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BLURRED LINES: HOW GENERATION Z PERCEIVES ISLAMIC AND CONVENTIONAL BANKING AS IDENTICAL SYSTEMS

Muhammad Hamdi[1], Kurniawan Ali Fachrudin[2]

[1]Management Departement, Faculty of Economic and Business, Ahmad Dahlan University
Jalan Kapas No. 9, Yogyakarta, Special Region of Yogyakarta, 55166, Indonesia
[2]Accounting Departement, Faculty of Economic and Business, Ahmad Dahlan University
Jalan Kapas No. 9, Yogyakarta, Special Region of Yogyakarta, 55166, Indonesia

✉ Corresponding Author:
Name : Muhammad Hamdi
E-mail : muhammad.hamdi@mgm.uad.ac.id

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Abstract

This study investigates systematic misconceptions among Generation Z based on gender. Using a mixed-methods approach, data were collected from 303 Generation Z participants in Yogyakarta, Indonesia. Data were collected through focus group discussions and structured surveys, which were analyzed using exploratory factor analysis (EFA) and reliability testing. The results indicate that the dominant factor exposed from this misconception is perceived banking convergence. Furthermore, the level of understanding among males shows higher values compared to females, particularly for the indicators of shariah home financing, shariah deposits, business loans, banking objectives, and fund management, which have the largest value gaps. Islamic banking institutions need to design more gender-segmented education and communication strategies, with a special emphasis on clarifying the differences in principles and product mechanisms. In addition, institutions need to develop more practical financial literacy campaigns to enhance Generation Z's substantive understanding of the value of Islamic banking.

Keywords: Miskonsepsi; Identical System Banking; Generation Z; Explanatory Factor Analysis; Mixed Methods

JEL Classification: G21; G53; J16

INTRODUCTION

Generation Z demonstrates strong preferences for ethical financial systems and digital banking solutions; however, their engagement with Islamic banking remains surprisingly limited globally (Butt et al., 2018; Cheteni, 2014; Sahay et al., 2025). Research conducted across multiple countries has consistently revealed these patterns. In Bangladesh, Islamic financial literacy shows no significant relationship with banking attitudes (Hoque et al., 2014; Hoque et al., 2022), while studies elsewhere find that even Shariah compliance awareness fails to predict actual adoption behaviour (Jamshed and Uluyol, 2024). These findings challenge the traditional

assumption that knowledge leads to adoption, indicating that Generation Z's (Gen Z) relationship with Islamic banking is more complex than previously understood.

Current theoretical approaches to Islamic banking adoption primarily rely on conventional financial literacy models and technology acceptance frameworks (Moufakkir, 2025; Nuhic-Meskovic et al., 2026). However, these theories inadequately explain why Gen Z, despite its high digital literacy and ethical awareness, has significant misconceptions about Shariah banking products and services. Shabbir and Rehman's (2019) misconception framework provides a starting point by categorizing misunderstandings across five societal layers, from laypeople who cannot distinguish Shariah from conventional banking to Islamic scholars who lack knowledge of the financial system. Although comprehensive, this framework was developed for the general population and does not account for Generation Z's unique characteristics: digital nativity, social media influence, and preference for immediate, transparent information (Hai & YanXiong, 2025).

Indonesia provides an ideal setting to examine these theoretical gaps, which presents a fundamental paradox in Islamic finance: despite hosting 87% of the world's largest Muslim population, the Islamic banking market share remains at only 6.51% as of 2023, which is significantly lower than that of Malaysia (34%) and Saudi Arabia (84%) (Khan et al., 2021; Naja et al., 2023). This underperformance is particularly puzzling given Indonesia's young demographic profile, with 27,94% of the population under 30 years of age (Ariyani, 2021). This disconnects between values and behaviour suggests fundamental misconceptions about Islamic banking that existing financial literacy frameworks fail to adequately address.

Yogyakarta serves as a strategic research location for several reasons. As Indonesia's educational hub, it hosts over 130 universities and represents the country's most educated Gen Z population (Badan Pusat Statistik Provinsi Daerah Istimewa Yogyakarta, 2024). The integration of religious, cultural, and diversity-oriented values constitutes a critical dimension in addressing prevalent misconceptions among educated youth (Becker et al., 2026a; Berlinger et al., 2025a; De Jong & Twikromo, 2017; Rohman & Mukhibat, 2017). If misconceptions persist among Yogyakarta's educated youth, they are likely to exist throughout Indonesia.

