

Factor affecting islamic fintech adoption by Gen Z in West Java with religion as moderating variable

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ABSTRACT

In the age of fast digitalization, it's crucial to comprehend the consumer behavior of the younger generation, particularly in relation to the acceptance of Islamic fintech. This research aims to study the factors that influence Gen Z in adopting Islamic fintech and investigate the potential impact of Religious Orientation. The study uses a questionnaire to collect data from 311 Gen Z in West Java, using SEM-PLS to evaluate the research model and test hypotheses. The results of Smart PLS path analysis revealed that several factors significantly influenced the adoption of Islamic fintech. In particular, perceived risk, financial literacy, perceived benefits and trust, were identified as very important determinants in shaping Gen Z's decision to adopt Islamic fintech. In addition, this study also reveals the important role of religious orientation as a moderator that influences the relationship between perceived risk, perceived benefit, and trust towards the adoption of Islamic fintech by Gen Z in West Java. This study adds to the existing literature on Islamic Fintech adoption and improves understanding of the key drivers in this domain. In addition, this study emphasizes how religious orientation can influence individual attitudes and behaviors regarding the adoption of Islamic Fintech.

Keywords : Perceived risk; Financial literacy; Perceived benefit; Trust; Religious orientation; Adoption of Islamic fintech

1. INTRODUCTION

Financial technology (fintech) is a new form of financial industry that applies technological developments to improve financial activities (Schueffel, 2017). Fintech is often considered the best modern invention of non-financial Institutions (Arner et al., 2015). Figure 1 explains that fintech users worldwide are always increasing every year.

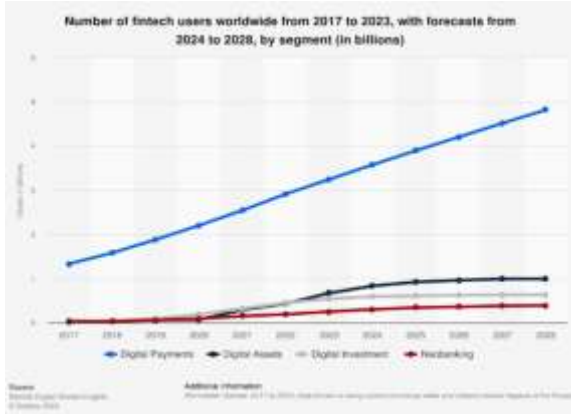


Figure 1. Statistics of Fintech Users Worldwide 2017 – 2023

Sourcer: Statista, (2024)

The combination of financial innovation (fintech) in positioning with the concepts of Islamic finance has introduced fresh potential customers for improving financial inclusion and has actually provided unique options customized to the particular requirements of Muslim people and enterprises (Al-Okaily et al., 2021). Fintech has opened up very significant prospects for the global Islamic/Sharia financial technology sector as well as promoting financial inclusion in emerging markets such as Indonesia (Hudaefi & Badeges, 2022).

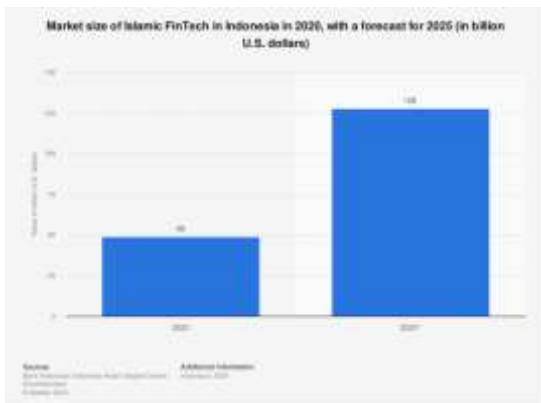


Figure 2. Market Size Statistics of Islamic Fintech in Indonesia 2020

Figure 2 explains that the market size of islamic fintech in Indonesia will increase in 2025. Islamic FinTech has become a significant location of development and development within the wider FinTech market. Islamic technology is defines as: [”...] *technological innovations in the financial industry to enhance shariah-compliant economic activities, promote maqāsid al-sharī’ah (the goals of Islamic law), and are relevant to fatwas (juridical opinions) as well as regulations [...]* (Hudaefi, 2020). The Islamic financial technology industry market in Indonesia will increase significantly, where in 2020 the recorded value of Islamic fintech reached 49 billion USD and is expected to grow to 128 billion USD in 2025 (Statista, 2024). The Indonesian Islamic Financial Development Report (2022) notes that there are many companies registered and operating legally as Islamic fintech companies such as Waqara, Takaful, Zahir Capital Hub, Efunding, Sobat Syariah, Moxa Mabroor, OneShaf, Amaan, SyarQ, ArtaKu, and for islamic-based peer to peer lending companies there are Alami, Papitupi Syariah, Ammana, Duha, Qazwa, Ethis and Dana Syariah.

