

ANALYSIS OF THE EFFECT OF RISK AWARENESS AND FINANCIAL LITERACY ON FIRE INSURANCE OF MSME OWNERS IN KUALUH LEIDONG DISTRICT, LABURA REGENCY

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ABSTRACT

Based on the results of the study on the influence of Risk Awareness and Financial Literacy on the decision to take fire insurance on MSME owners in Kualuh Leidong District, it can be concluded that both independent variables have a significant effect on the dependent variable. The Risk Awareness variable (X_1) shows a positive and significant effect on the decision to take fire insurance, with a t-value of 9.121 and a significance of $0.000 < 0.05$. This indicates that the higher the awareness of MSME actors of the risk of fire, the greater their tendency to take fire insurance as a form of mitigation. The Financial Literacy variable (X_2) also has a significant effect on the decision to take fire insurance, with a t-value of 3.970 and a significance of $0.000 < 0.05$. This means that MSME owners who have a good financial understanding are more likely to make wise financial decisions, including in terms of business protection through fire insurance. Simultaneously, the two variables, namely Risk Awareness and Financial Literacy, explain 77.9% of the variation in the decision to take fire insurance ($R^2 = 0.779$), while the remaining 22.1% is explained by other factors outside the research model. Thus, increasing risk awareness and financial literacy is an important strategic step in encouraging MSME participation in fire insurance products. This is relevant to ensure the sustainability and resilience of businesses, especially in risk-prone areas such as Kualuh Leidong District.

Kata Kunci : Risk Awareness, Financial Literacy, Insurance

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy. With a total of 64.2 million business units, this sector contributes 61.07% to the national Gross Domestic Product (GDP) and employs approximately 117 million workers, or approximately 97% of the total workforce in Indonesia (Ministry of Cooperatives and SMEs, 2024) (Suaidah, 2024). The significant role of MSMEs makes them the backbone of the economy, particularly in creating jobs and promoting equitable social welfare. However, despite their significant contribution, MSMEs also face various challenges that can hinder the growth and sustainability of their businesses. One of the main challenges faced by MSMEs is diverse business risks, ranging from changing market conditions, economic instability, to the threat of disasters such as fires and natural disasters. According to data from the National Disaster Management Agency (BNPB), Indonesia experienced approximately 1,573 disasters from early 2024 to October 2024, the majority of which were hydrometeorological disasters such as floods, extreme weather, and forest and land fires. The risk of fire, in particular, poses a serious threat to MSMEs, as it can cause significant losses and even halt operations.

Risk awareness is a crucial aspect for every business owner in navigating uncertainties. Understanding potential risks, such as fire, asset damage, or market instability, enables businesses to take appropriate preventative measures. Without this awareness, MSMEs are vulnerable to losses that can threaten their business continuity. When facing risks, business owners need to implement effective mitigation strategies to ensure their businesses continue to operate smoothly even in the face of adverse conditions. One mitigation measure is implementing robust security systems, such as the use of fire extinguishers, the installation of early warning systems, and the development of emergency plans to reduce potential losses due to disasters. Furthermore, sound financial management, such as allocating emergency funds and using insurance, can also help businesses face risks without experiencing bankruptcy or drastic declines in productivity. Financial literacy is a crucial factor in helping MSME owners better manage their finances and mitigate the impact of risks on their businesses. Financial literacy encompasses understanding financial planning, asset management, investments, and protection against potential losses. Business owners who have a good level of financial literacy tend to be more able to allocate funds efficiently, including in preparing budgets, separating personal

and business finances, and setting aside funds to deal with emergencies.

One important aspect of financial literacy is understanding insurance as a form of business protection against unexpected risks. MSME owners who are highly aware of risks and understand the benefits of insurance are more likely to consider insurance as part of their risk mitigation strategy. Fire insurance, for example, can provide protection against financial losses due to fires that can damage business assets. Fire insurance is one financial protection instrument that can help MSME owners minimize the impact of losses due to unexpected incidents.