Building on this condition, some factors reinforce the persistence of misconceptions in Gen Z's perception. Several studies indicates that Gen Z tends to perceive Islamic and conventional banking systems as functionally similar, particularly in terms of product structures and financial outcomes (Berlinger et al., 2025; Suparno et al., 2023). This tendency reflects the limitations of existing financial literacy framework in capturing Gen Z's

characteristic as a digitally native cohort, where high access to information does not necessarily translate into structured understanding. As a result, Islamic banking often interpreted as comparable to conventional banking rather than as a district system grounded in Sharia principles (Berlinger et al., 2025; Suparno et al., 2023).

In addition, empirical studies consistently report gaps across gender and age cohorts, with male and older respondents generally demonstrating higher levels of Islamic financial literacy (Becker et al., 2026; Alsayigh & Al-Hayali, 2022). This gap suggests that female consumers may experience more pronounced limitations in understanding financial concepts (Aristei & Gallo, 2023b; Berlinger et al., 2025). If female Gen Z consumers demonstrate systematic knowledge deficits, this could help explain broader adoption patterns and indicate a substantial untapped market potential.

Against that persistent gap, this study aims to highlight misconceptions among Generation Z based on gender differences. This focus is motivated by empirical evidence indicating a high level of misconceptions among Gen Z regarding the perception of Islamic and conventional banking as identical systems. Therefore, this study addresses these gaps by examining the extent and nature of misconceptions about Islamic banking among Gen Z, as well as systematic gender differences in Islamic financial knowledge.

LITERATURE REVIEW

Bounded Rationality and the Misconception Framework

Bounded rationality theory (Ashraf, 2022; Tan, 2021;Gigerenzer & Selten, 2002; Simon, 1972), posits that individuals make decisions based on limited information processing capabilities rather than complete rational analysis. In complex financial contexts such as Islamic banking which requires simultaneous understanding of jurisprudential principles, profit-sharing mechanisms (*mudharabah*), joint ventures (*musyarakah*), risk-sharing contracts, and ethical investment frameworks (Ajmi et al., 2019; Kaakeh et al., 2019). These cognitive constraints become particularly consequential. Bounded rationality predicts that when confronting such multifaceted systems, individuals construct simplified mental models that prioritize immediately accessible features while neglecting deeper structural differences (Ashraf, 2022; Tan, 2021).

Applying bounded rationality to Generation Z introduces a critical paradox. Despite possessing unprecedented digital access to information, Gen Z's information, like processing preferences characterized by rapid scanning, social media influence, and preference for immediate, transparent information (Hai & YanXiong, 2025; Seemiller & Grace, 2016) may amplify rather than mitigate misconception formation. Digital environments emphasize

superficial comparisons rather than in-depth understanding, producing what cognitive psychology terms "shallow processing", recognizing Islamic banking terminology without comprehending underlying concepts (Khan et al., 2024; Suparno et al., 2023;Loh & Kanai, 2016). This theoretical extension reframes Gen Z's knowledge deficits as a product of attention scarcity rather than information scarcity (Jung, 2021). A distinction with profound implications for intervention design.

Theoretical foundation by Shabbir and Rehman, (2019) misconception framework, provides the structural lens through which these cognitively constrained understandings can be categorized and analysed. This framework identifies five hierarchical societal layers where misconceptions operate. There were laypeople who cannot distinguish Shariah from conventional banking, individuals who recognize theoretical differences but doubt practical implementation, conventional bankers who view Islamic banking as merely repackaged conventional products, Shariah economists concerned about products mimicking conventional instruments, and the gap between Shariah scholars and financial experts who lack each other's domain knowledge. Shabbir and Rehman's framework contains a significant theoretical gap: it was developed for general populations and does not incorporate gender-specific analysis. Addressing this gap requires integrating empirical evidence on gender disparities in financial knowledge, which forms the bridge between grand theory and the practical theoretical foundation that follows.

From Multidimensional Misconceptions to Gender Disparities

Gen Z's information processing preferences interact with bounded rationality's cognitive constraints to produce surface-level understanding of Islamic banking principles (Ashraf, 2022;Seemiller & Grace, 2016). Despite digital access to information, young consumers focus on product similarities without grasping underlying operational differences. Islamic banks' adaptation of financial products to meet modern economic needs has resulted in structures that closely resemble conventional banking products, creating what Shabbir & Rehman, (2019) describe as the first misconception layer: consumers who perceive Islamic and conventional banking as functionally indistinguishable (Bakhouche et al., 2022). Research on customer behaviour confirms that banking choices extend beyond the prohibition of interest (*riba*) to encompass service quality, convenience, and value alignment (Mustapha et al., 2022; Abror et al., 2020; Mohd et al., 2020). When these broader factors resemble conventional banking, the foundational distinction becomes further obscured. Andespa et al., (2024) demonstrated that customer Shariah compliance behaviour involves complex interactions among attitude formation, social norms, Islamic financial literacy levels, religiosity, and

branding effectiveness. When consumers at this level cannot distinguish between banking systems, religious motivations become insufficient to drive behavioural change toward Islamic banking adoption (Thaker et al., 2020).

