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Gen Z's preference for Sharia fraudulent investments: A moral hazard view

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Abstract

Purpose – This study aims to determine the influence of Islamic financial literacy, profit, religiosity, and affinity variables on Generation Z's preferences in Sharia fraudulent investment practices and to understand whether Generation Z tends to be involved in such practices.

Methodology – This research used 200 Generation Z respondents and analyzed them using the Structural Equation Modeling - Partial Least Squares (SEM-PLS) method. This method was used to test the relationships among the variables studied.

Findings – The results of the analysis show that low Sharia financial literacy has a significant positive effect on Generation Z's preference for fraudulent investment practices. On the other hand, profit, religiosity, and affinity do not have a significant influence on Generation Z's preferences in Sharia fraudulent investment practices.

Implications – These findings imply that the low financial literacy of Generation Z can increase their vulnerability to fraudulent investment practices. Therefore, efforts are needed to increase Sharia financial literacy, especially among Generation Z, to reduce the risk of falling into fraudulent investments. In addition, regulators and related parties must increase the supervision of illegal investment practices that take advantage of religious sentiments.

Originality – This research makes an original contribution by examining Generation Z's preferences for fraudulent Sharia investment practices, which is a new phenomenon that takes advantage of the high number of Muslims in Indonesia. This research also integrates the variables of Sharia financial literacy, religiosity, and affinity, which have not been widely explored in the context of Sharia fake investment.

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Introduction

Fraudulent investments have emerged as a major challenge faced by societies worldwide, including Indonesia. This phenomenon is closely associated with low levels of financial literacy, which often lead individuals to make irrational investment preferences and decisions (Imron et al., 2020; Sabilla & Pertiwi, 2021). In Indonesia, the financial literacy rate reached only 65.43% in 2024, a figure that remains relatively low compared to other ASEAN countries, such as Malaysia, which recorded 80.2% (Otoritas Jasa Keuangan, 2024). A limited understanding of formal financial products

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encourages individuals to seek alternative investment opportunities that promise high returns, but frequently expose them to fraudulent schemes (Pardiansyah, 2017). Consequently, 1,366 fraudulent investment cases were blocked between 2017 and 2024, resulting in public losses of approximately IDR 139.674 trillion (Puspitasari et al., 2021).

Behavioral finance theory explains that investment preferences are not solely determined by rational calculations but are also influenced by psychological factors such as emotions, cognitive biases, personal traits, and social influences (Kapoor & Prosad, 2017). Prior studies have shown that psychological factors originating from both internal and external sources significantly increase the likelihood of irrational investment behavior (Suherman et al., 2022; Atif Sattar et al., 2020). Internal factors include limited financial knowledge and weak ethical or religious foundations, while external factors often involve persuasive investment and offer promising, unusually high returns (Silalahi et al., 2022; Nguyen et al., 2022). Similar behavioral patterns have been widely documented in international contexts, indicating that fraudulent investment is a global behavioral finance issue, rather than a purely local phenomenon.

However, the Indonesian population is currently dominated by Generation Z, who has a hedonistic and consumerist lifestyle compared to other generations (Salsabiil & Kusuma W, 2023). This lifestyle causes an individual to have a tendency to invest in products that offer quick profits (Setiawan & Ardison, 2021). This generation also feels Fear of Missing Out (FOMO) if they do not follow a trend, so they are easily influenced by other people (Indratirta et al., 2023). These feelings include herding behavior, whereby individuals ignores their personal information and is more interested in imitating other investors' preferences which are considered more reliable (Imron et al., 2020). This conditions creates a business field for illegal issuers to look for many customers (Salsabiil & Kusuma W, 2023). For example, in the case of fraudulent investment in the Pandawa Cooperative in 2016, most victims had low financial literacy, thus causing the emergence of representative bias, which had a negative impact. Victims are also tempted by claims of high and instant investment profit from other people. This encourages many people to invest in the KSP Pandawa Mandiri Group without conducting an in-depth analysis of the risks and sustainability of the investment (Imron et al., 2020).

Considering the many cases of blocking fraudulent investments that are detrimental to the Indonesian people, this is not an obstacle for illegal issuers to make new business breakthroughs. One form of practice is the emergence of fraudulent investments under the guise of sharia, which takes advantage of opportunities for a high number of Muslims in Indonesia (Arif, 2020). In practice, fraudulent sharia investments contain elements of *haram, gharār, maysīr, ribā, tadlīs, talaqqī al-rukbān, ghabn, ḍarar, risywah, immorality* and *ẓulm,* which are prohibited by the Islamic religion (Pardiansyah, 2017). With the guise of sharia in a fraudulent investment, it can build a good image in society, which has the potential to give rise to a normal perspective (Imron et al., 2020). Building a good image can be seen through religious activities and positive samples from a religious figure to convince potential customers to make fraudulent investments (Imron et al., 2020). The existence of fake investment in Sharia is a serious problem because it harms many people and can hamper economic growth (Rudiyanto et al., 2022). From 2017 to 2024, 181,000 customers were victims of fraud, with total losses reaching IDR 1,469 (Arianti, 2024).

