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The Determinants Factors of Islamic Financial Inclusion in West Java: A Comparison Between Generation Z and Millennials

Amarila Indi Haryadi*[1]
School of Business and Management, Institut Teknologi Bandung, Bandung, Indonesia[1]
Email: amarila_indi@sbm-itb.ac.id

Abstract

Islamic finance is one of the fastest-expanding global financial systems, and it predicted that Islamic finance has promising future asset growth. As a country with the largest Muslim population, Indonesia has great potential in the Islamic economy and finance sector. The rise of Islamic finance in the world's financial system and Indonesia's huge potential have attracted the attention of the Indonesian government, which wants to make Indonesia a leader in the world's Islamic economy. West Java was chosen as a pilot province for other regions in developing Islamic finance. More than half of West Java's population comprises Generation Z and Millennials. These two generations will play important roles in financial institutions in the next decade and will dominate Indonesia in 2045. The main purpose of this study is to explore the determinants of Islamic financial inclusion of Generation Z and Millennials in West Java and compare them. The data from 616 respondents was collected and analyzed using PLS-SEM. It found that Generation Z and Millennials have differences in how much each factor affects them. The difference between them is that religiosity has a stronger influence on Millennials than on Generation Z, and social influence has a stronger influence on Generation Z than on Millennials. Overall, this study concludes that, consecutively, Islamic financial literacy, social influence, and religiosity influence Islamic financial inclusion among Generation Z and Millennials in West Java.

Keywords: Islamic Financial Inclusion; Islamic Financial Literacy; Generation Z; Millennials

A. INTRODUCTION

Islamic finance is one of the global financial systems expanding the fastest, with an annual compounded growth rate of 17% since 2009. This is approximately two to three times faster than conventional finance grew during the same period, partly due to the global financial crisis (Asian Development Bank, 2023). In 2026, the growth of global Islamic finance assets will reach $5.9 trillion, mostly driven by Islamic banks and Sukuk (Refinitiv, 2022). The growth of new and emerging markets in Central Asia and North Africa supports the growth of the global Islamic finance industry.

Indonesia, as one of the Asian countries with an 87% Muslim population, has great potential in the Islamic economy and finance sector. In 2020, Indonesia had the world's seventh-largest Islamic finance assets, totalling $119.5 billion. In the same year, it took first place in the Islamic Finance Country Index (IFCI), indicating that the ecosystem and growth of Islamic finance are excellent (DinarStandard, 2022). This industry has great potential, with thousands of trillions of assets under management, but unfortunately, the market share is still low compared to conventional finance.

The Indonesian Sharia Economic Masterplan 2019–2024 mentions that West Java is the most potential province to be further developed in the context of the halal industry, including the Islamic finance industry. West Java has a crucial role in developing Islamic economics in Indonesia, given its high population, majority Muslim population, high GRDP contribution, and promising growth rate in the future. Over half of this province's population comprises Generation Z and Millennials (Badan Pusat Statistik, 2020). Generation Z and Millennials are important in the Islamic finance industry because their involvement can solve the penetration of the Islamic finance market (Putra, 2021). Therefore, the

* Corresponding author

government can utilize the demographics in West Java and the Golden Age 2045 of Indonesia, where these Generation Z and Millennials dominate, to accelerate the Islamic finance industry.

Unfortunately, West Java has a considerable gap between conventional and Islamic financial inclusion. In 2019, Islamic financial literacy in West Java reached 18.06%, and Islamic financial inclusion was at 21.99%. Conventional financial literacy and inclusion were at 37.43% and 85.34%, respectively (Otoritas Jasa Keuangan, 2019). From this data, it can be said that the gap between conventional and Sharia financial inclusion is 63.35%.

Islamic financial inclusion is defined as access to Islamic financial products and services that are affordable for everyone and also comply with Sharia compliance (Ali et al., 2020; Asian Development Bank, 2023). In order to encourage higher Islamic financial inclusion, several studies have found that increasing Islamic financial literacy is a way to achieve this. In addition, several studies have suggested the relationship between Islamic financial inclusion with Islamic financial literacy, religiosity, and social influence (Ali et al., 2020; Ali et al., 2020; Ali et al., 2021; Attokaran, 2021; Siddiqui et al., 2021; Shinkafi et al., 2020; Takidah & Kassim, 2021).

