

# The Influence of Islamic Financial Literacy and Islamic Banking Product Perceptions on Investment Behavior: Evidence of Religiosity as a Moderating Variable

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## ABSTRACT

**Backgrounds:** Although sharia finance is developing rapidly, optimal investment practices in this sector are very limited, especially in developing countries.

**Objectives:** This study examines the impact of sharia financial literacy and perception of sharia banking products on investment decisions, while also exploring the role of religious moderation.

**Methodology:** By using quantitative methodology, data was collected from 561 participants with prior experience or expressed interest in Sharia financial services were recruited through an online questionnaire. Direct effects and moderating relationships were assessed using Partial Least Squares Structural Equation Modeling (PLS-SEM).

**Findings:** The results show that the understanding of Islamic finance and the perception of Islamic banking products significantly increases investment decision-making. On the other hand, religiosity does not show a significant direct impact on investment behavior. Further analysis reveals that although religiosity does not modify the impact of financial literacy on investment choices, religiosity significantly weakens the relationship between perceptions of sharia banking products and investment behavior.

**Conclusions:** In aggregate, cognitive and perceptual antecedents are shown to predominate over piety in configuring Sharia-compliant investment behavior. The present study substantiates the contingent function of religiosity, delineates pragmatic implications for the Sharia financial industry, and articulates informed directions for future praxis.

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## 1. INTRODUCTION

Globally, the Islamic financial sector has experienced remarkable growth, alongside increasing awareness among Muslim communities regarding the importance of financial knowledge that aligns with Sharia principles and regulations (Wiyanti, 2013). Research by Anwar (2024) indicates sustained expansion in the global Islamic financial asset market, driven by the growing participation of retail investors, the continuous introduction of innovative Islamic financial products, and the stronger integration of ethical and religious considerations in financial decision-making. Nevertheless, market expansion is not always accompanied by sound investment behavior. For this reason, comprehensive financial literacy is essential, encompassing mastery of financial concepts, understanding of Islamic banking product characteristics, and internalization of religious values. Through such literacy, individuals are better equipped to manage, plan, and control their finances

rationally. This approach is expected to guide more informed Sharia-compliant investment decisions and contribute positively to long-term financial well-being (Febrianti & Siregar, 2025).

Owing to its position as the country with the largest Muslim population worldwide, Indonesia is endowed with substantial prospects for the growth of the Islamic investment market. However, national Islamic financial literacy levels remain lower than those of conventional financial literacy (Hernanda & Mildawati, 2023). Batam City, as an industrial and trade hub characterized by a pragmatic economic orientation, highlights the importance of a deeper understanding of the factors influencing individual behavior in financial decision-making (Sarito, 2025).

Low levels of literacy and public awareness regarding Islamic capital market investment in Indonesia have led many individuals to prioritize rapid and short-term returns (Hernanda & Mildawati, 2023). According to Shah et al. (2024), Islamic financial literacy plays a critical role in improving investment understanding and decision-making, as it encompasses knowledge of Sharia principles, financial products, and investment risks. Perceptions of Sharia banking products such as *mudharabah*, *musyarakah*, and *murabahah* also shape public attitudes toward Islamic investment, although limited awareness, regulatory constraints, and the dominance of the conventional financial system remain major challenges (Hartanto et al., 2025). Other studies emphasize that insufficient Islamic financial literacy contributes to the slow growth of Sharia capital market investors, encourages speculative behavior, and increases the risk of financial loss. Conversely, strong literacy has been shown to positively support financial and economic development (Febrianti & Siregar, 2025).

Beyond cognitive antecedents, psychological factors and individual value orientations are instrumental in accounting for investment behavior, encompassing the patterns through which investment decisions are selected, managed, and evaluated, based on preferences, information, and perceived risk (Xu et al., 2025). Perceptions of Sharia banking products reflect individuals' understanding of product characteristics, quality, and compliance with Islamic principles, and have been empirically shown to encourage active engagement in investment behavior (Jasen & Kim, 2023). Religiosity represents a value system that influences preferences, prudence, and avoidance of investments deemed incompatible with religious teachings. Within the context of Islamic finance, investment behavior reflects an individual's strategic orientation toward participating in investment activities that prioritize not only profit but also adherence to Sharia principles (Rahmawati et al., 2024). However, empirical findings regarding the mediating and moderating roles of these variables remain inconsistent and inconclusive (Yulfiswandi et al., 2024).

Although many studies have discussed Islamic financial literacy and investment behaviour, previous research still has limitations. Conceptually, there is no integrative model that combines financial literacy, perceptions of Islamic banking products, and religiosity in a single framework. Empirically, the role of religiosity as a moderator still shows varying results in different studies, so that the mechanism of its influence remains unclear. Contextually, empirical investigations in industrial municipalities such as Batam remain relatively scarce, leading to a fragmented understanding of local investment behaviour. This study endeavors to bridge these three lacunae by scrutinizing the relationship between financial literacy, product perception, and religiosity in shaping investment behaviour, employing the PLS-SEM approach within the Batam context.

However, empirical findings on the role of religiosity as a moderator still show mixed results. Several studies indicate that religiosity amplifies the relationship between financial literacy and investment behaviour (Sitopu et al., 2021), while other studies found no significant effect (Ahmad & Shah, 2022), so the mechanism of its influence is still unclear. Contextually, research on industrial cities such as Batam is still minimal (Farhanyudha & Atmini, 2024). Research integrating financial literacy and perceptions of Islamic banking products with psychological mechanisms is also still limited (Kartawinata et al., 2021). The role of religiosity as a moderating variable in sharia investment decision-making remains relatively underexplored in the existing literature (Hakim & Rahmawati, 2023).

