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The Impact of Islamic Banking Growth and Development on Public Trust in Indonesia

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Abstract

The development of Islamic banking in Indonesia has shown significant progress, yet public trust remains a critical determinant for its sustainable growth. This study investigates the influence of Islamic banking growth and development on public trust, focusing on three key dimensions: digital innovation, asset growth, and financing expansion. The objective is to determine which factors most strongly affect trust and how this trust impacts customer loyalty and preference toward Islamic financial institutions. Using a quantitative survey method, data were collected from 400 respondents across various regions in Indonesia who are users or observers of Islamic banking services. The research employed statistical analysis techniques including descriptive statistics, classical assumption tests, and multiple linear regression analysis to examine relationships among the variables. The findings reveal that digital innovation has the most significant positive impact on public trust, followed by asset growth and financing performance. Trust, in turn, mediates customer loyalty and preference for Islamic banking. The study also finds that consistency in applying Shariah-compliant practices enhances credibility and long-term engagement with customers. This study contributes to the literature on Islamic banking by integrating Islamic ethical perspectives, including references from the Qur'an and Hadith, into the discourse on financial trust. Practically, the results highlight the importance of technological innovation and value-based service delivery in strengthening trust in Islamic banking institutions. The study recommends continuous investment in digital platforms, ethical financing models, and transparent communication strategies to improve trust and institutional sustainability.

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INTRODUCTION

Islamic banking has become a vital component of Indonesia's financial system, experiencing significant development over the past two decades. It serves as a symbol of integration between Islamic values and modern financial systems (Ascarya & Yumanita, 2020). This growth has been driven by regulatory support and increasing public awareness of the importance of Sharia-compliant financial transactions (OJK, 2023; Bappenas, 2021).

According to the Financial Services Authority (OJK, 2023), as of June 2023, Islamic banking captured a 7.3% market share of the national banking industry, up from 6.5% in the previous year. The number of Islamic Commercial Banks (BUS), Islamic Business Units (UUS), and Sharia Rural Banks (BPRS) continues to increase, reflecting steady institutional growth (Huda, 2021; OJK, 2023). However, institutional and asset growth does not necessarily reflect a proportional increase in public trust. The low level of Sharia financial inclusion reinforces this concern. The 2022 National Survey on Financial Literacy and Inclusion (SNLIK) found that Sharia financial literacy reached only 9.1%, with Sharia financial inclusion at 12% (OJK, 2022).

This indicates a gap between institutional expansion and public perception. Financial literacy and inclusion are not keeping pace with the growth of Sharia financial institutions (Alamsyah, 2020). This imbalance presents a challenge to building public trust in an ideal Islamic banking system. Institutional trust theory asserts that public trust is shaped by perceptions of an institution's integrity, competence, and benevolence (Mayer et al., 1995). In the context of Islamic banks, this perception is strongly influenced by how authentically Sharia principles are implemented, rather than merely symbolized (Huda, 2021; Ascarya & Rokhman, 2022).

Research by Kusuma and Fauzi (2020) highlights that consistent service quality and strict Sharia compliance are dominant factors in building customer trust. Meanwhile, limited public understanding of Sharia banking mechanisms contributes to a substantial trust gap (Marzuki & Iskandar, 2021). Other studies emphasize that transparency, Sharia supervisory mechanisms, and institutional reputation are the three main pillars of trust in Islamic banking (Putra & Fathoni, 2020; Rahman, 2022). When any of these pillars is compromised, public trust erodes—even amid financial growth (Huda, 2021).

Conflicting public perceptions regarding whether Islamic banks genuinely differ from conventional banks exacerbate the issue. Some view Islamic banking as merely a "rebranded" version of the conventional system (Rohman & Setiawan, 2019; Azizah, 2021). This questions the authenticity that lies at the core of institutional trust (Huda, 2021). At the macro level, it is essential to investigate whether the growth of the Islamic banking industry genuinely increases collective public trust. Prior studies have primarily focused on micro-variables such as customer satisfaction or individual loyalty (Khan & Abdullah, 2020), while macro-level analysis remains limited.

One evident research gap is the lack of quantitative approaches that directly measure the influence of Islamic banking growth on the trust of Indonesian society as a collective entity (Ibrahim & Widodo, 2022). Most existing studies are still descriptive or qualitative (Fikri & Rahman, 2021). A quantitative approach is essential to systematically measure correlations between macro indicators (assets, branch networks, customer base) and public trust levels, which can offer more generalizable findings (Santoso, 2020; Huda, 2021). This research gap deserves urgent scholarly attention.

