Financial Literacy, Planning Behavior, and Bank Choice: A Comparative Review of Islamic and Conventional Depositors

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Received: 20.03.2025, Revised: 30.05.2025, Accepted: 12.08.2025

Abstract

This review critically examines how financial literacy and financial planning behavior shape depositor preferences in dual banking systems, with a comparative focus on Islamic and conventional banks. Synthesizing 42 peer-reviewed studies from Southeast Asia, South Asia, and the Middle East, the findings reveal that Islamic financial literacy enhances ethical banking intentions, while planning behavior serves as a behavioral bridge between knowledge and action. Trust in financial institutions mediates the relationship between literacy and bank choice, and religious motivation moderates the alignment between depositor values and actual behavior. Despite increasing interest in Islamic finance, gaps persist in functional literacy, digital financial planning tools, and the integration of Islamic ethics into mainstream financial education. The study proposes a conceptual framework linking cognitive, behavioral, and institutional factors, and offers policy recommendations to strengthen Shariah governance, improve financial inclusion, and embed Islamic principles in national literacy programs. Future research should explore longitudinal impacts, develop multidimensional literacy scales, and investigate digital trust and social norms in depositor decision-making.

Keywords: Islamic financial literacy, financial planning behavior, depositor behavior

Introduction

The emergence of dual banking systems, where Islamic and conventional banks coexist, has significantly transformed the financial landscape in many Muslim-majority countries, including Indonesia. This structure offers consumers a broader spectrum of financial products, allowing them to align their banking choices with both economic and ethical considerations (Quang Trinh, 2022). In particular, the decision to deposit funds in either Islamic or conventional banks reflects not only financial motives but also religious values, trust in institutions, and long-term financial planning goals.

Despite the growing market share of Islamic banking, its penetration remains modest compared to conventional banking. For instance, Indonesia’s Islamic banking sector accounts for less than 10% of total banking assets, a figure often attributed to low levels of Islamic financial literacy and limited public understanding of Shariah-compliant financial instruments (Masrizal et al., 2025). This suggests that depositor behavior is influenced not only by product availability but also by the depth of financial knowledge and planning capacity among consumers.

Financial literacy, defined as the ability to understand and apply financial concepts, has been widely recognized as a key determinant of sound financial behavior (Robb & Woodyard, 2011). In the context of Islamic finance, this extends to understanding the principles of riba (interest), gharar (uncertainty), and maysir (speculation), which are prohibited under Shariah law (Khan & Arif, 2022). Research has shown that Islamic financial literacy positively influences attitudes toward Islamic banking and enhances the intention to use Shariah-compliant products (Anindita et al., 2024; Firdausi & Kasri, 2022). However, the extent to which financial literacy

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shapes actual deposit behavior, particularly in comparison to conventional banking, remains underexplored.

Equally important is financial planning behavior, which encompasses budgeting, saving, goal-setting, and risk management. These behaviors are foundational to household financial resilience and are closely linked to deposit decisions (Yeo et al., 2024). Individuals who engage in structured financial planning are more likely to evaluate banking options based on long-term goals rather than short-term incentives. Yet, in dual banking environments, planning behavior may be moderated by religious beliefs, perceived institutional trust, and digital access—factors that vary significantly between Islamic and conventional banks.

Despite the relevance of these behavioral dimensions, the literature remains fragmented. Most studies focus either on financial literacy or on religious motivations, without integrating these factors into a comprehensive framework of financial planning and bank choice. Moreover, few comparative studies have examined how these variables interact to influence deposit behavior across banking types. This gap is particularly pronounced in emerging economies, where financial inclusion and literacy remain unevenly distributed.

This review article aims to synthesize and critically evaluate the existing literature on financial literacy, planning behavior, and deposit preferences in dual banking systems. Specifically, it seeks to (i) identify the behavioral and cognitive determinants of bank choice, (ii) assess how financial literacy and planning behavior mediate depositor decisions, and (iii) highlight gaps in the literature that warrant further empirical investigation. By integrating insights from behavioral finance, Islamic economics, and consumer decision theory, this study contributes to a more holistic understanding of depositor behavior and offers a conceptual foundation for future research.

