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# The influence of islamic capital market literacy toward intention to invest in islamic capital market: Does risk perception mediate the relationship?

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## Abstract

**Research aims:** This study was motivated by the limited study on the Islamic capital market, mainly in the behavioral finance field. Moreover, the incongruity findings in prior research investigations suggest additional exploration to elucidate the correlation between literacy and investing intention. This study, therefore, aims to clarify financial literacy roles in investment intention as mediated by risk perception. Specifically, the effect of Islamic capital market literacy on the intention to invest in the Islamic capital market was scrutinized.

**Design/Methodology/Approach:** The present study employed quantitative methodology to address the issue under investigation. The study's sample was comprised of 200 respondents from the Generation Z investor population residing in Malang City. The research instrument used a set of seven Likert scales. The present study also utilized Partial Least Squares Structural Equation Modelling (PLS-SEM) for data analysis.

**Research findings:** The research findings uncovered that Islamic capital market literacy affected risk perception and investment intention, and risk perception had a direct effect on investment intention. In addition, risk perception also successfully mediated the effect of capital market literacy on Gen Z's investment intention in the Islamic capital market.

**Theoretical contribution/Originality:** This research has made a valuable contribution to the existing body of Islamic capital market literature, which has received limited attention. The research highlights the significance of Islamic capital literacy and establishes a favorable perspective of risk as a practical aspect. The results also have valuable input for the government in developing policies that promote increased involvement of young individuals in investing activities by enhancing literacy levels.

**Practitioner/Policy implication:** The research highlights the significance of establishing a favourable perspective of risk as a practical aspect. The results of this study can be a helpful asset for governmental organisations seeking to develop policies that promote increased involvement of young individuals in investing activities by enhancing literacy levels.

**Research limitation/Implication:** Nevertheless, one problem identified in this study is the lack of differentiation between respondents based on their level of literacy and the duration of their engagement. This aspect holds significant importance in influencing an individual's perception of risk.

**Keywords:** Generation Z; Investment Intention; Islamic Capital Market Literacy; Risk Perception

## **Introduction**

The growth in Islamic finance assets has been remarkable in recent decades (Naz & Gulzar, 2022). The biggest headline for the Islamic finance industry in 2021 was its strong -- 17% -- growth to reach US\$4 trillion worth of assets (IFDI, 2022). This performance had a positive impact on investors. Investors around the world have been looking for Islamic investments and are using them as their investment diversification (Zarrouk et al., 2004). Investors believe that with different characteristics of Islamic Investment from traditional investment (non-Islamic investment), they can diversify their risks and returns (Tabash et al., 2023; Ali et al., 2021; Erdogan et al., 2020). The prime difference between Islamic investment and traditional investment lies in their rules.

Islamic investment is guided by the principles of Islamic law or Sharia. The Sharia principles condemn any products and services that have elements of *Riba* (e.g., interest), *Gharar* (e.g., uncertainty), and *Mysir* (e.g., gambling or speculation), which are fundamentally prohibited (Tabash et al., 2023). These rules bring people to different investment products in Islamic investment. Ali et al. (2021) found that Islamic investment products offer a variety of investment instruments that can help diversify investors' portfolios.

As part of the economic system, Islamic investment has many contributions. During the global financial crisis and other economic downturns, the emergence of Islamic stock markets has been key to reducing the risk of uncertainty in conventional capital markets and also reducing financial scandals in international capital markets (Malik, 2017). Moreover, Islamic investment promotes the principles of justice and equality in economic transactions (Omri et al., 2019), encourages socially and environmentally responsible investment in accordance with the concept of *maqasid al-shari'ah* (Barom, 2019), encourages efficient resource mobilization, and optimizes the allocation of funds that complement the role of financial intermediaries in the investment process (Parmitasari et al., 2020).

Many countries have adopted Sharia into their financial industry, including Indonesia, which has the biggest Muslim population in the world. Jakarta Islamic Index Market (JII) showed positive capitalization responses from the Indonesia stock market from 2000-2022. Islamic stock index on the Indonesia Stock Exchange has exhibited a consistent increasing trajectory during the preceding year. In terms of nominal value, the highest JII market capitalization in the last 22 years reached IDR 2,318.56 trillion in 2019 (OJK, 2023). However, from 2019 to 2021, coinciding with the pandemic period, the JII market capitalization continued to decline. The index returned to strength after the COVID-19 pandemic was controlled in 2022.

The rise of Indonesia's Islamic capital market is also characterized by an increase in the number of investors engaging in Islamic stock investments. According to data provided by the Financial Services Authority (OJK), there has been a constant upward trend in the number of investors engaging in Islamic stock investments as registered in the Islamic

securities registry. In five years (2017-2022), it has reached 400% from the initial number of investors in 2017.

However, when the number of investors is converted into the proportion of those numbers from the Indonesian Muslim population, it was found to be significantly tiny, less than 0.05% of the overall population. Comparing it to Malaysia and Thailand, it gets worse; the Indonesian investor proportion is still far below those countries. Malaysia has reached 8.5%, and Thailand has 5% of its entire population (Haqiqi, 2022). Investors in Indonesia have not considered Islamic investment as their alternative investments.

