



Gen-Z and green banking adoption in Yogyakarta, Indonesia: Evidence from a PLS-SEM survey

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ABSTRACT

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The study investigated the determinants of Generation Z's intention to adopt green banking using four variables: financial literacy, sustainability literacy, green banking intention, with trust serving as a mediating variable. Generation Z was selected as the target group due to their high awareness of environmental issues and advanced digital skills, which may make them more receptive to eco-friendly efforts such as green banking. A digital survey in 2024 focused on the youth of Yogyakarta, Indonesia. Of the distributed questionnaires, 417 valid responses were collected, resulting in a response rate of 40%. The data was analyzed using PLS-SEM. The results demonstrate that financial literacy substantially affects both sustainability literacy ($\beta = 21.255$, $p = 0.000$) and trust ($\beta = 11.261$, $p = 0.000$), which consequently influence green banking intention. Additionally, financial literacy directly encourages green banking adoption ($\beta = 4.006$, $p = 0.000$), while trust primarily acts as a determinant in bridging financial literacy and intention to act ($\beta = 11.262$, $p = 0.000$). The findings can assist policymakers and SDG adopters in engaging post-millennials as key actors for promoting the UN sustainable development framework and spreading eco-literacy within their communities at various levels.

Contribution/Originality: Green banking literature has yet to examine the potential role of digital natives as drivers of the sustainability agenda in the banking and finance sector. By addressing this issue, it fills a critical gap in the existing literature and contributes to advancing the growing debate on the contribution that youths have in achieving sustainable, inclusive, and stable societies.

1. INTRODUCTION

The idea of sustainability and going green has been a central theme in the banking sector, resulting in the emergence of the green banking concept, which refers to a banking system that aims at promoting economic development while concurrently conducting environmentally friendly banking practices (Lalon, 2015). As a key instrument used by financial institutions to prevent ecological damage, green banking offers groundbreaking green technologies and is capable of shifting investments to sectors with less or no risk to the environment. By providing more sustainable financial products, green banking serves as a vital element in distributing capital and investments that support ecological initiatives (Nathaniel, 2021).

It is generally accepted that sustainable financial product preferences are derived from financial knowledge and trust (Muñoz-Céspedes, Ibar-Alonso, & De Lorenzo Ros, 2021). Financial knowledge is a vital precondition for the sustainability (Katini & Amalanathan, 2022). Meanwhile, trust significantly influencing individual's intention to

purchase sustainable finance (Habib, Rahman, & Chowdhury, 2020). Sustainable financial products adoption is also associated with the level of sustainability literacy, which is identified as the main factor that activates consumers' eco-friendly behaviour (Kadoya & Khan, 2020). Furthermore, environmental literacy is a trajectory toward sustainable development (Bouteraa, Benlahcene, & Hamdaoui, 2020; Brinkmann, 2020). To become a sustainability-literate individual, one must understand the reciprocal relationship between humans, natural resources, the environment, and development (United Nations Environment Programme (UNEP), 1983). Simultaneously, both sustainability and financial literacy are instrumental in human development, and these two have led to a novel idea of 'sustainable financial literacy'. It describes the information about rules, standards, and norms related to financial instruments that have ecological criteria (Filippini, Leippold, & Wekhof, 2024).

Younger generations, particularly Generation Z, have been considered to be more advanced in encouraging sustainability (Yamane & Kaneko, 2021). Further, Hansen and Wyman (2021) postulate that Generation Z has an increasing interest in the environmental agenda. Their behaviour, decisions, and choices impact economic and sustainable finance development (Gedvilaitė et al., 2022). However, there has been limited exploration of the perspectives of young people, who are widely perceived to be more concerned about sustainability issues and the well-being of nature, and the fact that their choices and lifestyles have a significant influence on a sustainable economy. Green banking literature has yet to examine the potential role of digital natives as drivers of the sustainability agenda in the banking and finance sector. By addressing this issue, it advances the growing debate on the contribution that youths have in achieving sustainable, inclusive, and stable societies. The findings in this study can assist policymakers and adopters of SDGs to successfully engage post-millennials as key actors for promoting the global sustainable development agenda and spreading sustainability understanding in their respective entities at multiple levels (United Nations General Assembly, 2015).