Perceived risk holds significant way in forming user attitudes and habits towards technological services (Sampat et al., 2024). In a previous study, the results validated that Islamic fintech adoption is substantially influenced by risk understanding (Alsmadi, 2024). This is directly proportional to the research of Xie et al. (2021) which argues that perceived risk is one of the most important factors that can have a negative impact on fintech adoption.

Financial literacy is shown to have a favorable relationship with new technology adoption (Xie et al., 2021). The development of Islamic financial technology is strongly influenced by financial literacy (Alsmadi, 2024). Lack of financial literacy can affect economic outcomes and has been proposed as one of the causes of the financial crisis that occurred (Lusardi, 2019). Financial literacy has been shown to be positively and significantly related to the adoption of new technologies (Xie et al., 2021).

de Kerviler et al. (2016) which states that users will not hesitate to use financial technology if the benefits of fintech itself have been felt. Perceived benefits have a positive and significant effect on trust and trust has a positive effect on the intention to adopt Islamic Fintech (Ali et al., 2021).

One particularly important issue intertwined with Islamic FinTech is trust, which may be explained as an individual's readiness to put their confidence in the words and deeds of service providers (Ryan, 2020). Trust plays an important role in supporting the adoption of Islamic fintech (Alsmadi, 2024). In the context of e-business applications, the trust variable consistently emerges as a key driver that drives technology adoption and utilization (Abdullah et al., 2018).

In previous research, it was explained that religious orientation plays an important role in developing their mindset towards fintech adoption (Bakri & Yahaya, 2020). Religion plays a considerable role in the relationship between convenience, usage and growth of Islamic fintech (Alsmadi, 2024). The literature review underscores the need to investigate the impact of aspects such as perceived risk, financial literacy, perceived benefits, and trust on the adoption of Islamic fintech. In addition, the literature suggests the need to study the possible impact of religious orientation as a moderating variable considering the relationship between these variables and Islamic fintech adoption.

The novelty of this research can improve the theory of the correlation between perceived risk, financial literacy, perceived benefits and trust on Islamic fintech adoption with religious orientation as moderation, especially for Generation Z in West Java in Indonesia. By understanding this correlation, it will help encourage the development of Islamic financial technology adoption in Indonesia, especially for Gen Z in West Java which is the region with the densest Gen Z population in Indonesia, and stakeholders can use the results of this study as a reference in developing Islamic financial technology to better suit the needs of Generation Z in the future.

2. METHOD

Based on the gaps in the literature, the research model (Figure 3) of this study suggests that adoption of Islamic fintech is significantly influenced by perceived risk, financial literacy, perceived benefit, and trust.

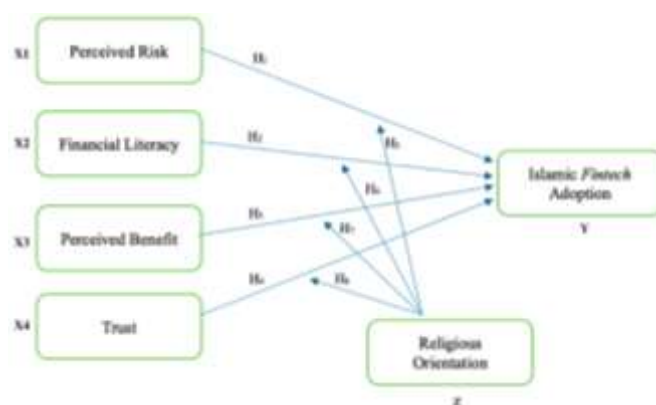


Figure 3. Research model by author

Additionally, it suggests that the adoption of Islamic fintech is moderated by religious or spiritual orientation in terms of perceived risk, financial literacy, perceived benefit and trust. This research uses quantitative methods, based on the objectives, this study uses a descriptive causal research type (Sugiyono, 2019). The type of research based on the research setting is Non Contrived, based on the time of implementation, this study is included in the cross-sectional.