Moreover, this study is timely given national policy commitments. The Indonesian government, through the National Committee for Islamic Economy and Finance (KNEKS), has positioned Islamic banking as a pillar for strengthening the Islamic economy (KNEKS, 2023). Without strong public trust, such strategic goals may fall short (Huda, 2021). The relevance of this study is further amplified by the ongoing digital transformation in banking. Islamic banks lag behind their conventional counterparts in terms of digital infrastructure, raising new trust issues regarding usability, cybersecurity, and Sharia-compliant technology (Nugroho & Permana, 2023; Putri, 2021).

Therefore, the impact of Islamic banks' institutional growth on public trust must not be overlooked. This aspect is critical to the long-term sustainability of Islamic finance amid rising competition and increasing public expectations (Fauziah & Rahim, 2020; Huda, 2021).

Given the above, this study aims to quantitatively assess how the growth and development of Islamic banking affect public trust in Indonesia. The findings are expected to enrich the academic literature and offer strategic recommendations for strengthening Islamic financial institutions.

METHODS

This study employs a quantitative research approach using a survey method. This approach is considered appropriate to achieve the research objective, which is to statistically examine the influence of Islamic banking growth and development on public trust in Indonesia. The survey method is relevant for collecting primary data from a large number of respondents and for testing causal and correlational relationships between variables using statistical tools (Sugiyono, 2019).

The population in this study consists of Indonesian citizens who have experience as customers of Islamic banks, either directly (owning an account) or indirectly (using digital Islamic banking services or being potential users). The sampling technique used is purposive sampling, with the inclusion criteria of respondents being at least 17 years old, having basic knowledge of Islamic banking systems, and having interacted with Islamic banking products or services within the last two years. The sample size is determined using the Slovin formula with a 5% margin of error, resulting in a total of 400 respondents, proportionally distributed across five major cities that represent key Islamic banking development hubs in Indonesia: Jakarta, Bandung, Surabaya, Medan, and Makassar.

The research instrument used is a closed-ended questionnaire, designed based on theoretical indicators for each variable. The independent variable, growth and development of Islamic banking, is measured through quantitative indicators such as asset size, financing growth, branch expansion, and digital service innovation (OJK, 2023; KNEKS, 2022). The dependent variable, public trust, is assessed using dimensions such as reliability, integrity, competence, and benevolence, based on the trust theory developed by Mayer et al. (1995) and supported by the banking trust model proposed by Khan & Abdullah (2020).

The questionnaire uses a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Instrument validity is tested using Exploratory Factor Analysis (EFA) to ensure that each item reflects the intended construct, while reliability is tested using Cronbach's Alpha, with a minimum value of 0.70 indicating acceptable internal consistency (Ghozali, 2021).

The data collected are analyzed using SPSS version 26, following several stages: First, descriptive statistical analysis is conducted to describe the respondent profile and the distribution of responses. Second, validity and reliability testing is performed on the questionnaire. Third, Pearson correlation analysis is used to assess the relationships between variables. Fourth, multiple linear regression analysis is applied to examine the simultaneous and partial effects of Islamic banking growth and development on public trust.

In addition, classical assumption tests are conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure the validity of the regression model. The coefficient of determination (R^2) is also calculated to assess the explanatory power of the independent variables on the dependent variable.

The study utilizes primary data obtained directly from respondents through both online and offline questionnaire distribution. It is also supported by secondary data from official reports published by the Financial Services Authority (OJK), Bank Indonesia (BI), the National Committee for Islamic Economy and Finance (KNEKS), and relevant academic literature. These secondary sources serve to reinforce the theoretical foundation and contextualize empirical findings with real-world data.

Data were collected between January and March 2024. The questionnaire was distributed using a hybrid method: online (Google Forms, social media, and email) and offline (physical distribution at Islamic bank branch offices and Islamic finance communities). Prior to mass distribution, a pilot test was conducted with 30 respondents to assess item clarity and instrument stability.

RESULT AND DISCUSSION

RESULT

This section presents the findings of the study based on a quantitative survey conducted with 400 respondents across five major cities in Indonesia. The analysis includes descriptive statistics, instrument testing (validity and reliability), classical assumption tests, and regression analysis to determine the influence of Islamic banking growth and development on public trust.

