

BRIDGING PUBLIC PERCEPTION: BARRIERS TO ISLAMIC BANKING ADOPTION

Wahidullah¹, Jumaiyah²

Faculty of Sharia and Law, Nahdlatul Ulama Islamic University, Jepara, Indonesia¹

Faculty of Economics and Business, Nahdlatul Ulama Islamic University, Jepara, Indonesia²

E-mail: wahidullah@unisnu.ac.id¹, mayawahidah@unisnu.ac.id²

Abstract: This study aims to assess the current views of the Jepara community towards sharia banking products, as well as the factors that influence these perceptions. This thesis was prepared using descriptive-qualitative research methods. A study of citizens' perceptions shows that sharia banking products are considered easy to use, cost-effective, and convenient. They appreciate the availability of ATM cards and BSI banking facilities for transactions anytime and anywhere. For interbank transfers, the administration fee is cheap—only 2,500. Sharia People's Economic Bank (SPEB) products are not subject to any administration fees or deductions, thus ensuring security, reliability, and compliance with Islamic principles. Factors that influence public perception of sharia banking products include understanding determinants, motivation factors, size factors, and movement factors. These factors have contributed to the perception that people are reluctant to use Islamic banks due to a lack of understanding of banking products. Compliance with Sharia is now very minimal.

Keywords: *Public Perception; Sharia Banking Products; the Presence of Sharia Development*

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1. Introduction

Sharia banking is an integral part of the growing global economy. Scientifically, the importance of Sharia banking is reflected in its contribution to financial inclusion. (Zehra et al., 2022). According to World Bank data, about 1.7 billion adults worldwide do not have access to the formal financial system (Demirgüç-Kunt et al., 2020). Sharia banking emerged as an empowering solution, as it focuses on the principles of inclusion and economic decentralization. For example, in 2019, the International Finance Corporation (IFC) noted that about 78% of the adult population in sub-Saharan Africa did not have a bank account. (Sarpong & Nketiah, 2022). Sharia banking helps overcome these gaps by providing financial services in line with Sharia principles to individuals that were previously not served by conventional financial institutions.

Sharia banking also plays an important role in reducing systemic risk in the financial sector. (Ahmed, 2009). During the global financial crisis in 2008, Shariah financial institutions experienced more stable growth and relatively low failure rates compared to conventional finance institutions. (Ghassan & Krichene, 2017). Sharia banking focuses on real-asset-based transactions, and the emphasis on risk sharing among the parties involved helps protect the financial system from excessive risks that may arise in conventional banking practices (Zehra

et al., 2022; Ahmed, 2009). Thus, from a scientific perspective, Sharia banking not only provides an ethical alternative to the global financial system but also makes a significant contribution to strengthening overall global economic resilience. Although Sharia banking has gained significant recognition and growth in the last few decades, there are still some people who feel doubtful or even disbelieve in financial institutions operating on these Islamic principles. This mistrust is often influenced by a number of complex and varied factors, including cultural, social, economic, and even political aspects. (Hermesh et al., 2020). One of the main factors causing this mistrust is the public's lack of knowledge or understanding of Sharia banking concepts and practices. There is a significant information gap between what the sharia bank actually does and the perception that exists among the public, thus creating uncertainty and doubt.

Furthermore, the growing negative perception in society about the sustainability and security of Sharia banking is another factor that reinforces this mistrust. Some individuals question the reliability of Sharia banking in managing their funds effectively and generating competitive advantages in an increasingly complex and dynamic economic environment. (Meskovic et al., 2023). Doubts about the security of funds held in sharia banks may also arise due to a lack of confidence in the supervisory and regulatory processes implemented in their operations. Furthermore, differences in perceptions of the validity of sharia banking products are also a cause of distrust among the public. Some individuals may feel unsure about the compatibility of sharia banking practices with true Islamic principles, mainly because of the ambiguity or controversy surrounding the validity status of a product or transaction (Meskovic et al., 2023). For example, some people may feel sceptical about certain investment products offered by sharia banks, worried about the possibility of interest or inconsistency with Islamic law (Cerović et al., 2017; Meskovic et al., 2023).