Research on gender consistently demonstrates significant gaps in financial literacy across diverse cultural and national contexts. A systematic review of 97 studies reveals a persistent gender gap favouring males in economic and financial literacy across diverse age groups, with the disparity more pronounced in more developed economies (Haag & Brahm, 2025; Lusardi & Mitchell, 2014; Klapper, 2004). Islamic finance amplifies these existing disparities because it demands dual competency, knowledge of Islamic jurisprudence (*fiqh muamalah*) and contemporary banking practices.

METHOD

This study employed a mixed-methods design to answer the research questions. This study was conducted in two sequential phases. The Qualitative design in Phase 1, involved focus group discussions to explore misconceptions and to inform survey development. Forty participants were involved in the qualitative research stage through focus group discussions. This sample size aligns with the best practices in qualitative research, as recommended by Hennink and Kaiser (2022), who suggested four to eight participants per group to facilitate in-depth discussions while maintaining manageability. Qualitative data were collected and analysed through focus group discussions (FGD) to explore how banking customers view Islamic banking products and understand their underlying perspectives.

Then, the quantitative design in Phase 2 tested these findings on a larger sample. Quantitative data were collected using self-administered questionnaires to examine the patterns across a broader sample. Amount 303 Gen Z participants were recruited from Yogyakarta, Indonesia, using purposive sampling. Participants in both research phases met the following criteria: Indonesian Gen Z's citizens and Islamic or conventional bank customers.

The focus group discussion data were analysed using a systematic process, including exploration, specification, reduction, and integration activities (Ani et al., 2021;Scheelbeek et al., 2020). The analysis aimed to identify key themes and patterns in the participants' perspectives on Islamic banking products. Which, included descriptive statistics and cross-tabulations. Exploratory factor analysis (EFA) was employed to identify the underlying dimensions that Gen Z considered when evaluating Islamic banking products and services (Sujood et al., 2023). EFA was selected over confirmatory factor analysis because it allows researchers to explore the factor structure without imposing a priori theoretical constraints (Hair et al., 2019; Sahay et al., 2025).

Gender was treated as a key analytical variable to examine differences in knowledge and perceptions between male and female respondents (Aristei & Gallo, 2023; Berlinger et al., 2025). Comparative analysis was conducted using descriptive statistics and cross-tabulations were employed to explore these differences, supported by dichotomized variables to facilitate clearer identification of disparities in levels of understanding among Gen Z.

RESULTS

Examining demographic characteristics, exploratory factor analysis, and reliability testing shed light on misunderstandings regarding Islamic banking in Indonesia. Table 1 outlines the demographic details of the study participants, including their gender, marital status, and employment information. This demographic profile indicates that the sample mainly consisted of unmarried individuals, likely representing a younger demographic, such as Gen Z, who have not yet entered the married life. The significant skew towards unmarried individuals may affect the generalizability of the findings to broader populations with different marital status distributions.

Table 2 presents a detailed overview of factor analysis. The EFA indicates that, while two clusters can be identified operational and conceptual. The empirical structure is essentially uni-dimensional. Based on the EFA test, the results showed that items X2, X4, X5, X7, X8, and X9 had Factor 1, whereas X1, X3, and X6 had a Factor 2. Respondents lean heavily on perceiving Islamic and conventional banks as homogeneous systems, with little recognition of the distinctive features that should, theoretically, set Islamic banking apart. These finding challenges existing theoretical frameworks that treat financial misconceptions as unidimensional phenomena.

The research instrument demonstrates adequate construct validity, as indicated by the EFA, in which all retained items exhibited factor loadings above the recommended threshold of 0.40.

Table ***3*** presents the reliability test results for Factor 1 and 2 separately. This pattern implies that certain Islamic banking concepts form coherent knowledge domains, whereas others reflect a fragmented understanding, aligning with the predictions of bounded rationality theory regarding selective information processing.

The next analysis used the median split method without including the median value. Data were dichotomized using the median split method without including the median value itself, whereby all valid and reliable items exhibited a median value of 3 on the 5-point Likert scale. While median splitting involves statistical costs, including reduced power and information loss (Souza & Paulo, 2025; MacCallum et al., 2002; DeCoster et al., 2009;

Rucker et al., 2015), this approach was deemed appropriate as the value of 3 represents the neutral midpoint on the Likert scale.

