

The Influence of Sharia Financial Literacy, Risk Perception, and Social Influence on Sharia Financial Inclusion of Gen Z: The Role of Interest Mediation

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Abstract

This study analyzes the role of interest mediation in the relationship between Islamic financial literacy, risk perception, and social influence on Islamic financial inclusion in Generation Z. This study uses a quantitative approach with a survey method of 310 Gen Z respondents in Bangka Belitung. The analysis was conducted using Structural Equation Modeling (SEM) to test the relationship between variables, including the role of interest mediation in encouraging Islamic financial inclusion. The results of the study show that interest plays a significant mediator in the relationship between Islamic financial literacy and Islamic financial inclusion. Islamic financial literacy has a positive impact on interest, which in turn increases Islamic financial inclusion. However, risk perception negatively impacts interests, which hinders Islamic financial inclusion. Conversely, social influence has a direct positive impact on Islamic financial inclusion without the need to be mediated by interest. The implications of this study show the need for Islamic financial literacy education in the form of interactive digital and product transparency to reduce risk perception. In addition, the use of social influence through communities and technology-based incentives can increase interest in Islamic financial products.

Keywords: *Islamic Financial Inclusion, Islamic Financial Literacy, Risk Perception, Social Influence, Interest, Generation Z.*

1. INTRODUCTION

Islamic financial inclusion is an important agenda in the development of the global financial industry, especially in countries with significant Muslim populations. According to the Islamic Financial Services Board (IFSB, 2023) report, the Islamic finance industry is experiencing rapid growth with total assets reaching USD 3.5 trillion in 2022. However, the level of Islamic financial inclusion among the younger generation, especially Generation Z (Gen Z), still faces various challenges (World Bank, 2023). This group is a potential segment for the sustainability of the Islamic finance industry in the future.

In the context of Indonesia, as the country with the largest Muslim population in the world, Bank Indonesia (2023) reported that the level of Islamic financial literacy is still at 23.3%, much lower than conventional financial literacy, which reaches 49.8%. This low literacy has an impact on the low adoption rate of Islamic financial services, which directly affects the low inclusion of Islamic finance (OJK, 2023). In addition, factors such as risk perception and social influence also play an important role in an individual's decision to use Islamic financial services. Therefore, this study aims to understand how Islamic financial literacy, risk perception, and social influence contribute to the Islamic financial inclusion of Gen Z by considering the mediating role of their interest in using Islamic financial services.

Despite numerous initiatives to increase the inclusion of Islamic finance, data shows that the adoption rate of Islamic financial services is still lagging behind conventional finance (Islamic Development Bank, 2022). Several previous studies (Misbach et al., 2021; Alam et al., 2022) show that low Islamic financial literacy is the main factor that hinders the increase in Islamic financial inclusion. In addition, risk perception of Islamic financial products is also a significant

obstacle, especially related to product uncertainty and low understanding of the benefits of Islamic products compared to conventional products (Rahman & Kassim, 2023). Social influence factors, such as recommendations from family, friends, and religious leaders, are also known to play a role in an individual's decision to use Islamic financial services (Nasir et al., 2022).

Previous research on Islamic financial inclusion (Misbach et al., 2021; Alam et al., 2022) tend to adopt a linear approach with a focus on the direct relationship between literacy and inclusion. However, these studies ignore the complexity of psychological and contextual factors that may explain why high literacy levels do not necessarily convert to the adoption of sharia services. For example, Ali et al. (2022) found a positive correlation between literacy and inclusion, but did not explain why 37% of highly literate respondents in their study still chose conventional products. The novelty of this research is that we not only test direct relationships, but also map indirect pathways through interest, a psychological factor that has been considered a "black box" in the Islamic financial literature.

However, there are limitations in previous research that have not considered how individual interests can mediate the relationship between Islamic financial literacy, risk perception, and social influence on Islamic financial inclusion. Therefore, this study aims to fill this gap by exploring the role of interest mediation in the relationship between these factors and Islamic financial inclusion among Gen Z. Most previous studies have only examined the direct relationship between Islamic financial literacy and Islamic financial inclusion without considering the mechanisms that bridge the relationship (Ali et al., 2022). Studies that examine the perception of risk and social influence on Islamic financial inclusion also tend to be limited to the general population and have not specifically examined Gen Z, who have unique characteristics in adopting digitally-based financial services (Hassan et al., 2023). In addition, there are still limitations in research that highlight how interest as a psychological factor can play a role in increasing Islamic financial inclusion (Fauzi & Idris, 2023). Thus, this study contributes by proposing a conceptual model that integrates the role of interest mediation in increasing Islamic financial inclusion among Gen Z.

This study aims to examine the influence of Sharia financial literacy on Sharia financial inclusion of Gen Z. Furthermore, this study aims to analyze the impact of risk perception on Sharia financial inclusion of Gen Z. In another scope, this study aims to evaluate the social influence in encouraging Sharia financial inclusion of Gen Z, risk perception, and social influence on Gen Z's Sharia financial inclusion. The results of this study are expected to contribute to the Islamic financial literature by offering a new perspective on the factors that drive Islamic financial inclusion among Gen Z. Practically, the findings of this research can also be used by regulators, Islamic financial institutions, and industry practitioners to design strategies to increase Islamic financial literacy and strengthen the attractiveness of Islamic financial services for Gen Z.

