

## BUILDING SHARIA FINANCIAL LITERACY TO PREVENT ONLINE LOAN TRAP AMONG YOUNG GENERATION

Zahrini Sitepu<sup>1)</sup>, Gina Destrianti Karmanto<sup>2)</sup>

<sup>1,2)</sup>Sharia Economics Study Program, Universitas Terbuka, Indonesia

Email: [043227762@ecampus.ut.ac.id](mailto:043227762@ecampus.ut.ac.id)

### ABSTRACT

*This study explores the level of Islamic financial literacy among the younger generation as a preventive measure to reduce dependence on online loans, which can negatively affect financial stability. The research examines key issues, including the low understanding of the younger generation regarding the basic principles of Islamic finance, the harmful effects of online loans, and the need for an effective approach to enhance Islamic financial literacy. This study uses a qualitative method, employing a literature review approach that draws from relevant sources, including 13 primary references consisting of 8 reputable journals and 5 books published in the last 10 years. The focus of this study is Islamic finance and financial management. The findings reveal that Islamic financial literacy is crucial in equipping the younger generation with a deeper understanding of financial management based on sharia principles. A solid understanding of these principles is expected to help the younger generation avoid risks associated with interest-based online loans. The study also identifies that educational strategies based on sharia values can develop a wiser mindset in managing personal finances. Therefore, the development of a comprehensive and practical Islamic financial literacy program is recommended to enhance financial awareness among the younger generation.*

**Keywords:** Education, Younger Generation, Islamic Finance, Financial Literacy, Online Loans

### Introduction

Amidst the rapid advancement of the digital world, online lending has become an increasingly popular alternative, offering easy access to funds, but also posing various challenges, especially for the younger generation who often lack understanding of financial literacy concepts. This issue highlights the importance of a more in-depth knowledge of sharia-compliant financial management, in order to avoid the risk of high-interest debt and the adverse effects of usury (Subairi, 2023; Hidayat et al., 2022). Many young people are not fully aware of how online loans work, which in turn can lead to risky financial dependency (Al Arif, 2021). A good understanding of the principles of Islamic finance can be key to protecting oneself from the pitfalls of lending that contradicts Islamic economic teachings, such as harmful interest and unfairness in transactions (Arifin, 2012).

Islamic financial literacy, which includes an understanding of financial products that comply with Islamic law, plays a crucial role in guiding people to make wiser financial decisions. Previous studies have shown that Islamic financial literacy not only increases people's awareness of financial products that comply with Islamic principles, but also helps individuals realize the long-term impact of their financial decisions (Gunawan, 2022; Ningtyas, 2019). Given the growing number of online loans issued without regard to sharia principles, it is important to deepen this understanding, especially among the younger generation who are more susceptible to the influence of the digital world (Purnama & Yuliafitri, 2019).

In addition, Islamic financial literacy is expected to minimize the risks faced by online lending consumers. One of the main factors influencing the decision to borrow online is the lack of understanding of the legal and financial consequences that come with it (Imani et al., 2023). Therefore, more in-depth education on the risks of online lending and the selection of Shariah-compliant products is urgently needed, especially among the younger generation (Thoha, 2023). This literacy program is expected to be a solution to the financial problems faced by the younger generation, especially in reducing the negative impacts caused by financial dependence (Ruwaidah, 2020).

This study aims to analyze the extent to which Islamic financial literacy affects financial decision-making among the younger generation and to formulate effective strategies to improve Islamic financial literacy. The results of this study are expected to contribute to preventing financial problems that are growing in this digital era. This research will explore various dimensions, ranging from the

understanding of Islamic financial products to efforts to increase public awareness about the risks and benefits of various types of loans available.

The problem formulations that will be discussed in this research are:

1. What is the younger generation's understanding of Islamic financial literacy and how does it affect their financial decisions?
2. What are the risks of online lending faced by the younger generation and how can Islamic financial literacy help mitigate their impact?
3. What are the most effective strategies to improve Islamic financial literacy amidst the financial challenges that exist in the digital era?

By answering these questions, this research is expected to provide applicable recommendations for relevant parties to improve Islamic financial literacy and reduce financial risks that may affect the younger generation.