The decision to invest or not to invest from the perspective of the Theory of Planned Behavior (hereinafter abbreviated as TPB) is affected by individual intention (Ajzen 1991). Numerous empirical investigations have demonstrated that interest plays a significant role in shaping individuals' investment choices. Individual investing decisions are influenced by their investment intentions, as revealed by Hassan et al. (2023), Ummah et al. (2021), Lefebvre et al. (2014), and Yulandreano and Rita (2023).

The critical contribution of investment intention to investment decisions has motivated many scholars to study the explanatory factors of intention. Literacy is frequently employed as an explanatory variable for intention (e.g., Raut et al. (2020); Yusfiarto et al. (2023); Mushafiq et al. (2023); Arifin & Rizaldy (2023)) and used the cognitive theory as its theoretical explanation. Cognitive theory holds that people's intentions are shaped by their cognitive processes, which include their internal and external interpretations of the information they receive (Austvoll-Dahlgren et al., 2012). This theoretical framework suggests that developing reading skills might improve a person's ability to think critically, solve problems, and make decisions.

Based on TPB, intention can be explained by three factors: attitudes, subjective norms, and perceived behavior controls (Ajzen, 1991). Literacy as cognitive capacity represents perceived behavior controls. Perceived behavioral control pertains to individuals' subjective assessment of the level of ease or difficulty associated with executing a specific behavior or the perceived likelihood of achieving success in a particular job (Sultan et al., 2019). Hence, as an individual has higher capacities in critical thinking, problem-solving, and decision-making abilities, he/she perceives differently from those with lower capacities.

Numerous research have established a correlation between financial literacy and individuals' intention towards investment. However, there was a lack of consistency in the outcomes. Raut et al. (2020), Yusfiarto et al. (2023), Mushafiq et al. (2023), and Arifin and Rizaldy (2023) have demonstrated that financial literacy exerts a substantial impact on investing intention. Contrary findings were shown by Puspitasari et al. (2021) and Darmawan et al. (2019). The presence of incongruity in the findings of prior research investigations suggests the necessity for additional exploration to elucidate the correlation between literacy and investing intent.

For that reason, the primary objective of this research endeavor is to reassess the impact of literacy on investing interest through the provision of three significant contributions. This study diverges from the previous one by using the intervening variable of risk perception to examine the association between literacy and investing intent. This statement is substantiated by empirical studies undertaken by Huang et al. (2021), Rathee and Aggarwal (2022), Sang et al. (2018), and (Hamid et al., 2019). In contrast to the research results, Wardani and Supiati (2020), Fitriani et al. (2021), and Hasanah et al., 2022 stated that risk perception did not influence investment intention. Furthermore, the primary contribution of this study is the inclusion of the risk perception variable as a mediating factor. Risk perception has been identified as a potential mediating variable in a number of studies done by Nguyen et al. (2022), de Goeij et al. (2017), Ahmad et al. (2020), Lisdayanti & Hakim (2021), Adiningtyas & Hakim (2022), and Khan et al. (2021). This addition aims to provide clarity on the relationship between literacy and interest, which has exhibited inconsistency in previous studies.

The second innovation pertains to the utilization of a distinct literacy variable that focuses specifically on literacy inside the Islamic capital market, employing its own set of measurement items, in contrast to prior research, which predominantly focuses on financial literacy in a broad sense. The current body of research pertaining to Islamic capital market characteristics remains somewhat constrained, exhibiting a dearth of comprehensive studies and yielding disparate findings. The sources mentioned above include the research conducted by Raut et al. (2020), Yusfiarto et al. (2023), Mushafiq et al. (2023), Arifin and Rizaldy (2023), and Aulia and Fikriyah (2022). Moreover, the variable of the Islamic capital market holds greater significance in relation to the underlying issue being investigated, which pertains to the notably low presence of Islamic investors in Indonesia. As such, the second contribution of this study is to expand the existing body of research in the domain of Islamic investment, with a particular focus on the Islamic capital market.

The third contribution is the careful selection of the sample population, specifically focusing on individuals belonging to the Generation Z demography. The present study is of particular importance due to its emphasis on the younger demographic as participants in investment activities. According to Purwanti (2022), the majority of capital market investors are still demographically in the young group, almost 80.8% of the total investors. Research on the investment intentions of Generation Z holds significant implications to support the government's policies in enhancing the financial literacy of Generation Z, i.e., formulating strategies and deciding on programs that can be applied effectively to young participants, specifically in the Islamic capital market.

## **Literature Review and Hypotheses Development**

### **Theory of Planned Behavior**

The Theory of Planned Behavior (hereinafter abbreviated as TPB) posits that individuals engage in deliberate decision-making processes when determining whether to

participate in particular behaviors, drawing upon the information accessible to them. The intention of an individual to engage in a specific behavior is a key element in TPB (Ajzen, 1991). Intentions serve as indicators of individuals' level of commitment and willingness to devote effort to doing a particular behavior (Mahmood et al., 2019).