1.1 Sharia Financial Literacy and Sharia Financial Inclusion

Islamic financial literacy is defined as an individual's understanding of Sharia-based financial principles, products, and services as well as the ability to manage finances under Islamic provisions (Hassan et al., 2022). The Theory of Planned Behavior (TPB) put forward by Ajzen (1991) is the basis for explaining how financial literacy affects a person's financial behavior, including the decision to participate in the Islamic financial system.

TPB (Ajzen, 1991) states that a *person's intention to perform a behavior is influenced by three factors, namely Attitude toward the behaviour, Subjective norms, and Perceived behavioral control*. In the context of this study, Attitude is represented by Islamic financial literacy (positive knowledge about sharia forms attitudes), Subjective norms are represented by social influences (recommendations of family, friends, or influencers), Perceived behavioral control is represented by risk perception (an individual's confidence in their ability to overcome the risks of sharia products).

Several empirical studies have confirmed the positive relationship between Islamic financial literacy and Islamic financial inclusion. A study by Abdullah and Ashraf (2023) found that individuals who have a better understanding of the principles of Islamic finance are more likely to use Islamic financial products. Another study by Rahman et al. (2023) shows that high Islamic financial literacy increases individual confidence in Islamic banking products, thereby accelerating Islamic financial inclusion. In addition, a study by Hassan et al. (2022) highlights that Islamic financial literacy plays an important role in suppressing misconceptions about the operational mechanisms of Islamic financial products, which are often the main barriers to the adoption of Islamic-based financial services. A study conducted by Setiawan et al. (2023) also found that

increasing Islamic financial literacy significantly increased the level of Islamic bank account ownership among Generation Z. Based on these findings, this study proposed the first hypothesis:

H1: Islamic financial literacy has a positive effect on the Islamic financial inclusion of Gen Z.

1.2 Risk Perception and Inclusion of Islamic Finance

Risk perception is defined as the level of uncertainty that an individual feel about a product or service that can affect their decision to adopt Islamic financial services (Ismail & Suhaimi, 2023). Based on the Prospect Theory developed by Kahneman and Tversky (1979), individuals tend to avoid higher risks, especially if they do not have enough information or prior experience regarding a product.

Several studies show that risk perception is a major obstacle in Islamic financial inclusion. Research by Ahmad et al. (2022) found that high risk perception of uncertain returns in Islamic investments reduces people's desire to use Islamic financial products. Another study by Rahman et al. (2023) highlights that the lack of transparency in the operation of Islamic financial products increases risk perception, which negatively impacts the level of Islamic financial inclusion. A study conducted by Nurhayati et al. (2022) found that the perception of risk to the stability of Islamic financial institutions also affects the adoption of Islamic financial services. Similarly, research by Setiawan et al. (2023) shows that high risk perception of Islamic financial products can lower individual confidence in the Islamic financial system as a whole. Based on these findings, a second hypothesis is formulated:

H2: Risk perception has a negative effect on the Islamic financial inclusion of Gen Z.

1.3 Social Impact and Inclusion of Sharia Finance

Social influence refers to how social norms, family, friends, and community environment influence an individual's decision to use Islamic financial services (Ajzen, 1991). The Diffusion of Innovation Theory by Rogers (2003) explains that individuals are more likely to adopt an innovation if they receive encouragement or influence from their social environment. Empirical research shows that social influences play an important role in increasing Islamic financial inclusion.

DOI (Rogers, 2003) explains that the adoption of innovations (e.g., Islamic financial products) is influenced by the perception of innovation characteristics (relative superiority, compatibility, complexity, trialability, observability); Communication channels (social media, interpersonal), and Social systems (group norms). In this study, risk perception is related to *complexity* (whether sharia products are considered complicated) and *relative superiority* (whether it is better than conventional), as well as social influence reflecting communication channels (social media) and social systems (recommendations of friends/influencers). A study by Hassan et al. (2022) shows that recommendations from friends and family have a significant impact on an individual's decision to use Islamic banking products. Meanwhile, research by Abdullah and Ashraf (2023) found that individuals living in environments with high levels of trust in the Islamic financial system are more likely to engage in Islamic financial inclusion.

Another study by Rahman et al. (2023) highlights that community-based marketing campaigns increase public trust and understanding of Islamic financial products, thereby increasing the level of Islamic financial inclusion. In addition, research conducted by Nurhayati et al. (2022) found that individuals who received education from their social groups were faster to adopt Islamic financial products compared to individuals who did not have social exposure to the concept. Based on these findings, a third hypothesis is proposed:

H3: Social influence has a positive effect on the Islamic financial inclusion of Gen Z.

