

MOSLEM BEHAVIOR TOWARD DEBT MANAGEMENT

Wiwik Lestari ^{(a)1} Meliza Silvy ^(b)^(a) Associate Professor, Sharia Economic Department, Hayam Wuruk Perbanas University, Surabaya, Indonesia; E-mail: wiwiek@perbanas.ac.id^(b) Management Department, Hayam Wuruk Perbanas University, Surabaya, Indonesia; E-mail: meliza@perbanas.ac.id

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ABSTRACT

Islam teaches Muslims to be clever in seeking of "rizki" (income) and spending it wisely to achieve well-being, happiness in the Islamic way. This study aims to prove whether Islamic Financial Knowledge, religiosity, self-control, and lifestyle are determinants of debt management behavior in Muslim communities. Furthermore, this study also examines whether debt management behavior affects financial well-being. This study is a quantitative study using a carefully developed questionnaire and tested for validity and reliability. The selected samples are residents of Surabaya who earning money from work. By surveying 331 respondents and using SEM analysis tools, behavior towards debt was confirmed as a determinant of welfare even the correlation number is small but significant. This study also proved that financial knowledge does not affect self-control but lifestyle and religiosity do. Furthermore, financial knowledge together with self-control and religiosity are predictor of behavior. Interestingly, the result shows that the higher the religiosity, the lower the debt behavior. This fact may be since there are some cultural rituals on a religious event that need extra spending. This result implies that Moslem should be careful with their lifestyle especially regarding Islamic events and consumerism as identity since it can reduce self-control and in turn potentially lower financial management. Using debt to fulfill the lifestyle is dangerous for well being.

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INTRODUCTION

Financial management behavior has become an important issue today related to the consumptive behavior of urban communities, especially Surabaya as the second-largest city in Indonesia and its surrounding. Moslems are the largest population in Surabaya which is metropolitan and religious as well. For some metropolitan people, high wants and desires, disclosure of information and ease of obtaining consumer loans encourage individuals to use debt. On the other hand, some religious rituals also cost them extra money such as Eid al-Fitr or praying together for several days when a family member passes away. This kind of ritual tends to put Moslem in debt. The indebtedness behavior of a Moslem society is interesting to observe since Moslem still the most population in Indonesia to provide a thoughtful understand on debt Moslem behavior.

In the teachings of Islam, debt is very dangerous. Rasulullah Muhammad said: "People who owe a debt cannot enter heaven." Another hadith states "Whoever is in debt then intends not to pay it, then he will meet Allah (on the Day of Judgment) as a thief" (Narrated by Ibn Majah no 2410).

Islam allows debt if the situation is urgent. Islam also teaches that Muslims should be clever in seeking halal rizki and spending it simply to achieve goodness and happiness both in the world and in the hereafter, especially towards the maqashid of sharia. Simple Islamic lifestyle that should be applied.

This study seeks to prove two big questions, whether Islamic Financial Knowledge, religiosity, self-control, and lifestyle are determinants of debt management behavior in Muslim communities in the second largest city of Indonesia, Surabaya and surrounding. This area is can determine as a metropolitan religious area. Furthermore, it is also tested whether debt management behavior affects welfare.

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LITERATURE REVIEW

Debt Management Behavior and Financial Well-Being

Some people rather owe money to show luxury with possessions and goods. The existence of religious celebrations, year-end holidays, increasingly encourages people to go into debt because they want to show they can afford an expensive lifestyle. Again, debt without good financial management will be a weapon that kills its owner.

Financial well-being is an outcome of financial behaviors (Zemtsov & Osipova, 2016). Well-being is the main objective of financial management (Gardarsdóttir & Dittmar, 2012). This welfare can be analogous to the company's financial goals, namely shareholder wealth. The measure of individual welfare well-being can be done quantitatively by measuring financial ratios like a business organization. Another measure is the perceived self-report well-being. The well-being construct was subjectively developed by O'Neill et al. (2005) and Prawitz et al. (2006) by asking respondents' feelings about their financial conditions and satisfaction. For this study, the measurement of well-being with two indicators, namely feelings of financial situation satisfaction and feelings of well-being.