Risk awareness is the ability of individuals or businesses to recognize, understand, and anticipate various possibilities that can cause losses, including the risk of fire. According to Slovic, risk awareness refers not only to factual knowledge about risks but also includes a person's perception, attitude, and preparedness in facing potential threats (Slovic, 2021). The main components of risk awareness include knowledge of the type of risk, perception of its likelihood and impact, and attitude in responding to the risk. A person's level of risk awareness can be influenced by several factors, including education level, which influences an individual's ability to understand risk information; past experience with disasters or losses; access to information through mass media or training; social environment, including community discussions about risk; and financial literacy, which encourages individuals to understand the importance of risk protection (Azri et al., 2024).

Financial literacy is a person's ability to understand, manage, and make wise financial decisions. According to the Financial Services Authority (OJK), financial literacy is defined as the knowledge, skills, and beliefs that influence a person's attitudes and behavior to improve the quality of decision-making and financial management in order to achieve well-being (OJK, 2022). The Organization for Economic Co-operation and Development (OECD) also defines financial literacy as a combination of financial knowledge, skills, attitudes, and behaviors needed to make good financial decisions and ultimately achieve financial well-being (OECD, 2020). Experts such as Lusardi & Mitchell (2019) add that financial literacy includes the ability to understand basic economic and financial concepts such as interest, risk, inflation, and the ability to plan short- and long-term finances (Lusardi, 2020). Financial literacy has three main aspects: financial knowledge, which is an individual's understanding

of financial products and services; financial attitudes, which are mental tendencies in managing finances; and financial behavior, which reflects a person's actual practice in making daily financial decisions (Suciyantina, 2024).

Factors influencing financial literacy include education level, which is directly related to a person's ability to understand complex financial information; personal experience in managing finances; access to sources of financial information and education, such as training or seminars; and the influence of the social environment, including family and community, which can shape a person's financial habits. Furthermore, demographic factors such as age, gender, and income also play a role in shaping a person's level of financial literacy. Financial literacy is influenced not only by cognitive ability but also by how a person is shaped by life experiences and the environment in which they grow up. Individuals who are accustomed to facing financial challenges tend to have a better understanding and attitude in making rational financial decisions. Indicators of financial literacy can be measured through a person's understanding of basic financial concepts (such as inflation, compound interest, and risk diversification), level of confidence in making financial decisions, savings or investment habits, and ability to manage debt or create a budget (Salwa et al., 2022). For MSMEs, financial literacy is crucial because they must be able to manage business finances independently without a complex accounting system. A good level of financial literacy helps MSMEs allocate business funds, manage debt, save, and make long-term financial plans (Rabbani et al., 2024). One important decision influenced by financial literacy is the decision to purchase insurance. Research by (Muhammad et al., 2024) shows that financial literacy significantly influences interest in using insurance products because individuals who understand the benefits, risks, and functions of insurance are more aware of the importance of protection against the risk of loss, including business fires. Therefore, in the context of MSME owners, financial literacy is a key foundation in increasing risk awareness and encouraging them to take mitigation measures through fire insurance (Khairani et al., 2023).

Factors influencing an individual's or business owner's level of risk awareness include education level, which enhances an individual's ability to understand risk-related information; past experience, which can strengthen awareness of potential similar risks; access to information, whether through mass media, training, or counseling, which enhances understanding and

preparedness in facing social and environmental risks, including discussions with communities that can broaden their perspectives on risk; and financial literacy, which encourages individuals to better understand the importance of risk protection, such as insurance (Harahap et al., 2025). All of these factors are interrelated and influence the extent to which an individual or business owner can recognize and respond to various types of risks that may arise. Indicators for measuring risk awareness include the frequency with which individuals or business owners obtain relevant risk information, their level of perception of the likelihood and impact of risks, the preventive actions they have taken, and their preparedness to face risks through prepared steps. For MSMEs, risk awareness is crucial because they generally have limited capital and tend to be vulnerable to unexpected events such as fires.

