



Integrating Financial Decision-Making into Islamic Financial Literacy as A Mediating Factor: Implications for Enhancing Financial Well-Being

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Abstract

Financial decision-making is a crucial process that directly influences the financial well-being of individuals, households, businesses, and governments. Despite its importance, a substantial number of individuals lack the essential financial knowledge and skills needed for effective financial management. This study aims to investigate the mediating role of financial decision-making in the relationship between Islamic financial literacy and financial well-being among Malaysian households. This study is original in its pioneering exploration of the unique role that financial decision-making plays within the framework of Islamic financial literacy, and its significant contribution to enhancing the financial well-being of Malaysian households. The study employs quantitative methods, with data collected from 402 respondents in the Klang Valley region using a cross-sectional design and questionnaire methodology. The collected data was analyzed using Structural Equation Modeling (SEM) techniques, specifically PLS-SEM 4.0 software and SPSS 26. The findings confirmed that financial decision-making effectively mediates the relationship between Islamic financial literacy and financial well-being. By illustrating how Islamic financial literacy shapes decision-making behaviors, the study provides valuable insights into how informed financial choices can significantly enhance the financial stability and well-being of Malaysian households. The findings suggest that policymakers and stakeholders in the financial industry should design targeted financial literacy and awareness programs that encourage greater engagement with Islamic financial products and services.

Keywords: Islamic financial literacy, financial well-being, financial decision-making, households, Islamic banking and finance

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1. Introduction

The increase in Islamic financial literacy is playing a pivotal role in the shift towards Islamic banking in Malaysia. As more consumers understand the principles behind *riba*-free transactions and risk-sharing, they are becoming increasingly attracted to Islamic financial products. This shift is not solely due to the availability of Shariah-compliant products but is also driven by a deeper understanding of their ethical alignment with Islamic teachings. The "Islamic First" initiative, a strategic approach to promoting Shariah-compliant products, further accelerates this transition by positioning these offerings as the preferred choice for Muslim consumers.

Existing studies on financial well-being in Malaysia have primarily focused on broader financial literacy, often overlooking the distinction between conventional and Islamic financial principles. This gap highlights the need for further exploration into how individuals' understanding of Sharia-compliant financial products such as Islamic banking, *Takaful* (Islamic insurance), and Islamic investment products shapes their financial decision-making processes and overall financial well-being. Specifically, the relationship between Islamic financial literacy and financial decision-making, and its mediation of financial well-being, remains underexplored.

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Article history
Received: 14 July 2025

Accepted: 29 August 2025

While financial well-being has been extensively researched, most studies have approached it from a purely economic or traditional financial literacy perspective, particularly in the context of Malaysian households. However, these studies often overlook the socio-cultural and religious dimensions of financial decision-making, which are crucial in Malaysia's unique socio-cultural environment. In this context, Islamic principles play a significant role in shaping personal finance decisions. Therefore, it is essential to explore how Islamic financial literacy impacts financial decision-making in Malaysia. Additionally, while factors such as financial security, the ability to manage financial stress, and satisfaction with one's financial future are important elements of financial well-being, their relationship with Islamic financial literacy remains underexplored and requires further investigation.

This study is also relevant in supporting the MADANI national development initiative, which seeks to create a financial system that is fair, just, and aligned with Maqasid Shariah. Furthermore, this strengthens Malaysia's position as a leader in the global Islamic economy, aiming to unlock economic potential and promote sustainable social well-being. The focus is on reducing income and wealth disparities across different social classes while improving the standard of living and well-being of the Malaysian people. In this context, the study addresses the welfare of all segments of society, particularly the economically vulnerable groups, such as the B40. The outcomes of this research are expected to provide valuable insights into one of the key indicators for improving the Malaysian Well-being Index, as outlined in the 12th Malaysian Plan. This aligns with the nation's goal to build a future based on sound macroeconomic policies, ensuring that no Malaysian is left behind.

The findings of this study will also provide valuable insights into the role of Islamic financial literacy in enhancing the financial decision-making processes of Malaysian households. This is particularly important in the context of Malaysia's evolving financial landscape, where the demand for Shariah-compliant financial products is growing, and there is an increasing need for informed financial decision-making.