Table 1. Measures sources

Variable	Items	References
Adoption of Islamic Fintech	4	(Alsmadi, 2024); (Ali et al., 2021)
Religious orientation	4	(Alsmadi, 2024); (Hajihasani & Sim, 2019), Helfaya and Easa (2022)
Perceived Risk	3	(Alsmadi, 2024); Isaksson Rø <i>et al.</i> (2022); Alalwan <i>et al.</i> (2016)
Financial Literacy	3	(Alsmadi, 2024); Hasan <i>et al.</i> (2022), Adil <i>et al.</i> (2022)
Perceived Benefit	4	Jain and Raman, (2022)
Trust	3	(Alsmadi, 2024); Brown and McEnally (1992), Kamal <i>et al.</i> (2020)

Source: *This table shows the sources of the study constructs and item and is done by the author

This research uses a questionnaire distributed online to respondents via Google Form. This study has 6 variables with 21 question items. The measurement scale used in this study is an ordinal scale. The population of this study is Gen-Z in West Java who use Islamic financial technology. The technique used in this research is non-probability sampling with purposive sampling. The minimum number of samples required in this study is 122 respondents. This amount is the minimum number of samples required so as not to limit the number of respondents if it exceeds 122 respondents. The data sources in this study consist of primary data and secondary data.

Table 2. Variable and measures

Variable	Code	Items
Adoption of Islamic Fintech	AIF1	Islamic fintech offers financial solutions that are more ethical and compliant with islamic law compared to conventional fintech
	AIF2	Adopting Islamic Fintech can have a positive impact on the financial ecosystem by promoting ethical practices
	AIF3	It is important for me to engage in financial activities that are in accordance with Islamic principles
	AIF4	Islamic Fintech can fulfill my diverse financial needs better than conventional fintech options
Religious orientation	RO1	Islamic Fintech provides a more transparent approach to financial transactions compared to conventional fintechs
	RO2	Islamic Fintech can help me manage my finances better in accordance with my religious values
	RO3	Islamic Fintech can bridge the gap between religious beliefs and financial services for Muslims
	RO4	Islamic Fintech contributes to a more inclusive financial ecosystem for diverse religious backgrounds
Perceived Risk	PR1	I believe that the Islamic Fintech platform is secure and protects users' personal and financial information
	PR2	I am concerned about the authenticity and adherence to Islamic principles in some Islamic Fintech products and services
	PR3	I see Islamic Fintech as a safe option, and I am confident of the potential financial benefits
Financial Literacy	FL1	I can distinguish between Islamic-compliant and non-Islamic-compliant financial products
	FL2	I can assess the authenticity and compliance with islamic principles of an Islamic Fintech product before using it
	FL3	I am familiar with the principles of Islamic finance and how they differ from conventional finance

Variable	Code	Items
Perceived Benefit	PB1	Using digital finance has many benefits
	PB2	I can easily and quickly use digital finance
	PB3	Using digital finance is beneficial to me
	PB4	Using digital finance produces superior quality outcomes than traditional financial services
Trust	TR1	I believe that Islamic fintech platforms guarantee the security and privacy of users' financial information
	TR2	I believe that Islamic fintech platforms offer products and services that are in line with my ethics and religious beliefs
	TR3	I believe that Islamic fintech platforms use technology responsibly to serve customers better

Source: *This table shows the sources of the study constructs and item and is done by the author

This study conducted validity and reliability testing. The data analysis technique used is descriptive analysis and multivariate analysis using Partial Least Squares - Structural Equation Model (PLS-SEM) with SmartPLS software in analyzing data by assessing the results of the Measurement Model (Outer Model), the Structural Model (Inner Model) and hypothesis testing, hypothesis testing aims to determine whether the independent variable has a significant effect on the dependent variable or not. using non-parametric bootstrapping techniques to test the influence between constructs or variables (Hair Jr et al., 2021).