In response to this mistrust, Sharia banking institutions and governments need to make sustained efforts to increase public understanding and awareness of Sharia banking principles, as well as to maintain transparency and accountability in their operations. These efforts may include providing clear and understandable information about sharia banking products and services, as well as public education campaigns aimed at reducing misconceptions and stereotypes about sharia banks. In addition, concrete measures are needed to strengthen regulation and supervision of the Sharia banking industry in order to increase public confidence in the security and compliance of these institutions with Sharia principles. Thus, through strong collaboration between the parties concerned, it is expected that public distrust of sharia banks can be minimized, and their existence can continue to support financial inclusion and overall sustainable economic development.

The research on "Bridging Public Perception: Barriers to Islamic Banking Adoption" has profound relevance in the context of the development of Sharia banking. Although Sharia banking has shown significant growth in recent decades, there is still a significant challenge in changing the perception of society towards it. This research is important because it can provide valuable insight into the factors that lead to distrust of Sharia banking in the community. Data from a World Bank survey suggests that although there is significant interest in sharia banking products in some markets, there is still a gap between interest and actual adoption (Meskovic et al., 2023); (Cerović et al, 2017). By understanding the psychological, social, and economic barriers that communities may encounter in adopting sharia banking, this research can help formulate effective strategies to enhance the understanding, awareness, and acceptability of sharia banks. Furthermore, the research could provide a strong foundation for Shariah financial institutions and governments to develop educational programmes and information campaigns

aimed at addressing misconceptions and boosting public confidence in shariah banking. Thus, this research is not only academically relevant, but also has significant practical implications in supporting the growth and development of Sharia banking as a whole. Thus, the purpose of this research is to assess the views of the Japanese people today on Shariah banking products, as well as the factors that influence such perceptions.

2. Research Method

This study employs qualitative methods to collect primary and secondary data. Observations and interviews will be used to collect primary data. Secondary data used are research articles related to sharia banking, as well as other documents that can be obtained from the banking website. The research focuses on the people of the mango village in Jepara district. The validity test is done by triangulating the source, where researchers will test the validity of the data from different sources until the data is saturated. Data analysis techniques are used in an interactive and continuous manner. When it comes to data analysis, the first step is data reduction. The amount of data obtained from the field is quite large, so it is necessary to immediately carry out data analysis through data reduction. Reducing data means summarizing, choosing things that focus on important things, and looking for themes and patterns. As a result, reducing data will give a clearer picture, making it easier for researchers to do further data collection. Data presentation can be done in the form of brief descriptions, charts, inter-category relationships, flowcharts, and the like. In this regard, Miles and Huberman say that the most commonly used method for presenting data in qualitative research is with narrative texts. In addition, data presentations can include graphs, matrices, networks, and charts. Three conclusions: The preliminary conclusions drawn from qualitative research are temporary and will change if no strong evidence is found to support them at the next stage of data collection. But if the conclusion made at the early stage is supported by valid and consistent evidence when the researchers return to the field of data gathering, then the conclusions submitted are credible.

3. Results and Discussion

The Shariah Bank is a financial institution that operates in accordance with Islamic provisions, especially in terms of the avoidance of interest (flowers) and activities deemed to be inconsistent with Islamic moral principles. The approach used in the products of the sharia bank is based on the concept of akad that corresponds to the Islamic sharia, such as akad murabahah, mudharabah, musharakah, etc. (Baidhowi, 2018). One aspect that needs to be understood is the public perception of sharia banking, which can be influenced by various factors such as religious understanding, culture, experience, and financial knowledge. Some societies may have a deep understanding of Islamic sharia concepts and choose sharia banking products as their primary choice because they are in line with their beliefs and values. This perception corresponds to what Mr. Karno described as:

” A sharia bank is one that carries out its business activities based on sharia principles. However, some may still have doubts or uncertainties about Sharia bank products due to a lack of understanding or confidence in the Sharia-based financial system. As was told by Mrs. Erni, as was transmitted:

“Surely the sharia bank adopts the system fully, not the offer of my sharia products.”

