

**THE EFFECT OF SHARIA FINANCIAL LITERACY AND REPUTATION ON
THE INTENTION TO USE SHARIA BANKS AMONG GENERATION Z IN
YOGYAKARTA WITH RELIGIOSITY AS A MEDIATION VARIABLE**



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Abstract

The low level of sharia banking inclusion among Generation Z is an important issue even though the majority of Indonesia's population is Muslim. This study aims to analyze the effect of sharia financial literacy and sharia bank reputation on the intention to use sharia banks with religiosity as a mediating variable among Generation Z in Yogyakarta. The study uses a quantitative approach with purposive sampling and is analyzed using SEM-PLS. The results show that Islamic financial literacy, Islamic bank reputation, and religiosity have a positive and significant effect on the intention to use Islamic banks. Religiosity partially mediates the effect of literacy and reputation on intention. The limitations of this study lie in its geographical scope and the use of self-reported data. These findings emphasize the importance of improving literacy and strengthening reputation based on sharia compliance to increase the interest of Generation Z.

Keywords: Islamic Financial Literacy, Islamic Bank Reputation, Religiosity, Intention to use Islamic Banks

INTRODUCTION

Indonesia, as a country with a Muslim majority, has significant potential for the development of Islamic banking, which operates based on Islamic principles by avoiding *riba*, *gharar*, and *maysir* (Hidayah, 2021). The performance of Islamic banking shows a positive trend with increases in assets, third-party funds (DPK), and market share (OJK, 2025). However, the level of Islamic financial literacy and inclusion remains relatively low compared to conventional finance (OJK & BPS, 2024). The younger age group, particularly Generation Z, has a lower level of literacy compared to other productive age groups (OJK & BPS, 2024), even though Gen Z represents the largest segment of Islamic financial service users in Indonesia (BPS, 2020). This condition indicates a gap between demographic potential and understanding of Islamic finance, especially among Gen Z in Yogyakarta as a student city with a predominantly Muslim population (GoodStats, 2023; Databoks, 2025).

Theoretically, the relationship between Islamic financial literacy and the intention to use Islamic banks can be explained through the Value-Belief-Norm (VBN) Theory, which states that values, beliefs, and personal norms play a role in shaping behavioral intentions (Stern et al., 1999). Islamic financial literacy represents an individual's understanding of Islamic values in financial activities, such as the prohibition of *riba*, *gharar*, and the obligation to comply with sharia principles (Albaity & Rahman, 2019). Such understanding encourages individuals to consider using financial services that align with their religious values. Research by Albaity and Rahman (2019) shows that Islamic financial literacy has a positive effect on the intention to use Islamic banks, both directly and indirectly through attitude as a mediating variable. Similar findings were also reported by Antara et al. (2016), who stated that the higher the level of Islamic financial literacy possessed by an individual, the greater their intention to use Islamic financial products and services.

The relationship between bank reputation and the intention to use Islamic banks can also be explained through the Value-Belief-Norm (VBN) Theory. Within this theoretical framework, reputation is understood as a form of individual belief regarding the credibility, reliability, and compliance of financial institutions with sharia principles (Karpoff, 2012). The better the reputation of Islamic banks as perceived by the public, the higher the level of individual trust in these institutions. This trust can encourage individuals to develop the intention to use services offered by Islamic banks. Research by Kaabachi and Obeid (2016) found that the reputation of Islamic banks has a positive influence on the public's intention to adopt Islamic banking services. This finding is supported by the study of Albaity and Rahman (2019), which shows that the reputation of financial institutions significantly influences the intention to use Islamic banks. However, Bananuka et al. (2020) reported different results, indicating that bank reputation does not significantly influence the adoption of Islamic financial services. These differing findings suggest that the influence of reputation on the intention to use Islamic banks still requires further investigation.

Religiosity is understood as the level of belief in and practice of religious teachings in daily life (Suryadi & Hayat, 2021). From the perspective of the Value-Belief-Norm (VBN) Theory, religiosity represents a personal norm that encourages individuals to act in accordance with religious values (Stern et al., 1999). Individuals with a high level of religiosity tend to have a moral motivation to ensure that their financial decisions align with Islamic principles, thereby increasing their intention to use Islamic banking services. This is supported by several studies indicating that religiosity has a positive effect on attitudes and

intentions to use Islamic banking products (Muslichah & Sanusi, 2019; Amini & Muflih, 2020; Maryam et al., 2019). However, studies that position religiosity as an intervening variable between Islamic financial literacy and reputation toward the intention to use Islamic banks are still limited, creating a research gap addressed in this study.