Islamic financial literacy is knowledge, skill, and attitude in dealing with and managing finances effectively, as well as relying on and obeying Islamic law (Dinc et al., 2021; Ilyana et al., 2021; Jamaldeen, 2012; Khan et al., 2020; Rahim et al., 2016). Studies conducted by Ali et al. (2020), Shinkafi et al. (2020), and Zaman et al. (2017) concluded that the most effective way to encourage people to use Islamic financial products and services is to increase their level of financial literacy. Islamic financial knowledge becomes the most important dimension that significantly affects Islamic financial literacy. Increasing Islamic financial knowledge will increase Islamic financial literacy, encouraging higher Islamic financial inclusion (Ali et al., 2020; Ali et al., 2021; Takidah & Kassim, 2021).

Religiosity is a set of beliefs that play an important part in an individual's personal and professional lives, and it tends to be influential in how people deal with financial decisions (Rahim et al., 2016; Ali et al., 2020). A study finds that religiosity and financial literacy influence consumer demand for Islamic financial goods and services in Islamic societies (Khan et al., 2020). Ali et al. (2020) and Ali et al. (2021) found that religious commitment is among the three factors most influencing Islamic financial inclusion. In contrast, a study by Prastiwi (2018) found that religiosity has a negative effect on the decision to use the services of Islamic financial institutions. According to the study, the explanation for the negative association between religion and Islamic financial inclusion is that religious commitment to avoiding usury is still weak in society.

Social influence is intentional and unintentional efforts to modify another person's views, attitudes, or behaviour (Grass, 2015). Finance is likely to be one of the aspects of life that is influenced by the social environment. Previous studies found that social influence is statistically significant in Islamic financial inclusion (Ali et al., 2021; Saygılı et al., 2022; Takidah & Kassim, 2021). These studies show that social influence is the most important determinant of financial inclusion. In contrast, Senyo & Osabutey (2020) found that social influence does not affect financial inclusion. This study inferred that in using financial products and services, individuals would choose products that provide advantages that must be greater than the costs incurred.

Generation Z and Millennials are the generations that dominate West Java's population, which is 53.9% of the total population (Badan Pusat Statistik, 2021). Generation Z is born between 1997 and 2012, while Millennials are born between 1981 and 1996. Generation Z is commonly referred to as the Internet generation. This generation has grown up with technology and is accustomed to sophisticated technologies that indirectly impact personality. Millennials are the generation that grew up during the internet boom. They are more open to political and economic ideas and appear more reactive to changes in the environment around them, with a greater emphasis on wealth. With such differences, Generation Z and Millennials significantly differ in financial management and financial literacy levels (Rosdiana, 2020).

This paper's main purpose is to examine the determinants and factors of Islamic financial inclusion in Generation Z and Millennials, who are domiciled in West Java. This paper will be organized as follows: (1) the research background and literature review of the paper; (2) the research approach and methods; (3) the analysis and findings of the calculations; and (4) the conclusion and recommendations.

B. RESEARCH METHOD

A quantitative approach is used in this paper. Creswell & Creswell (2018) state that quantitative research examines the link between variables to assess objective theories. Surveys are the methods to determine the factors that influence the Islamic financial inclusion of Generation Z and Millennials, as well as the comparison between the two generations. Therefore, this paper uses qualitative and primary data from online questionnaires distributed to Generation Z and Millennials.

Based on Badan Pusat Statistik (2020), the number of Millennials is 12.5 million, or 25.87% of the total population in West Java. Meanwhile, Generation Z is 13.37 million, or 27.94% of the total population. The minimum sample size will be 310 respondents for Generation Z and 295 respondents for Millennials.

The author designed a five-part questionnaire adapted from previous research on related topics. Some items were modified based on the condition of Islamic finance in Indonesia. The summary can be seen in Table 1.

Table 1. Questionnaire Design

Variable	Measurement	Source
Islamic Financial Inclusion	Usage	Khamis (2021); Takidah & Kassim (2021); Umar (2017)
	Accessibility	
	Relevancy (Quality)	
Islamic Financial Literacy	Islamic Financial Knowledge	Ali et. al (2016); Atkinson (2016); Shakirah (2020); Douissa (2019); Saygili et. al (2022); Laldin (2013); Rahim et. al (2016)
Religiosity	Religiosity	Rahim et. al (2016)

Source: Research data, 2023

PLS-SEM is used to analyze the data that was obtained from respondents. Partial Least Square (PLS) is a causal and predictive approach to Structural Equation Model (SEM) that focuses on explaining the variance in the model's dependent variables (Jöreskog & Wold, 1982). PLS-SEM allows researchers to examine data with a small sample size and does not require the assumption of normality, whereas social studies always rely on non-normal data (Hair et al., 2019).

