Gen-Z Islamic Banking Literacy Level on Decision to Use Islamic Banks

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Abstract. The market share of Islamic banking in Indonesia is only 9.96%, while the government targets an increase to 20% by 2023-2024. Literacy is one factor that can increase it. This study aims to determine Generation Z literacy level of Islamic banking in Jakarta and its effect on their decision to use Islamic banks. Researchers used primary data obtained through questionnaires with random purposive sampling. The number of samples in this study were 100 Islamic bank customers. The data analysis method used is Partial Least Square with Smart PLS 3.0 application media. The results are generation Z Islamic bank literacy in Jakarta is at moderate level, with percentage 79.8% and then Islamic bank literacy has a significant effect on decisions to use Islamic banks. This provide guidance for government and banks in order to intensify the socialization of Islamic banks to increase their literacy level to achieve the market share targets.

Keywords: Islamic banking literacy, decisions, PLS

1 Introduction

The current economic development requires all elements involved in it to continue to innovate, including Islamic finance. The Indonesian government is targeting an increase in the market share of Islamic finance to 20% by 2023, while in 2021, the market share of Islamic finance has only reached 10.11% (CNBC Indonesia, 2021).

In order to achieve the target of increasing market share of Islamic finance, the government has established KNEKS (National Committee for Sharia Financial Economics) which is chaired directly by the president and his deputy. Because to achieve an increase in market share, it is necessary to have support from the government and the development of Islamic financial institutions themselves.

One of the leading Islamic financial institutions is the Islamic bank (Miftahudin, 2020). So that to meet the target market share of Islamic finance, it can be through the development of Islamic banks. Even though Islamic banking has excelled, there is still potential to develop for the better.

According to Wijayanti (2019) research, the development of Islamic banks is not only the responsibility of the government and managers but is also influenced by the community through investment in the form of savings. Rusdianto (2016) explained that educating the public about Islamic banks is one way to increase public interest. The development of Islamic banks can be met through public savings and education about Islamic banks to Islamic banks will increase interest in using Islamic banks. In other words, it is necessary to increase the literacy of Islamic banks in the community in order to foster public interest in using Islamic banks.

Islamic bank literacy is part of Islamic financial literacy. Islamic financial literacy is a person's ability to use financial knowledge to manage their funds in accordance with sharia principles and implement them in Islamic financial attitudes and behavior in order to achieve prosperity in the future (Fauzi, 2020).

The level of Islamic financial literacy in Indonesia in 2019 was only 8.1% and was in the low category (SPS December 2021). One of the factors that influence the literacy rate is demographics, and the demographic phenomenon that will and is currently happening is the demographic bonus.

Demographic bonus is a phenomenon where the working age population (15-64 years) is more than the young age (under 15 years) and the elderly (over 65 years). The peak of the demographic bonus in Indonesia is estimated in 2020 to 2030 (Dewi et al., 2018). One of the generations included in the demographic bonus is Generation Z.

Generation Z are those born between 1995 and 2010 (Bencsik, dkk., 2016). They were born in the same historical event, namely the era of digitalization and the internet, this is what makes them also called i-generation (Fitriani & Widodo, 2020).

One of the provinces with the dominance of Generation Z is Jakarta (BPS, 2021). Although the status of the capital city will be moved to Kalimantan, but Jakartacentric is still running until now. Jakartacentric is a journalism problem that refers to the domination of culture, economy, and even politics in Jakarta over other regions in Indonesia (Ambard et al., 2018). In addition, 70% of the flow of the national money circulation also only dwells in Jakarta (detikFinance, 2020). Moreover, many nomads choose the capital as their luck. Then he will return to his hometown and bring the culture of Jakarta there. So that this research is seen using a benchmark for Jakarta residents, because the mindset and culture of its citizens are still role models for other regions.

Based on the problems above, the researcher will raise the issue of Islamic Bank Literacy in Generation Z in Jakarta and its influence on the decision to use Islamic banks. The difference with previous research is that this research refers to Islamic banks and relates them to the decision to become a customer of Islamic banks. Meanwhile, previous research discusses Islamic financial literacy in general.