Religiosity is defined as the degree to which individuals believe in and practice religious teachings in their daily lives (Suryadi & Hayat, 2021). Within the framework of the Value-Belief-Norm (VBN) Theory, religiosity functions as a personal norm that encourages individuals to act according to religious values and teachings (Stern et al., 1999). These personal norms motivate individuals to ensure that their economic activities do not contradict their religious principles. Consequently, individuals with higher levels of religiosity tend to use religious teachings as the basis for decision-making, including financial decisions. In Islamic finance, Islamic teachings prohibit practices such as *riba*, *gharar*, and *maysir*. Therefore, religious individuals tend to prefer financial institutions that comply with these principles. Accordingly, the higher a person's level of religiosity, the greater their tendency to intend to use Islamic banking services as a form of adherence to religious teachings.

In addition to its direct influence, individuals' values and beliefs can activate personal norms that subsequently encourage the formation of behavioral intentions (Stern et al., 1999). Islamic financial literacy provides an understanding of Islamic financial principles, such as the prohibition of *riba*, *gharar*, and *maysir*, enabling individuals to recognize the importance of conducting financial activities in accordance with religious teachings. Meanwhile, the reputation of Islamic banks reflects individuals' beliefs regarding the credibility and sharia compliance of financial institutions. This understanding and belief can shape individuals' religious awareness when assessing whether a financial activity aligns with their religious values. Therefore, Islamic financial literacy and bank reputation may indirectly influence the intention to use Islamic banks through religiosity as a personal norm that encourages individuals to choose financial services aligned with Islamic principles.

In addition to these three variables, financial knowledge, defined as a general understanding of financial concepts, serves as a control variable because it influences individuals' financial behavior and decision-making (Meida & Kartini, 2023). Previous studies have shown that financial knowledge has a positive effect on the financial management behavior of Generation Z (Nugroho & Panuntun, 2022; Meida & Kartini, 2023). Therefore, in this study it is positioned as a baseline variable that controls the influence of Islamic financial literacy and reputation on the intention to use Islamic banks.

Based on the above explanation, this study examines the influence of Islamic financial literacy and reputation on the intention to use Islamic banks among Generation Z in Yogyakarta, with religiosity as an intervening variable and financial knowledge as a control variable, in order to explain the mechanism of intention formation in the context of Islamic banking within the Value-Belief-Norm (VBN) framework (Stern et al., 1999).

REVIEW OF LITERATURE

Theory of Value-Belief-Norm

The Value-Belief-Norm (VBN) Theory, developed by Stern et al. (1999), explains that behavior is influenced by values, beliefs, and personal norms. The relationship among

these components is not viewed as a rigid and sequential pathway, but rather as a dynamic process that may operate both directly and indirectly. Values and beliefs can directly influence behavioral intentions, and they may also activate personal norms that subsequently encourage behavioral intentions. In this study, Islamic financial literacy is positioned as value, Islamic bank reputation as belief, and religiosity as personal norm influencing the intention to use Islamic banks, both directly and through mediation mechanisms.

Islamic Financial Literacy

Islamic financial literacy refers to an individual's ability to understand the concepts, principles, products, and services of sharia-based finance, distinguish them from conventional financial systems, and apply such understanding to make financial decisions consistent with Islamic principles (Hidayah, 2021; Antara et al., 2016). This literacy does not only include technical knowledge about the prohibition of *riba* and *gharar* and the principle of profit-sharing, but also reflects the ability to ensure that financial decisions and transactions comply with sharia provisions (Albaity & Rahman, 2019; Ahmad et al., 2020).

The higher the level of understanding of the principles and mechanisms of sharia-based finance, the greater the likelihood that individuals will intend to use Islamic banking services because their decisions are based on adequate knowledge (Muslichah & Sanusi, 2019; Albaity & Rahman, 2019).

Reputation

Reputation is an economic value formed from public trust in the consistency and integrity of an institution in fulfilling its contractual obligations, both written and unwritten (Karpoff, 2012). In the context of Islamic banking, reputation reflects the level of reliability, transparency, compliance with sharia principles, and social contribution of the bank, which significantly influences public preferences and intentions in choosing banking services (Kaabachi & Obeid, 2016; Albaity & Rahman, 2019; Ahmad & Haron, 2000).

Religiosity

Religiosity is the level of belief, appreciation, and practice of religious teachings by individuals as reflected in their daily attitudes and behaviors, both in their relationship with God and with other people (Suryadi & Hayat, 2021). Religiosity also functions as a value framework that shapes how individuals think, evaluate, and make decisions, including in the context of consumption and the selection of financial institutions (Mathras et al., 2016). Therefore, it becomes an important factor in explaining preferences for sharia-based services.