To further determine how younger people may activate their potential as the primary change agent of sustainability projects in the financial and banking industries, this investigation seeks to address the following queries: What are the main drivers for Gen Z in adopting green banking? More precisely, it examines how financial knowledge, sustainability literacy, and trust influence the intention to embrace green banking. The results reveal that financial knowledge ($\beta = 4.006, p = 0.000$) and trust ($\beta = 11.261, p = 0.000$) considerably affect the youth intention to use green banking. This also implies that trust serves as a mediating variable between financial literacy and willingness to embrace more ecological banking ($\beta = 11.262, p = 0.000$). However, the influence of sustainability literacy on ecological banking is insignificant ($\beta = 0.64, p = 0.545$).

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Financial and Sustainability Literacy and Green Banking Intention

Financial literacy is measured as their competence to respond to basic inquiries of inflation, interest, and risk management (Lusardi & Mitchell, 2011). Existing academic literature points out that financial literacy is a vital element influencing sustainability through better decisions related to sustainable investment, which in turn contributes to reinforcing the sustainability agenda. It also takes one step further to sustainability literacy and or "ecoliteracy," defined as the general competence in understanding values and principles of sustainability (Haigh, 2009). More generally, it is regarded as the mixture of consciousness, ability and attitude that enables people to be firmly oriented towards sustainable development (Glavič & Lukman, 2007). As indicated by Katnic, Katnic, Orlandic, Radunovic, and Mugosa (2024), greater financial literacy leads to sustainability by encouraging economic stability over time and emergent physical growth. An individual's financial wisdom will lead them to access a financially balanced, responsible, and sustainable life (Praveena & Rachel, 2018). In other words, sustainability literacy increases with higher financial literacy. In a similar work, Katini and Amalanathan (2022) argue that knowledge of sustainability influences proclivity to use green products, and this could be reflective of intention to accept youth green banking products. These arguments underpin the following hypotheses.

H₁: Financial literacy influences sustainability literacy.

H₂: Sustainability literacy boosts the intention to embrace green banking.

2.2. Trust, Financial Literacy, and Green Banking Intention

Institutional trust in the banking and financial industry might be perceived as being reliant on the varying elements of the financial ecosystem (Balloch, Nicolae, & Philip, 2015). Low institutional trust in the financial industry may result in an exponential decline of investment, potentially leading to its end (Sapienza & Zingales, 2012). Trust, therefore, is another critical aspect in financial intermediation and should be recognized as a major driver of knowledge dissemination and the main objective of enhancing investors' capabilities (Calcagno & Monticone, 2015; Debbich, 2015). Clients' willingness to buy is affected by trust, and consumer trust is a precursor to the customers' intention to make a purchase (Harris & Goode, 2010; Van Der Heijden, Verhagen, & Creemers, 2003). Trust in green products, including financial and banking products, influences consumers' purchase intentions in the environmental era (Chen, 2010).

Earlier studies emphasize that trust is closely linked to financial literacy. People's knowledge about products, services, and institutions in the financial services sector, their ability to choose institutions offering products and services that suit their needs, and the ability to assess risk profiles are all part of financial literacy, resulting in people having trust in financial services (OJK, 2015). Several scholars have examined how financial literacy facilitates one's involvement in the equity market (Lusardi & Mitchell, 2014; Van Rooij, Lusardi, & Alessie, 2011). Intuitively, the consumer's engagement with financial products and services implies trust in the market, partners, and the suitability of the investments. Individuals with greater financial knowledge have higher trust in financial institutions (Nuñez-Letamendia & Poher, 2020).

