Bridging the Knowledge-Behavior Gap: How Islamic Financial Behavior Mediates the Relationship between Financial Literacy and Financial Wellbeing

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Abstract

This study examines the impact of Islamic Financial Literacy (IFLIT), Personality Traits (PST), and Islamic Financial Behaviours (IFB) on Financial Wellbeing (FWB). Drawing on the Theory of Planned Behaviour (TPB), the study examines the mechanisms by which individual characteristics shape financial outcomes. Primary data were collected through both online and offline media, and analysed using Structural Equation Modelling (SEM). The results demonstrate that IFLIT alone does not directly impact FWB. Moreover, IFLIT showed a significant but negative relationship with IFB, indicating a pronounced knowledge-behaviour gap. In contrast, IFB showed positive and significant results with FWB. Mediation results reveal that IFLIT indirectly influences FWB through IFB, whereas PST does not predict FWB behavioural mediation. Practically, the findings suggest that policymakers and Islamic Financial Institutions design nation-wide literacy programs focused on transitioning theoretical knowledge into behavioural action.

Keywords: Islamic Financial Literacy, Personality Traits, Islamic Financial Behaviour, Financial Wellbeing, Islamic Banking.

Introduction

Financial Wellbeing (FWB) is a multidimensional aspect of a person's quality of life, encompassing social stability, mental health, and economic security. Crucially, FWB transcends mere income levels, reflecting how efficiently people manage their financial resources. Past studies suggest that personality traits and financial knowledge play a vital role in shaping consumers' financial wellbeing, making them key determinants of FWB (Hashmi et al., 2021; Marhaini & Ahmad, 2020).

Islamic finance prohibits unethical investments, interest, and speculation and promotes ethical financial transactions, asset-backed financing, and risk sharing. Sharia-compliant products such as Musharakah, Murabaha, and Ijara are introduced to promote financial wellness and responsibility. In the last few years, Islamic finance has grown rapidly (Ali et al., 2024). While the sector is growing rapidly, a significant segment of the population remains unaware of the specifics of Islamic products and operations. Therefore, understanding that these factors influence financial well-being becomes important as low financial wellbeing leads to stress, anxiety, and poor living conditions.

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Unlike conventional banking, Islamic banking incorporates Sharia law into financial decisions, enabling individuals with strong financial knowledge to make wise, prudent decisions, manage debt responsibly, and align their financial spending with the teachings of Sharia (Lusardi & Mitchell, 2013). According to a study by Javed et al. (2019), on average, around one-fifth of the Pakistani households are indebted, and nearly 40% of over-indebted households allocate their entire income toward repaying their liabilities. Since the success of the Islamic banking system in enhancing financial wellbeing depends on individuals' knowledge, understanding, and awareness of its products and ideals, the lack of knowledge among consumers creates apprehensions about whether they can make well-considered, rational decisions with an Islamic banking system.

Additionally, personality is another factor that influences an individual's financial wellness. According to Mutlu and Ozer (2019), personality characteristics such as neuroticism, conscientiousness, and extraversion influence risk tolerance, investment decisions, the tendency to save, and other financial behaviours. In the context of Islamic banking, personality characteristics may influence a person's choice of how to spend money. For example, individuals with high conscientiousness are more inclined towards making well-informed financial choices. Similarly, neurotic individuals might struggle with handling their finances, which leads to stress and anxiety. Therefore, it is important to understand the link between PST and IFLIT so that consumers can develop secure money management plans that can, in turn, lead to economic security.

This study aimed to investigate how the correlation between IFLIT and PST influences individuals' financial health. It is the desire of every individual to achieve and maintain financial wellbeing in their lives; it is not solely an economic concept but is connected to social stability, psychological health, and overall life satisfaction (Nadia et al., 2020). In developing countries like Pakistan, where households often face economic shocks due to limited financial resilience, promoting financial well-being is critical (Hashmi et al., 2021). Although prior studies have examined these variables in conventional settings, empirical evidence within the Islamic banking sector in Pakistan remains limited. Therefore, the primary objective of this study is to enhance the understanding of IFLIT among Muslims in accordance with Sharia principles. Specifically, the study intends to bridge this gap by analysing the influence of Islamic financial knowledge, personality characteristics, and financial behaviour on financial wellness in Pakistan.