Intention to Use Islamic Banks

Intention is a motivational factor that indicates the extent to which an individual has commitment and readiness to perform a particular behavior (Ajzen, 1991). In the context of Islamic banking, the intention to use Islamic banks reflects an individual's tendency to choose, use, and recommend Islamic banking services as a form of behavioral plan both in the present and in the future (Albaity & Rahman, 2019).

Financial Knowledge

Financial knowledge refers to the level of understanding individuals have regarding financial concepts, both basic and advanced, which form the foundation for rational and responsible financial decision-making (Chhillar et al., 2025). This knowledge includes understanding income and expense management, budgeting, financial goal planning, and the

concept of the time value of money, all of which play a role in shaping financial literacy and sound financial behavior (Nugroho & Panuntun, 2022; Meida & Kartini, 2023).

Hypothesis Development

The Influence of Islamic Financial Literacy on the Intention to Use Islamic Banks

Islamic financial literacy refers to the ability to understand and distinguish Islamic financial products from conventional ones and to make financial decisions in accordance with Islamic principles (Hidayah, 2021). From the perspective of Value-Belief-Norm Theory (VBN), the values possessed by individuals can influence beliefs and shape behavioral intentions (Stern et al., 1999). Islamic financial literacy can be viewed as a knowledge-based value that influences how individuals evaluate the Islamic financial system.

When individuals have a good understanding of the principles and mechanisms of Islamic banking, they tend to develop more positive perceptions and beliefs toward the services offered. These positive perceptions subsequently increase the likelihood that individuals will choose Islamic banking services in their financial activities. Previous studies by Muslichah and Sanusi (2019), Antara et al. (2016), and Albaity and Rahman (2019) show that Islamic financial literacy positively influences the intention to use Islamic banks.

H1: Islamic financial literacy positively influences the intention to use Islamic banks.

The Influence of Islamic Bank Reputation on the Intention to Use Islamic Banks

Reputation is an economic value formed from public perceptions and evaluations of an institution's consistency, credibility, and integrity in fulfilling its obligations (Karpoff, 2012). In the Value-Belief-Norm (VBN) Theory, individual beliefs toward an object can influence behavioral tendencies (Stern et al., 1999). The reputation of Islamic banks can be understood as a form of public belief in the credibility and compliance of banks in implementing sharia principles.

When individuals perceive a bank as having a good reputation, they tend to trust that the bank can provide safe, reliable services consistent with Islamic values. High levels of trust reduce uncertainty in decision-making and increase individuals' intentions to use Islamic banking services. This theoretical argument is supported by previous studies showing that a good reputation increases individual confidence and trust, thereby encouraging the intention to use Islamic banking services (Kaabachi & Obeid, 2016; Maryam et al., 2019).

H2: The reputation of Islamic banks positively influences the intention to use Islamic banks.

The Influence of Religiosity on the Intention to Use Islamic Banks

Religiosity is the level of belief, appreciation, and practice of religious teachings reflected in individuals' attitudes and daily behavior (Suryadi & Hayat, 2021). Religiosity not only relates to worship activities but also influences how individuals evaluate and make decisions in various aspects of life, including economic and financial activities.

From the perspective of Value-Belief-Norm Theory, personal norms function as moral motivations that encourage individuals to act according to their values and beliefs (Stern et al., 1999). Religiosity can therefore be understood as a form of personal norm that shapes individuals' moral awareness in determining behavior considered appropriate according to religious teachings.

Individuals with higher levels of religiosity tend to use religious teachings as guidance in decision-making, including in choosing financial institutions. Previous studies have shown that higher religiosity encourages individuals to choose financial products that comply with sharia principles, thereby increasing their intention to use Islamic banks (Amini & Muflih, 2020; Bananuka et al., 2020).

H3: Religiosity positively influences the intention to use Islamic banks.

Religiosity Mediates the Influence of Islamic Financial Literacy on the Intention to Use Islamic Banks

In Value-Belief-Norm Theory, values can activate personal norms as moral motivations to act, which ultimately influence behavioral intentions (Stern et al., 1999). In this study, Islamic financial literacy reflects knowledge-based values regarding Islamic financial principles such as the prohibition of *riba*, *gharar*, and *maysir* (Hidayah, 2021).

Such understanding may increase awareness to conduct financial activities in accordance with Islamic teachings, thereby activating religiosity as a personal norm—namely the level of belief and appreciation of religious teachings reflected in attitudes and behavior (Suryadi & Hayat, 2021).

Previous studies by Muslichah and Sanusi (2019) show that Islamic financial literacy positively influences the intention to use Islamic banks. In addition, Amini and Muflih (2020) demonstrate that religiosity positively affects the intention to use Islamic banking services. Based on these findings, religiosity is expected to mediate the influence of Islamic financial literacy on the intention to use Islamic banks.