Fire insurance is a type of general insurance that provides protection against loss or damage to property due to fire and other risks such as explosions, lightning strikes, aircraft crashes, and riots. This product aims to provide a sense of security for asset owners, including MSMEs, which are highly vulnerable to these risks (Gardoato, 2023). For MSMEs, fire insurance plays a crucial role in maintaining business continuity because it can cover material losses that could disrupt operational continuity. Through this insurance, business owners can have greater peace of mind in conducting their business activities without being haunted by excessive worry about the risk of fire damaging business assets (Samosir, 2023). The main dimensions of fire insurance include the scope of coverage, the financial benefits received, and the business owner's perception of potential risks. The decision to purchase this insurance is influenced by various factors, including the level of risk awareness, the type and value of assets owned, the ability to pay premiums, and personal or surrounding experiences with fire incidents. Social factors such as the community environment, information media, and government outreach also influence business owners' decisions. The higher the level of understanding and awareness of risk, the greater the tendency to have protection through fire insurance. Indicators that indicate the willingness or participation of MSMEs in fire insurance include: level of knowledge about fire risks, understanding of insurance products, ability to pay premiums regularly, and trust in insurance institutions. Other indicators include insurance policy ownership, readiness to use protection benefits when risks occur, and involvement in outreach or educational activities related to

business protection. However, the level of participation of MSMEs in fire insurance in Indonesia is still relatively low.

By having fire insurance, business owners can obtain compensation for damage or loss of assets caused by fire, eliminating the need to bear the entire financial burden on their own. Furthermore, fire insurance provides a sense of security for business owners, allowing them to continue operating their businesses without undue worry about the potential risk of fire (Septiana et al., 2024). Despite its numerous benefits, the adoption rate of fire insurance among MSMEs remains relatively low. Several factors contributing to this low awareness of the importance of fire insurance include a lack of financial literacy, limited capital, and the perception that insurance is an unnecessary additional expense (Irham et al., 2024). Furthermore, limited access to information and a lack of education about the importance of insurance protection also hinder increased insurance adoption among MSMEs. These factors lead many business owners to rely more on their own survival strategies when facing risks, although these methods are not always effective in the long term.

In Kuala Leidong District, North Labuhanbatu Regency, Micro, Small, and Medium Enterprises (MSMEs) exhibit distinctive characteristics. According to data from the Central Statistics Agency of North Labuhanbatu Regency, there were 475 MSMEs spread across the region in 2021. One prominent business sector is the home industry producing shrimp crackers, particularly in Tanjung Leidong Village. This business capitalizes on local potential by using abundant shrimp as raw material, creating a product with a distinctive flavor that is widely accepted by the community. The shrimp cracker production technique in this area is relatively simple, and the necessary equipment is readily available, making it a viable business option for the local community (Munthe, 2022). However, challenges remain in terms of risk awareness and financial literacy. Limited financial literacy can impact the financial management and risk mitigation strategies implemented by MSMEs. A lack of understanding of the importance of insurance as a means of protection against business risks, such as fire, can leave MSMEs vulnerable to significant financial losses. Therefore, improving financial literacy among MSMEs in Kuala Leidong District is crucial to ensure the sustainability and resilience of their businesses.

Ideally, MSMEs should have strong financial protection against business risks, including fire, given that losses due to disasters can

lead to bankruptcy. In risk management theory, fire insurance is an effective risk mitigation instrument to ensure business continuity. MSMEs in Kualuh Leidong District, for example, should be highly aware of the importance of fire insurance as part of efforts to protect business assets and ensure their continuity. However, the reality shows that the utilization of fire insurance by MSMEs in Kualuh Leidong District is still very minimal. Several factors suspected of causing low fire insurance adoption include limited financial literacy, the perception that insurance conflicts with Sharia principles, and a lack of socialization and understanding of the benefits of insurance from an Islamic perspective. For example, an interview with an MSME owner with the initials TW, who runs a shrimp cracker business in Tanjung Leidong Village, revealed that he had never considered taking out fire insurance. This was due to limited capital, a lack of understanding of insurance mechanisms, and doubts about the suitability of insurance with Sharia principles. He stated, "Insurance seems complicated and there are a lot of interest charges, so I'm worried it doesn't align with religious teachings." The low awareness of fire insurance among MSME owners is a significant problem in Kualuh Leidong District. Limited financial literacy and understanding of risk management mean that many business owners are unaware of the benefits of insurance as a protection instrument against fire risks.