It is important to understand that the sharia bank not only offers interest-free products but also emphasizes the principles of justice, transparency, and social responsibility. (Dungga et al., 2023). The principles used in sharia banking transactions are designed to ensure that profits are equitably distributed among the parties involved, as well as to encourage investment in the real

sector that can benefit society as a whole (Dungga et al., 2023; Masruki et al., 2020). In this context, empirical studies can provide valuable insights into society's perception of sharia banking products. Surveys and interviews with a wide range of respondents can help identify factors that influence people's decisions to choose financial products, as well as obstacles that may be encountered in adopting sharia banks. In addition, comparative analysis of conventional bank products and sharia products can also provide a deeper understanding of the advantages and weaknesses of each system (Masruki et al., 2020; Alam et al., 2021).

In recent decades, the Shariah financial system has been a topic of increasing concern as an alternative to the conventional financial system. Two prominent entities in the sharia financial ecosystem are the Sharia Cooperation, or Baitul Maal wa Tamwil (BMT), and the Bank of Shariah. Although both operate on Sharia principles, there are fundamental differences in the structure, scale of operations, and focus of service that distinguish them. This distinction is not much known to the general public, as quoted in an interview with Mrs. Iva as a Sharia bank customer:

"Sharia banking is a bank that runs its business based on Shariah principles, whereas shariah cooperation is a financial institution based on sharia principles."

Based on the answers, it appears that the customer has not yet understood the difference between Sharia banking and Sharia cooperation. But they are very different. BMT institutions and Sharia banks are both financial institutions, but Sharia cooperatives, or BMT, are financial entities based on Sharia principles, where profits are fair and transactions must follow Islamic law (Ghassan & Krichene, 2017; Hesniati & Soecipto, 2023) (Kartikawati et al., 2020). Sharia cooperatives often start as a local initiative within the Muslim community, focusing on empowering the community's economy through access to sharia-compliant financial services. As part of the cooperation, BMT provides its members with a variety of financial services, including microloans, savings, and capital goods financing. The Sharia Cooperation's ownership and decision-making structure is usually democratic, with each member receiving equal votes in the membership meeting.

The Sharia Bank, on the other hand, is a financial institution that operates like a conventional bank while adhering to Shariah principles in all of its activities. The Shari'at Bank offers banking services similar to conventional banks, including savings, financing, and investments, but avoids interest, speculation, and investment in business that is considered unethical according to Islamic teachings. (Abasimel, 2023); (Zehra et al., 2022); (Fadillah et al., 2024). The Sharia Bank often operates on a larger scale than the Sharia Corporation, with a wide-ranging network of branches and greater access to global capital markets and investment. Sharia Bank's ownership structure can vary, but it frequently involves shareholders who benefit from bank operations.

One of the main differences between Sharia Cooperation, or BMT, and Sharia Bank is the scale of operations and service coverage. Sharia cooperatives are usually more limited in geographical coverage and resources compared to Sharia banks that have a wider network and access to larger capital (Toha et al., 2021; Kholili & Irsyada, 2024). As a result, the Shariah Corporation tends to focus on empowering the local economy and meeting the financial needs of communities that are not served by conventional financial institutions or the Shariah Bank. On the other hand, the shariah bank is able to provide more comprehensive and complex financial services to customers at various levels, from individuals to large corporations.

Furthermore, differences in ownership and decision-making structures also distinguish Sharia Cooperations from Sharia Banks. Sharia corporations tend to prioritize democratic principles in decision-making, with each member voting the same in the membership meeting

to determine the direction and policy of the cooperation (Toha et al., 2021). Sharia Bank, on the other hand, may have a more complex ownership structure, with shareholders voting rights based on their bank ownership and strategic decisions made by the board of directors and bank management.

Furthermore, despite the fact that both operate on Sharia principles, there are differences in the products and services offered by the Sharia Corporation, or BMT, and the Sharia Bank. Sharia corporations tend to focus on simpler and more direct financial services, such as micro-loans for small and medium-sized enterprises, as well as sharia-appropriate savings. Shari'ah banks, on the other hand, can offer a variety of more complex products and services, including financing of large projects, investments, and structured financial products in accordance with Shari'ah principles (Toha et al., 2021; Kholi & Irsyada, 2024).