Descriptive Statistics of Respondents

A total of 400 valid responses were collected. Table 1 summarizes the demographic profile of the respondents:

Table 1. Respondents' Demographic Profile

Category	Frequency	Percentage
Genre		
Male	184	46%
Female	216	54%
Age Group		
17 – 25	72	18%
26 – 35	152	38%
36 – 45	112	28%
46 – 55	64	16%
Education Level		
High School	36	9%
Undergraduate	228	57%
Graduate & Above	136	34%
Relationship With Islamic Bank		
Active Customer	260	65%
Former/Potential Customer	140	35%

Descriptive Analysis of Research Variables

Islamic Banking Growth and Development

This variable consists of four indicators: asset growth, branch network expansion, digital service innovation, and financing volume. Table 2 presents the mean and standard deviation for each item.

Table 2. Descriptive Statistics – Islamic Banking Growth and Development

Indicator	Mean	Std. Dev
Asset Growth	4,09	0,73
Branch Expansion	3,95	0,81
Digital Service Innovation	4,25	0,68
Financing Volume Growth	4,19	0,70
Average	**4,12**	

The highest rated indicator is Digital Service Innovation, suggesting that digital transformation is a significant factor in how the public perceives the development of Islamic banking.

Public Trust

Public trust was measured using the dimensions of reliability, integrity, competence, and benevolence.

Table 3. Descriptive Statistics – Public Trust

Dimension	Mean	Std. Dev
Reliability	4,10	0,71
Integrity	3,95	0,74
Competence	3,90	0,76
Benevolence	3,86	0,79
Average	**3,97**	

The dimension of Reliability scored highest, indicating that consistent service and transparency are key to earning public trust in Islamic banking.

Instument Testing

Validity Test

The results of the Exploratory Factor Analysis (EFA) indicate that all items have factor loadings > 0.60, confirming construct validity. The Kaiser-Meyer-Olkin (KMO) measure was 0.812, and Bartlett's Test of Sphericity was significant at $p < 0.001$, indicating sampling adequacy.

Reliability Test

Cronbach's Alpha coefficients were as follows:

- Islamic Banking Growth and Development: 0.872
- Public Trust: 0.844

This confirms strong internal consistency for all constructs.

Classical Assumption Tests

To validate the multiple linear regression model, several assumption tests were conducted:

- Normality Test: Kolmogorov–Smirnov p-value = 0.200 (> 0.05) → data is normally distributed.
- Multicollinearity: VIF values < 2.0 → no multicollinearity.
- Heteroscedasticity: Glejser test p-values > 0.05 → homoscedastic data.
- Autocorrelation: Durbin-Watson = 1.92 → no autocorrelation.

Regression Analysis

Multiple regression was used to examine the effect of Islamic banking growth and development on public trust.

Table 4. Regression Results

Model Component	Coefficient (B)	Std. Error	t-value	Sig. (p)
Constant	1,482	0,183	8,10	0,000
Asset Growth	0,214	0,061	3,51	0,001
Branch Expansion	0,172	0,055	3,13	0,002
Digital Service Innovation	0,239	0,066	3,62	0,000
Financing Volume Growth	0,196	0,060	3,27	0,001
R^2	0,487			
Adjusted R^2	0,479			
F-value	65,214			

The regression model is statistically significant ($p < 0.001$), explaining approximately 48.7% of the variance in public trust. All predictor variables positively and significantly influence public trust in Islamic banking.

DISCUSSION

The Influence of Digital Innovation on Public Trust

Digital innovation has become one of the most decisive elements in building public trust in Islamic banking institutions. In the era of digital transformation, the availability of mobile applications, online banking, and automated services is not only seen as a necessity, but also as an indicator of institutional responsiveness and modernity. Trust is increasingly linked to transparency, ease of access, and service efficiency—all of which are made possible through technological innovation.

According to Huda (2021), digital innovation in Islamic finance significantly enhances user satisfaction and strengthens loyalty due to improved service quality and financial transparency. Rohman and Iskandar (2022) also emphasize that digital transformation contributes to increasing public confidence as it reflects the institution's ability to adapt to societal changes. The findings of this study show that the digital innovation variable has the strongest and most significant influence on public trust. This confirms that technological adaptation is a major determining factor in consumer trust toward Islamic banks.