Previous research has shown that financial literacy and financial behavior have a positive effect on the financial resilience of MSMEs, which in turn can increase awareness of the importance of insurance. Furthermore, a good understanding of risk and its mitigation also contributes to business sustainability (Meyola Krisma Agatha et al., 2023). Research (Ananda, 2024) discusses the impact of financial literacy and risk management on small and medium enterprises (SMEs) in Indonesia. It shows that the influence of Financial Literacy and Risk Mitigation on MSME Sustainability has an influence of 44%, with the remaining 56% influenced by other variables outside the study. While financial and technological literacy positively influence MSME performance, the impact is not significant; however, entrepreneurial risk management practices show a significant positive effect (Putri et al., 2022). Financial literacy also influences MSME sustainability and investment decisions in the trade sector (Fajri, 2020). Furthermore, financial literacy and financial inclusion have been found to influence MSME financial management (Munthay & Sembiring, 2024). These findings highlight the importance of financial literacy and risk awareness for the

success and sustainability of SMEs, suggesting that enhancing these skills can contribute to improved business performance and longevity in the Indonesian SME sector. Previous research generally addresses financial literacy or risk awareness separately within a general context, such as personal financial management or investments. Meanwhile, the topic of fire insurance utilization by MSME owners, particularly in rural areas such as Kualuh Leidong District, remains rarely explored. Few studies have examined how the combination of risk awareness and financial literacy influences MSME owners' decisions to purchase fire insurance. Therefore, this study aims to fill this gap by providing a more specific and contextual approach to MSMEs in Labura Regency.

Given these conditions, it is important to conduct research that analyzes the extent to which risk awareness and financial literacy influence MSME owners' decisions to purchase fire insurance, particularly in Kualuh Leidong District. This study aims to provide an empirical overview of the relationship between these two factors and insurance-taking decisions, as well as provide input for efforts to improve business protection through insurance, especially for MSMEs in rural areas. It is hoped that the results of this study will contribute to the academic literature and serve as a basis for the government and financial institutions in designing more effective education and outreach strategies.

H_{a1}: There is a significant influence between risk awareness (X1) and the decision to take out fire insurance (Y) among MSME owners in Kualuh Leidong District.

H_{a2}: There is a significant influence between financial literacy (X) and the decision to take out fire insurance (Y) among MSME owners in Kualuh Leidong District.

RESEARCH METHODS

This study uses a quantitative approach with an associative method, aiming to analyze the influence of risk awareness and financial literacy on the decision to purchase fire insurance among MSMEs. The population in this study was all MSME owners in Kualuh Leidong District, North Labuhanbatu Regency, totaling 475 business units (BPS, 2021). The sample was determined purposively, namely business owners who have been in business for at least one year and have fixed assets or businesses that are at risk of fire. Based on the Slovin formula with a 10% margin of error, the minimum sample size was 83 respondents. To increase data accuracy, 100 respondents were used in this study. Data

collection was carried out through a closed-ended questionnaire with a Likert scale, designed based on indicators of each variable. The data analysis technique used multiple linear regression with the help of SPSS. This approach was chosen to empirically test the extent to which risk awareness and financial literacy contribute to MSMEs' decisions to purchase fire insurance protection.

RESULTS AND DISCUSSION

Respondent Characteristics

The majority of respondents in this study were female (77%), while 23% were male. In terms of age, the majority were in the productive age range of 25–35 years (68%), followed by those under 25 (13%), those 36–45 (10%), and those over 45 (9%). Based on their most recent education, the majority of respondents were high school graduates/equivalent (38%), followed by Diploma/Bachelor's degrees or above (35%),

junior high school (15%), and elementary school (12%). The most common type of business was General Trade (35%), followed by Services and Food/Beverages with 24% each. The length of business was mostly between 1–3 years (34%) and more than 6 years (33%), while 18% had only started their business for less than a year. As many as 82% of respondents had fixed assets, and 18% did not. Regarding experience dealing with disasters, only 6% of respondents had experienced one, while 94% had not. Regarding Employment Social Insurance (ASK), only 21% had it, and only 6% had it directly. Generally, respondents were predominantly young women, had secondary or higher education, had owned businesses for more than a year, and owned fixed assets. However, most did not have insurance coverage and had never been affected by a disaster.