Literature Review

Financial Wellbeing

Financial wellness relates to an individual's ability to feel secure about their future, meet their financial responsibilities, and make choices that allow them to enjoy the luxuries of life without feeling pressured about money management. Past studies indicate that financial wellbeing, also known as financial health, can be measured through the material and non-material characteristics of financial security, i.e., the resources that lead to financial stability (Joo, 2008). In another study, Chu et al. (2017) suggest that positive investment returns are one factor related to financial wellbeing, suggesting that financial wellbeing can be measured by portfolio performance. Additionally, the CFPB (Consumer Financial Protection Bureau) defined financial wellbeing as a situation in which individuals can meet their present and future responsibilities and make financial choices that result in the enjoyment of life (Bureau, 2015). Researchers agree on the fact that the measurement of financial wellbeing consists of three components as defined by CFPB: current financial status, not having to worry about their future, i.e. financial resilience; making choices which will lead to a stress-free, happy life, i.e. financial freedom (Kempson et al., 2017; Strömbäck et al., 2017). In short, the ability to make good financial decisions leads to improved financial wellbeing.

Islamic Financial Literacy and Financial Wellbeing

As reported by Doloh and Redzuan (2023), the first stage of empowerment is literacy, followed by financial literacy, which is an even more complex step leading towards empowerment and allows individuals to secure and grow the fruits of their income. Financial literacy can be defined as the comprehension of financial and economic principles and the capacity to utilise this knowledge effectively to manage finances and make informed life decisions (Stolper & Walter, 2017). Moreover, individuals who are financially literate and good at managing money tend to enjoy life more and lead less stressful lives (Rashid et al., 2021).

Recent research indicates that Islamic financial literacy positively influences financial wellness, particularly among Muslim individuals and micro, small, and medium-sized enterprises (MSMEs) (Rohmania et al., 2023). Wijaya et al. (2024) further highlight that acquiring knowledge, skills, and education in Islamic finance strengthens Islamic financial behaviour, which in turn contributes to better financial well-being. Sholika & Zaki (2024) found that higher levels of financial literacy are associated with greater adoption of Islamic financial products and services and more effective financial decision-making. Furthermore, religiosity is another important factor influencing individuals' financial wellness, as more religious individuals tend to show a stronger preference for utilising services offered by Islamic banks (Wijaya et al., 2024). Therefore, previous studies highlight the importance of promoting Islamic financial education to improve the financial wellbeing of people, specifically in Muslim-majority countries (Rohmania et al., 2023). This also aligns with our hypothesis, which is:

H1: Islamic financial literacy significantly impacts financial wellbeing.

Personality Traits and Financial Wellbeing

Recent research has shown that PST plays an important role in shaping individuals' financial wellness, leading many researchers to examine the correlation between personality characteristics and financial wellness, Drever et al. (2015) highlight that the concept of financial wellbeing extends beyond objective financial factors to include subjective aspects, such as individuals' resilience to financial shocks, their sense of control over their finances, and their financial satisfaction. Research shows that the OCEAN model, also known as the big five personality model, has a profound impact on financial wellness (Xu et al., 2015). One of the five personality traits often used by psychologists, which concerns people's financial behaviour, is conscientiousness (Thomas et al., 2020). Highly conscientious individuals are usually good at money management, have savings and retirement plans (Donnelly et al., 2012). People with high conscientiousness do not like uncertainty, as they have strong investment skills and well-ordered lives (Palomäki et al., 2021). Then comes openness to experience, which moderates the relationship between financial wellbeing in young adults (Maria, 2020). People with this personality type have a positive relationship between financial wellbeing and personal control, especially elderly individuals (Chhatwani, 2021). A study by Heo et al. (2018) highlights the need for counselling on money management strategies and financial education for individuals. Therefore, it is vital to understand personality types to understand individuals' financial behaviour, as people high in openness to experience may be willing to explore new opportunities. The third personality type is extraversion. Previous studies show a significant relationship between extraversion and financial well-being. Obenza et al. (2024) state that extraversion has a positive impact on the financial wellbeing of college students. Similarly, Tharp et al. (2020) report a positive relationship between extraversion and financial satisfaction that becomes negative when controlling for dispositional affect. Extroverted individuals contribute to life satisfaction, which, in turn, can influence an individual's financial wellbeing (Obenza et al., 2024). Additionally, individuals tend to report higher levels of subjective wellbeing across different life events, including their way of life and wellbeing (Diener & Sandvik, 1992). These individuals have strong social networking skills, which help them ask for support during financial difficulties (Heo et al., 2018). In the long term, risky investments are avoided and simpler products, such as overdrafts, are opted for (Mayfield et al., 2008). They also have compulsive buying habits (Shahjehan et al., 2012). People with this personality type may lack critical and cognitive thinking, which makes it difficult for them to analyse things carefully (Sadiq & Azad, 2019). Individuals with high neuroticism overrate the risks in negative contexts and undervalue rewards in positive contexts. Therefore, they should seek professional advice in making investment decisions (Brown & Taylor, 2011). Furthermore, individuals with an agreeable personality are prone to experiencing financial difficulties, especially those with low income (Matz & Gladstone, 2020), which eventually leads to less financial satisfaction as these people tend to lend money without evaluating and making wise decisions that, in turn, adversely affect their personal financial wellness (Heo et al., 2018). Therefore, personality traits directly influence financial wellness by shaping how people approach life and their capacity to make high-quality financial decisions and overcome financial stress (Mulyadi et al., 2023). Being aware and knowledgeable about such habits is essential to establishing an effective framework to foster the financial wellbeing of people and society (Campbell et al., 2023). This falls consistent with our next hypothesis