Furthermore, this study will fill a significant gap in the existing literature by focusing on Islamic financial literacy, a crucial but often underexplored aspect of financial education. While much research has been conducted on general financial literacy, limited attention has been given to the specific financial needs and behaviors of the Muslim population, especially in relation to Islamic finance. By addressing this gap, this study will contribute to the development of a tailored framework for Islamic financial literacy that can better equip Malaysian households to make sound financial decisions in line with Islamic principles.

The outcomes of this research are expected to provide valuable insights for practitioners, policymakers, financial institutions, and educational bodies in developing more effective financial literacy programs, particularly for the Muslim community. These programs will aim to enhance financial well-being and support individuals in achieving their life goals, in line with the concept of *al-Falah* (success and prosperity). The findings of the study will contribute to the formulation of strategies that improve financial decision-making, promote Islamic financial literacy, and ultimately enhance the financial well-being of Malaysian households. In doing so, the study will support broader socioeconomic development goals, including poverty reduction and the improvement of living standards in Malaysia.

Existing studies on financial well-being in Malaysia have primarily focused on broader financial literacy, often overlooking the distinction between conventional and Islamic financial principles. This gap highlights the need for further exploration into how individuals' understanding of Sharia-compliant financial products such as Islamic banking, Takaful (Islamic insurance), and Islamic investment products shapes their financial decision-making processes and overall financial well-being. Specifically, the relationship between Islamic financial literacy and financial decision-making, as well as how this relationship mediates the attainment of financial well-being, remains underexplored.

2. Literature Review

Several prior studies have examined financial decision-making as a mediating variable in various contexts. For example, [Sajid et al. \(2024\)](#) found that financial decision-making significantly mediates the relationship between financial literacy and household financial outcomes. Similarly, [Setyani et al. \(2022\)](#) explored decision-making in budgeting as a mediator between accounting information systems and organizational structure, particularly in relation to the performance of government agencies. In another study, [Parvathy et al. \(2022\)](#) investigated the mediating role of decision-making ability between financial capability and financial well-being, focusing on 1,000 women from community-based organizations in Kerala, India. Additionally, [Bai \(2023\)](#) examined investment decision-making as a mediating variable in the relationship between cognitive factors and financial well-being among Chinese university students.

Meanwhile, the relationship between financial decision-making and financial well-being has been a central focus in literature. Researchers have explored how various factors, such as financial knowledge, attitudes, and behaviors, influence an individual's perceived financial well-being and overall quality of life. Financial decision-making is widely recognized as a key determinant of financial well-being, impacting outcomes on both individual and societal levels. A pivotal study by [Netemeyer et al. \(2017\)](#) conceptualized perceived financial well-being as a multidimensional construct, consisting of two interrelated but distinct dimensions: the stress associated with managing current financial obligations and a sense of security regarding one's financial future. This framework suggests that financial decision-making plays a crucial role in shaping both an individual's present financial stress and their long-term financial security.

Identifying the factors that influence financial decision-making is also crucial for enhancing financial well-being, particularly in the context of adopting Islamic banking products and services. In Malaysia, the substantial growth of Islamic financial institutions reflects the rising consumer demand for Shariah-compliant financial products. This demand is driven by an increasing number of individuals who are becoming more aware of the benefits of Islamic finance and the importance of aligning their financial practices with Islamic principles.

Financial decision-making (FDM) is crucial for maintaining financial well-being and avoiding financial errors ([Sunderaraman et al., 2022](#)). At the household level, FDM is a multifaceted process, influenced by a range of factors such as financial literacy, cognitive abilities, and family dynamics. For example, studies by [Hilgert et al. \(2003\)](#) and [Lusardi \(2012\)](#) have highlighted the importance of financial literacy and numeracy as key indicators of decision-making competence, which are positively correlated with improved financial well-being. Moreover, the nature of financial decisions varies, encompassing smaller, everyday purchases, bill payments, savings, investing, and long-term financial planning.