1.4 The Role of Interest Mediation in Sharia Financial Inclusion

Interest is defined as the tendency of individuals to be interested and motivated in adopting a product or service based on their experience and understanding (Venkatesh et al., 2012). The Self-Determination Theory (Ryan & Deci, 2000) explains that interest acts as an intrinsic motivator that drives individuals to adopt a service.

The study by Ismail & Suhaimi (2023) shows that individuals who have a high interest in Islamic finance are more likely to overcome obstacles such as high-risk perception. Another study by Ahmad et al. (2022) found that interest plays an important role in linking Islamic financial literacy to the decision to use Islamic financial products. The study of Setiawan et al. (2023) also confirms that individuals with greater interest in Islamic finance are more likely to adopt Islamic banking products. A study by Hassan et al. (2022) found that interest can amplify the effect of social

influence on decisions to use Islamic financial services. Research by Rahman et al. (2023) also shows that interest can mediate the relationship between external factors such as risk perception and social influence and individual financial decisions. Based on these findings, the following hypotheses are formulated:

H4: Interest in mediating the relationship between Islamic financial literacy and Gen Z Islamic financial inclusion.

H5: Interest mediates the relationship between risk perception and Gen Z's Sharia financial inclusion.

H6: Interest in mediating the relationship between social influence and Sharia financial inclusion of Gen Z.

2. RESEARCH METHOD

This study uses a quantitative approach with an explanatory research design, which aims to explain the causal relationship between Islamic financial literacy, risk perception, social influence, and Islamic financial inclusion of Gen Z, with interest as a mediating variable. This approach was chosen because it allows analysis of the direct and indirect relationships between variables and provides a deeper understanding of the factors influencing Islamic financial inclusion.

The population in this study is Generation Z (born between 1997–2012) who have access to Islamic financial services in Indonesia. The selection of Generation Z as respondents is based on the fact that this group is an active digital user and has great potential in driving the growth of the Islamic finance industry. The purposive sampling method was used in sample selection with the following criteria: Respondents were between 18 and 26 years old. Understand or involvement in Islamic financial activities, such as Islamic savings, Islamic investments, or the use of Sharia-based financial platforms. Have access to information about Islamic financial literacy. Based on the SEM-PLS approach, sample sizes were determined using a rule of thumb that recommended at least 10 times the number of largest indicators in the model (Hair et al., 2021). With an estimated number of indicators of 30, the minimum number of samples is 300 respondents.

The *purposive sampling* method is used because it allows researchers to selectively select respondents who have characteristics according to the research objectives, namely active employees with a minimum working period of one year. This criterion is relevant because the individual is considered to have sufficient experience to objectively assess Sharia Financial Literacy, Risk Perception, Social Influence, and Interest in Sharia Finance, which has an impact on Sharia Financial Inclusion. By choosing the right respondents, the data obtained is more valid, contextual, and in-depth in answering the focus of the research.

The research instrument is in the form of a questionnaire consisting of several parts: Sharia Financial Literacy – adapted from the research of Rahman et al. (2022) with the dimension of understanding Sharia principles, Sharia financial products, and Sharia financial risks. Risk Perception – refers to the model of Kim et al. (2018) with indicators of transaction uncertainty, risk of capital loss, and regulatory instability. Social Influence – based on the concept of Venkatesh et al. (2016) in the UTAUT model, with indicators of subjective norms, social pressures, and environmental expectations. Interest in Sharia Finance – adapting the model from Amin et al. (2017) with indicators of intention to use Sharia services, interest in Sharia principles, and comfort in Sharia products. Sharia Financial Inclusion – measured based on Demirgüç-Kunt et al. (2021), which includes access, use, and quality of Islamic financial services. Each item is measured using a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). This research instrument is adapted from previous studies, but also modified to reflect the unique characteristics of Gen Z (digital-native, dependence on social media), overcoming the limitations of the old instrument that was too general and did not touch the current context. validating theoretical constructs in the dynamic context of Islamic finance. These modifications make the instrument more relevant, interesting, and accurate in measuring Gen Z behavior, thereby increasing the ecological validity of the study.

Data collection was conducted through an online survey using a structured questionnaire distributed purposively to Gen Z respondents (aged 18-26 years) in Bangka Belitung. Digital platforms such as Google Forms were used to ensure accessibility, with questionnaire links distributed through relevant social media (Instagram, TikTok), student communities, WhatsApp groups, and Telegram groups. To ensure representativeness, quota sampling was applied based on the proportion of the Gen Z population in urban (60%) and rural (40%) areas, as well as gender

(50% male, 50% female). Responses were optimized with the following strategies: (1) sending reminders every 3 days via WhatsApp, and (2) collaborating with campuses and local influencers to increase engagement. Ethical protocols were maintained by including a statement of data confidentiality and informed consent on the first page of the questionnaire. Of the approximately 500 questionnaires distributed, 310 valid responses were collected (response rate 62%), the rest were deleted due to inconsistent or incomplete answers.