Based on the conceptual, empirical, and contextual gaps that have been identified, namely the absence of an integrative model of financial literacy, product perception, and religiosity, the ambiguity of the role of religiosity as a moderator, and the lack of research in industrial city contexts such as Batam, this study aims to provide a more comprehensive understanding of the cognitive mechanisms underlying sharia investment behaviour, including the psychological and religious

dynamics that influence investment decision-making. To achieve this objective, the study uses a quantitative design through the Partial Least Squares–Structural Equation Modelling (PLS-SEM) approach to empirically test the relationships between variables. This study analyses how Islamic financial literacy and perceptions of Islamic banking products shape investment behaviour, with religiosity as a moderating variable, thereby providing a deeper understanding of the mechanisms of influence. Academically, this study is expected to enrich the development of an integrative and contextual conceptual model of Islamic finance, and practically provide implications for improving financial literacy and strengthening the Islamic investment ecosystem in Indonesia.

## 2. LITERATURE REVIEW

### 2.1. Islamic Financial Literacy

Financial literacy denotes an individual's capacity to comprehend financial concepts, instruments, and associated risks, and to effectively utilize such knowledge in making rational and responsible financial decisions (Budiman et al., 2025). Yulfiswandi et al. (2024) argue that an adequate level of financial literacy enables individuals to manage income, expenditure, savings, and investments in a more systematic manner, thereby contributing to long-term financial stability and well-being.

Beyond mere technical familiarity with financial instruments, Islamic financial literacy encompasses an understanding of fundamental Sharia principles, including the prohibition of *riba*, *gharar*, and *maysir*, as well as the pursuit of justice and collective welfare (*maslahah*) in financial activities. This form of literacy is central to shaping individual preferences and investment behavior, ensuring alignment between financial management practices and Sharia provisions (Dania et al., 2022).

### 2.2. Perception of Sharia Banking Products

Perception of banking products refers to the cognitive and affective processes through which individuals interpret, evaluate, and form judgments about banking product characteristics based on information, experience, and expectations. Such perceptions are shaped by the interaction of consumer knowledge, trust, ease of use, and perceived benefits and risks, which ultimately influence attitudes and behavioral intentions toward financial products (Nguyen et al., 2025). More specifically, perception of Sharia banking products reflects how individuals view Islamic banking products, such as *mudharabah*, *musyarakah*, and *murabahah* in terms of compliance with Sharia principles, transparency of profit-sharing mechanisms, contractual fairness, and alignment between ethical values and customers' religious beliefs. Positive perceptions of these attributes play a significant role in shaping public attitudes, trust, and acceptance of Islamic banking institutions (Mohsin Butt & Aftab, 2013). However, other studies indicate that low Islamic financial literacy, limited understanding of contract structures, and the dominance of the conventional financial system remain major barriers to optimizing public perceptions of Sharia banking products, leading to relatively low levels of adoption and utilization (Choiriyah & Hakim, 2021).

### 2.3. Investment Behavior

Investment behavior refers to patterns of individual actions in allocating funds to investment instruments, influenced by psychological, cognitive, and contextual factors. Manocha et al. (2023) find that investment behavior among agrarian investors is significantly shaped by financial literacy, risk attitudes, and socio-demographic factors that collectively influence long-term investment preferences and decisions. Reddi and Vangaveti (2021) emphasize that investment behavior results from both rational and emotional decision-making processes, where risk perception and return expectations play a crucial role in determining individual investment choices. Al Azizah and Mulyono (2020) demonstrate that the investment behavior of millennials in Indonesia is influenced by financial literacy and self-control, encouraging more planned and disciplined investment practices. Such behavior is reflected in investment consistency, risk evaluation capabilities, and orientation toward long-term financial goals. Accordingly, investment behavior can be understood as a multidimensional construct that represents the interaction between knowledge, attitudes, and self-regulation in investment decision-making.

## 2.4. Religiosity

Religiosity reflects the degree to which religious values are internalized within an individual, as manifested through daily attitudes, behaviors, and beliefs (Fauzi & Rafik, 2024). Further analysis by Fauzi and Rafik (2024) describes religiosity as an internal condition that motivates individuals to act in accordance with religious teachings, not only in worship practices but also in social and economic decision-making. In line with this view, Taufiqurrahman and Manggala Putri (2025) explain that religiosity is multidimensional, encompassing ideological, ritualistic, intellectual, experiential, and consequential dimensions that collectively shape individual behavior. Other studies highlight that religiosity plays a crucial role in strengthening the influence of cognitive factors on economic intentions and behavior, particularly in the context of Sharia-based finance (Faiz & Firmansyah, 2024). Higher levels of religiosity encourage individuals to consider moral and Sharia compliance aspects in all financial decisions. Thus, religiosity functions not only as a belief system but also as a value foundation that shapes behavioral orientation and consistency.

