

Decision to Adopt Islamic Banking: Examining the Effects of Disposable Income and Islamic Financial Literacy



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ABSTRACT: The issue of consumer behavior in deciding to adopt Islamic banking is always developing in various cases and time periods, because this phenomenon is growing rapidly along with the accelerated development of Islamic banking itself. This study aims to estimate the effects of Disposable Income and Islamic financial literacy on the decision to adopt an Islamic bank, especially in the case of business actors in traditional markets. This research is quantitative research with an associative approach which is carried out based on a survey of 134 market traders at a traditional market in the border area in the city of Bukittinggi, West Sumatra, Indonesia in 2023. The data in this study were cross-sectional data which were analyzed using Multiple Linear Regression. The findings conclude that the decision to adopt Islamic banking is positively influenced by disposable income and Islamic financial literacy, with a small effect of 10.9%. These findings contribute to the stake holders in Islamic banks that the analysis of consumer behavior in deciding transactions at Islamic banks needs to be considered in formulating market share development strategies. Socialization and education efforts among traders are needed to increase the intention to use Islamic banks.

KEYWORDS: Islamic Financial Literacy, Disposable Income, Adopting Islamic Banking

I. INTRODUCTION

The decision to adopt an Islamic bank is the final stage of a long process of making a person's decision in financial transactions. As with the decision-making process in buying goods and services, the decision in adopting Islamic banking has certainly gone through several stages where consumers first know what Islamic banking is, seek information about products and services offered by Islamic banks, evaluate alternative financial institutions, and then just decide whether to adopt the services and services offered by Islamic banks. Even though in practice it is sometimes not as systematic as this, at least prospective customers will usually recognize and seek information about Islamic banking in advance.

The decision of traders in traditional markets in adopting Islamic banking is a unique phenomenon to be analyzed. This segment is often considered the retail segment which tends to be less profitable and risky for banks to manage. Microfinance institutions are far more experienced in operating in this segment, because microfinance institutions have more experience with marginal segments like this (Puteri, 2020). However, this does not mean that this traditional market segment is not profitable for Islamic banks. There are so many financial behaviors that must be understood when entering this market share. When a trader is earning income, will they automatically deposit it at an Islamic bank and will it be because they are traders that they will automatically go to an Islamic bank for their financial transaction needs? The decision to choose an Islamic Bank is more than just that the prospective customer has income or needs funds for working capital, but is driven by many factors.

One of the factors that determine a person's decision in choosing a financial institution is Financial Literacy, which refers to the financial ability and knowledge possessed by a person to be able to manage a certain amount of money to achieve prosperity. Furthermore, if the chosen financial institution is an Islamic bank, of course the knowledge in question will refer to Islamic Financial Literacy. Referring to data from the Financial Services Authority (OJK), it is observed that even though it is dominated by Muslims, the level of Islamic financial literacy index for this province is quite low, namely 10.41% for 2022. As a region with a Muslim community that prioritizes Islamic principles in its social life, this phenomenon is very interesting for further analysis. It was identified that the market share of Islamic banks is still much lower than conventional banks, even though Islamic banks have existed since the 1990s. Number of Account of Financing growth reaches 9.80% per year and account funding growth reaches an average of 13.30% per year in Islamic Banks (Sharia Indonesia Banking Statistics, Financial Services Authority (OJK), Indonesia, 2023).

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Several previous studies have tried to test the relationship between Islamic religiosity and decision in adopting Islamic banking (Charag et al., 2020; Junaidi et al., 2021; Maryam et al., 2019; Sudarsono et al., 2021; Suhartanto et al., 2020) or the relationship between Islamic consumers behavior with decision in adopting Islamic banks (Kamiyama & Kashiwagi, 2019; Puteri et al., 2022). Although the study of Islamic religiosity in Islamic banking is related to knowledge and understanding of the Islamic body itself, this concept is not exactly the same as the concept of Islamic financial literacy. Financial literacy and financial concepts, and to transform that knowledge appropriately into their behavior. Customers who are literate with Islamic banking must fully understand how to implement their knowledge and understanding of Islamic finance into their choice of financial transactions. However, studies that directly estimate Islamic financial literacy (IFL) on decision to adopt Islamic banking are still very limited, because this concept is still quite new and not yet established. Albaity & Rahman (2019) reveals a link between IFL and the decision to adopt an Islamic bank. Islamic financial knowledge of SMEs owner and personal characteristics influence their intention to adopt Islamic finance (Al Balushi et al., 2019) and a study of (Irfayunita & Puteri, 2019) found that there is an influence of financial literacy on preferences in selecting funding products at Islamic Banks.