The Structural Equation Modeling - Partial Least Squares (SEM-PLS) approach was chosen because it can handle models with high complexity, as well as provide strong estimation results even though the data is not normally distributed (Hair et al., 2021). The software used is SmartPLS 4.0. The analysis process was carried out in several stages: Measurement Evaluation (Measurement Model / Outer Model), Validity test, converged through factor loadings (> 0.70), and average variance extracted (AVE) (> 0.50). The discriminatory validity test used the Fornell-Larcker Criterion and HTMT. The reliability test used Cronbach's Alpha (> 0.7) and Composite Reliability (CR) (> 0.7). Evaluation of Structural Model (Inner Model), Collinearity Test using VIF (< 5.0). Test the significance of the relationship between variables with path coefficients (β) and t-statistics using bootstrapping. The mediation effect test used the Baron & Kenny (1986) approach as well as the bootstrap confidence interval technique. The coefficient of determination (R^2) is used to measure the predictive strength of the model. GoF (Goodness of Fit) test of the model with SRMR (< 0.08) to assess the fit of the model.

3. RESULT AND DISCUSSION

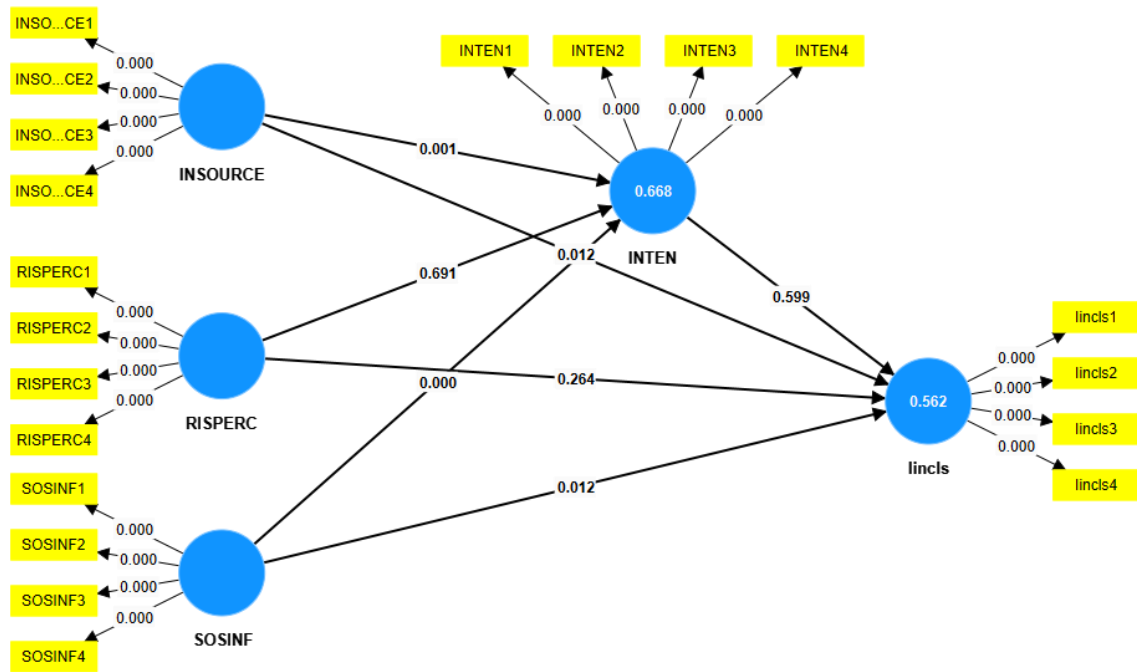


Figure 2. Graphic Bootstrapping
 Source: Data Processing (2025)

Table 1. Total Effects, STDEV, T Values, p Values

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
INSOURCE -> INTEN	0.389	0.384	0.118	3.309	0.001
INSOURCE -> lincls	0.355	0.351	0.116	3.071	0.002
INTEN -> lincls	0.097	0.092	0.184	0.526	0.599
RISPERC -> INTEN	0.017	0.022	0.043	0.398	0.691
RISPERC -> lincls	-0.078	-0.077	0.069	1.119	0.263
SOSINF -> INTEN	0.488	0.491	0.134	3.640	0.000
SOSINF -> lincls	0.479	0.485	0.127	3.787	0.000
INSOURCE -> INTEN -> lincls	0.038	0.047	0.081	0.468	0.640
RISPERC -> INTEN -> lincls	0.002	0.003	0.010	0.164	0.870
SOSINF -> INTEN -> lincls	0.047	0.034	0.091	0.516	0.606

Source: Data Processing (2025)

3.1 The Influence of Sharia Financial Literacy on Sharia Financial Inclusion

Islamic financial literacy has an important role in increasing Islamic financial inclusion. From the results of the study, it was found that Islamic financial literacy has a significant positive effect, this is in line with the study (Arifin (2020; Nuraini, 2024) who found that understanding of Sharia principles (as measured in literacy) increased people's participation in Sharia financial products, the higher an individual's understanding of Sharia finance, the more likely they were to use Sharia financial products and services. Likewise, Bashir et al. (2021) show that Islamic financial literacy is strongly correlated with investment decisions in the younger generation.