Additionally, financial literacy is also correlated with a greater propensity for purchasing more sustainable products. Filippini et al. (2024) emphasized that soundly reasoning investment decisions on financial instruments that have a green feature requires sufficient understanding of financial knowledge, in addition to basic product awareness of these products. Exposure to green financial products increases a person's likelihood and inclination to opt for eco-friendly products over conventional ones when considering their purchase (Rashid, Jusoff, & Kassim, 2009). However, other studies reveal contrasting results. Cucinelli, Gandolfi, and Soana (2016) reported that financial literacy has a minor impact on investment intention in higher-risk instruments. Similarly, Hidayatullah, Hariyanto, and Safitri (2022) suggest that the level of financial knowledge serves as a key driver of investment behaviour intention. Nonetheless, 40% of investment decisions are affected by other variables. Thus, it requires additional factors to shape the intention to invest more efficiently. Alharbey and Van Hemmen (2021) believe that trust can mediate the influence of financial knowledge on planned investment decisions. In light of this, trust enhances the influence of financial knowledge on the intention of the young generation to accept more sustainable banking. Hence, this research posits the following hypothesis.

H₃: Financial literacy affects trust in sustainable banking.

H₄: Financial literacy enhances intention to adopt green banking.

H₅: Trust positively influences intention on green banking adoption

H₆: Trust mediates the impact that financial literacy has on the intention to adopt green banking.

3. METHOD

3.1. Population and Sampling Technique

The population and sample for this research are Gen Z in Yogyakarta Province, Indonesia, comprising 22.67% of the region's total population. Given the sizable population (835,292), the sample size calculation refers to Sloven's formula using a 5% margin of error, resulting in a minimum of 400 respondents. A preliminary study was conducted to evaluate whether the measuring instruments were acceptable and easily understood by participants. Respondents

were asked to respond to one of the scales in a five-point Likert-type statement. The questionnaire was revised into 31 questions from the original instrument content after reviewing reliability, validity, and item content. Each questionnaire is divided into two parts: the first records demographic details of respondents, and the second assesses perceptions of financial literacy, sustainability literacy, trust, and the intention to adopt green banking. The researchers collaborated with teachers and lecturers in the research area to randomly distribute 1,045 questionnaires via WhatsApp and email, resulting in a response rate of 40%, or 418 samples. Details of the study are shown in Table 1.

Table 1. Characteristics of respondents.

Variables	Freq. (n)	(%)
Sex		
- Male	174	41.60%
- Female	244	58.40%
Period year of birth		
- 1997-2001	30	7.20%
- 2002-2006	259	61.70%
- 2007-2012	129	31.10%
Academic attainment		
- Lower secondary school	113	26.80%
- Upper secondary school	297	71.10%
- Bachelor	8	2.20%

Table 1 presents the characteristics of the 418 respondents across gender, birth cohort, and education levels. There were more females in the sample, comprising 58.4% of participants. By year of birth, the largest proportion (61.7%) was born in 2002–2006, followed by those born in 1997–2001 (7.2%) and 2007–2012 (31.1%). Regarding educational attainment, the majority (71.1%) reported upper secondary education as their highest level, followed by 26.8% with lower secondary and 2.2% with a bachelor's degree or equivalent.

3.2. Measurements

Three endogenous and one intervening variable constitute the model. The endogenous constructs are financial literacy, sustainability literacy, and intention to use the green bank. Financial consciousness and behavior are used to measure financial literacy (Nga, Yong, & Sellappan, 2010; Woodyard & Grable, 2014). Sustainable literacy is derived from three components, including knowledge, attitude, and behaviour (Chen, An, Zheng, & Guan, 2022). Green banking intention refers to a framework developed by Chen and Deng (2016). The mediating variable (trust) has four elements consisting of security, sustainability, genuineness, and clients' assurance and approval (Skalkos, Kosma, Vasiliou, & Guine, 2021).

4. RESULTS

In order to examine the hypotheses, this study used PLS-SEM, which is a widely used analytical method due to its reliability. As pointed out by Anderson and Gerbing (1988), a two-phase assessment method was employed. The initial phase tests the measurement framework, and the later stage examines the structural model (i.e., hypothesis testing).