Analyzing issues regarding financial behavior, especially the decision to choose an Islamic bank among business actors in traditional markets, is interesting for further analysis. When they have money and are literate with Islamic banks, traders will decide to save or do financial transactions at Islamic banks? If so, how much do these two factors drive their interest in Islamic banks? If these two factors are not strong enough, then further analysis is needed about other determinants that influence traders' decisions in choosing a bank. Market traders are a potential segment for Islamic banks or also for other financial institutions. It is certain that money circulates in this environment and if properly managed, the merchant segment can become a potential market segment for Islamic banks. This study aims to estimate the effect of disposable income and Islamic financial literacy on the decision to adopt Islamic banking. This study was conducted at a people's market in a rural area, so that this study can provide a policy contribution for Islamic banks to design a strategy on how to expand the Islamic banking market segment to this sector.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Islamic bank is a financial intermediary institution that works based on Islamic ethics and values, free of interest (Usury), free from speculative activities (Maysir), free from doubtful matters (Gharar), principled in justice, and only finances "Halal business activities". Carrying out Islamic principles in its operations does not mean that Islamic Banks have a safe market segment and can simply dominate the market share which is dominated by Muslim consumers. Competition is getting tougher in the financial institution industry in collecting and distributing funds to the public, making Islamic banks must be able to have a competitive strategy in this retail banking business. Studying people's behavior, especially related to their preferences in choosing an Islamic bank, is a basic reference in designing a competitive strategy. Communities at every level of fulfilling their life needs have different preferences in finding solutions to the financial problems they face, especially in allocating funds and needs for financing. Socio-demographic differences are the reason behind differences in people's preferences in decision makers in choosing a bank for their transactions. By understanding changes in people's preferences, it is hoped that each bank will be able to produce a clear parameter in formulating market strategies in the future.

Decision to Adopt Islamic Bank. Many factors influence consumers in buying goods or services and these factors vary greatly depending on the point of view of marketers. Some definitions from basic concept explain that "Consumer behavior as those activities directly involved in obtaining, consuming, and spending of products and services, including the decision-making process and related activities afterwards" (Engel et al., 1995). Schiffman et al., (2010) define consumer behavior as the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs". Figure 1 shows the Buyer Decision Process, as a stage in the decision-making process which includes need recognition, information search, evaluation of alternatives, buying decisions and behavior after purchase. In practice, these stages are often not passed exactly like this, sometimes consumers often skip or reverse some of these stages.

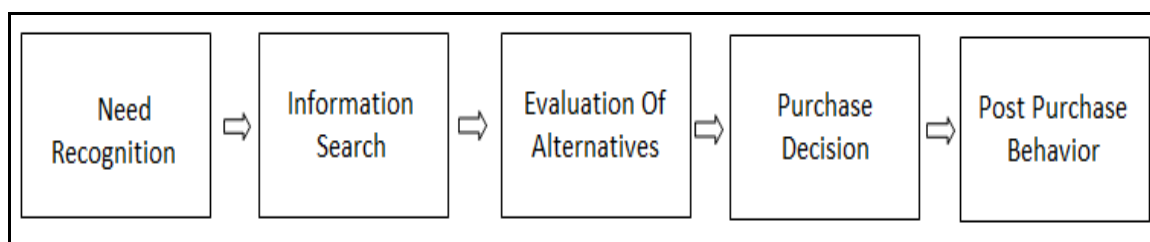


Figure 1. Buyer Decision Process

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Some experts in consumer behavior distinguish what is called rational motives and emotional motives in deciding to adopt goods and services (Schiffman et al., 2010). Emotional motives refer to the principle that target selection is based on subjective criteria, such as pride, fear, affection, obedience or status, meanwhile, emotional motives refer to feelings or emotions. This diversity of intention factors refers to three groups of factors which include internal drives, social motives and emotional motives. Internal factors refer to needs that arise from within the individual, which are factors related to physical drives, motives, defending oneself from hunger, fear, pain, also curiosity and others. Social motives lead to adjustment to the environment in order to be accepted and recognized by the environment or activities to meet social needs, such as working, gaining status, getting attention and appreciation. In the case of Islamic banking and other halal businesses, the aspect of religiosity is an emotional thing in the decision-making process.

In principle, there are internal and external influences that determine a person's consumption behavior. In consumer perspective, several external influences related to marketing, such as product, promotion, price and distribution as well as the socio-cultural environment consisting of family, information sources, other non-commercial sources, social class, subculture and culture. Internal influence is consumer psychology which consists of motivation, perception, learning, personality and attitude (Schiffman et al., 2010). Furthermore, Keller & Kotler, (2010) also confirmed that consumer buying behavior is influenced by factors of cultural, social, personal and psychological forces. Culture is the most basic determinant of desires and behavior. While psychological strength is a factor that is taken into consideration because of the certain value of decision.