## 2.5. Influence Between Variables

Islamic financial literacy constitutes an important dimension in understanding how Muslim individuals formulate investment decisions that align with sharia principles, particularly within the context of investment behavior (Bastian et al., 2025). Many studies confirm that understanding of Islamic financial concepts, including the principles prohibiting riba, gharar, and halal investment, has a significant impact on investors' readiness, attitudes, and actions in determining investment instruments that are aligned with Islamic values (Ranaweera & Kawshala, 2022). As cited in Andriani et al. (2023), Islamic financial literacy has a positive impact on investment behavior and decisions in gold instruments, where investors with higher levels of understanding tend to make more rational and sharia-compliant decisions. In line with this matter, Chrisna et al. (2023) found that Islamic financial literacy influences investment decisions not only directly, but also through better financial behavior, demonstrating the existence of a behavioral mediation role in the relationship between Islamic Financial Literacy and Investment Behavior. Furthermore, a comprehensive literature review by Widyastuti & Soma (2023) shows that Islamic financial literacy consistently helps millennial investors in reducing behavioral biases such as overconfidence and herding, as well as improving their ability to balance risk and sharia compliance in investment decision-making. Theoretically, this relationship can be explained through a behavioral finance perspective, in which higher knowledge influences individuals' motives, attitudes, and self-efficacy in Islamic investment, thereby leading to more informed, rational, and Islam-consistent investment behavior patterns.

**H1:** Islamic financial literacy has a significant positive effect on investment behavior.

Perception of Sharia Banking Products plays an important role in shaping investment behavior as it reflects individuals' assessment of sharia compliance, benefits, risks, and the credibility of Islamic financial products (Kusumawati et al., 2025). Based on the Theory of Planned Behavior, positive perceptions of a financial product can shape attitudes and beliefs that drive actual investment actions. In the context of Islamic banking, favorable perceptions of halal principles, fund security, and potential returns increase investors' confidence in placing their funds in Islamic instruments. According to Putri et al., (2023) perceptions of Islamic bank products have a positive and significant effect on the interest in using those products, which forms the basis for investment behavior. Several research findings show that awareness of Islamic banking products has a positive influence on investment behavior and similar decision-making (Irfan et al., 2021; Jan et al., 2025).

**H2:** Perception of Sharia Banking Products has a significant positive effect on investment behavior.

Religiosity constitutes a salient determinant in shaping investment behaviour by embedding moral and ethical precepts within individuals' financial decision-making processes. Individuals exhibiting stronger religiosity are generally more circumspect in selecting investment instruments that conform to religious doctrines, such as sharia-compliant products, thereby attenuating the inclination toward speculative and high-risk financial activities (Puspitasari & Rokhman, 2024). Empirical evidence shows that religiosity has a positive and significant influence on stock investment decisions, with financial literacy serving as a moderating variable that strengthens this relationship. Additionally, research shows that religiosity directly influences interest in Islamic investment

through a combination of attitudes, subjective norms, and perceived behavioral control (Ramadhani & Mangifera, 2025). Alfian et al. (2024) adds that three religiosity factors are capable of strengthening the relationship between capital market knowledge and sustainable investment behavior. Therefore, this hypothesis confirms that an increase in religiosity has the potential to enhance rational and value-oriented investment behavior.

**H3:** Religiosity has a significant positive effect on investment behavior.

Religiosity can moderate the relationship between Islamic financial literacy and investment behavior. A higher level of religiosity strengthens the influence of Islamic financial literacy on investment behavior, because a deeper understanding of sharia concepts becomes increasingly aligned with an individual's religious commitment in managing finances (Setiawan et al., 2023). According to Khotimah et al. (2024) religiosity strengthens the relationship between Islamic financial literacy and investment behavior because the stronger the religiosity, the greater the effect of Islamic financial literacy in shaping investment decisions that are in accordance with Islamic principles. Several research findings show that religiosity moderates the influence of Islamic financial literacy on investment behavior (Ramadhianto & Hartanti, 2025; Solekah & Hakim, 2024).

**H4:** Religiosity moderates the relationship between Islamic financial literacy and investment behavior.

Perception of sharia banking products plays an important role in shaping investment behavior as it reflects individuals' evaluation of the characteristics of Islamic banking products, such as compliance with sharia principles, fairness of returns, transparency, and perceived risk (Fattah et al., 2024). Religiosity can moderate the relationship between perception of sharia banking products and investment behavior because a high level of religiosity strengthens the influence of positive perceptions of Islamic banking products; thus, religious belief leads individuals to prioritize sharia-compliant products in their investment decisions. The stronger the religiosity, the greater the effect of sharia product perception in encouraging sustainable investment behavior (Hakim et al., 2023). The research findings of Agustin et al. (2023) also support the view that religiosity moderates the influence of perception of sharia banking products on investment behavior.

**H5:** Religiosity moderates the relationship between perception of sharia banking products and investment behavior.

### 3. METHOD

Within a quantitative research paradigm, data acquisition was undertaken through an online questionnaire deployed via Google Forms. This modality was adopted in consideration of its operational practicality, expansive respondent coverage, and reduced susceptibility to data entry errors. The research population consists of individuals who have experience using or have an interest in Islamic financial products, particularly those related to investment activities. Respondents were recruited using a purposive sampling technique, namely by establishing specific criteria, such as having previously used Islamic investment products or possessing basic knowledge of Islamic investment. The recruitment process was carried out through the distribution of online questionnaires in investor communities, Islamic financial education forums, and relevant social media networks. This approach was used to ensure that participating respondents were in accordance with the research objectives, thereby enhancing the validity and reliability of the research findings.

The minimum sample size was determined using G\*Power (v. 3.1.9.7) through an F-test configuration within a fixed multiple linear regression model ( $R^2$  deviation from zero). With an assumed effect size ( $f^2$ ) of 0.05, a Type I error rate of 0.05, a statistical power of 0.95, and four predictors included in the model, the required minimum sample size was estimated to be 377 respondents. In the implementation of the study, data was successfully collected from 561 respondents, exceeding the minimum number and providing a strong statistical estimate. However, because the sampling method used was non-random, caution is needed in interpreting these results for the entire population. Further research is recommended to consider the use of random or stratified sampling methods to improve external validity.

