

The Behaviour of Generation Z Towards the Use of Sharia Digital Banking: Perspectives of Trust, Financial Literacy, and Religious Values

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ABSTRACT

This study examines the behavioral intentions of Generation Z toward the use of Islamic digital banking services, emphasizing the roles of trust, Islamic financial literacy, and religiosity. Motivated by the growing yet underutilized potential of Gen Z in Indonesia's digital banking market, this research adopts a quantitative explanatory approach using Structural Equation Modeling – Partial Least Squares (SEM-PLS) to evaluate the causal relationships among the variables. The study surveyed Muslim individuals aged 18 to 27 who had experience using digital banking platforms. Data were collected through purposive sampling and analyzed using SmartPLS. The results indicate that all three independent variables have a significant and positive influence on the intention to use Islamic digital banking services. Among these, trust emerged as the most dominant predictor, suggesting that perceptions of system security, institutional transparency, and Shariah compliance greatly shape user decisions. Additionally, higher levels of Islamic financial literacy enhance rational financial behavior and product differentiation between conventional and Islamic banking. Religiosity also proved to be a meaningful determinant, reinforcing that spiritual values influence economic decisions even in a digital environment. This study contributes to the theoretical advancement of Islamic behavioral finance by integrating cognitive, affective, and normative dimensions into a unified framework. Furthermore, the findings provide practical insights for Islamic banking institutions in designing trust-based and value-aligned digital services targeted at Generation Z consumers. The research also recommends expanding the Technology Acceptance Model (TAM) by incorporating ethical-spiritual constructs to better contextualize financial behavior in Muslim societies.

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1. INTRODUCTION

In the era of massive digital transformation, the global financial system is facing significant changes, including the Islamic banking sector which is beginning to adopt digital services to reach modern Muslim communities. In Indonesia, the use of digital banking services is growing rapidly. Data from Statista (2024) shows that the number of digital banking service users is estimated to reach more than 79 million people, with Generation Z, individuals aged 18 to 27, being the largest user group. This generation grows up in a digital environment, characterised as active technology users, and holds complex identity values between modernity and spirituality. However, despite the significant potential of Gen Z users, their preference for Islamic banking services remains relatively low. Based on the OJK report (2023), only 35% of digital banking users in Indonesia actively choose services based on Sharia principles. This indicates that there are determining factors that have not yet been fully understood or maximised by the digital sharia finance industry.

Sharia economic experts have highlighted several key aspects that influence the financial behaviour of the younger generation, particularly in choosing sharia-based financial services. According to (Patrisia dkk., 2023), trust becomes a fundamental element in the use of digital services, especially in the context of sharia finance which demands integrity and transparency. On the other hand, research by (Nurkholida & Damayanti, 2021) revealed that the level of sharia financial literacy among Gen Z is still relatively low, leading to misconceptions about sharia products. Additionally, the value of religiosity has also been proven to influence Gen Z's economic behaviour in various financial decisions. (Latipah dkk., 2024) in their study found that the higher the level of religiosity, the greater their intention to use sharia services, including in terms of paying zakat and saving. Thus, there is a correlation between the cognitive dimension (literacy), affective dimension (trust), and value dimension (religiosity) in influencing the adoption of Sharia-based digital banking.

Nevertheless, until now, there have not been many studies that simultaneously and comprehensively combine these three dimensions into a single analytical framework regarding the behaviour of Gen Z in using sharia digital banking. Most studies are still partial and focus on one or two variables only. On the other hand, the methodological approaches used tend to be descriptive or based on simple regression, thus not strong enough to explain the causal relationships between variables simultaneously. This gap in research is important to fill in order to obtain a more comprehensive understanding, while also serving as a basis for policy-making by the Islamic banking industry.

