



# The Influence of Islamic Financial Literacy, Islamic Financial Inclusion, and Financial Behavior on the Investment Decisions of Generation Z in West Java

Ajeng Nurul Fadilah<sup>a,1\*</sup>, Deni Lubis<sup>b,2</sup>

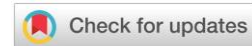
<sup>1,2</sup> Department of Islamic economics, Faculty of Economics and Management,  
IPB University, Indonesia

Jl. Raya Dramaga, Babakan, Kec. Dramaga, Kabupaten Bogor, Jawa Barat 16680

Email: [ajengfdlh24fadillah@apps.ipb.ac.id](mailto:ajengfdlh24fadillah@apps.ipb.ac.id) , [denilubis@apps.ipb.ac.id](mailto:denilubis@apps.ipb.ac.id)

\*Corresponding Author

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## ABSTRAK

### Keywords:

*Financial behaviour; Investment decisions; Sharia financial inclusion; financial literacy.*

The largest number of Generation Z in Indonesia has potential for economic development. This is because the younger generation possesses high levels of technological skills, making them promising investors and key drivers in advancing investment growth in Indonesia. This research aims to analyze the levels of Islamic financial literacy and inclusion and their influence on financial behavior and investment decisions using descriptive analysis and the SEM-PLS method. The research results indicate that the average level of Islamic financial literacy was 77.9% (well-literate) and the level of Islamic inclusion was 80.5% (high). Islamic financial literacy and Islamic financial inclusion significantly affect investment decisions while financial behavior does not significantly affect investment decisions. This study contribute to enhance the index of literacy and financial inclusion in sharia finance for the younger generation, as well as promoting participation in sustainable investments oriented towards sharia principles.

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## INTRODUCTION

The improvement of societal well-being and financial system stability can be influenced by the integration of financial literacy and financial inclusion (Mavlutova, et. al., 2021; Audi, et. al., 2023; Hasan & Lu, 2023). According to the Financial Services Authority (OJK), the Islamic financial literacy index and the Islamic financial inclusion index were only 9.14% and 12.12%, respectively in 2022. These values are significantly below the general financial literacy and financial inclusion indices, which are 49.68% and 85.10%, respectively. This situation poses a high risk because there are numerous financial services available to the public without adequate financial knowledge, resulting in various risks, especially in the context of investments (Upadana & Herawati 2020).

Based on the Indonesian Central Securities Depository data, young generations especially Generation Z exhibit significant potential as prospective investors (KSEI, 2022), this is because the younger generation possesses high levels of technological skills, making them promising investors and key drivers in advancing investment growth in Indonesia (Patrisia and Abror 2022). Taufiq et. al., (2023) stated that investment decisions are crucial actions in ensuring financial stability in the future. While Afgani et. al., (2021) stated that characteristics based on birth years or generational divisions can be used to classify investors in Indonesia.

West Java province is the most populous region in Indonesia and also has the largest population of Generation Z, accounting for 16.49% (BPS, 2020). West Java province holds a demographic advantage over other regions (World Population, 2022). This presents both potential and challenges for the government since Generation Z is known for their creativity, innovation, practicality, and strong financial motivation (Hasan & Lu, 2023).

Previous research conducted by Lahsasna (2016) and Viana et. al., (2021) revealed that Generation Z in the Jabodetabek region has a relatively high financial literacy index and falls into the category of good financial inclusion. Kusumaningtyas et. al., (2022) found that financial literacy has a significant influence on an individual's financial behavior. Furthermore, financial inclusion also affects investment behavior. Putri and Andayani (2020) revealed that strong understanding of financial literacy is crucial point to avoid financial losses in making optimal investment decisions. While Lindananty and Angelina (2021) found that financial literacy, financial behavior, and income collectively impact stock investments on the Indonesia Stock Exchange. Islamic financial literacy and financial behavior significantly influence students' investment decisions. Additionally, the financial behavior variable can also serve as a mediator in mediating the relationship between Islamic financial literacy and investment decisions (Rahman and Arsyanti 2021).

