

Transformation of Islamic Pawnshops in Adapting to the Needs of Generation Z in Indonesia: The Need to Strengthen Digital Literacy

Assyifa Queen Zahabya¹, Eka Putra²

¹ Fakultas Muamalat dan Kewangan Islam, Universiti Islam Antarabangsa Syed Sirajudin

² Fakultas Ilmu Komunikasi, Universitas Muhammadiyah Riau

*Corresponding Author: 1241113149@kuips.edu.my

Abstract

This study analyzes the transformation of Pegadaian Syariah in responding to the needs of Generation Z in Indonesia, with an emphasis on the role of strengthening digital literacy as an adaptation strategy. The purpose of the study is to identify how Pegadaian Syariah adapts to Generation Z preferences based on digitalization, accessibility, and technology services, and to disseminate digital literacy challenges that hinder the transformation. The research method uses a qualitative approach through a literature review by collecting and analyzing data from related literature sources. The results of the study indicate that Pegadaian Syariah has transformed through service digitalization initiatives, increasing sharia financial education, and integrating sharia values into digital platforms. However, the main challenge lies in the low understanding of digital sharia finance and the decline in technological adaptation among Generation Z. The conclusion of the study confirms that strengthening sharia digital literacy is the key to the desire for transformation, with recommendations for holistic strategies including: (1) developing sharia digital literacy competency standards, (2) education integration modules in digital products, (3) establishing a digital sharia financial literacy research center, and (4) continuous evaluation to ensure the effectiveness of adaptation.

Kata Kunci: Islamic Pawnshop, Generation Z, Transformation, Islamic Finance, Digital Literacy

Introduction

Amid the rapid digital transformation of Indonesia's financial sector, Pegadaian Syariah, as one of the main players in Islamic finance, is required to innovate and adapt to the unique characteristics of Generation Z (Manik et al., 2021). The generation born between 1997-2012 has become a potential market segment with distinctive consumption behaviors and preferences for financial services. As digital natives, Generation Z desires sharia financial services that not only adhere to Islamic principles but also prioritize ease of digital access, transaction speed, and integration with modern lifestyles (Fatimah & Nasrullah, 2024; Hasanah & Qibtiyah, 2025). However, behind this potential, the main challenge lies in the low digital literacy of Islamic finance among the younger generation.

Although Generation Z is highly skilled in using technology, their understanding of the basic principles of Islamic finance is still limited. A survey by the Financial Services Authority (2023) showed that only 28% of Generation Z respondents were able to correctly explain basic concepts such as Islamic contracts or the differences between Islamic and conventional products. This condition creates a paradox of digital literacy—where simple access to financial technology is not balanced with a deep understanding of the products used (Mirza et al., 2024). Strengthening digital literacy is crucial not only in the technical aspects of using digital platforms but also in building critical skills to comprehensively evaluate Islamic financial products.

Pegadaian Syariah's digital transformation in responding to the needs of Generation Z presents an interesting dynamic between opportunities and challenges. On the one hand, the character of Gen Z who are tech-savvy and open to sharia financial innovation opens up significant market expansion opportunities. Data shows an increase in Generation Z's interest in sharia financial products reaching 35% in the last three years (Subkhan & Yusli, 2022). However, the same study revealed that of all Generation Z respondents who have bank accounts, only 51% choose sharia products - a figure that is still lower than conventional banks and e-money.

This phenomenon shows that strengthening digital sharia literacy must be the foundation of Pegadaian Syariah's digital transformation strategy. The multidimensional challenges faced include: (1) the low level of sharia financial literacy, (2) tight competition with conventional fintech services, and (3) the need for large investments in developing digital infrastructure. In this context, strengthening literacy should not only focus on delivering information, but also needs to adopt an edutainment approach that combines education with gamification elements and digital storytelling to increase engagement (Koravuna & Surepally, 2020).

The significance of this study lies in its efforts to provide a comprehensive perspective on the role of digital literacy as a catalyst for Islamic financial transformation in the era of digital disruption. By focusing on the case of Pegadaian Syariah and Generation Z as the object of study, the research findings are expected to: (1) map an effective Islamic digital literacy model for the younger generation, (2) identify digital communication strategies that suit the characteristics of Generation Z, and (3) provide policy recommendations to strengthen the digital Islamic financial ecosystem. Furthermore, this study will provide academic contributions in enriching the research treasury on the digital financial behavior of the young Muslim generation in Indonesia, as well as being a reference for the development of more adaptive and relevant Islamic financial strategies.