The large number of Sharia fraud investment cases in Indonesia can be traced back to the main causes. First, the lack of financial literacy in Sharia makes it difficult for people to distinguish whether an investment is legal (Sunarsih et al., 2023). Therefore, when there is a fake Sharia investment offer, it is easy to make a preference without considering various aspects (Suherman et al., 2022). Second, a hedonistic lifestyle often causes people to be tempted by investments that promise high profits with low risks; however, in reality, there are elements of fraud that harm many customers (Panjaitan & Ramadhani, 2023). Third, religiosity also causes people to be deceived by investments that claim to be sharia products (Ridho et al., 2023). This is because with investments using Sharia labels, people are easily led to think that these investments are good, but in practice, there are Ponzi and pyramid schemes. Finally, individuals with a religious affinity can indirectly bring a lot of information and influence from other people, which has the potential to cause irrational preferences. Similar affinities in religious relationships can easily influence individual preferences in Sharia fraudulent investment practices (Imron et al., 2020).

The factors that cause people to fall into Sharia fraudulent investments are in line with research (Sunarsih et al., 2023; Taufik & Rusmana, 2023; Panjaitan & Ramadhani, 2023), which emphasizes that low Sharia financial literacy is the main factor in the practice of Sharia fraudulent investments. In addition, a lack of consideration of projected profits and risks can cause people to become trapped in fraudulent Sharia investment practices (Panjaitan & Ramadhani, 2023; Hidayat & Kayati, 2020; Natanael et al., 2021). Other studies by Salim et al. (2021), Imron et al. (2020), and Ridho et al. (2023) in the context of Sharia fraudulent investments show that individual religiosity will have a significant influence on making wrong preferences. Finally, religious affinity makes it easier for fraudulent investment practices to enter society (Dearden et al., 2024; Blois & Ryan, 2013; Fraser, 2018). However, this research does not specifically explain preferences such as Sharia financial literacy, profits, religiosity, and affinity, which cause people to engage in fraudulent Sharia investment practices (Taufik & Rusmana, 2023; Panjaitan & Ramadhani, 2023; Ridho et al., 2023; Blois & Ryan, 2013).

Therefore, this study fills a gap in the previous research. This research will deepen the review, develop, and analyze the characteristics of Generation Z from the aspects of Islamic financial literacy, profits, religiosity, and affinity, and whether they have a preference for fraudulent investment practices. This research is important because of the widespread fraudulent Sharia investment practices in Indonesia, which are detrimental to many Muslim customers. In addition, knowledge regarding Sharia financial literacy, profits, religiosity, and affinity are factors that are thought to influence Generation Z in influencing investment preferences in Sharia fraudulent investment practices. The hope is that this research can provide education to the public regarding fraudulent Sharia investment schemes that harm many Muslim customers, and provide recommendations for Sharia investment policy regulations to the Financial Services Authority (OJK) regarding investment practices under the guise of Sharia.

Literature Review

Preference theory

Preference theory explains consumer patterns that show preferences when selecting a product (Ummah, 2019). This theory explains consumer preferences for maximizing utility when using an item (Ummah, 2019). This theory also explains the assumptions of rational consumers by considering various alternatives in preference (Holmes, 2022). To avoid fraud, investment preferences must consider personal choices, risk factors, and expected returns. Therefore, it is necessary to consider complex preferences before choosing investment activities (Taufik & Rusmana, 2023).

This theory explains the factors that influence preferences in fraudulent investment practices in Sharia (Mintrom, 2015). According to Murlan et al. (2023) low Sharia financial literacy can cause an individual to have wrong preferences in Sharia fraudulent investment practices. Additionally, people who are often tempted by high profits can have an impact on preferences that lead to fraudulent investment practices. In the context of sharia, many religious people also have preferences that lead to fraudulent investment practices. According to Blois and Ryan (2013), individuals joining religious affinities can interfere with other people in making preferences, which leads to fraudulent Sharia investment practices.

Recent studies published in reputable international journals further strengthen the relevance of preference theory in explaining fraudulent investment behavior. Behavioral finance research demonstrates that preference formation in investment decisions is systematically influenced by cognitive biases, social pressure, and information asymmetry, which frequently leads to irrational choices and increases vulnerability to fraud (Kapoor & Prosad, 2017; Nguyen et al., 2022). In the context of Islamic finance, empirical evidence confirms that low levels of financial literacy and excessive trust in religious symbols or networks significantly distort individual preferences, making investors more susceptible to sharia-based fraudulent schemes (Blois & Ryan, 2013; Fraser, 2018). These findings, documented across different countries and financial systems, provide robust theoretical support that preference theory, when integrated with behavioral and religious dimensions, offers a comprehensive framework for understanding fraudulent investment practices as a global phenomenon rather than a purely local issue.

Moral hazard behavior

Moral Hazard Behavior is a situation in which an individual chooses the risk of profit, but in practice, there is fraud that results in losses being borne by other people (Ummah, 2019). This fraud can be observed in the manipulation of contracts and regulations for personal gain (Murray et al., 2017). One form of moral hazard behavior is the practice of Sharia fraudulent investment fraud (Pardiansyah, 2017). Many fraudulent Sharia investments collaborate with religious figures and offer Sharia products to find customers, especially the Muslim community (Imron et al., 2020).