As is the case with consumer behavior in terms of purchasing goods and services, which is influenced by cultural, social, personal, economic and psychological characteristics, consumers behavior in choosing products and services at Islamic banks is also influenced by the same factors. *First*, Culture. It is something related to learned beliefs, values, and customs that help guide the consumer behavior of certain members of society. Culture can refer to a sub-culture, namely a group of people who share a value system based on common life experiences and circumstances, such as nationality, religion. Culture also refers to social class, its a grouping of individuals based on similar values, interests and behavior. Social groups are not only determined by one factor such as income, but are also determined by occupation, education, wealth and others (Kotler et al., 2003; Kotler & Armstrong, 2018; Schiffman et al., 2010). *Second*, Social. This factor is a condition where a person's attitude and behavior is influenced by family Membership group, friends n of friends, neighbors or a person's role and status in the community, which then has a strong influence on consumer decisions compared to other variables in choosing a financial institution (Kotler et al., 2003; Kotler & Armstrong, 2018; Schiffman et al., 2010). *Third*, Psychological. Four important psychological processes are motivation, perception, learning, and Beliefs. Motivation is something that encourages someone to act, while motivation is defined as the driving force that forces someone to act (Schiffman et al., 2010). Perception is the process that individuals use to select, organize, and interpret information input to create a meaningful picture of the world. Meanwhile, learning is a process, which is always developing and changing as a result of the latest information received. Learning includes changes in one's behavior arising from experience. Beliefs are descriptive thoughts that someone believes in something. Beliefs can be based on genuine knowledge, opinion, and faith. Meanwhile, attitudes are evaluations, feelings of like or dislike, and relatively consistent tendencies of a person towards an object or idea (Philip, 2017; Schiffman et al., 2010). *Fourth*, personal. These are the most diverse factors which are the reasons a person chooses to consume a good or service. Economic conditions, lifestyle, personality, age, occupation are some examples of personal factors that determine a person's decision to adopt services, including Islamic banking. A person's economic condition greatly influences product selection and purchasing decisions on a particular product such as disposable income, savings and assets, debt, ability to borrow and attitudes toward shopping activities. Lifestyle refers to a person's pattern of living as expressed in that person's activities, interests, and opinions. Personality is a unique characteristic of psychology that leads to a stable and continuous response to one's own environment, for example self-confident, dominant, sociable, autonomous, defensive, adaptable, aggressive attitude (Kotler & Armstrong, 2008).

Several previous relevant findings found various determinants of a person in adopting Islamic banking. (Puteri et al., 2022) measures this indicator of interest in adopting an Islamic bank by referring to the determinants of Islamic Consumers Behavior which includes social, cultural, psychological and personal factors. it was revealed that the potential demand for Islamic banks is strongly influenced by factors covering social, psychological and also personal factors. Some important indicators of consumer decisions include Islamic understanding and religious education in the family, Islamic lifestyle and also the belief to be an obedient Muslim. Several studies in the last five years have revealed that matters related to commercial factor decisions still dominate the reasons why a Muslim adopts an Islamic bank. Religion is not the main reason someone chooses Islamic banking, especially for young customers, what is more important are things that are commercial in nature such as service quality, convenience, branch network, diversity of features etc (Butt et al., 2018). The competitiveness factors were identified as personal considerations in adopting Islamic banking, such as compatibility, consumer knowledge, risk perception and customer

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satisfaction (Mariadas & Murthy, 2017), perceived usefulness and risk (Mohd Thas Thaker et al., 2019), customer awareness (Ali & Puah, 2017), constructs of service quality, and also the accessibility of the Islamic banks (Hamzah et al., 2015), perceived advantage (Mahdzan et al., 2017), and others. However, some more recent studies seem to have combined several competitiveness factors with other emotional motives as predictors, especially aspects of Islamic religiosity or understanding of Islam though in various estimation models. Maryam et al., (2019) found that reputation, cost-benefit, religious obligation, and social influence have a highly significant and positive influence on Islamic banking adoption. The level of Islamic financial literacy, awareness, reputation and attitude towards Islamic banking significantly influences the intention to use Islamic banking (Albaity & Rahman, 2019a). Suhartanto et al., (2020) also found that customer loyalty to Islamic banks is driven more by emotional interest and religiosity than perceived service quality.