2 Methods

Islamic bank literacy is part of Islamic financial literacy, where this literacy will focus on discussing Islamic banks, not Islamic financial institutions generally. This study uses second

order confirmatory factor analysis, which is a form of measurement model in SEM, which consists of two levels showing the relationship between latent variables at the first level as an indicator of a second level latent variable (Dewi et al., 2015). Second order confirmatory factor analysis will make indicators in Islamic financial literacy (knowledge, attitudes, and behavior) as variables in Islamic bank literacy. With the second order confirmatory factor analysis method, this research is expected to be able to produce a valid and accurate instrument to measure the literacy level of Islamic banks. Based on this description, the research model is as follows:
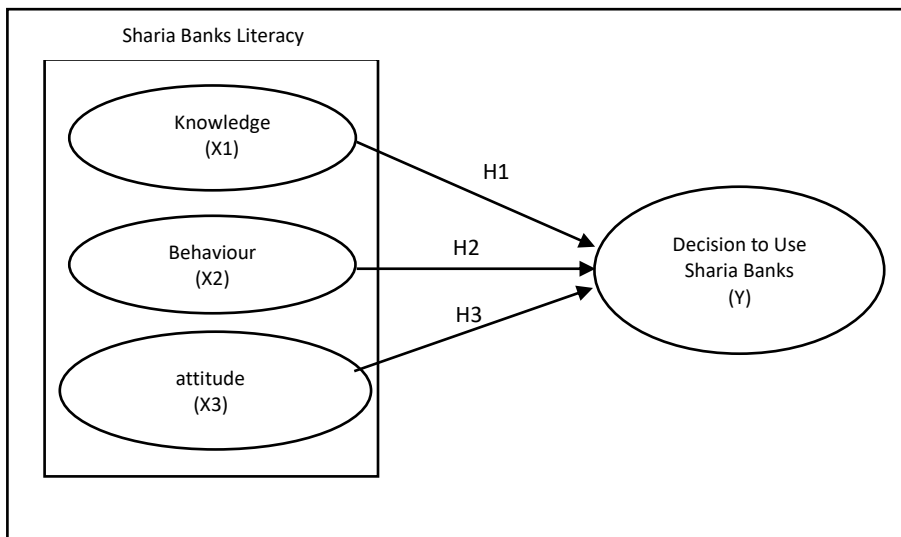

Fig. 1. Variables Relation

H1   : Knowledge of Islamic Banks has an effect on Decision to use Islamic Banks.

H2   : Financial Behaviour has an effect on Decision to use Islamic Banks.

H3   : Financial Attitude has an effects on Decision to use Islamic Banks

This research is included in quantitative research with a causal approach, which aims to see the influence of Islamic bank literacy on decisions to use Islamic banks. The exogenous latent variables in this study are Islamic bank knowledge, financial behavior, and attitudes, which will be tested for their influence on the endogenous latent variable, namely decisions.

The method of data collection with primary data sources, namely the distribution of Likert-scale questionnaires with random purposive sampling method. The population in this study is Generation Z in Jakarta. The sample used is sharia bank customers, domiciled in Jakarta, and is a generation Z (born between 1995-2010). Sampling using the Lemeshow formula, due to the lack of detailed data regarding the available population and obtained a total of 96.04 samples which were then rounded to 100.

To analyze quantitative data, researchers used descriptive statistics and inferential statistics. Descriptive statistics are used to describe the literacy level of Islamic banks. Meanwhile, inferential statistics, in this study, are used to analyze the data by making conclusions that apply in general.

In descriptive statistics, researchers will use Microsoft Excel data processing application and for inferential statistics, researchers will use Partial Least Square method with SmartPLS 3.0 application.

In the PLS method, there are two models, namely the inner and outer models. The outer model is used to test the value of the data that has been collected, through validity and reliability tests. While the inner model is used to test the hypothesis that has been proposed.