Hypotesis

- H1. Perceived risk significantly impacts adoption of Islamic fintech.
- H2. Financial Literacy significantly impacts adoption of Islamic fintech.
- H3. Perceived benefit significantly impacts adoption of Islamic fintech.
- H4. Trust significantly impacts adoption of Islamic fintech.
- H5. Religious orientation significantly moderates the relationship between perceived risk and Islamic fintech adoption.
- H6. Religious orientation significantly moderates the relationship between financial literacy and Islamic fintech adoption.
- H7. Religious orientation significantly moderates the relationship between perceived benefit and Islamic fintech adoption.
- H8. Religious orientation significantly moderates the relationship between trust and Islamic fintech adoption.

3. RESULTS AND DISCUSSION

3.1 RESULT

Researchers used 311 respondent data that had been collected for testing and measurement, Based on the data that have been collected, 60.1% were female and 39.9% were male. With the most recent educational status, 46% of Bachelor's degree, followed by senior high school 40.2%, diploma 8.4% and master 5.5%. And dominated by respondents who are not married 62.7% and who are married 37.3%.

Table 3. Respondents' Characteristics

Characteristics	Unit	%
Gender		
Male	124	39,9%
Female	187	60,1%
Education		
Senior high school	125	40,2%

Characteristics	Unit	%
Diploma	26	8,4%
Bachelor's degree	143	46%
Magister	17	5,5%
Marriage status		
Married	116	37,3%
Not Married	195	62,7%

Source: *This table shows the characteristics of the respondents and was conducted by the author

A. Evaluation of the Measurement Model (Outer Model)

Table 4. Convergent validity and Reliability

Variables	Item	Loading Factor	Cronbach's alpha	Composite reliability	Average variance extracted (AVE)
Financial_Literacy	FL1	0,804	0,752	0,754	0,668
	FL2	0,813			
	FL3	0,835			
Islamic_Fintech Adoption	AIF1	0,801	0,808	0,808	0,634
	AIF2	0,795			
	AIF3	0,770			
	AIF4	0,820			
Perceived Risk	PR1	0,832	0,792	0,795	0,706
	PR2	0,831			
	PR3	0,857			
Perceived_Benefit	PB1	0,794	0,826	0,825	0,657
	PB2	0,824			
	PB3	0,830			
	PB4	0,793			
Religious_Orientation	RO1	0,878	0,836	0,917	0,663
	RO2	0,758			
	RO3	0,823			
	RO4	0,792			
Trust	TR1	0,820	0,769	0,771	0,684
	TR2	0,819			
	TR3	0,842			
(Moderation)	RO → PR	1,000			
	RO → FL	1,000			
	RO → PB	1,000			
	RO → TR	1,000			

Source: *This table shows the convergent validity and reliability for the study variable and is done by the author

The findings show that this study's measuring model has strong convergent validity and reliability. All structures have item loadings that are higher than the 0.7 cutoff, demonstrating great indicator dependability. Internal consistency and construct reliability are confirmed by the fact that all constructs' Cronbach's alpha and composite reliability values are greater than 0.7. Additionally, convergent validity is established by the average variance extracted (AVE) values being above 0.5, which indicates that the constructs explain a significant amount of the variance in their indicators. With religious orientation serving as a moderating variable, these results demonstrate the validity of the constructs utilized to evaluate the impact of perceived risk, financial literacy, perceived advantages, and trust on the adoption of Islamic fintech among Gen Z in West Java.

Table 5. Heterotait-monotrait Ratio (HTMT)

Variables	FL	AIF	PR	PB	RO	TR	ROx TR	ROx FL	ROx PB	RO x PR
FL										
AIF	0,831									
PR	0,604	0,571								
PB	0,701	0,602	0,473							
RO	0,130	0,159	0,122	0,617						
TR	0,733	0,677	0,593	0,880	0,490					
ROx TR	0,172	0,417	0,041	0,289	0,740	0,281				
ROx FL	0,275	0,427	0,138	0,296	0,153	0,281	0,385			
ROx PB	0,169	0,402	0,045	0,390	0,765	0,267	0,870	0,298		
ROx PR	0,108	0,179	0,026	0,063	0,363	0,053	0,507	0,354	0,425	

Source: *This table shows the HTMT criterion for the study variable and is done by the author