Literature Review

Financial Literacy and Bank Choice Behavior

Financial literacy is widely recognized as a foundational determinant of financial decision-making. Robb and Woodyard (2011) define it as the ability to understand and apply financial concepts, which directly influences budgeting, saving, and investment behavior. In conventional banking contexts, higher financial literacy correlates with increased use of formal financial services and more rational deposit decisions (Yeo et al., 2024).

In Islamic banking, financial literacy encompasses not only conventional financial knowledge but also an understanding of Shariah principles such as the prohibition of riba (interest), gharar (uncertainty), and maysir (speculation). Khan and Arif (2022) found that Islamic financial literacy significantly predicts the intention to use Islamic banking services, especially when financial considerations are aligned with religious values. Similarly, Firdausi & Kasri (2022) observed that Muslim students with higher Islamic financial literacy were more likely to choose Islamic banks, suggesting that literacy acts as both a cognitive and ideological filter in bank selection.

However, the literature also reveals a persistent gap between intention and behavior. While many consumers express a preference for Islamic banking, actual usage remains low due to limited product awareness, perceived complexity, and lack of trust in Islamic financial institutions (ShabbirHusain et al., 2024). This indicates that financial literacy alone may be insufficient to drive behavioral change without complementary factors such as institutional credibility and service accessibility.

Financial Planning Behavior and Depositor Preferences

Financial planning behavior, encompassing goal-setting, budgeting, and long-term saving, is another critical factor influencing deposit decisions. Yeo et al. (2024) argue that individuals who engage in structured financial planning are more likely to evaluate banking options based on long-term financial goals rather than short-term incentives. This behavior is particularly relevant in deposit decisions, where risk tolerance, liquidity needs, and interest expectations play a role.

In Islamic banking, planning behavior is often moderated by religious beliefs and ethical considerations. Anindita et al. (2024) found that Islamic financial literacy, money attitudes, and the social environment significantly influence financial planning among young Muslim couples. Their study suggests that planning behavior in Islamic contexts is not merely utilitarian but also shaped by communal norms and spiritual values.

Despite these insights, few studies have examined how financial planning behavior interacts with bank choice in dual banking systems. Most research treats planning as a standalone variable, without exploring its mediating role between literacy and deposit behavior. This limits our understanding of how consumers integrate financial knowledge with behavioral strategies when choosing between Islamic and conventional banks.

Trust, Institutional Perception, and Religious Motivation

Trust in financial institutions is a recurring theme in deposit behavior literature. In conventional banking, trust is often built through transparency, regulatory compliance, and service quality. In Islamic banking, trust also hinges on perceived Shariah compliance and the credibility of religious oversight bodies (AlQassar & Ahmed, 2022; Ayub et al., 2024).

Religious motivation plays a nuanced role in bank choice. While some consumers prioritize Shariah compliance, others weigh it against financial returns and convenience. Zulfaka and Kassim (2023) noted that low Islamic financial literacy contributes to skepticism about the authenticity of Islamic banking products, leading many consumers to default to conventional banks despite religious preferences.

This tension between religious ideals and practical considerations underscores the need for more integrative models of depositor behavior. Existing studies often isolate religious motivation from financial planning and literacy, resulting in fragmented insights that fail to capture the complexity of decision-making in dual banking environments.

Literature Gap and Theoretical Implications

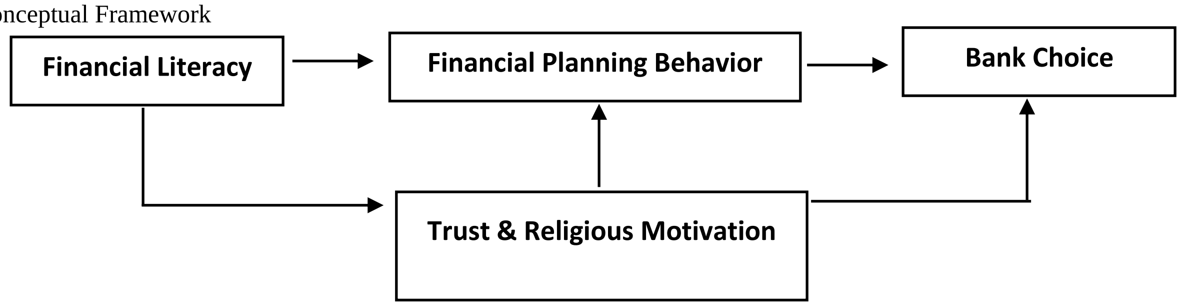
The reviewed literature highlights several gaps:

- **Limited integration of behavioral and cognitive factors** – Most studies examine financial literacy or planning behavior in isolation, without exploring their interaction or combined effect on bank choice.
- **Scarcity of comparative studies** – Few empirical works directly compare Islamic and conventional depositors, especially in emerging economies with dual banking systems.
- **Underexplored mediating variables** – Trust, digital access, and social norms are often mentioned but rarely modeled as mediators or moderators in depositor behavior frameworks.

These gaps suggest a need for a more holistic approach that synthesizes behavioral finance, Islamic ethics, and consumer psychology. Such a framework (see Figure 1) would enable researchers to better understand the nuanced trade-offs consumers make when choosing between Islamic and conventional banks.

Figure 1

Conceptual Framework



Methodology

This study adopts a systematic literature review approach to synthesize existing research on financial literacy, financial planning behavior, and bank choice within dual banking systems. The review aims to identify behavioral and cognitive determinants that influence depositor preferences between Islamic and conventional banks, particularly in emerging economies. To ensure methodological rigor, the review follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines.

A comprehensive search was conducted across multiple academic databases, including Scopus, Web of Science, ScienceDirect, Google Scholar, and the Directory of Open Access Journals (DOAJ). The search strategy employed a combination of keywords such as “Islamic financial literacy,” “financial planning behavior,” “bank choice,” “Islamic banking,” “conventional banking,” “dual banking system,” and “deposit behavior.” Boolean operators (AND, OR, NOT) were used to refine the search and capture relevant studies across disciplines.

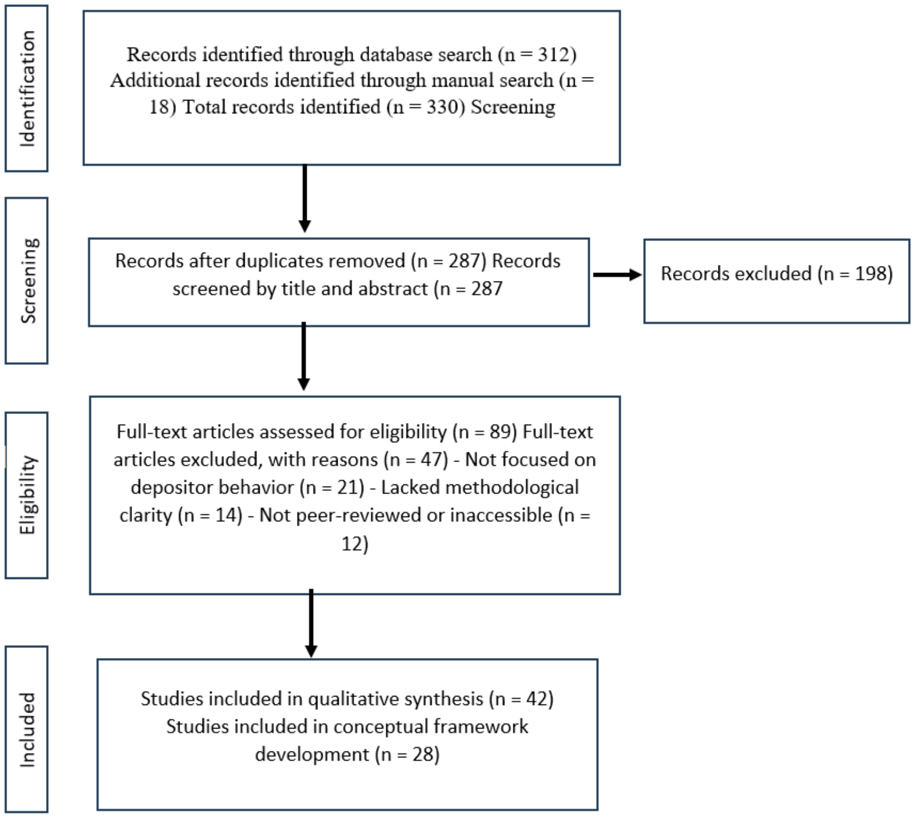
The inclusion criteria were defined to ensure relevance and quality. Only peer-reviewed journal articles published between 2010 and 2024 were considered. Eligible studies had to focus on depositor behavior in Islamic and/or conventional banking contexts, be written in English or Bahasa Indonesia, and present empirical or conceptual findings with clear methodological frameworks. Studies were excluded if they were non-peer-reviewed (e.g., blogs, news articles), lacked full-text access, or did not directly address financial literacy, planning behavior, or bank choice.