In testing the outer model/measurement model, the data that has been collected will be examined for validity and reliability. There are two types of validity in PLS SEM, namely convergent and discriminant validity. Convergent validity is used to explain that a set of indicators can represent latent variables. The loading factor value is said to be valid if it is not less than 0.70. In the test results of convergent validity, all loading factor values are not less than 0.70, then all indicators on the variables have met convergent validity. The following are the results of the evaluation of the outer model with SmartPLS 3.0:
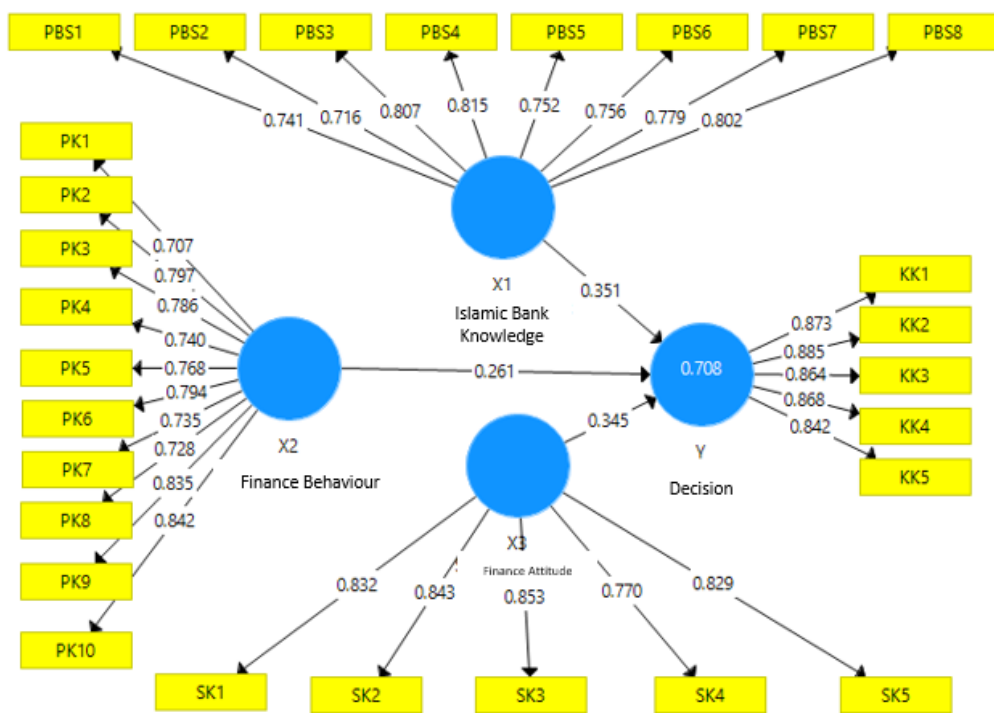

Fig. 2. Evaluation of the Outer Model

Next is discriminant validity testing. Discriminant validity aims to prove that indicators of different variables should not be highly correlated. For discriminant validity testing, there are

two ways, namely by looking at the roots of AVE (Fornell-Lacker) and looking at crossloadings.

Table 1. Cross Loading Output

Indicator	Sharia Banks Knowledge	Financial Behavior	Financial Attitudes	Decision
X1.1	0,741	0,528	0,527	0,594
X1.2	0,716	0,506	0,551	0,591
X1.3	0,807	0,488	0,486	0,546
X1.4	0,815	0,561	0,509	0,618
X1.5	0,752	0,396	0,513	0,576
X1.6	0,756	0,495	0,467	0,563
X1.7	0,779	0,588	0,529	0,536
X1.8	0,802	0,542	0,476	0,581
X2.1	0,460	0,707	0,707	0,519
X2.2	0,443	0,797	0,448	0,504
X2.3	0,569	0,786	0,614	0,677
X2.4	0,533	0,740	0,502	0,489
X2.5	0,411	0,768	0,406	0,502
X2.6	0,629	0,794	0,501	0,568
X2.7	0,504	0,735	0,407	0,529
X2.8	0,389	0,728	0,465	0,484
X2.9	0,516	0,835	0,577	0,633
X2.10	0,544	0,842	0,599	0,594
X3.1	0,587	0,574	0,832	0,646
X3.2	0,529	0,536	0,843	0,623
X3.3	0,603	0,561	0,853	0,636

X3.4	0,500	0,460	0,770	0,561
X3.5	0,495	0,578	0,829	0,618
Y1	0,670	0,677	0,678	0,873
Y2	0,670	0,650	0,683	0,885
Y3	0,605	0,581	0,583	0,864
Y4	0,661	0,605	0,590	0,868
Y5	0,630	0,582	0,696	0,842

In the cross loading results, the relationship between indicators and constructs is greater than other constructs. Based on table 1, we can see that the relationship between indicators and constructs is greater than other constructs. This shows that the latent construct predicts indicators in its own block better than other indicators.

