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Decisions of the Young Generation in Using Digital Banking Services: Structural Equation Modeling Analysis

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Abstract: This study aims to create a new research model with a variety of variables to comprehend and forecast the key factors that influence young people's decisions to use digital banking. This study uses a quantitative method with a multivariate analysis approach, for this reason, the Partial Least Square Structural Equation Modeling (PLS-SEM) analysis technique is used. According to the findings of this study, respondents' perceptions of the quality of digital banking products such as mobile banking, SMS banking, phone banking, and internet banking do not influence them to continue using digital banking. Considerations of usability, benefits, risks, and ease of use dominated respondents' decisions to use digital banking services.

Keywords: *Digital Banking, Banking Services, Digital Banking Products, and PLS-SEM.*

Introduction

Over the last few decades, technological advances have changed how people live and conduct business (Sardana & Singhania, 2018). New payment, banking, and finance methods are developing as a result of globalization and internet use. As a new strategy to improve transaction efficiency and convenience, digital payments and banking were introduced (Leong et al., 2020). Technology and online payment methods have transformed conventional physical wallets into mobile wallets, or m-wallets (Sharma et al., 2019). The term "digital payments" refers to all forms of payment made with digital tools, such as mobile payments, mobile wallets, cryptocurrency, and electronic payments (Alkhowaiter, 2020).

In addition to encouraging people to use non-cash payments in their daily lives, the majority of banks now offer digital services. A digital-only bank will be created as part of the development of digital services; this bank will be entirely virtual, have no physical branches, and perform all banking functions via mobile applications. The way people use services, engage in consumption, and manage their finances are all being completely transformed by digital banking. (Bastari et al., 2020)). The government tightened regulations following the COVID-19 pandemic in order to adjust to the "New Normal". One of the protocols involves avoiding physical contact and maintaining social distance. To help the public support the "New Normal," the Indonesian government is also promoting a non-cash payment system (Aji et al., 2020).

When routines and methods of operation are optimized, digitalization can lead to significant efficiency (Kuusisto, 2017). However, the digitalization policy will undoubtedly result in changes to customary working practices. As a result of this process, society will need to change how it uses technology, with consequences. Some of society will view this change as advantageous, while other segments will need more time to adjust to the new way things work. An increasing number of studies are proving the value of financial literacy, as well as its benefits, such as the ability to make better financial decisions (Andreou & Anyfantaki, 2021).

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Literature Review and Hypothesis

The use of technology such as digital banking in service innovation to meet customer needs can be understood through what services are needed by customers and how customers view these services (Ababa, 2018). Customers expect to be able to take advantage of digital banking such as social media, and they can use services anytime, anywhere, and under any conditions (Dootson et al., 2016). However, digital banking services must also pay attention to the interests of customers, such as privacy, security, time and performance risks, and other related risks (Alkhowaiter, 2020).

The experience of customers using digital services is an important factor that must be possessed by banks in analyzing marketing strategies for appropriate digital banking services (Sorofman, Virzi, & Genovese, 2015). Meanwhile, the digital banking experience includes service quality, functional quality, perceived value, service customization, speed service, employee-customer engagement, brand trust, digital innovation banking, perceived usefulness, and perceived risk (Mbama & Ezepue, 2018). In particular, there are some differences in the development of digital services for younger customers. Younger (vs. older) consumers are more likely to rely less on heuristic processing (Yoon, 1997). As consumers move through their life cycle, their needs and responses to marketing programs tend to shift to become more benefit-oriented (Akturan & Tezcan, 2012).

The research methodology used to produce an exploratory analysis and can be used as material for recommendations on this topic is Product Knowledge. Respondent's knowledge of digital banking services is the focus of this variable as well as being the main determinant which in various cases is considered to determine the decision to adopt digital banking. The main adoption of the research of Eisingerich & Bell (2008) is:

1. *Perceived Quality*. Perceived quality in digital banking products is considered important to be involved in the research construct, the adoption of this variable was found in the study of Mylonakis et al. (1998) and Ruiz et al (2008).

   Hypothesis 1: Perceptions of the quality of digital banking products affect respondents considering continuing to use digital banking.

2. *Perceived Risk*. Perceived risk in using digital banking products is a variable that is believed to be the basis for determining young people's use of products, adopted from research by Snoj et al (2004).

   Hypothesis 2: Perceptions of the risk of digital banking products affect respondents in considering continuing to use digital banking.