H₁. Debt management behavior affect the well being

Islamic Financial Knowledge, Self-Control and Good Financial Behavior

Klapper et al. (2015) defines financial literacy as financial knowledge and the ability to apply it (knowledge and ability). Meanwhile Atkinson and Messy (2011) state that financial literacy is a combination of awareness, knowledge, skills, attitudes and behaviors needed to make good financial decisions which ultimately result in individual welfare. Hogarth and Hilgert (2002) state that financial knowledge is a conceptual definition of financial literacy.

Currently, a new concept appears namely Islamic financial literacy. Islamic financial literacy addresses financial planning issues relating to consumers; provides an understanding of Islamic finance; and discusses Islamic financial products (Ahmad, 2010).

Financial behavior is an outcome of financial literacy and knowledge, financial attitudes and financial management (Zemtsov & Osipova, 2016). Hogarth and Hilgert (2002) proved that people with a higher level of financial literacy also have a higher Financial Practice Index. Furthermore, individuals who understand financial management and planning became more optimistic in facing the future with their financial independence (Herdjiono et al., 2016). The lack of financial literacy will lead to wrong financial decisions (Howlett et al., 2008) and tend to be affected by high-cost debt (Lusardi & Tufano, 2015). Otherwise, Robb and Woodyard (2011) stated that many studies have not been successful in proving the relationship between financial knowledge and good financial behavior, including debt management behavior. Likewise, there is evidence that financial knowledge has not been a predictor for good financial management (Bir, 2014; Kholilah & Iramani, 2013) and has not been able to provide financial satisfaction (Bir, 2014). It is indicated the need for a deeper study of financial literacy and its impact on financial success and sustainability (Marcolin & Abraham, 2006)

Another factor detected influence on financial behavior and wellbeing is self-control. Self-control is a characteristic of a person whether they can control or not the events that occur to them. Another measure of self-control is the internal locus of control. According to Rotter (1966) individuals with a high internal locus of control tend to assume that skills, abilities, and efforts are more determinants of life success. Self-control can be a "brake" in managing debt by considering the risks that will be faced (Gathergood & Weber, 2014). Lack of self-control and lack of financial knowledge is positively related to bad credit and excessive debt burdens (Gathergood, 2012). Gathergood and Weber (2014) also found that prolonged debt in the educated group and higher incomes is not due to less literacy but more due to a lack of self-control.

H₂. Financial Knowledge affects debt management behavior.

H₃. Financial Knowledge affects Moslem's self-control.

H₄. Self-control affect debt management behavior

Religiosity and Financial Behavior

Religiosity as a proxy of a subjective norm is also considered to influence behavior. Religiosity is identified as self-belief. Yunadi, (2011) proves that individuals' action is influenced by their level of religiosity. Religiosity represents an inherent human value that tends stable over a fairly long period (Khraim, 2010)

Hess (2012) proves that there is a relationship between individual religiosity, ethical behavior, and risk aversion. People who live in religious areas take a lower risk, have higher credit scores, have a smaller credit card, loan balances, and experience lower financial problems. Religion also determines the level of linkage between financial and investment decisions. Subjective well-being, an integral component of well-being, holds a positive relationship with personal religiosity (Achour et al., 2015).

The study of religiosity from Wilkes et al. (1986) examined Christian religiosity and its role in shaping consumer lifestyles. There are four indicators, namely 1) church attendance; 2) the importance of religious values; 3) belief in religious values and 4) self-perception of self-religiosity. Meanwhile, Khraim (2010) developed Islamic religiosity on practical behavior consisting of dimensions are: 1) Islamic financial services, 2) seeking religious education, 3) current Islamic issues, and 4) sensitive products.

The religiosity construct in this research modifies from previous research above which emphasizes belief and practical dimension. The questions ask the main elements of belief and worship practices in Islam.

- H₅. Religiosity affect debt management behavior*
H₆. Religiosity push Moslems to increase self-control

The Effect of Lifestyle

Lifestyle is reflected in activities, interests and opinions. Lifestyle captures the interaction of "a person as a whole" with their environment. Personal factors such as age, income, household size, and personal beliefs influence your spending and saving patterns. A life situation or lifestyle is created by a combination of factors (Kapoor et al., 2018, p. 11). The Islamic lifestyle has an absolute and strong foundation, namely the Al-Quran and Hadiths. Every Muslim should live an Islamic lifestyle. The best example of behavior for Muslims is Prophet Muhammad, peace be upon him. He is a very simple figure. Although according to some scholars his wealth is very large, his life, home and daily life are very simple.