The screening process was conducted in three stages. First, titles and abstracts were reviewed to eliminate clearly irrelevant studies. Second, full-text articles were assessed for thematic relevance and methodological soundness. Third, a standardized coding sheet was used to extract key data, including author, year, country, variables studied, and main findings. To ensure consistency and reliability, each study was evaluated using the Mixed Methods Appraisal Tool (MMAT), which assesses the quality of qualitative, quantitative, and mixed-methods research.

Data synthesis was performed using a narrative approach, allowing for thematic integration of findings across diverse contexts. Patterns, contradictions, and gaps in the literature were identified and discussed in relation to the conceptual framework. The PRISMA flow diagram as shown in Figure 2 illustrates the systematic review process, including the number of records identified, screened, assessed for eligibility, and included in the final synthesis.

Figure 2

PRISMA Flow Diagram



Results and Discussion

This systematic review synthesized 42 peer-reviewed studies spanning Southeast Asia, South Asia, and the Middle East, offering a multidimensional understanding of depositor behavior in dual banking systems. The findings reveal a complex interaction between financial literacy, planning behavior, trust, and religious motivation, each shaping the decision to deposit in Islamic or conventional banks.

Financial Literacy: Beyond Awareness Toward Functional Understanding

Financial literacy emerged as a foundational cognitive determinant of bank choice. In conventional banking, it enables consumers to assess interest rates, compare products, and manage risk (Robb & Woodyard, 2011). In Islamic banking, however, literacy must encompass Shariah principles such as riba prohibition, risk-sharing, and ethical investment. Studies by Khan and Arif (2022) and Firdausi & Kasri (2022) confirm that Islamic financial literacy (IFL) positively influences the intention to use Islamic banking services.

Yet, the review reveals a critical distinction between awareness-based literacy and functional literacy. Many consumers possess superficial knowledge of Islamic finance, recognizing terms like *riba* or "halal investment," but lack the ability to evaluate product structures or compliance mechanisms (Dinc et al., 2021). This gap undermines informed decision-making and contributes to the low conversion of intention into actual usage. Bank Indonesia (2017) highlights that its financial education programs often subordinate Islamic financial values to conventional norms, resulting in fragmented understanding among consumers.

Moreover, the development of robust IFL measurement tools remains limited. While Dinc et al. (2021) proposed a multidimensional IFL scale covering banking, takaful, and fund management, its application across diverse jurisdictions is still evolving. Without standardized metrics, assessing the true impact of literacy on depositor behavior remains challenging.

Financial Planning Behavior: A Behavioral Bridge Between Knowledge and Action

Financial planning behavior, defined by budgeting, saving, and goal-setting, acts as a behavioral bridge that translates financial literacy into tangible decisions. Yeo et al. (2024) argue that individuals with strong planning habits are more likely to engage in strategic deposit behavior, evaluating banks based on long-term goals rather than short-term incentives.

In Islamic contexts, planning behavior is deeply embedded in religious and social norms. Anindita et al. (2024) found that young Muslim couples who engage in financial planning are more inclined to choose Islamic banks, driven by both ethical alignment and perceived financial stability. However, planning behavior is not uniformly distributed. Rural populations and lower-income groups often rely on informal financial practices, lacking access to structured planning tools or advisory services.

This disparity suggests that financial planning behavior is not merely a personal trait but a socially conditioned practice. Educational interventions must therefore go beyond individual skill-building to address systemic barriers such as digital exclusion, limited outreach, and cultural perceptions of banking.