Most studies on financial decision-making have predominantly focused on Western contexts, with limited research addressing Asian settings ([Nguyen et al., 2018](#)). In particular, cultural factors, especially family influence, play a crucial role in shaping financial decisions within Asian societies. For example, [Xia et al. \(2016\)](#) highlighted that decision-making dynamics differ significantly across cultures, with joint decision-making being more prevalent in family-oriented societies. In line with this, research from Singapore has demonstrated that family egalitarianism is positively correlated with shared financial decision-making.

Furthermore, [Nguyen et al. \(2018\)](#) emphasized the significant role of parents in influencing their adult children's financial decisions, particularly in Asian cultures, where extended family involvement is more prevalent than in Western societies. In these cultural contexts, financial decision-making often becomes a collective process, involving not only parents and spouses but also children. Similarly, [Zaimah \(2019\)](#) observed that a husband's role in financial decision-making has a substantial impact on the financial well-being of dual-income families, where the husband's higher income contribution compared to the wife is a key influencing factor.

However, existing financial literacy models, particularly those focusing on household decision-making, may not fully capture the complexities introduced by cultural and family structures. In this regard, [Hohn \(2020\)](#) found that financial decision-making also varies by gender, with men more frequently assuming responsibility for financial decisions, while women tend to make decisions that align with traditional roles. Additionally, Hohn's study suggests that age and experience are positively correlated with financial decision-making, as older individuals are more likely to make informed choices based on their accumulated experience.

As financial technology continues to evolve, especially in rural areas, the relationship between financial decision-making and financial well-being is experiencing significant changes. However, existing literature often overlooks a comprehensive integration of Islamic financial literacy into this evolving discourse. While there is a growing body of research on financial decision-making, a notable gap persists in studies that explore how financial decision-making acts as a mediating variable between financial literacy and financial well-being, particularly within the context of Islamic finance. This gap underscores the necessity for further investigation into how Islamic financial literacy influences financial decision-making and its subsequent effect on financial well-being.

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Further supporting these findings, Mahapatra et al. (2018) highlighted the crucial mediating role of financial decision-making in the link between financial cognition and personal financial planning. These studies collectively emphasize the importance of improving financial decision-making skills and fostering positive financial attitudes, as they can significantly impact individuals' overall financial well-being and life satisfaction (Netemeyer et al., 2017; Morgan & Long, 2019).

3. Conceptual Framework

This paper will apply a quantitative approach, primarily utilizing a survey questionnaire for data collection. This study aims to address the existing gap in literature by examining how financial decision-making mediates the relationship between Islamic financial literacy and financial well-being, with a particular focus on the integration of Islamic principles.

To specifically address the second research question and objective regarding whether financial decision-making acts as a mediator between Islamic financial literacy and the financial well-being of Malaysian households, the following hypotheses have been formulated:

- H1: Islamic financial literacy has a positive significant relationship with financial well-being*
- H2: Islamic financial literacy has a positive significant relationship with financial decision-making*
- H3: Financial decision-making has a positive significant relationship with financial well-being*
- H4: Financial decision-making mediates the relationship between Islamic financial literacy and financial well-being*