H4: Religiosity mediates the influence of Islamic financial literacy on the intention to use Islamic banks.

Religiosity Mediates the Influence of Islamic Bank Reputation on the Intention to Use Islamic Banks

In the Value-Belief-Norm Theory, beliefs can activate personal norms that subsequently influence behavioral intentions (Stern et al., 1999). In this study, the reputation of Islamic banks reflects individuals' beliefs regarding the credibility, reliability, and compliance of banks with sharia principles (Kaabachi & Obeid, 2016).

A positive reputation may strengthen the belief that the bank aligns with Islamic values, thereby activating religiosity as a personal norm, which represents the level of belief and appreciation of religious teachings reflected in individuals' attitudes and behavior (Suryadi & Hayat, 2021).

Previous research by Albaity and Rahman (2019) found that positive perceptions of Islamic financial institutions increase the intention to use Islamic banking services. Additionally, studies by Bananuka et al. (2020) and Amini and Muflih (2020) show that religiosity positively influences the intention to use Islamic financial services.

H5: Religiosity mediates the influence of Islamic bank reputation on the intention to use Islamic banks.

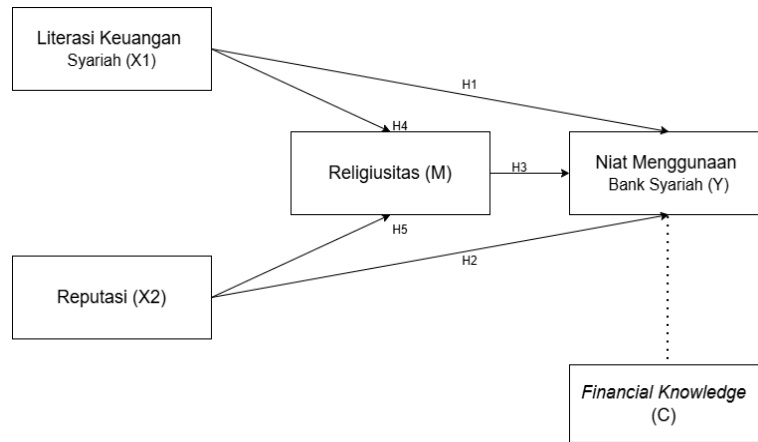


Figure 1.
Research Framework

RESEARCH METHOD

Population and Sample

This study employed a non-probability sampling technique using the purposive sampling method. The study population consisted of all Generation Z individuals residing in the Special Region of Yogyakarta who have the potential to be users of banking services. The sample size was determined based on the PLS-SEM rule of thumb according to (Hair et al., 2022), which is 5–10 times the number of indicators. With 30 indicators, the recommended sample size falls within the range of 150–300 respondents.

Data Collection Techniques

The data used are primary data obtained through the distribution of an online questionnaire using Google Forms. The research instrument employs a five-point Likert scale (1 = strongly disagree to 5 = strongly agree) as described by Sekaran & Bougie (2016)

Research Variables

This study consists of one dependent variable, namely the intention to use Islamic banks; two independent variables, namely Islamic financial literacy and the reputation of Islamic banks; one mediating variable, namely religiosity; and one control variable, namely financial knowledge. All variables were measured using indicators adapted from previous studies.

Table 1.
Variables and Indicators

Variable	Indicators	Source
Islamic Financial Literacy	1. Knowledge about the prohibition of interest in Islamic finance 2. Knowledge about the prohibition of uncertainty (gharar) and fraud 3. Knowledge about the prohibition of riba 4. Knowledge about riba in unequal exchange of similar goods 5. Knowledge about profit-sharing principles in Islamic banking 6. Understanding the fundamental differences between Islamic banks and conventional banks	(Albaity & Rahman, 2019)
Reputation	1. Reputation of Islamic banks in financial management 2. (Kaabachi &	

Variable	Indicators	Source
	Transparency of financial information 3. Reputation for Obeid, 2016; compliance with Sharia principles 4. Social contribution of Albaity & Rah-Islamic banks 5. Orientation toward community welfare man, 2019) beyond profit	
Religiosity	1. Practice of reading the Qur'an 2. Belief in the Qur'an as a source of knowledge 3. Belief in the role of prayer in life (Idris et al., 2012; Abror et al., 2020; Rosuet Muhammad (PBUH) 7. Religious adherence in choosing financial institutions (Islamic banks)	
Intention to Use Islamic Banking	1. Intention to choose Islamic banking products in the near future 2. Intention to use Islamic banks in the future 3. Interest in using Islamic banks 4. Continued interest in Islamic banks 5. Intention to recommend Islamic banks 6. Intention to start using Islamic banks in the near future	(Albaity & Rahman, 2019)
Financial Knowledge	1. Knowledge of managing income and expenses 2. Knowledge of good and wise financial management 3. Knowledge of setting short-term and long-term financial goals 4. Knowledge of budgeting and spending 5. Knowledge of unexpected expenses 6. Knowledge of the time value of money	(Meida & Karti-ni, 2023)

