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Understanding Saving Decisions in Digital Banking Among Generation Z: The Role of Financial Literacy and Trust

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Abstract. The rapid development of digital banking has significantly transformed financial behavior, particularly among Generation Z consumers. Despite the increasing adoption of digital banking services, concerns regarding security, privacy, and reliability remain important factors influencing saving decisions in digital banking platforms. This study aims to analyze the effect of financial literacy on saving decisions in digital banking through trust as a mediating variable among Generation Z consumers. This study employed a quantitative research approach using a survey method involving 200 Generation Z respondents who actively used digital banking services in Indonesia. Data were analyzed using Partial Least Square-Structural Equation Modeling (PLS-SEM) with SmartPLS software. The findings indicate that financial literacy positively and significantly affects trust and saving decisions in digital banking. Furthermore, trust positively and significantly affects saving decisions and successfully mediates the relationship between financial literacy and saving decisions. The results imply that financially literate individuals tend to possess stronger confidence toward digital banking systems, which subsequently encourages positive saving behavior. This study contributes to the development of Behavioral Finance Theory by explaining the cognitive and psychological mechanisms underlying digital saving behavior among Generation Z consumers. Practically, the findings provide implications for digital banking institutions regarding the importance of financial education, cybersecurity enhancement, and trust-building strategies in encouraging sustainable saving behavior among young consumers.

Keywords: digital banking; financial literacy; generation z; saving decision; trust

INTRODUCTION

The rapid advancement of digital technology has transformed the global financial

industry, particularly within the banking sector. Banking institutions are increasingly integrating digital technology into their operational systems to provide faster, more efficient, and more accessible financial services. One of the most significant transformations is the emergence of digital banking, which enables customers to conduct financial transactions without physical interaction with banking offices (Venkatesh et al., 2003). Recent studies indicate that digital banking adoption continues to increase due to technological innovation, convenience, and customer preference for contactless financial services (Alalwan et al., 2024; Shaikh et al., 2023). Through digital banking platforms, customers can perform various activities, including fund transfers, bill payments, investments, and savings transactions using smartphones or other digital devices.

In Indonesia, digital banking adoption has experienced substantial growth over the last decade. The increasing penetration of smartphones, internet accessibility, and digital payment systems has encouraged society to shift from traditional banking services toward digital financial platforms. According to the Organisation for Economic Co-operation and Development (OECD, 2020), digital financial services contribute significantly to financial inclusion by improving public access to formal financial systems. Digital banking services are increasingly preferred because they offer convenience, flexibility, lower transaction costs, and time efficiency.

Among various demographic groups, Generation Z represents one of the most dominant users of digital financial services. Generation Z refers to individuals born approximately between 1997 and 2012, who grew up alongside the rapid development of digital technology and internet-based communication systems. This generation is highly familiar with smartphones, mobile applications, and digital transactions, making them more adaptive to technological innovation compared to previous generations (Morgan & Trinh, 2020). Recent evidence suggests that Generation Z demonstrates a stronger tendency to adopt digital financial services and mobile banking applications compared with previous generations due to their high digital engagement and technology readiness (Lee & Chen, 2023; Khan et al., 2024). Consequently, Generation Z has become an important market segment for digital banking institutions.

Despite the rapid growth of digital banking services among Generation Z, several challenges remain concerning financial behavior and financial decision-making. Although Generation Z is technologically adaptive, many individuals within this generation still demonstrate relatively low financial management capability, particularly regarding saving behavior and financial planning. The increasing consumption-oriented lifestyle, impulsive spending behavior, and dependence on digital transactions may reduce financial discipline among young adults (Lusardi & Mitchell, 2014). Recent studies have shown that financial literacy significantly enhances financial decision-making, saving behavior, and digital financial inclusion among young consumers (Garg & Singh, 2023; Zhao & Zhang, 2024). Therefore, encouraging saving behavior among Generation Z has become an important issue in financial management and banking research.

