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Financial Literacy's Impact on Interest in Sharia Investment: An Examination Using SEM-PLS

Sella Nofriska Sudrimo[1]*, Urwawuska Ladini[2], Dahlia Misrika[3]

[1]Institut Agama Islam Negeri Sorong, Sorong, Indonesia, [2]UIN Sulthan Thaha Saifuddin Jambi, Jambi, Indonesia, [3]Universitas Andalas, Padang, Indonesia
**Corresponding Author: E-mail address:* sellans@iainsorong.ac.id

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Abstract

Introduction/Main Objectives: This research explores the impact of financial literacy, including knowledge, confidence, and ability, on interest in Sharia investment. **Background Problems:** the relationship between financial literacy and interest in sharia investment. **Novelty:** Considering that each province has different community characteristics, especially in the Southwest Papua Province area which is included in the 3T areas (underdeveloped, frontier, and outermost), an analysis was carried out and using SEM-PLS for analysis of Ddta. **Research Methods:** Using the Structural Equation Model Partial Least Square (SEM-PLS) method with the response variable sharia investment interest and the financial literacy variable with the dimensions of knowledge, confidence and ability. **Finding/Results:** The results show that financial literacy has a positive and statistically significant effect on interest in Sharia investment. Although its explanatory power is limited ($R^2 = 0.094$), the findings indicate that financial literacy functions as an enabling factor rather than a sole determinant of Sharia investment interest. These results suggest that improving financial literacy alone is insufficient to substantially increase interest in Sharia investment. Therefore, policies aimed at promoting Sharia investment should integrate financial education with institutional trust-building, product accessibility, and socio-religious engagement, particularly in underdeveloped and frontier regions such as Southwest Papua.

1. Introduction

An intriguing field of study lies within finance, given its significant role in our lives. The state of our finances frequently shapes our overall well-being, with those who are financially secure generally enjoying a higher quality of life compared to those facing financial difficulties. It is undeniable that having financial knowledge significantly impacts one's ability to achieve financial stability. A study conducted by the OECD/INFE International Survey of Adult Financial Literacy (2020) found that individuals with high financial literacy tend to have more savings, more manageable debt, and are better able to plan for retirement. Another finding was obtained from research conducted by The Economic Importance of Financial Literacy: Theory and Evidence [1], that adults who received financial education (for example, in high school) had higher credit scores, less credit card debt, and were more likely to have an emergency fund than those who did not.

As per the Financial Services Authority Regulation Number 76/POJK, which aims to improve financial literacy for the public and consumers in the financial services sector, it is crucial to comprehend that financial literacy comprises knowledge, skills, and beliefs that influence attitudes and behavior, ultimately resulting in better financial management and decision-making for increased prosperity. Financial literacy is crucial because it enables individuals to successfully plan for the future and make wise financial decisions in everyday life. A thorough understanding of financial literacy helps individuals make long-term financial decisions such as investing, as well as short-term decisions about saving and consumption. Low financial literacy also contributes to the high number of illegal online lending cases and individual bankruptcies. According to data compiled on the Financial Services Authority (OJK) website (2023), the Illegal Financial Activities Eradication Task Force (Satgas PASTI) (formerly the Investment Alert Task Force) recorded that from 2017 to October 31, 2023, the Task Force had shut down 7,502 illegal financial entities, consisting of 1,196 illegal investment entities, 6,055 illegal online lending/PINPR entities, and 251 illegal pawnshop entities. Similarly, the OJK's National Financial Literacy and Inclusion Survey (2022) showed that the financial literacy rate in Indonesia was only 49.68%. This indicates low financial literacy among Indonesians, leading many to fall prey to illegal investments. Investing is the process of carefully allocating money to projects with the potential to generate future profits. People who lack financial literacy can experience problems such as excessive debt, poor investments, or financial instability following unexpected events. Therefore, improving financial literacy among Indonesians is crucial because it directly benefits the financial well-being of individuals and society as a whole.

Financial literacy is essential for many people, especially students who are at a transitional time of life when the responsibility for managing personal financial resources starts to expand. In addition to being susceptible to consumer debt, especially the widespread illicit internet loans in Indonesia, students with low levels of financial literacy run the danger of having trouble saving and managing their expenditures. A person's capacity to make prudent long-term investment decisions may also be hampered by a lack of financial literacy. Students' interest in Sharia-compliant investments is rising along with investment awareness, mostly due to their view of the possible profits. The combination of financial knowledge and profit expectations are factors that encourage individuals to consider investments, particularly Sharia-compliant investments, which are considered to align with religious and ethical values.