Many factors cause moral hazard behavior in fraudulent Sharia investment practices. One example is the low Sharia financial literacy of customers, which has an impact on being caught in fraudulent Sharia investments (Imron et al., 2020). This is often caused by moral hazard behavior from illegal issuers (Ummah, 2019). In addition, moral hazard behavior can be seen in the practice of manipulating profits for investors, where issuers offer very high profits to investors. However, the benefits promised at the start were not realized (San-Jose wtL., 2022). The relationship between religiosity and fraudulent Sharia investment is also explained in research (Dearden., 2024), where there is a moral hazard theory in the form of the practice of manipulating Sharia product offerings to attract customers. Moral hazard theory also explains that fake Sharia investments often target religious affinity because there are many potential customers who can be manipulated easily (Dearden et al., 2024).

Sharia fraudulent investment

Fake investment in Sharia is a form of fraud that claims to be in accordance with Islamic principles to build a good image (Fraser, 2018). These investments often offer high profits and low capital (Pardiansyah, 2017). In addition, many fraudulent Sharia investments have been found to be illegal or do not have official legal permits (Dearden et al., 2024). Therefore, it is normal that illegal issuers often look for Muslim customers who have a low level of financial literacy, so they can easily be cheated (Sunarsih et al., 2023).

The emergence of fake Sharia investments is also caused by a lack of consideration for profit predictions with the capital invested (Cahyani, 2022). There are also problems with fraudulent Sharia investment practices in society caused by an individual's religiosity in distinguishing between legal and illegal practices (Suherman., 2022). Apart from that, an individual joining a religious affinity will also have an impact on the amount of information from other people which will cause them to fall into fraudulent Sharia investment practices (Murlan et al., 2023)

Hypothesis

The relationship between Sharia financial literacy and Sharia fraud investment preferences

Sharia financial literacy is one of the determining factors for investors to choose Sharia investment (Rahman & Arsyianti, 2021). According to research (Puspitasari et al., 2021), when an individual's Sharia financial literacy is low, they will prefer fraudulent investment practices (Imron et al., 2020). In preference theory, individuals with low financial literacy have irrational preferences. In contrast, moral hazard theory explains the relationship between low financial literacy in Sharia and fraudulent investment. In this case, there is a fraudulent scheme from the issuer that causes customers with a low level of Sharia financial literacy to potentially experience fraudulent Sharia investment practices (San-Jose, Gonzalo & Ruiz-Roqueñi, 2022). Thus, Sharia financial literacy is thought to have an influence on fraudulent Sharia investments.

H_1: Low Sharia financial literacy has a significant positive effect on fake investment preferences.

The relationship between profits and preferences for Sharia fraud investment

Fraudulent Sharia investments often use fraudulent methods in the form of promises to share high profits without large capital (Pardiansyah, 2017). However, in reality, many customers are deceived because they experience significant losses (Silalahi *et al.*, 2022). In the preference theory, an individual who does not predict benefits will make the wrong preference. Moral hazard theory also involves the practice of manipulating profits for investors (San-Jose, Gonzalo & Ruiz-Roqueñi, 2022). Issuers will offer very high profits at the start to investors; however, the profits promised at the start are not realized (Gui et al., 2024). Therefore, profits are thought to influence Sharia fraudulent investment.

H_2: Profits have a significant positive effect on sharia fraudulent investment

The relationship between religiosity and preferences for Sharia fraud investment

According to research conducted by Taufik and Rusmana (2023) a person's religiosity influences interest in Sharia investing because, in practice, it must be in accordance with Islamic principles. When society has a high level of religiosity, there is potential for a preference for fraudulent Sharia investment practices to emerge (Dearden et al., 2024). The relationship between religiosity and investment is explained in moral hazard theory because there is a manipulation system in which Sharia products are offered to attract customers (Dearden et al., 2024). Based on the many phenomena of Sharia fraudulent investment in Indonesia, it is suspected that religiosity influences Sharia fraudulent investment.

H_3: Religiosity has a significant positive effect on Sharia fake investment preferences

The relationship between affinity and preferences for Sharia fraud investment

Affinity is a bond or relationship between individuals or groups that have something in common, such as race, religion, or professional background (Dearden, Jasperson and Miller, 2024). According to research conducted by Dearden et al. (2024), individuals with a strong affinity relationship tend to trust investment offers from other people more easily. According to preference theory, an individual who joins a religious affinity will tend to have preferences that are influenced by other people to carry out fraudulent Sharia investment practices (Saputri et al., 2023). On the other hand, moral hazard theory also explains that fraudulent investments in Sharia often target religious communities. Therefore, affinity is thought to influence fraudulent investment in Sharia.

H_4: Affinity has a significant positive effect on Sharia fake investment preferences

Research Methods

This type of research uses a quantitative approach that uses data in the form of numbers, which are analyzed statistically (Safira et al., 2023). The objective of this study is to examine the influence of several independent variables on Sharia fraudulent investment preferences among Generation Z. The independent variables are Sharia Financial Literacy (SFL), Profit Orientation (PO), Religiosity (RE), and Affinity (AF), while the dependent variable is Sharia Fraudulent Investment Preference (SFI). Construct-based acronyms are intended to enhance clarity and consistency throughout measurement and structural models.