Among religious leaders, the consideration of adopting an Islamic bank is more than just religious motives. Religious attitude and religious obligations have a significant effect on the intentions of religious leaders to use Islamic banking (Janah et al., 2020). Religious attitudes, more than just religious motives, were the most important consideration for customers to remain loyal using Islamic banks (Kamiyama & Kashiwagi, 2019). In the case of business actors it is observed that Islamic financial knowledge of SME owners-managers influence their intention to adopt Islamic finance (Al Balushi et al., 2019). Other studies in different cases also highlight the importance of religious understanding in making decisions in adopting Islamic banks (Charag et al., 2020; Junaidi et al., 2021; Mohanachandran & Normala, 2019; Puteri et al., 2022; Sudarsono et al., 2021).

Islamic Financial Literacy. The basic concept of financial literacy refers to the ability to understand knowledge and skills to manage financial resources to achieve prosperity. Financial knowledge is the clearest conceptual definition of financial literacy, but (Huston, 2010) further highlights two dimensions that reflect financial literacy, including the knowledge dimension and the application dimension. The knowledge dimension focuses on knowledge gained from education related to personal finance concepts, while the application dimension emphasizes a person's ability and confidence to apply their financial knowledge in making financial decisions. Remund (2010) clarifies financial literacy which was categorized into five dimensions, covering knowledge about financial concepts, ability to communicate about financial issues, aptitude in managing personal finances, skills in making appropriate financial decisions and also confidence in planning effectively for future financial needs.

Several aspects of Islamic financial literacy consist of basic Islamic financial knowledge, aspects of Islamic funding and financing, knowledge about Islamic insurance and knowledge about investment in Islam. The study of Islamic Financial Literacy is a new concept which until now does not have standard indicators. To be able to measure the level of Islamic Financial Literacy, some researchers rely on the general indicators that exist in measuring Financial Literacy which are then adjusted to cases in Islamic finance. Rahim et al., (2016) has implemented some unique measurement instruments in analyzing Islamic financial literacy such as knowledge of Islamic financial contracts, knowledge of Islamic principles in transactions, knowledge of Islamic financing, knowledge of Islamic investment, understanding of Islamic financial instruments and financial transaction processes in Islam. The point is in managing financial resources according to Islamic teachings." In line with the concept of financial literacy, a clear measure for Islamic financial literacy is also not rigid, as long as the dimensions are met then the instrument can be used. Huston (2010) stated that there is no standard instrument to measure financial literacy. Mutlu & Özer (2021) also stated that Islamic financial literacy can be measured by knowledge of Islamic financial instruments, knowledge of prices for Islamic financial products, knowledge of product features and services of Islamic banks and knowledge of financial products and services.

Disposable Income. The concept of Disposable Income refers to income that is ready to be spent or saved. According to Keynes, disposable income is the main determinant of consumption and saving. The relationship between disposable income, consumption and savings can be written as $Y_d = C + S$, where Y_d is disposable income, C is consumption and S is saving. If related to disposable income, the consumption function is usually expressed as $C = a + bY_d$, with C is consumption, a is autonomous consumption, b is marginal propensity to consume and Y_d is disposable income (Mankiw, 2006). In theory, the relationship between savings and income is positive, which is shown by the equation $S = Y_d - C$, which means that an increase in income will increase people's ability to save. Not all income earned by the community is spent on goods and services, but some will be saved. This then becomes the logic of the link between disposable income and the interest in saving and adopting Islamic banking. Keynes further explained that current consumption is strongly influenced by income, so that it can be said that the amount of income can affect the consumption and savings of each individual or consumer behavior (Freixas & Rochet, 2008; Pindyck, 2018). Thus the measurement of disposable income refers to the relationship between these three variables, namely income, consumption and savings and how an individual is able to allocate these three things according to his priorities, which include income allocation for households, consumption allocation for households and also savings. for household.

Relationship Islamic Financial Literacy, Disposable Income and Decision in adopting Islamic bank. Some previous empirical research has tried to elaborate on the determinants in adopting Islamic banks with various cases and across time. The relationship between Islamic Financial Literacy, Disposable Income and Decision in adopting Islamic banks is identified from the

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basic concept that a person's decision to adopt an Islamic bank will be influenced by their understanding of understanding Islamic concept or Islamic religiosity. Some previous empirical studies view the importance of the understanding of individual religion in deciding to adopt Islamic Bank services (Janah et al., 2020; Suhartanto et al., 2020), because a Muslim will decide to adopt an Islamic bank for reasons of belief in Islamic Values. Individuals who are intrinsically motivated towards religion tend to integrate religious values into their lives because religion is their main goal throughout their lives. Fundamentally, Islam believes in the prohibition of Usury, Gharar, and Maysir, and the Muslim belief in fundamental matters like this leads them to practice it in transactions.