Table 2.
Questionnaire Items

Variable	Item
Intention to Use Islamic Banking	(NMBS1) I plan to choose Islamic banking products in the near future. (NMBS2) I will start using Islamic banking in the near future. (NMBS3) I am likely to choose Islamic banking products in the future. (NMBS4) I am interested in using Islamic banking in the future. (NMBS5) I am interested in using Islamic banking. (NMBS6) I will recommend Islamic banking to others.
Islamic Financial Literacy	(LKS1) Islamic financial methods do not use interest. (LKS2) Riba is forbidden and prohibited in Islam. (LKS3) The exchange of similar goods in different quantities or qualities is considered riba. (LKS4) Uncertainty and fraud are not allowed in Islamic finance. (LKS5) Islamic banking uses profit-sharing principles. (LKS6) Islamic bank products and conventional bank products are basically the same, only the names are different.
Reputation	(RP1) I believe Islamic banks have a good financial reputation. (RP2) Is-

Variable	Item
	lamic banks provide transparent financial information. (RP3) Islamic banks have a good reputation for compliance with Sharia principles. (RP4) Islamic banks contribute to society. (RP5) Islamic banks prioritize community welfare in addition to profit.
Religiosity	(RL1) I read the Qur'an regularly. (RL2) The Qur'an is a source of knowledge. (RL3) Prayer helps me in my daily life. (RL4) Not paying zakat is a sin. (RL5) Prayer (du'a) gives me strength. (RL6) Prophet Muhammad (PBUH) is a role model for me. (RL7) Using a Sharia-compliant bank is a form of obedience to Allah.
Financial Knowledge	(FK1) I understand the importance of managing income and expenses. (FK2) I know how to manage finances properly and wisely. (FK3) I know how to set short-term and long-term financial goals. (FK4) I know the factors that should be considered in preparing a financial and spending budget. (FK5) I understand that unexpected expenses may occur. (FK6) I understand the concept of the time value of money.

RESULTS AND DISCUSSION

Respondent Characteristics

This study involved 253 Muslim Generation Z respondents residing in the Special Region of Yogyakarta who had not yet used Islamic banking services. The majority of respondents were 22 years old (19%), followed by 28 years old (13%), while 17-year-old respondents represented the smallest group (1%).

In terms of gender, 130 respondents were female (51%) and 123 were male (49%). Most respondents held a Bachelor's degree (42%), while Diploma graduates constituted the smallest proportion (13%).

Regarding monthly income or allowance, 30% of respondents earned between IDR 2,000,001–3,500,000, and another 30% earned between IDR 1,000,000–2,000,000, while 15% reported income above IDR 5,000,000. Respondents were relatively evenly distributed across the Special Region of Yogyakarta, with the largest proportion coming from Yogyakarta City (25%).

Measurement Model Evaluation (*Outer Model*)

Loading Factor

Table 3.
Loading Factor

	FK	LKS	NMBS	RL	RP
FK1	0.837				
FK2	0.873				
FK3	0.868				
FK4	0.869				

FK5	0.823	
FK6	0.799	
LKS1	0.811	
LKS2	0.854	
LKS3	0.833	
LKS4	0.817	
LKS5	0.836	
LKS6	0.813	
NMBS1	0.829	
NMBS2	0.857	
NMBS3	0.853	
NMBS4	0.815	
NMBS5	0.853	
NMBS6	0.835	
RL1	0.801	
RL2	0.830	
RL3	0.854	
RL4	0.864	
RL5	0.828	
RL6	0.843	
RL7	0.784	
RP1	0.823	
RP2	0.842	
RP3	0.846	
RP4	0.830	
RP5	0.836	

Source: Primary Data (2026)

Internal indicator reliability is assessed using the loading factor, which measures the relationship between indicators and their latent constructs. The results indicate that all indicators have loading factor values above 0.70. Therefore, all indicators meet the convergent validity criteria and are considered valid.