In accordance with Ajzen (1991), TPB proposes three distinct factors influencing an individual's intention to engage in a particular behavior. These factors are attitude, subjective norm, and perceived behavioral control. Attitude refers to the extent to which an individual evaluates or appraises the behavior in question as favorable or unfavorable (Adam et al., 2021). Subjective norm pertains to the perceived social pressure exerted on the individual to either perform or abstain from the behavior (Alferaih, 2022). Lastly, perceived behavioral control relates to the individual's perception of the ease or difficulty associated with performing the behavior (Trifiletti et al., 2022). In general, when an individual possesses a positive attitude towards a particular behavior, the behavior is consistent with the prevailing norms. When the individual sees a high degree of control over their actions, there will likely be a strong inclination to engage in the behavior. Some studies that use TPB as a grounding theory include Tomczyk et al. (2020), Iranmanesh et al. (2019), Lee et al. (2020), and Ephrem et al. (2019).

### **Islamic Capital Market Literacy**

The concept of Islamic capital market literacy can be derived from the broader concept of financial literacy. Financial literacy necessitates individuals worldwide to engage with providers of intricate financial products and services and to assess, reduce, or assume the risks associated with their financial choices (Klapper & Lusardi, 2019). Capital market literacy refers to the understanding and proficiency in utilizing capital market management strategies to attain financial success (Kemu, 2016). The domain of Islamic capital market literacy is characterized by a narrower focus, wherein the norms and provisions governing the capital market are rooted in Sharia or Islamic principles. This entails adherence to Islamic rules in all aspects of the market's operations, including the activities of issuers, the types of securities traded, and the mechanisms employed for trading (Hassan & Mehar, 2022). The conclusion that can be drawn is that Islamic capital market literacy refers to the acquisition of knowledge and skills pertaining to the capital market, specifically in accordance with Islamic principles, with the aim of generating advantages and promoting well-being.

This study establishes a correlation between the variable of Islamic capital market literacy (ICML) and investing intention. The association between these two variables can be effectively elucidated by examining the connection between Perceived Behavior Control (hereinafter referred to as PBC), one of the determinants of interest in the TPB, and intention. PBC pertains to individuals' subjective assessment of the level of ease or difficulty associated with executing a specific behavior or the perceived likelihood of achieving success in a particular job (Sultan et al., 2019). Based on the description mentioned above of Islamic capital market literacy, which pertains to the comprehension and adeptness in employing techniques for capital market management,

one can infer that an individual's competency in Islamic capital market literacy is indicative of their view of the efficacy of their investment in the realm of capital market. There exists a prevailing belief among individuals that investing is a straightforward endeavor, primarily because of their pre-existing comprehension and proficiency in investment strategies within the realm of Islamic capital market literacy. Based on all the explanations above, this is in accordance with the results of research conducted by Raut et al. (2020), Yusfiarto et al. (2023), Mushafiq et al. (2023), and Arifin and Rizaldy (2023).

*H<sub>1</sub>: The better the Islamic capital market literacy, the bigger the intention to invest in the Islamic capital market.*

### **Risk Perception**

Risk perception refers to the cognitive process by which humans subjectively evaluate and make decisions on the assessment of risk and the level of uncertainty involved (Yanushkevich et al., 2020). The phenomenon of risk perception seeks to elucidate the process by which individuals assess and appraise a scenario or event that carries inherent risks. Perceptions of risk are formed from experiences generated through many factors that form the basis of decision-making that has the potential for loss (Wu et al., 2021). This appraisal is influenced by a combination of instinctual and intricate decision-making processes, as well as personal knowledge and information gained from other sources such as various media outlets.

According to Litterer's (1965) Perception Development Model, information serves as the fundamental basis for the process of perception development. The information mentioned above undergoes processing within three distinct methods of perception generation, namely selectivity, interpretation, and closure. Individuals may often misperceive the risks associated with a particular activity due to a lack of detailed knowledge. In the absence of precise and reliable knowledge, individuals may be prone to formulating erroneous judgments or making misguided decisions. In his study, Ricciardi (2008) concluded that risk perception cannot be reduced to a single statistical measure of objective risk (such as the variance of a distribution) or a purely behavioral perspective (such as the rules of heuristics or mental shortcuts). In contrast, the concept of perceived risk is most effectively employed within a framework that embraces an interdisciplinary and multidimensional perspective when evaluating a specific decision, circumstance, action, or event.

As previously said, the field of Islamic capital market literacy exhibits a more limited scope, with its emphasis on the regulations and principles derived from Sharia or Islamic teachings that govern the capital market. The strict observance of Sharia principles in every facet of the market's functioning, encompassing the conduct of issuers, the kind of assets exchanged, and the trading instruments deployed, is deemed mandatory (Hassan & Mehar, 2022). These conditions will impact the perceived risk by investors. The varying levels of investor comprehension and capabilities in the Islamic capital market result in differing levels of risk perception among investors in this sector. This is

confirmed in the studies of Aren and Hamamci (2022), Suherman et al. (2023), and Patrisia et al. (2023), which have proven that the increase in risk perception is influenced by Islamic capital market literacy.