Literature Review

Pegadaian Syariah in Indonesia

As a country with a Muslim majority population, Indonesia needs financial instruments that comply with sharia principles. In response to this, PT Pegadaian has formed a Sharia Business Unit that operates under the supervision of the Sharia Supervisory Board and the National

Sharia Council (DSN). The existence of this business unit is important considering that sharia pawnshops are one of the key instruments in the sharia economic system in Indonesia. Functionally, Sharia Pawnshops answer the community's need for cash liquidity while maintaining ownership of their valuable assets. Sharia Pawnshops offer a fundamentally different model from the conventional system, especially in terms of eliminating usury elements. This system replaces interest with a transparent fee scheme, including custody, maintenance, guarding, and appraisal fees that are only charged once per transaction. This structural difference not only has an impact on sharia aspects but also creates added value in the form of cost certainty for customers (Roficoh & Ghazali, 2018; Yuniwati et al., 2021).

Pegadaian Syariah is non-bank financial institutions that provide financing based on Islamic sharia principles, avoiding elements of usury, gharar (uncertainty), and maysir (speculation). Conceptually, Islamic pawn (rahn) in muamalah fiqh is defined as the retention of goods of economic value belonging to the borrower (rahin) as collateral (marhun) for debts given by the pawn recipient (murtahin) (Harahap, 2021). This mechanism provides legal certainty for both parties in Islamic financial transactions, as well as being an alternative financing that is in accordance with Islamic values.

The practice of sharia pawnshops has a strong legal basis in Islam, both from primary and secondary sources. In the Qur'an, Surah Al-Baqarah verse 283 explicitly allows the practice of pawning as a form of collateral in debt transactions. This basis is strengthened by the authentic hadith narrated by Bukhari (No. 2202) and Muslim (No. 1603) which tells how the Prophet Muhammad SAW once pawned his armor to a Jew in Medina as collateral for the purchase of food (Safwah, 2022; Lestari & Hanifuddin, 2021). Historically, this practice shows that pawning has been part of the Islamic economic system since the early days.

In Indonesia, the operation of Islamic Pawnshops is regulated through two main legal instruments. First, the Financial Services Authority Regulation (POJK) No. 31/POJK.05/2016 concerning Pawnshop Business which is the operational legal umbrella. Second, the Fatwa of the National Sharia Council-Indonesian Ulema Council No. 25/DSN-MUI/III/2002 concerning Rahn which provides specific guidance from a sharia perspective (Khotimah, 2024). The combination of state regulations and religious fatwas creates a comprehensive legal framework for the development of Islamic pawnshops in Indonesia.

Operationally, Pegadaian Syariah applies a combination of several contracts to fulfill sharia principles. The main contract is rahn (sharia pawn) which functions as the basis for collateral for goods. This contract is then combined with qardh (goodwill loan) or ijarah (rent) for administrative costs (Khotimah, 2024). This mechanism is designed to avoid usury practices while providing justice for both parties. In practice, the pawned goods must meet sharia criteria, both in terms of the type of goods and their economic value, while administrative costs are determined based on the principles of transparency and justice.

The historical development of Islamic Pawnshops in Indonesia began in 2002 through a strategic collaboration between PT Pegadaian (Persero) and Bank Muamalat Indonesia in the form of musyarakah (Khaerunnisa, 2022). Technical implementation began in 2003 with the opening of the first Islamic Pawn Service Unit (ULGS) in Jakarta. This development shows exponential growth from only 5 outlets in 2003 to 78 outlets in 2010, and reaching 1,250 outlets in 2023.

Despite showing positive growth, the development of Pegadaian Syariah is still lagging behind when compared to the growth of other sharia Non-Bank Financial Industry (IKNB) sectors. The main challenges faced include expanding sharia financial literacy and improving the quality of digital services. In the future, optimizing the role of Pegadaian Syariah requires synergy between strengthening regulations, product innovation, and public education to create a more inclusive and sharia-compliant financial system (Yuniwati et al., 2021).