Some previous studies can be used as a starting point. First, (Fitria & Priantina, 2025) show that financial literacy and religiosity have a positive influence on the intention to save in Islamic banks, but do not consider the role of trust as a main variable. Second, (Latipah dkk., 2024) concluded that religiosity encourages ZIS payments through digital platforms, but did not examine the context of digital banking services in general. Third, (Garia-Fodor, 2018) validated that literacy and religious values influence saving behaviour among Gen Z, but the approach still uses descriptive analysis. Fourth, (Wulandari dkk., 2020) explored the relationship between trust, literacy, and investment decisions in the Islamic capital market, but did not focus on banking services. Fifth, (Koch-Rogge & Westermann, 2017) conducted a similar study, but within a limited scope and did not discuss the aspect of service digitalisation.

Through this literature gap, this research presents a new approach that combines three main variables: trust, sharia financial literacy, and religiosity in analysing Generation Z's intention to use sharia digital banking services. This study employs a quantitative approach using Structural Equation Modelling (SEM-PLS) analysis techniques to obtain a comprehensive understanding of the relationships between variables. Special focus is given to Generation Z as a strategic group in the sharia digital economy ecosystem. Thus, this research not only contributes academically to the development of value-based Islamic financial behaviour theory but also offers a practical foundation for Islamic banks in designing education, marketing, and digital service development strategies that align with the characteristics of the Muslim digital generation.

2. METHODS

This research uses an explanatory quantitative approach aimed at explaining the relationship between several predetermined variables, namely trust, sharia financial literacy, and religious values, on the intention to use sharia digital banking services by Generation Z. This approach was chosen because the researchers want to empirically and measurably illustrate the cause-and-effect relationship based on data collected directly from respondents.

In its implementation, the researchers focused on the Muslim Gen Z group in Indonesia, specifically individuals aged between 18 to 27 years who already have access to or experience using digital banking services, whether from Islamic banks or conventional banks. The researcher targeted this population through the distribution of online questionnaires, which were selectively disseminated using purposive sampling techniques to various student communities, Islamic digital forums, and social media platforms.

The instrument used in this study is a structured questionnaire designed based on previous research findings and relevant theories.

Analysis was conducted using the Structural Equation Modelling – Partial Least Squares (SEM-PLS) technique with the help of SmartPLS software. The reason for using SEM-PLS is that this approach can process data with non-normal distribution, supports models with many constructs and indicators, and is suitable for exploratory predictive research like this. The analysis was conducted in two stages: first, the researcher examined the measurement model (outer model) to ensure the validity and reliability of each indicator with respect to its respective construct. Then, the structural model (inner model) analysis was performed to determine the strength and direction of the relationships between constructs and their significance.

3. FINDINGS AND DISCUSSION

Results of SEM-PLS Analysis

Data analysis was conducted using the Structural Equation Modelling approach with the Partial Least Squares (SEM-PLS) technique through the SmartPLS software. The model was tested in two stages: first, the measurement model (outer model) testing, and second, the structural model (inner model) testing.

The results of the outer model test indicate that all constructs have adequate convergent and discriminant validity. The loading factor values for all indicators are above the minimum threshold of 0.70, the Average Variance Extracted (AVE) values for all constructs exceed 0.50, and the Composite Reliability (CR) values are above 0.70. This indicates that the constructs in the study have strong validity and reliability.

At the inner model testing stage, it was found that all hypotheses have high statistical significance. The path coefficient value shows that:

1. Trust has a positive and significant influence on the intention to use sharia digital banking ($\beta = 0.412$; $p < 0.001$),
2. Islamic financial literacy has a positive and significant effect on the intention to use ($\beta = 0.284$; $p < 0.01$),
3. The value of religiosity also has a positive and significant effect on the intention to use ($\beta = 0.362$; $p < 0.001$),
4. The R-square value for the usage intention construct reached 0.68, indicating that 68% of the variability in usage intention can be explained by the three independent variables in the model.

