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The challenges of literacy, inclusion, and public trust in the digital Islamic banking ecosystem: An urban context study in Indonesia

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ABSTRACT

Introduction

The development of Islamic banking in Indonesia shows great potential, but still faces literacy constraints, public trust, and low inclusion. The public understands the basic principles of Islamic banking but has not mastered the technical aspects of operations. Digital transformation, which is supposed to expand access to Islamic financial institutions, has not been optimally utilized due to informational barriers, risk perception, and quality of digital services.

Objectives

This study aims to analyze the relationship between Islamic banking literacy, trust, and inclusion, identify the main obstacles in the use of digital services of Islamic financial institutions, and formulate strategies that can break the cycle of problems related to low public understanding and participation. The study also evaluates how education, transparency, and digital innovation can increase engagement in Islamic banking.

Method

This study uses a descriptive quantitative approach with a cross-sectional design. Data was obtained through a structured questionnaire to 198 respondents in Makassar City. Descriptive statistical analysis is used to describe literacy, trust, and inclusion levels, as well as identify patterns of structural, informational, and perceptual barriers in the use of Islamic banking services, especially digital-based ones.

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Results
The results show that public literacy is still at the level of basic and general understanding, public trust is low due to lack of transparency, while inclusion is hampered by lack of information, limited digital infrastructure, and negative perceptions. The adoption of sharia digital technology is very low despite the high ownership of smartphones. Key barriers include awareness, risk perception, and the quality of the app's user experience.

Implications
These findings confirm the need for strategies to improve operational literacy, institutional transparency, and digital innovation based on user needs. Strengthening regulations, optimizing the role of the Sharia Supervisory Board (Dewan Pengawas Syariah - DPS), and collaboration with fintech can increase trust and inclusion. The results of the research provide more effective policy direction and service design to accelerate the transformation of Islamic banking.

Originality/Novelty
This research offers a new perspective by integrating three variables—literacy, trust, and inclusion—in the digitalization of Islamic banking. The study highlights digital barriers from a user experience perspective, not just technology access. This approach results in innovative recommendations based on transparency, user experience, and more applicable educational strategies.

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INTRODUCTION

Indonesia is in the phase of economic transformation in the development of Islamic banking. As a country with the largest Muslim population in the world, the potential for the expansion of the Islamic banking market is enormous (Nursaid et al., 2023; Nuswantoro, 2024). Data from the Banking Services Authority (*Otoritas Jasa Keuangan* abbreviated OJK in Bahasa Indonesia) as of June 2023 shows that total Islamic banking assets have reached IDR 2,450.55 trillion with a market share of 10.94% of the entire national banking industry (Otoritas Jasa Keuangan, 2023). However, the growth of Islamic banking is still far behind the growth of conventional banking (Nada & Mugiyati, 2024). This gap reflects a major challenge in building the level of public trust, especially in the public's understanding of the principles of Islamic economics and banking comprehensively (Nursaid et al., 2023).

One of the problems faced by the Islamic banking sector is the gap between literacy and inclusion in Islamic banking. Although the Islamic banking literacy index increased drastically from 9.14% in 2022 to 39.11% in 2023, more than half of the Indonesian population still has a limited understanding of the concept of Islamic banking (Nursaid et al., 2023; Suib & Amelia, 2024). This condition is exacerbated by the low Islamic banking inclusion index, which in 2022 only reached 12.88% (Otoritas Jasa Keuangan, 2024; Prasaja & Rahma, 2024). This gap between knowledge and access shows that increasing literacy has not automatically encouraged public participation in the use of Islamic banking services. This situation shows that there is a circle of problems that clarify the situation, where low literacy has lowered the level of trust (Ahmad et al., 2023). While the lack of trust has led to inhibition of inclusion, while low inclusion has made opportunities to learn and understand Islamic banking products increasingly limited (Suib & Amelia, 2024).

This is a problem that needs to be solved, in order to encourage the growth of Islamic banking, so that it can improve people's welfare through access to Islamic banking institutions. To break the cycle of these problems, a multidimensional approach is needed that overcomes cognitive, structural, and perceptual barriers simultaneously (Nuswantoro, 2024).

This study aims to break the cycle of Islamic banking problems by exploring in depth the factors that affect public trust in Islamic banking institutions and how Islamic banking literacy contributes to the level of financial inclusion in practice. In addition, this study also seeks to identify specific barriers that prevent people from adopting digital Islamic banking services, as well as formulate the most effective intervention strategies to accelerate the increase in Islamic banking inclusion in Indonesia. By understanding the relationship between literacy, trust, digital access, and community participation, this research is expected to be able to make a conceptual and practical contribution to the development of policies and innovations in Islamic banking services in the future.