Understanding Islamic thinking about finance means that someone has knowledge and implementation of Islamic financial concepts, so there is an assumption that Islamic financial literacy is the right predictor for decisions in adopting Islamic banks. Due to the fact that the concept of Islamic financial literacy is not yet well-established, there are not many definite references that can be used to see the relationship between IFL and the decision to adopt an Islamic bank. (Albaity & Rahman, 2019a) is one that suggests a positive relationship between the level of IFL and the intention to use Islamic banking. Several other relevant studies have looked at the relationship between Islamic Religiosity and the decision to adopt Islamic banking. Junaidi et al (2021) concluded that religiosity has significant and positive effects on consumers' brand fidelity. Another study concluded that Consumer's attitude toward Islamic banking is determined by social influence, government support, religiosity and perceived risk (Charag et al., 2020).

Another interesting finding reveals that customer loyalty to Islamic banks is driven more by emotional interest and religiosity than perceived service quality (Suhartanto et al., 2020). Maryam et al (2019) found that religious obligation has a highly significant and positive influence on IB adoption. Many other studies on various cases also highlight the importance of religious understanding in making decisions in adopting Islamic banks (Charag et al., 2020; Junaidi et al., 2021; Mohanachandran & Normala, 2019; Puteri et al., 2022; Sudarsono et al., 2021). Among religious leaders, the consideration in adopting an Islamic bank is more than just religious motives. Religious attitude and religious obligations have a significant impact on the intentions of religious leaders to use IB services (Janah et al., 2020). Likewise among entrepreneurs, SME owner-managers' Islamic financial knowledge and personal characteristics affect their intention to adopt Islamic finance (Al Balushi et al., 2019). Religious attitudes, more than just religious motives, were the most important consideration for customers to remain loyal in using Islamic banks (Kamiyama & Kashiwagi, 2019).

Studies that discuss the intention to adopt Islamic banking also examine more commercial factors which are the reasons consumers choose Islamic banks. Customers who place their deposits at savings and investment account facilities are guided by the profit motive. The existence of the utility maximization theory among the Muslim customers is further confirmed by the existence of the negative relationship between the interest rate of conventional banks and the amount deposited in interest-free deposit, which implies the existence of a profit motive from customers when depositing their funds in the bank. The results highlight the influential role of conventional interest rates in determining the level of savings in Islamic banks. In particular, a higher Islamic deposit is significantly correlated with a higher rate of return and a lower interest rate (Kasri et al., 2017). In simple terms, we can predict that the greater the disposable income, the higher the decision to adopt Islamic banking. There are rational motives in consuming goods and services (Keller & Kotler, 2010; Schiffman et al., 2010), and a customer's rational motives are also seen in Islamic banks. The higher the income, the greater the opportunity to put most of their funds in financial institutions they believe in.

Based on an understanding of theoretical studies and a search of relevant previous empirical studies, the following are the hypotheses in this research

H1: There is an effect of Disposable Income on Decision to Adopt Islamic banking.

H2: There is an effect of Islamic Financial Literacy on Decision to Adopt Islamic banking.

III. METHOD

Design Research. This research is an ex-post facto research with a quantitative approach, which builds an associative model between Islamic Financial Literacy and Disposable Income to Decision to Adopt Islamic banking. This research was conducted on a group of traders in a traditional market on the border city of Bukittinggi West Sumatra, Indonesia in 2023, a rural area that has good access to Islamic banks and also to other financial institutions. This case was selected according to research needs to better describe the behavior of traders in choosing Islamic banks when they are faced with various choices of financial institutions.

Data. The primary data in this study were obtained through a questionnaire to the traders who were the research respondents. Sampling was carried out using a purposive sampling technique on 134 traders in traditional markets, with the criteria of the respondent having an active account at an Islamic bank. The purposive sampling method is appropriate for use in this survey research with the aim to dig deeper into the information (Uma & Roger, 2003). The number of samples is determined with a

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sampling quota of the size normally reached at the time the research is conducted. Referring to the criteria (Rao, 2012) where the quota of respondents is taken at least 97 respondents for the case (sig. 5%, 10% error), this sample has fulfilled statistical feasibility.