Each construct is measured using multiple indicators, as shown in Table 2. Sharia Financial Literacy (SFL) was measured using seven indicators (SFL1–SFL7), Profit Orientation (PO) using seven indicators (PO1–PO7), religiosity (RE) using seven indicators (RE1–RE7), affinity (AF) using seven indicators (AF1–AF7), and Sharia fraudulent investment preference (SFI) using seven indicators (SFI1–SFI7). All constructs were evaluated using the SEM-PLS approach to ensure the validity and reliability of the measurement model, as well as the robustness of the structural relationships.

The population comprises all objects in an area that must meet certain requirements related to the research problem. The population in this research is Generation z in Indonesia, which has preferences for fraudulent investment activities. The sample in this study is generation z, who has the criteria (1) domiciled in Indonesia, (2) met the requirements to become investors, and (3) aged

18 years or older at the time of data collection, corresponding to individuals born between 1997 and 2006. This age range ensures consistency with the legal requirement for investment participation, and clarifies that all respondents meet the minimum age threshold.

If the population size cannot be ascertained, it is recommended to use an appropriate sample, namely above 50-400 samples (Hair et al., 2014). The following is the determination of the minimum research sample: (number of indicators + number of latent variables) × (5 to 10). From this theory, the sample size for this research was produced as follows: minimum sample = (35+5) x 5 = 200 respondents.

This research used primary data sourced from questionnaires distributed to respondents via Google Forms as an information collection tool. Primary data were obtained from Generation Z throughout Indonesia, who met the sample criteria. Research indicators use a 1-5 Likert scale which has 5 levels of questions for respondents: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree.

This study employs structural equation modeling using the Partial Least Squares approach (SEM-PLS) with SmartPLS software to analyze the research data. The SEM-PLS method is considered appropriate because it enables the examination of predictive relationships among latent constructs and is well-suited for exploratory research and complex models with multiple variables (Hair *et al.*, 2014). The analysis consisted of two main components: a measurement model (outer model) and a structural model (inner model).

Measurement model evaluation focuses on assessing the relationships between latent constructs and their indicators. Convergent validity was examined using factor loadings and average variance extracted (AVE), where indicator loadings greater than 0.70 and AVE values above 0.50, indicate adequate validity. Discriminant validity is assessed by comparing cross-loadings to ensure that each indicator loads more strongly on its associated construct than on the others. Reliability is evaluated using internal consistency measures, where values exceeding 0.70 indicate acceptable reliability.

The structural model (inner model) was evaluated to examine the strength and significance of the relationships between the latent variables based on the proposed theoretical framework. This evaluation included an assessment of path coefficients and their statistical significance, which were determined using a bootstrapping procedure. Path relationships were considered significant when the t-statistic exceeds 1.96 and the p-value was below 0.05. Additionally, the explanatory power of the model was assessed using the coefficient of determination (R^2), which indicates the extent to which the endogenous variable is explained by the exogenous variables in the model. Higher R^2 values reflect stronger explanatory capability and provide insight into how well the model captures the underlying relationships among the constructs (Hair et al., 2014).

Results and Discussion

This study describes the characteristics of the respondents, including their age, education level, income, and type of occupation. All respondents belonged to Generation Z and were over 18 years old. A total of 200 valid responses were obtained after the data-screening process was conducted. During this process, the collected questionnaires were carefully examined and responses with incomplete answers, inconsistent patterns, or invalid entries were excluded from the analysis. Only data that met the predefined quality criteria were retained.

Furthermore, the remaining data were processed and evaluated using both outer and inner model analyses to ensure the reliability and validity of the measurement instruments, as well as the robustness of the structural relationships among variables. Therefore, the final dataset consisted of 200 respondents who fully satisfied the screening and data-cleaning requirements. In terms of gender composition, 55.3% of the respondents were female and 44.7% were male. The respondents' educational background was predominantly high school and bachelor's degree (S1), with variations in employment status and income level, as presented in Table 1.

The outer model tests in this research included convergent validity, discriminant validity, composite reliability, and Cronbach's alpha to measure the validity and reliability of indicators against latent variables (Hair et al., 2014). Convergent Validity was used to ensure that the indicators had a strong relationship with the construct, where the indicator was declared valid if the outer loading value was ≥ 0.70. Discriminant validity is used to ensure that each construct can be differentiated from other constructs through a lower correlation between constructs so that each construct is unique. Composite reliability and Cronbach's alpha are used to measure the extent of internal consistency between indicators, with an expected value of more than 0.70, which indicates good reliability (Hair et al., 2014). The results of the outer model test show that all indicators meet the required validity and reliability criteria; therefore, the model is ready for further analysis

Table 1. Respondent characteristics

Respondent characteristics	Category	Total
Gender	Man	89
	Woman	111
Last education	Senior High School	120
	S1	74
	S2	6
Work	Student University	185
	Non-PNS Officer	10
	Other	5
Income per month	≤ IDR 2,000,000	139
	IDR. 2,000,000 < IDR. 5,000,000	50
	IDR. 5,000,000 < IDR. 10,00,000	9
	≥ IDR. 10,000,000	2
	Sumatra	14
Domicile	Java	167
	Nusa Tenggara Islands	5
	Sulawesi	4
	Maluku Islands	1
	Kalimantan	4
	Papua	2
	Bali	3

Source: Primary data processed by the author (2023)

Based on the results of the outer model evaluation, all indicators exhibited outer loading values exceeding the recommended threshold of 0.70, indicating a strong convergent validity for each latent construct. For the Sharia financial literacy (SFL) construct, all indicators (SFL1–SFL7) demonstrate satisfactory outer loading values, confirming that each indicator adequately represents the underlying construct. Similarly, the profit orientation (PO) construct shows strong convergent validity, as all indicators (PO1–PO7) load significantly on their respective constructs.