Previous studies have documented the important role of financial literacy in shaping individual financial behavior and investment decisions. Several studies have found a positive relationship between financial literacy and investment decisions, indicating that individuals with higher levels of financial knowledge and competence tend to make more rational and informed investment decisions [2]- [3]. This finding confirms that financial literacy serves as a key determinant in financial decision-making.

However, empirical evidence regarding the influence of financial literacy on investment interest still shows mixed results. Some studies find that financial literacy has a significant effect on investment interest, while others report a weak or insignificant effect, particularly among university students [4]. These differing findings indicate that the relationship between financial literacy and investment interest is likely influenced by contextual factors, such as demographic characteristics, the institutional environment, and an individual's level of exposure to financial activities.

Furthermore, most previous studies have focused on Islamic financial literacy as a determinant of Islamic investment interest [5]-[6], while general financial literacy tends to receive less attention. However, general financial literacy—which encompasses basic knowledge, confidence, and skills in financial management—can serve as an important foundation for understanding Sharia-compliant investment principles. Furthermore, empirical studies examining this relationship in remote and underdeveloped regions, such as Southwest Papua, are still very limited.

Based on this gap, this study aims to analyze the effect of general financial literacy on Islamic investment interest among IAIN Sorong students using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) approach. This approach was chosen for its ability to predictively analyze complex relationships between latent variables, even with a relatively limited sample size. Thus, this study is expected to clarify inconsistent findings in previous studies and provide empirical contributions from regional contexts that are still rarely studied in Islamic finance literature.

2. Material and Methods

2.1. *Type of Research*

The impact of financial literacy on interest in Sharia investing is investigated in this study using a quantitative explanatory research approach. While the explanatory approach is utilized to evaluate causal links among variables, quantitative approaches are used since the research variables are measurable and appropriate for statistical analysis. Interest in Sharia investing is considered an endogenous latent variable, while financial literacy is considered an exogenous latent variable. To ascertain the direction and importance of the relationship between these constructs, the study focuses on hypothesis testing. The study uses a cross-sectional approach, gathering data all at once to determine students' present levels of financial literacy and interest in investing. When studying relationships without taking time changes into account, this design is suitable. Data analysis is conducted using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) approach, which is suitable for explanatory research with predictive objectives, relatively small sample sizes, and minimal distributional assumptions.

2.2. *Data and Strategies*

This study was carried out in the State Islamic Institute (IAIN) Sorong, Southwest Papua, over the course of two months, from July to August 2023. The location was selected because IAIN Sorong is a religious university with a sizable Muslim student body, making it a pertinent setting for analyzing interest in sharia-compliant investment.

Based on official statistics from the Bureau of Academic and Student Affairs of IAIN Sorong, 2023, the study's population consisted of all enrolled students at IAIN Sorong during the 2022–2023 academic year, or roughly 2,850. In order to guarantee that every member of the population had an equal chance of being chosen as a respondent, this study used a straightforward random sampling technique due to time and resource restrictions. The sample size is determined using the Slovin formula by [7]:

$$n = \frac{N}{1+Ne^2} \tag{1}$$

with a minimum sample size of 99 respondents and a 10% margin of error. Given the exploratory nature of the study, the restricted access to respondents during academic holidays, and [8]'s suggestion that SEM-PLS research can accept smaller samples as long as they satisfy the minimal statistical requirements, the 10% margin of error was used. The sample of this research was 115 students of IAIN Sorong.

Instrument validity was tested using loading factors in a PLS-based Confirmatory Factor Analysis (CFA), where indicators with loading factors ≥ 0.70 were considered valid [9]. Meanwhile, reliability was measured using two indicators: Cronbach's Alpha and Composite Reliability (CR), with a minimum value of 0.70 for both as the threshold for acceptance [10]. The researchers ensured adherence to the principles of informed consent, confidentiality, and voluntary participation. Each respondent was given an initial explanation of the study's purpose, benefits, and their right to withdraw at any time without consequence. Respondent identities were not included in the questionnaire, and all data were anonymized and used solely for academic purposes [11]-[12].