The constructs of Islamic Financial Literacy, Perceptions of Sharia Banking Products, Religiosity, and Investment Behavior were operationalized through a structured, closed-ended questionnaire employing a five-point Likert scale. The measurement indicators were adapted from established instruments utilized in prior empirical studies. Measurement reliability and validity were examined through outer model assessment in SmartPLS 4. Convergent validity was confirmed by factor loadings  $> 0.70$  and AVE  $> 0.50$ , discriminant validity by HTMT  $< 0.90$ , and construct reliability by Cronbach's Alpha and Composite Reliability values exceeding 0.70 (Hair et al., 2019).

Descriptive statistical procedures were undertaken via SPSS to delineate the demographic composition of the respondents, encompassing gender, age, educational attainment, and monthly income. This descriptive profiling was intended to furnish a foundational context for interpreting the outcomes of the ensuing structural model evaluation.

## 4. RESULTS AND DISCUSSION

### 4.1. Research Results

#### 4.1.1. Respondent Characteristics

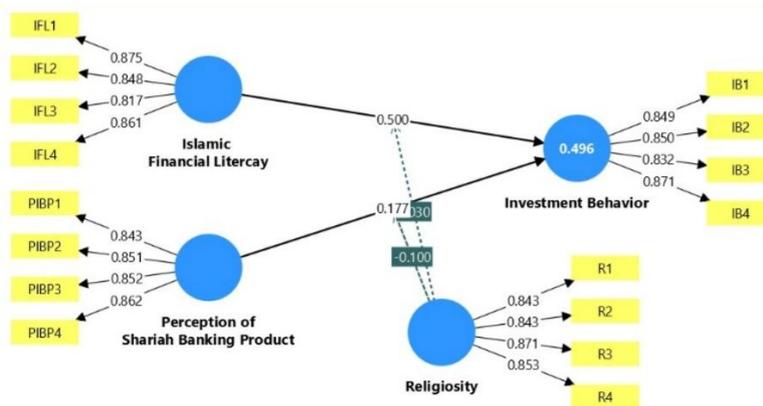
In this study, respondent characteristics were analyzed based on age, gender, educational attainment, monthly income, and religious affiliation. In terms of gender, male respondents slightly dominated the sample, totaling 287 individuals (51.2%), while female respondents accounted for 274 individuals (48.8%). With respect to age distribution, the majority of respondents belonged to the productive age group, particularly those aged 26 to 34 years, which constituted 36.2% of the sample. Other age groups were relatively evenly distributed across the sample.

The sample was predominantly composed of respondents holding at least a bachelor's degree (S1) (402 individuals; 71.7%), while the remaining 159 respondents had attained senior high school education or equivalent. This distribution indicates a predominance of respondents with higher educational attainment. In terms of monthly income, 260 respondents (46.3%) reported earnings above IDR 7,000,000, reflecting relatively strong financial capacity and economic stability, which may influence financial decision-making behavior.

From a religious perspective, the majority of respondents identified as Muslim, totaling 287 individuals (51.2%), indicating the dominance of a group that is normatively associated with Sharia financial principles. Respondents of other religious affiliations included Buddhists (70 individuals; 12.5%), Hindus (57 individuals; 10.2%), Catholics (52 individuals; 9.3%), Christians (51 individuals; 9.1%), and Confucians (44 individuals; 7.8%). This religious diversity demonstrates that the study encompasses not only Muslim respondents but also non-Muslim individuals who possess perceptions of and engage in behaviors related to Islamic banking products. Accordingly, the respondent composition supports the analysis of religiosity as a moderating variable in examining the influence of Islamic financial literacy and perceptions of Sharia banking products on investment behavior in a comprehensive manner.

#### 4.1.2. Convergent Validity Results

The convergent validity of the measurement model was appraised by reference to outer loading coefficients, in accordance with the threshold of 0.70 proposed by Hair et al. (2019). SmartPLS-based estimations indicated that the indicators associated with Islamic Financial Literacy, Perceptions of Islamic Banking Products, Religiosity, and Investment Behavior uniformly exceeded the prescribed criterion. Such results attest to the salience of the indicators in reflecting their respective latent constructs and affirm the attainment of convergent validity across all constructs.



**Figure 1. Measurement Model Assessment**

As shown in Figure 1, the measurement model testing results indicate that all indicators have factor loading values that are above the recommended minimum threshold, and can therefore be declared valid in representing the research constructs. Furthermore, the structural relationships among the constructs indicate that Islamic Financial Literacy and Perceptions of Sharia Banking Products exert an influence on Investment Behavior, with Religiosity functioning as a moderating variable. The results illustrated in Figure 1 demonstrate that the proposed research model satisfies the required measurement adequacy criteria and is therefore suitable to proceed to the structural analysis stage.

**4.1.3. Discriminant Validity Results**

The research model incorporates the constructs of Investment Behavior, Islamic Financial Literacy, Perception of Sharia Banking Product, and Religiosity, along with two interaction constructs representing moderating variables. Based on the discriminant validity assessment, all HTMT values among the constructs are below the recommended threshold of 0.90, as suggested in recent PLS-SEM literature. These results indicate that each construct demonstrates sufficient empirical distinctiveness and does not exhibit conceptual overlap with other constructs in the model.