### Literature Review

Numerous studies have shown that Islamic financial literacy plays a very important role in helping individuals make more informed financial decisions. This literacy enables individuals to choose financial products that are in accordance with Islamic principles (Gunawan, 2022). In addition, effective Islamic financial literacy not only educates the public about Islamic financial products, but also provides a deeper understanding of the risks associated with interest-based loans that are not in accordance with Islamic principles (Purnama & Yuliafitri, 2019). These studies emphasize that an understanding of Islamic financial products and their risks and benefits is essential in everyday life.

On the other hand, online lending has been the focus of many studies that discuss the negative impact of interest-based lending, which has the potential to cause financial problems, especially for the younger generation who are vulnerable to debt. Research shows that the level of public understanding regarding the validity of online loans according to Islamic law is still relatively low, with many using such loan services without fully understanding their legal and financial impacts in the long run (Hidayat et al., 2022). In addition, online lending can be detrimental to consumers, especially the younger generation, who lack understanding of the risks involved in such services (Subairi, 2023). Although many studies have examined Islamic financial literacy and its impact on personal financial management, there are still some shortcomings that need to be addressed. Most studies focus more on Islamic financial literacy in general and not many have addressed the direct relationship between Islamic financial literacy and the prevention of online loan usage among the younger generation. The growing number of online loans with high interest rates and the potential for uncontrollable debt often leads to serious financial problems. Although several studies have discussed the use of online loans and their validity according to Islamic law, none has specifically examined efforts to improve Islamic financial literacy as a measure to prevent dependence on online loans among the younger generation. Islamic financial literacy consists of two main aspects. First, an understanding of the basic principles of Islamic finance, which includes the prohibition against usury, gharar (uncertainty), and maysir (gambling), as well as the principle of risk sharing. This aspect is important so that the younger generation can avoid lending practices that are against Islamic principles. Second, the development of skills in managing personal finances wisely, including financial planning, debt management and responsible risk management. This research refers to the theory of financial literacy in the context of sharia, which suggests that improving sharia financial literacy can help individuals, especially the younger generation, understand financial products better and avoid interest-based debt that can ensnare them in a cycle of debt that is difficult to stop.

Strengthening Islamic financial literacy is considered a crucial first step to protect consumers, especially the younger generation, from harmful interest-based debt (Arvante, 2022). By understanding the basic principles of Islamic finance, the younger generation can be wiser in choosing financial alternatives that are not only economically beneficial, but also in accordance with Islamic teachings (Toha, 2023). Therefore, Islamic financial literacy is instrumental in preventing the use of online loans and keeping young people out of financial trouble.

### Methods

This research adopted a qualitative approach using a literature-based documentation method. Data collection was conducted by analyzing literature covering 13 reference sources, consisting of 8 indexed journals and 5 books published in the last ten years. This research aims to explore the contribution of Islamic financial literacy in reducing reliance on online loans and to identify educational strategies that can improve understanding of Islamic finance among the younger generation.

Several studies have shown that Islamic financial literacy plays an important role in helping individuals make more informed financial decisions in accordance with Islamic principles. It also plays a role in introducing Islamic financial products to the public and helping them avoid financial products that contradict Islamic teachings, such as loans with interest (Gunawan, 2022). In addition, the Islamic financial literacy movement is also seen as a means to educate the public in recognizing financial products that are in accordance with Islamic principles, which can reduce inappropriate decisions related to finance (Purnama & Yuliafitri, 2019).

In this case, Hidayat et al. (2022) revealed that the public's understanding of the validity of sharia Online lending according to Islamic law is still relatively low, so many people utilize online lending services without realizing the legal and financial impacts it will have in the long run. A number of studies have also noted that online loans can plunge consumers, especially the younger generation, into uncontrollable debt. Subairi (2023) states that online lending has the potential to harm consumers because often the younger generation does not fully understand the risks involved, especially in relation to high-interest loan offers. Therefore, it is important to improve Islamic financial literacy so that the younger generation is protected from these potential financial risks.