3. *Perceived Benefit*. Perceived benefit is also assumed to be the basis for adopting digital banking products. Therefore, researchers think it is important to involve this variable, which was adopted from the grand theory of McMillen & Fisher (1998) and then derived by Leung (2013).

   Hypothesis 3: Perceptions of the benefit of digital banking products affect respondents in considering continuing to use digital banking.

4. *Easy of Use*. The ease of using digital banking is a variable that is seen as closely related to the decisions of the younger generation in adopting various things nowadays, including digital banking. The variable of ease of use, until now, refers to Davis (1989). Although it is quite old, from time to time there has not been much change in adopting the variable of ease of use.

   Hypothesis 4: Perceptions of the ease of use of digital banking products affect respondents in considering continuing to use digital banking.

This study is a quantitative study using the Structural Equation Modeling (SEM) analysis technique. The considerations used for this analysis are since exploring the intentions of the younger generation in adopting or using digital banking requires a combination of various variables. The construct in this study adopts the research of Hati, Wibowo & Safira (2020) which has been published in a reputable journal (Emerald), but there is the addition of *perceived benefit* and *ease of use* variables. The construct used for this research involves the following variables.

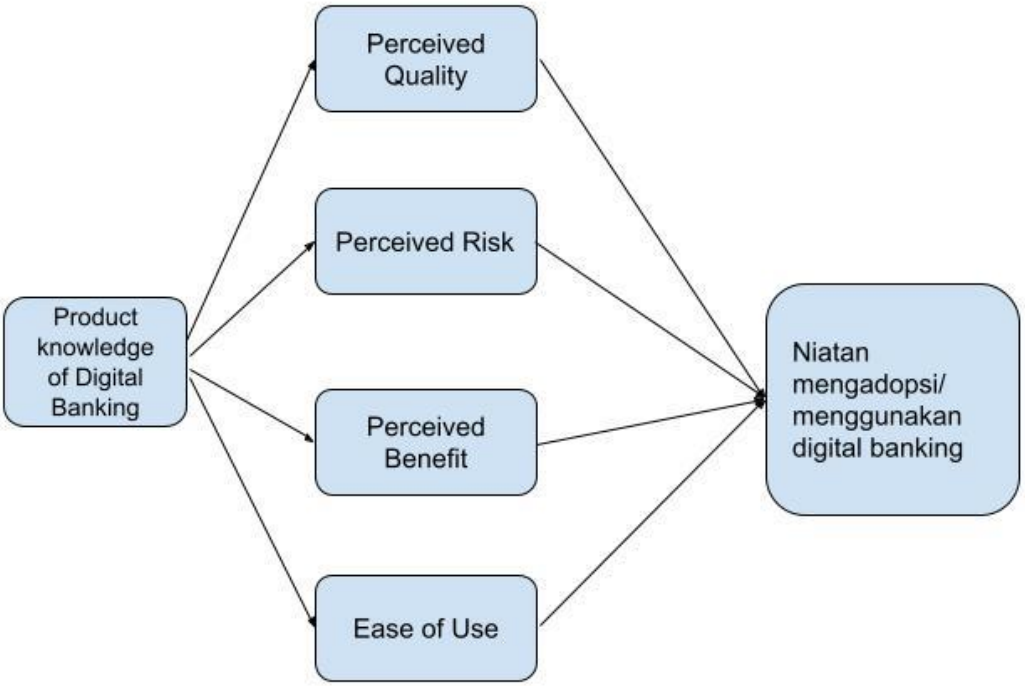

Figure 1. Conceptual Framework

This study uses a quantitative method with a multivariate analysis approach, for this reason, the Partial Least Square Structural Equation Modeling (PLS-SEM) analysis technique is used. This step is necessary because the studied variables involve constructs involving exogenous variables, intermediary variables, and endogenous variables. In order to obtain a detailed description of the research, the variables used in the study include product knowledge of digital banking and knowledge of the Deposit Insurance Corporation (LPS; *Lembaga Penjamin Simpanan*) as exogenous variables. Furthermore, the intermediary variables involve perceived quality, perceived risk, perceived usefulness/perceived benefit, and ease of use. Meanwhile, the intention to use/adopt digital banking is used for endogenous variables. The questionnaire was arranged in stages with a Likert scale of 4 levels including "strongly agree: 4," "agree: 3," "disagree: 2," and "strongly disagree: 1." Questionnaires were distributed online to respondents who use digital banking products including SMS Banking, Phone Banking, Internet Banking, and Mobile Banking. The obtained data can be processed after organizing the data of as many as 166 respondents (see Table 1).

