

# Framework of Islamic Financial Education and Literacy

<sup>1</sup>Ahcene Lahsasna

<sup>1</sup>*INCEIF, The Global University of Islamic Finance, Lorong Universiti A,  
59100 Kuala Lumpur.*

## ABSTRACT

The rapid growth of the global financial sector is considered an important factor for the economic development of the nation. Despite the growth, there have been several financial crises in the world due to many reasons. One of them is the lack of financial education and literacy in the marketplace, especially among investors and consumers. Due to the lack of financial education, customers take heavy debt without having the sources for the repayment of the debt and bankers create and sell complicated financial products to customers without due diligence. This paper focuses on financial education and literacy from the Islamic perspective. Financial literacy means having knowledge and understanding of the financial matters related to banking, real estate, insurance, investing, saving and tax planning. In the context of Islamic finance, additional elements are added to the portfolio of education and learning such as faraid, zakat calculation and retirement planning, Shariah compliant investment, Shariah rulings related to financial dealings, debt management and partnerships. Every human being has the right to learn about how to plan their financial affairs. The government, which represents an important pillar in building financial education, has a great role to perform which is to support people in having financial education from childhood so that they can plan their finances soundly for their education until retirement. This study emphasizes the importance of financial education and literacy by providing a framework of the financial education that can help regulators, financial institutions, customers and the public in understanding the basic needs in financial education and the ways to achieve financial literacy to ensure proper financial management. The tools, techniques and procedures for good financial education are explained in the paper.

**Keywords:** Financial Education, Financial Planning, Islamic Finance Literacy, Shariah

## INTRODUCTION

A strong and resilient financial system is considered an important part of the

economic growth of a nation. Globally, prime importance is given to the financial system because issues in the

---

Correspondence: hassan@inceif.org.my

financial system of a country can lead to economic disasters. Despite the key importance given to the financial sector, we have witnessed many financial crises in the world. Regulators, governments and officials of financial institutions are working for a strong financial system but what then is going wrong in the financial world? The missing piece of the puzzle in the financial world is the absence of financial education among individuals, customers and society at large. The recurrence of financial crises shows that even bankers and key market players lack financial education. Individuals need to be financially literate so that they can avoid fraudulent financial products and can take care of their finances in a better and more productive manner.

Financial education has come into the lime-light since the last two decades. Financial literacy is equally important for investors, customers, wealth planners, children, adults and older people. Every child should have financial education so that they can manage their finances better for their future. People do plan and decide about their investments and savings but the recurrent financial crises have made it obligatory that people should know the impact of their financial decisions on their financial growth and financial well-being. In order to make good financial decisions, one needs to have up to date financial education and awareness of the products offered by financial institutions. With good financial education, customers can save

themselves from fraud, unnecessary debt, unethical financial activities and wrong investments. Financial markets come out with new and complex products almost every day. Customers need to know the details of the products and the available options for investments. With the growth of Islamic banking and finance, a customer has the option of either choosing the conventional financial system or the Islamic financial system. A customer needs to be well informed on the innovations in the financial markets because a well-informed individual will make a better decision and this will positively affect his investment and growth (OECD, 2006).

Talking about financial literacy and education, it is important to discuss Islamic finance. Islamic finance is considered an alternative financial system which theoretically seems more stable when compared with the conventional financial system. The Islamic financial system includes Islamic banks, Islamic insurance companies known as Takaful operators, Islamic reinsurance companies (Retakaful operators), Sukuk, Islamic capital market, Islamic equity market, Islamic real estate investment trust (IREITS), zakat, faraid, waqf, Islamic asset management, debt management and more. It is said that individuals lack financial education and literacy in conventional finance but we feel that as Islamic finance is still in its infant stage, more focus needs to be given to Islamic financial literacy.

Muslim countries need to provide Islamic financial education to the Muslim population as it is obligatory for Muslims to manage their finances in a Shariah - compliant manner. This paper provides a basic understanding of financial education and literacy and a framework of Islamic financial education and literacy.