However, the results of this study are different from the study by Huda & Heykal (2019) in Malaysia, which found that literacy is not always significant if access to Sharia institutions is limited, which may be different from the Indonesian context. This indicates that in the Indonesian context, factors such as digitalization and more supportive regulations have helped strengthen the relationship between literacy and inclusion. This opens up space for further research on the role of financial infrastructure in strengthening the impact of Islamic financial literacy.

The high influence of Sharia Financial Literacy on Sharia Financial Inclusion in this study may be supported by OJK's education campaign and the digitization of Sharia platforms in Indonesia, so that Gen Z can more easily access information. The digitalization of Islamic finance platforms is an additional factor that strengthens Islamic financial inclusion, especially for Generation Z. The Theory of technology adoption in Islamic finance can be further developed to explain how literacy and ease of digital access can strengthen each other in encouraging inclusion.

The strategy to increase Islamic financial literacy can be carried out by Islamic financial institutions can improving digital-based education strategies, for example, through social media, webinars, and interactive Islamic finance applications. The development of literacy modules that are more attractive to Generation Z, such as through gamification or short video content on platforms such as TikTok and Instagram. Collaboration with educational institutions in inserting Islamic financial literacy in school and university curricula. In addition, it is necessary to optimize digitalization in Islamic Financial Products, Islamic banks, and Islamic fintechs can improve digital features to be more user-friendly for Generation Z, for example, with AI-driven financial planning based on Sharia. As well as facilitating the provision of Sharia financial education services that can be accessed directly through mobile banking applications or Sharia e-wallets. Furthermore, it is also necessary to increase the accessibility of Islamic financial services by developing community-based Islamic financial inclusion programs, especially for regions that do not have many Islamic financial institutions. As well as encouraging more Islamic digital financial service agents in rural areas or small cities, so that access becomes wider.

In terms of policy, it is necessary to strengthen regulations to improve Islamic financial literacy. The Financial Services Authority (OJK) and Bank Indonesia can expand Islamic finance education programs nationally, with a more specific approach for the younger generation segment. The government can require Islamic financial institutions to provide financial literacy materials that are easily accessible to customers and prospective customers. Increased support for Sharia fintech to accelerate digital transformation in the Sharia finance industry. Subsidies or incentives for Sharia fintech startups that develop services based on Sharia financial education. Incentive policy for Islamic financial institutions that open branches or digital services in areas that do not have adequate access to Islamic finance. Increasing synergy between local governments, Islamic financial institutions, and communities to accelerate the adoption of Islamic finance in various regions. Continuous efforts from various parties will further accelerate the increase of Islamic financial inclusion in Indonesia, so that the economic and social benefits of the Islamic financial system can be more evenly enjoyed by the community.

3.2 The Effect of Risk Perception on Sharia Financial Inclusion

The results of this study show that risk perception has a negative effect on Islamic financial inclusion, where the higher the risk perception, the lower the likelihood of individuals using Islamic financial products. These findings are in line with the research of Yusof et al. (2020), which found that younger generations tend to avoid financial instruments that are considered complex and risky. While sharia principles offer advantages in terms of ethics and fairness, risk factors remain a major barrier to increasing sharia financial inclusion, especially for younger and less experienced groups in sharia financial services. However, the results of this study contradict the study of Amin et al. (2022), which stated that risk perception becomes insignificant if the public believes that Islamic financial products are more ethical than conventional products. This difference shows that the trust factor in the Islamic financial system can suppress the influence of

risk perception, so further analysis is needed on risk perception management strategies so that it does not become an obstacle in increasing Islamic financial inclusion, especially among Generation Z who tend to be more skeptical of new financial instruments.

In the context of Generation Z, risk is often associated with the factors of liquidity, transparency, and complexity of financial products. Many of them still consider Islamic financial products more difficult to understand than conventional products, especially in the aspects of sharia contracts, profit-sharing systems, and halal-haram provisions. If this perception is not handled properly, then Islamic financial inclusion in Indonesia can be hampered. Therefore, Islamic financial institutions need to take strategic steps to increase public understanding of how to minimize risks in Islamic products. One strategy that can be applied is digital-based education. Islamic financial institutions can leverage social media platforms, interactive websites, and financial education apps to present information on risk mitigation in Islamic financial products. For example, through short video content or infographics that explain how the profit-sharing system works, investment risk management, and customer protection mechanisms in Islamic finance. With this approach, Generation Z who are more familiar with technology can gain a better understanding and reduce their worries about risk.

In addition to education, transparency in Islamic financial services also needs to be improved. Many prospective users of sharia products feel that information related to the cost, benefits, and risks of the product is not clearly conveyed, causing uncertainty. Islamic financial institutions need to ensure that every product offered has information that is easily accessible and understood by the public. The use of technology such as Islamic *mobile banking applications* with financial transparency features can help increase public trust in these products. From a policy perspective, regulators such as OJK and Bank Indonesia need to play a more active role in suppressing excessive risk perception of Islamic financial products. One of the steps that can be taken is to encourage the standardization of risk information on Islamic financial products so that the public has a uniform understanding of the characteristics and potential risks of each product. In addition, the government can also provide incentives for Islamic financial institutions that have succeeded in increasing Islamic financial literacy among the younger generation. With the right combination of education, product transparency, and regulatory support, Islamic financial inclusion can be enhanced and attract more participation from the younger generation in the Islamic financial system.