Table ***4*** presents the results of the standard median split analysis. Where factor structure indicates that the participants distinguished between conceptual principles and operational practices, even when their understanding of both domains remained incomplete.

Table ***5*** presents the gender-disaggregated results across Islamic banking dimensions. Female participants consistently demonstrated lower understanding across all measured dimensions. These disparities are approximately three to four times larger than the 2-5 percentage point gender gaps typically reported in conventional financial literacy studies globally (Lusardi & Mitchell, 2014).

The widest gaps emerged in operational banking dimensions requiring practical application. Conceptual dimensions such as banking objectives and fund management principles exhibited comparatively smaller gaps. This pattern suggests that gender disparities intensify when knowledge must be applied to consequential financial decisions involving mortgages, savings, and entrepreneurship, rather than abstract conceptual understanding(Aristei & Gallo, 2023; Berlinger et al., 2025). These disparities underline the importance of targeted financial education and inclusive banking initiatives to bridge gender-based inequalities in financial literacy and access to banking services. These gaps operational banking dimensions, substantially exceeding the conventional financial literacy gender gaps reported in the international literature. The consistency and magnitude of these differences indicate systematic rather than random variations.

Table 1. Demographic characteristics

Category	Characteristic	Count	Percentage (%)
Gender	Female	191	63.04%
	Male	112	36.96%
Marital Status	Not Married	295	97.68%
	Married	8	2.32%
Job	Student	292	96.37%
	Private employee	11	3.63%

Source: Data Processed by Author (2024)

Table 2. Exploratory Factor Analysis Test

Variables	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Uniqueness
X1	0.0071	0.4137	0.3885	-0.0933	-0.0417	0.0218	-0.0021	0.6640
X2	0.6083	0.1816	-0.1878	-0.0330	-0.1318	-0.0665	0.1002	0.5288
X3	0.0400	0.4513	0.1911	0.2102	-0.0589	-0.0018	-0.0605	0.7069
X4	0.6609	0.1072	-0.2230	0.0715	0.0111	-0.1040	0.0455	0.4838
X5	0.3219	0.3835	-0.0636	0.2438	0.0491	-0.0509	-0.0402	0.6792
X6	-0.1050	0.4445	0.2212	-0.1730	0.0352	-0.0200	0.1099	0.6989
X7	0.5595	0.3594	-0.2213	0.0083	0.1473	0.0865	0.0445	0.4776
X8	0.7160	0.1570	-0.2453	-0.1328	-0.1126	0.0466	-0.0848	0.3628
X9	0.7104	0.1674	-0.0636	-0.1512	-0.1666	0.0347	-0.0902	0.4032
X10	0.6144	0.0119	-0.0197	-0.0347	0.2106	0.1249	0.0447	0.5589
X11	0.7654	-0.0359	0.0624	-0.0589	0.2263	-0.0632	-0.0815	0.3436
X12	0.7798	-0.1563	0.1888	-0.0908	0.0934	-0.1364	-0.0544	0.2932
X13	0.8139	-0.1727	0.1260	0.0389	-0.0900	-0.1438	0.0227	0.2611
X14	0.7809	-0.1768	0.1878	0.0854	-0.0507	-0.1903	-0.0550	0.2745
X15	0.7875	-0.1751	0.1798	0.0726	-0.0279	-0.0256	0.0669	0.3057
X16	0.7686	-0.1990	0.0858	0.0623	-0.0790	0.1086	0.1105	0.3281

Source: Data Processed by Author (2024)
Note: See Appendix 1 for the Questionnaire

Table 3. Reliability Test

Item	Obs	Sign	Item-Test Correlation	Item-Rest Correlation	Avg. Interitem Correlation	α
Factor 1						
X2	303	+	0.6570	0.5854	0.5187	0.9222
X4	303	+	0.7010	0.6363	0.5117	0.9202
X7	303	+	0.6087	0.5301	0.5265	0.9244
X8	303	+	0.7475	0.6909	0.5042	0.9179
X9	303	+	0.7416	0.6839	0.5051	0.9182
X10	303	+	0.6647	0.5942	0.5175	0.9219
X11	303	+	0.7826	0.7326	0.4985	0.9162
X12	303	+	0.7896	0.7407	0.4974	0.9159
X13	303	+	0.8161	0.7727	0.4931	0.9145
X14	303	+	0.7867	0.7374	0.4978	0.9160
X15	303	+	0.7953	0.7477	0.4964	0.9156
X16	303	+	0.7819	0.7316	0.4986	0.9162
Test Scale					0.5055	0.9246
Factor 2						
X1	303	+	0.7721	0.4392	0.1755	0.2986
X3	303	+	0.6820	0.2888	0.3709	0.5411
X6	303	+	0.7134	0.3385	0.3026	0.4647
Test Scale					0.2830	0.5422