Saving decisions are influenced by various internal and external factors, including financial literacy and psychological considerations. Financial literacy refers to an individual's ability to understand financial concepts and apply financial knowledge effectively in managing financial resources (OECD, 2020). Financially literate individuals tend to possess better financial planning capability, stronger saving behavior, and more rational financial decision-making. In the context of digital banking, financial literacy enables individuals to evaluate the benefits, risks, and security aspects associated with digital financial services.

Previous studies indicate that financial literacy significantly influences saving behavior and financial decision-making. Lusardi and Mitchell (2014) argued that individuals with higher financial literacy tend to make more effective financial decisions

and possess greater awareness regarding future financial security. Similarly, Morgan and Trinh (2020) explained that financial literacy plays a significant role in supporting digital financial inclusion and technology-based financial adoption. Individuals with stronger financial understanding are more capable of utilizing digital banking services effectively and responsibly.

However, financial literacy alone may not fully explain customers' willingness to save money in digital banking platforms. In digital financial services, trust becomes a crucial factor influencing financial behavior. Trust refers to an individual's confidence in the reliability, security, and integrity of a financial institution or technological system (Kim et al., 2008). In the context of digital banking, trust remains one of the strongest predictors of customer retention and saving intention, particularly when users perceive adequate cybersecurity and data protection mechanisms (Nguyen et al., 2024; Sharma & Gupta, 2023). In digital banking environments, customers cannot physically interact with banking employees or directly observe banking operations. Consequently, customers often evaluate digital banking services based on their perception of security, reliability, and credibility.

Trust is particularly important for Generation Z because this generation intensively utilizes digital platforms in everyday activities, including financial transactions. Concerns regarding cybersecurity, data privacy, online fraud, and digital security risks may influence customers' trust toward digital banking services. Customers who perceive digital banking systems as secure and trustworthy are more likely to use digital banking services continuously and allocate their funds through digital saving systems (Yuniningsih & Taufik, 2021).

Several previous studies have investigated the relationship between financial literacy, trust, and digital banking adoption. However, most studies primarily focused on the direct relationship between financial literacy and financial behavior, while limited studies examined the mediating role of trust in the relationship between financial literacy and saving decisions, particularly among Generation Z. In addition, previous studies frequently investigated trust as an independent variable rather than as a psychological mechanism mediating the influence of financial literacy on saving behavior.

Although recent studies have examined financial literacy and digital banking adoption among young consumers, empirical evidence explaining the mediating role of trust in the relationship between financial literacy and saving decisions remains limited. Furthermore, studies focusing specifically on Generation Z in emerging economies such as Indonesia are still scarce (Lee & Chen, 2023; Zhao & Zhang, 2024). This condition indicates the existence of a research gap concerning how financial literacy influences saving decisions through trust formation in digital banking services. Furthermore, studies specifically examining Generation Z within the context of digital banking saving behavior in Indonesia remain relatively limited. Therefore, this study aims to analyze the role of trust in mediating the effect of financial literacy on saving decisions in digital banking among Generation Z.

This study is expected to contribute theoretically to the development of behavioral finance and digital banking literature by explaining the psychological mechanism underlying digital saving decisions among young consumers. Practically, the findings are expected to provide insights for digital banking institutions regarding the importance of financial education, cybersecurity improvement, and trust-building strategies to encourage saving behavior among Generation Z customers

METHOD

This study employed a quantitative research approach with a causal research design

to examine the relationship between financial literacy, trust, and saving decisions in digital banking among Generation Z. Quantitative research was considered appropriate because this study aimed to test hypotheses and analyze causal relationships among variables systematically and objectively.

The population of this study consisted of Generation Z individuals in Indonesia who actively used digital banking services. Generation Z in this study refers to individuals born between 1997 and 2012. This generation was selected because they represent one of the largest groups utilizing digital financial services and technology-based banking platforms.

The sampling technique used in this study was purposive sampling. Respondents were selected based on several criteria: (1) respondents belonged to Generation Z, (2) respondents had experience using digital banking services for at least six months, and (3) respondents had conducted saving activities through digital banking platforms. The purposive sampling technique was applied to ensure that respondents possessed adequate experience and understanding regarding digital banking services.