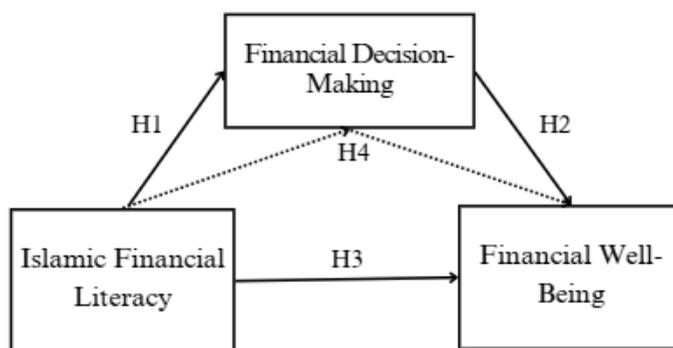


Figure 1: Conceptual Framework

4. Research Methodology

This study focused on Malaysian citizens residing and employed within the Klang Valley area. Due to its high population density, as reported by the Department of Statistics Malaysia (2022), Klang Valley was deemed the most suitable location for participant recruitment. Given the characteristics of the targeted sample, employing a probability sampling method proved impractical. Research suggests that carefully implementing non-probability sampling methods, such as purposive sampling, can yield representative samples. As Sarstedt et al. (2021) outline, purposive sampling involves selecting participants based on predetermined criteria. In this study, purposive sampling was used to distribute questionnaires, with employment status and income group serving as the two key selection criteria. A total of 403 questionnaires were collected from respondents who were employed and residing in the Klang Valley area during the survey period. However, due to missing data, 40

responses were excluded, resulting in a final sample size of 363 usable questionnaires.

4.1 Variables and Measures

This study adheres to the established guidelines for index development outlined in the OECD Handbook on Constructing Composite Indicators 2008. The process involves selecting relevant indicators, standardizing their measurements, assigning appropriate weights, and subsequently combining them. In line with the recommendations of [Hair and Brunsveld \(2019\)](#), two measurement scales are utilized in this study: interval and nominal. Interval scales are applied to both dependent and independent variables because each unit on the scale represents the same degree of the characteristic being measured across the entire range. The measurement items for the interval scale are adapted specifically to the context of Islamic financial literacy and financial well-being.

The initial draft of the questionnaire prioritized content validity and clarity. A Likert scale format, commonly used in quantitative research ([Xie & DeVellis, 1992](#)), was employed to develop the survey questions. This format presents statements followed by response options reflecting varying degrees of agreement or endorsement, using a five-point scale ranging from 1 ("strongly disagree") to 5 ("strongly agree"). Following the selection of measurement scales, a structured questionnaire was designed. To ensure the clarity, flow, and meaning of the items, the questionnaire was pre-tested with four academic experts and 30 participants. Minor concerns raised during the pre-testing were addressed, resulting in revisions to the wording of certain statements. Given Malaysia's multicultural society, which includes Malay, Chinese, and Indian populations, the questionnaire was prepared in both English and Bahasa Malaysia. This bilingual approach accommodates respondents' language preferences and facilitates cross-checking the meaning of statements when needed.

4.2 Estimation Method

This study selected Partial Least Squares Structural Equation Modeling (PLS-SEM) over Covariance-Based SEM (CB-SEM) due to its advantages in exploratory research, target prediction, and its ability to handle non-normal data and small sample sizes characteristics often encountered in the early stages of research. Given that this study aims to predict and explain financial well-being and Islamic financial literacy, PLS-SEM is particularly well-suited for these objectives. Furthermore, PLS-SEM offers superior statistical power, regardless of sample size or data distribution ([Hair et al., 2017](#)). The analysis was conducted using SmartPLS 4.0 for model evaluation, while SPSS 27 was used to perform descriptive analysis and F-tests. Following the two-step procedure recommended by [Hair et al. \(2017\)](#), the first step involved assessing the measurement model based on composite reliability, convergent validity, and discriminant validity. After confirming that the measurement model met the required benchmark values, the second step involved evaluating the structural model to test the hypotheses and assess prediction accuracy.

5. Results and Discussions

5.1 Descriptive Analysis of the Respondent

Table 1 presents the sample demographics, which were slightly skewed towards females (53.4%). The majority of respondents (66.7%) were between 25 and 40 years. Educationally, most respondents held a Bachelor's degree (73%), followed by Master's degrees (15.2%). In terms of employment, 66.7% worked in the private sector, while 18.2% were employed in the government sector, 5.2% were self-employed, and 6.6% were students. Marital status was predominantly single (51.5%) and married (47.7%). While the national population distribution of Malaysia varies, the Klang Valley sample was predominantly Bumiputera (Malay) at 93.4%, reflecting the region's demographics. Most respondents (66.1%) had fewer than three financial dependents. In terms of income, 47.4% of respondents fell within the B40 group (below RM4,850), 39.4% were in the M40 group (RM4,851 – RM10,970), and 13.2% were in the T20 group (above RM10,970). The average household income in the sample (RM5,000) was slightly higher than the Department of Statistics Malaysia's reported average for Selangor and Kuala Lumpur (RM3,840-RM4,013) in 2021.