Risk perception also plays a central role in shaping the intention to invest, as individuals' perception of investment risk will influence their comfort level and confidence in making investment decisions (Bassar, 2019). In investing, investors need to take into account potential trade-offs that can cause uncertainty. Each investor has a different attitude and response related to the existence of risk in investing. Individuals are more inclined to engage in investment activities when they perceive the related risks to be minimal or controllable. The characteristics of investors shown in general are risk aversion, but some other investors are also able to face or bear risks based on the level of profit that can be obtained. It can be concluded that risk perception is an investor's subjective perspective that arises because of the inherent risk in investment instruments. The same results can be found in research by Huang et al. (2021), Rathee and Aggarwal (2022), Sang et al. (2018), and Hamid et al. (2019), revealing that Gen Z's intention in making transactions is influenced by their perception of risk.

*H<sub>2</sub>: The better the Islamic capital market literacy, the more positive risk perception.*

*H<sub>3</sub>: The more positive the risk perception, the bigger intention in Islamic capital market investment will increase.*

### **Intention to Invest in the Islamic Capital Market**

The occurrence of intention to invest in the capital market can be described as a persistent inclination towards engaging in capital market investments, accompanied by a sense of satisfaction and contentment (Yoopetch & Chaithanapat, 2021). The urge to generate financial gains in the stock market gives rise to a sense of intention within an individual. In this case, TPB offers an explanatory framework for understanding an individual's investment behavior within the realm of finance. The idea of planned behavior posits that individuals are inclined to engage in specific activities based on their intentions and perceived control, with intentions being shaped by behavior, subjective norms, and behavioral control, according to the study conducted by Zandi et al. (2021).

This study establishes a correlation between the variable of Islamic capital market literacy (ICML) and investment intention. The association between these two variables can be effectively elucidated by examining the connection between perceived behavior control (PBC), a determinant of intention in the TPB, and intention. Perceived behavioral control pertains to individuals' subjective assessment of the level of ease or difficulty associated with engaging in a particular behavior or the perceived likelihood of achieving success in a specific task (Platania et al., 2021). Based on the definition mentioned above of ICML, which pertains to the comprehension and adeptness in employing strategies for capital market management, one may infer that an individual's proficiency in ICML is indicative of their perception regarding the efficacy of their

investment in the Islamic capital market (ICM). There exists a prevailing belief among individuals that investing is a straightforward endeavor, primarily because of their pre-existing comprehension and aptitude in the field of investment in ICM (Hana, 2019).

However, theoretical literature also indicates that the association between perceived behavioral control (PBC) and interest exhibits inconsistent findings. This observation suggests that more factors are required to establish a connection between perceived behavioral control (PBC) and investing desire. The notion of risk perception posits that financial literacy's impact on interest rates cannot be solely attributed to comprehension and competence. In the realm of investment, characterized by inherent risk and uncertainty, the assessment and embrace of risk play a pivotal role in the selection and evaluation of investment opportunities. Numerous research has demonstrated a correlation between an individual's personal attitude and their investment preferences, as evidenced by the works of Mohta and Shunmugasundaram (2023), and Aydemir and Aren (2017). The presence of an individual's personal risk attitude, encompassing tendencies towards risk-taking, risk neutrality, or risk aversion, suggests that the element of personal risk attitude should be taken into account while examining the association between literacy and interest.

**H4:** *Islamic capital market literacy affects the intention to invest in Islamic capital market investment mediated by risk perception.*

Based on the ideas, a research model was developed and is depicted in Figure 2:

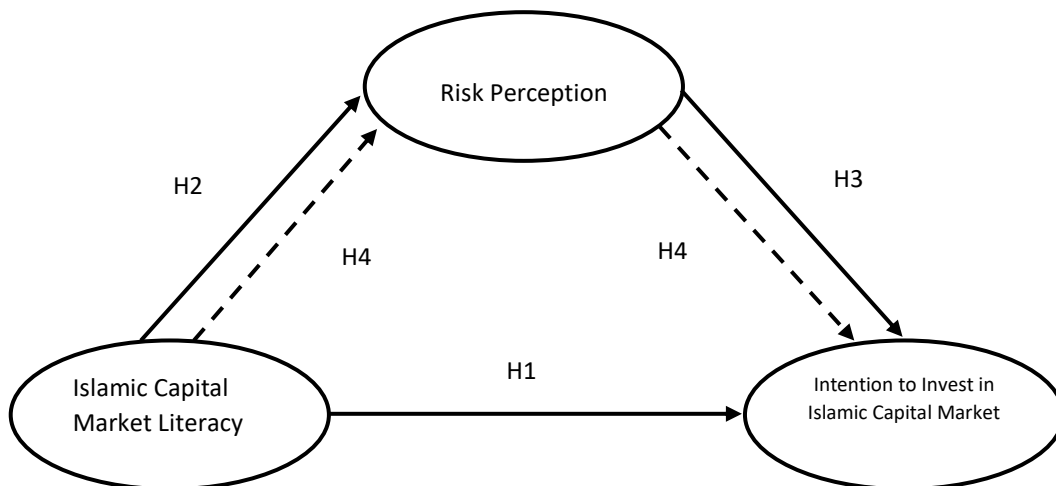


Figure 2 Research Model

## Research Method

This research used a quantitative methodology in its approach to the problem at hand. The sample population of this research was Generation Z in Malang, who knew the Islamic capital market, and was collected by sampling techniques using a *purposive*