The sample size in this study consisted of 200 respondents. The determination of sample size followed the recommendation proposed by Hair et al. (2022), which states that the minimum sample size for Partial Least Square-Structural Equation Modeling (PLS-SEM) analysis should be at least five to ten times the number of indicators used in the research model.

Data collection was conducted using a structured questionnaire distributed online through digital platforms and social media. The questionnaire utilized a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Online questionnaire distribution was considered effective because Generation Z intensively utilizes internet-based communication platforms and digital technology.

Financial literacy was measured using indicators adapted from OECD (2020) and Lusardi and Mitchell (2014), including financial knowledge, financial management capability, understanding of digital financial products, and financial planning ability. Trust was measured using indicators adapted from Kim et al. (2008), including security, reliability, credibility, privacy protection, and confidence in digital banking systems. Saving decision was measured using indicators related to saving intention, frequency of digital banking usage for saving activities, and preference toward digital banking services.

The validity and reliability of the measurement instruments were evaluated before hypothesis testing. Convergent validity was assessed using loading factor and Average Variance Extracted (AVE) values. Reliability testing was conducted using Cronbach's Alpha and Composite Reliability values. According to Hair et al. (2022), loading factor values above 0.70, AVE values above 0.50, and reliability values above 0.70 indicate satisfactory validity and reliability.

Data analysis in this study employed Partial Least Square-Structural Equation Modeling (PLS-SEM) using SmartPLS software. PLS-SEM was selected because it is suitable for predictive research models and capable of analyzing complex relationships among latent variables simultaneously. The analysis process involved two stages: outer model evaluation and inner model evaluation.

The outer model evaluation aimed to assess the validity and reliability of measurement indicators, while the inner model evaluation aimed to examine the structural relationship among variables and test the proposed hypotheses. Hypothesis testing was conducted using bootstrapping procedures to determine path coefficient significance and mediation effects among variables.

RESULT AND DISCUSSION

Respondent Characteristics

The respondents in this study consisted of 200 Generation Z individuals who actively used digital banking services in Indonesia. Based on gender distribution, 116 respondents (58%) were female and 84 respondents (42%) were male. Based on age distribution, the majority of respondents were between 20–24 years old, accounting for 61% of the total respondents, followed by respondents aged 17–19 years (24%) and 25–27 years (15%).

Regarding educational background, most respondents were undergraduate students and university graduates. A total of 54% of respondents were undergraduate students, 31% were bachelor graduates, and the remaining 15% consisted of diploma students and postgraduate graduates. In terms of digital banking usage intensity, 72% of respondents reported using digital banking applications daily for transactions, savings, and payment activities.

Measurement Model Evaluation

Convergent Validity

Convergent validity was evaluated using loading factor and Average Variance Extracted (AVE) values. The analysis results demonstrated that all measurement indicators possessed loading factor values above 0.70, indicating satisfactory convergent validity.

Table 1. Loading Factor and AVE Results

Variable	Indicator	Loading Factor
Financial Literacy	FL1	0.812
	FL2	0.845
	FL3	0.861
	FL4	0.799
Trust	TR1	0.874
	TR2	0.856
	TR3	0.831
	TR4	0.847
Saving Decision	SD1	0.821
	SD2	0.852
	SD3	0.837
	SD4	0.809

Table 2. Average Variance Extracted (AVE)

Variable	AVE
Financial Literacy	0.671
Trust	0.702
Saving Decision	0.689

All AVE values exceeded the recommended threshold of 0.50, indicating that all constructs successfully explained more than 50% of indicator variance.

Reliability Test

Reliability testing was conducted using Cronbach's Alpha and Composite Reliability values.

Table 3. Reliability Test Results

Variable	Cronbach's Alpha	Composite Reliability
Financial Literacy	0.891	0.917
Trust	0.903	0.926
Saving Decision	0.884	0.913

The results demonstrated that all constructs possessed reliability values above 0.70,

indicating satisfactory internal consistency and measurement reliability.