Variable and Instrument. The dependent variable in this research is the decision to adopt Islamic banking and the predictors in this research are disposable income and Islamic financial literacy. These variables are part of the fields of concept of consumer behavior theory (Freixas & Rochet, 2008; Mankiw, 2006) which combined with the concept of consumers behavior (Keller & Kotler, 2010; Khan, 2013; Schiffman et al., 2010) and also Islamic banking (Hassan & Lewis, 2007; Rahman, 2010). Measurement indicators for latent variables were developed for research needs and research objects, that is traders in traditional markets. For each instrument item, respondents are asked for their opinions using a five-point Likert scale in fifteen instruments. Reflective indicators are applied to measure the three variables in the model which are then extended to suit the estimation model. To measure the variable of Decision adopting Islamic banks, a five item instrument was designed based on the basic theory of consumer behavior (Keller & Kotler, 2010; Schiffman et al., 2010) and also the proposition derived from empirical previous studies (Puteri et al., 2022). The measurement indicator for the variable of Disposable Income is an indicator of the origin of consumer behavior contained in microeconomics theory (Freixas & Rochet, 2008) and previous empirical studies that have been widely used in elaborating the disposable income in the microeconomics field (Mahmood et al., 2022). Furthermore, the variable of Islamic financial literacy is measured by six measurement instrument items which were developed based on some propositions from some empirical related studies about Islamic financial literacy (Albaity & Rahman, 2019b; Mutlu & Özer, 2021).

Analytical Data. To estimate how strong Disposable Income and Islamic Financial Literacy can explain the Decision in Adopting Islamic Banks, multiple linear regression is implemented as an estimation model. The model can be formulated as follows:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \varepsilon$$

Note: Y is Decision in adopting Islamic banking, X_1 is Disposable Income, X_2 is Islamic Financial Literacy, β_i is parameter estimation, and ε is error terms

Causality analysis with multiple linear Regression is implemented in several stages. To measure the validity of the item instrument and ensure internal consistency between items, Pearson's Product Moment Correlation was carried out, which in data processing can be seen from the value of "corrected item total correlation". Then for the reliability can be assessed by Cronbach's alpha. The BLUE (Best Linear Unbiased Estimator) assumption on ordinary least squares (OLS) is confirmed through normality, linearity, and also Heteroscedasticity tests. The normality test method used is the One-Sample Kolmogorov-Smirnov (K-S) method, and the Glejser test is carried out to test for Heteroscedasticity. In this study, to determine whether there is a Multicollinearity problem, the VIF (variance inflation factory) can be used as a guide. Finally, hypothesis testing is done by evaluating the results of the analytical model using the F-test, t-test, and R-Squared. The F-test aims to ensure that the predictor in the model has a simultaneous effect on the dependent variable, while the t-test is basically used to measure how strong the effect of the independent variables individually on the dependent variable is. R-Squared is a reference to see how far the model's ability can explain the effect of the independent variable on the variation of the dependent variable.

IV. RESULT AND DISCUSSION

Traditional markets reflect the lowest trading activities in society where buying and selling transactions are conventional. Observing people's behavior, especially traders in conducting financial transactions, is always interesting to discuss. One of the phenomena that has been highlighted by experts in Islamic banking is how they behave in adopting financial institutions, how traders decide to choose a bank, for saving or financing. Of course they save because they have money from the business they are doing, but do they then save their money in Islamic banks? Of course this choice really depends on many things. Of the many factors that led them to choose an Islamic bank, Islamic Financial Literacy was identified as a driving factor, because this involved their knowledge, understanding and confidence in choosing a financial institution. The following section of this article is the result and discussion of this research.

Characteristics of Respondents. Table 1 shows the socio-demographic characteristics of the respondents in this study. It is observed that most of the respondents are aged in the range of 31-40 years, married, with the last education being Senior High School, within the income range of 1.000.001 – 2.000.000 IDR per month.

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Table 1. Social Demographic Information of Respondents

Characteristics	Description	Frequency	Percentage
Gender	Male	76	56.72
	Female	58	43.28
Age (Years)	20 – 30	30	22.39
	31 – 40	66	49.25
	41 – 50	30	22.39
	>50	8	5.97
Marital Status	Married	116	86.57
	Single	18	13.43
Education Level	Junior High School	6	4.48
	Senior High School	104	77.61
	Diploma	16	11.94
	Bachelor degree	8	5.97
Income (IDR per month)	≤ 1.000.000	16	11.94
	1.000.001 - 2.000.000	54	40.30
	2.000.001 - 3.000.000	28	20.90
	3.000.001 - 4.000.000	26	19.40
	4.000.001 - 5.000.000	6	4.48
	>5.000.000	4	2.99

Source: Primary Data Processed, 2023

Testing of Validity and Reliability. The results of the reliability and validity tests are shown in Table 2, which aims to ensure the degree of consistency among respondents' answers. Cronbach's Alpha for each variable of Disposable income, Islamic Financial Literacy, and Decision in adopting Islamic Banking respectively is 0.818, 0.905, and 0.739. Hair et al (1998) stated that a variable is categorized as reliable if the Cronbach's Alpha value > 0.60 exceeds the minimum value of 0.6. Thus, the constructs measured were statistically reliable and acceptable for further regression analysis. Instrument items are also statistically valid because the Corrected Item Total Correlation exceeds 0.3.