LITERATURE REVIEW

Islamic Banking Literacy

Islamic banking literacy is the main foundation in developing a banking ecosystem that is in line with Islamic values and principles (Maulana & Suyono, 2023; Puteri, 2023). This literacy is not only related to basic knowledge of Islamic banking products but also includes an understanding of the philosophical foundations of Islamic economics (Husna et al., 2022; Kristanto HC, 2022). Islamic banking literacy is built on the values of monotheism, justice, and welfare, which places banking activities not solely as an effort to make profits, but also as a means of maintaining social harmony and economic sustainability (Kismawadi, 2024). Therefore, Islamic banking literacy must be understood as a set of intellectual and moral competencies that enable individuals to make financial decisions responsibly and in accordance with sharia (Akande et al., 2023; Zusryn et al., 2021).

To be able to distinguish between the Islamic and conventional banking systems, it is necessary to have a deep understanding of the fundamental principles in the two banking systems (Phil-Ugochukwu, 2024). Principles such as the prohibition of riba, gharar, and maysir are not only normative provisions, but have structural implications for product design and transaction mechanisms in the sharia system (Alwi et al., 2022).

In addition, it is very important to understand banking contracts such as mudharabah, musyarakah, murabahah, salam, istishna', and ijarah, because these contracts determine the pattern of the relationship between the parties to the transaction, including the distribution of risk and profit (Ancu et al., 2025). Thus, individuals can identify the suitability of the contract, assess its sharia legitimacy, and understand the risks and benefits inherent in each islamic banking product.

Literacy includes the ability to make banking plans, manage risks, choose sharia investment instruments, and use sharia digital banking services safely and optimally (Djuwita & Yusuf, 2018; Pradini & Faozan, 2023). This ability is greatly influenced by the quality of an individual's understanding of the principles of risk-sharing, transparency, and fairness that are the basis of the Islamic banking system (Hasan et al., 2022). This shows that Islamic banking literacy is closely related to the ability of users to internalize Islamic principles in every financial decision, so that rational banking behavior is created and in accordance with Islamic ethics and values.

Islamic Banking Inclusion in the Framework of the Modern Banking Ecosystem

The inclusion of Islamic banking in the modern banking ecosystem depends not only on the availability of services, but also on the ability of individuals to master knowledge and attitudes into any financial decisions in accordance with Islamic principles (Puteri, 2023). Behavior is an indicator of the success of Islamic banking literacy, where a person's financial behavior is influenced by three main factors: knowledge (cognitive), attitude (affective), and behavior control (perceived behavioral control) (Kurniawan, 2024; Muslichah et al., 2023; Syaliha et al., 2022). These three factors will increase the ability of individuals to make sharia financial decisions such as choosing halal products, avoiding usury, and managing banking with the principle of risk-sharing. This shows that behavior is a form of actualization of previously formed understandings and beliefs.

In Islamic banking inclusion, good financial behavior includes the ability to plan personal banking, manage risks with sharia principles, and choose Islamic banking instruments that suit financial needs and goals (Hadi et al., 2021; Haron et al., 2020). Individuals who have good Islamic banking behavior will be able to assess the level of sharia compliance of a product, understand the risks of the contract used, and actively participate in Islamic digital banking services (Hadi et al., 2021; Haron et al., 2020). In addition, the behavior reflects the awareness that Islamic banking is not just an alternative to the conventional system, but a system that offers spiritual and social value (Hardyansah et al., 2024). Therefore, inclusion does not only mean physical access to banking services, but also functional access, namely the ability to use these services effectively and in accordance with sharia principles.

Accessibility in Islamic Banking Products

The inclusion of Islamic banking in the modern banking system is not only understood as the ability of the community to access banking services, but also as active involvement in the sustainable use of those services (Djaafar, 2021). Accessibility is an initial factor that determines the success of inclusion. Accessibility is not only related to the existence of branch offices or ATM networks, but also to the ability of institutions to provide digital platforms that can reach people in remote areas or areas with limited physical infrastructure (Adelaja et al., 2024; Manzoor & Amjad, 2022). Digital transformation is one of the strategic ways to expand access to sharia services, as it allows users to make transactions, financing, and payments without geographical restrictions. Thus, accessibility in Islamic banking must be understood as a combination of integrated physical and digital access.