The religiosity (RE) and affinity (AF) constructs also met the convergent validity criteria, with all indicators (RE1–RE7 and AF1–AF7) exhibiting outer loading values above 0.70. Furthermore, the dependent construct, Sharia fraudulent investment preference (SFI), demonstrates acceptable convergent validity, with outer loading values ranging from 0.631 to 0.790 across indicators SFI1 to SFI7. Overall, these results confirm that all indicators used in this study have strong explanatory power and are reliable measures of their respective latent variables.

Next, a discriminant validity test was conducted to ensure that the constructs measured by each indicator were significantly different from each other. This test aims to ensure that the different latent variables do not overlap excessively. This measurement can be performed by examining the average variance extracted (AVE) value, which reflects the extent to which variation in an indicator can be explained by its Latin construct (Hair et al., 2014). Based on the guidelines of Hair et al. (2014), the AVE value considered good is ≥ 0.50, which indicates that the construct can explain more than half of the variation contained in the indicator. In this study, all constructs have an AVE value of more than 0.50, which indicates that these variables have an adequate level of convergent validity, as shown in Table 2.

In addition, testing was conducted on the composite reliability value, which measures the internal reliability of a construct consisting of several indicators. This value describes how well the indicators correlate with each other and consistently measures the same construct consistently (Hair et al., 2014). A good composite reliability value is usually ≥ 0.70, indicating that the indicators in this construct have a high level of reliability. Based on the results, all variables have a composite reliability value of more than 0.70, as shown in Table 2, which means that the construct is reliable for use in further analysis.

Table 2. Validity and reliability test

Variable	Indicator	OL	CA	CR (rho_a)	CR (rho_c)	AVE
Sharia Financial Literacy	SFL 1	0.833	0.911	0.921	0.930	0.655
	SFL 2	0.866				
	SFL 3	0.873				
	SFL 4	0.851				
	SFL 5	0.679				
	SFL 6	0.818				
	SFL 7	0.725				
Profit	PO 1	0.853	0.929	0,936	0,943	0,702
	PO 2	0.859				
	PO 3	0.816				
	PO 4	0.834				
	PO 5	0.804				
	PO 6	0.807				
	PO 7	0.889				
Religiosity	RE 1	0.773	0.891	0.900	0.915	0.606
	RE 2	0.797				
	RE 3	0.699				
	RE 4	0.839				
	RE 5	0.826				
	RE 6	0.773				
	RE 7	0.734				
Affinity (X4)	AF 1	0.681	0.919	0.921	0.935	0,675
	AF 2	0.824				
	AF 3	0.831				
	AF 4	0.866				
	AF 5	0.836				
	AF 6	0.834				
	AF 7	0.862				
Sharia Fraudulent Investment(Y)	SFI 1	0.681	0.857	0,898	0,880	0,512
	SFI 2	0.631				
	SFI 3	0.709				
	SFI 4	0.790				
	SFI 5	0.742				
	SFI 6	0.708				
	SFI 7	0.737				

Note: OL: Outer loading; CA = Cronbach's alpha; CR = Composite reliability; AVE = Average variance extracted.
Source: Data processing

Finally, the Cronbach's alpha value, which measures the extent to which the items in the scale are correlated and consistent in measuring the same construct, was checked. A Cronbach's alpha value of ≥ 0.70 is considered adequate to indicate good internal reliability, was considered adequate. In this study, the Cronbach's alpha value for all variables was also greater than 0.70, which shows that the instruments used are reliable for measuring relevant constructs, as listed in Table 2. In addition to reliability testing, the robustness of the measurement and structural models was evaluated through discriminant validity tests and model fit indices. Discriminant validity was assessed using the Fornell–Larcker criterion and cross-loading analysis, which confirmed that each construct was empirically distinct, as the square root of the average variance extracted (AVE) for each construct exceeded its correlations with other constructs. Furthermore, model fit was examined using established goodness-of-fit indices, including the standardized root mean square residual (SRMR) and normed fit index (NFI). The results indicate that all the fit indices meet the recommended threshold values, demonstrating that both the measurement and structural models are robust and provide credible empirical support for the proposed relationships.

The inner model is a structural model used to predict causal relationships (cause-effect relationships) between latent variables or variables that cannot be measured directly (Hair et al., 2014). In testing this inner model, the step that must be taken is to measure it by estimating the path coefficient, which can help determine the strength and direction of the relationship between the variables in the model. This study uses the SmartPLS application to manage the data so that the path coefficient estimation results are obtained through this analysis. In the path coefficient, we can see the t-value (T-statistic) and p-value (P-value). For this study, the t-table value was set to 1.653. The following are the estimates obtained from this analysis:

Table 3. Path coefficient

Hypothesis	Relationship	Original Sample	Sample mean	STDEV	T Statistics	P Value
H1	Sharia financial literacy (X1) → Sharia fraud investment (Y1)	0. 249	0. 248	0.109	2. 294	0. 022
H2	Profit (X2) → Sharia fraud investment (Y1)	0.062	0. 065	0.118	0.524	0.600
H3	Religiosity (X3) → Sharia fraud investment (Y1)	-0. 016	-0.000	0.117	0.136	0.892
H4	Affinity (X4) → Sharia fraud investment (Y1)	0.121	0.127	0.119	1.012	0.312