In Indonesia, lifestyle is sometimes close to religion. There are many rituals on Javanese regarding Islam’s special event, such as Ramadhan and Eid al-Fitr, condolences praying that needs additional household expenses. Sometimes, because of social pressure, someone is prone to take debt for religious ritual reasons. Kanserina (2015) proves that lifestyle has a positive and significant effect on consumptive behavior.

- H₇. Lifestyle affect debt management behavior*
H₈. Lifestyle decrease self-control

The model of this research tries to test whether financial knowledge, lifestyle and religiosity can affect one’s self-control. Furthermore, self-control is tested as a determinant of debt management behavior and finally whether this behavior can affect well-being. In the other words, this research test self-control and debt management behavior role as mediating variable.

MATERIALS AND METHODS

The population of this study is individuals who have worked and earned income in Surabaya and surrounding areas. The sampling method criteria of a minimum age of 18 years or already married. Since the research conducted to measure perceptions, all latent variables use a questionnaire with a Likert scale of one to five. In detail, there are four constructs used in this study, namely: Debt Management Behavior (PPU); Lifestyle (GH); Self-Control (SC); Religiosity (RG)

The measurements are:

- The construct of Debt Management Behavior and Lifestyle is TP: Never; KK: Sometimes; S: Often; SS: Very often; S: Always
- The construct of self-control and religiosity is STS: Strongly Disagree; TS: Disagree; N: Neutral; S: Agreed; SS: Strongly Agree.
- The Manifest (observed) variables are, financial knowledge. This variable was a list of financial knowledge questions with multiple choice. It just simply count how many questions are answered right.

Instrument Test

Validity and reliability tests were carried out both at the time of the tryout and during the distribution of large samples. The outer model test for reflective indicators is Convergent Validity. The value of convergent validity is the value of the loading factor on the latent variable with its indicators. Expected value > 0.7. Meanwhile, the Discriminant Validity measure of the cross-loading factor is useful for knowing whether the construct has sufficient discriminant by comparing the loading value of the intended construct, which must be greater than the loading value with other constructs. The composite reliability value is expected to be > 0.7 and the Cronbach Alpha value is expected to be > 0.6. All the results are summarized in table 3 below that shows all items are valid and the variables are reliable.

RESULTS

The data collection was carried out by giving the research questionnaire directly to the respondents. There are 350 questionnaires distributed, up to the deadline for data collection, 331 questionnaires were collected (94.5%). The high ratio of questionnaire returns was caused by the researcher and the students trying to meet the respondent personally and being guided to fill it out if the respondent found it difficult. The respondents who have been selected by convenience/ purposive sampling can be classified based on age, occupation, gender, marital status, latest education, and the amount of monthly income. The characteristics of these respondents are described as follows.

Table 1. Descriptive Characteristics of Respondents

Characteristics	Results (n=331)	
gender	Male	29.0%
	Female	71.0%
Age	20 ≤ x < 30	31%
	30 ≤ x < 40	24%
	40 ≤ x < 50	26%
	>50 th	19%
Income per month	< Rp. 3.000.000	40%
	Rp. 3.000.000- Rp 5.999.000	40%

	Rp. 6.000.000- Rp 8.999.000	10%
	Rp. 9.000.000-Rp 11.999.000	3%
	> Rp 12.000.000	7%
Education	Junior High School	8%
	Senior High School	54%
	Undergraduate	30%
	Graduate	5%
Occupation	Government employees	8%
	Private employees	27%
	Professional	6%
	Entrepreneur	31%
	Others	1%
Personal loan	Vehicles	39%
	House (property)	14%
	Electronics	17%
	Credit cards	9%
	Others	21%

From the table above it can be read that most of the respondents are married women. Based on occupation, the largest proportion of respondents was self-employed at 31% or 104 respondents. The smallest proportion is Professionals at 6% or 19 respondents. There are 1% of respondents who are not willing to answer. The largest proportion of respondents' debt was in the form of vehicle debt, which was 38% or as many as 127 respondents, while the smallest was credit card debt at 9% or as many as 29. In Indonesia, credit cards are not widely used. The majority of respondents have vehicle debt because it is very easy to access.

Respondents' Financial Knowledge

Financial knowledge contains 8 questions which are built refer to instruments developed by Chen and Volpe (1998) which contain of general financial knowledge, saving and borrowing, protection and investment. Furthermore, the questions are adopted as Islamic financial knowledge issues.