A sharia bank in Jepara is not as popular as other public banks.

"Because the information that reaches the village is limited, and there are no promotions or events that touch the village community, so it's really not known."

Jepara has the largest Muslim population compared to other religions. The above statement signals that the sharia bank's performance in offering its products is less serious, so that many communities want to know about the sharia bank's products but have no opportunity to receive such information. This creates a false perception of Sharia banking and uncertainty about how such products can benefit individuals and communities. There are a few steps that a sharia bank can take to gain more public knowledge. First, a comprehensive education. One of the main solutions is to raise awareness about Sharia banking products. This can be done through a variety of media, ranging from public campaigns on social media to direct educational programs in schools and universities. Governments, Sharia financial institutions, and civil society organisations can work together to provide comprehensive educational materials on the basic principles of Sharia banking, the types of products offered, and the economic and social benefits that can be obtained from the use of such products.

Second, Shariah's financial literacy development. In addition to general education on Sharia banking, it is also important to develop Sharia financial literacy among the community. It includes an understanding of basic concepts such as *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling), as well as an understanding of how Sharia banking products avoid practices prohibited in Islam. Shariah financial literacy programs can be held in financial institutions, places of worship, and community centers to ensure that such information is widely available and easily accessible to the public. Third, the involvement of religious leaders and public figures. Religious leaders and public figures play a crucial role in shaping public opinion and views on Sharia banking. Through lectures, sermons, and forums of discussion, religious leaders can provide a better understanding of Islamic principles in financial and economic contexts. In addition, public figures with wide influence can also be campaigners to introduce and promote Sharia banking products to the public.

The use of technology and digitalization can be an effective solution for improving society's accessibility to Sharia banking products. Financial institutions can broaden their reach by providing Sharia banking services through digital platforms such as mobile banking apps and websites, financial institutions can broaden their reach and make it easier for people to understand and use such products. Furthermore, technological innovations such as Sharia fintech can help introduce Sharia banking products to the younger generation, who are more familiar with technology. Fifth, create promotional campaigns. It is important to conduct creative and engaging promotional campaigns to raise public awareness of sharia banking products. This could include the use of social media, exhibitions, contests, and collaboration

with religious figures or influencers to introduce Sharia banking products to a wider audience. Through this approach, the message of the importance of Sharia banking can be conveyed in a way that is more interesting and relevant to society.

4. Conclusion

1. The Islamic Bank is a financial institution that operates in accordance with Islamic principles, avoiding interests and activities that are considered inconsistent with Islamic moral principles. Islamic banks operate similarly to conventional banks, offering services such as savings, financing, and investments, but without covering interest. (riba). Islamic banks have increased public decision-making in choosing interest-free products while emphasizing the principles of justice, transparency, and social responsibility. The Sharia Cooperative, or Baitul Maal wa Tamwil (BMT), and Islamic Banks operate on Sharia principles, with fundamental differences in structure, operational scale, and service focus that separate them. The Islamic Bank and the Islamic Cooperative are financial institutions operating on sharia principles. BMT is a Sharia-based financial entity, where profits are fair and transactions must comply with Islamic law.
2. The Sharia Cooperative, or BMT, has a more limited scale of operations and service coverage than the Sharia Bank, which has a wider network and access to larger capital. Islamic banks are able to provide comprehensive and complex financial services to customers at various levels, from individuals to large corporations. Islamic corporations tend to focus on providing simpler and more direct financial services, such as microcredit to small and medium-sized businesses, as well as Sharia-compliant savings accounts.
3. Islamic banks in Jepara are not as popular as other commercial banks. Many people are less aware of the products offered by sharia banks, such as Mother Ifa. Jepara has the highest Muslim population compared to other religions. The statement indicates that Islamic banks' performance in offering their products is not taken seriously, resulting in a lack of opportunity for the public to learn about Islamic bank products. Second, the development of Islamic financial skills, the involvement of religious leaders and public figures, technological innovation, and technological capabilities that vary in Islamic finance.

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