As a form of adaptation in the digital era, Pegadaian Syariah introduced the PSDS (Pegadaian Syariah Digital Service) application in 2018. With PSDS, customers can carry out various sharia banking transactions practically via mobile phones, such as pawn simulations, pawn bookings, installment payments, and other digital services. This mobile banking application has even been downloaded more than 10,000 times on the Google Play Store before its official launch. Along with its development, the number of Pegadaian Syariah Digital users continues to show positive growth, with an annual increase of 6% in 2022. Data shows that active users of the application reached 589,000 in 2022, an increase from 554,000 users in the previous year (Anggraeni, 2023; Setyaningrum & Khotijah, 2020).

Digital marketing has a significant influence on purchasing decisions in Islamic fintech, where digital marketing media such as social media advertising, content marketing, and email marketing play an important role in increasing brand awareness and consumer interest. Supporting factors such as trust, ease of access, and clear information are the main determinants in making purchasing decisions, so consumers tend to choose Islamic fintech that actively provides education and transparency through digital channels. This digital transformation is proof of Pegadaian Syariah's commitment to answering the needs of modern society while expanding Islamic financial inclusion in Indonesia (Putri & Rahayu, 2022; Yuniwati et al., 2021; (Setyaningrum & Khotijah, 2020).

Generation Z in the Context of Digital Financial Literacy

Generation Z, which demographically includes individuals born between 1996 and 2010, where Generation Z dominates the Indonesian population by 27.94% or around 74.93 million people (Christiani & Iksaro, 2020; Dunas & Vartanov, 2020). Generation Z has become an important subject in contemporary studies of digital financial behavior. As the first digital natives, this group exhibits unique characteristics in financial interactions that are fundamentally different from previous generations. Zirzis (2024) identified three main characteristics that distinguish Generation Z: (1) high technological adaptability, (2) strong preference for flexibility, and (3) growing social awareness, which is accompanied by

challenges in mental health and the need for deeper digital literacy (Dunas & Vartanov, 2020; Muaviah et al., 2023).

In the context of banking and finance, Generation Z has emerged as a disruptive group that is changing the traditional landscape of the financial industry. Oberoi and Puranik (2024) stated that 87% of Generation Z in Indonesia prefer digital financial platforms over conventional banks, with the growth in fintech usage reaching 42% in the 2020-2023 period. This phenomenon is shown through several behavioral indicators: first, massive migration from traditional banking systems to mobile banking applications; second, high adoption of the system. The rapid development of technology among Generation Z in 2023 has had a significant impact on the business world. The results of research by the Katadata Insight Center in collaboration with Zig revealed that millennials and Gen Z are the main user segments of paylater services (Putri, 2022). Survey data shows that out of 5,204 respondents, 13.8% use paylater, with the dominance of use by Gen Z reaching 9.7% (Setyowati, 2022).

Their multitasking and expressive cognitive characteristics, coupled with a hyper-connected digital environment, create a unique paradox: on the one hand, they are able to adapt quickly to fintech innovations, but on the other hand, they are vulnerable to excessive consumer behavior. Based on the findings of the Youth Finsight 2.0 survey, the financial health of Indonesia's young generation shows worrying symptoms. As many as 33% of respondents admitted to having difficulty managing their finances, while 60% depended on loans, with 52% of them defaulting. This fact is exacerbated by unhealthy consumption patterns, where spending on food and entertainment reached 18.69%-70.59% of total monthly spending (Bisnis.com, 2023).

According to Wijaya, N. H. (2022), it is in this context that Pegadaian Syariah can play a strategic role as a healthier and more responsible alternative financial solution. The implementation of this solution is expected to reduce the default rate while increasing the financial capacity of the younger generation. Strategic collaboration between Pegadaian Syariah and related authorities such as OJK and DNKI is the key to success in creating a more inclusive and sustainable financial ecosystem for the younger generation of Indonesia. Pegadaian Syariah offers a comprehensive solution to overcome the financial problems of the younger generation through three main approaches. First, providing sharia financing based on gold pawn and other halal products with affordable installments, providing a safer alternative to illegal online loans. Second, developing a sharia financial education program that focuses on managing expenses and understanding the risks of consumer debt. Third, presenting innovations in transparent and usury-free sharia digital products, offering healthier financial principles while remaining competitive with conventional fintech services. These three solutions are designed to build financial literacy while providing responsible financing access for the younger generation (Yuniwati, Lestari & Alfiqoh 2021).