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Table 2. Distribution of Correct Answers about Islamic Financial knowledge.

	Questions	Percentage of Correct Answers
PK1	sharia principles	84.9%
PK2	The economic value of time in the future	47.1%
PK3	Calculating loan installments	58.3%
PK4	Islamic concept of profit sharing	73.7%
PK5	Apply / calculate the economic value of time	77.0%
PK6	Calculating stock returns	55.0%
PK7	Inflation	71.3%
PK8	The objective of diversifying investments in several sectors or industries	81.9%

The average value of financial knowledge is 69%. The most wrongly answered is question number 2, which is about the economic value of time. The second most wrong question is about the calculation of return on stock investment. Respondents who do not understand the economic value of time will tend to think about the present and ignore the future. Meanwhile, respondents' lack of understanding about stock investment indicates that the Indonesian capital market is not widely known and utilized by households in Surabaya.

Debt Management Behavior

The survey results can be read in table 3. Based on this table, it can be explained that the variable of Debt Management Behavior has an average of 4.12 which indicates that respondents tend to often carry out activities as stated in the indicator items.

Table 3. Convergent validity and reliability

Questions	Mean	STD	loading	p-value	Cronbach alpha
I do expense control	3.89	1.11	0.699	<0.001	0.878
Periodically, I control expenses	3.96	1.11	0.721	<0.001	
I hasten to pay my obligations	4.39	0.92	0.658	<0.001	
I pay my debt according to the schedule	4.36	0.94	0.58	<0.001	
I plan expenses	4.05	1.12	0.704	<0.001	
I make a financial plan for the future	4.10	1.10	0.751	<0.001	

I prepare money for family needs	4.30	0.96	0.699	<0.001	
I provide funds for family needs	4.27	1.02	0.674	<0.001	
I save money	4.05	1.09	0.736	<0.001	
I set aside funds for unexpected occasion	3.83	1.27	0.68	<0.001	
Average	4.12	1.06			
I am interested in buying the latest smartphone	4.30	0.93	0.864	<0.001	0.843
I buy branded goods to show my social status	4.40	0.97	0.885	<0.001	
I spend a lot of money to fulfill my hobby	4.35	1.04	0.867	<0.001	
Average	4.35	0.98			
I only believe in Allah SWT	4.83	0.40	0.745	<0.001	0.907
I regularly pray 5 times a day	4.59	0.58	0.708	<0.001	
I fast during Ramadhan	4.63	0.56	0.776	<0.001	
I am looking for a lawful sustenance	4.75	0.47	0.828	<0.001	
I always try to follow the teachings of Islam	4.70	0.50	0.845	<0.001	
I help others who are in need	4.50	0.54	0.776	<0.001	
I try to be honest with other people	4.57	0.53	0.787	<0.001	
I feel sad when I break my religion's law	4.61	0.56	0.711	<0.001	
Average	4.65	0.52			
I can't solve financial problems *)	3.95	0.93	0.255	<0.001	0.738
I am more passionate about life	4.24	0.62	0.514	<0.001	
I am able to change myself for the better	4.37	0.51	0.745	<0.001	
I am able to make my ideas come true	4.18	0.60	0.722	<0.001	
What happens to me in the future depends on me	4.33	0.69	0.614	<0.001	
I was able to solve financial problems	4.19	0.67	0.779	<0.001	
I am able to control spending	4.20	0.67	0.691	<0.001	
Average	4.21	0.52			

It can be explained that the highest average score of debt management behavior item is "I hasten to pay my obligations". The average score is 4.39 so it is categorized as very good. These results indicate that Muslim Surabaya respondents are aware of the importance of hastening debt repayments.

Lifestyle

If the respondent is asked about their behavior on how to respond to changes in smartphone technology, branded goods and their hobbies, the answer shows that the respondent is classified as frugal person. This is understandable considering that descriptively, the majority of respondents are still in the middle class so that matters related to technological sophistication or branded goods are not life priorities.

Religiosity has been widely researched. Although the answers are doubtful, considering that this method of self-reported measurement has the potential to be filled in unreal. That is if asked "regularly pray five times a day" the tendency of people will answer with the best answer.