Composite Reliability (CR) dan Average Variance Extracted (AVE)

Table 4.
Nilai CR dan AVE

Variable	Composite Reliability	AVE
FK	0.937	0.714
LKS	0.929	0.685
NMBS	0.935	0.706
RL	0.939	0.688
RP	0.920	0.698

Source: SmartPLS 4, Primary Data (2026)

Based on Table 4, all variables have Composite Reliability values above 0.70, indicating that the reliability criteria are satisfied. Furthermore, all variables show AVE values above 0.50, demonstrating that convergent validity is achieved.

Therefore, the measurement model is considered reliable and valid, allowing the analysis to proceed to the structural model (inner model).

Discriminant Validity

Discriminant validity indicates the extent to which a construct is statistically distinct from other constructs.

Table 5.
Discriminant Validity (Cross Loading)

	FK	LKS	NMBS	RL	RP
FK1	0.837	0.656	0.554	0.634	0.611
FK2	0.873	0.641	0.600	0.601	0.636
FK3	0.868	0.604	0.593	0.566	0.588
FK4	0.869	0.642	0.614	0.636	0.621
FK5	0.823	0.611	0.578	0.589	0.620
FK6	0.799	0.559	0.491	0.480	0.537
LKS1	0.573	0.811	0.525	0.587	0.553
LKS2	0.609	0.854	0.571	0.643	0.654
LKS3	0.629	0.833	0.608	0.678	0.669
LKS4	0.607	0.817	0.577	0.625	0.597
LKS5	0.632	0.836	0.616	0.658	0.662
LKS6	0.585	0.813	0.578	0.616	0.649
NMBS1	0.481	0.504	0.829	0.506	0.535

NMBS2	0.603	0.617	0.857	0.585	0.639
NMBS3	0.589	0.586	0.853	0.578	0.602
NMBS4	0.569	0.599	0.815	0.560	0.588
NMBS5	0.598	0.647	0.853	0.608	0.600
NMBS6	0.570	0.568	0.835	0.513	0.548
RL1	0.519	0.579	0.606	0.801	0.573
RL2	0.497	0.637	0.527	0.830	0.558
RL3	0.611	0.652	0.526	0.854	0.625
RL4	0.640	0.680	0.595	0.864	0.643
RL5	0.584	0.637	0.521	0.828	0.580
RL6	0.586	0.668	0.526	0.843	0.588
RL7	0.584	0.605	0.565	0.784	0.607
RP1	0.635	0.644	0.569	0.602	0.823
RP2	0.578	0.628	0.571	0.573	0.842
RP3	0.560	0.619	0.564	0.574	0.846
RP4	0.583	0.610	0.563	0.604	0.830
RP5	0.621	0.684	0.643	0.647	0.836

Source: Primary Data (2026)

Based on Table 5, all indicators have the highest loading values on the constructs they are intended to measure compared to other constructs. Thus, the model satisfies the discriminant validity criteria based on the cross-loading approach.

Table 6.
Heterotrait–Monotrait Ratio (HTMT)

	<i>Heterotrait- monotrait ratio (HTMT)</i>
LKS <-> FK	0.800
NMBS <-> FK	0.734
NMBS <-> LKS	0.764
RL <-> FK	0.749
RL <-> LKS	0.837
RL <-> NMBS	0.721

RP <-> FK	0.786
RP <-> LKS	0.845
RP <-> NMBS	0.768
RP <-> RL	0.790

Source: SmartPLS 4, Primary Data (2026)

All HTMT values are below 0.90, indicating that discriminant validity for all constructs is satisfied. The results of the convergent validity test are illustrated in Figure 2.

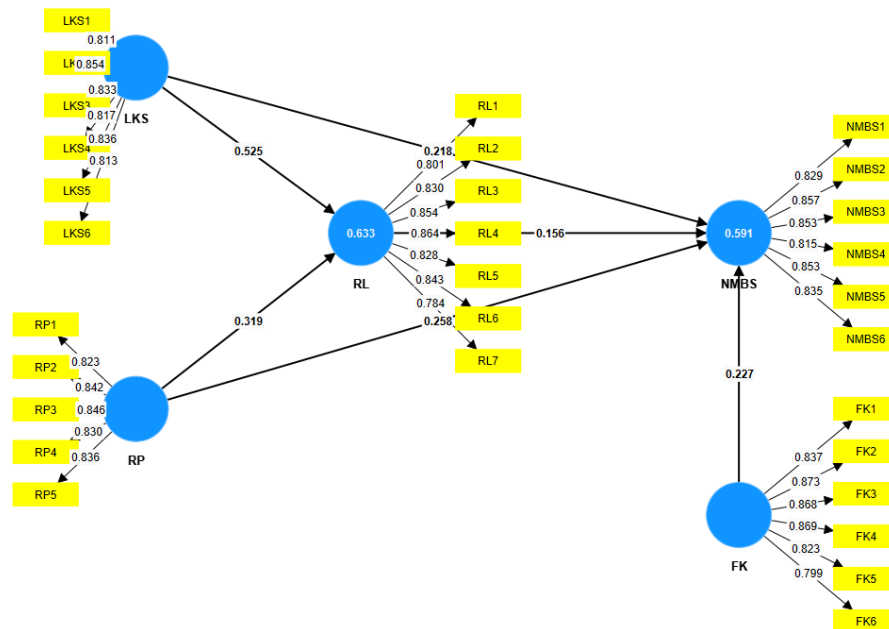


Figure 2.