The paper has seven parts. The first part of the paper provides an introduction to financial education. The second part explains the important terminologies used in the paper. The third part comprises the importance of financial education from the Islamic perspective. The fourth part focuses on financial education in Malaysia, including Islamic financial education. The fifth part provides the framework of Islamic financial education and literacy. The sixth part comprises tools and techniques for good Islamic financial education, followed by the conclusion.

## WHAT IS FINANCIAL LITERACY AND EDUCATION?

Financial literacy and financial education is defined by the U.S President's Advisory Council on Financial Literacy (PACFL) as follows: Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. Financial education is the process by which people improve their understanding of financial products, services and

concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being. (Hung, Parker, Yoong, & Yoong, 2009). Put simply, financial literacy means having basic personal financial management skills, including considerate knowledge of savings, investment, budgeting, income, money management, tax, spending and credit. The individual should be able to make important financial decisions.

In the context of Islamic financial literacy and education, individuals should understand the concept of money, business, banking, zakat, inheritance, the Islamic way of earning money, permissible financial transactions and services, non-permissible practices in business and finance, among others. The prohibited elements in the Islamic financial system like interest, uncertainty, fraud, inequality, duress, mistake, bribery and gambling should be explained in detail to customers. It is the duty of the ruling governments of Muslim countries to make sure that the public have basic knowledge of the Islamic financial system. This paper focusses on Malaysia as a case study because Malaysia is considered a leader in Islamic finance and has a multi-cultural society. In this society, Muslims need to know their basic rights regarding financial management from the Shariah perspective. Financially literate people, especially people literate in Islamic finance will manage their finances better and this will help the country to be more successful.

The differences between conventional finance and Islamic finance should be an important part of financial education for individuals so that they can make rational decisions. The focus of the present paper is on Islamic financial education and literacy issues. The Islamic financial system includes Islamic banks, Islamic capital market, Islamic equity market, Islamic insurance, Sukuk, Islamic real estate investment trusts (iREITS), Waqf, Zakat and Baitul Mal.

## IMPORTANCE OF FINANCIAL EDUCATION IN ISLAM

Seeking knowledge is regarded as worship (ibadah) in Islam (Rizvi, 1993). Islam is a complete code of life. The Quran and the Hadith or (sayings of the Holy Prophet (Peace be Upon Him) are the main references for Muslims. In Islam, knowledge is always considered very vital for the well-being of the economy. Knowledge is not only related to medicine, religion, and human behaviour but it is also related to business, trade, finance, market, debt management, financial management, etc.

The Quran states that those who know and those who do not know are not equal. In the Quran and the Hadith, acquiring knowledge is strongly recommended.

Given below are some verses from the Holy Quran and sayings of the Holy Prophet (PBUH).

Say: "Are those equal those who know and those who do not know? It is those

who are endowed with understanding that receive admonition." (39:9)

"Read! In the Name of your Lord, Who has created (all that exists)," (96:1)

"My Lord! Increase me in knowledge." (20:114)

The Last Messenger of Allah SWT, the Holy Prophet (PBUH) said: "The seeking of knowledge is obligatory for every Muslim." - Al-Tirmidhi, Hadith 74

The Holy Prophet Muhammad (PBUH) also said: "Acquire knowledge and impart it to the people." Al-Tirmidhi, Hadith 107

The Holy Prophet Muhammad (PBUH) also said: "If anyone travels on a road in search of knowledge, God will cause him to travel on one of the roads of Paradise. The angels will lower their wings in their great pleasure with one who seeks knowledge. The inhabitants of the heavens and the Earth and (even) the fish in the deep waters will ask forgiveness for the learned man. The superiority of the learned over the devout is like that of the moon, on the night when it is full, over the rest of the stars. The learned are the heirs of the Prophets, and the Prophets leave (no monetary inheritance), they leave only knowledge, and he who takes it takes an abundant portion." (Dawood, No: 1631)

In addition, the Holy Prophet (PBUH) is reported to have said: "The seller and the buyer have the right to keep the goods or return them as long as they have not parted." He also said that if both the parties have spoken the truth



and described the defects as well as the merits thereof (the goods), they would be blessed in their deal. If they have told lies or concealed something, then blessings of their transaction would be lost. (Bukhari, No: 1937).