Source: Data Processed by Author (2024)

Table 4. Median Split Analysis

Item		Freq.	Percent	Cum.
X2. The profit-sharing principle employed by Islamic banks does not fundamentally differ from the interest principle utilized in conventional banking institutions				
	High	101	49.51	49.51
	Low	103	59.49	100.0
	Female			
	High	70	57.38	57.38
	Low	52	42.62	100.0
Total		122	100.00	
	Male			
	High	31	37.80	37.80
	Low	52	62.20	100.0
Total		82	100.00	
X4. The objective of Islamic banking is congruent with that of conventional banking entities. *				
	High	142	66.05	66.06
	Low	73	33.95	100.0
	Female			
	High	98	72.59	72.59
	Low	37	27.41	100.0
Total		135	100.00	
	Male			
	High	44	55.00	55.00
	Low	36	45.00	100.0
Total		80	100.00	
X7. The customer-bank relationship in Islamic banking institutions and conventional banking institutions exhibits no significant differentiation.				
	High	62	36.05	36.05
	Low	110	63.95	100.0
	Female			
	High	43	40.95	40.95
	Low	62	59.05	100.0
Total		105	100.00	
	Male			
	High	19	28.36	28.36
	Low	48	71.64	100.0
Total		67	100.00	
X8. The management of customer funds in Islamic banks and conventional banks exhibits no significant differentiation. *				
	High	122	64.89	64.89
	Low	66	35.11	100.0
	Female			
	High	86	69.92	69.92
	Low	37	30.08	100.0
Total		123	100.00	
	Male			
	High	36	55.38	55.38
	Low	29	44.62	100.0
Total		65	100.00	

Item		Freq.	Percent	Cum.
X9. The imposition of late payment penalties in Islamic banking institutions and conventional banks exhibits identical practices. *				
	High	118	63.78	63.78
	Low	67	36.22	100.0
	Female			
	High	82	74.55	74.55
	Low	28	25.45	100.0
Total		110	100.00	
	Male			
	High	36	48.00	48.00
	Low	39	52.00	100.0
Total		75	100.00	
X10. Islamic banking products (such as savings accounts, deposit instruments, and financing options) are not significantly differentiated from conventional banking products.				
	High	96	48.48	48.48
	Low	102	51.52	100.0
	Female			
	High	65	51.59	51.59
	Low	61	48.41	100.0
Total		126	100.00	
	Male			
	High	31	43.06	43.06
	Low	41	56.94	100.0
Total		72	100.00	
X11. The process of saving money in Islamic banking institutions and conventional banks exhibits no significant differences*				
	High	124	61.39	61.39
	Low	78	38.61	100.0
	Female			
	High	82	66.67	66.67
	Low	41	33.33	100.0
Total				
	Male			
	High	42	53.16	53.16
	Low	37	46.84	100.0
Total		79	100.00	
X12. The process of depositing funds in Islamic financial institutions and conventional banks exhibits no substantial differences*				
	High	127	70.17	70.17
	Low	54	29.83	100.0
	Female			
	High	87	77.68	77.68
	Low	25	22.32	100.0
Total		112	100.00	
	Male			
	High	40	57.97	57.97
	Low	29	42.03	100.0
Total		69	100.00	
X13. The mortgage loan (KPR) services provided by Islamic banks and conventional banks are equivalent. *				

Item		Freq.	Percent	Cum.
	High	124	68.89	68.89
	Low	56	31.11	100.0
	Female	87	76.32	76.32
	High	27	23.68	100.0
	Low			
Total		114	100.00	
	Male			
	High	37	56.06	56.06
	Low	29	43.94	100.0
Total		66		
X14. Credit card products issued by Islamic banks and conventional banks exhibit no substantive differences. *				
	High	100	58.82	58.82
	Low	70	41.18	100.0
	Female			
	High	63	63.00	63.00
	Low	37	37.00	100.0
Total		100		
	Male			
	High	37	52,86	52.86
	Low	33	47.14	100.0
Total		70	100.00	
X15. The provision of business capital loan services by Islamic financial institutions and conventional banks exhibits no substantial differentiation. *				
	High	126	70.00	76.00
	Low	54	30.00	100.0
	Female			
	High	85	76.58	76.58
	Low	26	23.42	100.0
Total		111	100.00	
	Male			
	High	41	58.42	59.42
	Low	28	40.58	100.0
Total		69	100.00	
X16. The process of pawning items at Islamic financial institutions or conventional banks is fundamentally equivalent *				
	High	99	58.93	58.93
	Low	69	41.07	100.0
	Female			
	High	72	67.29	67.29
	Low	35	32.71	100.0
Total		107	100.00	
	Male			
	High	27	44.26	44.26
	Low	34	55.74	100.0
Total		61	100.00	