2.3. *Research Procedures*

This study utilizes quantitative research methods, with financial literacy as the independent variable (X) and interest in sharia investment as the dependent variable (Y). Financial literacy is measured across three dimensions: knowledge, confidence, and skills. The data analysis methodology utilized in this research is the Structural Equation Model-Partial Least Squares (SEM-PLS). The stages of data analysis using SEM-PLS include:

(1) Analysis of the measurement model (outer model)

At this point, convergent and discriminant validity are assessed as part of construct validity testing. Additionally, the composite reliability (CR) value is evaluated as part of construct reliability testing. The loading factor value can be used to calculate the correlation between the reflective indicator score and the latent variable score. PLS is used to quantify the correlation between item/component scores to evaluate the measurement model with reflected indicators. If the loading factor value correlates with the measured construct more than 0.7 ($\lambda = 0{,}5$), It is considered high. However, a loading value measuring scale of 0.5 to 0.6 is thought to be enough for the first stage [13]. According to [8] and [14], a factor loading of 0.50 or more ($\geq 0{,}50$) is deemed to have adequate validity to explain the latent concept. According to several publications, ensuring good validation of the underlying construct requires a loading factor of at least 0.50.

Discriminant validity is a component of construct validity, which aims to ensure that each construct in the model is empirically distinct from other constructs. This means that the indicators (items) used to measure a construct are not excessively correlated with other constructs, ensuring that the construct has unique meaning [9]. Cross-loading correlation is one way to test discriminant validity. When compared to the loading on other constructions, the indicator must have the highest loading on the construct it measures.

The consistency with which indicators within a construct measure the same idea is evaluated using reliability tests. Cronbach's alpha and composite reliability are two techniques used in reliability testing.Assuming that all indicators have the same weight (tau-equivalency) and measuring reliability using the correlation between items [14].

$$\alpha = \frac{k}{k-1}\left(\frac{\sum \mathrm{Var(i)}}{\mathrm{var(total)}}\right) \tag{2}$$

Table 1. Criteria for Cronbach's Alpha

Cronbach's Alpha	Interpretation
$value \geq\ 0.70$	Good reliability
$0.60\ \leq value <\ 0.70$	Still acceptable for exploratory research
$value < 0.60$	Not reliable

Reliability is measured by considering the indicator's actual weight (outer loading) [14].

$$CR = \frac{(\sum \lambda_i)^2}{(\sum \lambda_i)^2 + \sum\left(1-\lambda_i^2\right)} \tag{3}$$

(2)Analysis of the structural model (inner model)

The inner model evaluates the relationships between latent constructs in the theoretical model: whether the independent (exogenous) variables influence the dependent (endogenous) variables, how strong the influence is, whether the influence is significant, and whether the model has predictive ability (in-sample and out-of-sample).

Tests to analyze the inner model include [9]:

a) Calculate R^2 (Coefficient of Determination) for each endogenous construct

$$R^2 = \frac{\text{var x}}{\text{varian total}} \tag{4}$$

The higher the R^2, the greater the predictive ability of the exogenous construct against the endogenous one.

b) Calculate f^2 (Effect Size)
Determine the degree to which exogenous constructs contribute to specific endogenous constructs [9] and [15].

$$f^2 = \frac{R^2_{\text{included}} - R^2_{\text{excluded}}}{1 - R^2_{\text{included}}} \tag{5}$$

Table 2. Criteria for f^2 (Effect Size)

f^2 values	Category	Interpretation
0.02	Small	The variable makes a small contribution to the endogenous R^2
0.15	Moderat	Variables provide moderate contributions
0.35	Big	Variables make a big contribution

c) Testing Q^2 (Predictive Relevance)

Evaluate the model's prediction power in relation to the endogenous constructs' manifest indicators.

$$Q^2=1-(1-R_1{}^2)(1-R_2{}^2)(1-R_3{}^2)\ldots(1-R_n{}^2) \quad (6)$$

(3) Conversion of path diagrams to equations

Figure 1 presents the structural framework of the research model and the conversion of the path diagram into an analytical form. The model illustrates the relationships among latent variables examined in this study. Financial Literacy is positioned as a higher-order latent construct, which is reflected by three first-order latent variables, namely Knowledge, Confidence, and Skills. These three dimensions represent the core components of general financial literacy and are hypothesized to positively contribute to its formation.