Table 1. Respondents

Characteristics	N (%)
Gender	
Males	69
Females	97

Results

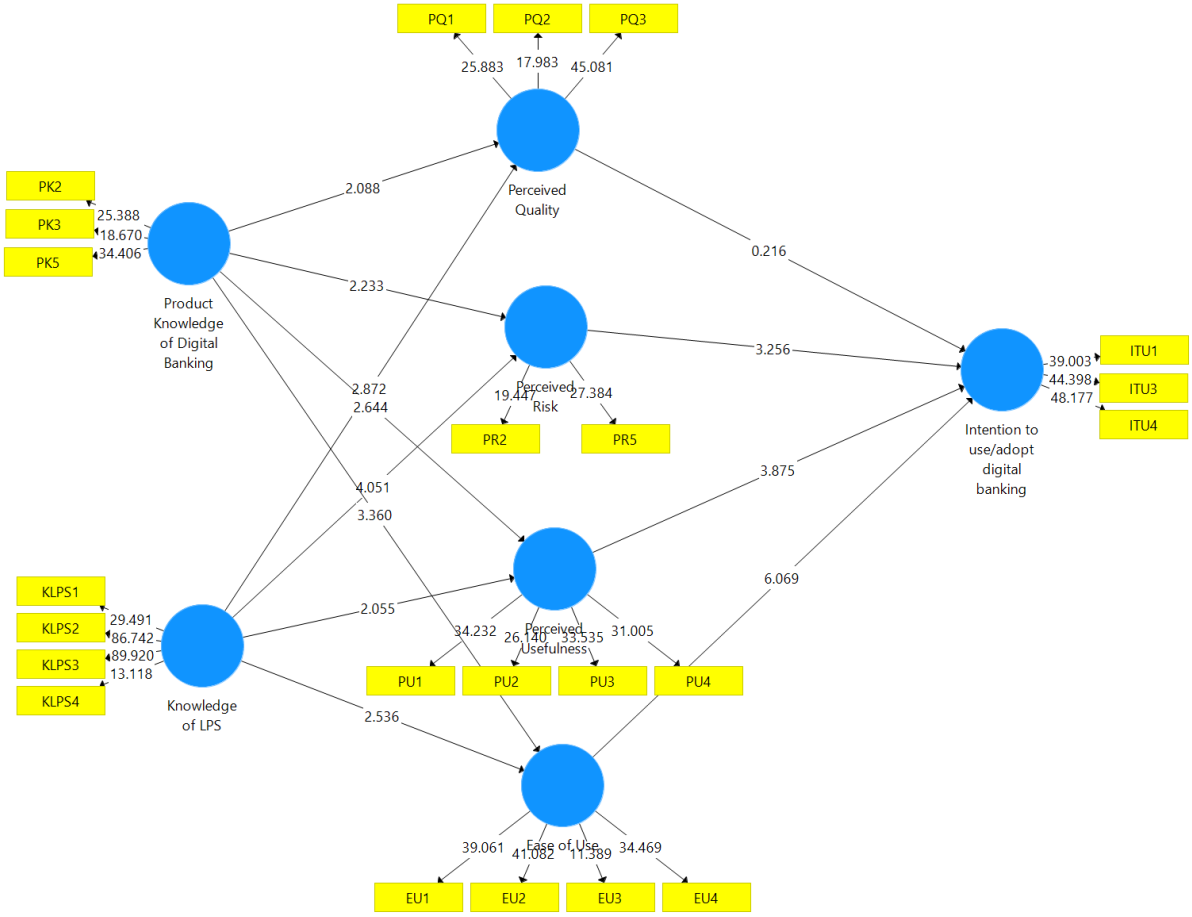

Figure 2. Figure Construct after Bootstrapping
Source: Output SmartPLS 3.

R^2

R^2 shows the value of all endogenous variables examined in the study. In this study, R^2 will appear in the variables perceived quality, perceived risk, perceived usefulness, ease of use, and intention to use/adopt digital banking. Leguina (2015) classifies R^2 values into 4 categories including 0.35 for big influence, 0.15 for medium effect, and 0.02 for a small effect, while a value <0.02 is considered no effect.

f2

An f2 value of 0.02 is categorized as a weak influence of predictor latent variables (exogenous latent variables) at the structural level. An f2 value of 0.15 is categorized as a moderate influence of predictor latent variables (exogenous latent variables) at the structural level. The f2 value of 0.35 is categorized as a strong influence of latent predictor variables (exogenous latent variables) at the structural level.