Regarding savings behavior, over half of the respondents (55.9%) saved between 1% and up to 10% of their monthly income, while 28.7% saved between more than 10% and 20%. Approximately 9.4% saved more than 20%, and 6.1% did not save at all. Notably, 7.4% of respondents considered their income insufficient, 54.8% reported it was only enough for basic needs, 22.3% found it sufficient for most things, and 15.4% felt it was adequate for all desired expenses, with savings remaining.

Table 1. Respondents' Profile

Variables	n	%
<i>Gender</i>		
Male	169	46.6
Female	194	53.4
Total	363	100
<i>Age</i>		
Below 25	53	14.6
25-40 years old	242	66.7
41-50 years old	36	9.9
51 and above	32	8.8
Total	363	100
<i>Education Background</i>		
SPM/ Certificate	17	4.7
Diploma	19	5.2
Bachelor's/Professional Degree	265	73.0
Master	55	15.2
Phd	7	1.9
Total	363	100
<i>Employment Status</i>		
Self-Employed	19	5.2
Private	266	73.3
Government	71	19.6
Retiree	7	1.9
Total	363	100
<i>Marital Status</i>		
Single	187	51.5
Married	172	47.4
Divorced/Widowed	4	1.1
Total	363	100
<i>Number of Financial Dependents</i>		
Less than 3 People	240	66.1
3-5 People	107	29.5
More Than 5 People	16	4.4
Total	363	100
<i>Race</i>		
Bumiputera	339	93.4
Chinese	12	3.3
Indian	12	3.3
Total	363	100
<i>Monthly Household Income (Group)</i>		
B40 (Less than RM 4,850)	172	47.4
M40 (RM4,851-RM 10,970)	143	39.4
T20 (Above RM10,970)	48	13.2
Total	363	100

Monthly Savings		
0%	22	6.1
1-10%	203	62.0
10-20%	104	28.7
>20%	34	9.4
Total	363	100
Current Income Adequacy		
Not Enough	27	7.4
Enough for Basic Needs	199	54.8
Enough for Most Things	81	22.3
Enough to Buy All the Things Wished for and Could Save Money	56	15.4
Total	363	100

Source: Author (2024)

5.2 Measurement Model Analysis

The theoretical model of this study consists of a total of three latent variables: Islamic financial literacy (IFL), financial decision-making (FDM) and financial well-being (FWB). The quality of the measurement model was assessed using internal consistency and convergent validity tests, factor loading assessment, and collinearity diagnostics. The average VIFs of all constructs were less than five (Hair et al., 2022), indicating that multicollinearity is not likely to be a problem in the subsequent data analysis, as shown in Table 2.

Following the PLS-SEM method, constructs' reliability and convergent validity were evaluated using composite reliability (CR), factor loading, and average variance extracted (AVE) (Hair et al., 2017). Using SmartPLS 4.0, the model was analyzed following the standard algorithm criteria (Hair et al., 2017). The initial assessment of construct reliability was achieved for FDM and FWB but not for IFL. Of the ten items, IFL, IFL1, IFL3, IFL5, IFL6 and IFL7 exhibited poor factor loadings, which also resulted in a very low AVE of 0.390. The deletion of these five indicators increased the value of AVE (see Table 3).

The theoretical model is re-evaluated using SmartPLS4 to assess the properties of the measurement scale. According to the standard criteria, composite reliability (CR) should be higher than 0.70, factor loading should exceed 0.70, and AVE should be above 0.50 to ensure the reliability and convergent validity of the measurement model, as shown in Table 3 below. Consequently, based on the Composite Reliability (CR) and Cronbach's Alpha coefficients, the convergent validity of the constructs is considered appropriate. The HTMT ratio analysis, shown in Table 4 below, was used to assess discriminant validity, and all the values were below the cutoff level of 0.85 (Henseler et al., 2015).