Results Of The Convergent Validity Test

Structural Model Evaluation (Inner Model)

Multicollinearity Test

Multicollinearity was assessed using the Variance Inflation Factor (VIF). A model is considered free from multicollinearity when $VIF < 5$.

Table 7.

Multicollinearity Test

	VIF
FK -> NMBS	2.579
LKS -> NMBS	3.438
LKS -> RL	2.401
RL -> NMBS	2.850

RP -> NMBS 2.907

Source: SmartPLS 4, Primary Data (2026)

Based on Table 7, all VIF values are below 5, indicating that no multicollinearity issues exist in the research model.

R-Square

The R-Square value indicates the ability of independent variables to explain the dependent variables.

Table 8.
R-Square Test

	R-square	R-square adjusted
NMBS	0.591	0.584
RL	0.633	0.630

Source: SmartPLS 4, Primary Data (2026)

Based on Table 8, the adjusted R-Square values are 0.584 for NMBS and 0.630 for RL, indicating that the model has moderate explanatory power.

F-Square

The F-Square value reflects the effect size of each variable within the structural model

Table 9.
F-Square Test

	f-square
FK -> NMBS	0.049
LKS -> NMBS	0.034
LKS -> RL	0.313
RL -> NMBS	0.021
RP -> NMBS	0.056
RP -> RL	0.115

Source: SmartPLS 4, Primary Data (2026)

Based on Table 9, most effects fall into the small category, except for LKS → RL, which falls into the moderate category (0.313).

Q-Square

The Q-Square value evaluates the predictive relevance of the model. A Q² value greater than 0 indicates that the model has predictive relevance.

Table 10.
Q-Square Test

	Q ²
NMBS	0.407
RL	0.423

The Q² values for NMBS and RL are greater than zero, indicating that the model has good predictive capability for both variables.

Hypothesis Testing Results

A summary of the hypothesis testing results is presented in Table 11.

Table 11.
Hypothesis Testing Results

	<i>Original Sample (O)</i>	<i>Sample mean (M)</i>	<i>Standard deviation (STDEV)</i>	<i>T statistics (O/STDEV)</i>	<i>P value</i>
FK -> NMBS	0.227	0.234	0.086	2.638	0.008
LKS -> NMBS	0.218	0.210	0.077	2.826	0.005
LKS -> RL	0.525	0.522	0.082	6.424	0.000
RL -> NMBS	0.156	0.152	0.066	2.374	0.018
RP -> NMBS	0.258	0.261	0.082	3.128	0.002
RP -> RL	0.319	0.320	0.083	3.849	0.000

Source: Processed Primary Data (2026)

Based on Table 11, all relationships between variables show P-values < 0.05 and T-statistics > 1.96, indicating that all proposed hypotheses in this study are accepted.

Islamic Financial Literacy and Intention to Use Islamic Banking

The results indicate that Islamic financial literacy has a positive effect on the intention to use Islamic banking among Generation Z in Yogyakarta. This finding suggests that the higher an individual's understanding of Islamic financial principles—such as the prohibition of riba, gharar, and profit-sharing mechanisms—the greater their tendency to choose banking services aligned with these principles.

This understanding enables individuals to distinguish more clearly between Islamic and conventional banking systems, leading to more rational and value-based financial decisions.

Within the Value-Belief-Norm (VBN) Theory proposed by Stern et al. (1999), Islamic financial literacy represents values, as it reflects an understanding of normative Islamic principles in financial activities. These values serve as a basis for individuals in evaluating choices that are considered correct and consistent with religious teachings. The

higher the literacy level, the stronger the internalization of Sharia values, which ultimately encourages the intention to use Islamic banking.

This theory aligns with the characteristics of Generation Z, who have broad access to information and tend to conduct evaluations before making financial decisions.

These findings are consistent with previous studies by Albaity and Rahman (2019), Muslichah and Sanusi (2019), and Faiz and Firmansyah (2024), which highlight that Islamic financial literacy is an important determinant in increasing the intention to use Islamic financial services.