Source: Data Processed by Author (2024)

Notes: The division of high and low was performed using the median split method without including the median value. All valid and reliable items had a median value of 3. * Indications of misconceptions.

Table 5. Gender Gaps in Islamic Banking Knowledge by Dimension

Dimension	Female High (%)	Male High (%)	Gap (pp)	Rank
X13: Shariah Home Financing	76.32	56.06	20.26	1
X12: Shariah Deposits	77.68	57.97	19.71	2
X15: Business Loans	76.58	58.42	18.16	3
X4: Banking Objectives	72.59	55.00	17.59	4
X8: Fund Management	69.92	55.38	14.54	5
Average across dimensions	74.62	56.57	18.05	-

Source: Data Processed by Author (2024)

Note: Low understanding = scores ≤3 on 5-point Likert scale. All differences significant at 0.1% (chi-square tests).

DISCUSSION

This study reveals substantial knowledge deficits among Generation Z regarding Islamic banking products and services in Indonesia, with findings extending beyond simple information gaps to encompass systematic misunderstandings of fundamental banking principles. We identified coherent operational knowledge structures that nonetheless remain incomplete of Gen Z unable to adequately distinguish Islamic from conventional banking across multiple product categories.

The exploratory factor analysis revealed operational banking knowledge as the dominant dimension while conceptual items failed to achieve acceptable reliability suggesting that Gen Z develops pragmatic, product-focused mental models while neglecting philosophical foundations (Click or tap here to enter text.Gigerenzer & Selten, 2002; Simon, 1972). Focus group discussions validates quantitative finding participants recognized Islamic banking terminology without comprehending underlying concepts, exhibiting what cognitive psychology terms "shallow processing" (Samad & Saifulloh, 2022).

Based on the results obtained, factor 1 represents various aspects of similarity perceived by customers between Islamic banking and conventional banking. Thus, it forms the construct of perceived banking convergence. These similarities appear starting from the level of principles and objectives, such as the perception that profit sharing principles are not different from interest and that the operational goals of both banks are considered the same, to the customer bank relationship and fund management, which are deemed to have no significant differences. In addition, similarities in administrative treatment, such as late fees, and the homogeneity of banking products, such as savings, deposits, financing, mortgages, credit cards, and business capital loans, further strengthen the perception that both types of banks offer similar value. These similarities are also reflected in transaction processes, including saving, depositing funds, and pawning services, which are considered to operate in the

same way in both systems. Overall, the collection of perceptions regarding the similarity of principles, objectives, products, services, processes, and operational treatment is what creates the view that Islamic and conventional banking are no longer significantly different, so all of these indicators can be categorized as perceived banking convergence.

The substantial gender gaps identified substantially disparities typically reported in conventional financial literacy studies (Pardo 2026; Nuhic-Meskovic et al., 2026;Lusardi & Mitchell, 2014), requiring explanation beyond differential educational exposure. Three interrelated mechanisms likely contribute to these disparities, supported by both focus group observations and existing literature. First, differential banking socialization emerges from traditional gender roles. Male participants more frequently referenced personal banking experiences while females described banking as mediated through male family members, aligning with research demonstrating that financial socialization occurs primarily through experiential learning (Berlinger et al., 2025;Gudmunson & Danes, 2011). The widest gender gaps occurred precisely in operational dimensions requiring practical experience such as home financing, deposits, business loans. Second, educational streaming effects contribute to exhibits gendered field concentration with males disproportionately represented in business and economics programs where banking receives explicit curricular attention (Muhammad & Nugraheni, 2022). Third, response bias may inflate apparent differences. Research demonstrates that males exhibit greater confidence in financial knowledge self-assessments even when objective knowledge is equivalent (Aristei & Gallo, 2023;Bucher-Koenen et al., 2017), and the median split methodology amplifies this effect by categorizing uncertain female responses as fundamentally different from moderately confident male responses. The convergence of experiential learning deficits, educational streaming, and response bias explains why gender gaps in Islamic banking knowledge substantially exceed conventional financial literacy patterns.