H2: Personality traits significantly impact financial wellbeing.

Islamic Financial Literacy and Islamic Financial Behaviour

Financial behaviours refer to the decisions and actions a person takes to manage their finances. Similarly, the act of financing and money management in accordance with Sharia principles is known as Islamic financial behaviour. Behaviours such as future planning, managing finances, paying bills on time, saving, and setting financial goals (Rohmania et al., 2023). Islam prohibits the wasteful use of money and compulsive buying, and one should refrain from spending their income mindlessly (Karyatun, 2023). Previous studies show that religion is one of the determinants of Islamic financial behaviours, including indebtedness and charity (Chetioui et al., 2022), buying habits (Handriana et al., 2020), and CSR (Shu et al., 2022). Sharia law strictly advises individuals to avoid spending money on prohibited methods and instead follow the permissible investment and money management methods (Mulyadi et al., 2023). Furthermore, Roemanasari et al. (2022) state that Islamic financial knowledge has a positive impact on financial behaviours, as knowledge and skills go hand in hand with behaviour and attitudes, which are crucial for managing one's finances in accordance with the teachings of Islam. Understanding of IFLIT tends to lead to responsible behaviour in managing their money, such as self-control, saving, and investing wisely (Mulyadi et al., 2023). Therefore, these studies align with the hypothesis below

H3: Islamic financial behaviours mediate the relationship between Islamic financial literacy and financial wellbeing.

Personality Traits and Islamic Financial Behaviour

While personal attributes are widely studied in psychology and finance, their relationship with Islamic financial behaviour is often linked to individuals' religious values. Personality traits alone

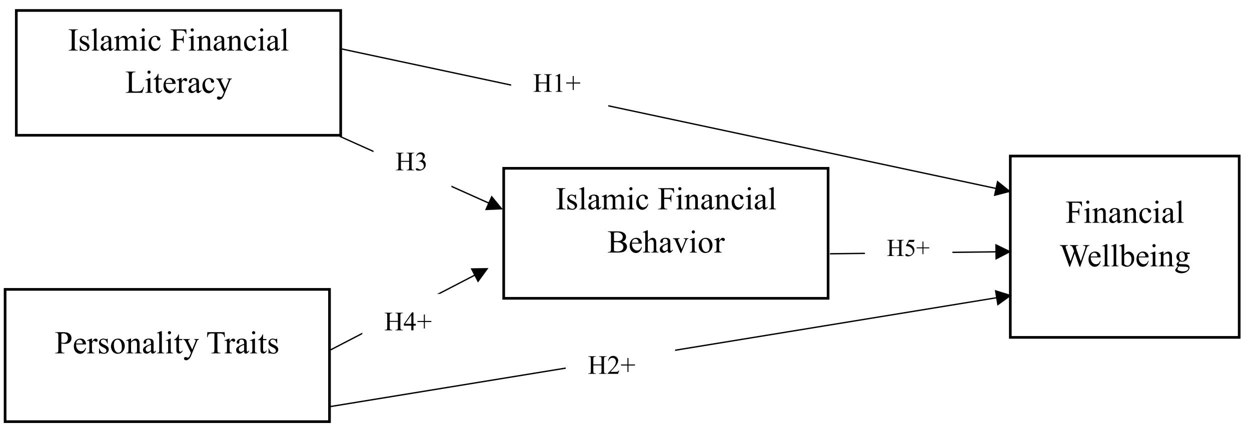
have no effect on an individual's behaviour; however, a person's religious principles play a vital role. For example, traits such as conscientiousness and self-control come naturally to a person with a good understanding of Islamic principles (Mulyadi et al., 2023). To fully follow the guidelines Islam has provided, individuals need self-control and a disciplined personality (Karyatun, 2023). Personality traits can have both positive and negative impacts on the financial behaviour of individuals. In a study by Rahmanita et al. (2020), extraversion, agreeableness, and openness to experience did not have a positive impact; however, neuroticism did. However, neuroticism also negatively influenced investment intention, due to individuals' anxious nature, which made them hesitant to invest (Rahmanita et al., 2020). Although the impact of personality traits on financial behaviours is context-dependent and complex, studies show that conscientiousness has a significant effect on individuals' financial behaviour. This also aligns with our hypothesis that is
H4: Islamic financial behaviour mediates the relationship between Personality traits and financial wellbeing.