4.1. Measurement Model Analysis

The measurement model examines the internal consistency, convergent validity, and discriminant validity of the constructs. Internal data consistency measurement refers to Cronbach's alpha and composite reliability (CR) values (Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014). Initially, we used a construct consisting of 40 indicators. However, in the outer model measurement process, not all indicators met the threshold of ≥ 0.7 , so they were

removed from the model, leaving 17 indicators as shown in Table 2. For all indicators except Financial Literacy, Cronbach's Alpha and composite reliability scores are ≥ 0.70 , indicating internal consistency in the data. Meanwhile, convergent validity (CV) was measured through two tests, one for convergent validity and another for discriminant validity. Convergent validity indicates the degree of link between all factors, while discriminant validity tests whether the constructs are unrelated to one another. Hair et al. (2014) emphasize that convergent validity is confirmed when the average variance extracted (AVE) score exceeds 0.50.

Table 2. Constructs' reliability and convergent validity.

Construct	Indicators	Loading	CA	CR	AVE
Financial literacy	F1	0.859	0.640	0.848	0.735
	F17	0.856			
Financial sustainability	SL1	0.795	0.907	0.925	0.607
	SL2	0.735			
	SL3	0.828			
	SL4	0.767			
	SL10	0.750			
	SL11	0.780			
	SL13	0.803			
	SL14	0.774			
Trust	T1	0.910	0.917	0.941	0.800
	T2	0.908			
	T3	0.887			
	T4	0.872			
Intention	INT1	0.849	0.844	0.906	0.762
	INT2	0.879			
	INT3	0.890			

Note: CA = Cronbach's Alpha; CR = Composite Reliability; AVE = Average Variance Extracted.

Applying the Fornell-Larcker criterion, it is observed that the square root of an AVE from each construct was greater than the correlation among constructs in a model. Hence, discriminant validity is confirmed (Table 3).

Table 3. Discriminant validity (Fornell-Larcker Criterion).

Construct	FL	INT	SL	TR
FL	0.858			
INT	0.468	0.873		
SL	0.513	0.546	0.779	
TR	0.423	0.789	0.622	0.894

The HTMT method was then used to assess the discriminant validity of the data. The HTMT value assessment (see Table 4) also proved discriminant validity, as the ratio among constructs was lower than 0.90 (Henseler, Ringle, & Sarstedt, 2015).

Table 4. Discriminant validity (HTMT).

Construct	FL	INT	SL	TR
FL				
INT	0.637			
SL	0.669	0.621		
TR	0.552	0.896	0.681	

4.2. Structural Model Analysis/Inner Model

The second stage in SEM PLS testing involves evaluating the structural model. This test measures whether the exogenous and endogenous constructs are consistent with the assumptions of the relationships between variables

that have been developed. The relationships between these variables are presented in Tables 8 and 9. To assess the statistical substance of the model estimates, a nonparametric bootstrapping technique was conducted with 5,000 resamples. Model quality is evaluated using several criteria. First, the R² value is calculated to assess how much variation in the dependent latent variable is justified by the independent variables. As shown in Table 5, the R² value of 0.645 indicates 64.5% of the variance in intention is jointly explained by financial literacy, sustainability literacy, and trust.

Table 5. R Square.

Construct	R Square
INT	0.645
SL	0.263
TR	0.179

Second, to assess the relative influence of each exogenous construct on the R² value of an endogenous construct, the values of Effect size (f²). As indicated in Table 6, Trust exhibits a dominant effect size (f² = 0.841). It shows the primary driver of green banking intention in the model.

Table 6. Effect size.

Construct	INT	SL	TR
FL	0.049	0.357	0.218
INT			
SL	0.001		
TR	0.841		

Third, to see how strong the relationship was between variables, we also observed the standardized path coefficients, and they are shown in Table 7. That is, trust has the greatest or strongest influence on green banking intention ($\beta = 0.706$), meaning higher trust significantly enhances the intention to adopt green banking.

Table 7. Path coefficient.

Construct	INT	SL	TR
FL	0.156	0.513	0.423
INT			
SL	0.027		
TR	0.706		

The final stage of SEM PLS analysis involves hypothesis testing, which involves examining the t-value and P-value using the ping technique. P-values and t-statistics refer to values used to confirm or reject the posited hypotheses. The research model, which includes its four direct hypotheses and one mediating hypothesis, was then examined by using SEM.