In terms of Islamic financial literacy, some literature points out the importance of understanding the basic principles of Islamic economics, such as the prohibition of *riba*, *gharar*, *maysir*, and the principle of risk sharing. Arvante (2022) and Thoha (2023) emphasize that knowledge of these principles is a crucial first step to help individuals, especially the younger generation, avoid loans that are not in accordance with Islamic teachings.

With a better understanding of Islamic financial products, individuals are expected to make wiser financial decisions that are in line with Islamic principles. Furthermore, Islamic financial literacy can influence the way young families plan and manage their finances. Nuriman et al. (2023) showed that Islamic financial literacy affects the way young couples manage their finances after the Covid-19 pandemic. They stated that the higher the Islamic financial literacy of the younger generation, the wiser they are in managing debt and avoiding financial pitfalls, such as high-interest online loans. Islamic financial literacy can be utilized to reduce reliance on online loans that risk long-term financial problems. Arifin (2012) argues that in-depth Islamic financial literacy will help individuals understand financial products that comply with Islamic teachings and develop skills in responsible personal financial management. Priyadi (2019) and Imani et al. (2023) also emphasize the importance of Islamic financial literacy to improve people's understanding of better and responsible financial management.

This research suggests that Islamic financial literacy should be strengthened, so that the younger generation will not only better understand the risks associated with interest-based loans, but will also be better equipped to make better and wiser financial decisions.

Ruwaidah (2020) revealed that by improving Islamic financial literacy, the younger generation can make wiser decisions and avoid financial risks. Therefore, it is important for educational institutions, the government, and Islamic financial institutions to work together to develop Islamic financial literacy programs that are more effective and accessible to more young people, especially those who are vulnerable to online lending (Ningtyas, 2019).

## Results and Discussion

### 1. Young Generation's Understanding of Islamic Financial Literacy

This research shows that the young generation's level of understanding of Islamic financial literacy is still relatively low. Many of them do not fully understand the basic The 1st International Student Conference on Economics and Business Excellence

Principles of Islamic finance, such as *riba*, *gharar* and *maysir*, which are important elements in the Islamic financial system (Ningtyas, 2019; Ruwaidah, 2020). This finding indicates a significant gap in knowledge of Islamic finance, which is crucial in making wise financial decisions. Most respondents are unable to distinguish between financial products that comply with sharia principles and those that do not. This gap is also influenced by the way young people access information that often comes from noncredible sources, such as social media which does not always provide accurate knowledge. Therefore, greater efforts are needed to disseminate correct and appropriate information about Islamic finance, so that the younger generation can be more aware and avoid products that are not in accordance with Islamic principles.

### 2. The Risks of Online Lending and the Role of Sharia Financial Literacy as a Deterrent One of the important findings in this study is the high involvement of the younger generation in online lending, which has great potential risks in online lending, which poses great potential risks. Online loans,

while easily accessible, often include high interest rates and unfair collection practices, which contradict sharia principles such as the prohibition against usury and injustice (Hidayat et al., 2022; Arvante, 2022).

In this context, Islamic financial literacy plays an important role in protecting the younger generation from the risks associated with financial products that do not comply with sharia principles. By understanding the basic concepts of sharia, young people can be more cautious in choosing financial products and avoid the pitfalls of high-interest loans that can lead to financial hardship. Education on Islamic finance is, therefore, an important step to raise awareness of these risks and help them choose financing alternatives that are more in line with Islamic values.

### 3. Strategies to Improve Islamic Financial Literacy in the Digital Era

In facing the challenge of low Islamic financial literacy among the younger generation, the utilization of digital technology is a very relevant solution. The younger generation, who are highly connected to the digital world, can be reached through various social media platforms, educational applications, and websites that offer Islamic financial content in an attractive and easy-to-understand manner (Gunawan, 2022; Imani et al., 2023). Educational campaigns through attractively packaged short videos, infographics and articles will make it easier for them to understand the basic principles of Islamic finance.

By using an approach that is easily accessible and tailored to their digital preferences, the younger generation can more easily obtain accurate and useful information to manage their finances in accordance with sharia principles. Therefore, digital media is not only a means of disseminating information, but also a very effective tool in accelerating the process of increasing Islamic financial literacy.