Direct & Indirect Effect

Direct effect (direct effect) and indirect effect (indirect effect) can be seen from the results of bootstrapping analysis on path coefficients. According to Hair et al. (2017), a significant relationship or influence occurs if the T-statistics value > 1.96 and the P-value < 0.05.

Table 2. Path Coefficients

Relation	Original Sample	T-statistics	P-value	Effects
Direct Effects				
Product Knowledge of Digital Banking → Perceived Quality	0.238	2.088	0.037	Significant
Product Knowledge of Digital Banking → Perceived Risk	0.215	2.233	0.026	Significant
Product Knowledge of Digital Banking → Perceived Usefulness	0.306	2.644	0.008	Significant
Product Knowledge of Digital Banking → Ease of Use	0.355	3.360	0.001	Significant
Knowledge of LPS → Perceived Quality	0.264	2.872	0.004	Significant
Knowledge of LPS → Perceived Risk	0.369	4.051	0.000	Significant
Knowledge of LPS → Perceived Usefulness	0.207	2.055	0.040	Significant
Knowledge of LPS → Ease of Use	0.219	2.536	0.011	Significant
Perceived Quality → Intention to use/adopt digital banking	-0.013	0.216	0.829	Insignificant
Perceived Risk → Intention to use/adopt digital banking	0.190	3.256	0.001	Significant
Perceived Usefulness → Intention to use/adopt digital banking	0.323	3.875	0.000	Significant
Ease of Use → Intention to use/adopt digital banking	0.433	6.069	0.000	Significant
Indirect Effect				
Product Knowledge of Digital Banking → Perceived Quality → Intention to use/adopt digital banking	-0.003	0.188	0.851	Insignificant
Product Knowledge of Digital Banking → Perceived Risk → Intention to use/adopt digital banking	0.041	1.781	0.075	Insignificant
Product Knowledge of Digital Banking → Perceived Usefulness → Intention to use/adopt digital banking	0.099	2.047	0.041	Significant
Product Knowledge of Digital Banking → Ease of Use → Intention to use/adopt digital banking	0.154	2.923	0.003	Significant
Knowledge of LPS → Perceived Quality → Intention to use/adopt digital banking	-0.003	0.206	0.837	Insignificant
Knowledge of LPS → Perceived Risk → Intention to use/adopt digital banking	0.070	2.596	0.009	Significant
Knowledge of LPS → Perceived Usefulness → Intention to use/adopt digital banking	0.067	1.864	0.062	Insignificant
Knowledge of LPS → Ease of Use → Intention to use/adopt digital banking	0.095	2.381	0.017	Significant

Sumber: Output SmartPLS 3.

Discussion

The Path Coefficient table shows that there is a significant and insignificant effect from either a direct effect or an indirect effect. In the direct effect, almost all relationships show a significant effect except for Perceived Quality → Intention to use/adopt digital banking (T-statics 0.216 <1.96 and P-value 0.829 > 0.05). This shows that the perceived quality of digital banking does not affect the user's decision to adopt digital banking services. Meanwhile, based on the original sample value, it is known that Ease of Use → Intention to use/adopt digital banking has the most significant influence (original sample 0.433). This shows that ease of use in digital banking is the thing that is most considered by users. The indirect effect gives a different picture than the direct effect where there are intermediary variables involved. The indirect effect shows that there are 4 relationships that are significant/influential and 4 relationships that are insignificant/no effect. The thing that needs to be highlighted in the indirect effect pattern is the relationship involving the perceived quality variable (perceived quality of digital banking) as an intermediary variable shows an insignificant influence value (Knowledge of LPS → Perceived Quality → Intention to use/adopt digital banking and Product Knowledge of Digital Banking → Perceived Quality → Intention to use/adopt digital banking). It is interesting because in the direct effect, the only relationship that shows significant value is perceived quality.

Conclusion, Limitations, and Suggestions

Perceptions of the quality of digital banking products, which include mobile banking, SMS banking, phone banking, and internet banking, did not affect respondents considering continuing to use digital banking. Respondents' considerations in using digital banking services are more due to other factors, such as considerations of usability, consideration of benefits, consideration of risks, and ease of use.

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