Islamic finance in financial management based on Islamic principles.

According to [3] in their research explain that Islamic financial literacy is a person's ability to use financial knowledge, skills and attitudes in managing financial resources according to Islamic teachings. Based on research results [9] states that the fundamental principle in Islamic finance is to provide financial services based on Islamic law which can be summarized as follows: Prohibition of usury, risk sharing, Money as potential capital, prohibition of speculative behavior, goodness of contracts, activity permitted shariah, as well as prohibition of short-selling.

According to [2] state that Islamic finance has become a concern for countries in the world in recent times. The Islamic finance industry has been overwhelmed by financial instruments and asset choices that are not only for Muslim investors but also non-Muslim investors.

Personal planning is a series of financial planning carried out by individuals including debt, taxes, retirement funds, and selected investments. Personal financial planning which includes cash management, taxes, debt, investment, insurance, pension funds in household planning. Based on research results [5]. The results of his research explain that the majority of individuals in Malaysia already have an excellent understanding of Islamic finance. Someone who has a good level of financial understanding will focus more on their personal financial planning to avoid adverse financial impacts in their lives and avoid mistakes in financial planning.

According to [16] their research shows that financial knowledge has a negative and insignificant effect on personal financial management. Meanwhile, the variables of financial attitude (financial attitude) and financial behavior (financial behavior) have a positive and significant influence on personal financial management.

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According to [17] found that people with a good level of understanding of Islamic finance tend to be better at planning their personal financial management. It also shows that the level of understanding of financial literacy has a positive influence on their investment choices.

The phenomenon of the many cases of fraud related to financial services in the community, as well as the low level of financial literacy among the public, especially Islamic financial literacy, shows that Islamic financial literacy among the public still needs to be improved so that they are able to manage their personal finances well.

This article aims to conduct a systematic review sourced from references in various journals in the form of empirical research and conceptual studies to identify the findings and contributions resulting from the previous study.

### **METHOD**

The method used in this article is a systematic review sourced from references from various journals in the form of empirical research and conceptual studies then online literature sources. This systematic review, however, differs from the meta-analysis in the sense that it does not use statistical and econometric procedures for the synthesis of findings and data analysis. The aim is to identify the findings and contributions resulting from the previous studies

### **RESULTS AND DISCUSSION**

So far, the measurements applied to determine the level of financial literacy generally apply a questionnaire design in the form of general knowledge about savings and loans, insurance and investment. Based on research results [13] uses the concept of measuring basic financial understanding including; (i) calculate and understand about interest rates and compound interest; (ii) understanding inflation; and (iii) understand risk diversification, while interest or usury is not justified in Islam. Therefore, this measure cannot be included in measuring financial literacy for Muslims.

When someone will determine the Islamic financial product or service he chooses, first of all he must understand the Islamic financial management of the product or service he will take. Sharia financial regulation begins with managing cash flow, planning the direction of future use, adjusting the scale of interest in life and then applying it with Sharia financial planning which does not contradict Sharia principles and most importantly is based on the benefit of the people in the world and brings blessings. .

The advantages of financial planning can be felt by the "direction and meaning" of one's financial judgements. Along money management, a person may accept how every financial judgement made influences other areas of his overall financial condition. By viewing each financial judgement as part of an entire, one may weigh the temporary and long-term effects on one's life aims. He may adjust more easily to life's changes and feel more secure because his aims are on the right track.

We can make a few step to planning our personal finances. Among others are evaluate our current financial condition by analyzing current conditions, such as marital status, number of family members, working conditions, age, health conditions, and others. Prepare your financial aims, for example in the next two years how much savings do you want, want to own a house in the next year, want to perform the pilgrimage in the next five years and other goals. Develop financial planning and alternatives to achieve financial goals. Financial planning can be in the form of activi-

ties to be carried out and the mix of financial products to be used, linked to the time period for achieving them. Review and improve the financial plan periodically to adjust the current financial condition. A person's financial condition can change. For example: the birth of a new family member, experiencing illness that requires large costs and disruption of family income sources, significantly increasing income, and others.

If there is a change, the financial planning process will be carried out again starting from the beginning of the process (evaluating the current financial condition) and continuing with the following processes.

Islamic financial literacy on individual financial management has an important focus on educating the Indonesian people in general in managing finances comprehensively. And this is in line with the financial literacy program in general where financial literacy has the aim of educating the Indonesian people to be able to manage intelligently, so as not to easily mislead the public. Because there are currently a lot of online-based financial products with loan or investment schemes or procedures that can initially tempt someone to use the financial products offered without the person knowing for sure the contract offered by one of the financial institutions that offer its products. Such as the lure of loans with low interest rates and unsecured loans with low interest rates and investment products with high returns in a nutshell, this is one of the strategies undertaken by financial institutions to promote their products. If someone is not well literate about the basics of financial literacy, it is very unfortunate if in the future someone's initial intention to allocate their income for investment or someone who has assumed to benefit from other financial products actually gets a loss that results in losses.

Knowledge and skills in managing individual finances have an important role in everyday life. Organizing finances to suit individual financial goals is difficult not only because of limited income, but also difficult for those with high incomes. For those with high incomes, it can be difficult to manage their personal finances, such as errors in determining the priority scale of financial expenditures, allocating too much finance for something that is of no use and this actually results in unsuccessful financial management even for those with high incomes.

The degree of national Islamic financial literacy which is still low requires harder efforts from both the government and the support of related institutions and society in general. With the increasing level of Islamic financial literacy among the public, it is hoped that they will be able to use this understanding as a basis for making good financial decisions and in accordance with sharia rules. It is hoped that the government can continuously give education/understanding to the community, so that people are not trapped in choosing illegal investments. In addition, they will be better at selecting the types of Islamic products and services as well as Islamic financial institutions according to their goals.

## CONCLUSION

Financial literacy research generally finds conditions that are still relatively low, seen from the use of access in the formal and informal financial sectors, such as from saving behavior, access to credit, insurance, saving wealth, and portfolio choices and pension fund management.

This condition is found both at the individual level, household level, and at the campus student level, and has implications for the achievement of living welfare. The condition of Indonesia's relatively low financial literacy is supported by the relatively high level of poverty, but inversely

proportional to the growth of the Islamic banking industry and the activities of the Islamic Capital Market which have shown progress. This means that the presence of these institutions, which must be a driving force in the movement of the sharia economy, has so far only served feasible and bankable communities, and has relatively not been able to reach the poor, the majority of whom are Muslims.

Good knowledge and skills in managing individual finances is needed to be able to make financial planning. To achieve one's life goals through planned financial management. Education on financial management is needed to increase understanding of personal financial management. Rapid economic growth requires financial institutions to improve facilities and their role in providing education to the lives of the wider community. How a person can determine a financial product or service that suits his needs and how a person can manage the income earned in accordance with his financial goals, then an individual must fully understand the benefits and risks of each product or financial institution facility chosen.

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