Table 2 Collinearity Results

Model Variables	Collinearity Statistics VIF
Islamic Financial Literacy	1.938
Financial Decision Making	2.782
Financial Well-Being	

Table 3 Reliability and Convergent Validity of the Measurement Model

Construct	Items	Loadings	CA	CR	AVE
Islamic Financial Literacy	IFL 2	0.763	0.756	0.834	0.501
	IFL4	0.694			
	IFL8	0.661			
	IFL9	0.783			
	IFL10	0.736			
	FDM1	0.767	0.869	0.899	0.562

Financial Decision Making	FDM2	0.790	0.861	0.893	0.545
	FDM3	0.768			
	FDM4	0.722			
	FDM5	0.755			
	FDM6	0.787			
	FDM7	0.647			
Financial Well-Being	FWB1	0.742			
	FWB2	0.775			
	FWB3	0.789			
	FWB5	0.750			
	FWB6	0.693			
	FWB7	0.713			
	FWB9	0.698			

*CA= Cronbach's Alpha; CR= Composite Reliability; AVE= Average Variance Extracted

Table 4. HTMT discriminant validity results

	Islamic Financial Literacy	Financial Decision Making	Financial Well-Being
Islamic Financial Literacy		0.594	0.342
Financial Decision Making	0.594		0.322
Financial Well-Being	0.342	0.322	

The direct effects of Islamic financial literacy and financial decision-making on financial well-being are presented in Table 5, while mediating effect of financial decision-making is shown in Table 6.

Table 5. Path coefficients for

Research Hypotheses	Relationship	Path Coefficient	Std. deviation	t-value	p-value	Results
H1	IFL → FDM	0.790	0.039	20.113	0.000	Supported
H2	FDM → FWB	0.385	0.159	2.419	0.000	Supported
H2	IFL → FWB	0.553	0.068	12.288	0.000	Supported

IFL- Islamic financial literacy, FWB- Financial Well-Being, FWB- Financial Well-Being
Significance at **p<0.01 level

Table 6. The mediation effect of FDM on the relationship between IFL and FWB

Research Hypothesis	Hypothesis	Indirect Effect	Standard Deviation	t-statistics	p-value	Bootstrapping Mediation Result
H4	IFL → FDM → FWB	0.380	0.087	4.343	0.000	Partial Mediation

IFL- Islamic financial literacy, FWB- Financial Well-Being, FWB- Financial Well-Being

H1: There is significant relationship between Islamic financial literacy and financial decision-making among Malaysian households in Klang Valley area.

According to the path coefficients, the positive relationship between the Islamic financial literacy and financial decision-making is statistically significant (H1: $\beta = 0.790$, $p=0.000$), supporting H1. These findings indicate that individuals with higher levels of IFL are more likely to make informed financial decisions in line with

Islamic principles. This result emphasizes the critical role that Islamic financial literacy plays in guiding financial decisions within Muslim communities.

These findings are consistent with previous research by Mufidah et al. (2022), who also highlighted the significance of IFL in empowering Muslims to make decisions that align with Islamic Sharia. Furthermore, Sajid et al. (2024) demonstrated that financial decision-making mediates the relationship between financial literacy and household financial outcomes, reinforcing the idea that improved financial literacy can lead to better financial decision-making and, ultimately, improved financial outcomes for households.

The findings of H1 confirmed a significant positive relationship between Islamic Financial Literacy (IFL) and financial decision-making, indicating that individuals with higher IFL levels are more likely to make informed financial choices aligned with Islamic principles.

H2: There is significant relationship between financial decision-making and financial well-being among Malaysian households in Klang Valley.

The relationship between financial decision-making and financial well-being was significant at the 0.01 level (H2: $\beta = 0.358$, $p=0.000$), supporting H2 and indicating its key role in influencing financial well-being. Furthermore, the current results align with previous research by Martinez and Andal (2022), which has consistently shown a positive relationship between financial decision-making and financial well-being.

Recent research by Martinez and Andal (2022) also demonstrated that financial decision-making skills are essential for achieving financial well-being among public school teachers in the Philippines. Similarly, Osman et al. (2019) found that individuals who are capable of analysing and utilizing financial information are more likely to make sound financial decisions, thereby enhancing their financial well-being.