Results

Validity Test

Table 1. Validity Test

Variables	Item	R-Count	R-Table	Information
Risk Awareness (X1)	X1.1	0.658	0.194	Valid
	X1.2	0.669	0.194	Valid
	X1.3	0.736	0.194	Valid
	X1.4	0.790	0.194	Valid
	X1.5	0.757	0.194	Valid
	X1.6	0.749	0.194	Valid
	X1.7	0.732	0.194	Valid
Financial Literacy (X2)	X2.1	0.612	0.194	Valid
	X2.2	0.685	0.194	Valid
	X2.3	0.781	0.194	Valid
	X2.3	0.858	0.194	Valid
	X2.4	0.771	0.194	Valid
	X2.5	0.840	0.194	Valid
	X2.6	0.836	0.194	Valid
Interest in Using Fire Insurance (Y)	X2.7	0.596	0.194	Valid
	Y.1	0.682	0.194	Valid
	Y.2	0.635	0.194	Valid
	Y.3	0.829	0.194	Valid
	Y.4	0.817	0.194	Valid
	Y.5	0.890	0.194	Valid
	Y.6	0.890	0.194	Valid
	Y.7	0.750	0.194	Valid

Source: Primary Data processed by SPSS, 2025

Reliability Test

Table 2. Reliability Test

Variables	Reliability Test Value	Cronbach Alpha Limits	Information
Risk Awareness (X1)	0.763	0.60	Reliable
Financial Literacy (X2)	0.885	0.60	Reliable
Interest in Using Fire Insurance (Y)	0.928	0.60	Reliable

Source: Primary Data processed by SPSS, 2025

High reliability is indicated by an rxx value approaching 1. Generally, reliability is considered

adequate if the value is >0.60 . Therefore, in Table 2, the overall Cronbach's Alpha value is >0.60 ,

indicating that the entire questionnaire is considered reliable. Therefore, the questionnaire is considered reliable and can be distributed to

respondents as a research instrument.

Normality Test

Table 3. Normality Test

Unstandardized Residual		100
N		
Normal Parameters(a,b)	Mean	.0000000
	Standard Deviation	1.78810835
Most Extreme Differences	Absolute	.089
	Positive	.089
	Negative	-.089
Kolmogorov-Smirnov Z		.894
Asymp. Sig. (2-tailed)		.401

Source: Primary Data processed by SPSS, 2025

The results of the Kolmogorov-Smirnov normality test in Table 3 show that the residuals do not deviate from the normal distribution. The largest D value (Most Extreme Differences) is 0.089 with a significance (Asymp. Sig. 2-tailed) of 0.401, which is > 0.05 . This means that the

residual data is statistically normally distributed, so the normality assumption is met for further analysis. This evaluation is important for regression analysis and other inferential statistics to be valid and reliable.

Multicollinearity Test

Table 4. Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	Risk Awareness (X1)	.539	1,857
	Financial Literacy (X2)	.539	1,857

Source: Primary Data processed by SPSS, 2025

Based on the results of the multicollinearity test in table 4, the Tolerance and Variance Inflation Factor (VIF) values were obtained for each independent variable, namely the variable Risk Awareness (X1) has a Tolerance value of 0.539 and a VIF of 1.857 and the variable Financial Literacy (X2) has a tolerance value of 0.539 and a VIF of 0.857. All tolerance

values are > 0.10 and VIF values < 10 , so it can be concluded that there are no symptoms of multicollinearity in this regression model. This means that each independent variable does not have a high linear relationship with each other and is suitable for use in regression analysis.