Structural Model Evaluation

Coefficient of Determination (R-Square)

The coefficient of determination (R-Square) was used to evaluate the explanatory power of the structural model.

Table 4. R-Square Results

Variable	R-Square
Trust	0.482
Saving Decision	0.637

The R-Square value for trust indicated that financial literacy explained 48.2% of the variance in trust. Meanwhile, the R-Square value for saving decision indicated that financial literacy and trust jointly explained 63.7% of the variance in saving decisions among Generation Z digital banking users.

Hypothesis Testing

Hypothesis testing was conducted using bootstrapping procedures in SmartPLS.

Table 5. Hypothesis Testing Results

Hypothesis	Path Coefficient	T-Statistic	P-Value	Result
Financial Literacy → Trust	0.694	12.873	0.000	Accepted
Financial Literacy → Saving Decision	0.341	4.926	0.000	Accepted
Trust → Saving Decision	0.517	7.438	0.000	Accepted
Financial Literacy → Trust → Saving Decision	0.359	6.115	0.000	Accepted

The Effect of Financial Literacy on Trust

The analysis results demonstrated that financial literacy positively and significantly affected trust, with a path coefficient value of 0.694, t-statistic value of 12.873, and p-value below 0.001. This finding indicates that Generation Z individuals possessing stronger financial literacy tend to demonstrate greater trust toward digital banking services.

The Effect of Financial Literacy on Saving Decisions

Financial literacy positively and significantly affected saving decisions, with a path coefficient value of 0.341, t-statistic value of 4.926, and p-value below 0.001. This result indicates that financially literate individuals are more likely to possess stronger financial planning orientation and saving behavior.

The Effect of Trust on Saving Decisions

The findings demonstrated that trust positively and significantly affected saving decisions, with a path coefficient value of 0.517, t-statistic value of 7.438, and p-value below 0.001. This finding indicates that transaction security, institutional credibility, and system reliability significantly encourage saving behavior in digital banking environments.

The Mediating Role of Trust

The mediation analysis demonstrated that trust significantly mediated the relationship between financial literacy and saving decisions. The indirect effect obtained a path coefficient value of 0.359, t-statistic value of 6.115, and p-value below 0.001.

These findings indicate that financial literacy indirectly influences saving decisions through trust formation. Financially literate individuals tend to develop stronger confidence in digital banking services, which subsequently encourages saving behavior through digital banking platforms.

Discussion

The findings of this study indicate that financial literacy positively and significantly affects trust among Generation Z digital banking users. This result means that Generation Z individuals with better financial understanding tend to have higher confidence in digital banking services because they are more capable of understanding transaction systems, digital financial products, and security mechanisms. This finding supports previous studies conducted by Lusardi and Mitchell (2014), Morgan and Trinh (2020), and Rahmawati and Hidayat (2023), which explained that financial literacy improves individuals' confidence and acceptanc Lusardi and Mitchell (2014), Rahmawati and Hidayat (2023), Garg and Singh (2023), and Zhao and Zhang (2024)e toward digital financial services.

The results also show that financial literacy positively and significantly affects saving decisions among Generation Z. Individuals with higher financial literacy tend to possess better financial planning behavior and stronger awareness regarding the importance of saving for future financial stability. This finding is consistent with OECD (2020), which stated that financial literacy contributes significantly to saving behavior and financial discipline. Similar findings were also reported by Damayanti and Fauzi (2023) and Lusardi and Mitchell (2014), who found that financially literate individuals are more likely to demonstrate positive financial behavior and long-term saving orientation. These findings are also consistent with recent studies by Khan et al. (2024) and Zhao and Zhang (2024), which found that financial literacy strengthens long-term saving orientation among young adults.