Source: Data processing

Based on the output of the estimation results in Table 3, it can be concluded that H1, the influence of Sharia financial literacy, is positively correlated and has a significant effect on Sharia fake investment preferences. This is supported by the t-statistic value of 2,294, which is greater than the t-table value, namely (1.653). The original sample (O) value was 0.249, with a P-value <0.05, that is, 0.022. Thus, hypothesis H1 that low Sharia financial literacy has a significant positive effect on sharia fake investment preferences is accepted. This shows that Generation Z's rendering of Sharia finance in Indonesia has no significance on Sharia fake investment preferences. However, there is significance in the high Sharia financial literacy of Generation Z regarding fraudulent Sharia investments.

Furthermore, H2 on the influence of profits on Sharia fake investment preferences shows a positive correlation, but the effect is not significant. This is indicated by a t-statistic value of 0.524, which is lower than the t-table value (1.653). The original sample (O) value was 0.062, and the p-value was > 0.05, which was 0.600. Based on these results, hypothesis H2, that profits have a significant positive effect on Sharia fraudulent investment, is rejected. This means that high profits from investing do not significantly influence Generation Z's preferences in Sharia-fraudulent investment practices.

H3, which tests the influence of religiosity on Sharia fake investment preferences, shows a negative correlation and insignificant effect. The t-statistic value of 0.136 is lower than the t-table value (1.653) and the original sample (O) value of 0.201, with a P-value > 0.05, that is, 0.892. From these results, hypothesis H3, that religiosity has a significant positive effect on Sharia fake investment preferences, is rejected. This indicates that Generation Z's religiosity has no relationship with preferences in Sharia fraudulent investment practices.

Finally, H4, namely, the effect of affinity on Sharia fake investment preferences, shows a negative correlation and an insignificant effect. This can be observed from the t-statistic value of 1.012, which is not significantly lower than the t-table value (1.653). The path coefficient or Original Sample (O) value was 0.121, with a P-value > 0.05, namely 0.312. Thus, hypothesis H4, that affinity has a significant positive effect on Sharia fake investment preferences, is rejected. This means that there is no relationship between Generation Z affinity and fraudulent investment practices in Sharia.

Discussion

Based on the estimation results using the SEM-PLS model, a significant positive relationship is found between low Sharia financial literacy and high Sharia fraudulent investment practices. This finding is in line with previous research that states that low financial literacy is the main factor in the high rate of fraudulent Sharia investment practices (Dinc et al., 2021; Kevser & Doğan, 2021; Imron et al., 2020; Alam et al., 2023). One reason for this is that this generation often uses social media to easily access investment information (Rais et al., 2023; Saputri et al., 2023; Wicaksono & Wafiroh, 2022; Kamil & Tanno, 2022). This easy access to social media causes Generation Z to often be exposed to a lot of information, which results in the emergence of a habit of reading at a glance, making it difficult for them to focus on reading long texts (Azra et al., 2024; Latifah & Paramita, 2023). This phenomenon causes many negative impacts, such as a decrease in critical power when dealing with a problem.

This condition is also supported by the theory of bounded rationality, or what can be called limited rationality, where humans in making preferences actually have limitations in choosing information (Permana & Wening, 2024; Mintrom, 2015). This is reflected in the previous phenomenon, where Generation Z in everyday life is often exposed to a lot of information, so that, in the end, this generation is unable to sort information well. This large amount of information creates a condition of bounded rationality among Generation Z in making preferences that are less than ideal with less rationality. This condition causes the emergence of a preference for fraudulent Sharia investment practices among Generation z, which is a result of the existence of bounded rationality. This is proven by the significance of bounded rationality in fraudulent investment practices (Sudarwanto & Kharisma, 2023; Yudhianto & Atmaji, 2023; Shonhadji et al., 2024).

It can be concluded from the previous conditions that are the cause of Generation Z having low financial literacy due to lazy reading behavior and a culture of skimming so that it is difficult to sort out good information, so that they have the potential to develop a preference for fraudulent Sharia investment practices (Mintrom, 2015; Alam et al., 2023; Dinc et al., 2021). This is demonstrated by the low Sharia financial literacy index of Indonesian society in 2024, which is only 39.11% compared to other ASEAN developing countries such as Malaysia, which is 80.2% (Otoritas Jasa Keuangan, 2024). The low Sharia financial literacy index of society in Indonesia is accompanied by a large number of fraudulent investment practices, namely 1,528 in 2017-2024 (Otoritas Jasa Keuangan, 2024). The results of this study emphasize the importance of increasing people's Sharia financial literacy, especially Generation Z, amidst the rapid development of technology and social media, so that it can prevent and minimize preferences for fraudulent Sharia investment practices.