3.3 The Relationship of Social Influence on Sharia Financial Inclusion

The results of this study show that social influence has a positive and significant relationship with Islamic financial inclusion. Generation Z, as a highly digitally connected group, tends to rely on recommendations from family, friends, and trends on social media in determining their financial decisions. The study by Setyowati et al. (2021) confirms that the influence of family and peers plays a role in increasing the adoption of Islamic financial services among Gen Z. This reflects how social factors are one of the main drivers in the financial decisions of the younger generation. Furthermore, research by Pramono & Subanji (2023) shows that social media, such as TikTok and Instagram, are the main platforms for Gen Z to obtain information about Islamic finance. With the presence of influencers and content creators who are actively promoting Islamic finance, interest in these products is increasing. In addition, Maharani (2024) found that social environmental factors also have a significant impact on the habit of saving at Islamic banks for Gen Z in Palembang. This indicates that encouragement from the surrounding environment can be a key factor in increasing Islamic financial inclusion.

However, Rahim et al.'s (2019) research in Brunei provides a different perspective, stating that social influence is not dominant if Islamic financial products do not offer competitive returns compared to conventional products. This shows that although social factors play an important role in increasing Islamic financial inclusion, economic factors such as profit levels and product competitiveness remain the main considerations for some individuals in choosing financial services. Therefore, social influence needs to be strengthened with more competitive product innovations to attract more users. In the context of Generation Z, their exposure to various forms of digital communication makes social media the main catalyst in building awareness and interest in Islamic financial products. Growing trends on social media can quickly change their financial preferences. Therefore, Islamic financial institutions need to utilize social media more strategically, for example, by collaborating with Islamic finance influencers to provide education about the benefits and advantages of Islamic financial products. In addition, digital-based communities can also play a role in increasing Islamic financial inclusion. Online discussion forums, webinars, and social media groups can be a means for the public to share experiences

and information related to Islamic financial products. With an active community, the level of trust in Islamic financial products can increase, thereby accelerating the adoption of Islamic financial services by Generation Z.

In terms of policy, regulators such as the Financial Services Authority (OJK) and Bank Indonesia can play a role by strengthening digitally-based Islamic financial literacy campaigns. This campaign can be carried out through educational programs on social media, creative content competitions on Islamic finance, and partnerships with digital platforms to disseminate accurate and interesting information for Gen Z. In addition, the government can provide incentives for Islamic financial institutions that can increase financial inclusion through innovative digital strategies. Thus, social influence has a strong impact on Islamic financial inclusion, especially for Generation Z, who rely heavily on social recommendations and digital trends in making financial decisions. Therefore, a social media-based approach and digital community an effective strategy in increasing awareness and adoption of Islamic financial products. However, to maintain their appeal, Islamic financial institutions also need to ensure that the products they offer have added value and strong competitiveness so that they do not rely solely on social factors in attracting new users.

3.4 The Role of Interest Mediation in the Relationship between Sharia Financial Literacy and Sharia Financial Inclusion

The results of this study show that interest plays a mediator role in the relationship between Islamic financial literacy and Islamic financial inclusion. In other words, increasing Islamic financial literacy does not necessarily increase inclusion, but first fosters individual interest in using Islamic financial services. These findings are in line with the research of Hapsari & Nugroho (2022), which shows that higher literacy increases a person's interest in Islamic financial services, ultimately encouraging Islamic financial inclusion. The Taufiqurrahman study (2024) strengthens this finding by showing that Islamic financial literacy has a positive effect on interest in saving at Islamic banks, especially among students. However, research by Fauzi & Azmi (2021) found that interest is not always a full mediator, as religious belief factors are more dominant in the decision to use Islamic financial services. This shows that a good understanding of Islamic finance is not enough if individuals do not have a strong belief in Islamic principles, so the aspect of spirituality needs to be considered in the strategy of increasing Islamic financial inclusion.

This study implies that increasing Islamic financial literacy must be supported by strategies that are attractive and relevant to the younger generation, especially Generation Z. Given that they are more interested in technology-based interactive approaches, Islamic financial education campaigns need to be attractively packaged through gamification, *storytelling*, and engaging social media content. In addition, emotional and trust aspects also need to be considered in marketing and education strategies, for example by displaying success stories of Islamic service users, involving Muslim religious leaders or influencers, and providing education that emphasizes the spiritual and financial benefits of the Islamic financial system. In terms of policy, regulators such as OJK and Bank Indonesia can work with educational institutions to integrate Islamic financial literacy into the formal curriculum. The government can also encourage the development of *Islamic fintech* so that Islamic financial services are more accessible to the public. With a combination of attractive educational approaches, value-based promotions, and the right regulatory support, Islamic financial inclusion can grow even more rapidly in the future.