Based on previous research, the higher the level of financial literacy an individual possesses, the better their investment decision-making tends to be and the better their financial behavior the more accurate their investment decisions (Bapat, 2020; Rahman

& Gan, 2020; Moreira Costa, et. al., 2021; Paisarn, et. al., 2021; Paisarn, et. al., 2021). However, some studies regarding the direct impact of Islamic financial literacy and financial behavior on investment decisions do not always yield consistent results (Dinc, et. al., 2021; Purbowisanti, et. al., 2021; Kumar, et. al., 2023; Mushafiq, et. al., 2023; Osman, et. al., 2024). Another factor influencing the investment decisions of Generation Z is financial inclusion, which refers to the availability of access to various Shariah-compliant financial products, services, and institutions for the needs of the community (Windasari, et. al., 2022; Pašiušienė, et. al., 2023; Patrisia, et. al., 2023; Pandurugan & Al Shammakhi, 2024). Access to the capital market is also one of the factors affecting interest in investing (Wibowo, 2018). The more Generation Z individuals have access to financial products and services, the greater their tendency to make investment decisions (Viana et. al., 2021).

Given these discussions, a suitable strategic approach is needed to enhance awareness of Shariah-compliant finance especially in the investment sector. This research aims to analyze the levels of Islamic financial literacy and Islamic financial inclusion among Generation Z in West Java and to analyze the influence of Islamic financial literacy, Islamic financial inclusion, and financial behavior on the investment decisions of Generation Z residing in West Java.

## RESEARCH METHOD

The sampling method used was purposive sampling, which refers to the method of selecting samples based on specific considerations (Sugiyono 2016). The study's population consists of Generation Z individuals aged between 17 and 26 years, practicing Islam, and residing in West Java. According to Hair et, al. (2010) a sample size of fewer than 50 cannot be used for factor analysis, and a minimum of 100 or more samples is required for factor analysis. In this study, there were 118 respondents, which means that the minimum required number of respondents has been met.

The descriptive analysis used in this research refers to the analysis used to investigate situations, conditions, or other things that are later explained in research reports (Arikunto, 2010). The phenomena analyzed encompass various aspects such as form, characteristics, activities, changes, relationships, similarities, and differences among these phenomena. The purpose of using descriptive analysis in this research is to identify the characteristics of respondents who are users of the financial sector, particularly in the context of investment. The level of Islamic financial literacy is categorized into four categories based on the financial literacy survey conducted by the Financial Services Authority (OJK) in 2013. The categorization of the level of financial literacy is detailed in Table 1.

**Table 1.** List of Islamic financial literacy level categories

No.	Islamic financial literacy category	Percentage (%)
1.	Well Literate	76.00–100.00
2.	Sufficient Literate	51.00–75.00
3.	Less Literate	26.00–50.00
4.	Not Literate	0.00–25.00

The measurement of Islamic financial inclusion levels refers to the method used by [Sugiono \(2013\)](#), which employs the top two boxes method. This method is used to transform the scale of variable responses into scores. The top two boxes method combines the percentage of respondents' answers on a Likert scale to evaluate the comparison between the bottom options. The top two boxes method merges the top two scales in the Likert scale, which are "strongly agree" and "agree," into "agree" or "always." On the other hand, the bottom two boxes technique combines the two lowest scales, "disagree" and "strongly disagree," into "disagree" or "never." The total scores for each variable are converted into an index on a scale of 0–100 using the formula:

$$\text{Index} = \frac{(\text{Score obtained}) - (\text{Minimum score})}{(\text{Maximum score}) - (\text{Minimum Score})} \times 100\%$$

Explanation:

Index	: the indexed score of the variable
Score obtained	: the score obtained
Minimum score	: the lowest value on the instrument
Maximum score	: the highest value on the instrument

The calculation results of the variable will be converted into index scores and categorized into three categories: low, moderate, and high. Index categorization is as follows: less than 60 is categorized as low, 60–80 is categorized as moderate, and more than 80 is categorized as high.