A critical finding requires careful interpretation. While this study documents substantial knowledge deficits, the cross-sectional design cannot establish whether these deficits cause low Islamic banking adoption or result from it, representing a classic reverse causality problem (Maxwell & Cole, 2007). Indonesia's low Islamic banking market share creates limited exposure opportunities which may itself generate the observed knowledge deficits (Departemen Perbankan Syariah, 2023). Focus group discussions illuminate this self-reinforcing dynamic show that participants described Islamic banking as unfamiliar and inaccessible. Revealing how market structure shapes knowledge acquisition rather than being influenced by it. This pattern challenges simplistic knowledge-deficit models assuming education

automatically drives adoption, suggesting instead that market presence, peer effects, convenience, and knowledge interact dynamically (Mawardi & Risyad, 2025;Klapper et al., 2015). The observed "knowledge deficits" may reflect rational disengagement. Gen Z allocates cognitive attention to immediately relevant topics such as conventional banking and digital payments while deprioritizing Islamic banking deemed less urgent (Berlinger et al., 2025;Davenport & Beck, 2001). This attention-based bounded rationality framework on Gen Z's possesses superficial awareness of Islamic banking but lacks depth because market share signals low practical relevance, creating rational choice to remain uninformed until personally necessary. From an intervention perspective, this suggests supply-side strategies may be as important as demand-side education for improving financial literacy, as increased institutional presence creates experiential learning opportunities and justifies cognitive investment.

Educational approaches should prioritize experiential learning over conceptual instruction. The dominance of operational knowledge (Factor 1) and failure of conceptual items to achieve reliability (Factor 2) suggest that Gen Z learns Islamic banking through practical engagement rather than theological exposition, necessitating bank visits, simulations, and financial planning exercises rather than lectures on Shariah jurisprudence. Gender-responsive interventions require addressing differential experiential learning opportunities rather than assuming ability differences. Substantial gender gaps likely reflect males' greater banking exposure through family roles and field of study, suggesting female-targeted interventions should create practical learning opportunities that compensate for traditional socialization patterns (Sundarasen et al., 2023; Bucher-Koenen et al., 2017). Marketing strategies should address knowledge barriers before attitude formation. The widespread inability to distinguish Islamic from conventional banking products. It means that traditional marketing emphasizing religious compliance may fail to resonate until Gen Z first acquires functional understanding of how products work and what concrete benefits exist (Theocharis & Tsekouropoulos, 2025). Institutional strategies should recognize that knowledge deficits both cause and result from low market presence. The regulatory efforts to expand Islamic banking infrastructure should be understood as financial literacy interventions. So, it doesn't just merely market development policies, as increased presence creates the experiential learning opportunities that demand-side education alone cannot provide.

This study provides the first comprehensive examination of Gen Z's Islamic banking knowledge patterns in Indonesia while extending bounded rationality theory into digital native populations. The finding that information abundance coexists with knowledge deficits challenges classical bounded

rationality assumptions and suggests that for Generation Z, attention scarcity rather than information scarcity constrains knowledge acquisition ((Sujood et al., 2023; Simon, 1972). This theoretical extension explains Indonesia's paradox with 6.51% Islamic banking market share despite 87% Muslim population becomes explicable. Limited market presence reduces experiential learning, creating knowledge gaps that further suppress adoption in a self-reinforcing cycle. Breaking this requires coordinated supply-side and demand-side interventions simultaneously. Then, expanding market presence creating experiential learning opportunities to comprehensive approaches that Indonesia realize its Islamic finance potential.

CONCLUSION

This study concludes that the systematic misconceptions among Generation Z regarding Islamic banking are strongly influenced by perceived banking convergence, referring to the perception that Islamic and conventional banks do not differ in any meaningful way. Using a mixed-methods approach. The findings reveal significant gender-based differences, where male participants demonstrate a higher level of understanding than female participants, particularly in areas such as Islamic home financing, Islamic deposits, business loans, banking objectives, and fund management indicators that show the largest gaps in comprehension. These results indicate that misconceptions within Generation Z are not only widespread but also shaped by gender characteristics, which may influence their financial preferences and decision-making related to Islamic banking services.