In Islam, financial education is given special importance because Muslims need to know about the law of inheritance, zakat, sadqa and the rights of others over their wealth. The following verse from the Quran shows the importance of financial education for Muslims: “To (benefit) every one, We have appointed shares and heirs to property left by parents and relatives. To those, also, to whom your right hand was pledged, give their due portion. For truly Allah is witness to all things.” (4:33). According to Imam Al-Ghazali, the objective of the Shariah is to promote the well-being of all mankind, which lies in safeguarding their faith, their human self, their intellect, their posterity and their wealth. Whatever ensures the safeguard of these five serves public interest and is desirable.

Muslims cannot separate religion from their day-to-day affairs. All the acts of a Muslim including financial dealings should be in line with the Shariah. This makes Islamic financial knowledge more important for Muslims.

*Table 1: The Importance of Islamic Financial Knowledge*

| Maqasid Al Shariah  |  |
|---------------------|--|
| Protection of Faith | Preservation of Wealth through Acquisition and Development |
| Protection of Life  | Preservation of Wealth from Damage                         |

|                         |  |
|-------------------------|--|
| Protection of Posterity | Preservation of Wealth through the protection of ownership |
| Protection of Property  | Preservation of wealth through its value protection        |
| Protection of Reason    | Preservation of Wealth through its circulation             |

With reference to Maqasid al Shariah, protection of property is of prime importance, making the knowledge related to property management very important. One can protect their own property from damage and can add value to the property only through good management of the property. To manage property (wealth) in better manner, one needs to know the knowledge related to wealth management. Islamic financial education is all about managing property, wealth and finances according to the Shariah for the betterment of the whole society. Islamic financial knowledge is strongly encouraged in Islam. Muslims should attain the knowledge of Islamic financial transactions, Islamic law of contracts, calculation of zakat, faraid, concept of savings and investment in Islam, do's and don'ts of Islamic financial business and practices.

## FINANCIAL EDUCATION IN MALAYSIA

Financial education, especially Islamic financial education would not have been possible if the government and the central bank did not play their due roles. Malaysia is considered a hub of Islamic finance because Malaysia took the lead in developing a Islamic financial structure that includes the

marketplace, laws, rules, regulations, guidelines, standards, and resolutions that promote Islamic finance in theory and practice. In the context of financial education, Malaysia also took the lead. The Financial Sector Blueprint 2011-2020 emphasizes the importance of talent development and financial education for Malaysia's development and growth. The Financial Blueprint provides special recommendation for the financial education of Malaysian consumers and also for developing Malaysia as a hub of Islamic finance education (Bank Negara Malaysia, 2010).

Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia) said, "The development of a financial education programme is vital to enhance financial capability for consumers to participate effectively in the financial system that is dynamic and fast evolving. We are now in an environment that is seeing the proliferation of financial products and services and the emergence of electronic finance. Greater financial literacy will also ensure that the financial industry will be responsive to the more discerning demands. Being ill-equipped or having a lack of understanding of the nature of the products could increase vulnerability to mis-selling by financial institutions or to fraud and scams. Proficiency in financial knowledge will contribute towards greater empowerment and competent financial decisions. Studies have shown that financial education

that is made available at an early age, in the school education system, will strengthen this potential and enhance greater financial inclusion" (Bank Negara Malaysia, 2011).

The OECD International Network on Financial Education (OECD/ INFE) conducted surveys through 2008-2011 around the world and found that 21 countries including Malaysia implemented financial awareness educational programmes in schools. Financial institutions in Malaysia include financial education as part of their corporate social responsibility and Bank Negara Malaysia (BNM) also encourages financial institutions to play their due role in financial education. In 1997, BNM, in collaboration with the Ministry of Education (MoE) and financial institutions, started the Schools Adoption Programme (SAP) and gave opportunity to children to open bank accounts. BNM took the responsibility of SAP. BNM works very closely with MoE in financial education (OECD/INFE, 2013). Table 2 on page 9 shows the role played by the different institutions in Malaysia with regard to financial education.