Direct Effect: The direct test results reveal that financial literacy significantly impacts sustainability literacy (H1) ($\beta = 0.513$, $p = 0.000$, $t = 12.963$). However, this research found that sustainability literacy did not significantly impact Gen Z's intention to embrace green banking ($\beta = 0.027$, $p = 0.282$, $t = 0.575$); thus, the hypothesis was rejected (Table 8). Financial literacy also has a significant influence on trust and intention to use green banking (H3 and H5) with statistical values respectively ($\beta = 0.423$, $p=0.000$, $t = 8.278$) and ($\beta = 0.156$, $p=0.000$, $t = 4.067$). Meanwhile, the data indicate that trust significantly affects the willingness to engage with sustainable banking (H5), ($\beta = 0.706$, $p 0.000$, $t = 15.246$).

Table 8. Hypothesis testing results.

H	Description	β	t-Values	p-Values	Decision
H1	FL-> SL	0.513	12.963	0.000*	Supported
H2	SL -> INT	0.027	0.575	0.282	Not Supported
H3	FL -> TR	0.423	8.278	0.000*	Supported
H4	FL -> INT	0.156	4.067	0.000*	Supported
H5	TR -> INT	0.706	15.246	0.000*	Supported

Note: *Significant at 0.01%.

Indirect Effect: This study tested the mediation effect by applying Bootstrap (Table 9). H6 shows that trust considerably mediates the link between financial literacy and the intention to embrace green banking ($\beta=11.262$, 0, $p=0.000$, $t = 9.911$).

Table 9. Result of the mediating effect.

H	Description	β	t-Values	p-Values	Decision
H6	FL -> TR -> INT	0.299	7.735	0.000	Supported

5. DISCUSSION

Focusing on the young population, particularly Generation Z in Indonesia, who have been widely thought to be more progressive in advocating a pro-SDG lifestyle, this study explored the key drivers affecting the intention to embrace eco-friendly banking. The results indicate that financial knowledge is indispensable for sustainability and a significant determinant in improving sustainable literacy among the younger generation. Hence, Generation Z, given their financial awareness and knowledge, may support climate action initiatives, mitigating pollution, protecting nature, conscious usage of ecological resources, and investing in more sustainable stuffs (Katini & Amalanathan, 2022). The result between financial and sustainability literacy further strengthens the notion that environmental literacy and financial knowledge are two interrelated elements forming sustainable financial literacy (Varmaz, Riebe, & Hegner, 2021). Our study strengthens previous understanding that sustainable finance literacy is a prerequisite to making informed decisions about ESG (Environmental, Social, and Governance) products and, therefore, complements financial literacy.

Financial knowledge is increasingly recognized as a pivotal source for informed decision-making. However, limited academic work investigates the interplay between financial literacy and trust, especially for the post-millennial generation. The finding reveals that financial literacy is closely linked to trust. It implies that Generation Z, with greater financial knowledge, has higher trust in financial institutions. Their product and service knowledge, risk profiling capabilities, and their ability to select financial products that suit them will lead to trust in financial institutions. The results support those of Morris and Vines (2014); Van Der Crujisen, De Haan, and Roerink (2021), and Van Rooij et al. (2011), who report financial literacy is related with trust in banks, financial market participation, and economic development. Trust is vital in establishing relationships and maintaining relations with clients (Dimitriadis, Kouremenos, & Kyrezis, 2011), especially in banking and finance. Recent studies also showed that trust impacts their green banking network confirmation and continued usage of green banking (Malik & Singh, 2022). Consistent with prior studies, we find that Gen-Z's green banking intention is significantly related to trust in financial institutions. Thus, the more trusting the youth are of financial and banking institutions, the higher their propensity to adopt green bank products.