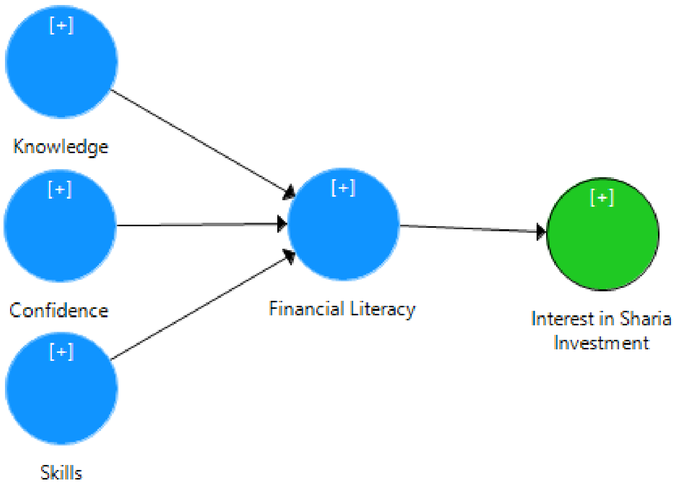

Figure 1. Variable Framework

The model specifies a direct causal relationship between Financial Literacy and Interest in Sharia Investment. This structural path indicates that an increase in an individual's level of financial literacy is expected to enhance their interest in Sharia-compliant investment instruments. The direction of the arrows represents the hypothesized causal influence among latent variables, while the absence of reciprocal arrows indicates a unidirectional relationship in accordance with the theoretical framework. The diagram also reflects the reflective measurement nature of the model, where each latent construct is measured by its respective indicators (not shown in detail in the figure for clarity). The conversion of this path diagram into structural and measurement equations allows for empirical testing using the SEM-PLS approach, enabling the estimation of path coefficients, factor loadings, and error terms associated with each latent variable. Overall, this framework provides a comprehensive representation of the theoretical assumptions underlying the study and serves as the basis for hypothesis testing and subsequent structural model evaluation.:

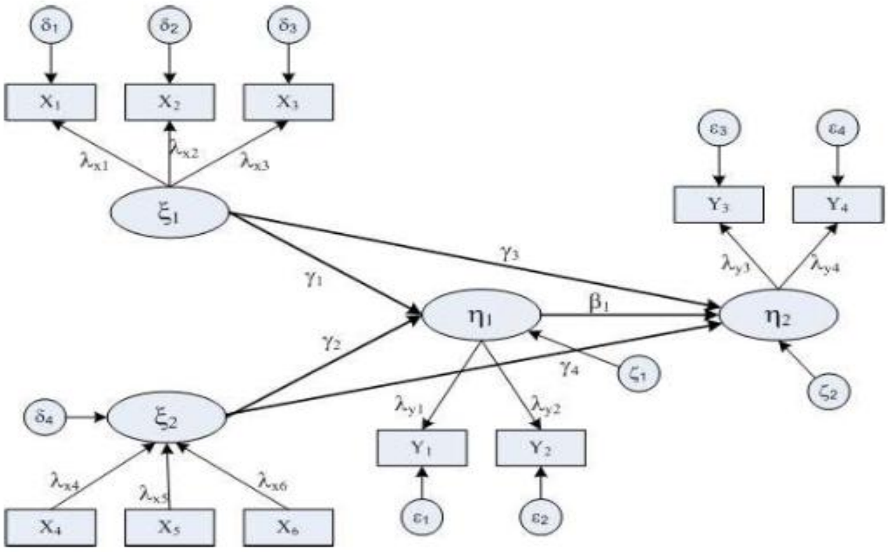

Figure 2. Path Diagram

The Structural Equation Model - Partial Least Squares Model (SEM-PLS) utilized in this study is:

a) Measurement

$$\xi_{ij}=\lambda_{ij}X_i+\delta_{ij} \quad \text{and} \quad \eta_{kj}=\lambda_{kj}Y_k+\varepsilon_{kj} \tag{7}$$

b) Structural (Inner)

$$\eta_m=\sum b_{mp}\eta_p+\sum \gamma_{mq}\xi_q+\zeta_m \tag{8}$$

Which ξ is the exogenous latent variable, η is the endogenous latent variable, λ is an exogenous latent variable factor loading, β is the coefficient of influence of exogenous variables on endogenous variables, ζ is the endogenous latent variable model error, and ε is the exogenous latent variable model error.