The highest HTMT value was identified in the relationship between Islamic Financial Literacy and the Perception of Sharia Banking Products, with a coefficient of 0.831. This value remains within the acceptable threshold, considering the conceptual relatedness between the two constructs while still maintaining adequate statistical distinction. Meanwhile, the relationships between the main constructs and the moderating interaction constructs show relatively low HTMT values. This finding indicates that the interaction variables including Religiosity × Islamic Financial Literacy and Religiosity × Perception of Sharia Banking Product are empirically distinct from their constituent constructs.

These results confirm that the formation of moderating variables in the research model has been conducted appropriately and does not introduce issues of construct redundancy. The use of the HTMT criterion was deliberately chosen, as this approach is considered more sensitive and accurate in detecting discriminant validity issues compared to conventional methods such as the Fornell–Larcker criterion or cross-loading comparisons. Hair et al. (2019) emphasize that the Fornell–Larcker method often fails to identify a lack of discriminant validity, particularly in models involving conceptually related constructs. Therefore, HTMT is recommended as the primary approach in PLS-SEM-based research to ensure more robust discriminant validity assessment.

**Table 1. HTMT Values**

Variable	Investment Behavior	Islamic Financial Literacy	Perception of Sharia Banking Product	Religiosity	Religiosity × Perception of Sharia Banking Product
Investment Behavior					
Islamic Financial Literacy	0.786				
Perception of Sharia Banking Product	0.665	0.831			
Religiosity	0.614	0.805	0.76		
Religiosity × Perception of Sharia Banking Product	0.243	0.293	0.092	0.078	
Religiosity × Islamic Financial Literacy	0.254	0.348	0.308	0.037	0.573

Source: SmartPLS 4.1.1 Output (2026)

Based on Table 1, the results of the discriminant validity assessment using the Heterotrait–Monotrait Ratio (HTMT) criterion reveal that all HTMT values among the constructs fall below the recommended threshold of 0.90 (or 0.85 under more stringent criteria). Specifically, the HTMT value between Investment Behavior and Islamic Financial Literacy is 0.786, between Investment Behavior and Perceptions of Sharia Banking Products is 0.665, and between Investment Behavior and Religiosity is 0.614. These results suggest that each construct demonstrates satisfactory discriminant validity and is empirically distinct from the others. Furthermore, the HTMT value between Islamic Financial Literacy and Perception of Sharia Banking Products at 0.831, as well as between Islamic Financial Literacy and Religiosity at 0.805, remains within acceptable limits.

Meanwhile, the interaction variables show relatively low HTMT values, such as Religiosity × Perception of Sharia Banking Products with Investment Behavior at 0.243 and with other variables ranging between 0.078 and 0.293. Likewise, Religiosity × Islamic Financial Literacy shows an HTMT value of 0.254 toward Investment Behavior and 0.573 toward other interaction variables. Overall, these results indicate that each construct in the research model has good discriminant validity, so that each variable is capable of measuring empirically distinct concepts, and the measurement model is suitable for use in the subsequent analysis stage.

#### 4.1.4. Composite Reliability and Validity Results

As shown in Table 1, discriminant validity testing using Heterotrait–Monotrait Ratio (HTMT) values was conducted to ensure that each construct in the research model has a clear conceptual distinction and can be measured empirically.

**Table 2. Composite Reliability and Validity Values**

Variable	Cronbach's Alpha	Composite Reliability (rho <sub>a</sub> )	Composite Reliability (rho <sub>c</sub> )	Average Variance Extracted (AVE)
Investment Behavior	0.872	0.875	0.913	0.723
Islamic Financial Literacy	0.872	0.876	0.913	0.723
Perception of Sharia Banking Product	0.874	0.876	0.914	0.726
Religiosity	0.875	0.88	0.914	0.727

Source: SmartPLS 4.1.1 Output (2026)

Internal consistency reliability was confirmed by Cronbach's Alpha coefficients ranging from 0.872 to 0.875, all of which exceed the commonly accepted threshold of 0.70. Composite reliability estimates ( $\rho_c = 0.913\text{--}0.914$ ;  $\rho_a > 0.80$ ) further attested to the commendable reliability of the constructs (Hair et al., 2019). Convergent validity was evidenced by AVE values spanning 0.723 to 0.727, thereby exceeding the minimum admissible criterion of 0.50 and indicating that a substantive

proportion of indicator variance was captured by the latent constructs. Taken together, these indices affirm the stability and adequacy of the measurement model for subsequent structural modeling.

#### 4.1.5. Inner VIF (Variance Inflation Factor) Results

The potential for multicollinearity among exogenous constructs was appraised through Variance Inflation Factor (VIF) diagnostics to preclude instability in the estimation of PLS-SEM path coefficients. The resultant VIF values, spanning 1.000 to 2.420, were situated comfortably beneath both the conventional (5.00) and conservative (3.30) thresholds, thereby attesting to the absence of deleterious collinearity effects. As shown in Table 3, inner multicollinearity testing was conducted using Variance Inflation Factor (VIF) values to ensure that no excessive correlation occurs between indicators or constructs within the structural model. Multicollinearity testing is important to carry out in order to guarantee the stability of model estimation and the accuracy of interpretation of the relationships between variables.