*sampling* approach with criteria: 1) Generation Z, who lived in Malang City; 2) Aged between 11 and 26 years old; and 3) Knew about the Islamic capital market. The determination of the sample size in this study was grounded on the works of Roscoe (1975) and Sekaran (2013), suggesting that a sample size ranging from more than 30 to less than 500 is suitable for the majority of research endeavors. The item measurement scale on the Islamic capital market literacy variable is based on the scale developed by Rahim et al. (2016); Dinc et al. (2021); Arifin & Rizaldy (2023); and Majid & Aditya (2022). While the item measurement scale on the risk perception variable is based on a scale developed by Joo & Grable (2004); Man et al. (2019); Huber & Huber (2018); and Wolff et al. (2019). Furthermore, the item measurement scale on the variable of intention to invest in the Islamic capital market is based on the scale developed by Hati et al. (2020); Albaity & Rahman (2019); Aisa (2022); Yusfiarto et al. (2023); and Aini et al. (2019).

A comprehensive sample of 267 participants was gathered for this research. However, the sample size was limited to only 200 responders who were deemed valid based on their adherence to the predetermined criteria. This finding shows that common method bias does not significantly affect research findings using Common Method Variance (CMV) Analysis (Podsakoff et al., 2003). The research instrument employed in this study utilized a questionnaire incorporating a 7-point Likert scale due to its favorable attributes in terms of reliability, validity, discrimination strength, and stability (Budiaji, 2013). After the data were collected, they were analyzed using a technique called *partial least squares* (PLS). Also, this study examined capital structure determinants using a simultaneous causal model with interaction effects between manifest and latent variables. Ramli et al. (2018) indicate that PLS-SEM analysis provides fewer contradictory results than regression analysis in terms of detecting mediation effects.

## **Result and Discussion**

### **Descriptive Analysis of Respondents**

Data analysis of respondent profiles in this study used frequency distributions grouped by gender, age, and investment amount as described in Table 1. Based on the data in the table above, it can be seen that of the total number of respondents, 120 (60%) were women and 80 (40%) were men. This indicates that the majority of respondents were women. The age distribution of respondents showed that 42 individuals (constituting 21% of the sample) fell within the age range of 17-19 years. Additionally, 130 respondents (representing 65% of the sample) were situated within the age bracket of 20-22 years, while 28 individuals (equating to 14% of the sample) were found to be between the ages of 23-26. This finding denotes that a significant proportion of participants fell between the age range of 20-22 years.

**Table 1** Respondent Characteristics

Dimension	Categories	Frequency	Percentage
Gender	Male	80	40%
	Female	120	60%
Age	17-19 years	42	21%
	20-22 years	130	65%
	23-26 years	28	14%
Investment Amount	IDR 1-100,000	114	57%
	IDR 100,001-500,000	49	24.5%
	IDR 500,001-1,000,000	17	8.5%
	> IDR 1,000,001	20	10%

Built on investment amount, the majority of investors allocated funds of IDR 1-100,000 or 57% of the total respondents to be invested, followed by the second highest percentage of IDR 100,001 - 500,000 (24.5%). While the third range was more than IDR 1,000,001 (10%), the last was the range of funds of IDR 500,001-1,000,000.

**Variable Description and Analysis**

**Table 2** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
						Statistic	Std. Error	Statistic	Std. Error
ICML	200	1.00	7.00	4.8322	1.16710	-0.638	0.172	0.624	0.342
RP	200	1.14	7.00	5.1593	0.95442	-0.673	0.172	2.012	0.342
IIICM	200	1.00	7.00	5.1722	1.09699	-0.349	0.172	0.083	0.342

Note: ICML = Islamic Capital Market Literacy, RP = Risk Perception, IIICM = Intention to Invest in Islamic Capital Market

Table 2 displays the descriptive statistics for each of the variables examined in the model. Islamic capital market literacy variable had the highest level of volatility compared to the other variables, as seen from its standard deviation. The mean score for Islamic capital market literacy was determined to be 4.8322 out of 7. In addition, it should be noted that risk perception had the lowest mean score (0.95442) compared to the other variables.

**The Evaluation of the Measurement Model**

According to the information presented in Table 3, it can be observed that the latent variable exhibits the maximum indicator factor loading when it is interconnected in addition to other latent variables. This finding suggests that all measures of latent variables in the study demonstrate strong discriminant validity, as they match all the established criteria for assessing discriminant validity. Based on the findings shown in Table 3, it is evident that all study variables exhibited loading factors beyond the threshold of 0.70. Consequently, it is reasonable to infer that the three variables could be deemed legitimate.