C. RESULTS AND ANALYSIS

The Effect of Islamic Financial Literacy on Islamic Financial Inclusion

The Islamic financial literacy variable significantly positively affects the Islamic financial inclusion variable. The results show that Islamic financial literacy strongly influences Islamic financial inclusion. This result aligned with the research conducted by Ali et al. (2020), Ali et al. (2021), Basrowi et al. (2020), Shinkafi et al. (2020), Takidah & Kassim (2021) and Zaman et al. (2017). People in West Java tend to be involved in Islamic finance because of their knowledge of Islamic finance. This knowledge allows them to recognize Islamic financial products and services aligned with their needs so that people have choices about becoming involved in Islamic finance. Therefore, in Islamic finance, Islamic financial literacy plays a big role in determining an individual's Islamic financial inclusion.

The Effect of Religiosity on Islamic Financial Inclusion

The religiosity variable has a significant positive effect on the Islamic financial inclusion variable. The results show that religiosity has the lowest but positive influence on Islamic financial inclusion. This result aligned with the research conducted by Ali et al. (2020), and Ali et al. (2021), Khan et al. (2020), Shinkafi et al. (2020). People in West Java, especially the respondents in this research, tend to obey religious rules and know the law of usury. This compliance encourages individuals to use Islamic financial products and services that comply with Islamic rules. Therefore, religiosity contributed to determining the individual's Islamic financial inclusion.

The Effect of Social Influence on Islamic Financial Inclusion

The analysis indicates that the social influence variable has a significant positive effect on Islamic financial inclusion variables. The results show that social influence strongly influences Islamic financial inclusion. This result aligned with the research conducted by Ali et al. (2021), Saygılı et al. (2022), and Takidah & Kassim (2021). People in West Java are involved in Islamic finance because of the influence of their social environment. Social environment means the interactions and relationships of a person with the individuals in his or her environment, and it can be their family, friends, colleagues, or media. Their environment encourages them to use Islamic financial products and services through their opinions and recommendations. Therefore, social influence contributed to determining the individual's Islamic financial inclusion.

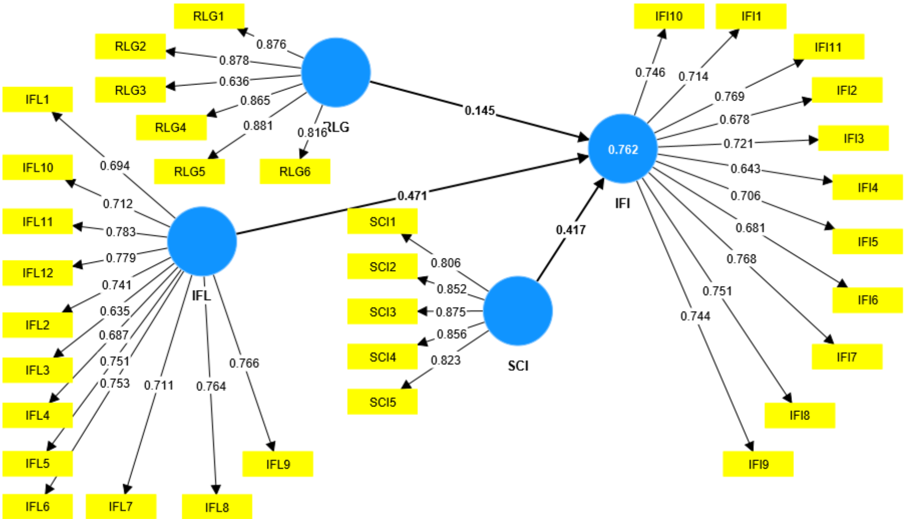

Figure 2. Path Coefficient and Model Result

Source: Research data, 2023

Comparison of Generation Z and Millennials

Comparison of The Effect of Islamic Financial Literacy on Islamic Financial Inclusion

Islamic Financial Literacy is the most significant variable that affected Islamic financial inclusion in both generations. This indicates that Generation Z and Millennials are affected by Islamic financial literacy in terms of Islamic financial inclusion. This result of this study contradicts a previous study conducted by

Rosdiana (2020), who stated that Generation Z and Millennials have a significant difference in financial literacy levels.