Malaysia is known for developing and formalizing financial education from the tertiary level until the highest level and also for introducing Islamic financial education to individuals. Now is the time for Malaysia to implement these financial awareness programmes to take the country to the next level of financial literacy and financial independence.

**Table 2: Financial Education for Youth and in Schools by OECD/INFE Policy  
Guidance, Challenges and Case Studies**

| TITLE  | ROLES  |
|--|--|
| <p><b>Bank Negara Malaysia in collaboration with MoE and adoptive financial institutions under SAP</b></p>   | <ul style="list-style-type: none"> <li>• Structure the financial education programme framework for school children</li> <li>• Organise workshops to train teachers in conducting financial education activities as part of their professional development</li> <li>• Organise financial education workshops for children</li> <li>• Develop materials such as guidebooks and lesson plans to facilitate teachers in conducting activities relating to financial education</li> <li>• Develop and distribute effective financial education materials such as Pocket Money Book (including Braille version), financial education website, leaflets and brochures</li> <li>• Promote awareness of the financial education programmes for children</li> <li>• Organise “Financial Awareness Week” in a different state each year to enhance engagement with the community at large, including school children in the locality</li> </ul> |
| <p><b>Private sector such as Securities Industry Development Corporation</b></p>   | <ul style="list-style-type: none"> <li>• Promote investor education through programmes organised for school children</li> <li>• Provide technical assistance to adoptive financial institutions and introduce fresh ideas on investor education activities to motivate teachers and students</li> </ul>  |
| <p><b>Non-governmental organisations such as consumer associations</b></p>   | <ul style="list-style-type: none"> <li>• Promote and create awareness of the importance of financial education programmes through the media</li> <li>• Publish financial education materials</li> </ul>  |
| <p><b>Smart partners such as Credit Counselling and Debt Management Agency, Financial Mediation Bureau, Malaysian Deposit Insurance Corporation and relevance ministries</b></p> | <ul style="list-style-type: none"> <li>• Promote public awareness of the consumer education programme targeted at school children via joint outreach programmes and dissemination of materials and create links to duitsaku.com website</li> </ul>   |

## FRAMEWORK OF ISLAMIC FINANCIAL EDUCATION AND LITERACY

There are various stakeholders involved in Islamic financial education and literacy, namely

- Governments
- Central Banks
- Securities Commissions
- Islamic banks
- Takaful operators
- Islamic banking and insurance associations
- Ministries of Higher Education
- NGOs
- Educational institutions
- International organizations like IMF, The World Bank, ADB, IDB, IFSB,
- Public

All these stakeholders need to work together for Islamic financial education and literacy. As far as the infrastructure for Islamic financial education and literacy is concerned, school premises, community centres, mosques, and government office premises can be used when available for conducting conferences, seminars, discussions and