The majority of respondents were female, totaling 69 individuals, or 58.5%, while male respondents numbered 49 individuals, or 41.5%. Most respondents were aged between 21 and 23 years, accounting for 95 individuals, or 80.5%. Based on their highest level of education, the questionnaire results indicated that the majority of respondents had completed high school or equivalent, totaling 62 individuals or 52.5%, followed by respondents with a diploma or undergraduate degree, numbering 53 individuals or 44.9%, and postgraduate degrees with 3 individuals or 2.5%.

Most of the respondents were students, accounting for 75.4%, or 89 individuals. Regarding average monthly income, the majority of respondents had incomes between Rp. 1,000,000–Rp. 3,000,000, with 53 individuals or 44.9%, followed by respondents with an average income of less than Rp. 1,000,000, totaling 40 individuals or 36.4%.

Additionally, there were 9 respondents, or 8.2% each, for those with average incomes of Rp. 3,000,000–Rp. 5,000,000 and those with incomes exceeding Rp. 5,000,000.

**Table 2.** List of respondent’s profile

Respondent’s profile	Classification	Total	Percentage
<b>Gender</b>	Male	49	41,5%
	Female	69	58,5%
<b>Age</b>	18–20 years	17	14,4%
	21–23 years	95	80,5%
	23–26 years	6	5,1%
<b>Educational status</b>	SLTA/Equivalent	62	52,5%
	Diploma/Undergraduate	53	44,9%
	Postgraduate	3	2,5%
<b>Occupation</b>	Student	89	75,4%
	Civil Servant/Government employee	3	2,5%
	Privat sector employee	15	12,7%
	Entrepreneur	3	2,5%
	Others	8	6,8%
<b>Income</b>	≤ Rp.1000.000	38	32,2%
	IDR.1.000.000–IDR.3.000.000	53	44,9%
	IDR.3.000.000–IDR.5.000.000	15	12,7%
	≥ Rp. 5.000.000	12	10,2%
<b>Investment behavior</b>	Yes (Islamic)	63	53,4%
	Yes (Conventional)	19	16,1%
	Yes (Both)	36	30,5%
<b>Islamic investment instrument</b>	Islamic mutual funds	62	52,5%
	Islamic stock	26	22,0%
	Islamic deposit	13	11,0%
	Sukuk	1	0,8%
	Others	9	7,6%

Source: Primary Data (Processed) 2023

The data analysis methods used in this research include descriptive analysis and Structural Equation Modeling-Partial Least Square (SEM-PLS). Descriptive analysis is used to describe the characteristics of respondents, namely Muslim Generation Z in the West Java region. Meanwhile, SEM-PLS analysis is employed to test the proposed model. Data management will be carried out using Microsoft Excel and SmartPLS 4 software (Kock, 2020).

Ghozali (2008) explained that Structural Equation Modeling (SEM) is the result of combining two statistical techniques: factor analysis from psychometrics and psychology and simultaneous equation models from econometrics. The Partial Least Square (PLS) method is used to examine predictive relationships among latent variables. The advantage of the SEM-PLS method lies in its flexibility, as it does not require specific assumptions, such as the assumption of a normal distribution, which is often difficult to apply in studies focusing on human attitudes and behavior (Haryono 2016).

Furthermore, there are four variables in this research: one dependent variable and three independent variables. The dependent variable in this study is investment decisions, while the independent variables used are Islamic financial literacy, Islamic financial inclusion, and financial behavior. The discussion of Islamic financial literacy consists of four aspects: Sharia knowledge, skills, attitudes, and behavior. Islamic financial inclusion comprises four aspects: access, welfare impact, usage of financial products and services, and quality.