Islamic Financial Behaviour and Financial Wellbeing
Achieving monetary stability is an important part of any individual's life (Doloh & Redzuan, 2023). It relates to how a person feels about their money management and finances, including income, debt, savings, and satisfaction with them (Rahman et al., 2021). According to Purboningrum & Fathoni (2023), an individual's financial behaviour influences their subjective norms and financial attitude towards money management habits. Philippas & Avdoulas (2019) state that Islamic financial behaviour seems to positively impact financial wellbeing, and a few studies confirm it. The relationship between self-efficacy and religious belief positively influences individuals' financial wellness and behaviour (Goi et al., 2024). In another study, Rahman et al. (2021) state that people who manage their finances wisely, including spending and tracking their money, can become financially well off. Financial understanding, financial behaviour, and income impact financial health. They highlighted that a person's income level and money management habits are both related to their financial wellbeing. Moreover, in another study, Oquaye et al. (2024) stated that an individual's confidence and financial behaviour influence their financial health; i.e., good financial behaviour influences good financial wellbeing. In conclusion, past studies show that positive financial behaviour significantly affects financial wellbeing. Islamic financial behaviour serves as an important intermediary between a person's religious beliefs and their financial health. Hence, our next hypothesis is
H5: Islamic financial behaviour significantly impacts financial wellbeing.

Theoretical Framework
The Theory of Planned Behaviour by Ajzen (1991) describes the factors that influence individuals' decisions, namely, attitude, social influence, and perceived behavioural control. wards something is known as attitude. An individual's perception of Islamic financial products affects their choices. Individuals who view Islamic finance as a just, compliant, and ethical system aligned with Islamic principles are most likely to adopt it (Shith et al., 2021). Second, subjective norms mean that social influence from family and peers tends to affect a person's financial decision-making. A study conducted in Malaysia found that people are more likely to adopt Islamic banking products and services when they see their peers doing so (Ibrahim et al., 2017). This shows that an individual's company and religion play a vital role in motivating people to adopt Islamic banking services. Lastly, perceived behaviour control (PBC) refers to the perceived ease or difficulty of a behaviour or task based on the knowledge and resources available. This relates to how much a person believes

in themselves and is confident in their ability to use and understand Islamic financial services. A study found that highly knowledgeable individuals were more confident about trying Islamic banking services than those with less understanding of Islamic finance (Utami et al., 2024).
Hence, this theory provides a framework for the adoption of Islamic banking and explains why people prefer Islamic financial services to conventional banking services. Hence, this theory provides a framework for the adoption of Islamic banking and explains why people prefer Islamic financial services to conventional banking services. TBP supports the idea that promoting Islamic financial literacy can improve individuals' monetary behaviour and wellbeing.

Figure 1: Research Model



Methodology

The structural relationship in this research are defined by the following equations

$$FWB = \alpha_0 + \alpha_1 \, IFLIT + \alpha_2 \, PST + \alpha_3 \, IFB + \epsilon_1 \quad (1)$$