The Heterotrait-Monotrait Ratio (HTMT) results in Table 5 indicate the discriminant validity of the constructs used in the study. The HTMT values for all construct pairs are below the recommended threshold of 0.90, with the highest value being 0.880 between Trust (TR) and Perceived Benefit (PB). This suggests that the constructs are empirically distinct from each other, supporting the discriminant validity of the model. Specifically, the HTMT values range from as low as 0.026 between Perceived Risk (PR) and the interaction of Religious Orientation and Perceived Risk (ROx PR) to 0.880 between Trust (TR) and Perceived Benefit (PB). The interactions of Religious Orientation with other variables (ROx TR, ROx FL, ROx PB, and ROx PR) also show acceptable HTMT values, reinforcing the distinctiveness of these constructs in the context of the study. These findings validate the use of these constructs in examining the influence on Islamic fintech adoption among Gen Z in West Java, moderated by religious orientation.

Table 6. Fornell and Larcker criterion

Variables	FL	AIF	PR	PB	RO	TR
FL	0,817					
AIF	0,650	0,797				
PR	0,471	0,458	0,840			
PB	0,553	0,492	0,385	0,810		
RO	0,091	-0,141	0,098	0,500	0,814	
TR	0,559	0,535	0,463	0,702	0,384	0,827

Source: *This table shows the fornell and larcker criterion for the study variable and is done by the author

The Fornell and Larcker criterion results in Table 6 confirm the discriminant validity of the constructs used in the study. Each construct's square root of the average variance extracted (AVE) is greater than its correlations with other constructs, indicating that constructs are more closely related to their own indicators than to others. For example, Financial Literacy (FL) has a square root AVE of 0.817, higher than its correlations with other constructs, which range from 0.091 to 0.650. Similarly, Trust (TR) has a square root AVE of 0.827, exceeding its correlations, which range from 0.384 to 0.702. These findings validate the distinctiveness of financial literacy, Islamic fintech adoption, perceived risk, perceived benefits, religious orientation, and trust, supporting their use in analyzing Islamic fintech adoption among Gen Z in West Java, moderated by religious orientation.

B. Structural Model Evaluation (Inner Model)

Table 7. R-Square

	R-square	R-square adjusted
Islamic_Fintech Adoption	0,702	0,693

Source: *This table shows the r-square for the study variable and is done by the author

The coefficient of determination (R²) is evaluated to explore the prediction fraction of the endogenous construct from the external constructions. The R-square results in Table 7 indicate that the model explains 70.2% of the variance in Islamic Fintech Adoption, with an adjusted R-square of 69.3%, which is deemed modest and acceptable (Hair Jr et al., 2021).

Table 8. Results of the hypothesis and paths' significance

Hypotesis	Relationship	Original sample (O)	Sample mean (M)	t-statistics	p-values	Remarks
H1	PR → AIF	0,133	0,133	2,876	0,004	Supported
H2	FL → AIF	0,162	0,173	2,498	0,013	Supported
H3	PB → AIF	0,373	0,370	5,174	0,000	Supported
H4	TR → AIF	0,299	0,291	4,062	0,000	Supported
H5	RO x PR → AIF	-0,074	-0,074	2,062	0,039	Supported
H6	RO x FL → AIF	-0,006	-0,012	0,097	0,923	Unsupported
H7	RO x PB → AIF	0,141	0,142	2,377	0,018	Supported
H8	RO x TR → AIF	0,136	0,138	2,161	0,031	Supported

Source: *This table shows the hypothesis results from SmartPLS and is done by the author