Comparison of The Effect of Religiosity on Islamic Financial Inclusion

Religiosity is the least significant variable that affected Islamic financial inclusion in both generations. This indicates that Generation Z and Millennials are affected by religiosity in terms of Islamic financial inclusion but not as much as other variables. Although religiosity is the same variable that has the least effect on Islamic financial inclusion, there is a difference in how much the religiosity variable contributes to explaining Islamic financial inclusion in Generation Z and Millennials. Religiosity in Generation Z contributes 0.110 to explaining Islamic financial inclusion. In Millennials, the number is higher, at 0.254. This indicated that Millennials had been affected by religion more than Generation Z.

Comparison of The Effect of Social Influence on Islamic Financial Inclusion

The comparison analysis shows that social influence is the second-most important variable affecting Islamic financial inclusion in both generations. This indicates that Generation Z and Millennials are affected by social influence in terms of Islamic financial inclusion. Although social influence is the same variable that has the second-most effect on Islamic financial inclusion for Generation Z and Millennials, there is a difference in how much the social influence variable contributes to explaining Islamic financial inclusion in both generations. Social influence in Generation Z contributes 0.448 in explaining Islamic financial inclusion. In Millennials, the number is lower, at 0.349. This indicates that Generation Z has been affected by social influence more than Millennials.

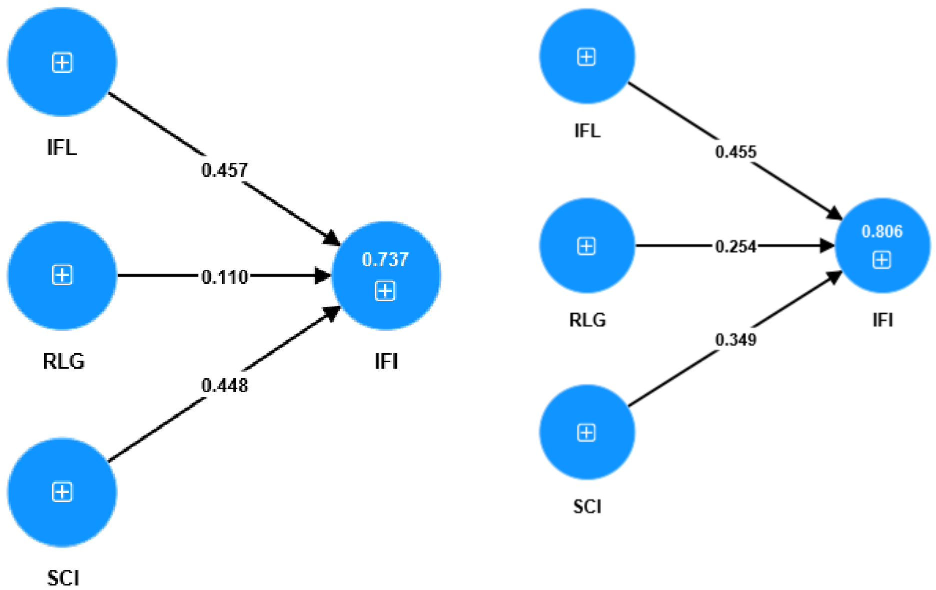

Figure 3. Generation Z (left) and Millennials (right) Path Coefficient

Source: Research data, 2023

D. CONCLUSION

In Generation Z, the significant factors influencing Islamic financial inclusion are Islamic financial literacy (0.457), religiosity (0.110), and social influence (0.448). In Millennials, the significant factors influencing Islamic financial inclusion are Islamic financial literacy (0.455), religiosity (0.254), and social influence (0.394). Although there is a difference in the level of variable contribution between Generation Z and Millennials, the relationship between these variables is the same, which is positive and significant. Thus, the factors influencing the Islamic financial inclusion of Generation Z and Millennials in West Java are Islamic financial literacy, social influence, and religiosity.

The analysis and result of this research led the researchers to provide some recommendations for the government. This suggestion is to contribute to improving the Islamic finance industry in West Java. In order to increase Islamic financial inclusion in West Java, especially Generation Z and Millennials, they need to look at the level of Islamic financial literacy. So, in addition to increasing Islamic financial literacy, the approach taken to increase inclusion can be through the social environment (friends, family, colleagues, and media). Especially mass media, where both generations are closely related to the internet.

Future research should consider more factors related to Islamic financial inclusion to improve the model's explanatory power. There are a number of things that this research model cannot address. Further exploration of Islamic financial inclusion factors in West Java is needed to improve the model's explanatory value. Thus, further research is needed to fulfil the variables not explained in this study.

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