Tulasmı & Mukti (2020) also added that the implementation of this solution is expected to reduce the default rate while increasing the financial capacity of the younger generation.

Strategic collaboration between Pegadaian Syariah and related authorities such as the Financial Services Authority (OJK) and the National Council for Financial Inclusion (DNKI) is the key to success in creating a more inclusive and sustainable financial ecosystem for the younger generation of Indonesia.

Digital Transformation in Islamic Pawnshops

The rapid development of digital technology in the last decade has had a transformative impact on the Islamic financial sector, including in the pawnshop industry. Based on data from the Financial Services Authority (OJK, 2023), the adoption of digital platforms by Pegadaian Syariah has significantly increased service accessibility, allowing customers to carry out various financial transactions ranging from digital asset valuations, applying for Islamic financing, to electronic payment settlements. This transformation has not only expanded the market coverage geographically, but has also succeeded in reaching new demographic segments, especially the millennial generation and Gen Z, who actively contribute to sustainable business growth.

Digitalization in the Islamic financial sector, including pawnshop services, has resulted in a significant increase in operational efficiency. Wijaya, N. H. (2022) in his research emphasized that digital technology has developed into a fundamental structural element in the modern social and economic order. This reality encourages Islamic financial institutions, including Pegadaian Syariah, to position digital transformation as a main strategic agenda in responding to exponential technological developments. The implementation of advanced computing solutions and digital technology in Islamic banking operations represents an important paradigm shift in the financial industry landscape.

The phenomenon of digital transformation has become a strategic imperative for Pegadaian Syariah in responding to the evolution of consumer behavior, especially the unique characteristics of Generation Z who prioritize the principles of accessibility and speed of digital-based services. The findings of Ismail, P. (2024) in a study entitled "Inclusivity and Transformation of Sharia Financial Literacy in a Multicultural Environment" revealed that this generation shows a high level of dependency on digital technology and has expectations for financial services that are personal and responsive in real-time. This condition is in line with Pegadaian Syariah's strategic initiative through the development of the Pegadaian Syariah Digital Service (PSDS) application as an adaptive and competitive sharia financial solution in the digital era.

PSDS presents the convenience of real-time application-based sharia transactions. This service allows customers to access various sharia financial products anytime and anywhere via smartphone, equivalent to transacting at a physical outlet. This application offers complete features ranging from online pawnshops, business financing, digital gold savings, to balance top-ups, supported by a practical payment system via BNI Virtual Account. By integrating financial technology and sharia principles, this service not only facilitates

transactions but also encourages broader digital financial inclusion (Ismail, P., 2024; Wijaya, N. H., 2022).

However, this digital transformation is not without challenges. The digital divide is still a barrier, where many potential customers in suburban and rural areas are reluctant to use PSDS due to limited internet infrastructure (Karimah, 2021; Maulani, 2020). On the other hand, security and trust issues also influence adoption. According to research by Ali et al. (2022) on the Effectiveness of the Pegadaian Syariah Digital Service (PSDS) Application, it is known that Generation Z experiences doubts due to the existence of application glitching or unstable system updates. To optimize this digital transformation, Pegadaian Syariah needs to strengthen collaboration with Islamic fintech to improve technological capabilities, for example through blockchain integration for transaction transparency. Digital literacy education based on social media platforms (such as TikTok or Instagram) is also important to reach Generation Z (Ali et al., 2022; Karimah, 2021).

Critically, Pegadaian Syariah's digital transformation is not just a technology migration, but also a test of the adaptation of sharia values in the digital ecosystem. Challenges such as ensuring algorithms are free from gharar (uncertainty prohibited in Islam) actually open up opportunities to set new standards for digital sharia finance in Indonesia. Thus, this effort not only meets the needs of Generation Z, but also strengthens Pegadaian Syariah's position as a pioneer in technology-based sharia financial innovation.