(4) *Hypothesis testing*

The hypothesis can be formulated as follows:

H_1 : Knowledge of financial literacy and interest in Sharia-compliant investments are significantly correlated.

H_2 : Financial literacy and knowledge are significantly correlated.

H_3 : Financial literacy and confidence are significantly correlated.

H_4 : Skills and financial literacy are significantly correlated.

3. Results and Discussion

3.1. *Measurement Model Analysis*

The measurement findings, which the measurement model directly observes in the relationship between observable indicators and latent variables, comprise the dimensions of the factor variables. There are two types of measuring models available: formative and reflective. The measurement model is examined using the following two tests: Tests for reliability and validity.

Table 3. Descriptive Statistics

Item	Mean	Median	Min	Max	Standard Deviation
X.X1	3.104	3	2	4	0.651
X.X2	3.261	3	2	4	0.576
X.X3	3.174	3	2	4	0.594
X.X4	3.122	3	2	4	0.621
X.X5	3.217	3	2	4	0.587
X.X6	3.209	3	2	4	0.679
X.X7	3.217	3	2	4	0.587
X.X8	3.165	3	2	4	0.543
X.X9	3.200	3	2	4	0.662
Y.Y1	3.070	3	1	4	0.766
Y.Y2	3.009	3	1	4	0.692
Y.Y3	2.965	3	1	4	0.697
Y.Y4	2.983	3	2	4	0.646
Y.Y5	3.096	3	2	4	0.632
Y.Y6	3.000	3	1	4	0.746
Y.Y7	3.157	3	2	4	0.641
Y.Y8	3.026	3	1	4	0.665
Y.Y9	3.052	3	2	4	0.683

Based on the results of the descriptive analysis in Table 3, it was found that the average value of variable X was in the quite high category (Mean = 3.19), while variable Y was in the sufficient category (Mean = 3.04). This indicates that respondents gave positive responses to the measured aspects, but there is still room for improvement. The standard deviation value ranging from 0.54–0.77 indicates that respondents' answers were relatively consistent and there were no extreme differences between individuals. Thus, in general, respondents assessed that variable X had been implemented well and had a moderate impact on variable Y.

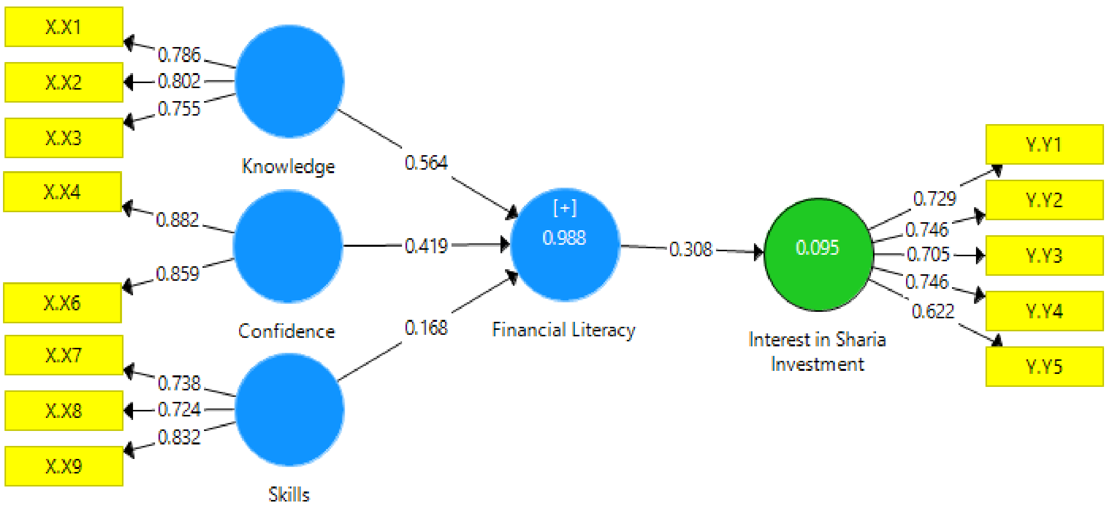

Figure 3. Path Chart and Loading Factor Value After Elimination of Invalid Indicators

According to [16], a validity test is used to determine if the indicators in a research instrument are valid and can accurately measure the latent variables being studied. Study by [17] further explain that the validation test includes assessments for both convergent and discriminant validity.