The results of this study confirm that risk perception has a negative effect on interest in using Islamic financial services. This is in line with the findings of Rahman & Sukmana (2020) which show that the higher the risk perception, the lower the individual's interest in investing in Islamic financial products. This finding can also be explained through *risk aversion theory*, where individuals tend to avoid products that are considered high risk. In the context of Generation Z, who are generally more cautious and rely on digital information before making financial decisions, risk perception is a major barrier to the adoption of Islamic financial services. However, this study also found that interest can act as a mediating variable in the relationship between risk perception and Islamic financial inclusion. Individuals with high interest tend to be more active in seeking additional information, understand risk mitigation strategies, and continue to use Islamic financial services despite having concerns about risk.

This finding extends previous understanding by providing evidence that interest has the power to dampen the negative effects of risk perception on financial behavior. For example, research by Abdullah & Khan (2023) in Pakistan found that risk perception did not have a significant effect on interest because of the high public trust in the Islamic security system. These different contexts

suggest that institutional and regulatory factors also play an important role. In Indonesia, public trust in the Islamic financial system still needs to be strengthened, so that risk perception has a greater influence. Therefore, increasing interest through the right communication strategy can be key in overcoming the obstacles caused by risk perception. This enriches the theory of financial behavior by highlighting the importance of the interaction between psychological variables (interest and risk perception) in determining participation in the Islamic financial system.

The implications of these findings are very significant, both in academic and practical terms. For the Islamic financial industry, a strategic approach is needed to foster interest while reducing the negative impact of risk perception. Transparency is a key aspect, especially in conveying risk information honestly but communicatively, adjusted to the characteristics of Gen Z who like clarity, data visualization, and instant access through digital. For example, risk simulation features in financial applications, interactive videos about profit-sharing mechanisms, or AI-based educational chatbots can be a means to increase literacy as well as interest. Educational campaigns also need to emphasize how the Islamic system offers justice and protection through transparent contracts and supervision by the Sharia Supervisory Board (DPS), so that it can build public trust in a sustainable manner.

To that end, several specific suggestions can be addressed to stakeholders. First, regulators such as OJK and Bank Indonesia need to strengthen regulations related to risk information disclosure and encourage more systematic public reporting on the performance and protection of sharia products. Second, sharia financial institutions should develop a user-friendly digital application-based risk disclosure feature, and provide an educational hub for the younger generation interested in learning more about sharia finance. Third, higher education institutions and the sharia financial community can be important partners in organizing simulation-based literacy workshops, including sharia-based financial games (gamification) to teach risk management in a fun way. Through this collective effort, barriers in the form of risk perception can be minimized, while high interest can be converted into real actions towards broader and more sustainable sharia financial inclusion.

3.6 The Role of Interest Mediation in the Relationship between Social Influence and Sharia Financial Inclusion

The results of this study indicate that social influences, such as recommendations from family, friends, or digital content, do not directly increase Islamic financial inclusion, but rather through increased interest as a mediating variable. This finding is in line with the *Social Cognitive Theory* (Bandura, 1986), which explains that individuals tend to adopt behavior after seeing examples from their social environment, which then forms internal motivation in the form of interest. In the context of Generation Z, exposure to Islamic financial content on social media or discussions in religious communities creates initial awareness and interest, which then motivates real actions such as opening a sharia account or making sharia-based investments. Research by Wulandari & Narmaditya (2021) also strengthens this finding, showing that social evidence such as user testimonials or product virality are the main trigger for the growing interest of the younger generation in Islamic services. Meanwhile, Maharani (2024) found that the social environment, especially family and peers, plays a significant role in shaping interest in saving in Islamic banks, especially among students. This fact confirms that strong collective norms and religious values in Indonesia are important drivers of Islamic financial inclusion.

However, the effectiveness of social influence is not universal. Alam et al.'s (2022) study in Bangladesh revealed that social influence becomes insignificant if Islamic financial products are not relevant to the practical needs of users. For example, despite encouragement from family to save in Islamic banks, Gen Z in Bangladesh prefers conventional banks because they offer more competitive interest rates and easier digital access. This indicates that the success of interest mediation is highly dependent on the relevance of Islamic products to Gen Z's lifestyle and expectations, such as ease of transactions, attractive returns, and advanced technology features. In Indonesia, the success of platforms such as Bibit Syariah and ALAMI Sharia in combining Islamic principles with user-friendly digital interfaces may explain why social influence is more effective than in Bangladesh. Thus, this study enriches the literature on financial behavior by showing that Islamic financial inclusion depends not only on individual factors (such as literacy or risk perception), but also on the social and cultural dynamics that shape the interests of young users.

The practical implications of these findings are crucial for the development of the Islamic finance industry. Islamic financial institutions need to realize that a religiosity-based marketing strategy

alone is not effective enough to build interest, especially among Gen Z, who are more responsive to digital social influences. Therefore, an approach is needed that combines Sharia values with social elements and digital technology. Strategic collaboration with Muslim micro-influencers, campus communities, and young figures who are active on social media can be a bridge to expand social influence and strengthen positive perceptions of Islamic financial products. In addition, educational content must display the functional side of the product, such as easy integration with digital wallets, halal cashback features, and financing support for MSMEs, which are real needs of today's young generation.