Table 2. Validity and Reliability Test

Factors	Code	Item Description	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Disposable Income	E1	I pay attention to the income received	0.903	0.862
	E2	I pay attention to the amount and allocation of my Savings	0.672	0.916
	E3	I pay attention to the amount and priority of my consumption	0.871	0.857
	E4	I manage my income as my personal asset and spend it smartly	0.812	0.868
Islamic Financial Literacy	FL1	I know the existence of Islamic banking	0.773	0.752
	FL2	I know the underlying principles or concept applied in Islamic banking	0.420	0.825
	FL3	I know and understand the differences between Islamic and conventional banking	0.418	0.820
	FL4	I know Islamic banking products and services are offered	0.364	0.837
	FL5	I make a price comparison when buying a product or service	0.791	0.739
	FL6	I pay attention to the price/performance ratio when buying a product or service	0.791	0.739
Decision to Adopt Islamic banking	U1	I know Islamic banks as banks that operate on Islamic principles	0.787	0.600
	U2	I am interested in using Islamic banking	0.405	0.731
	U3	I choose Islamic bank because the products and services meet my needs	0.432	0.718
	U4	I like to use Islamic banking	0.334	0.759
	U5	I will definitely recommend Islamic banking to others	0.618	0.644

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Testing of Normality, Multicollinearity, and Heteroscedasticity. The data quality test for the OLS estimation model requires the classical assumptions, covering Normality, Multicollinearity, and Heteroscedasticity. The results of the normality test showed that the data were normally distributed, with One-Sample Kolmogorov-Smirnov is 1.480 (p-value = 0.048). It means that the residual value generated from the regression is normally distributed and this regression model meets the assumption of normality. The results of the Normal P-P Plot Regression Standardized Residual test also show that the data is normally distributed, so it can be stated that the regression model meets the assumption of normality. To ensure that there is no definite linear relationship between the independent variables in the model, a Multicollinearity analysis is carried out using VIF (variance inflation factor) and tolerance is implemented. The VIF for Islamic Financial Literacy (IFL) and Disposable Income (DI) is 1.086 (Tolerance values 0.921), and it can be concluded that there is no Multicollinearity in the model. Furthermore, to ensure that the regression model does not have symptoms of Heteroscedasticity, a Spearman correlation test was performed by correlating unstandardized values with each independent variable (X_1 , X_2). The test results show that the significance value for Islamic Financial Literacy (X_1) is $0.257 > 0.05$, and it can be said that there is no heteroscedasticity problem. Meanwhile, the Disposable Income variable (X_2) has a significance value of $0.517 > 0.05$, and it can be said that the heteroscedasticity symptom is not present in the estimation model.

Result of Multiple Linear Regression. To analyze the effect of Disposable Income and Islamic Financial Literacy on the Decision to Adopt Islamic Banking, this Result of Multiple Linear Regression is shown in table 3 below:

Table 3. the result of Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	13.859	2.441		5.678	0.000
Disposable Income	0.179	0.053	0.293	3.405	0.001
Islamic Financial Literacy	0.181	0.061	0.255	2.968	0.004

Dependent Variable: Decision to Adopt Islamic Banking

Based on the results of Multiple Linear Regression, the following functional equations are produced:

$$y = 13.859 + 0.179 x_1 + 0.181 x_2$$

$$F \text{ test} = 7.990 \text{ (Prob. } 0.001)$$

$$R \text{ Square} = 0.109$$

Testing the Hypotheses. As shown in the ANOVA results in Table 4, the F-test is 7.990 (Sig. 0.001). These results ensure that independent variables (Disposable Income and Islamic Financial Literacy) have a simultaneous effect on the dependent variable (Decision to Adopt Islamic Banking), so that the regression model used is correct and can be used to predict further.

Table 4. Result of F-test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	57.559	2	28.779	7.990	0.001
Residual	471.874	131	3.602		
Total	529.433	133			

Dependent Variable: Decision to Adopt Islamic Banking

Predictors: (Constant), Islamic Financial Literacy, Disposable Income

To see the effect of each independent variable on the decision to adopt an Islamic bank, the results of the t-test in table 3 can be used as a guide. The coefficient value of Disposable Income also shows a significant positive effect on the Decision to Adopt Islamic banking, with an estimated coefficient of 0.179 (p-value 0.001). The estimated coefficient value for the Islamic financial literacy variable is 0.181 (p-value 0.004), indicating that there is a significant positive effect of Islamic Financial Literacy on the Decision in Adopting Islamic banking.