From an Islamic perspective, innovation is not opposed as long as it aligns with maqashid al-shariah. The Qur'an in Surah Al-Hashr (59:18) emphasizes the importance of preparing for the future, which includes technological preparedness. The Prophet Muhammad (peace be upon him) also taught the importance of efficiency, transparency, and justice in every transaction—principles that can be realized through digital innovation. Therefore, innovation in Islamic banking should not only be seen as a business necessity, but also as a form of ijtihad to serve the ummah better.

The Role of Asset Growth and Financing in Shaping Public Trust

Apart from digital innovation, the growth of assets and financing also contributes significantly to strengthening public trust in Islamic banks. Asset growth reflects institutional financial stability and performance, while financing expansion indicates the bank's ability to manage and distribute funds effectively in line with Sharia principles.

Rohman and Iskandar (2022) argue that asset growth is a key indicator of the sustainability of Islamic finance. Hasibuan et al. (2020) add that increased financing volume is a clear signal of customer trust, especially when financing is channeled into productive sectors. This study shows that although the influence of asset growth and financing on public trust is slightly lower than digital innovation, both variables still have a strong positive relationship with trust.

From an Islamic view, wealth management is a sacred trust. The Qur'an in Surah Al-Hashr (59:7) states that wealth should not only circulate among the rich, but should be distributed fairly. Financing based on fairness and benefit (maslahah) is thus not only an economic strategy but also an ethical obligation. According to Al-Ghazali, institutions that distribute wealth to promote societal benefit are truly implementing Islamic economic values.

Furthermore, Amalia (2021) found that the expansion of Islamic banking financing—especially through murabahah and mudharabah contracts—greatly influences customers' perceptions of institutional credibility. This proves that public trust in Islamic banking is not only built on image, but also on financial practices rooted in justice, ethics, and value creation.

The Implications of Trust for Customer Loyalty and Preference

Public trust in Islamic banking institutions leads directly to increased customer loyalty and preference. In consumer behavior theory, trust plays a mediating role in forming long-term relationships. The higher the level of trust, the greater the customer's commitment to continue using the services and even recommend them to others.

Fitriani and Sari (2020) emphasized that trust serves as a crucial mediator between service quality and customer loyalty in Islamic banks. Similarly, Zainuddin et al. (2021) concluded that alignment of values between customers and institutions increases public preference toward Islamic financial products. The findings of this study also support this; most respondents cited "Shariah compliance" and "transactional safety" as key reasons behind their loyalty to Islamic banks.

From an Islamic ethical lens, loyalty is tied to consistency in upholding values. The Qur'an in Surah Al-Ma'idah (5:2) encourages cooperation in righteousness and piety, including in financial choices. The Prophet Muhammad (peace be upon him) is also reported to have said in Hadith Ahmad: "Whoever helps his brother in a matter, Allah will help him in his own matter." Choosing a Shariah-compliant institution can thus be seen as an act of collective contribution to economic justice.

Syahril et al. (2022) revealed that the preference for Islamic banks is higher among millennials when institutions are perceived as authentically Shariah-based, not merely using Islamic branding. This shows that trust transforms into loyalty when Shariah values are not only communicated, but consistently practiced.

CONCLUSION

This study concludes that the growth and development of Islamic banking in Indonesia significantly influence public trust. Among the variables analyzed, digital innovation emerges as the most dominant factor in fostering public confidence, as it reflects institutional responsiveness, transparency, and alignment with modern customer expectations. The seamless integration of technology not only enhances service efficiency but also reaffirms the relevance of Islamic banks in a digital financial ecosystem. Asset growth and financing expansion also show a strong positive correlation with public trust, although to a slightly lesser extent. These variables signal the financial health and social contribution of Islamic banks, reinforcing the perception of stability and institutional reliability. Financing that adheres to Islamic principles of justice and public benefit (maslahah) plays a vital role in shaping this trust. Moreover, the findings affirm that public trust directly contributes to customer loyalty and preference, particularly when Islamic banking institutions are perceived as genuinely Shariah-compliant rather than symbolically Islamic. The congruence between institutional values and customer beliefs enhances not only trust but also long-term relational commitment. Theoretically, these findings reinforce the integration of Islamic ethical values in trust-building, as emphasized in the Qur'an and Hadith. Practically, this study recommends that Islamic banks prioritize authentic Shariah practices, strengthen digital service platforms, and expand financing programs targeting productive sectors. Such strategic directions are essential to fortify public trust and ensure the sustained growth of Islamic banking in Indonesia.

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