Specific suggestions for various parties also need to be formulated based on these findings. First, for regulators such as OJK and Bank Indonesia, it is recommended to encourage the development of community-based and digital Islamic financial literacy programs, as well as provide incentives for Islamic financial institutions that successfully reach Generation Z through creative social campaigns. Second, for Islamic financial institutions, it is important to adopt a user experience that is adaptive to young people's digital preferences and provide a mobile-friendly and easily accessible service platform. Third, higher education institutions can also be involved in organizing *challenges* of Sharia financial content or interactive webinars based on social media that encourage discussions between students. These concrete steps are expected to increase strong and sustainable interest, so that in the end they can significantly expand Sharia financial inclusion in Indonesia.

3.7 The Simultaneous Influence of Islamic Financial Literacy, Risk Perception, and Social Influence on Islamic Financial Inclusion through Interest

The results of this study confirm that interest is the main factor in determining Islamic financial inclusion, following the *Theory of Planned Behavior* (Ajzen, 1991), which states that a person's interest in a behavior is the main predictor in its implementation. Research by Dewi & Utami (2019) also shows that the higher an individual's interest in Islamic financial products, the more likely they are to use them. This means that even if a person has high Islamic financial literacy or gains positive social influence, Islamic financial inclusion is still not optimal without strong interest. The Ummah study (2024) revealed that Islamic financial literacy, Islamic financial inclusion, and lifestyle simultaneously influence the financial behavior of Generation Z in Surabaya, showing that in addition to financial knowledge, social and lifestyle factors also play an important role. Digitalization and social media trends are factors that can accelerate or hinder Islamic financial inclusion, depending on how these aspects are packaged and presented.

However, these findings differ from the study by Chen et al. (2023) in Taiwan, which found that interest is not always followed by real action due to technical obstacles. Generation Z, who have a high interest in Islamic financial services, often face difficulties in the registration process or use of digital platforms, so they end up not using these services. This highlights the importance of a user *experience* that is more user-friendly and accessible to new users. The implication is that Islamic financial institutions need to be more proactive in converting interest into real action by simplifying the registration and transaction process through a quick verification system, *intuitive onboarding* features, and a responsive mobile application. In addition, Islamic financial literacy campaigns must be adapted to the lifestyle of Generation Z, such as through short video-based educational content, interactive infographics, and gamification on digital platforms such as TikTok, Instagram, and YouTube. In terms of policy, regulators such as the Financial Services Authority (OJK) and Bank Indonesia can encourage the development of a digital ecosystem that supports Islamic financial inclusion with regulations that facilitate public access and incentives for startups that innovate in digital-based Islamic financial services.

The implications of this research are not only relevant in the academic realm, but also have practical significance for the development of the Islamic finance industry in the digital era. First, in terms of product development, Islamic financial institutions need to understand that interest does not automatically turn into action without the support of efficient and attractive service design. Second, from the marketing side, conventional approaches based on lectures or seminars need to be adapted to digital strategies that are interactive, personalized, and prioritize real user experience. Third, social influences from the immediate environment and public figures (Muslim influencers) can also be used to strengthen Generation Z's interest and confidence in using Islamic financial products.

Based on these findings, several suggestions can be given to various parties. For regulators such as OJK and Bank Indonesia, it is necessary to encourage the development of an Islamic finance digital ecosystem with adaptive regulations, including incentives for Islamic fintech startups that

innovate in technology-based inclusive services. For Islamic financial institutions, it is recommended to develop a *user-centric* digital platform, conduct user experience testing (UX testing), and collaborate with content creators who influence Generation Z to spread the value and benefits of Islamic finance. The world of education can also be involved by integrating Islamic financial literacy into the curriculum from an early age. With these concrete and collaborative measures, Islamic financial inclusion can be significantly and sustainably improved among the younger generation.

4. CONCLUSION

Increasing Islamic financial inclusion in Generation Z requires a holistic approach that integrates education, product design, social dynamics, and technological innovation. Islamic financial literacy needs to be delivered through interactive digital content that is creative and easily accessible, such as short animated videos on TikTok/Instagram Reels or podcasts with experts. Collaboration with educational platforms to include Islamic finance modules in digital curricula can also expand reach. On the other hand, risk mitigation should be done through simple and transparent product design, given that Gen Z tends to avoid complex or high-risk financial products. Islamic financial institutions need to simplify product language, create a clear fee structure, and present innovative features such as Islamic savings with automated investments or AI chatbots to answer risk questions in real-time. Social influence can be leveraged through communities and influencers to build Gen Z's trust and interest, including online discussion forums that allow for the exchange of experiences. In addition, technology-based incentives such as Sharia cashback, loyalty points for halal vouchers, and gamification in Sharia finance applications can increase engagement. The development of apps with user-friendly interfaces and integrated services (savings, investments, payments) is also important to overcome the technical barriers that Gen Z often faces.

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