**Table 3** Convergent Validity Test

Variable	Items	Loading Factor
ICML	I can distinguish between halal and prohibited (haram) investment instruments in the capital market.	0.761
	I am aware of the availability of several investment instruments in the Islamic capital market.	0.778
	I am able to identify if the Islamic capital market is bullish.	0.823
	I am able to identify if the Islamic capital market is bearish.	0.817
	I know that the price of Islamic stocks fluctuates from time to time.	0.817
	I am able to identify profitable Islamic stocks.	0.840
	I am able to predict the price movement of Islamic stocks.	0.846
	I am able to choose one investment based on its time horizon.	0.865
	I choose investment instruments that suit my income and are profitable.	0.805
RP	When it comes to investing, safety is more important than profit.	0.734
	I choose investments with a low level of risk.	0.704
	The amount of time required to keep up-to-date with information about investments is a risk when investing in Islamic stocks.	0.731
	Investing with a high level of risk and high returns is an intentioning challenge for me.	0.747
	The uncertain level of profit sharing is a risk that I face when investing in Islamic stocks.	0.807
	The uncertain selling price is a risk that I face when investing in Islamic stocks.	0.828
	Frustration and despair will be psychological risks for investors when experiencing losses.	0.700
IIICM	I looked for investment guidelines or steps before I started investing in the Islamic capital market.	0.830
	I read news about the Islamic capital market in various media as a consideration for investment decisions.	0.887
	Before investing, I found out information about the advantages and disadvantages of the types of investment instruments in the Islamic capital market.	0.903
	I take the time to attend investment training or seminars.	0.806
	Reading articles and books on investing is how I spend my time to increase my intention in investing.	0.820
	I believe investing in the capital market is the right investment for millennials with low capital.	0.869
	The amount of information about the advantages of Islamic capital market investment makes me intentioned in investing.	0.879
	I will invest in the Islamic capital market.	0.796
	I will give recommendations to my friends and family about the ease and safety of investing in the Islamic capital market.	0.856

Note: ICML = Islamic Capital Market Literacy, RP = Risk Perception, IIICM = Intention to Invest in Islamic Capital Market

The reliability of item-to-component score correlations was calculated to determine the convergent validity of the reflective indicator measurement model. Following this, a thorough assessment of the factor loadings, average variance extracted (AVE), and composite reliability (CR) was undertaken to ascertain the soundness and validity of the

measurement model. The outputs of the measuring model are presented in Table 4. The AVE value ranged from 0.565-0.723, more than 0.5, indicating that more than half of the construct explains its indicator. Additionally, the instruments employed in this work exhibited satisfactory reliability, as indicated by the calculated values of composite reliability and Cronbach's alpha, both of which exceeded the threshold of 0.70. The assumptions are based on the rules proposed by Hair et al. (2017).

**Table 4** Realibility Test

Variable	AVE	Cronbach's Alpha	Composite Reliability
ICML	0.668	0.938	0.948
RP	0.565	0.871	0.900
IIICM	0.723	0.952	0.959

Note: ICML = Islamic Capital Market Literacy, RP = Risk Perception, IIICM = Intention to Invest in Islamic Capital Market

After the convergent validity assessment was completed, the subsequent stage entailed the evaluation of discriminant validity (Table 5). The test utilized in this study was implemented by Fornell and Larcker (1981) in accordance with prior scholarly works. Table 5 illustrates that the square root of the average variance extracted (AVE) on the diagonal was greater than the correlations on the off-diagonal for all reflective components. This finding suggests that all measures of latent variables in the study demonstrated strong discriminant validity.

**Table 5** Validity of Discrimination According to Fornell and Lacker

	Islamic Capital Market Literacy	Intention to Invest in the Islamic Capital Market	Risk Perception
ICML	0.818		
IIICM	0.728	0.850	
RP	0.544	0.677	0.751

Note: ICML = Islamic Capital Market Literacy, RP = Risk Perception, IIICM = Intention to Invest in Islamic Capital Market

### Inner Model Test Results

Significant parameter estimation results reveal information related to the relationship between research variables. The value obtained from the output findings pertaining to the inner weight serves as a reference point for assessing the direct impact. The evaluation of the path coefficient values and t-statistics enables the examination of the direct influence. The purported impact is deemed valid when the t-statistic value exceeds the critical t-table value. Table 6 displays the estimation outcomes of the evaluation conducted on the structural model.