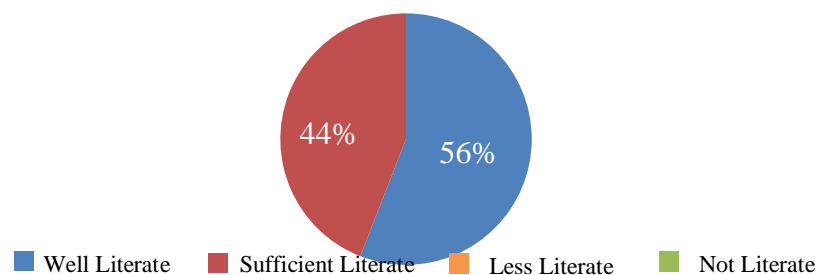
**Tabel 3.** List of suspected variables to influence investment decisions

Variable	List of Indicators	Source
Islamic Financial Literacy	Islamic financial knowledge	Hamza dan Arif (2019); Bongomin <i>et al.</i> (2018)
	Islamic financial skills	
	Islamic financial attitude	
	Islamic financial behavior	
Islamic Financial Inclusions	Access	SNLKI (2017); Bongomin <i>et al.</i> (2018)
	Usage	
	Quality/Relevance	
	Welfare Impact	
Financial Behavior	Timely bill payment	Potrich <i>et al.</i> (2015)
	Financial record-keeping habits	
	Financial account	
	Saving habits	
	Emergency fund availability	
Investment Decisions	Return	Tandelilin (2010)
	Risk	
	The time factor	

## RESULT AND DISCUSSION

### The level of Islamic financial literacy among Generation Z in West Java

The classification of Islamic financial literacy levels among Generation Z in the West Java region follows the classification established by the OJK in 2013. This categorization process involves assessing scores for each question related to Islamic financial literacy.



**Figure 1.** the Level of Islamic financial literacy among Generation Z in West Java.

Based on Figure 6, the level of Islamic financial literacy among Generation Z in West Java is depicted in a pie chart and is divided into four categories. The chart

indicates that 56% of Generation Z falls into the "well literate" category, and the majority of them have an understanding, skills, and confidence in using financial products and services. Furthermore, approximately 44% of Generation Z in West Java falls into the "sufficient literate" category. Individuals are considered "sufficient literate" if they have an understanding of and confidence in financial products and services. In this study, there are no respondents in the "less literate" and "not literate" categories, which would imply individuals tend to have negative views about finance and make incorrect decisions. The average level of Islamic financial literacy among Generation Z in West Java is 77.9%. This indicates that the level of Islamic financial literacy among Generation Z in West Java falls into the "well-literate" category.

Generation Z individuals in the "well literate" category are predominantly those with a diploma or undergraduate education and an income ranging from Rp. 1,000,000 to Rp. 3,000,000. Individuals with a good level of financial literacy can be interpreted as being capable of making financial decisions and taking responsibility for their actions. Meanwhile, Generation Z individuals in the "sufficient literate" category are predominantly those with a high school education or equivalent and an income of  $\leq$  Rp. 1,000,000. Individuals in this category are considered to have a good understanding of finance but still have limitations in managing their personal finances.

In this research, Islamic financial inclusion is defined as activities or efforts to enhance the accessibility of the community to Islamic financial institutions, with the primary goal of enabling individuals to allocate and manage their finances in accordance with Sharia principles. The level of Islamic financial inclusion based on the indicators of Islamic financial inclusion variables is presented in Table 4.