From the table above, quantitatively the respondent's religiosity is very high. The highest answer was the question about overdose. Respondents answered, "still believe in Allah SWT". What is interesting is that there are 16% of respondents who still feel a lack of faith. Things like this are not wrong because someone's faith may fluctuate from time to time. From the experience of the interview, there were respondents who admitted that their prayers were sometimes incomplete five times even though they knew that praying five times a day was obligatory. Compulsory teaching means that if it is carried out, it will be rewarded and if it is left sinful.

The average of respondents' self-control is high. The highest average is found in the statement "what happens to me in the future depends on me". In this case, the respondent believes that his fate depends on his own efforts. Therefore, if the respondent wants to be prosperous, he must try it himself. Low probability of paying bills less on time.

Well-being

From the respondent's description, it appears that on average the respondents claim to be prosperous or in a financial well-being state (3.95). Prosperity is the dream of every individual. In the current condition, to be prosperous, it is at least necessary to increase income. Bonke & Browning (2003) state that higher household income results in higher welfare.

Table 4. Distribution of Welfare Scores

Item	Questions	Mean	STD
SJ1	In well-being, I feel at the moment I am Very not well off Not well off Less well off Quite prosperous Very prosperous	4.03	0.50
KP2	financial condition Very unsatisfying Not satisfying Less satisfying Quite satisfying Very satisfying	3.87	0.61
	Average	3.95	0.56

Hypothesis Test

In this section, using the PLS method, hypothesis testing is carried out and the results are summarized in Table 5 with the following details.

Table 5. Path coefficient and p-value

	lit	Lifestyle	relg	Selfc	behav	wealth
Behave	0.153	0.072	-0.207	0.286		
p-value	0.002	0.087	<0.001	<0.001		
Wealth					0.126	
p-value					0.009	
Selfc	0.044	-0.174	0.392			
p-value	0.206	<0.001	<0.001			
R ²				0.194	0.078	0.098
Adjusted R ²				0.187	0.067	0.091

Results of testing hypotheses 1 to 8 are debt behavior is determinant of wellbeing with R2 quite small of 0.078 or 7,8%. Financial knowledge, religiosity and self-control highly affect debt management behavior but lifestyle otherwise. Interestingly, the effect of religiosity on debt behavior is negative. It means, the higher the religiosity, the lower the debt management behavior. In line with that fact, lifestyle also negatively affects self-control. This fact may because there are some cultural rituals on a religious event that need extra spendings. Supported by a lifestyle that may be costly it is lowering financial self-control. Religiosity itself positively affects self-control. The table below depicted the summary or the result

Table 6. Results Summary

Hypotheses	Statement	result	Note
1.	Debt management behavior affects the well being	yes	Positive
2.	Financial Knowledge affects debt management behavior	yes	Positive
3.	Financial Knowledge affects Moslem's self-control.	no	Positive
4.	<i>self-control</i> affects debt management behavior	yes	Positive
5.	Religiosity affects debt management behavior	yes	Negative
6.	Religiosity pushes Moslems to increase self-control	yes	Positive
7.	lifestyle affects debt management behavior	no	Positive
8.	lifestyle decreases self-control	yes	Negative

DISCUSSIONS

Islamic Financial Knowledge is a determinant of debt management behavior. This means that the higher their financial knowledge, the better their behavior towards debt. Supposedly, people who increasingly understand the importance of knowledge on financial issues will be more careful in managing money and if they are in debt, they will be more careful. In Islam, debt should be carried out in an emergency, especially if it is for consumption.

Several Islam teachings state that Moslems should be careful of debt. Debt will beared until after death life. It needs high self-control since the ease of accessing debt is very high in Indonesia. From Ibn 'Umar, the Prophet Sallallahu alaihi wa sallam said, "Whoever dies in a state that still has a debt of one Dinar or Dirham, then this debt will be paid off with his kindness (on the Day of Judgment) because there are no more dinars and dirhams." (Narrated by Ibn Majah no. 2414). Ibn Majah also considers this hadith to be a stern warning about debt. Another good Islamic term is that a person who bears a debt is ashamed during the day, and at night he cannot sleep. Unfortunately, this research proves that Islamic Financial Knowledge does not encourage Muslims to increase self-control yet but religiosity does.