An indicator is considered to have convergent validity if the loading of its outer value is larger than 0.5. The results, as shown in Figure 3, show that every indication has a loading factor value more than

0.50 ($\lambda \geq 0.5$).This suggests that the underlying construct can be explained with strong validity by all indications of each dimension of the latent variable, including knowledge, confidence, and abilities in the latent variable financial literacy and the latent variable interest in investing in Sharia. Consequently, each indicator satisfies the convergent validity criterion

The test of discriminant validity determines if the observed measures differ from one another. Examining cross-loading values is one method of performing discriminant validity testing for reflecting indicators. When each measure's cross-loading correlation value is higher with its construct than with other constructs, it indicates good discriminant validity. Table 4 contains the precise cross-loading correlation values.

Table 4. Crossloading Correlation Values

	Skill	Confidence	Knowledge	Financial Literacy	Interest in Sharia Investment
X.X1	0.379	0.594	0.786	0.761	0.237
X.X2	0.422	0.432	0.803	0.700	0.168
X.X3	0.472	0.389	0.755	0.665	0.151
X.X4	0.527	0.882	0.548	0.774	0.254
X.X6	0.406	0.859	0.513	0.711	0.233
X.X7	0.738	0.513	0.358	0.502	0.224
X.X8	0.724	0.334	0.426	0.464	0.179
X.X9	0.832	0.396	0.457	0.623	0.261
Y.Y1	0.204	0.199	0.205	0.246	0.756
Y.Y2	0.141	0.244	0.209	0.244	0.764
Y.Y3	0.303	0.159	0.142	0.200	0.710
Y.Y4	0.246	0.227	0.151	0.221	0.756

As shown in Table 4, all indicators exhibit cross-loading correlation values above 0.70, as well as stronger correlations with their respective constructs than with other constructs. When assessing a model's reliability, don't forget to take Cronbach's Alpha and Composite Reliability values into account. If a model's composite reliability score is higher than 0.7 and its Cronbach's alpha value is more than 0.6, it is deemed reliable. Table 5 contains comprehensive reliability test findings.

Table 5. Reliability Test

	Cronbach's Alpha	Composite Reliability
Skills	0.649	0.809
Confidence	0.682	0.863
Financial Literacy	0.799	0.857
Interest in Sharia Investment	0.736	0.834
Knowledge	0.681	0.824

Table 5 shows that the latent variables of financial literacy and interest in Sharia investment, as well as the dimensions of skills, confidence, and knowledge, all have Cronbach's Alpha values larger than 0.6. In the same way, all dimensions and latent variables have Composite Reliability values greater than 0.7. Consequently, we can conclude that every dimension and variable is trustworthy.

3.2. Structural Model Analysis (Inner Model)

The values of R-square, F-square, and Q-square can be used to examine structural models. Take note of the following table.

Table 6. R-square Values

Variable	Adjusted R-square
Financial Literacy	0.988
Interest in Sharia Investment	0.086

Table 6 clearly shows that the R-squared corrected value is 0.086. This suggests that 91.4% of Sharia Investment Interest may be explained by factors not included in the model, with Financial Literacy accounting for 8.6% of the total.

Table 7. F-square Values

Variable	F-square
Skills	1.533
Confidence	8.433
Knowledge	15.125
Financial Literacy	0.104

Table 7 shows that the knowledge, skills, and confidence components of financial literacy have an F-square value greater than 0.35. The derived F-square value falls into the big group according to the F-square assessment criteria shown in Table 7, suggesting that these dimensions have a significant impact on financial literacy.

Conversely, the interest in Sharia investing is positively correlated with the latent variable of financial literacy, with an F-squared value of 0.104. With an f-squared value below 0.15, this suggests that interest in Sharia investing is somewhat influenced by financial literacy.