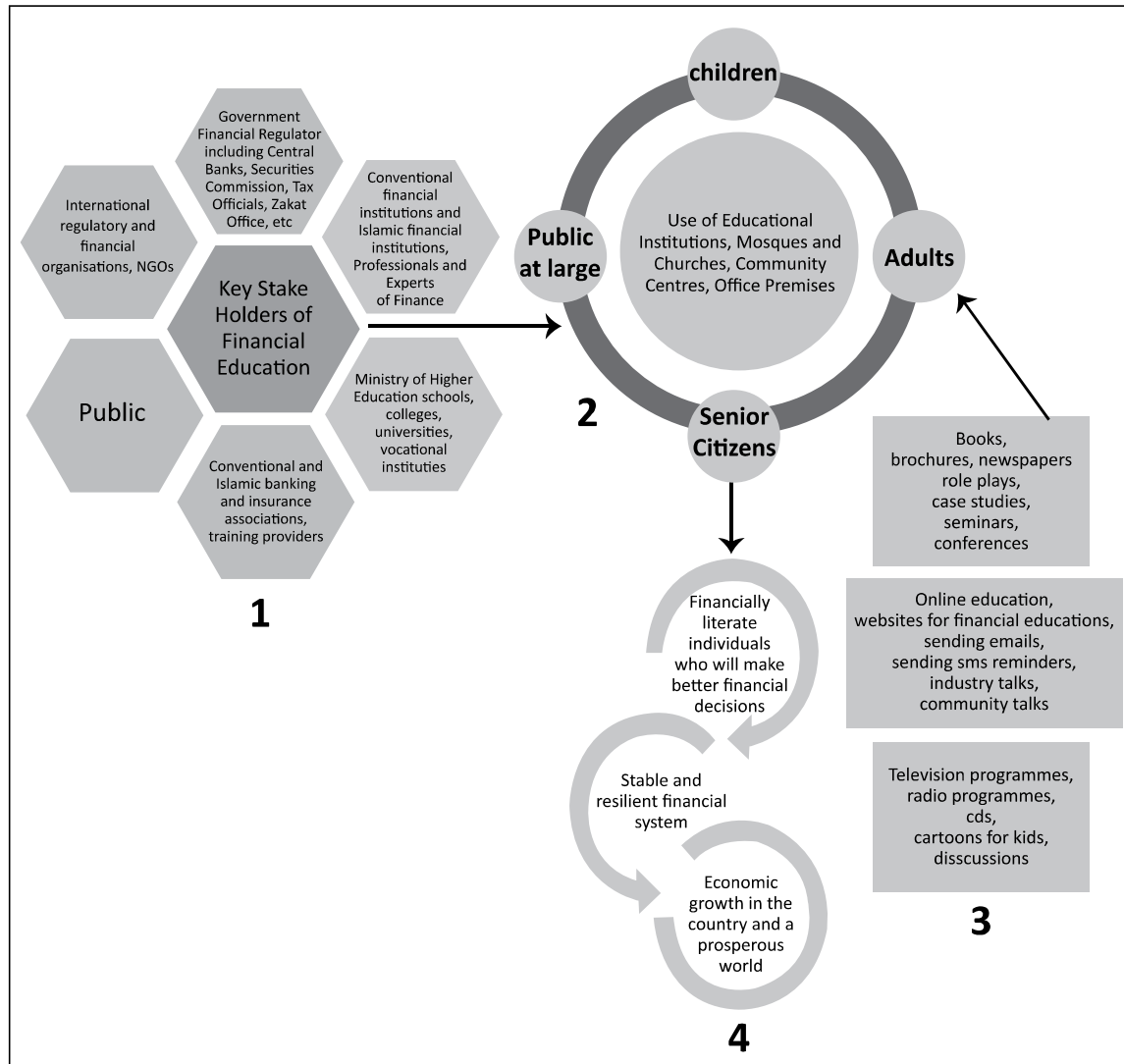
talks for children, adults and senior citizens. A variety of ways can be used for promoting Islamic financial education and literacy. Books, brochures, newspapers, CDs, mobile phone messages, emails, online discussion forums, websites for financial education and literacy, radio programmes, television programmes, facebook, twitter, case studies, role plays for kids, cartoons for kids and other techniques can be used when and where needed. When all these techniques are used by the stakeholders, this will lead to well-informed customers who can make better financial decisions for themselves and their families. In this way, a stable financial system will flourish, leading to a prosperous country. A very simple but useful framework for Islamic financial education and literacy is designed next.

## TECHNIQUES AND TOOLS FOR GOOD FINANCIAL EDUCATION

There are various techniques and tools for a good financial education plan and framework. We propose the following important steps to be followed for a good financial education framework:

- The financial education should be delivered in schools, colleges, universities, polytechnic institutes, community centres, and government and private sector offices.
- The financial education and literacy syllabus should be developed by skilled and expert scholars.