**Table 3. Inner VIF Values**

Variable	VIF
IB1	2.067
IB2	2.227
IB3	1.998
IB4	2.331
IFL1	2.42
IFL2	2.138
IFL3	1.963
IFL4	2.165
PIBP1	2.14
PIBP2	2.092
PIBP3	2.157
PIBP4	2.184
R1	2.192
R2	1.96
R3	2.277
R4	2.311
Religiosity × Islamic Financial Literacy	1
Religiosity × Perception of Sharia Banking Product	1

Source: SmartPLS 4.1.1 Output (2026)

Specifically, the indicators of Investment Behavior (IB1–IB4) exhibit VIF values between 1.998 and 2.331, Islamic Financial Literacy indicators (IFL1–IFL4) range from 1.963 to 2.420, and indicators of Perception of Sharia Banking Product (PIBP1–PIBP4) as well as Religiosity (R1–R4) remain below 2.311. These findings indicate the absence of multicollinearity issues among the indicators. For the interaction constructs, the VIF values for Religiosity × Islamic Financial Literacy and Religiosity × Perception of Sharia Banking Product are both equal to 1.000, indicating that the moderating variables have been appropriately constructed without introducing collinearity. Overall, the Inner VIF assessment confirms that the model is free from multicollinearity concerns, allowing the path coefficient estimates to be interpreted with confidence.

#### 4.1.6. Results of Adjusted R-Square Analysis

The explanatory capacity of the structural model for Investment Behavior, indicated by an Adjusted R<sup>2</sup> of 0.492, suggests that approximately half of the variance in investment behavior can be explained by Islamic Financial Literacy and Perceptions of Shariah Banking Products, taking into account the moderating effect of Religiosity. This value reflects a moderate predictive power, which is considered acceptable in social science research employing the PLS-SEM approach. Model estimation stability is evidenced by a minimum sample-derived value of 0.096 accompanied by a standard deviation of 0.036. The magnitude of the associated test statistic ( $t = 13.626$ ;  $p < 0.001$ )

further attests to the statistical salience of the coefficient of determination. Overall, these results demonstrate that the proposed structural model is adequate and appropriate for explaining investment behavior, and thus suitable for further structural analysis.

#### 4.1.7. Hypothesis Testing Results (Direct and Indirect Effects)

The hypothesis testing in this study employed the bootstrapping method within the Partial Least Squares Structural Equation Modeling (PLS-SEM) framework to obtain robust parameter estimates. As stated by Hair et al. (2019), bootstrapping involves repeated random resampling from the original data to generate an empirical distribution of path coefficients, allowing for non-parametric significance testing. Hypothesis acceptance or rejection was determined based on the original sample value ( $\beta$ ), t-statistics greater than 1.96, and p-values at a 5% significance level. This approach is particularly suitable for PLS-SEM, as it does not assume data normality and provides stable estimates for moderate to large sample sizes. As shown in Table 4, hypothesis testing was conducted using bootstrapping analysis to determine the significance of both direct and moderating effects between variables in the research model. This testing was used to assess whether the relationships between constructs proposed in the research hypotheses are statistically supported based on t-statistics and p-values.

**Table 4. Hypothesis Testing Results**

Variable	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Islamic Financial Literacy -> Investment Behavior	0.500	0.498	0.050	10.016	0.000
Perception of Shariah Banking Product -> Investment Behavior	0.177	0.177	0.042	4.236	0.000
Religiosity -> Investment Behavior	0.065	0.066	0.040	1.618	0.106
Religiosity x Islamic Financial Literacy -> Investment Behavior	0.030	0.029	0.046	0.656	0.512
Religiosity x Perception of Shariah Banking Product -> Investment Behavior	-0.100	-0.100	0.039	2.565	0.010

Source: SmartPLS 4.1.1 Output (2026)

The structural estimates reveal that Islamic Financial Literacy exerts a substantively positive and statistically significant effect on Investment Behavior ( $\beta = 0.500$ ;  $t = 10.016$ ;  $p < 0.001$ ), thereby substantiating Hypothesis 1. Concurrently, favorable Perceptions of Shariah Banking Products were shown to positively influence Investment Behavior ( $\beta = 0.177$ ;  $t = 4.236$ ;  $p < 0.001$ ), lending empirical support to Hypothesis 2.

Conversely, the direct path from Religiosity to Investment Behavior fails to attain statistical significance ( $\beta = 0.065$ ;  $t = 1.618$ ;  $p = 0.106$ ), thereby precluding empirical support for Hypothesis 3. The interaction analysis indicates that Religiosity does not significantly condition the association between Islamic Financial Literacy and Investment Behavior ( $\beta = 0.030$ ;  $t = 0.656$ ;  $p = 0.512$ ), thereby precluding empirical support for H4. By contrast, Religiosity significantly conditions the relationship between Perceptions of Shariah Banking Products and Investment Behavior, with the interaction term manifesting a negative and statistically significant coefficient ( $\beta = -0.100$ ;  $t = 2.565$ ;  $p = 0.010$ ). This finding indicates that religiosity alters the strength of the relationship between perceptions of Shariah banking products and investment behavior, either weakening or strengthening the effect. Accordingly, Hypothesis 5 (H5) is accepted.

## 4.2. Discussion

### 4.2.1. The Effect of Islamic Financial Literacy on Investment Behavior

Islamic Financial Literacy was found to exert a positive and significant effect on Investment Behavior, underscoring the salience of doctrinal comprehension in the formation of investment decisions. Individuals endowed with higher levels of Islamic financial literacy exhibit enhanced discernment of risk dynamics, return prospects, and Shariah conformity of investment vehicles,

thereby cultivating more deliberate and judicious investment behavior. Islamic financial literacy not only functions as technical knowledge but also serves as a normative foundation and a value-based framework for financial decision-making rooted in Islamic values, thereby strengthening investors' confidence in Sharia-compliant investment instruments. These results are consistent with the findings of Roemanasari et al. (2022), which emphasize the significant role of Islamic financial literacy in enhancing Islamic investment behavior and decision-making.