Furthermore, the second option to test discriminant validity is to compare the square root of the average variance extracted (AVE) of each construct with the correlation between constructs (latent variable correlation). Good discriminant validity was assessed based on the larger AVE root in each structure compared to the correlation between the constructs and other constructs in the model. The following is the calculation of discriminant validity test using AVE:

Table 2. Output AVE

	AVE	**Root of AVE**
X1 (Sharia Banks Knowledge)	0,596	0,772
X2 (Financial Behavior)	0,600	0,774
X3 (Financial Attitude)	0,682	0,826
Y (Decision)	0,751	0,866

Table 3. Output Latent Variable Correlation

	X1 (Sharia Banks Knowledge)	**X2 (Financial Behavior)**	**X3 (Financial Attitude)**	**Y (Decision)**
X1	0,772			
X2	0,650	0,774		
X3	0,658	0,657	0,826	
Y	0,748	0,716	0,748	0,866

Based on tables 2 and 3, we can see that the comparison of the AVE root value of each construct is greater than the value of the other constructs. For example, the AVE root of the Y construct (Decision) is greater than the correlation value of Y (Decision) with X1 (Islamic Bank Knowledge), is also greater than the correlation between the Y construct and X2 (Financial behaviour), also compared to the Y construct with X3 (Financial Attitude). This proves that all constructs in the estimated model meet the criteria of discriminant validity.

After testing the validity, the next step is reliability testing. Reliability testing is carried out to prove that the latent variable can explain the indicator variance. The test can be done in two ways, namely through Cronbach's Alpha and composite reliability. According to the Rule of Thumb, both values must be greater than 0.70.

Table 4. Reliability Test Result

	Cronbach's Alpha	**Composite Reliability**
X1	0,903	0,922
X2	0,925	0,937
X3	0,883	0,915
Y	0,917	0,938

Based on table 4, we can conclude that all variables meet the reliability criteria because the results of Cronbach's Alpha and composite reliability are more than 0.70. Then all latent variables can explain the indicator variance.

3 Result and Discussions

Based on data sources that have been collected for 100 samples, it was found that the majority of respondents were 21 to 27 years old, with the majority working as employees, having a bachelor's degree in education, and the majority having very high incomes. All respondents are residents of DKI Jakarta who have become customers of Islamic banks. Here is the result of questionnaire distribution:

Table 5. Islamic Banks Literacy Level

No.	Variable	SDA	DA	N	A	SA	Score	Ideal score	Percentage
1.	Sharia Banks Knowledge	8	9	154	490	139	3143	4000	78,57

2.	Financial Behavior	10	7	231	607	145	3870	5000	96,8
3.	Attitude	2	6	28	254	210	2164	2500	86,6
Total							9177	11500	79,8

Table 5 explains how the calculation of the literacy level of Islamic banks is obtained. The ideal score for each indicator is 500 (highest scale x number of respondents). Based on the results of data processing questionnaires that have been distributed to 100 respondents regarding Islamic banking knowledge, behavior, and financial attitudes.

In the Islamic bank knowledge variable, there are 8 indicators, so the ideal score is 4000. In the financial behavior variable there are 10 indicators, so the ideal score is 5000. And for the financial attitude variable, the ideal score is 2500 because it has 5 indicators. If all of them are combined, it will result in the literacy level of Islamic banks. The ideal Islamic bank literacy score is 11500. The score obtained is 9,177, so the percentage of Islamic bank literacy level is 79.8.

Because the data already meets the criteria for the outer model, it is continued to test the inner model. The inner model test is used to show the relationship between endogenous latent variables and exogenous latent variables.

R^2 measures how much variation in the dependent latent variable uses the independent latent variable. According to Ghozali & Latan (2020), the criteria for a strong model are $R^2 = 0.75$, 0.50 indicating a moderate model, and 0.25 indicating a weak model. The value of R^2 on the decision variable is 0.708. This explains the effect of the three dependent variables on the independent variable by 70.8% and falls into the moderate category. Meanwhile, the remaining 29.2% is influenced by other variables outside the model in this study. here is the result of R^2:

Table 6. Output R^2

	R^2
X1 (Sharia Banks Knowledge)	
X2 (Financial Behavior)	
X3 (Financial Attitude)	
Y (Decision)	0,708

After going through the inner and outer models, then preceed with testing the hypothesis using a comparison between the t-value and t-table. Calculated t value obtained through bootstrapping resampling method on SmartPLS. With significance value of 5% and the number of respondents 11, the t table value is 1,96.