In addition, the distributed questionnaire also explains that the low level of Sharia financial literacy among Generation Z could be one of the main reasons for the increase in fraudulent Sharia investments. Low Sharia financial literacy causes them to lack an understanding of important information related to Sharia financial products (X1.1), Sharia investment contracts (X1.2), and difficulty filtering investment offers (X1.4). This lack of understanding makes Generation Z more vulnerable to fraudulent investment offers using symbols, religious terms, or religious figures (Y1.6, Y1.7). With low literacy, they are unable to identify the characteristics of non-transparency or invalidity of permits for fake Sharia investments (Y1.4, Y1.5). Therefore, increasing education and awareness regarding Sharia finance among Generation Z is important to minimize the risk of "fraudulent Sharia investment" practices.

The relationship between profits and fake investment preferences in Sharia has changed along with the current development of social media. This results in no significance between Generation Z's profit motive and fake investment preferences. Rather than focusing on profit evaluation, they tends to be influenced by trending or viral financial product due to the large amount of access to information from social media (Andriyanti & Farida, 2022; Amalia & Rozza, 2022). This condition is also supported by the existence of fear of missing out (FOMO) behavior among this generation, which causes them not to prioritize profit motives and shifts their preferences toward trending Sharia fake investment products (Yulianto et al., 2024).

With so many financial products currently trending, illegal issuers are also using social media to promote fake Sharia investment products. Apart from being easy, this digital promotional media is also very fast in disseminating information to a wider community. It is not surprising that there is a lot of fake investment information from social media influencers that often appears, making Generation Z prone to being caught in fake sharia investment practices (Kholiq, 2022; Mauliza & Canggih, 2023). This condition shows the significance of influencers' influence on preferences for fraudulent Sharia investment practices. These results are in line with previous research that explains the significant and positive influence of influencers on fake investment preferences in Sharia (Lubis, 2023). These findings highlight the potential popularity of a Sharia financial product, which causes many fraudulent investment preferences among generation z. This underlines the importance of filtering information regarding Sharia investment circulating on social media and also increasing Sharia financial literacy in order to minimize Sharia fraudulent investment preferences that result in losses.

Based on the respondents' existing conditions, profit (X2) does not have a significant effect on preferences for fake investments in Sharia. This can be explained by the fact that respondents generally perceive Sharia investment as a means of achieving long-term financial benefits, such as attaining long-term financial goals (X2.2), protecting wealth from inflation (X2.3), reducing financial risk (X2.4), and ensuring financial stability (X2.7). This orientation reflects an understanding of profit in the context of Sharia investment as a long-term benefit rather than short-term gain. However, the results indicate that perceived profit does not have a significant effect on preferences for Sharia fraudulent investments, suggesting that Generation Z does not choose such investments based on rational profit considerations. Instead, due to relatively low financial literacy, Generation Z is more easily influenced by fraudulent investments that display Sharia symbols. This finding implies that the attractiveness of "Sharia Fraudulent Investment" is driven more by trust in religious symbols or visibly presented Sharia values than by the actual financial benefits offered, thereby explaining why the perception of Sharia investment profits does not significantly influence preferences for fake investments.

On the other hand, generational religiosity does not have a significant impact on fake investment preferences and is not in line with determining hypertension at the start. This is due to the hedonistic style of Generation z, which is contrary to Islamic religious law (Busman, 2022; Cahyani, 2022). This implies that this generation has a lifestyle that prioritizes unlimited world satisfaction and pleasure, as demonstrated by luxury. This is demonstrated by the significance of hedonism in reducing religiosity. According to research (Prastiwi & Fitria, 2020; Ridho et al., 2023), this hedonistic lifestyle is influenced by Western cultural information, which quickly spreads through social media to Indonesian society. This Western culture causes religion to lose its role in the daily lives of Generation Z. If a social environment becomes increasingly secular, it can result in the erosion of religious values, especially among Generation Z, who are exposed to global media and technology. This means that, currently, many of this generation are starting to lose their religious values due to the excessive use of social media. This condition is in line with previous research (Prastiwi & Fitria, 2020; Adi et al., 2023; Ismail, 2020; Ridho et al., 2023), which explains the significance of the influence of Western culture and the decline of religiosity. It can be concluded that fraudulent sharia investment practices do not consider whether the community is Muslim.

Excessive open-mindedness is also found in the characteristics of generation z, which results in a decrease in the critical power for selecting information. This condition results in generation z accepting all information, whether religious or not (Yasin & Lestari, 2024; Rudiyanto et al., 2022). With this open-minded nature, Generation z will be increasingly open to information on social media so that they will be easily influenced by fake investment products that have a sharia smell regardless of religious background. This is proven by research (Mahmud, 2024; Masripah et al., 2024) that an open-minded nature can cause people to be trapped in fraudulent sharia investment practices. It can be concluded that in Sharia fraudulent investment practices, it is not always related to something related to Islamic religion alone, but can also be caused by the influence of investors' characteristics, which are in fact contrary to Islamic religious law, such as being excessively hedonistic and open-minded. Therefore, there is a need for selective behavior towards information circulating on social media to avoid fraudulent Sharia investment practices that have characteristics that are difficult to predict.

In addition, based on the distributed questionnaire, the Religiosity variable (X3) has no significance in sharia fraudulent investment practices. This finding indicates that although Generation z respondents place more emphasis on applying religious values in daily life, however this is not necessarily applied in their investment decision making. This is shown by the majority of respondents who disagree with statements such as "Religiosity helps differentiate between halal and haram economic activities" (X3.5) or "Religiosity helps avoid fraudulent practices" (X3.7). This indicates that a person's religiosity is not a guarantee for them in the practice of "fraudulent sharia investment" because, in practice, it is difficult to predict and analyze more deeply. Thus, individual religiosity does not significantly influence preferences for fraudulent investments, as these frauds often succeed in framing themselves as compliant with the Sharia values.