Discussion and Conclusion

Pegadaian Syariah faces unique challenges in its digital transformation to reach Generation Z in Indonesia. Despite their status as digital natives and their advanced technology adoption skills, research conducted by the Financial Services Authority (2023) reveals a concerning gap in their comprehension of the foundational principles of Islamic finance. This phenomenon engenders a paradox wherein the ease of digital access does not directly correspond to an understanding of Islamic financial products (Mirza et al., 2024). To address this challenge, a multidisciplinary approach is needed that deeply integrates digital literacy theory with communication science. Digital Literacy theory underscores two fundamental concepts. First, it emphasizes techno-practical mastery. Second, it places significant emphasis on the development of critical competencies in analyzing and understanding the complexity of Islamic products. The ability to discern valid information from the deluge of digital information is a crucial skill for Generation Z (Wilson, 2024; Yang et al., 2025). From a communication science perspective, integrated marketing communication theory and participatory models are highly relevant to reaching this segment, which tends to actively select and even produce its own information. This objective necessitates the implementation of an authentic Stakeholder Engagement strategy, leveraging digital platforms that are prevalent in the Generation Z demographic, such as interactive social media, to facilitate meaningful dialogue (Troise & Camilleri, 2021).

In this context, the Two-Way Symmetrical Model (2WSM) is imperative for the establishment of sustainable relationships (Loarre et al., 2025). This model, developed by Grunig and Hunt, introduced a paradigm shift in communication practices by transitioning from unidirectional dissemination of messages to a collaborative strategy that prioritizes mutual understanding between organizations and their respective publics (Fiveable, 2024). In contrast to the asymmetric communication paradigm, which is designed to persuade, the symmetrical approach fosters a level playing field for negotiation and mutual understanding. In this paradigm, organizations are required to be receptive to adjusting their positions in accordance with stakeholder input (Kent & Lane, 2021; Li & Lee, 2024). A notable illustration of this phenomenon is the implementation of social media by Pegadaian Syariah, which has not merely been a platform for the dissemination of information, but rather, has been utilized as an active conduit for addressing customer grievances, responding to their aspirations, and even engaging Generation Z in the development of novel products. This approach has contributed to the establishment of a robust reputational foundation and the cultivation of long-term, mutually beneficial relationships (Hasibuan & Afandi, 2025; Fata & Hasanah, 2024).

To address this challenge, a multidisciplinary approach is necessary that integrates digital literacy theory with communication science. According to Wilson, A. L. (2024), Digital Literacy Theory underscores the significance of cultivating critical competencies in comprehending sharia products. Concurrently, integrated marketing communication theory and participatory models hold particular pertinence in engaging Generation Z, a demographic known for its proclivity to actively seek out information. The organizational communication approach through Stakeholder Engagement and two-way symmetrical communication is crucial in building sustainable relationships (Troise & Camilleri, 2021).

The implementation of an effective digital literacy program necessitates a multichannel communication strategy. The application of organizational storytelling techniques (Leiwakabessy & Purwonugroho, 2024) and visual communication (Josephson et al., 2020) has been demonstrated to facilitate the transformation of complex Sharia values into easily comprehensible forms. Digital platforms, including mobile applications, social media, and webinars, must be developed with an interactive approach, incorporating gamification and microlearning strategies (Sari, 2021). This kind of comprehensive program will not only create smarter consumers but also make Generation Z customers agents of sharia product socialization in their environment. Consequently, Pegadaian Syariah can fortify its standing as an adaptive sharia financial actor while enhancing sharia financial literacy more efficiently.

Digital literacy has been identified as a critical factor in the success of Pegadaian Syariah's digital transformation. A study by Putra & Ginting (2022) demonstrated that young Indonesians frequently encounter difficulties in evaluating the risks associated with digital financial products. This phenomenon is further compounded by the proliferation of cybercrime cases within the fintech sector (Hatta et al., 2018). In this context, digital literacy is defined as the capacity to utilize technology in addition to possessing a comprehensive

understanding of Sharia products, transaction mechanisms, and risk management. Pegadaian Syariah has the potential to fulfill a strategic role in enhancing digital literacy through a variety of approaches. Initially, the integration of educational content directly into digital platforms was implemented, as evidenced by the addition of a "Learn Sharia" feature to mobile applications. Secondly, there is a necessity to establish collaborative relationships with educational institutions in order to facilitate the organization of digital Sharia financial literacy certification programs. Thirdly, the development of creative campaigns on social media is imperative. These campaigns should present Sharia financial information in an engaging and easily comprehensible format.