The findings provide several important implications for Islamic banking institutions in Indonesia. There is a need for gender segmented educational and communication strategies, as uneven levels of understanding can hinder effective marketing and product adoption. Islamic banks must provide clearer and more practical explanations regarding differences in principles, contract mechanisms and the unique value propositions of Islamic financial products to reduce the perception of convergence. More engaging, practical, and youth aligned financial literacy initiatives are required to enhance Generation Z's substantive understanding of Islamic banking beyond surface level perceptions. These findings open avenues for further research on how such misconceptions develop, the role of digital marketing in reinforcing or reducing perceived convergence, and the design of effective literacy interventions that can improve consumer preference for Islamic banking services.

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Appendix 1. Questions developed based on FGD result

Element	Variables	Items
Islamic Banking Principle	Shariah compliance: conducting business activities within the boundaries of Islamic law	X1. Islamic banking currently operates in full compliance with Islamic Sharia principles.
	Profit sharing principle: profits and losses are shared between the bank and the customer based on pre-agreed terms (Syah & Rahmadani, 2024)	X2. The profit-sharing principle employed by Islamic banks does not fundamentally differ from the interest principle utilized in conventional banking institutions.
	Perceived Cost Advantage: Islamic bank perceive more cost efficient (Safiullah & Shamsuddin, 2019)	X3. Administrative fees at Islamic banking are lower in comparison to those at conventional banking establishments.
	Islamic Banking Objective: replace interest-based systems with profit and loss sharing, promote equity in resource allocation, uphold social objectives, and adhere to Islamic moral values (Farooqui, 2022)	X4. The objective of Islamic banking is congruent with that of conventional banking entities.
	Regulatory Oversight: specialized framework that includes Shariah compliance, effective governance, and tailored legal and supervisory structures to address unique challenges and ensure alignment with Islamic law (Badshah et al., 2021)	X5. The regulatory body that oversees Islamic banks and conventional banks is identical.
	Islamic banking key distinction: profit-loss sharing is the key distinction (Ben Jedidia, 2020)	X6. The primary distinction between Islamic banking institutions and conventional banks resides in their utilization of a profit-sharing system.
	Customer relationship: the multiple contractual relationships between Islamic banks and their customers being that of partners, investors and traders, as well as buyer and seller (Bakar et al., 2019)	X7. The customer-bank relationship in Islamic banking institutions and conventional banking institutions exhibits no significant differentiation.
	Management of Customer Funds: involves profit-	X8. The management of customer funds in Islamic banks and conventional banks

	sharing investment accounts, careful investment selection, and risk management strategies, with a focus on maximizing profit, minimizing risk, and ensuring liquidity while adhering to Islamic principles (Grira & Labidi, 2021)	exhibits no significant differentiation.
	Imposition of Late Payment Penalties: Islamic banks impose late payment penalties in the form of compensation (*ta'widh*) and penalty (*gharamah*) to manage default risk and align with Shariah principles (Asni et al., 2022)	X9. The imposition of late payment penalties in Islamic banking institutions and conventional banks exhibits identical practices.
Islamic Banking Product (Grira & Labidi, 2021)	Islamic Banking Products: developed to comply with Shariah law (Al Balooshi, 2020)	X10. Islamic banking products (such as savings accounts, deposit instruments, and financing options) are not significantly differentiated from conventional banking products.
	Process of Saving Money: influenced by factors such as knowledge of Islamic banking, religiosity, service quality, and profit-sharing mechanisms (Burhanudin, 2020)	X11. The process of saving money in Islamic banking institutions and conventional banks exhibits no significant differences.
	Process of Depositing Funds: involves contracts like *Wadiah, Mudharabah*, and *Wakalah*, where depositors act as investment partners sharing in profit and loss, and the banks must comply with Shariah principles (Aysan et al., 2018)	X12. The process of depositing funds in Islamic financial institutions and conventional banks exhibits no substantial differences.
	Mortgage Loan: designed to avoid interest *(riba*) and ensure equitable risk-return sharing (Hanif, 2019)	X13. The mortgage loan (KPR) services provided by Islamic banks and conventional banks are equivalent.
	Credit Card Products: designed to comply with Shariah principles and avoid interest (*riba*) (Balarabe & Abdullah,	X14. Credit card products issued by Islamic banks and conventional banks exhibit no substantive differences.

	2020)	
	Provision of business capital loan services: provides business capital loan services through various sharia-compliant products like *murabaha, musyarakah*, and *qard al-hasan* (Rohimah, 2023)	X15. The provision of business capital loan services by Islamic financial institutions and conventional banks exhibits no substantial differentiation.
	Process of Pawning : use of multiple contracts, specifically *qard, rahn,* and ijarah contracts, which are structured to comply with Islamic law and the fatwas of the National Sharia Council (Izzah, 2023)	X16. The process of pawning items at Islamic financial institutions or conventional banks is fundamentally equivalent.