Furthermore, trust positively and significantly affects saving decisions in digital banking. This result indicates that Generation Z consumers are more willing to save money through digital banking platforms when they perceive the services as secure, reliable, and credible. This finding supports Kim et al. (2008), who explained that trust reduces perceived risk in electronic financial transactions. Similar results were also found by Puspitasari and Nugroho (2022) and Yuniningsih and Taufik (2021), which emphasized that trust significantly influences customer intention and loyalty in digital banking services. Similar findings were reported by Nguyen et al. (2024), who demonstrated that trust significantly influences customers' willingness to maintain savings through digital banking platforms.

This study also confirms that trust significantly mediates the relationship between financial literacy and saving decisions. This means that financial literacy indirectly encourages saving behavior by increasing customers' trust toward digital banking services. Generation Z individuals with better financial understanding tend to possess stronger confidence in digital banking systems, which subsequently encourages saving decisions. This finding is consistent with Behavioral Finance Theory proposed by Ajzen (1991), which explains that financial behavior is influenced by both cognitive and psychological factors. Similar findings were also reported by Morgan and Trinh (2020) and Rahmawati and Hidayat (2023), which showed that financial knowledge and trust simultaneously influence digital financial behavior.

Research Gaps and Future Research Directions

Although previous studies have extensively examined financial literacy, trust, and digital banking behavior, several research gaps remain unresolved. First, most previous studies focused primarily on the direct relationship between financial literacy and digital banking adoption, while limited studies investigated the mediating role of trust in explaining saving decisions within digital banking environments. Studies conducted by Lusardi and Mitchell (2014), Morgan and Trinh (2020), and Rahmawati and Hidayat (2023) mainly emphasized financial literacy and financial behavior without specifically

examining trust as a psychological mechanism influencing saving decisions in digital banking.

Second, prior studies generally focused on digital banking adoption or intention to use digital financial services rather than specifically analyzing saving decisions in digital banking platforms. Research conducted by Kim et al. (2008), Puspitasari and Nugroho (2022), and Yuniningsih and Taufik (2021) mainly examined trust and customer intention in digital financial services, while studies focusing on saving behavior among digital banking users remain relatively limited.

Third, empirical studies specifically investigating Generation Z within the context of digital banking saving behavior in Indonesia are still limited. Most previous studies involved general banking customers or broader demographic groups. Considering that Generation Z represents one of the largest users of digital financial services, understanding their financial behavior becomes increasingly important for the development of digital banking strategies and financial inclusion policies.

Based on these gaps, future research is recommended to expand the research model by incorporating additional variables such as perceived risk, financial behavior, financial attitude, perceived usefulness, and cybersecurity awareness. Future studies are also expected to involve larger sample sizes and broader geographical coverage to improve research generalizability. Furthermore, comparative studies between different generations or between conventional and digital banking users may provide deeper understanding regarding digital financial behavior in different demographic contexts.

CONCLUSION

This study aims to analyze the role of financial literacy and trust in influencing saving decisions in digital banking among Generation Z. The findings demonstrate that financial literacy positively and significantly affects trust and saving decisions in digital banking services. Individuals with higher financial literacy tend to possess better understanding regarding digital financial products, transaction systems, and financial management, which subsequently encourages positive saving behavior.

The results also reveal that trust positively and significantly affects saving decisions. Generation Z consumers who perceive digital banking services as secure, reliable, and credible are more likely to save money through digital banking platforms. Furthermore, this study confirms that trust significantly mediates the relationship between financial literacy and saving decisions, indicating that financial literacy indirectly influences saving behavior through increased confidence toward digital banking services.

The findings contribute theoretically to the development of Behavioral Finance Theory and digital banking literature by emphasizing the importance of cognitive and psychological factors in digital financial behavior. Practically, the findings imply that digital banking institutions should strengthen financial education programs, improve cybersecurity systems, and enhance customer trust to encourage sustainable saving behavior among Generation Z consumers.

This study is limited by its cross-sectional design and limited sample coverage. Therefore, future studies are recommended to involve larger sample sizes, broader geographical coverage, and additional variables such as perceived risk, financial behavior, and cybersecurity awareness to provide more comprehensive understanding regarding digital financial behavior among younger generations.

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