Next, to measure how far Disposable Income and Islamic Financial Literacy influence the Decision to Adopt Islamic Banking, this can be observed from the R-Square. The results show that the R-Square is 0.109 and the Adjusted R-Square is 0.095. Only 10.9% of the Decision to Adopt Islamic Banking is influenced by Disposable Income and Islamic Financial Literacy, while the rest is

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influenced by other variables. So, the ability of Islamic Financial Literacy and Disposable Income in explaining the achievement of Decisions in Adopting Islamic banking is only 10.9%, only can be a low predictor.

Table 5. Result of R-Square

Regression Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.330	0.109	0.095	1.89792

Predictors: (Constant), Islamic Financial Literacy, Disposable Income

Dependent Variable: Decision to Adopt Islamic Banking

DISCUSSION

Based on the research findings, it can be concluded that the two predictors in the model, Disposable Income and Islamic Financial Literacy, are only weak predictors in explaining the Decision to Adopt Islamic Banking in the case of traders in traditional markets. Only 10.9% of the Decision to Adopt Islamic Banking can be explained by Disposable Income and Islamic financial literacy, so that many other factors outside the model influence traders in deciding to choose Islamic Banking. Although this study has been able to prove that there is a significant positive influence between Disposable Income and Islamic Financial Literacy on the decisions of market traders in choosing Islamic Banking, further studies are urgently needed in this regard. Differences in cases and time of analysis can of course provide a better picture of these findings. Exploring further the results of this research reveal that, Islamic Financial Literacy of traders does not support them to make rational decisions in choosing Islamic banking. Although 91.10% of respondents admit that they know the existence of Islamic banking, only 40.20% understand the differences between Islamic and conventional banking. The education of traders who are dominated by Senior High School graduates is indeed proof that the level of literacy regarding Islamic finance is of course very limited.

This study has proved that Disposable Income and Islamic Financial Literacy can influence traders' decisions in adopting Islamic banking, although with a small effect. The findings from cases of financial behavior from these market traders can enrich previous studies that have started to analyze the relationship between Islamic religiosity and Adopting Islamic Banks (Junaidi et al., 2021; Kamiyama & Kashiwagi, 2019; Puteri et al., 2022; Suhartanto et al., 2018). This finding also elaborates on a few articles that have started to look at Islamic financial literacy in the decision to adopt an Islamic bank (Albaity & Rahman, 2019). The different cases in this study, traders in traditional markets which are dominated by low educated customers, also provide different perspectives in the findings.

Actually, traders in traditional markets have the potential to become a potential segment for Islamic banking, but sometimes limited socialization has not been able to maximally provide space for Islamic banks to become the first choice. Traders are those who have income and have the potential to make active transactions at financial institutions. But are they reinstating Islamic banks as the main financial institutions? The answer depends on their level of literacy regarding Islamic bank products and services. Are they sure about the existence of Islamic Bank? It will also be another study in the future which is also interesting to discuss. Apart from that, there are many other financial institutions that are also competing in the same segment, not to mention moneylenders who also exist in traditional markets.

From a theoretical perspective, this study has contributed to the expansion of studies on public financial behavior. Estimating the determinants that influence the decision to adopt an Islamic bank, especially Islamic financial literacy, will enrich studies in this field which are still limited. Although many other studies have explored the relationship between religiosity and the decision to adopt an Islamic bank, actually this is not exactly the same because belief is only part of financial literacy itself. From a policy perspective, this finding can be a consideration for Islamic banks, how to carry out appropriate socialization and education to marginal segments such as market traders with low education. Choosing an Islamic bank is not just because someone has money for it, it is also related to their understanding of what Islamic banking is and what they offer.

CONCLUSIONS

These findings conclude that Disposable Income and Islamic Financial Literacy are predictors of the Decision to adopt Islamic banking for business actors in traditional markets. The higher the disposable income and the more literate a person is with Islamic banking, the more their decision to choose an Islamic bank will increase. Although the effect of Disposable Income and Islamic Financial Literacy is not too large in explaining the Decision to Adopt Islamic banking, only 10.9%, this study has contributed to enriching studies on the behavior of Muslim consumers, especially traders in traditional markets, in choosing Islamic banks. Even though traders have income, without knowledge and understanding of the products and services of the Islamic bank itself, there will be no switching to an Islamic bank. These findings have also provided practical implications for

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Islamic bank practitioners to make Muslim consumer behavior a major consideration in developing market segmentation development strategies. Socialization and education are two important agendas that must be included in the strategy for developing market share for Islamic banks. Future research can be directed to a more intense study of neuro-marketing in the field of Islamic consumers behavior, because this theme will always be interesting to analyze along with the development of digital banking and the increasingly competitive retail banking market.

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