**Table 4.** Level of Islamic Financial Inclusion Based on Variable Indicators

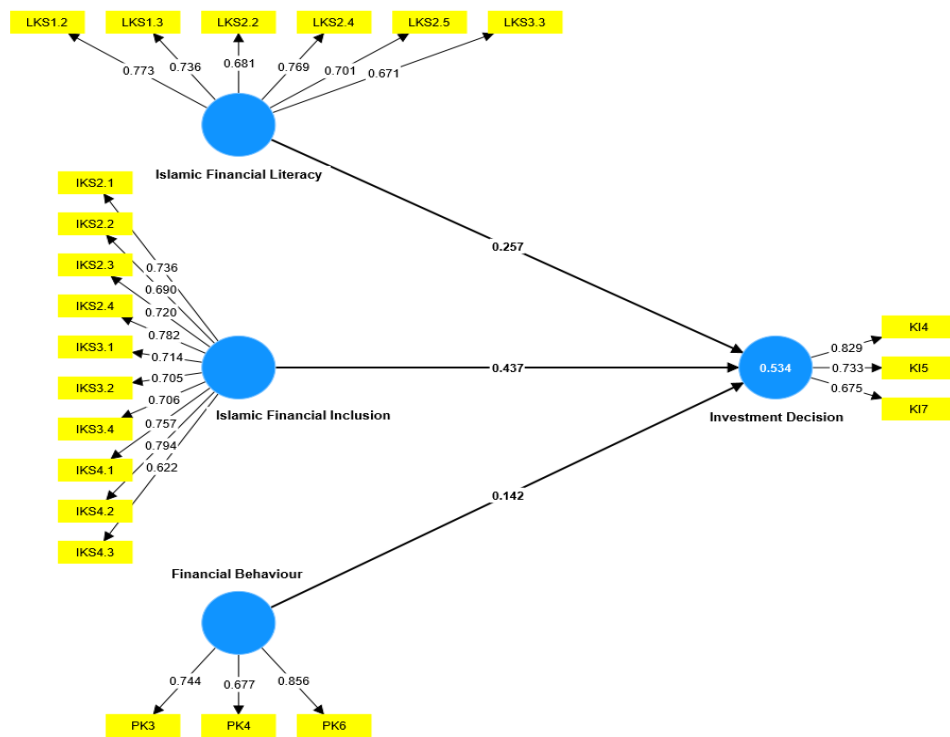
Category	Distribution (%)	
	n	%
High (> 80)	95	80,5
Medium (60–80)	15	12,7
Low (< 60)	8	6,8

Source: Primary Data (Processed) 2023

Based on Table 4, it was found that 6.8% of respondents fall into the low category, 12.7% fall into the medium category, and 80.5% of respondents fall into the high category. This can be interpreted as Generation Z having good access to Islamic financial products such as savings, deposits, current accounts, Islamic stocks, sukuk, mutual funds, and others.

### Measurement Model Evaluation (*Outer Model*)

The convergent validity of the model is assessed based on the loading factors, with criteria considered valid if the values are  $< 0.7$ . However, if the loading factor values range between 0.5 and 0.6, they are still considered acceptable (Haryono, 2016). After testing the model with indicators that meet these criteria the results are presented in Figure 2.



**Figure 2.** the Result of outer model testing

Furthermore, an examination of the Average Variance Extracted (AVE) was conducted to measure convergent validity. Indicators are considered to meet convergent validity if they have AVE values above 0.5 for each latent variable. The AVE testing results are shown in Table 5 with each test result having values above 0.5 for all variables, thus indicating that this model successfully meets convergent validity.

**Table 5.** Average Variance Extracted (AVE) Testing Results

Variable	Result of Average Variance Extracted (AVE)
Islamic Financial Literacy	0,523
Islamic Financial Inclusion	0,524
Financial Behavior	0,582
Investment Decision	0,560

After conducting the AVE testing, discriminant validity was also examined using the Cross Loading method and the Fornell-Larcker's criteria. Good discriminant validity will indicate a stronger correlation with its own latent variable compared to other latent variables. Table 6 displays the Cross Loading values for each indicator.