$$IFB = \beta_0 + \beta_1 \, IFLIT + \beta_2 \, PST + \epsilon_2 \quad (2)$$

Where FWB represents Financial Wellbeing, IFLIT denotes Islamic Financial Literacy, PST stands for Personality Traits, and IFB signifies Islamic Financial Behavior, α_0 and β_0 are constants, α_1, α_2, α_3, β_1, β_2 are co-efficients, while ϵ_1 and $\epsilon 2$ are error terms.
This model evaluates both direct and indirect effects to assess the mediating role of IFB. The total effect is derived from the sum of these paths, providing a comprehensive assessment of the hypothesized relationships.
The first equation describes financial wellbeing as a dependent variable, which is being directly influenced by IFLIT, PST, and IFB. Islamic financial behavior allows the evaluation of direct and indirect relationships. The indirect relation is the path from IFLIT to IFB and the the path from IFB to FWB and same is the case for personality traits. Sum of direct and indirects paths is the total effect which provides a complete assessment of the relationship hypothesis.
Data for this study were collected through a structured questionnaire. Following the recommendation of Saunders et al. (2009), a structured approach was utilized to ensure consistency and minimize interviewer bias. Responses were recorded on a five-point likert scale ranging from “strongly disagree” (1) to “strongly agree.” (5). The sample consisted of employees and customers of Islamic banks in Pakistan, as these individuals are directly involved in Sharia-compliant financial decision-making. Moreover a convenience sampling method was employed due to practical constraints. While this method utilizes available and willing respondents, it is recognized

for its efficiency in exploratory research. As, with convenience sampling the researchers can collect data on the respondents who are available and willing to be involved (Etikan, 2016). A total of 260 valid responses were retained after a thorough quality check. To test the theoretical framework, Structural Equation Modeling (SEM) was performed using SmartPLS. This variance-based SEM approach is particularly suited for complex models involving mediation and facilitates the simultaneous analysis of the measurement and structural models.

Results and Discussion

Demographic Variables

Demographic information of the respondents provides better understanding of the background of individuals participating in the questionnaire which helps in examining the relationship between our variables.

Table 1 shows that 55% respondents were female while 44% were male, making it a female dominated sample. Most of the participants fall under the age group 25 to 34 years, showing that the respondents were young professionals. From monthly income we can assess that most participants earn around 60000 to 100,000, which suggests that most of the individuals have a stable income. The education background shows that 55% of the people have a bachelor degree, 35% have a master degree and 1.5% have a PhD indicating that the respondents were educated people. Additionally, most of the people had work experience of 2 to 5 years in the industry suggesting that most of the respondents were in their early career. High number of respondents are single with no dependents meaning that they have low level of family responsibilites.

To conclude, the results show us that our sample consists of young and educated participants, most of which are single with no family responsibilites. These results shows that the respondent profile is important and relevant for the study as the individuals who are in early stages of their career are more likely to adopt Islamic banking services as they are still building their financial behaviors.

Table 1: Respondents Demographics

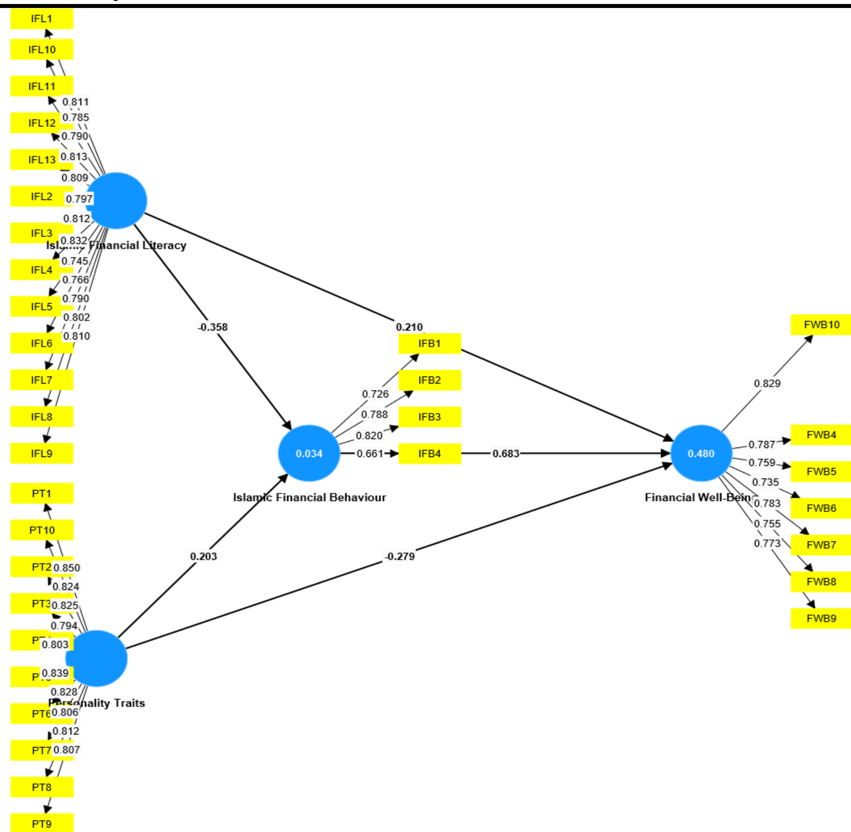
Profile		n	%
Gender	Male	115	44.2
	Female	145	55.8
Age (Years)	25 to 34	192	73.8
	35 to 44	37	14.2
	45 to 54	26	10.0
	55 or above	5	1.9
Monthly Income (PKR)	20,000 to 30,000	56	21.5
	30,000 to 60,000	57	27.9
	60,000 to 100,000	70	26.9
	100,000 to 200,000	44	16.9
	Above 200,000	33	12.7
Education	Matric	0	0
	Intermediate	19	7.3
	Bachelors	144	55.4
	Masters	93	35.8
	PhD	4	1.5
Experience (Years)	2 to 5	167	64.2
	5 to 10	47	18.1
	10 to 15	28	10.8