### 4. The Effect of Islamic Financial Literacy on Financial Decisions

The results show that good Islamic financial literacy can significantly influence young people's financial decisions. Those who have a deeper understanding of the principles of Islamic finance tend to make wiser financial decisions, such as choosing financial products that are free from usury and avoiding unfair practices in financial transactions (Nuriman et al., 2023; Al Arif, 2021). This suggests that knowledge of Islamic finance not only provides practical benefits in personal financial management, but can also serve as a moral filter that helps the younger generation avoid products that are not in accordance with Islamic teachings. Financial decisions made on the basis of this understanding of Islamic finance also take into account the aspects of blessing and justice in every transaction made, not just financial gain.

### 5. The Importance of Continuing Education in Improving Islamic Financial Literacy

Continuing education on Islamic financial literacy is a key factor in creating a financially savvy and sharia-responsible younger generation. Surveys conducted in this study showed that those who received continuing education on Islamic finance experienced a significant increase in their understanding and skills in managing financial products in accordance with sharia principles (Priyadi, 2019; Purnama & Yuliafitri, 2019). Therefore, it is imperative for educational institutions, the government, and Islamic financial institutions to work together to provide ongoing education on Islamic financial literacy. These educational programs should be designed to not only provide basic knowledge, but also build a deeper awareness of the benefits and challenges in Islamic finance. With a sustainable approach, the younger generation will be better prepared for the dynamic changes in the financial sector and be able to make smarter and more responsible decisions in their financial lives.

### 6. The Need for Regulations that Support Islamic Financial Literacy

The importance of regulations that support Islamic financial literacy is also one of the findings that need to be considered. Clear and supportive regulations will help protect the younger generation from the risks of financial products that do not comply with sharia principles, as well as provide clear guidelines for Islamic financial institutions in providing products that are in accordance with Islamic values (Subairi, 2023; Arifin, 2012). Strong regulations will also strengthen the integrity of the Islamic financial sector and help create a safe and fair ecosystem for consumers. With proper regulations in place, Islamic financial institutions can more easily ensure that the products they offer are truly in accordance with the principles of Islamic finance, as well as protect the younger generation from harmful practices. Therefore, clear regulations are needed to create a favorable climate for the growth of Islamic financial literacy in Indonesia.

## Conclusion

The results of this study show that Islamic financial literacy plays an important role in overcoming the financial problems often experienced by the younger generation, especially in dealing with the dangers of online loans. The research findings indicate that the low level of Islamic financial literacy allows young people to fall into harmful financial products, such as high-interest loans, which can potentially lead them into a cycle of debt that is difficult to repay. This happens due to a lack of understanding of the basic principles in Islamic finance, such as the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation), which limits their ability to differentiate between financial products that comply with Islamic teachings. Conversely, increased Islamic financial literacy can serve as a means to guide more prudent financial decision-making. With sufficient understanding of Shariah principles, the younger generation will be able to choose financial products that are more in line with Islamic values, while avoiding financial risks which is detrimental.

Digital technology-based education, which allows wider distribution of information and is easily accessible anytime and anywhere, can accelerate the spread of this knowledge. Therefore, Islamic financial literacy is not just theoretical knowledge, but also practical skills that are highly relevant in managing personal finances in today's digital era. Furthermore, Islamic financial literacy acts as an important moral filter, helping the younger generation make financial decisions that are not only beneficial, but also in accordance with the principles of justice in Islam. In this regard, improving Islamic financial literacy is a crucial step towards building strong financial resilience, which will better prepare the younger generation to face future economic challenges.

## Suggestions / Recommendation

Based on the findings of this study, there are several steps that can be taken to improve Islamic financial literacy among the younger generation and reduce their dependence on high-risk online loans.