Islamic Bank Reputation and Intention to Use Islamic Banking

The results show that the reputation of Islamic banks positively influences the intention to use Islamic banking. A good reputation reflects credibility, transparency, Sharia compliance, and social responsibility, which build trust among Generation Z when choosing banking services.

Theoretically, reputation represents an economic value (quasi-rent) that arises when institutions are trusted not to act opportunistically (Karpoff, 2012). When a bank is perceived as having a strong reputation, individuals tend to feel more confident in the quality of services and institutional integrity, thereby encouraging the intention to use the services offered.

Within the VBN framework, reputation represents beliefs, referring to individuals' perceptions of the integrity and consistency of Islamic banks in implementing Sharia principles. These beliefs shape the perception that Islamic banks are trustworthy and appropriate choices, thereby directly encouraging usage intentions without necessarily passing through personal norms.

These findings are consistent with studies by Albaity & Rahman (2019), Maryam et al. (2019), and Butt et al. (2018), which emphasize that reputation is an important factor in choosing Islamic banking services.

In the financial sector, reputation also helps reduce perceived uncertainty among customers. When a bank maintains a strong reputation, individuals are more likely to believe that the institution can manage funds securely and operate in accordance with Sharia principles. This condition increases confidence in choosing Islamic banking services.

Religiosity and Intention to Use Islamic Banking

The findings indicate that religiosity positively influences the intention to use Islamic banking. Religiosity reflects the level of belief, internalization, and practice of religious teachings, which are manifested in daily behavior, including economic decisions (Suryadi & Hayat, 2021; Mathras et al., 2016). In this study, religiosity is measured through religious beliefs and practices, such as reading the Qur'an, performing prayer, fulfilling zakat obligations, and believing that using Islamic banking represents a form of religious obedience (Idris et al., 2012; Abror et al., 2020; Rosula et al., 2024).

From the VBN perspective, religiosity represents a personal norm, reflecting an internal moral obligation. Individuals with higher religiosity feel compelled to ensure that their financial decisions align with Sharia principles.

This finding is consistent with Muslichah & Sanusi (2019), who found that religiosity significantly influences the intention and decision to use Islamic banking. It demonstrates that religious values not only influence spiritual aspects but also shape financial preferences toward systems perceived as consistent with personal beliefs.

Islamic Financial Literacy, Religiosity, and Intention to Use Islamic Banking

The results show that religiosity mediates the effect of Islamic financial literacy on the intention to use Islamic banking, with an indirect effect of 0.082 and a total effect of 0.300.

Based on VBN Theory, Islamic financial literacy as a value can activate religiosity as a personal norm. Understanding Sharia principles strengthens individuals' moral awareness to consistently choose halal financial services.

However, because Islamic financial literacy also directly influences intention, the resulting relationship forms partial mediation (Hayes, 2013). This indicates that literacy influences intention both directly and indirectly through religiosity.

Understanding principles such as *riba*, *gharar*, and *maysir* increases individuals' awareness of the importance of conducting economic activities in accordance with Islamic teachings. When individuals possess better knowledge of Islamic financial concepts, they not only understand the differences between Islamic and conventional banking systems but also recognize that using Islamic financial services is part of religious practice in daily life. This awareness strengthens individuals' religious values and encourages the intention to use Islamic banking services.

Islamic Bank Reputation, Religiosity, and Intention to Use Islamic Banking

The results indicate that religiosity mediates the effect of reputation on the intention to use Islamic banking, with an indirect effect of 0.052 and a total effect of 0.308. Within the VBN framework, reputation is interpreted as beliefs that can activate personal norms in the form of religiosity. When Islamic banks are perceived as having high integrity and strong Sharia compliance, individuals' religiosity becomes more relevant in financial decision-making.

However, because reputation can also directly influence intention, the relationship forms partial mediation (Hayes, 2013). This means that reputation influences intention both directly and through religiosity. A strong reputation can strengthen individuals' belief that Islamic banks operate according to Sharia principles. When individuals hold this perception, their religious values become increasingly connected to their choice of financial institutions.

Therefore, religiosity does not merely function as a personal belief but also becomes a consideration in evaluating whether a financial institution aligns with the religious values held by the individual.

CONCLUSION

This study aims to analyze the influence of Islamic financial literacy and the reputation of Islamic banks on the intention to use Islamic banking among Generation Z in Yogyakarta, with religiosity as a mediating variable, using the SEM-PLS method. The results show that Islamic financial literacy, Islamic bank reputation, and religiosity have a positive and significant effect on the intention to use Islamic banking. In addition, religiosity is proven to partially mediate the relationship between Islamic financial literacy and Islamic bank reputation with the intention to use Islamic banking.

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