In order to actualize this inclusive strategy, it is imperative to establish a comprehensive policy framework that encompasses the development of digital Sharia literacy competency standards, the integration of literacy modules into all digital products, the establishment of a digital Sharia financial literacy research center, and the implementation of a continuous evaluation system. A development communication approach (Saba, Ngepah & Odhiambo, 2024) is pertinent for the transformation of Generation Z from passive recipients to active participants in the digital sharia financial ecosystem. Specifically, the communication strategy must include an in-depth analysis of the preferences of Generation Z, the development of a message strategy that aligns with their frame of reference, and media planning based on digitally native platforms.

A comprehensive analysis reveals that Pegadaian Syariah faces complex challenges in reaching Generation Z. Despite their technological savvy, this generation has limited understanding of the basic principles of Islamic finance. The 2024 National Survey on Financial Literacy and Inclusion (SNLIK) revealed that Indonesia's Islamic financial literacy level remains low at 9.1% (Rijal, 2022). A case study at Pegadaian Syariah in Bogor Regency revealed that, while employees generally understand the basic concepts of Islamic financial literacy, there are significant challenges in its practical application. These challenges include a lack of training and access to adequate information sources (Zaman & Widana, 2024). Digital literacy is a crucial solution to this paradox, encompassing technical skills and a comprehensive understanding of Islamic products, risk management, and transaction mechanisms.

An inclusive strategy integrating digital education has proven effective through a multidisciplinary approach, aligning with real initiatives on the ground. For instance, Pegadaian Regional Office VI Makassar initiated the Sahabat Digital 2025 program, which is specifically aimed at the younger generation (Emilda, 2025). This program offers digital transaction promotions and collaborates with the education sector through student internships, digital ambassadors, and Pegadaian Mengajar programs to digitize and improve financial literacy (Emilda, 2025). This approach, which integrates digital literacy, integrated marketing communications (IMC), and a participatory model, has the potential to enhance Generation Z's comprehension of Sharia-related products and transform them from passive consumers into active agents of Sharia product socialization within their communities.

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In light of the accumulated evidence, the research conclusion corroborates the notion that enhancing digital Sharia literacy is imperative for achieving sustainable transformation. This conclusion is accompanied by a series of recommendations, which include the formulation of comprehensive strategies. The development of competency standards for digital Sharia literacy is of paramount importance. The integration of educational modules into digital products is also essential. Furthermore, the establishment of a digital Sharia financial literacy research center is crucial. Finally, ongoing evaluation is necessary to ensure the effectiveness of adaptation. The implementation of these four pillars necessitates a comprehensive policy that fosters inter-institutional collaboration. Strategic collaboration, such as that observed between the National Committee for Sharia Economics and Finance (KNEKS) and various sharia financial institutions, is focused on two primary objectives: first, expanding access to services, and second, improving sharia financial literacy. These objectives are designed to create a more inclusive and sustainable sharia economic ecosystem (Lestaringtyas, 2025).

At the operational level, an adaptive approach through organizational storytelling and gamification can be developed to convey the principles of Islamic finance in a more engaging manner. This phenomenon can be optimized by leveraging the insights derived from the discovery that for Generation Z, the perceived ease of use (PEOU) of digital products is the most significant variable influencing their inclination to invest in products such as Sharia gold savings accounts (Rinwantin & Setiyono, 2021).

The ultimate success of this digital transformation is measured by the creation of an inclusive and sustainable Islamic financial ecosystem. This comprehensive initiative, integrating education, technology, and participatory communication strategies, not only fortifies Pegadaian Syariah's standing as a pertinent Islamic financial institution in the digital age but also fosters long-term, trust-based connections with Generation Z. Consequently, this transformation is anticipated to contribute to enhancing national Islamic financial inclusion and literacy rates, while concurrently addressing the challenges of regeneration in the Indonesian Islamic financial industry.

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