	15 and above	18	6.9
Marital Status	Single	183	70.4
	Married	77	29.6
No. of Dependents	Zero	125	48.8
	One	34	12.3
	Two	38	14.6
	Three	30	11.5
	Four or more	33	12.7

Measurement Model Analysis

Measurement model assess the correlation between items and constructs by investigating how well the items represents the constructs in the model, and tests the validity and reliability of the model (Hair et al., 2019).

Figure 1: Model analysis



Convergent Validity and Reliability

Convergent validity is used to explain that the items are correlated to measure the construct and the statistics results should be highly correlated. The acceptable threshold for Cronbach's Alpha and Composite Reliability is that both values should be greater than 0.7, while the Average Variance Extracted (AVE) should exceed 0.50 (Hair et al., 2019). Table 2 indicates that Islamic financial literacy reports a Cronbach's Alpha 0.95, Composite Reliability 0.96, and AVE 0.63 which is above the threshold value indicating that the items used to measure the construct are reliable and internally consistent. Similarly, for Personality traits, Financial wellbeing, and Islamic financial behavior all the values are above the threshold. This confirms the presence of convergent validity and supports the reliability and validity of the measurement model.

Table 2: Convergent Validity and Reliability

	Cronbach's Alpha	Composite Reliability	AVE
Islamic Financial Literacy	0.95	0.96	0.63
Personality Traits	0.94	0.95	0.67
Financial Wellbeing	0.88	0.88	0.60
Islamic Financial Behavior	0.75	0.77	0.56

Discriminant Validity

Discriminant validity implies that if two constructs are different there should not be high association between them. It confirms that all the constructs in the model are distinct and exhibit no overlap (Rönkkö & Cho, 2022). Two approaches are commonly employed to evaluate discriminant validity, namely the Fornell-Larcker criterion and the HTMT ratio. While the Fornell-Larker method has been extensively utilized in prior research, the HTMT ratio is regarded as a more robust and recommended technique for assessing discriminant validity (Henseler et al., 2015). It is a strict test to compare the average correlation of the variables. To establish discriminant validity, the values should be below 0.9 (Henseler et al., 2015).

Table 3 shows HTMT ratio results, which are below the value 0.9 except one value which is 0.98. However, Hair et al., (2011) states "when constructs to be compared are conceptually similar, a threshold of 0.90 or even closer to 1 should be used." Although Personality traits and Islamic Financial Literacy are not theoretically similar, a study by Podsakoff et al., (2003) states that sometimes in self reported measures the results show high correlation between variables because of common method variance and the overlapping of item phrases. Hence, this show that the constructs are different from each other and the model is a good fit

Table 3: HTMT Ratio

	FWB	IFB	IFLIT	PST
Financial Wellbeing				
Islamic Financial Behavior	0.78			
Islamic Financial Literacy	0.17	0.22		
Personality Traits	0.18	0.21	0.98	

Structural Model Analysis

Once the validity and reliability is establised, the next step is the analysis of structural model (Hair et al., 2019). This is done in two stages, first the predictive power of the model is evaluated and then the significance.

Collinearity Test

Collinearity test is run to check if multicollinearity issue exists in the model. If the variables are in extremely high correlation with one another multicollinearity exists (Hair et al., 2019). Multicollinearity leads to two type of problems one is the the results can be misestimated as it changes the direction of the variable, and second is that the standard errors will increase which will make the results less reliable (Hair et al., 2021).