Furthermore, this study demonstrates that the impact of financial knowledge on purchase intentions for sustainable banking products is unconditional. This finding validates the theory that financial literacy affects intentions and behaviors in consuming financial products, which comprise consciousness, understanding, capability, and behaviors in achieving financial welfare (Degryse, Di Giuli, Sekerci, & Stradi, 2023; Rodrigues, Oliveira, Rodrigues, & Costa, 2019). Reinforcing the discourse on financial literacy, Anderson and Robinson (2022)

emphasised that the intricacy of sustainable investment instruments can be mitigated if households have higher financial literacy, which ultimately encourages participation in sustainable investment. Our research also strengthens earlier findings, i.e., (Ejaz, Bashir, Mahmood, & Wagan, 2025; Lanciano, Previati, Ricci, & Santilli, 2024; Merli, Pallud, & Pulikova, 2024), which argue that financial knowledge boosts the skill of clients to assess responsible financial instruments, which leads to greater intention to adopt environmentally friendly banking practices. Financial literacy is also an important driver for increasing the mobilization of green savings and the adoption of online green banking. Additionally, it influences green attitudes, which in turn promote the intention for more sustainable consumption. Another significant finding of this inquiry is that the effect of financial literacy on green banking adoption can be substantially enhanced through trust, serving as a mediating variable. This confirms the vital role of financial literacy and trust in shaping customer intentions to consume green products. Based on this finding, it is evident that maintaining trust in financial and banking institutions is a critical catalyst for improving the influence of financial literacy on young people's engagement with green banking services. In other words, the authors believe that greater financial knowledge boosts personal trust in banking sectors, which promotes their intention to embrace more sustainable banking.

It has been postulated that an individual's knowledge of sustainability affects their tendency for eco-conscious products, which may reflect the youth's preference for green banking products (Katini & Amalanathan, 2022). Surprisingly, this research found that sustainability literacy has a minor effect on the intention to purchase environmentally friendly banking products among Gen Z in Indonesia. It suggests that financial literacy does not always influence consumption behavior as predicted. It also indicates that financial knowledge alone may not always be adequate to foster green banking adoption. Thus, another variable is needed to moderate or mediate the interplay between eco-literacy and sustainable banking adoption.

6. CONCLUSION, IMPLICATIONS, FUTURE DIRECTIONS

With a focus on Gen Z, the current paper examines the antecedents of green banking among this generation. This research shows that their attitudes towards sustainable banking are significantly based on their financial literacy and trust in financial institutions. Contrary to our expectations, sustainability literacy does not influence the intention to adopt eco-friendly banking. This means that information on sustainability alone cannot lead younger customers toward green banking transactions.

A key value added of this study is the incorporation of young people into the research discussion on green banking. This demographic has been mostly ignored in the discussion of green finance because they, being post-millennials, are financially dependent and do not therefore represent a potential market for the banking system. Moreover, this study extends the literature to the determinants influencing green banking intention. It also extends previous conceptualizations of sustainable financial literacy as the intersection globally of environmental and financial knowledge. Building on prior literature, our study advances the body of knowledge by demonstrating that trust and financial literacy impact green banking and contribute to a novel interpretation of customer behavior theories.

However, this study also has several limitations. First, data were collected from only one province in Indonesia via WhatsApp and email, which may limit the generalizability of the study. Second, due to the limited duration of the study, it did not cover all dimensions that possibly influence the intention of the younger generation to adopt environmentally friendly banking products and services. Third, our results indicate that sustainability literacy slightly influences the intention to adopt ethical banking products. Further research needs to explore the disparities between ecological banking know-how and instrumental use of green banking services on Generation Z, as well as the extent of governmental and regulatory pressure for encouraging green banking trends in emerging contexts. Also, it is of utmost importance to investigate gender differences in predicting young people's willingness to adopt green banking because women are considered a driving force of sustainable development.

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Transparency: The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.

Data Availability Statement: The corresponding author can provide the supporting data of this study upon a reasonable request.

Competing Interests: The authors declare that they have no competing interests.

Authors' Contributions: Both authors contributed equally to the conception and design of the study. Both authors have read and agreed to the published version of the manuscript.

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