<sup>1</sup>Literature shows that the prime responsibility for creating financial awareness is on the shoulders of the governments and financial institutions but we feel that there are many other stakeholders who own this responsibly as mentioned above



**Figure 1: Framework of Islamic Financial Education and Literacy**

- Proper and regular training should be provided to the teachers and trainers who deliver the financial education sessions in the schools and the community.
- The Central Bank, Ministry of Higher Education, government, financial institutions and other stake holders like Securities Commission, banking associations, insurance associations, professional development bodies, international organizations like International Monetary Fund (IMF), The World Bank, OECD, International Labour Organisation (ILO) and, in the context of Islamic finance education,
  - Islamic financial institutions, Islamic Development Bank (IDB), and Islamic associations need to work together for the success of the financial education programme.
  - There should be regular meetings between the parties involved in the financial education process.
  - The latest techniques should be used for the financial education in schools, colleges and universities like role plays, case studies, printed books, e-books, pocket size information manuals, emails, conferences, training, seminars, videos, mobile alerts, etc.





- The curriculum design for the financial education should be according to the target audience. For example, the financial education material and plan for school children will be different from that for adults and graduates. The methods and techniques used in financial education will also be different for the young, adults and senior citizens.
- Financial education should be included in the education sector permanently.
- For Muslims, it is of great reward to get education for the betterment of oneself, one's family and one's religion. Basic knowledge on the Islamic financial system and Islamic economic system should be provided to school children and as they mature, they should be introduced to inheritance law, Islamic modes of finance, Islamic law of contracts and Islamic financial practices.
- Places of worship should be used productively for disseminating financial education among people. Mosques, churches and other places of worship can be used for instilling the basics of financial education and for making sure that people spend wisely and act proactively.

Discussed above are the some ways by which financial education can be provided to the public in a short time. But what is also important is the continuity of these efforts and commitment from the government.

## CHALLENGES AND SOLUTIONS

There are many hurdles and challenges in the way of Islamic financial education

and literacy. The first and foremost challenge is the lack of political commitment and will. Most Islamic countries lack political commitment in Islamic financial literacy and its growth.

Financial regulatory authorities of the country need to play a very critical role for Islamic finance literacy and its growth. Central banks and securities commissions need to motivate and direct financial institutions to create awareness of their products and services to customers. The ministry of higher education, institutions of zakat, institutions of waqf, tax authorities, legal systems, financial dispute resolution institutions, associations of banks and takaful operators, financial industry training institutes and all other relevant parties in the financial world need to work together under the supervision of central banks and securities commissions to provide Islamic financial education to customers and the public.

Muslim countries can alleviate this problem by following the example of Malaysia. Today Malaysia is a successful country not only for Islamic finance but also for Islamic financial literacy and the credit goes to the government of Malaysia and Bank Negara Malaysia. Malaysia is a very good example of Islamic financial education for Muslim and non-Muslim countries to follow.

A lack of trained staff in financial and educational institutions and of course materials for Islamic financial

education are key factors for the slow growth of financial literacy. The Ministry of Higher Education should take the lead in developing the syllabus of financial education for educational institutions and train their staff well. The syllabus should be designed by experts in their fields for various age groups, keeping in view their needs and level of information required for financial dealings. A child has different requirements and needs for financial knowledge when compared with an adult or experienced individual. The Ministry of Higher Education should train teachers who will impart financial education to students. The financial education should be delivered in an interesting manner so that individuals not only learn but also enjoy the programme.

Lack of proper infrastructure for Islamic financial education is another issue. This issue can be resolved by using mosques, and other religious places for conducting the training and financial education programmes in communities. School premises can also be used after classes for the same purpose. International Islamic financial institutions and regulators should work hand in hand with the central banks of the various countries for Islamic financial education. There should be more collaboration with IMF, The World Bank and FSB for Islamic financial education. Collaboration with international financial entities will help the growth of not only Islamic

finance but also Islamic financial education.