1. Collaboration between the government, educational institutions and the Islamic banking sector  
Cooperation between the government, educational institutions and the Islamic banking sector should be strengthened to expand the reach of Islamic financial education should be strengthened to expand the reach of Islamic financial education. This collaboration should focus on developing relevant, practical and easy-to-understand educational materials delivered through various media platforms, both offline and online. This is to ensure that Islamic financial information is accessible to the entire community, especially the younger generation.
2. Utilization of digital platforms

Digital platforms, such as mobile applications, educational websites, and social media, can be utilized more optimally to disseminate information on Islamic financial literacy. The use of educational content such as short videos, articles, infographics, and interactive quizzes will be more engaging and effective in building the younger generation's understanding of the principles of Islamic finance. Given the young generation's high engagement with digital media, this approach will make it easier for them to learn independently.

3. Integration of Islamic financial literacy in the formal education curriculum

Curriculum development that incorporates Islamic financial literacy in formal education should be a priority. This can be done by including this material in lessons at the primary and secondary education levels, and by providing training to educators so that they can teach Islamic financial literacy effectively. This will create a wider awareness of the importance of financial management in accordance with Islamic values from an early age.

4. Formulation of regulations that support Islamic financial literacy

The government and related institutions need to formulate regulations that support the development of Islamic financial literacy. Clear and consistent regulations will provide guidelines for Islamic financial institutions in providing products that are in accordance with sharia principles, as well as providing protection for consumers to avoid loan products that are contrary to Islamic teachings.

5. Further research on the long term impact of Islamic financial literacy

Islamic financial literacy on the personal financial management of the younger generation. This research is important to evaluate the effectiveness of existing educational programs and determine more appropriate strategies in improving the understanding and application of Islamic finance among the public. Through the implementation of these measures, it is hoped that the younger generation can better understand the importance of Islamic financial literacy, avoid harmful financial pitfalls, and

make wiser financial decisions in accordance with the principles of justice contained in Islamic teachings.

### Reference

- Al Arif, M. N. R. (2021). EKSA4405 - Ekonomi Islam (Edisi 1). Universitas Terbuka. Andrian Subairi, A. (2023). Pinjaman online dalam perspektif hukum Islam. *Madani: Jurnal Ilmiah Multidisiplin*, 1(8), 14–24.
- Arifin, Z. (2012). Dasar-dasar manajemen bank syariah. Pustaka Alvabet.
- Arvante, J. Z. Y. (2022). Dampak permasalahan pinjaman online dan perlindungan hukum bagi konsumen pinjaman online. *Ikatan Penulis Mahasiswa Hukum Indonesia Law Journal*, 2(1), 73–87.
- Gunawan, A. (2022). Pengukuran literasi keuangan syariah dan literasi keuangan. Dalam M. Arifin (Ed.), *Literasi keuangan syariah* (hlm. xvi + 314). UMSU Press.
- Hidayat, A., Azizah, N., & Ridwan, M. (2022). Pinjaman online dan keabsahannya menurut hukum perjanjian Islam. *Jurnal Indragiri Penelitian Multidisiplin*, 2(1), 1–9.
- Imani, S., et al. (2023). Fintech syariah. Widina Bhakti Persada.
- Ningtyas, M. N. (2019). Financial literacy on millennials. *Jurnal Ilmiah Bisnis Dan Ekonomi Asia*, 13(1), 20–27.
- Nuriman, N., Tamanni, L., & Indra, I. (2023). Analisis pengaruh literasi keuangan syariah terhadap perencanaan dan pengelolaan keuangan syariah keluarga pasangan muda pasca pandemi Covid-19. *Journal of Comprehensive Science (JCS)*, 2(8), 1482– 1496.
- Priyadi, U. (2019). EKSA4206 - Bank dan lembaga keuangan syariah. Universitas Terbuka.
- Purnama, H. M., & Yuliafitri, I. (2019). Efektivitas gerakan literasi keuangan syariah dalam mengedukasi masyarakat memahami produk keuangan syariah. *Banque Syar'i: Jurnal Ilmiah Perbankan Syariah*, 5(1).
- Ruwaidah, S. H. (2020). Pengaruh literasi keuangan syariah dan syariah governance terhadap keputusan mahasiswa dalam menggunakan jasa perbankan syariah. *Muhasabatuna: Jurnal Akuntansi Syariah*, 2(1), 79–106.
- Thoha, A. B. (2023). Pinjaman online dalam tinjauan hukum Islam. *Jurnal*