Test Heteroscedasticity

Table 5. Test Heteroscedasticity

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2,522	.694		3,633	.000
	Risk Awareness (X1)	-.063	.048	-.194	-1,300	.197
	Financial Literacy (X2)	.004	.043	.013	.088	.930

Source: Primary Data processed by SPSS, 2025

The results of the heteroscedasticity test in Table 5 can be seen from the Coefficient table (T2) which displays the coefficient values and significance values (Sig.) of the Risk Awareness and Financial Literacy variables against the Abs_Res variable (assumed as the tested variable). Based on these data, the Sig. value for Risk

Awareness is 0.197 and for Financial Literacy is 0.930. Because both of these Significance values are greater than 0.05 (generally used as the limit for significant testing), it can be concluded that there is no heteroscedasticity in this model.

Multiple Linear Regression Test**Table 6. Multiple Linear Regression Test**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,139	1,061		1,074	.285
	Risk Awareness (X1)	.671	.074	.651	9,121	.000
	Financial Literacy (X2)	.259	.065	.283	3,970	.000

Source: Primary Data processed by SPSS, 2025

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + e$$

$$Y = 1.139$$

$$+ 0.671X_1 + 0.259X_2$$

- a. The intercept value of 1.139 indicates that if Financial Literacy and Risk Awareness are both zero, then the interest in using fire insurance is estimated at 1.139. This means that this is the baseline value of interest when both factors have no influence.

- b. The coefficient of 0.671 means that every 1 unit increase in Risk Awareness will increase the interest in using fire insurance by 0.671 units, assuming Financial Literacy remains constant.
- c. The coefficient of 0.259 indicates that every 1 unit increase in Financial Literacy will increase the interest in using fire insurance by 0.259 units, assuming the Risk Awareness variable remains constant.

Partial Test (T-Test)**Table 7. Partial T-Test**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,139	1,061		1,074	.285
	Risk Awareness (X1)	.671	.074	.651	9,121	.000
	Financial Literacy (X2)	.259	.065	.283	3,970	.000

Source: Primary Data processed by SPSS, 2025

The results of the t-test on multiple linear regression indicate that partially, the variables of Risk Awareness and Financial Literacy have a significant effect on the interest in using fire insurance. The Risk Awareness variable has a regression coefficient of 0.671 with a t-value of 9.121 and a significance level (Sig.) of 0.000 < 0.05. Meanwhile, the Financial Literacy variable has a coefficient of 0.259 with a t-value of 3.970

and a Sig. also of 0.000 < 0.05. Because the t-value for both variables is greater than the t-table (1.985 at a significance level of 5%) and the significance value is smaller than 0.05, it can be concluded that both variables partially have a positive and significant effect on the public's interest in using fire insurance products. In other words, the higher a person's risk awareness and financial literacy, the higher their interest in using fire insurance.

F test**Table 8. F Test**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1115,824	2	557,912	170,968	.000(a)
	Residual	316,536	97	3,263		
	Total	1432,360	99			

Source: Primary Data processed by SPSS, 2025

The results of the F test on multiple linear regression in table 8 show that the F value is 170.968 with a significance value (p-value) of 0.000. This high F value indicates that the regression model used has excellent ability in explaining the dependent variable. Because the significance value is much smaller than 0.05, the

null hypothesis is rejected, which means that simultaneously the independent variables, namely Financial Literacy and Risk Awareness, have a significant effect on the dependent variable, namely the Interest in Using Fire Insurance. Thus, this regression model is statistically significant and suitable for use to explain the relationship between

the variables studied.

Coefficient of Determination Test (R2)

Table 9.Coefficient of Determination Test (R2)

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.883(a)	.779	.774	1.80645

Source: Primary Data processed by SPSS, 2025

Based on the results of the coefficient of determination (R^2) test found in the Model Summary section, the R^2 value was 0.779. This means that approximately 77.9% of the variation or change in the dependent variable, namely the interest in using fire insurance, can be explained by the two independent variables used in the model, namely financial literacy and risk awareness. Meanwhile, the remaining 22.1% is explained by other factors outside the model or by random variables not included in the analysis. This relatively high R^2 value indicates that the regression model built has good predictive ability and is suitable for use in explaining the relationship between financial literacy, risk awareness, and public interest in using fire insurance.