The last and the most critical challenge is related to the behaviour of Muslims toward the attainment of Islamic financial knowledge. Muslims not only in Malaysia but also globally are ignorant of not only financial education but also of Islamic financial education. It is time for Muslims to have good financial knowledge and implement that knowledge by making sound financial decisions. People need to stand on their own feet and have to be financially independent rather than to depend on the government for financial aid.

## CONCLUSION

No one can deny the importance of education especially financial education and literacy. Islamic finance came into the limelight during the last twodecades when the conventional financial system encountered crisis. Islamic finance comprises many segments but one of its important parts which is Islamic wealth planning and management is still in its infant stage. Very few individuals have good understanding of Islamic wealth planning and management. With the growth of Islamic finance we need to focus on the framework of Islamic financial education and literacy. Muslim countries excluding Malaysia are lagging behind in developing Islamic financial education frameworks and programmes. Malaysia is a successful example for Islamic financial education



and literacy. It is suggested that the countries that are starting Islamic financial education may follow the Malaysian model with some amendments as per their jurisdictions. This paper provides a framework of Islamic financial education and literacy for countries. Future research can be done on the statistical analysis of Islamic financial education and literacy programmes conducted by developed and developing countries and their impact on the economic growth of the country. Future research on topics like Islamic wealth planning and management and empirical analysis of household debt, and credit defaults in Malaysia is strongly recommended. ■

## REFERENCES

- Ahmad, M. (2010). Why Islamic financial literacy is important. *Personal Money*.
- Bank Negara Malaysia. (2010, April). Zeti Akhtar Aziz: Consumer Protection and financial education. Retrieved from <http://www.bis.org/review/r110405c.pdf>
- Bank Negara Malaysia. (2010). Financial Sector Blueprint 2011-2020 Strengthening our future. Retrieved from Bank Negara Malaysia: [http://www.bnm.gov.my/files/publication/fsbp/en/BNM\\_FSBP\\_FULL\\_en.pdf](http://www.bnm.gov.my/files/publication/fsbp/en/BNM_FSBP_FULL_en.pdf)
- Borden, L. M., Lee, S.-A., Serido, J., & Collins, D. (2007). Changing College Students' Financial Knowledge, Attitudes, and Behavior through Seminar Participation. *Journal of Family and Economic Issues*, 23-40.
- Danes, S. M., & Haberman, H. R. (2007). Teen financial knowledge, self-efficacy, and behavior: A gendered view. *Journal of Financial Counselling and Planning*, 48-62.
- Grable, J. E., & Joo, S.-H. (2005). Student Racial Differences in Credit Card Debt and Financial Behaviors and Stress. *Journal of College Student*, 400-408.
- Hung, A. A., Parker, A. M., & Yoong, J. K. (2009). Defining and Measuring Financial Literacy. Retrieved from [https://www.rand.org/content/dam/rand/pubs/working\\_papers/2009/RAND\\_WR708.pdf](https://www.rand.org/content/dam/rand/pubs/working_papers/2009/RAND_WR708.pdf)
- Norvilitis, J. M., Merwin, M. M., Osberg, T. M., Roehling, P. V., Young, P., & Kamas, M. M. (2006). Personality factors, money attitudes, financial knowledge, and credit-card debt in college students. *Journal of Applied Social Psychology*, 36(6), 1395-1413.
- Organisation for Economic Co Operation and Development (OECD), International Network on Financial Education (INFE). (2013). Financial education for Youth and in schools. Retrieved from [https://www.oecd.org/daf/fin/financial-education/TrustFund2013\\_OECD\\_INFE\\_Finl\\_Ed\\_for\\_Youth\\_and\\_in\\_Schools.pdf](https://www.oecd.org/daf/fin/financial-education/TrustFund2013_OECD_INFE_Finl_Ed_for_Youth_and_in_Schools.pdf)
- Organisation for Economic Co-Operation and Development. (2006, July). The Importance of Financial Education. Retrieved from <http://www.oecd.org/finance/financial-education/37087833.pdf>
- Rizvi, S. M. (1993). Education In Islam. Retrieved from Al-Islam.org: <https://www.al-islam.org/printpdf/book/export/html/9661>