Theoretically, this finding confirms the dominance of cognitive factors in shaping investment behavior through the mechanism of enhancing financial information processing capacity. Financial literacy enables individuals to conduct probabilistic evaluations of risk and return as well as reduce information asymmetry in investment decision-making. From a behavioral finance perspective, financial literacy functions as a corrective mechanism against cognitive biases and errors in economic decision-making. Chawla (2022) shows that financial literacy improves the quality of investment alternative evaluations through enhanced understanding of financial instrument structures. Furthermore, Samsuri (2019) confirms that improvements in financial literacy have implications for increases in rational, rather than speculative, risk tolerance. Yanti (2024) extends these findings by positioning financial literacy as a structural mechanism that strengthens the relationship between risk perception and investment decisions. Therefore, in the context of Islamic finance, financial literacy functions not only as a knowledge base, but also as an epistemic control mechanism that shapes value-based economic rationality.

The advantage of Islamic financial literacy in shaping investment behaviour can be explained by its combination of technical understanding and normative values. This differs from previous research, which emphasised literacy solely as a cognitive capacity (Chawla, 2022; Samsuri, 2019), these findings indicate that financial literacy also serves as an epistemic framework that enables investors to evaluate risk and return by taking Shariah principles into account. In practical terms, this suggests that Shariah financial education programmes that incorporate normative aspects will be more effective in improving the quality of investment decision-making.

#### **4.2.2. The Effect of Perception of Sharia Banking Products on Investment Behavior**

This study finds that Perception of Sharia Banking Products has a positive and significant effect on Investment Behavior. The results indicate that individuals' positive perceptions of product characteristics, benefits, and Sharia compliance encourage them to engage in investment activities. Respondents who perceive Sharia banking products as transparent, fair, and aligned with Islamic principles tend to exhibit higher levels of trust, which in turn increases their investment interest and behavior. Positive perceptions also help reduce uncertainty and perceived risk, which often act as barriers in investment decision-making. Therefore, perception functions as a psychological mechanism that links knowledge with actual investment actions. These findings are in line with previous studies by Siddique et al. (2023) and Fauzi and Rafik (2024), which demonstrate that positive perceptions of Sharia-compliant banking products significantly contribute to investment behavior.

From the perspective of economic psychology, perceptions of financial products represent cognitive constructions formed through the integration of objective information and individuals' subjective interpretations. Positive perceptions function as a trust-building mechanism that reduces perceived uncertainty in financial transactions. Morris (2023) explains that perceptions of product characteristics shape expectations of financial institution reliability, which subsequently influence actual financial behavior. Aren (2023) adds that psychological factors such as trust and self-confidence function as mediators between financial knowledge and investment decisions. Thus, perceptions of Islamic banking products can be positioned as a cognitive-affective bridge that connects financial understanding with actual investment behavior.

Positive perceptions of Islamic banking products influence investment decisions through the integration of objective information and subjective investor interpretations, which generate confidence and readiness to invest. Unlike previous literature that emphasises a linear relationship between perception and behaviour (Siddique et al., 2023; Fauzi & Rafik, 2024), this study shows that local contexts, such as social experiences and levels of trust in Sharia institutions, also shape perceptions. The implication is that product communication strategies must emphasise transparency,

benefits, and Shariah compliance so that positive perceptions can be translated into actual investment actions.

#### 4.2.3. The Effect of Religiosity on Investment Behavior

The results of this study indicate that religiosity does not have a significant direct effect on investment behavior. This finding suggests that an individual's level of religiosity does not automatically influence investment decisions, even when the investments are based on Sharia principles. This condition may occur because respondents tend to separate their religious beliefs from rational considerations related to returns and risks. Thus, religiosity functions more as a personal value rather than a direct determinant in investment decision-making. This situation implies that religious adherence is not always translated into financial actions without adequate understanding and positive perceptions. These findings are consistent with the studies of Pratopo and Hasan (2024) and Alfian et al. (2024) which state that religiosity does not always directly influence investment behavior.

Conceptually, individuals can maintain religious values as a normative identity without always implementing them in utilitarian economic behavior. Saleem (2021) shows that investment behavior is more influenced by economic utility calculations than by personal value orientations. Salamanca (2020) confirms that investment decisions in risky assets are more determined by risk preference and perceived control than by normative values. Rahyuda (2023) shows that in modern investment instruments, knowledge and risk perception factors are more dominant than ideological values. Thus, religiosity in this context functions as a latent value construct that is not directly translated into investment behavior.

The indirect role of religiosity on investment behaviour indicates that normative religious values are not always translated into economic actions, especially when investment decisions are based on utilitarian and risk considerations. This differs from the assumption in some literature that religiosity is a direct predictor (Pratopo & Hasan, 2024; Alfian et al., 2024). Financial literacy and product understanding are factors that bridge religious values and investment behaviour, enabling religious investors to make more effective investment decisions that are in line with Shariah principles.

#### 4.2.4. The Moderating Effect of Religiosity on the Relationship between Islamic Financial Literacy and Investment Behavior

The moderating role of Religiosity in the relationship between Islamic Financial Literacy and Investment Behavior was not substantiated, implying that the effect of Islamic financial literacy on investment behavior manifests in a direct manner and is not conditioned by differential levels of religiosity. In other words, even when individuals have high levels of religiosity, this does not strengthen or weaken the role of Islamic financial literacy in shaping investment behavior. This phenomenon can be explained by the dominance of cognitive and rational factors derived from financial literacy compared to religious values in investment decision-making. Therefore, Sharia-based financial understanding remains the primary factor in determining investment behavior, regardless of religiosity levels. These findings are consistent with the study by Ágh et al. (2021), which states that religiosity does not always function as a moderating variable in the relationship between financial literacy and investment decisions.