The Q-square, which expresses how closely the observed data match the model created with the estimated parameters, is next measured. The model is considered predictively relevant if the Q-square value is higher than 0. On the other hand, the model is not predictively relevant if the Q-square value is less than 0 [18]-[20]. The following is the equation used to determine the Q-square:

$$Q^2=1-\left(1-R_1^{\,2}\right)\left(1-R_2^{\,2}\right)\left(1-R_3^{\,2}\right)\ldots(1-R_n^{\,2})$$
$$Q^2=1-(1-0{,}988)(1-0{,}086)$$
$$Q^2=0{,}989$$

Based on the computations, 0.989 is the Q-square value. When the model's Q-square value is higher than zero, it is considered to have good predictive relevance.

Once the bootstrapping process is completed, the estimated route coefficient value can be used to test the inner model and determine how much the latent component influences the outcome. The sub-discussion on hypothesis testing has a thorough explanation.

3.3. Convert the Path Diagram to an Equation

Conversion of path diagrams into equation form, namely:

Outer model for endogenous latent variables

1. Knowledge = 0,786 X.X1 + 0,802 X.X2 + 0,755 X.X3 + δ_1

   The model above shows that the most dominant indicator is X2 (0.802), meaning that the indicator for the question "I have an adequate understanding of the risks and benefits associated with investing" most strongly reflects the Knowledge construct. The higher the perception of the question indicators on the knowledge variable (X1 to X3), the higher the individual's level of knowledge regarding financial literacy.
2. Confidence = 0,882 X.X4 + 0,859 X.X6 + δ_2

   The above model shows that indicator X4 is the strongest indicator reflecting respondents' confidence in financial management. The confidence construct is very strong as measured by both indicators; respondents tend to have a good level of financial confidence.
3. Skills = 0,738 X.X7 + 0,724 X.X8 + 0,832 X.X9 + δ_3

   The model above shows that Indicator X9 has the highest loading (0.832), indicating that this skill component is the most important in forming Skills. This indicates that the Respondent has good basic skills in managing or using financial skills (e.g. recording, calculations, or simple analysis).

4. Financial Literacy = 0,564 Knowledge + 0,419 Confidence +0,168 Skills + ε

   This model shows that Knowledge (0.564) has the greatest influence on Financial Literacy, followed by Confidence (0.419), and Skills (0.168). Based on the model, we can see that a person's level of financial literacy is most influenced by financial knowledge and confidence, while practical financial skills contribute less. This indicates that understanding and confidence are more dominant in shaping respondents' financial literacy than technical skills.

Inner model

Interest in Sharia Investment = 0.308 Financial Literacy + ζ

The path coefficient value is 0.308, indicating a positive and moderate relationship between financial literacy and Sharia-compliant investments. This means that the higher a person's financial literacy, the greater their interest in Sharia-compliant investments. Financial literacy increases understanding of the concept of Sharia-compliant investments, reduces uncertainty, and fosters confidence that investments in accordance with Islamic principles can be both financially and spiritually beneficial.

3.4. Hypothesis Testing

The next stage is hypothesis testing, which comes after the measurement model and structural model have been examined and the path diagram has been transformed into a mathematical equation. The values that bootstrapping yields are:

Table 8. Bootstrapping Result

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P-Values
Skills -> Financial Literacy	0.169	0.171	0.022	7.671	0.000
Confidence -> Financial Literacy	0.420	0.422	0.033	12.759	0.000
Knowledge -> Financial Literacy	0.563	0.559	0.035	15.921	0.000
Financial Literacy -> Interest in Sharia Investment	0.307	0.335	0.093	3.313	0.001

The test results show that the Skills variable has a positive and significant effect on Financial Literacy with an original sample value of 0.169, a T-statistic of 7.671, and a p-value of 0.000. Since the T-statistic is greater than 1.96 and the p-value is less than 0.05, the relationship is declared significant. This indicates that the higher an individual's financial management skills, the better their financial literacy level. In other words, practical skills in managing personal finances, creating budgets, and making appropriate financial decisions significantly contribute to improving a person's financial literacy. The Confidence variable also showed a positive and significant influence on Financial Literacy with an original sample value of 0.420, a T-statistic of 12.759, and a p-value of 0.000. These findings show that a person's degree of financial literacy is significantly influenced by their level of self-confidence. A person's capacity to make wise financial decisions increases with their level of confidence in their ability to comprehend and manage financial concerns. Self-assurance enables people to make more daring financial decisions based on information and logical analysis as opposed to merely relying on gut feeling or outside influences. Additionally, with an original sample value of 0.563, a T-statistic of 15.921, and a p-value of 0.000, the Knowledge variable significantly and favorably affects Financial Literacy. Knowledge is the primary determinant in enhancing financial literacy, as indicated by the greatest coefficient value among these three factors. These findings support the idea that a person's capacity for prudent money management increases with their level of understanding of financial ideas, principles, and products. The key to developing good financial awareness and abilities is knowledge.