The result for this hypothesis is consistent with previous research by Sinha et al. (2024), which suggests that households making prudent financial decisions, including managing debts effectively, saving regularly, and planning for retirement, report significantly higher levels of financial well-being. Additionally, Zaimah (2019) also identified a significant relationship between financial product decisions and financial well-being. The findings from this study highlight the crucial role of sound financial decision-making in achieving improved financial outcomes.

H3: There is significant relationship between Islamic financial literacy and financial well-being among the Malaysian households in Klang Valley area.

As shown in Table 5, the results confirm a significant positive relationship between Islamic financial literacy and financial well-being among Malaysian households (H3: $\beta = 0.553$, $p=0.000$), suggesting that higher levels of Islamic financial literacy are associated with greater financial well-being. Specifically, individuals with stronger Islamic financial literacy tend to exhibit superior money management skills and engage in more effective financial planning.

These findings align with previous research by Respati et al. (2023) and Urkash et al. (2020), who also found a positive link between financial literacy, particularly Islamic financial literacy, and financial well-being. Similar to our results, their studies emphasized that individuals with greater financial knowledge are better equipped to make informed financial decisions, leading to improved financial outcomes. Hypothesis 3 was supported, demonstrating a significant positive association between Islamic financial literacy and financial well-being, suggesting that enhanced Islamic financial literacy contributes to improved financial outcomes and overall financial well-being.

H4: Financial decision-making mediates the relationship between the role of Islamic financial literacy and financial well-being among the Malaysian households in Klang Valley.

To test the mediation effect of financial decision-making on the relationship between Islamic financial literacy and financial well-being, the bootstrapping method was used using PLS-SEM. The findings are presented in Table 6. The benchmark for assessing the mediating effect is as follows: 0.25 for a large effect, 0.09 for a medium effect, and 0.01 for a small effect. In this study, Hypothesis 4 (H4) was supported and thus accepted. As shown in Table 6, the p-value for the mediation effect was significant ($p\text{-value} < 0.01$), with the indirect effect size reaching 0.380. This indicates that financial decision-making strengthens the effect of

Islamic financial literacy on financial well-being.

Consequently, financial decision-making serves as a partial mediator, strengthening the relationship between Islamic financial literacy and financial well-being. These results align with previous studies, which have demonstrated that financial decision-making significantly mediates the relationship between financial literacy and household financial outcomes (Sajid et al., 2024). These findings suggest that improved financial decision-making can positively influence individuals' decisions to subscribe to Islamic financial products and services, ultimately contributing to better financial well-being.

6. Conclusion and Recommendations

This study examined the relationship among Islamic financial literacy, financial decision-making and financial well-being among the Malaysian households in Klang Valley area. The study confirmed a positive relationship between Islamic financial literacy and financial well-being, highlighting the importance of financial decision-making in bridging information gaps and promoting better financial practices.

As hypothesized, financial decision-making mediated the relationship between Islamic financial literacy and financial well-being. The findings are discussed in relation to their implications for financial planners, financial institutions, industry players, policymakers, and government agencies. The study underscores the importance of understanding how Islamic financial literacy and its related factors influence financial well-being, offering valuable insights for practitioners in designing targeted programs, campaigns, products, and services to improve financial planning and decision-making skills among Malaysians.

As with any research, this study acknowledges several limitations and offers suggestions for future work. Future research could further investigate the role of Islamic financial literacy and its impact on financial decision-making, particularly in enhancing financial well-being. This could assist practitioners in designing initiatives that help Malaysians make more informed financial decisions. Additionally, the findings are significant for the Malaysian government, as they highlight the current state of Islamic financial literacy among the population and emphasize the need for educational initiatives focused on Shariah-compliant financial concepts. By promoting greater financial literacy, policymakers and relevant stakeholders can empower individuals to make better financial decisions, ultimately improving their financial well-being.

Acknowledgement

The authors expressed appreciation for the assistance and guidance that had been provided by the Institute of Islamic Banking and Finance, IIUM Gombak, Malaysia during the instrument development and data collection process.

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