Within the framework of the Theory of Planned Behavior, cognitive factors have more stable predictive power than value factors in shaping economic behavior. Pandurugan (2024) shows that investment intention is more determined by attitude and perceived behavioral control than by personal values. Aren (2023) also shows that financial understanding has a direct influence on investment behavior without requiring the reinforcement of normative values. This indicates that financial literacy has structural explanatory power in shaping investment behavior.

The absence of a moderating effect of religiosity confirms that Islamic financial literacy has independent explanatory power, capable of shaping investment behaviour without the intervention of normative values. This finding emphasises the dominance of cognitive factors over normative values in the local context, in contrast to previous studies that emphasised the moderating effect of religiosity (Ágh et al., 2021; Pandurugan, 2024). Thus, Shariah financial literacy programmes can

focus on strengthening technical understanding and Shariah principles, without the need to explicitly emphasise increasing religiosity.

#### **4.2.5. The Moderating Effect of Religiosity on the Relationship between Perception of Sharia Banking Products and Investment Behavior**

Religiosity was found to significantly condition the association between Perceptions of Shariah Banking Products and Investment Behavior in a negative direction, implying that heightened religiosity attenuates the extent to which product perceptions shape investment decisions. This phenomenon suggests that highly religious individuals tend to prioritize normative compliance and adherence to Sharia principles, thereby reducing the impact of product attributes on their investment decisions. In contrast, investment behavior among individuals with lower degrees of religiosity appears to be more susceptible to perceptual cues associated with Shariah banking products. These findings affirm the contingent role of Religiosity in altering the influence of product perceptions in shaping investment behavior, consonant with the contingency perspective articulated by Sahrani and Dewi (2025), within the domain of Shariah-based financial decision-making.

In dual-process decision theory, individuals with strong value orientations tend to use heuristic-value based processing rather than analytical-information processing. Damayanti (2019) shows that heuristic-based decision-making is more influenced by values and beliefs than by objective information. Maggio (2023) shows that social and cultural values can reduce the dominance of economic rationality in financial behavior. Thus, high religiosity can function as a normative filter that limits the influence of product attribute perceptions on investment decisions.

Negative moderation of religiosity indicates that highly religious investors prioritise normative compliance, thereby limiting the influence of objective evaluations of product attributes. These results clarify the differences with previous literature that did not emphasise local context and the interaction between religious values and product perceptions (Sahrani & Dewi, 2025; Damayanti, 2019). The implication is that financial literacy and risk understanding are important in bridging normative values and investment behaviour, so product communication strategies need to be combined with literacy education so that highly religious investors can still make the right investment decisions.

## **5. CONCLUSION**

Islamic Financial Literacy and Perceptions of Shariah Banking Products were found to exert substantively positive and significant influences on Investment Behavior, underscoring the salience of doctrinal financial understanding and favorable product appraisals in the cultivation of Shariah-compliant investment practices. Individuals possessing more developed financial acumen and more favorable perceptions exhibit a greater propensity to engage in judicious and systematically structured investment behavior within the Islamic finance paradigm.

In contrast, religiosity does not show a significant direct effect on investment behavior, suggesting that individual levels of religious devotion are not always directly translated into investment decisions. However, religiosity plays a moderating role in the relationship between perceptions of Sharia banking products and investment behavior, indicating that religiosity influences the strength of this relationship. Overall, the findings highlight that cognitive and perceptual factors play a more dominant role than purely normative factors in shaping Sharia-based investment behavior.

The interpretation of the present findings is constrained by several limitations. Foremost, the quantitative research design predicated on questionnaire-based measures is contingent upon respondents' subjective self-reports. Second, the independent variables examined are limited to Islamic financial literacy, perceptions of Sharia banking products, and religiosity, which may not fully capture the complexity of factors influencing investment behavior. Third, the reliance on cross-sectional data restricts the examination of temporal variations in investment behavior. Fourth, the disproportionate representation of certain respondent characteristics may attenuate the generalizability of the findings to wider populations. Hence, the results should be construed with prudence, given these contextual constraints.

In view of the identified constraints, future inquiries are warranted to enrich the analytical model through the inclusion of supplementary determinants, such as risk tolerance, trust in Islamic financial institutions, and socio-economic attributes. Furthermore, the adoption of mixed-methodological designs may afford a more comprehensive and textured account of Shariah-compliant investment behavior. In addition, longitudinal research designs are recommended to capture the dynamics of investment behavior over time. Expanding the respondent coverage across different regions and demographic groups may also enhance the external validity of future findings. Continued scholarly interrogation of Religiosity as a moderating or mediating construct remains a fertile avenue for future research, with the capacity to deepen theoretical elaboration and to generate actionable insights for the progressive development of the Islamic finance industry.

### Conflict of Interest Statement

The authors declare that there is no conflict of interest regarding the publication of this paper.

### Author Contributions

P.A.S.: Conceptualization, Investigation, Writing – Original Draft.

Y.: Methodology, Supervision, Validation, Writing – Review & Editing.

### Funding Statement

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### Informed Consent

Informed consent was obtained from all participants

### Ethical Approval

This study was ethically approved. All participants gave their informed consent prior to participation.

### Data Availability

The data that support the findings of this study are available from the corresponding author [P.A.S.] upon reasonable request.

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