In addition to access, affordability of service costs is also an important component in strengthening Islamic banking inclusion (Abdullah et al., 2021). Low-income groups tend to be sensitive to administrative costs, transaction costs, and financing costs. Therefore, sharia products must be designed with a cost structure that is transparent, competitive, and does not burden customers (Akbar et al., 2024). Sharia principles that emphasize fairness and partiality to vulnerable groups support the idea that Islamic banking services should not create additional burdens for users. Affordability is a factor that can increase community participation, especially in areas where literacy levels are still low (Pradini & Faozan, 2023). By creating an inclusive fee structure, Islamic banking institutions can expand the range of services and increase the attractiveness of Islamic products in the eyes of the public.

The design of banking products must be in line with the specific needs of users, both individuals, MSMEs, and corporations, so that sharia services and products can answer the needs of society and the business world. In Indonesia, people's banking needs are very diverse, ranging from microfinance, family banking planning, to business capital financing (Trimulato et al., 2022). Relevant sharia products are the products that are flexible, easy to understand, and in accordance with the socio-economic dynamics of society, including the development of the digital economy and the creative economy.

The Role of Service Quality in Encouraging Islamic Banking Inclusion

Service quality is one of the main determinants in encouraging Islamic banking inclusion. The quality of interaction between customers and banking institutions can have a direct effect on the level of user satisfaction and loyalty. Service quality not only includes technical factors such as transaction speed and accuracy of information, but also related to sharia compliance which is a distinguishing element from conventional banking services (Eid et al., 2023). A positive user experience, whether in the form of teller services, customer service, or digital facilities, increases the perception that Islamic services are professional, modern, and reliable. On the other hand, service inconsistencies, convoluted processes, or lack of concern for user needs can reduce people's interest in using sharia services in a sustainable manner (Hardyansah et al., 2024).

Additionally, clarity of information is an important component in building strong relationships between institutions and users (Karimah et al., 2024). In Islamic banking, information about contracts, costs, risks, and profit-sharing mechanisms must be conveyed in a transparent and easy-to-understand manner (Manzoor & Amjad, 2022).

Lack of clarity of information often leads to misperceptions and doubts among the public about the validity of islamic banking products, thus hindering inclusion (Phil-Ugochukwu, 2024). The responsiveness of the institution in handling complaints is also a significant indicator of service quality; An institution that is able to respond quickly and effectively will create a sense of security and comfort for customers (Syaliha et al., 2022). Low banking literacy further reinforces the importance of clear and open communication so that users can understand the products they are using.

METHOD

Research Design

This study uses a descriptive quantitative design with a cross-sectional approach to describe the conditions of Islamic banking literacy, trust, and inclusion in a given time period. This design allows for comprehensive mapping of relationships between variables without intending to establish causal relationships. This approach was chosen to provide an empirical picture of the dynamics of digital Islamic banking in society (Creswell & Creswell, 2023).

Population and Sample

The research population is the people of Makassar City who have access to banking services, both sharia and conventional. A sample of 198 respondents was obtained through purposive sampling techniques based on criteria: ≥18 years old, domiciled for at least one year in Makassar, and have experience using or knowing banking services. This technique is used to ensure the relevance of the information to the research objectives (Memon et al., 2024).

Data Collection

Data were collected through a structured questionnaire compiled based on the adaptation of previous research instruments related to Islamic banking literacy, trust, and inclusion. The questionnaire includes measurement items based on the Likert scale. The collection process was carried out offline and online to expand the reach of respondents. The collected data is then verified, coded, and prepared for descriptive statistical analysis.

Variables and Operational Definitions

This study measures three main variables: Islamic banking literacy, public trust, and Islamic banking inclusion. Islamic banking literacy is defined as the level of normative and technical knowledge regarding the principles, contracts, profit-sharing mechanisms, and functions of Islamic institutions. Measured through indicators of basic knowledge of sharia principles and technical understanding of contracts.

Public trust describes the level of public confidence in the transparency, credibility, and sharia compliance of Islamic banking institutions. Measured through perceptions of the revenue sharing mechanism, information disclosure, and the role of DPS (*Dewan Pengawas Syariah* or Sharia Supervisory Board). Islamic banking inclusion includes access, use, and sustainability of public participation in Islamic banking services, including digital services. Measured through physical/digital access indicators, user experience, and perception of ease of servicen.