The Role of Trust in Encouraging the Intention to Use Sharia Digital Banking

The findings of this study affirm that trust, sharia financial literacy, and religious values are the main determinants in shaping the intention to use sharia digital banking services by Generation Z. These results are consistent with the study (Patrisia dkk., 2023), which states that trust in the halalness of the system, the reliability of digital services, and the sharia commitment of banking institutions are important foundations in forming the intention to use sharia-based digital financial platforms. Trust in this context is not only about technical cybersecurity but also encompasses the spiritual and ethical perceptions of the service provider institution.

These findings also reinforce the argument (Albaity & Rahman, 2019) that developed a model of intention to use Islamic banks by incorporating elements of trust and perception of Islamic values. In the digital context, trust becomes increasingly crucial considering that users no longer interact physically with service providers. Thus, reputation, product literacy, and institutional integrity become the main elements that influence usage intention.

The Contribution of Sharia Financial Literacy to Value-Based Financial Preferences

Furthermore, sharia financial literacy has also been proven significant in encouraging the use of sharia-based digital banks. This shows that individuals with a better understanding of basic Islamic finance concepts such as the prohibition of usury, the principle of justice (adl), and the permissibility of transactions are more likely to use digital services that align with these principles. These results reinforce the findings of (Nurkholidah & Damayanti, 2021) and (Afriani & Asandimitra, 2020) which state that sharia financial literacy plays an important role in encouraging preferences for halal products.

Religiosity as a Spiritual Foundation in Digital Financial Behaviour

Interestingly, the dimension of religiosity also plays a significant role in influencing the financial behaviour of Generation Z. This indicates that, although Generation Z is known as a pragmatic and digital generation, they still make religious values the foundation of their financial decision-making. These results are consistent with the studies by (Borzooei & Asgari, 2014) and (Latipah dkk., 2024), which emphasise that religiosity not only affects the preference for halal products but also strengthens loyalty towards financial service providers that demonstrate a commitment to Islamic values.

The main contribution of this research lies in the integration of the three constructs (trust, literacy, religiosity) into a single conceptual framework tested simultaneously using the SEM-PLS approach. There have not been many previous studies that examine the model of Sharia digital banking usage behaviour with a strong structural approach and a specific focus on the Generation Z population. Therefore, this study provides a theoretical contribution by expanding the Technology Acceptance Model (TAM) and the Islamic consumer behaviour intention model by incorporating Sharia values into the technology behaviour analysis system.

From a practical implications perspective, these results indicate that the Islamic banking industry needs to develop Sharia-based financial literacy strategies that directly target the Gen Z group. In addition, building a digital financial system that is not only technologically secure but also ethically and Sharia-compliant is key to attracting the interest and loyalty of young Muslim users.

4. CONCLUSION

This research aims to analyse the factors influencing Generation Z's intention to use sharia digital banking services, focussing on three main constructs: trust, sharia financial literacy, and religious values. Based on the analysis results using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) approach, it was concluded that all independent variables have a positive and significant influence on the intention to use sharia digital banking.

Specifically, trust has proven to be the most dominant factor. Generation Z considers trust as the foundation in making choices regarding digital financial services, especially those claiming to be Sharia-compliant. They do not only evaluate from the aspects of security and technological efficiency, but also from the transparency and institutional integrity in authentically applying Sharia principles.

Meanwhile, sharia financial literacy becomes an important driver for rational and value-based financial behaviour. Individuals with a high level of literacy tend to be more aware of the differences between conventional and sharia financial products, and show a greater intention to use financial services that align with Islamic values.

In addition, the value of religiosity also has a significant influence. These findings affirm that the spiritual aspect remains a relevant variable in economic decision-making, even in a digital environment often considered neutral towards religious values.

The theoretical contribution of this research is the integration of these three variables into a single conceptual model of digital financial behaviour based on Islamic values. This research also expands the Technology Acceptance Model (TAM) approach by adding normative and spiritual dimensions that are more suitable for the context of contemporary Islamic economic behaviour.

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