**Table 6.** the Result of Cross loading value

	<b>LKS</b>	<b>IKS</b>	<b>PK</b>	<b>KI</b>
LKS1.2	<b>0,773</b>	0,456	0,552	0,427
LKS1.3	<b>0,736</b>	0,531	0,389	0,491
LKS2.2	<b>0,681</b>	0,539	0,391	0,447
LKS2.4	<b>0,769</b>	0,454	0,484	0,546
LKS2.5	<b>0,701</b>	0,491	0,321	0,466
LKS3.3	<b>0,671</b>	0,384	0,535	0,313
IKS2.1	0,497	<b>0,736</b>	0,331	0,546
IKS2.2	0,519	<b>0,690</b>	0,417	0,474
IKS2.3	0,501	<b>0,720</b>	0,375	0,426
IKS2.4	0,500	<b>0,782</b>	0,449	0,585
IKS3.1	0,387	<b>0,714</b>	0,283	0,425
IKS3.2	0,414	<b>0,705</b>	0,309	0,475
IKS3.4	0,552	<b>0,706</b>	0,401	0,420
IKS4.1	0,421	<b>0,757</b>	0,385	0,526
IKS4.2	0,515	<b>0,794</b>	0,423	0,571
IKS4.3	0,510	<b>0,622</b>	0,237	0,414
PK3	0,327	0,273	<b>0,744</b>	0,393
PK4	0,428	0,324	<b>0,677</b>	0,246
PK6	0,609	0,520	<b>0,856</b>	0,490
KI4	0,563	0,555	0,432	<b>0,829</b>
KI5	0,451	0,464	0,302	<b>0,733</b>
KI7	0,396	0,501	0,421	<b>0,675</b>

Source: Primary Data (Processed) 2023

Table 6 shows the cross-loading values of each indicator with the intended latent variable higher than with other latent variables, indicating that the model can meet discriminant validity. Furthermore, reliability testing was conducted through the measurement of composite reliability values, with the criteria being greater than 0.7 (Hair et al. 2010). The results indicate that all variables have composite reliability values greater than 0.7, indicating that the latent variables are reliable. Therefore, each indicator demonstrates good consistency in measuring its latent variable. The composite reliability values are presented in Table 7.

**Tabel 7.** Composite reliability value

<b>List of Variable</b>	<b>Composite Reliability</b>
Islamic Financial Literacy	0,868
Islamic Financial Inclusion	0,917
Financial Behavior	0,805
Investment Decision	0,792

The SRMR (Standardized Root Mean Square Residual) is used to evaluate the extent to which the research model fits or is appropriate. As a criterion for model fitness, the SRMR value should be less than 0.10. In this study, the SRMR value is 0.087. Therefore, it can be concluded that this research has a good model.

In this study the significance level used is 5% or 0.05. To determine whether a variable has a significant relationship, the p-value should be less than 0.05 or the t-statistic value should be greater than the t-table value, which is 1.96. The results of the path coefficient test of the research model are presented in Table 8.

**Table 8.** the Result of Significance test of path coefficient

List of Variable	Original Sampel (O)	T-Statistics ( O STDEV)	P values
Islamic financial literacy → Investment decisions	0,257	2,879	0,004
Islamic financial inclusion → Investment decisions	0,437	5,808	0,000
Financial behavior → Investment decisions	0,142	1,890	0,059

Based on Table 8 the significance test results of path coefficients indicate that there is one non-significant relationship between variables, which is the relationship between financial behavior and investment decisions, because it has a t-statistic value less than 1.96 and a p-value greater than 0.05. Furthermore, the variables of Sharia financial literacy and Sharia financial inclusion have t-statistic values greater than 1.96 and p-values less than 0.05. Therefore, it can be concluded that both of these variables have a significant impact on the investment decisions of Generation Z in West Java.

The R-square value serves to explain how much of the endogenous variable can be explained by the exogenous variables (Haryono 2016). The standard values for R-square consist of three categories: 0.67 good, 0.33 moderate, and 0.19 weak. The investment decision variable has an R-square value of 0.534, meaning that Sharia financial literacy, Sharia financial inclusion, and financial behavior variables can jointly explain their influence on investment decisions by 53.4%, with the remaining 46.6% explained by other variables outside the examined model.

The F-square test is used to evaluate the extent of the influence of exogenous latent variables on their endogenous latent variables (Haryono 2016). The criteria for F-square values are where a value of 0.02 indicates a small influence, 0.15 indicates a moderate influence, and a value of 0.35 indicates a large influence. Based on Table 10, it shows that the relationship between Sharia financial literacy and investment decisions, as well as financial behavior and investment decisions, have a small influence. Meanwhile, Sharia financial inclusion on investment decisions has a moderate relationship.