Analytical Framework

Data were analyzed using descriptive statistics to describe variable profiles and identify patterns of informational, structural, and perceptual barriers. The analysis was carried out through tabulation of frequency, percentage, and distribution of digital literacy, trust, and inclusion scores. This analysis framework facilitates the conceptual interpretation of the relationship between variables, thereby being able to uncover the key factors influencing the adoption of Islamic banking services.

Ethical Considerations

This research ensures that ethical integrity is maintained by applying the principle of informed consent, where each respondent is given an explanation of the research objectives and procedures. The identity of the respondents is kept confidential and the data is only used for academic purposes. Participation is voluntary without pressure or compensation that may affect the objectivity of the response.

RESULTS

Islamic Financial Literacy Level

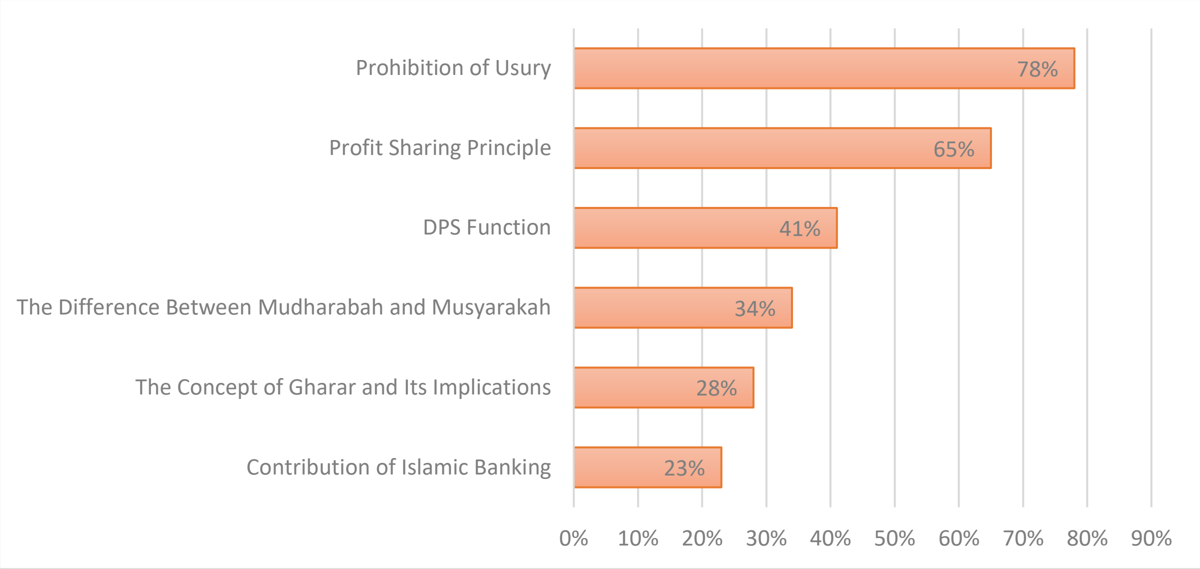
Good literacy skills can determine a high level of trust from the community. The results of this study show that the level of Islamic banking literacy of the people of Makassar City is still at the basic level and has not developed into a comprehensive operational understanding. The data obtained indicates that although some respondents have understood the basic concepts of Islamic banking, this understanding is not evenly distributed in its technical and applicative aspects.

Figure 1 explains the level of public understanding of Islamic banking, both in terms of its principles, implementation, role in the national economy, and the function of the institutions that oversee it. Figure 1 shows that as many as 78% of respondents believe that Islamic banking institutions strongly hold the principle of prohibition of usury. Similarly, regarding revenue and profit sharing, as many as 65% understand that the basic principle of profits of Islamic banking institutions comes from profit sharing. This shows that education about normative concepts of sharia principles in Islamic banking institutions is easier to absorb by the public.

However, when the assessment is directed to more technical principles, the level of public understanding becomes lower. Only 34% of respondents were able to clearly distinguish between mudharabah and musyarakah contracts, which are two important instruments in sharia financing contracts. In addition, only 28% understand the concept of gharar and its implications in transactions, which is one of the main principles that determine the validity of a contract from a sharia perspective. Meanwhile, knowledge about the role of the Sharia Supervisory Board is also relatively low, where only 41% of respondents know the function of the institution in ensuring the maintenance of banking sharia compliance.

Figure 1

Sharia Financial Literacy Profile



Source: Primary data. Authors' presentation.

The most critical finding shown in Figure 1 is that only 23% of respondents showed a thorough understanding of how the Islamic banking system can contribute to long-term personal financial stability. This indicates that most people have not been able to connect the principles of Islamic banking with the practical benefits in managing their banking.