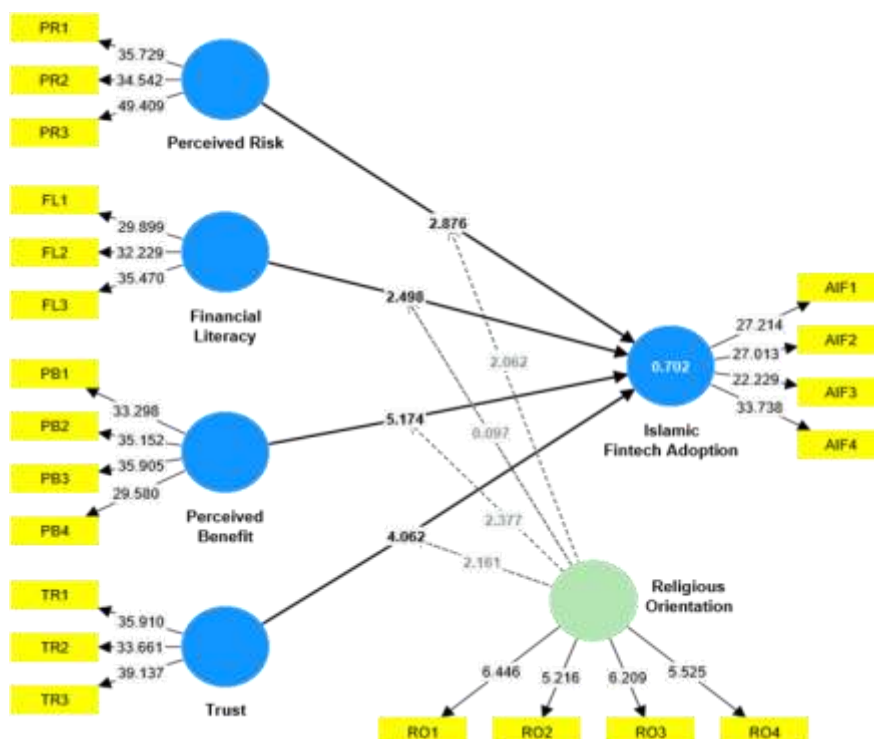


Figure 4. Research model from Smart PLS

3.2 DISCUSSION

The results of the hypothesis testing and path significance in Table 8 indicate that most of the proposed relationships are statistically significant. Hypotheses H1 (Perceived Risk to Islamic Fintech Adoption), H2 (Financial Literacy to Islamic Fintech Adoption), H3 (Perceived Benefits to Islamic Fintech Adoption), and H4 (Trust to Islamic Fintech Adoption) are all supported with significant p-values ($p < 0.05$) and positive path coefficients, suggesting that these factors positively influence Islamic fintech adoption among Gen Z in West Java. Additionally, the interactions of Religious Orientation with Perceived Risk (H5), Perceived Benefits (H7), and Trust (H8) are also significant, indicating that religious orientation moderates these relationships. However, the interaction of Religious Orientation with Financial Literacy (H6) is not supported, suggesting no significant moderating effect in this case. The results validate that the adoption of Islamic fintech is substantially influenced by perceived risk. These findings line up with previous studies that the adoption of Islamic fintech is substantially affected by the understanding of risk (Alsmadi, 2024). They similarly sustain the concept that risk plays an adverse function in Fintech fostering (Bensaou & Venkatraman, 1996). So Gen-Z consider the risks before they adopt Islamic fintech.

This study proves that financial literacy has a significant influence on Islamic fintech adoption. This outcome is in line with earlier research study that say customers need financial literacy to successfully search the intricacy nowadays financial innovation (Xie et al., 2021). It has been shown that promoting technology is closely linked to financial or economic literacy (Xie et al., 2021). These outcomes agree with earlier research that the fostering of Islamic fintech is very affected by financial literacy (Alsmadi, 2024). This knowledge of Islamic fintech is one of the reasons Gen-Z uses Islamic financial technology. The results of this study prove that perceived benefits affect Islamic fintech adoption, which aligns with previous findings that perceived benefit has been established as a significant factor in determining digital finance adoption behaviour (Jain & Raman, 2023). The following explanation proves that Gen-Z considers the benefits they will get when they use Islamic fintech, Gen-Z will use this Islamic fintech technology if they feel that it is useful for them.

The findings of this study prove that trust significantly affects the intention to adopt Islamic fintech. The findings also agree with those earlier findings confirming that there is a significant role of trust in supporting the adoption of Islamic fintech (Alsmadi, 2024). They also support the findings of Ali et al. (2021), which confirmed a significant impact of trust on the adoption of Islamic fintech services among Muslims. Trust is one of the driving factors for Gen-Z in adopting Islamic fintech technology, they believe that by using Islamic fintech, their security and privacy are maintained, and the products and services are in accordance with their ethics and religious beliefs.

The findings support moderation by spiritual orientation in the relationship between perceived risk and Islamic fintech adoption. These findings agree with earlier research on the central function of religious positioning in fintech adoption (Bakri & Yahaya, 2020). They also line up with earlier research that showing how religion influences the acceptance and application of Islamic fintech in compliance with Islamic law and values (Tran & Nguyen, 2021). With good religious knowledge, Gen-Z considers the risks involved in using conventional fintech, so they choose to use Islamic fintech so that their finances are in accordance with Islamic sharia and avoid riba.