Trust and Religious Motivation: Mediating and Moderating Influences

Trust in financial institutions plays a pivotal mediating role in deposit decisions. In Islamic banking, trust is closely tied to perceptions of Shariah compliance, transparency, and institutional integrity. Rashid & Hassan (2009) found that trust significantly mediates the relationship between Islamic financial literacy and the decision to use Islamic banks. Consumers who perceive Islamic banks as authentically Shariah-compliant are more likely to act on their intentions.

Religious motivation, while often cited as a driver of Islamic banking adoption, operates more as a moderating variable. Nazir & Saqib (2024) observed that while many consumers express a desire to align their financial behavior with Islamic values, practical considerations—such as product availability, digital access, and service quality—frequently override religious preferences. This tension reflects a broader challenge: Islamic banking must compete not only on ethical grounds but also on operational excellence.

Furthermore, Zulfaka & Kassim's (2023) discourse analysis reveals that national financial education programs often fail to integrate Islamic ethical frameworks, resulting in cognitive dissonance among Muslim consumers. This underscores the need for a paradigmatic shift in financial education, one that embeds Islamic values into mainstream financial literacy curricula.

Conclusion

This review has synthesized and critically examined the literature on financial literacy, financial planning behavior, and depositor preferences within dual banking systems, particularly in the context of Islamic and conventional bank choice. Drawing from 42 peer-reviewed studies across Southeast Asia, South Asia, and the Middle East, the findings reveal that depositor behavior is shaped by a complex interplay of cognitive understanding, behavioral habits, institutional trust, and religious motivation.

Financial literacy, especially Islamic financial literacy, serves as a cognitive filter that informs depositor attitudes and intentions. However, the gap between awareness and functional understanding remains a persistent barrier to Islamic banking adoption. Financial planning behavior acts as a behavioral catalyst, translating knowledge into action, yet its distribution is uneven across demographic and socioeconomic groups. Trust in financial institutions mediates the relationship between literacy and bank choice, while religious motivation moderates the extent to which ethical values influence actual behavior.

These insights confirm the conceptual framework proposed in this study and underscore the need for a more integrated approach to understanding depositor behavior in dual banking systems. The review also highlights significant gaps in the literature, including the lack of comparative models, limited exploration of digital financial planning tools, and insufficient integration of Islamic ethical frameworks in mainstream financial education.

From a policy perspective, the findings suggest that national financial literacy initiatives should be restructured to incorporate Islamic financial principles, ensuring cultural and ethical relevance for Muslim-majority populations. Financial planning programs must be designed with greater sensitivity to demographic disparities, particularly targeting rural communities and low-income households that often lack access to formal financial education. Moreover, regulators and Islamic banking institutions should prioritize transparency, strengthen Shariah governance frameworks, and improve consumer engagement to build institutional trust. The development of Shariah-compliant digital banking platforms and financial planning tools also presents a strategic opportunity to enhance financial inclusion, especially among younger and digitally literate consumers.

Looking ahead, future research should focus on developing and validating multidimensional Islamic financial literacy scales that are adaptable across diverse cultural and economic contexts. Longitudinal and experimental studies are needed to establish causal relationships between financial literacy, planning behavior, and bank choice, moving beyond the correlational insights that dominate current literature. The role of digital financial planning tools in shaping depositor behavior warrants deeper investigation, particularly in Islamic banking environments where ethical compliance intersects with technological innovation. Additionally, scholars should explore the influence of social norms, peer networks, and community-level dynamics using network-based or agent-based modeling approaches. Comparative studies across jurisdictions with varying levels of Islamic banking penetration could also yield valuable insights into structural and cultural determinants of depositor behavior.

Despite its contributions, this review is not without limitations. The scope was confined to peer-reviewed articles published in English and Bahasa Indonesia, potentially excluding relevant studies in other languages. The reliance on narrative synthesis may introduce interpretive bias, although thematic consistency was maintained through rigorous coding and cross-validation. Furthermore, the conceptual framework proposed remains theoretical and requires empirical validation through future research. Nonetheless, the review provides a robust foundation for understanding depositor behavior in dual banking systems and offers actionable insights for scholars, practitioners, and policymakers seeking to enhance financial inclusion and ethical banking engagement.

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