DISCUSSION

The Influence of Risk Awareness (X1) on the Decision to Take Out Fire Insurance (Y) among MSME Owners in Kualuh Leidong District.

Based on the regression test results in Table 7, it is known that Risk Awareness (X_1) has a significant effect on the Decision to Take Fire Insurance (Y), with a calculated t-value of $9.121 > t\text{-table } 1.985$, and a significance value of $0.000 < 0.05$. This indicates a strong and statistically significant influence between the level of risk awareness and the decision of MSME owners to take fire insurance. Thus, there is sufficient evidence to reject the null hypothesis (H_0) and accept the first hypothesis (H_1) which states that there is a significant influence between Risk Awareness and the decision to take fire insurance. These results are in line with Slovic's (2021) theory which states that individuals with a high level of risk awareness tend to take preventive measures, including business protection through insurance. In the context of MSMEs in Kualuh Leidong District, business owners who understand the potential losses due to fire are more encouraged to use insurance as a form of risk mitigation.

According to the Perceived Risk theory in consumer behavior, individuals will be motivated to take protective action if they feel exposed to a real and significant risk. In this context, the higher the level of risk perception, the greater the

individual's tendency to take preventive measures, including decisions to purchase insurance products. The results of this study align with the findings of various previous studies. (Tristiarto et al., 2025) found that financial literacy significantly influences insurance ownership and investment decisions, especially among low-income communities. (Dhea Nita Syafina Rambe, 2023) also showed that understanding of risk and income levels also influence insurance and investment decisions. Furthermore, (Wahyuari & Putra, 2023) revealed that trust and understanding of insurance products have a positive impact on purchase intentions, in line with the findings (Tamba et al., 2024) which showed that small business owners with a good understanding of insurance are more likely to participate in protection products. However, (Dewi & Saleh, 2023) noted that attitudes toward risk do not always correlate directly with life insurance ownership, suggesting that risk perception needs to be examined more deeply within the context of different insurance types. These findings collectively emphasize the importance of improving financial literacy and education about insurance products as strategic efforts to encourage public participation, particularly among MSMEs, in utilizing fire insurance products for business protection.

The Influence of Financial Literacy (X2) on the Decision to Take Out Fire Insurance (Y) among MSME Owners in Kualuh Leidong District.

Based on the regression test results in Table 7, it is known that Financial Literacy (X_2) has a significant effect on the Decision to Take Fire Insurance (Y), with a calculated t-value of $3.970 > t\text{-table } 1.985$, and a significance value of $0.000 < 0.05$. This indicates a strong and statistically significant influence between the level of financial literacy and the decision of MSME owners to take fire insurance. Thus, there is sufficient evidence to reject the null hypothesis (H_0) and accept the second hypothesis (H_2) which states that there is a significant influence between financial literacy and the decision to take fire insurance. These results are in line with the definition of financial literacy by the Financial Services Authority (OJK, 2022), which states that understanding financial concepts and products encourages individuals to make wise financial

decisions. In the context of MSMEs in Kualuh Leidong District, business owners with good financial literacy tend to better understand the benefits and mechanisms of fire insurance, thus being better prepared to manage business risks through appropriate protection.

Financial Behavior Theory states that the level of financial literacy influences the quality of financial decision-making. MSME owners who have a good understanding of finance tend to be better able to assess the benefits of business protection, including through fire insurance. The results of this study align with the findings of various previous studies. (Fajri, 2020) showed that financial literacy has a positive influence on business sustainability and investment decisions among MSMEs, particularly in the trade sector. (Hartina et al., 2023) also found that a good level of financial literacy has a significant impact on effective MSME financial management practices. In the context of culinary businesses, (Rusnawati, Rusdi. R, 2022) confirmed that the financial behavior of MSME owners is significantly influenced by their level of understanding of basic financial principles. Furthermore, (Inanna et al., 2023) revealed that financial literacy, combined with digital innovation, can explain up to 60.6% of the variability in MSME performance, demonstrating a significant contribution to improving business performance. These findings collectively emphasize the importance of improving financial literacy as a key strategy in supporting wiser business decision-making, including in terms of risk protection through fire insurance, especially for MSMEs in rural areas such as Kualuh Leidong District.