The test results also show that Financial Literacy has a positive and significant effect on Interest in Sharia Investment, with an original sample value of 0.307, a T-statistic of 3.313, and a p-value of 0.001. Since the T-statistic value is > 1.96 and the p-value < 0.05, this hypothesis is accepted. This means that the higher a person's level of financial literacy, the greater their interest in investing in Sharia-based financial instruments. Individuals who understand financial concepts and Sharia principles well will be more interested in choosing investments that align with Islamic values and provide long-term benefits. Based on the results of the bootstrapping test, all hypotheses in this study were accepted as they showed positive and significant effects. In order, the Knowledge variable had the strongest influence on Financial Literacy, followed by Confidence and Skills. Furthermore, Financial Literacy proved to be a significant factor in increasing interest in Sharia Investment. These findings indicate that efforts to improve financial literacy through education, training, and outreach that emphasize knowledge, skills, and confidence will contribute significantly to increasing public interest in Sharia-based investments.

4. Conclusion

The data analysis suggests that interest in modern sharia investing is somewhat influenced by financial literacy, however this effect is considered to be modest. Based on the R^2 analysis, the Financial Literacy construct has an R^2 value of 0.988, meaning 98.8% of the variance in financial literacy is explained by its constituent indicators, namely Knowledge, Confidence, and Skills. This value is considered very high, indicating that the financial literacy measurement model has a very good level of clarity. Conversely, the Interest in Sharia Investment construct has an R^2 value of 0.094, meaning only 9.4% of the variance in Sharia investment interest is explained by financial literacy. Although the relationship between financial literacy and Sharia investment interest is positive and significant, its quantitative contribution is relatively small.

The extreme difference between these two R^2 values indicates that the financial literacy measurement model is very strong, but the structural model between financial literacy and Sharia investment interest is still weak. Therefore, although financial literacy can increase interest in Sharia investment, this influence is not dominant because Sharia investment decisions are also influenced by other factors such as religious values, trust in Sharia institutions, and social influences. Therefore, further model development needs to consider additional constructs as mediating or moderating variables to strengthen the relationship between financial literacy and Sharia investment interest.

This study demonstrates that financial literacy plays an important role in shaping students' interest in Sharia investment. Students with better financial knowledge, higher confidence in financial decision-making, and stronger financial skills tend to show greater openness toward Sharia-compliant investment instruments. This finding confirms that financial literacy remains a relevant factor in encouraging investment interest, even within the context of underdeveloped and frontier regions. However, the findings also suggest that financial literacy alone does not fully determine students' interest in Sharia investment. Investment interest appears to be influenced by a broader set of factors beyond individual financial competence, including institutional trust, accessibility of Sharia financial products, socio-religious considerations, and local contextual conditions. This indicates that interest in Sharia investment is a multifaceted phenomenon that cannot be explained solely through individual-level financial attributes.

Based on these findings, efforts to increase Sharia investment participation should not rely exclusively on financial literacy programs. Instead, financial education initiatives need to be integrated with policies that strengthen Sharia financial institutions, improve product outreach, and enhance public trust, particularly in regions with limited financial infrastructure. Future research is encouraged to incorporate additional contextual and institutional variables to develop a more comprehensive understanding of the determinants of Sharia investment interest.

Ethics approval

Not required.

Acknowledgments

Not required.

Competing interests

All the authors declare that there are no conflicts of interest.

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Underlying data

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Credit Authorship

Selly Nofriska Sudrimo: Conceptualization, Methodology, Data Collection, Data Analysis, Writing–Original Draft. **Urwawuska Ladini**: Manuscript Review, Editing, Writing–Review. **Dahlia Misrika**: Editing, Writing–Review.

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