Tabel 7. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-stats	P Values
H1 (X1 to Y)	0,351	0,351	0,091	3,861	0,000
H2 (X2 to Y)	0,261	0,262	0,090	2,902	0,004
H3 (X3 to Y)	0,345	0,339	0,092	3,753	0,000

As shown in table 4 above, the hypothesis test was accepted entirely because it saw T-statistics which were greater than T-table, namely 1.96. P values are also smaller than the significance level, which is 0.05. So that all hypotheses are said to be significant. The original sample values are all positive, which means that all hypotheses have a positive effect.

In hypothesis 1, the coefficient between Sharia Banks Knowledge and Decision to become a sharia bank customer is 0.351. The Sample Mean value is greater than STDEV, so it can be said that the items in H1 are homogeneous & accurate. Tstatsistic on H1 is 3.861, greater than Ttable, 1.96. Since the P Value of H1 is 0.000, which is less than 5%, it can be said that the correlation is significant. So that H1 is accepted, Sharia Banks Knowledge has a significant effect on Decision to become a sharia bank customer.

The results of Hypothesis 1 are in line with the Rosyid & Saidiah (2016) research which states that Sharia Banks Knowledge has an effect on Decision to become a sharia bank customer. Accordingly, if someone's knowledge of Islamic banks is good, in this case knowledge of contracts, products, operations, and basic concepts of Islamic banks, then their decision to use Islamic banks will increase.

In the second hypothesis, the coefficient value between Financial Behavior and Decision to become a sharia bank customer is 0.261, which shows a positive correlation. The sample mean value for H2 is greater than the STDEV value, so the items on H2 are said to be homogeneous and accurate. The T-statistic on H2 is 2,902, which is greater than 1.96. And the P value of H2 is greater than 0.05, which is 0.004. So it can be concluded that H2 is accepted, Financial Behavior has a significant effect on Decision to become a customer of Islamic bank.

Then hypothesis 2 is in accordance with the results of Tabrani (2020) research which explains that Financial behaviour has a partial effect on the decision to carry out a financing program in Islamic banks. Which shows that the better the level of a person's Financial Behaviour, the more likely they are to decide to use Islamic banks. So if someone's financial behaviour is good, then it will increase someone's decision to use Islamic banks. in this case, because if someone has good financial behaviour, he understands what his financial problems are and will find solutions to these problems. He will also compare financial products before selecting them. And Islamic banks are said to be 'clean' and transparent banks, so it can be said that Islamic banks are a good choice.

The third hypothesis, the relationship between Financial Attitude and Decision using Islamic banks, has a coefficient of 0.345. The items in H3 can be said to be homogeneous & accurate because the sample mean value is greater than the standard deviation. Tstatistics in H3 is also higher than Ttable, namely 3.753 and 1.96. The P Value of H3 is less than 0.05, so the correlation between V3 and Y can be said to be significant. So it can be concluded that Financial Attitude has a significant effect on Decision to become a customer of Islamic bank.

The results of hypothesis 3 are in accordance with the results of research by Nasri et al. (2020) that Financial Attitude affects consumer decisions in choosing Islamic financial institution products. So it includes Islamic banking. So, if a person's Financial Attitude is good, then this will affect consumer decisions in choosing Islamic banks over conventional banks. One indicator of a good Financial Attitude is to set aside money for tomorrow and believe that saving in an Islamic bank is a good decision. So if his financial attitude is good, he will set aside his money for tomorrow and save it in the form of savings in Islamic banks.

With the acceptance of all hypotheses, Islamic bank literacy can be one of the factors that determine the decision to use Islamic banks. And deserves to be considered in making decisions or policies for the government and managers.

4 Conclusion

The literacy rate of Islamic banks in Generation Z in Jakarta is 79.8% and is in the medium category. The indicators used to measure the literacy of Islamic banks are Sharia Banks Knowledge, Financial Behavior, and Financial Attitude. These three variables have a significant effect on a person's decision to become a customer of a sharia bank and have an influence of 70.8%. Accordingly, it can be said that Islamic bank literacy affects the decision to use Islamic banks.

The existence of this research is expected to be a reference for the government in making decisions to achieve the target of increasing market share through the development of Islamic banks. This research can also be used as a reference for further research.

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