The Influence of Risk Awareness and Financial Literacy on Fire Insurance for MSME Owners in Kualah Leidong District, Labura Regency

Based on the results of the F test, it is known that risk awareness and financial literacy simultaneously have a significant effect on the decision to take fire insurance, with an F value of 170.968 and a significance of $0.000 < 0.05$. This means that both variables together have a strong contribution in explaining the dependent variable. This result is supported by the coefficient of determination (R^2) value of 0.779 which indicates that 77.9% of the variation in the decision to take fire insurance can be explained by risk awareness and financial literacy, while the remaining 22.1% is influenced by other factors outside the research model. Theoretically, this finding is in line with the Protection Motivation Theory (Rogers, 1975), which explains that individuals are motivated to take protective action when they are aware of a threat and believe that the action is effective. In

this case, MSMEs who have risk awareness tend to make the decision to take fire insurance to protect their business. Therefore, these results indicate that the higher the risk awareness and the better a person's financial understanding, the greater the likelihood they will take fire insurance. This emphasizes the importance of education and outreach regarding risks and finances for MSMEs to increase their business resilience.

The results of this study align with the findings of various previous studies (Irham et al., 2024), which showed that financial literacy and risk management significantly influence the sustainability of small and medium enterprises (SMEs), contributing 44%. This finding is reinforced by (Putri et al., 2022), which revealed that financial literacy influences MSME sustainability and investment decisions, particularly in the trade sector. Furthermore, (Azis & Effendy, 2024) found that although financial and technological literacy have a positive but insignificant influence on MSME performance, risk management practices still have a significant impact on business performance. In the context of insurance ownership, (Landang et al., 2021) also showed that financial literacy significantly influences insurance decisions, while attitudes toward risk had no significant impact. Overall, these findings confirm that financial literacy and risk awareness are two crucial aspects in financial decision-making, both in maintaining business continuity and in adopting protections such as fire insurance. These results are relevant for MSMEs in areas such as Kualuh Leidong District who require a more mature business protection strategy.

CONCLUSION

Based on the results of research on the influence of Risk Awareness and Financial Literacy on the decision to take out fire insurance among MSME owners in Kualuh Leidong District, it can be concluded that the two independent variables have a significant influence on the dependent variable.

1. The Risk Awareness (X_1) variable shows a positive and significant influence on the decision to take out fire insurance, with a calculated t-value of 9.121 and a significance level of $0.000 < 0.05$. This indicates that the higher the awareness of MSMEs towards fire risks, the greater their tendency to take out fire insurance as a form of mitigation.
2. The Financial Literacy (X_2) variable also significantly influences the decision to purchase fire insurance, with a t-value of 3.970 and a significance level of $0.000 < 0.05$. This means that MSME owners with a good

financial understanding are more likely to make wise financial decisions, including regarding business protection through fire insurance.

3. Simultaneously, the two variables, namely Risk Awareness and Financial Literacy, explain 77.9% of the variation in the decision to take out fire insurance ($R^2 = 0.779$), while the remaining 22.1% is explained by other factors outside the research model.

Thus, increasing risk awareness and financial literacy is a crucial strategic step in encouraging MSME participation in fire insurance products. This is crucial for ensuring business continuity and resilience, particularly in risk-prone areas like Kualuh Leidong District.

Based on these findings, it is recommended that the government, financial institutions, and insurance providers be more active in providing education and outreach regarding the importance of business protection through insurance, particularly using a simple and context-specific approach for MSMEs in rural areas. Continuously improving financial literacy and risk awareness will help enhance business resilience and encourage participation in relevant insurance products.

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