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Connecting IR4.0 and Islamic finance literacy in Indonesia

The level of public literacy of financial services is still relatively low in Indonesia, according to the Indonesian Financial Services Authority based on its data for 2016. Financial literacy in Indonesia on a national scale only reached 29.7% with students accounting for only 23.4%, not in line with the financial inclusion that increased to 67.8%. The lack of Islamic finance literacy directly leads to the slow development of the Islamic finance market share in Indonesia. BAYU TAUFIQ POSSUMAH delves further.



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The Global Islamic Finance Report 2017 ranked Indonesia as the seventh-largest in terms of Islamic financial assets globally, down from sixth in 2016, compared to Malaysia in first place in 2017 with its Islamic banking assets increasing by 9.5% to reach RM783 billion (US\$187.2 billion), representing 28.8% of the country's total banking assets.

There are three factors that make public inclusion and literacy about Islamic finance still low when compared to Malaysia:

1. *Government's commitment to support the Islamic financial industry*
Malaysia has established policies for the placement of government-linked companies' funds and Hajj funds into Islamic banking for a long time, while public fund management in Indonesia is still focused on conventional banking. However, the commitment of the government has slowly started to strengthen by building a number of Islamic financial institutions such as the National Islamic Finance Committee, the Islamic Economic Community, the Association of Islamic Economic Experts and the Indonesian Islamic Banking Association.
2. *Varied products and services with liberal governance*
The financial services industry in Malaysia has a wide variety of products ranging from financial

services to capital markets that are managed liberally, meaning that these services are open to any community regardless of religious background. In Indonesia, the Islamic finance industry is still thick with its affiliates to the Muslim community and as an alternative choice for certain classes of society.

3. *Ability to adapt varies*

Malaysia is better in its ability to adapt to the fintech growth in order to open access to Islamic finance information, while in Indonesia fintech access is still very limited.

If the Fourth Industrial Revolution (IR4.0) era emphasizes the digital economy pattern, artificial intelligence, big data and robotics, or known as the disruptive innovation phenomenon, then the challenges of Islamic financial literacy globally toward IR4.0 are digital accessibility, financial accessibility and skills accessibility. Since competition has moved from the physical and financial space into cyberspace, the challenges in Indonesia are specifically on how to connect the dots of IR4.0 into various variables of the Indonesian Islamic financial industry development such as:

- a. digital-based industry readiness
- b. digital-based workforce credibility
- c. social culture of society, and
- d. diversification of IR4.0 financial opportunities including ecosystem innovation, competitive and inclusive industrial basis, digital investments as well as the integration of SMEs and entrepreneurship.

Revitalization of the Islamic finance literacy system

To revitalize Islamic financial literacy in facing IR4.0, Islamic financial literacy firstly needs full support from the community. Islamic finance literacy requires support and recognition of the

community since it is inseparable from the public interest of financial inclusion. The community's support will increase the confidence of graduates of Islamic financial education and build trust as skilled workers. Basically, Islamic financial education can be provided or facilitated by the community, private sector and the government in preparing individuals to quickly meet the demands of IR4.0 growth. Therefore, all education stakeholders must be involved in the development of Islamic financial literacy to respond to the challenges of IR4.0.

The learning of STEM (science, technology, engineering, math) subjects, often with the addition of arts (STEAM), has been widely touted as an urgent requirement to future-proof current and future generations, according to Graham Brown-Martin, the founder of Learning Without Frontiers (UK). The learning content includes:

- i. learning and innovation skills such as mastering diversity of knowledge, critical thinking and problem-solving, communication and collaboration, and creativity
- ii. digital literacy skills including information literacy, social media literacy and information and communications technology literacy, and
- iii. career and life skills including flexibility and adaptability, initiative, social and cultural interaction, productivity and accountability, and leadership and responsibility.

Elements that interact in the chronosystem of financial literacy must integrate with the focus of the IR4.0 era, such as physical, digital and biological knowledge. Every element that exists in Islamic financial literacy is an integral part of the financial chronosystem that must strengthen new literacy movements (digital

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literacy, technological literacy and human literacy). The strengthening of Islamic finance literacy was carried out to provide added value and competitiveness to Islamic finance graduates in the IR4.0 era.

Regulatory sandbox

Digital innovation has the potential to broaden financial inclusion but also can exclude consumer segments with low levels of digital and financial literacy. The shift toward automation creates vast opportunities for improving efficiency but also impacts financial institutions' skill requirements, potentially entrenching the existing 'low-skill low-pay' and 'high-skill high-pay' labor division. Responding to these changing IR4.0 expectations, the regulator is increasingly calling for, and looking at, ways to foster Islamic financial literacy. Governments need to create a climate where entrepreneurs can flourish, because new ventures create new jobs.

The new Shariah fintech with a new and innovative business model that supports Islamic financial literacy inclusiveness will be included in the regulatory sandbox. The answer to the new and growing workforce of robots is not to slow the pace of technological progress, but to speed up our institutions so that entrepreneurs, managers and workers alike can thrive, according to Brown-Martin. In this case, the support must include the learning system, education units and educators as well as students.

The revitalization of the learning system must support the development of curriculum and Islamic financial education, learning materials based on information and communications technology, digital entrepreneurship, alignment and evaluation. Therefore, in its implementation to facilitate the achievement of digital-based financial literacy competency, it is necessary to formulate a learning indicator map related to aspects of digital-age literacy in accordance with the Islamic financial materials and aligned with Indonesia's national education curriculum. For high-level thinking as a transfer of knowledge, we should still refer to the educational taxonomy as formulated by Anderson and Krathwohl in 2001. (P)

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