**Table 6** Direct Effect Test Results

Hypothesis	Influence	Original Sample	Standard Deviation (STDEV)	T-Statistics	P-Values	Conclusion
H <sub>1</sub>	ICML -> IIICM	0.728	0.044	16.481	0.000	Supported
H <sub>2</sub>	ICML -> RP	0.544	0.079	6.899	0.000	Supported
H <sub>3</sub>	RP -> IIICM	0.400	0.059	6.801	0.000	Supported
H <sub>4</sub>	ICML -> RP -> IIICM	0.217	0.050	4.370	0.000	Supported

Note: ICML = Islamic Capital Market Literacy, RP = Risk Perception, IIICM = Intention to Invest in Islamic Capital Market

It is said that there is a significant relationship if the calculation result of the Sig value. (2-tailed) value is smaller (<) than 0.05 (Ghozali, 2012). Based on the test results, Table 6 indicates that the t-statistic values of the Islamic capital market literacy and risk perception variables were greater than the t-table of 1.96, so it is stated to have a significant effect on investment intention. Meanwhile, the Islamic capital market literacy variable had a t-statistic greater than the t-table, indicating a significant effect on risk perception. In addition, risk perception was significant as a mediating variable for the effect of Islamic capital market literacy variables on investment intention, as it had a t-table smaller than the t-statistic.

## Discussion

### The Effect of Islamic Capital Market Literacy on Investment Intention in the Islamic Capital Market

The findings derived from the analysis of the data indicated a substantial correlation between the level of Islamic capital market literacy and the motivation of Generation Z individuals in Malang City to engage in investments within the Islamic capital market. Enhancing one's knowledge of Islamic capital market literacy can lead to a more comprehensive comprehension of Sharia-compliant investments, the associated concepts, and the available products and instruments within the Islamic capital market (Arifin & Rizaldy, 2023). This can help Generation Z distinguish between permissible (halal) and prohibited (haram) investment instruments in the capital market. Based on good financial literacy, Generation Z is better equipped to recognize profitable investment opportunities in the Islamic capital market and anticipate potential risks so that they can make more informed and planned investment decisions. Generation Z's strategy for choosing investment instruments focuses on the suitability of returns and a favorable time horizon (Izzah and Sudiarti, 2022).

A comprehensive level of literacy can facilitate Generation Z's comprehension of the potential advantages and drawbacks associated with engaging in investment activities within the Islamic capital market (Malkan et al., 2022). Hence, it can be observed that Generation Z possesses a comprehensive awareness of the Islamic capital market, enabling them to recognize the periodic fluctuations in Islamic stock values. Generation Z also has a good opportunity to make money by selling the stocks they have purchased at a profit when they anticipate a price drop (Holle et al., 2023). The increasing

awareness of the importance of financial literacy has led to the development of educational programs from organizations such as the Financial Services Authority (OJK) and educational institutions such as universities to educate millennials that investing is not difficult and that anyone with access to the internet can do it. This was confirmed in studies by Raut et al. (2020), Yusufiarto et al. (2023), Mushafiq et al. (2023), and Arifin and Rizaldy (2023), which have confirmed that the increase in investment intention is influenced by Islamic capital market literacy.

### **The Effect of Islamic Capital Market Literacy on Risk Perception**

The findings that originated from the data analysis denoted a notable correlation between the extent of Islamic capital market literacy and the risk perception exhibited by individuals belonging to the Generation Z demographic. Islamic capital market literacy affects risk perception since it helps to create a foundation of knowledge and understanding that enables individuals to assess risk in a more informed and Sharia-compliant manner (Hasanah & Maspupah, 2018). Islamic capital market literacy also helps individuals understand the factors affecting risk in the Islamic capital market, such as return, price, Sharia compliance, and knowledge. With good literacy, people will also be aware of the strict supervisory and regulatory mechanisms in the Islamic capital market. Sufficient knowledge about the opportunity for risks to emerge causes investors to have a more accurate and realistic perception of the risks involved (Puddin et al., 2021).

The information gained will enable Generation Z to calculate potential risks more carefully (Shahzad et al., 2017). In addition, Islamic capital market literacy also helps improve understanding of concepts, such as risk diversification, fundamental analysis of companies, and evaluation of stock performance. This knowledge helps individuals or investors consider the right level of informed income and thus reduce mistakes or losses due to ignorance (Pinasti et al., 2022). When one understands that Islamic investments are based on principles that emphasize fairness, sustainability, and risk sharing, one's risk perception may become more positive as one believes that such investments have a nobler purpose and adhere to fairer principles. As such, Generation Z will feel more confident in their ability to plan and mitigate investment risks. This is verified in the research of Aren and Hamamci (2022), Suherman et al. (2023), and Patrisia et al. (2023), proving that the increase in risk perception is influenced by Islamic capital market literacy.

### **The Effect of Risk Perception on Investment Intention in the Islamic Capital Market**

The findings derived from the analysis of the data indicated that risk perception exerted a noteworthy influence on the level of enthusiasm exhibited by Generation Z individuals in Malang City towards engaging in investments within Islamic capital markets. When it comes to making financial investments, Generation Z is more concerned with security than potential financial returns. Losses incurred can reduce or deplete available assets (Cheong, 2021). For Generation Z, a low level of risk is essential before they can start investing in Islamic capital markets. The investment risk level for Sharia-compliant

capital market instruments is lower as they have to go through a screening process before being officially classified as Sharia-compliant (Ayedh et al., 2019). Generation Z also views investment risk as reasonable and manageable with adequate knowledge and understanding (Azaliny et al., 2021). This attracts them to the Islamic capital market, where they expect to earn positive returns. Good risk perception can help investors limit losses and realize future gains from their investments. Investors must understand the risks associated with investing in Islamic capital markets to make informed investment decisions, as investments in Islamic capital markets often involve financial instruments with unique characteristics and risks, such as Islamic stocks and Islamic bonds. When investing, Generation Z is concerned not only about financial losses but also about non-financial losses. The psychological effects of losses can include feelings of frustration and despair at losing money (Bruhn, 2015).