Table 4 shows the VIF values of indicators which is below the threshold level 5.0 (Hair et al., 2019). These results are vital as they signify that the variables do not overlap while explaining the variance and are different from each other. Hence, path coefficients can be easily interpreted as there is no sign of bias among the variables.

Table 4: Collinearity Test

Constructs	Indicators	VIF
Financial Wellbeing	FWB4	2.01
	FWB5	1.81
	FWB6	1.81
	FWB7	1.98
	FWB8	1.84
	FWB9	2.04
	FWB10	2.39
Islamic Financial Behavior	IFB1	1.15
	IFB2	1.98
	IFB3	2.10
	IFB4	1.44
Islamic Financial Literacy	IFLIT1	2.46
	IFLIT2	2.53
	IFLIT3	2.79
	IFLIT4	2.97
	IFLIT5	2.21
	IFLIT6	2.25
	IFLIT7	2.42
	IFLIT8	2.62
	IFLIT9	2.50
	IFLIT10	2.52
	IFLIT11	2.37
	IFLIT12	2.77
	IFLIT13	2.52
Personality Traits	PST1	2.98
	PST2	2.46
	PST3	2.41
	PST4	2.44
	PST5	3.00
	PST6	3.01
	PST7	2.68
	PST8	2.49
	PST9	2.55
	PST10	2.57

Path Coefficients

a. Direct Effect

The direct effects were analyzed to assess the magnitude and direction of the proposed relationships among the latent constructs (Henseler et al., 2016). The robustness of the relationships was assessed using bootstrapping to dervie T-statisticas and p-values. Table 5 shows results that the three out of five proposed hypotheses were accepted. H1 results indicate a positive but statistically insignificant relationship (β = 0.21; t = 1.55). This suggests that theoretical knowledge of Islamic finance, in isolation, does not translate into improved financial wellbeing (Xiao & O'Neill, 2016). However, H2 was supported showing a negative and significant impact (β = -0.27; t = 2.21). This indicates that specific personality traits, such as high extraversion or neuroticism, may lead to financial choices that diminish overall wellbeing. For example, according to Fachrudin & Silalahi, (2022) conscientiousness has a positive impact on financial wellbeing, meanwhile Nyhus & Webley, (2001) states that openness to experience and extraversion leads to excessive money spending habits or risk taking which eventually reduces the financial wellbeing of the individuals.

Moreover, in H3 a negative and significant relationship was observed (β = -0.35; t = 2.05). This inverse relationship highlights a "knowledge-behavior gap," where increased literacy does not necessarily correlate with improved Sharia-compliant financial actions. This indicates that being knowledgeable about a topic is no guarantee that the people are implementing it in their lives (Fernandes & Gabriel, 2025). However, H4 was found to be statistically insignificant (β = 0.20; t = 1.18), suggesting that personality traits do not directly shape Islamic financial behaviors in this sample. Finally, H5 showing the strongest effect, this hypothesis was strongly supported (β = 0.68; t = 19.95). This proves that adopting positive financial habits such as saving, avoiding interest, and budgeting income leads to good financial health (Mulyadi et al., 2023). This also indicates that disciplined financial management according to Sharia principles is a primary driver of financial health. (Nadia et al., 2020).

Table 5: Direct Effect

Hypothesized Direct Paths	Beta Estimate	T statistics	P values	Decision
IFLIT -> FWB	0.21	1.55	0.12	Not Accepted
PST -> FWB	-0.27	2.21	0.02	Accepted
IFLIT -> IFB	-0.35	2.05	0.040	Accepted
PST -> IFB	0.20	1.18	0.23	Not Accepted
IFB -> FWB	0.68	19.95	0.00	Accepted

b. Indirect Effect

Mediation analysis was conducted to examine the indirect mechanisms through which IFLIT and PST influence financial wellbeing. Table 6 shows that although the direct path from IFLIT to FWB was insignificant, the indirect path via IFB was significant and negative (β = -0.24; t = 2.01). This confirms full mediation (Hair et al., 2017), demonstrating that Islamic literacy influences wellbeing only through its effect on financial behavior. However, the indirect path from PST to FWB was insignificant (β = 0.13; t = 1.17). Given that the direct path was significant, this indicates a "direct-only-non-mediation" effect (Hair et al., 2017). Personality traits impact wellbeing directly rather than through the lens of financial behavior.