The increasingly rapid development of technology has caused changes in all aspects of life, including the Sharia financial products sector. This condition triggers the lack of significance between affinity and Sharia fake investment preferences. This is due to the emergence of social media, which has become an intermediary for the dissemination of information among the public. This information is often abstract and its quality has not yet been tested. One of the phenomena that arises as a result of the use of social media is the influence of algorithm systems that reflect an anti-racism attitude of generation z towards a particular affinity (Kusumaningrum et al., 2022; Musakar et al., 2023; Masripah et al., 2024). This anti-racism attitude emerged because Generation Z tends to generalize to all groups of society without considering differences in affinity, religion, ethnicity, or race. In other words, Generation Z tends to think uniformly in economic matters, including fraudulent Sharia investment practices. This is supported by previous research (Wahyuni, Asnaini and Setiawan, 2023) in which the existence of anti-racism is significant towards fraudulent Sharia investment practices. It can be underlined that the social media algorithm system has led to the emergence of a feeling of anti-racism among Generation Z, thereby causing no significance towards an affinity for fraudulent Sharia investment practices.

On the other hand, illegal issuers are also intensifying their promotion through social media so that information can be disseminated to the public quickly without considering a particular affinity, so that they can be caught in Sharia fraudulent investment practices (Hanafi et al., 2024). Of course, this condition has become a new business field to attract many customers by introducing Sharia elements. This is supported by the positive significance between social media and fake investment preferences in Sharia. According to Wicaksono and Wafiroh (2022), social media has a significant positive influence on fraudulent investment preferences in Sharia. This finding marks the uniqueness of generation z, who are literate in digital technology such as social media, which causes diversity of thought; when there is information about investment in social media without in-depth analysis, it can give rise to a preference for fraudulent Sharia investment practices. including generation z shows the nature of openness to information, giving rise to uniform thinking regardless of a particular affinity.

Based on the respondent's existing conditions, the affinity variable (X4) includes aspects of interest in religious values, such as helping bring a closer relationship with God (X4.1), encouraging participation in activities based on Sharia principles (X4.2), influencing daily economic activities (X4.3), and increasing preference for Sharia financial products (X4.5). However, the results of the respondents' answers did not show significance for Sharia fraudulent investment practices (Y1). This finding indicates that affinity focuses more on aspects of spiritual and emotional interest rather than having a direct connection with critical abilities in assessing shariah fake investments. In addition, respondents tend to associate avoiding fake investments with other factors, such as Sharia financial literacy, which includes filtering investment offers (X1.4). Thus, although affinity increases preferences for religious values and Sharia investment, it is not relevant enough to help respondents avoid fraudulent Sharia investment practices.

Conclusion

This study aimed to examine the factors influencing Generation Z's preferences toward Sharia fraudulent investment schemes in Indonesia, with a particular focus on Sharia financial literacy, profit motives, religiosity, and affinity. Overall, the research objectives were achieved. The empirical findings confirm that low Sharia financial literacy significantly increases Generation Z's vulnerability to Sharia fraudulent investment practices, while profit motives, religiosity, and affinity do not show significant effects. These results provide a clearer understanding of the behavioral mechanisms underlying fraudulent investment preferences among young Muslim consumers.

From a theoretical perspective, this study contributes to the literature on Islamic finance and consumer behavior by highlighting the central role of Sharia financial literacy in shaping investment-related decision making. The findings suggest that, in the context of Generation Z, traditional assumptions regarding profit orientation and religiosity as key determinants of investment behavior may no longer be fully applied. Instead, exposure to social media, information overload, heuristic processing, and behavioral biases such as fear of missing out (FOMO) appear to weaken the influence of profit motives and religiosity. This insight extends the existing theories of financial literacy and behavioral finance by incorporating the unique characteristics of a digitally native generation.

In terms of practical and policy implications, the results emphasize the urgent need to strengthen Sharia financial literacy education, particularly for Generation Z. Policymakers and regulators, such as the Financial Services Authority, are encouraged to collaborate with institutions, such as the National Committee for Sharia Economics and Finance, to design more targeted, accessible, and technology-based educational programs. Given that fraudulent Sharia investment schemes increasingly utilize social media as a promotional channel, regulatory efforts should also focus on digital surveillance, public awareness campaigns, and critical information literacy to help young consumers better evaluate online investment information.

Despite its contributions, this study had several limitations. First, the analysis is limited to four explanatory variables–financial literacy, profit motives, religiosity, and affinity–which may not fully capture the complexity of Generation Z's investment preferences. Second, the study does not explicitly account for the role of social media influencers, digital marketing strategies, or psychological factors, such as trust and risk perception, which may significantly affect investment behavior in the digital era.

Therefore, future research should incorporate a broader range of variables that reflect current technological and social dynamics, including the influence of social media influencers, algorithm-driven information exposure, and intergenerational differences in investment behavior. Comparative studies across different generations or regions in Indonesia may also provide a more comprehensive understanding of fraudulent investment preferences in sharia. Such extensions would enhance the robustness, relevance, and policy value of future research in this area.

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