The results of this study state that religious orientation does not moderate the influence between financial literacy and Islamic fintech adoption. This result is not in line with previous research studies that validate the impact of spiritual orientation on the approval of Islamic fintech. These research studies concentrate on the understanding of Islamic principles and the perception of these economic developments as sticking to Islamic transaction standards (Majid, 2021; Usman et al., 2022). This can be caused by differences in the population and samples used in this study with previous studies. In this study, Religious Orientation cannot moderate the effect of Financial Literacy on Islamic fintech adoption by Gen-Z.

The results of this study prove that religious orientations can moderate the relationship between perceived benefits and Islamic fintech adoption. This result line up with earlier research that digital finance users will perceive digital finance as economically advantageous that it enables financial benefits to the consumers (Jain & Raman, 2023). The benefits felt by Gen-Z in using Islamic fintech

encourage them to adopt Islamic-based financial technology compared to conventional financial technology.

This study proves that religious orientation moderates the influence between trust and Islamic fintech adoption. Where these results are in accordance with previous research shown that when religions and fintech services straighten, individuals have a tendency to have more count on these systems (Abdullah et al., 2018; Majid, 2021). And also in line with previous studies that say trust is a very important factor in the decision to continue using fintech (Saadah & Setiawan, 2024). With a good religious orientation, the trust to use technology in accordance with Islamic sharia is an important factor for Gen-Z in adopting financial technology.

This study significantly contributes to the understanding and bridges the gap in the literature regarding the role of religion in Islamic fintech adoption and development. By emphasizing the moderating influence of religion, the findings of this study shed light on the complex relationship between religious factors and key determinants of Islamic fintech adoption, such as perceived risk, financial literacy, perceived benefits, and trust.

This research highlights the critical need for fintech solutions that are customized and aligned with the religious knowledge and needs of Gen-Z. This underscores the importance of developing Islamic fintech offerings that are customized to Gen-Z needs. The study emphasizes the important role of financial literacy, and urges authoritative bodies to promote comprehensive Islamic fintech, especially for Gen-Z who are unaware or unsure of Islamic fintech. Overall, this study has provided useful insights that can guide policy makers, fintech providers, and relevant stakeholders in developing and promoting an Islamic fintech ecosystem that is truly responsive to the religious and financial needs, particularly to Generation Z in West Java.

Like any other research, this study has limitations. First, the geographical scope of this study is limited to a specific region (West Java) which may limit the generalizability of the findings to other countries or cultural contexts. Reliance on self-reported data by individuals also poses the risk of potential biases, such as social desirability bias, which may influence responses. This study focused on factors influencing the adoption and development of Islamic fintech, potentially overlooking other important considerations, such as the regulatory environment and prevailing market conditions. Investigating the similarities and differences in the factors that influence the adoption of conventional and Islamic fintech services will contribute to a more comprehensive understanding of the fintech landscape.

Future research could explore the moderating effect of existing fintech regulations as well as the influence of existing factors on existing Islamic fintech market conditions and also explore the role of financial education and literacy in driving the growth of the Islamic fintech sector. Despite the limitations, this research makes a significant contribution to the understanding of the important role of religion in shaping the adoption and development of Islamic fintech. The insights gathered can serve as a basis for future research and help guide practitioners and policymakers in their efforts to foster the growth and integration of Shariah-compliant financial technology solutions.

4. CONCLUSION

Fintech has opened up very significant prospects for the global Islamic/Shariah financial technology sector as well as driving financial inclusion in emerging markets. This study provides insights into the key factors driving Islamic fintech adoption. Findings show that individuals' perception of risk, financial literacy, perceived benefit and trust, significantly influence Gen-Z decision to use Islamic fintech. In addition, this study also reveals the important role of religious orientation in shaping the relationship between perceived risk, financial literacy, perceived benefits, and trust towards Islamic fintech adoption. There are 8 hypotheses proposed, 7 supported and 1 unsupported, namely financial literacy moderated by religious orientation can affect Islamic fintech adoption. This research extends the academic framework in the field of Islamic fintech by underscoring the complex relationship between religious, technological, and behavioral factors in shaping the adoption and deployment of Shariah-compliant financial technology solutions.

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