The results of the path coefficient testing from Islamic financial literacy to investment decisions show significant results with a t-statistic value of 2.550, which is greater than the t-table value of 1.96, and a p-value of 0.011 ( $< 0.05$ ). The direction of the relationship observed in the original sample is positive, with a path coefficient value of 0.250. This indicates that an increase in the level of Islamic financial literacy (reflected in Islamic financial knowledge, financial behavior, financial attitudes, and financial skills) leads to an increase in the investment decisions of Generation Z in West Java. On the other hand, these results are in line with research conducted by Pratiwi and Atmoko (2023) which found that a high level of financial literacy can be one way to improve investment decisions. While Rahman and Arsyanti (2021) also revealed that

Islamic financial literacy has a positive and significant impact on investment decisions. [Adil et. al., \(2022\)](#) stated that there is a significant and positive influence of financial literacy on investment decisions for both female and male investors. Based on these findings, financial literacy becomes an important factor that influences all investors' investment decisions. Other research also supports these results, where the subjects studied were undergraduate students in Sri Lanka and found a positive relationship between the level of financial literacy and the investment decisions of students ([Kumari 2020](#)).

On the other hand, the relationship between Islamic financial inclusion and investment decisions has a significant and positive effect. The path coefficient results show a t-statistic value of 3.132 ( $> 1.96$ ) with a p-value of 0.002 ( $< 0.05$ ). The positive direction can be observed from the original sample value of 0.237. This indicates that any increase in the value of financial inclusion will lead to an increase in investment decisions. The higher the access of Generation Z to financial products and services, the more likely it is that their investment decisions will increase. These findings are in line with [Viana et. al., \(2021\)](#) which found that financial inclusion has a positive and significant impact on investment decisions.

While results regarding the relationship between financial behavior variables and investment decisions, a t-statistic value of 1.288 ( $< 1.96$ ) and a p-value of 0.198 ( $> 0.05$ ) were obtained. This indicates that financial behavior variables do not have a significant impact on the investment decisions of Generation Z in West Java. In other words, the indicators within the financial behavior variable do not exert a significant influence on investment decisions. These findings align with the research conducted by [Astiti et. al., \(2019\)](#) and [Safryani et. al., \(2020\)](#) found that financial behavior does not significantly affect investment decisions and does not play a significant role in influencing investment decisions.

## CONCLUSION

The research results using the purposive sampling technique show that the level of Islamic financial literacy among Generation Z in West Java is divided into two categories: 56% are categorized as well-literate, and 44% fall into the sufficient-literate category. The average level of Islamic financial literacy among Generation Z in West Java is 77.9%, which falls into the well-literate category. Meanwhile, the level of Islamic financial inclusion among Generation Z in West Java shows that 80.5% are categorized as high, 12.7% are categorized as moderate, and 6.8% of respondents are categorized as low. This can be interpreted as Generation Z having good access to Islamic financial products. Based on the SEM-PLS analysis, it was found that Islamic financial literacy and Islamic financial inclusion have a significant impact on the investment decisions of Generation Z in West Java. However, financial behavior does not significantly influence the investment decisions of Generation Z in West Java.

Although this study has been able to explain the influence of Islamic financial literacy, Islamic financial inclusion, and financial behavior on the investment decisions

of Generation Z in West Java, there was still has limitations that can be addressed by future research. Based on the research findings, Generation Z has a high level of Islamic financial literacy and Islamic financial inclusion, which can be recommended to the government in formulating strategies for developing Islamic financial literacy in Indonesia. Generation Z can serve as agents of education for the wider community. The government and investment institutions need to enhance support for Generation Z, recognizing the importance of Islamic financial literacy and inclusion among young generations. Future research can be expanded to broaden the scope of the study and include variables that were not considered in this research.

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