The interesting finding is that religiosity has a negative relationship with debt management behavior. This means that the higher the religiosity, the weaker the individual's debt management tends to be. This result is quite contradictory, but in Surabaya or East Java context, it is logically accepted since there are religious rituals. For example, when one of the family members passes away, the rest of the family members feel obligated to conduct a memorial event for 7 days, on the 40th day, 100th day, a year, two years and 1000 days. Each memorial event usually invites neighbors and families to pray together and for sure there is some expense on food. The problem will exist if the family is not rich enough. Sometimes there is social pressure to do this event. The solution is debt. The same problem can also arise regarding big Islamic events, especially Ramadhan and Eid al-Fitr. This event celebrates in special ways, different from other countries even has most Islam people. At that moment, the Moslem wants to provide special foods, new clothes and conduct some party or open house for *silaturahmi* with neighbors, colleagues and friends.

From a macro perspective, Ramadhan and Eid al-Fitr's economy have increased sharply compared to other months. The food, clothing, transportation industries increase and even cause inflation. But from a micro perspective, this event has some consequences for Moslems. Ramadhan and Eid al-Fitr are a time to strengthen *silaturahmi* which is strongly encouraged in Islam since it is believed can cause a broad "rizki" (huge income) and long life or healthiness. On the other hand, it can cause financial problems after the event.

This condition is added by the existence of some communities called newly wealthy middle-class Muslims who often build their identity through commodities and consumption practices through the purchase of Islamic attributes such as hijab, religious pilgrimages which are quite expensive (Fauzia & Riyadi, 2020). The above results are corroborated by the

fact that lifestyle reduces self-control.

It remains how the individual Muslim manages these spiritual and social needs to be met according to their financial capacity so that they do not fall into indebtedness. Moslems should keep in mind that everything needs to be carried out simply, not excessively and according to one's abilities. Al Qur'an Surah Al-Furqan 67 teaches that in spending money, Moslem should neither be loose nor stingy, but still maintain a balance in between. This taught in line with the result that religiosity encourages Muslims to increase self-control. It is logical since the function of religion, in general, is that humans can control themselves from the bad desire on things. This fact is supported by the result which proves that self-control affects debt management behavior. The higher the self-control, the better the individual's behavior in managing debt. People who have strong self-control will be more disciplined, including in managing finances. Even if they are in debt, they will be disciplined in paying. This result support Gathergood's study (2012) which proved that the effect of self-control is higher than knowledge in term of debt behavior.

Lifestyle is not a determinant of debt management behavior, otherwise, lifestyle lessens self-control. Again, Islamic lifestyles and rituals should be considered carefully to avoid indebtedness. Descriptively, the majority respondent income of between 3 million rupiahs and 6 million rupiahs per month. That amount, if managed carefully, is still sufficient to meet basic needs and save a little, but it may not be enough if the person has a costly lifestyle.

In general, this research is in line with Lusardi and Tufano (2009), Kaiser and Menkhoff (2016) which states that financial knowledge can encourage good debt management behavior. This result is better than previous research by Herdjiono et al. (2016) and Kholilah and Iramani (2013) which could not prove the impact of financial knowledge on behavior. This research also proved that ability to control oneself, religiosity affects behavior (Shinta & Lestari, 2019) and in turn, good behavior will positively increase well-being. The better the behavior the higher well-being (Gardarsdóttir & Dittmar, 2012).

CONCLUSIONS

Islamic Financial Knowledge, religiosity and self-control highly affect debt management behavior. Islamic Financial knowledge has not encouraged Muslims to increase self-control. Religiosity negatively influence debt management behavior. It means, the higher the religiosity, the lower the debt management behavior. This result may relevant to the context of respondents in the East Java area who have high intention to conduct some religious rituals that need extra spending. These rituals are somewhat a part of the Islamic lifestyle that has proven to reduce self-control. Furthermore, religiosity proved can increase self-control. In turn, self-control affects debt management behavior and debt management behavior affects the welfare of Muslims.

Comprehensively, the result implies that Moslem should be careful with their lifestyle especially regarding Islamic events and consumerism as identity since it can reduce self-control and in turn potentially lower financial management. If they use debt to fulfill the lifestyle, it is dangerous to their wellbeing.

As a closing remark, this study has a limitation firstly; Islamic Financial Knowledge measures only with eight questions may not fully depict the respondent's knowledge. Secondly, the result cannot be generalized yet since it was conducted in a specific area that may differ from any other contexts and conditions. It also opens opportunity for further study to build robust and sound result.

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