Table 6: Indirect Effect

Hypothesized Direct Paths	Beta Estimate	T statistics	P values	Decision
IFLIT -> IFB -> FWB	-0.24	2.01	0.04	Accepted
PST -> IFB -> FWB	0.13	1.17	0.24	Not Accepted

Conclusion

The study examined the complex interplay between Islamic financial literacy (IFLIT), personality traits (PST), and Islamic financial behaviour (IFB) in driving financial wellbeing (FWB). A critical finding is that IFLIT has a positive, but statistically insignificant, direct impact on FWB ($\beta = 0.21$; $t = 1.55$). This suggests that a theoretical understanding of Islamic finance alone is insufficient to improve the financial outcomes unless it is effectively implemented into daily financial behaviours (Fernandes & Gabriel, 2025). According to Abdullah & Chong (2014), literacy gives people confidence and the understanding to manage and use their resources in accordance with religious requirements.

Furthermore, the study identifies a significant "knowledge-behaviour gap," evidenced by the negative correlation between IFLIT and IFB ($\beta = -0.35$; $t = 2.05$). Conversely, IFB was the strongest predictor of FWB ($\beta = 0.68$; $t = 19.95$). Crucially, mediation results confirm that IFB fully mediates the relation between IFLIT and FWB. This underscores that Islamic literacy only fosters wellbeing when it is channelled through disciplined, Sharia-compliant financial practices.

This is also supported by previous studies, such as Purboningrum & Fathoni (2023), who found that financial behaviours mediate the relationship between IFLIT and personal finance management. Another study highlights that Islamic religiosity can have a positive or negative impact on financial wellbeing through financial behaviours (Suriyanti et al., 2025). This highlights the point that financial wellbeing is influenced by IFLIT once individuals begin adopting and implementing financial practices in accordance with Sharia law. Furthermore, IFB was revealed to have a positive and significant influence on FWB, confirming that implementing knowledge into behaviours can lead to financial satisfaction. Pleasant financial behaviours are key to satisfactory financial wellbeing (Budiyanto et al., 2024). Moreover, financial behaviour positively impacts financial wellness by influencing factors such as savings, budgeting, and disciplined money-spending habits (Chavali et al., 2021).

Regarding personality, PST exhibited a direct negative impact on FWB, suggesting that certain traits, such as high extraversion or neuroticism, may lead to suboptimal financial choices that bypass behavioural mediators. This is because past studies suggest that PST have a mixed impact on financial wellbeing, with extraversion negatively influencing financial planning and conscientiousness positively influencing it (Ghaffar et al., 2024). Another study found that high openness to experience is associated with poorer financial outcomes, including more debt, financial dissatisfaction, lower income, and greater challenges in managing money (Gottesman, 2023). Additionally, Olajide et al. (2023) state that neurotic, agreeable, and open individuals underestimate their financial situation, while extraverted and conscientious people overestimate it, leading to mixed results regarding personality traits.

In summary, these findings emphasise that while religious knowledge provides the foundation, behavioural discipline remains the essential bridge to financial serenity. This study contributes to the literature by applying the religious, psychological, and behavioural factors within the framework of Sharia.

Implications and Recommendations

The results of this study could be a significant benefit for Islamic financial institutions, educators, policymakers, and individuals, as they offer practical measures to improve people's financial wellbeing. This study extends the Planned Behaviour Theory by applying it to the unique ethical and religious context of Islamic banking, proving that "perceived behavioural control" (literacy) requires "actual behaviour" to impact wellbeing. The research provides rare empirical evidence that high financial literacy can inversely correlate with behaviour if the knowledge is purely theoretical, challenging the assumption that more education automatically leads to better habits. The "knowledge-behaviour gap' in the Islamic context proves that literacy is not a terminal outcome but a precursor to behaviour. Most of the research has previously analysed financial education and wellbeing in a traditional banking context (Xiao & O'Neill, 2016). By introducing IFLIT as an important part of financial wellness, the study ensures that consumers who follow the Sharia principles of finance are more likely to make sound financial choices.

Additionally, banks should develop tailored educational content that considers individual financial personality profiles, specifically targeting high-risk traits that lead to overspending.

Policymakers and Islamic financial institutions should move beyond theoretical workshops and introduce programs focused on "financial coaching" to help consumers translate Sharia knowledge into actionable habits, such as budgeting and interest-free debt management.

This study relies on self-reported, cross-sectional data. Future research should use longitudinal designs in different Islamic finance settings and include variables such as religiosity and digital financial inclusion.

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