Additionally, Generation Z has the perception that risks can be turned into opportunities by using skills and knowledge to manage them (Rosdiana, 2020). Generation Z feels motivated to participate in investing in Islamic capital markets in the hope of getting long-term benefits. Therefore, it can be concluded that the intention to invest in Islamic financial markets is influenced by risk perception because proper understanding encourages careful decision-making before making transactions. The same results can be found in research by Huang et al. (2021), Rathee and Aggarwal (2022), Sang et al. (2018), and Hamid et al. (2019) showing that Gen Z's intention in making transactions is influenced by their perception of risk.

### **The Effect of Islamic Capital Market Literacy on Investment Intention in the Islamic Capital Market Through Risk Perception**

The findings from the data analysis uncovered a substantial correlation between the level of Islamic capital market literacy and Gen Z's inclination to invest in the Islamic capital market in Malang City. Risk perception can act as a mediator between Islamic capital market literacy and investment intention in the context of Islamic capital markets. In other words, risk perception can explain why and how Islamic capital market literacy affects a person's intention to invest in Islamic instruments. Literacy increases an individual's understanding and confidence in Islamic investments (Malkan et al., 2022), while risk perception helps direct how they respond to the risks involved in such investments (Nguyen et al., 2017).

Moreover, this study offers both theoretical and practical advantages. This study provides a theoretical framework for investigating the impact of risk perception on the association between Islamic capital market literacy and investing interest in Islamic capital markets. Islamic capital market literacy teaches the concept of fair risk and profit sharing in Islamic investments (Yusfiarto et al., 2022). A good understanding gives investors skills on how to manage risks based on Sharia principles, such as profit and loss sharing, and how these mechanisms help mitigate risks (Mohd Nur et al., 2019). This may affect risk perception, as an individual may be more accepting of risk if they believe that their investment has a positive impact and aligns with their values. Individuals with a positive preference for risk may be more interested in investing. By increasing Islamic

capital market literacy, individuals will have a better understanding of risk and Sharia principles, reduce misperceptions of risk, and increase intention in investing in Islamic capital markets. Similar results can be found in the research of Nguyen et al. (2022), de Goeij et al. (2017), Ahmad et al. (2020), Lisdayanti and Hakim (2021), and Khan et al. (2021), showing that risk perception can be a mediating variable.

Furthermore, it is worth noting that this research holds practical implications for practitioners, as it underscores the significance of effectively influencing risk perception favorably. This document can serve as a valuable resource for governmental entities seeking to formulate policies aimed at fostering greater participation of young individuals in investment activities. The participation of Generation Z in the Islamic capital market has the potential to catalyze enterprises seeking to secure additional cash through the trading of shares. In addition, Generation Z can derive financial gains from their investment activities.

## **Conclusion**

This research examined the influence of Islamic capital market literacy and risk perception on Generation Z's investment intentions. The findings from the examination of the static model indicated that Islamic capital market literacy and risk perception significantly influence the intention to invest in Islamic financial markets. Supporting the hypothesis, Islamic capital market literacy significantly influences risk perception. Furthermore, it is worth noting that risk perception plays a significant role in mediating the impact of capital market literacy on the investment intention of Generation Z individuals in the Islamic capital market. The findings also denote the importance of Islamic capital market literacy and positive risk perception to increase the number of investors in the Islamic capital market.

The enhancement of Generation Z's inclination towards investing in Islamic capital markets can be achieved by the reinforcement of their knowledge and understanding of Islamic capital market principles, as well as the cultivation of favorable attitudes towards investment risks. This can be achieved through the collaborative efforts of the multiple stakeholders involved, strengthening the concept of synergy. The government must augment the funding allocated towards the education and training programs pertaining to the Islamic capital market. Furthermore, it is imperative for the Financial Services Authority (OJK) to enhance the dissemination of information regarding Islamic capital market goods and services. The Indonesia Stock Exchange (BEI) also plays a crucial role in facilitating securities trading and overseeing the capital market. In addition, it is imperative for the BEI to provide a conducive environment for the development of an Islamic capital market while also safeguarding the rights of investors. In the present context, Islamic capital market enterprises must enhance the accessibility of their infrastructure to the public.

The limitation found in this study is that it did not distinguish respondents who had a level of literacy and length of investment. They are certainly important factors that can



shape a person's risk perception. As such, future research can consider this factor since different levels of literacy make different understandings, and length of business provides investment experience resulting in different risk perceptions.

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### **Conflicts of Interest**

The authors declare no conflict of interest. The funders had no role in the design of the study; in the collection, analyses, or interpretation of data; in the writing of the manuscript, or in the decision to publish the results.



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