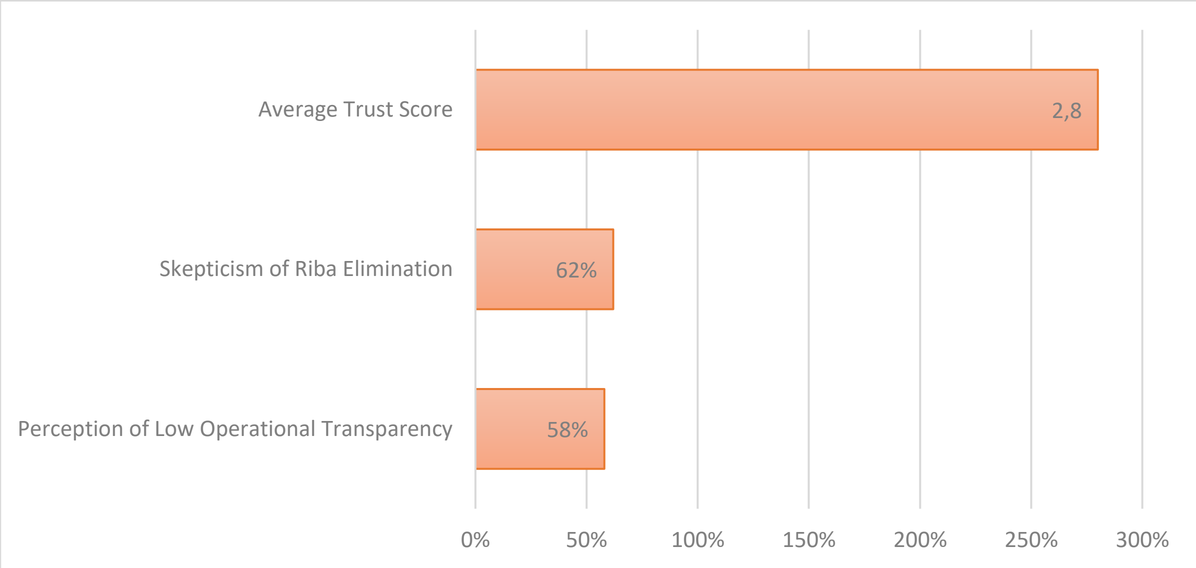
Overall, the results of this study show that the community's Islamic banking literacy is still superficial, dominated by the introduction of basic terms and principles without adequate operational understanding. This condition has an impact on the limited ability of the community to make appropriate financial decisions and in accordance with sharia principles. Thus, increasing Islamic banking literacy not only requires the dissemination of normative information, but also educational interventions that encourage technical and applicative understanding.

Skepticism Towards Islamic Banking

The public's belief that banking institutions with sharia principles comply with the prohibition of usury, does not guarantee that they are absolutely convinced that all transaction activities are free from usury. The results of this study show that the level of public trust in Islamic banking institutions is still in the low category, with an average score of 2.8 on a five-point scale. This value illustrates that most respondents do not have a strong belief in the credibility and operations of Islamic banking. One of the main factors contributing to this low trust is public doubt about whether the profit-sharing mechanism is really capable of eliminating the element of usury in practice.

Figure 2

Public Trust in Islamic banking



Source: Primary data. Authors' presentation.

Figure 2 shows that as many as 62% of respondents stated that there is uncertainty regarding the validity of the elimination of usury, which is driven by three main issues: lack of transparency in profit sharing calculations, the impression that profit sharing returns have similarities with conventional interest, and limited education explaining the fundamental differences between the sharia and conventional systems.

Another aspect that has a significant influence is the public's perception of the transparency of Islamic banking operations. The findings of this study show that 58% of respondents consider that Islamic banking has not provided adequate information disclosure, especially in terms of the use of customer funds for investment activities, the determination of profit-sharing ratios, and the mechanism for monitoring sharia compliance. This low perception of transparency has a direct impact on the ability of Islamic banking to build credibility, because the public considers that sharia principles must not only be fulfilled formally, but must be practiced consistently and verifiable.

Overall, these findings indicate that the low level of public trust is not only due to the lack of public understanding of the concept of Islamic banking, but also to the perception that Islamic banking has not provided sufficient transparency and communication regarding the implementation of these principles. Therefore, increasing public trust requires a strategy that not only focuses on education, but also on increasing the operational openness and accountability of Islamic banking institutions.

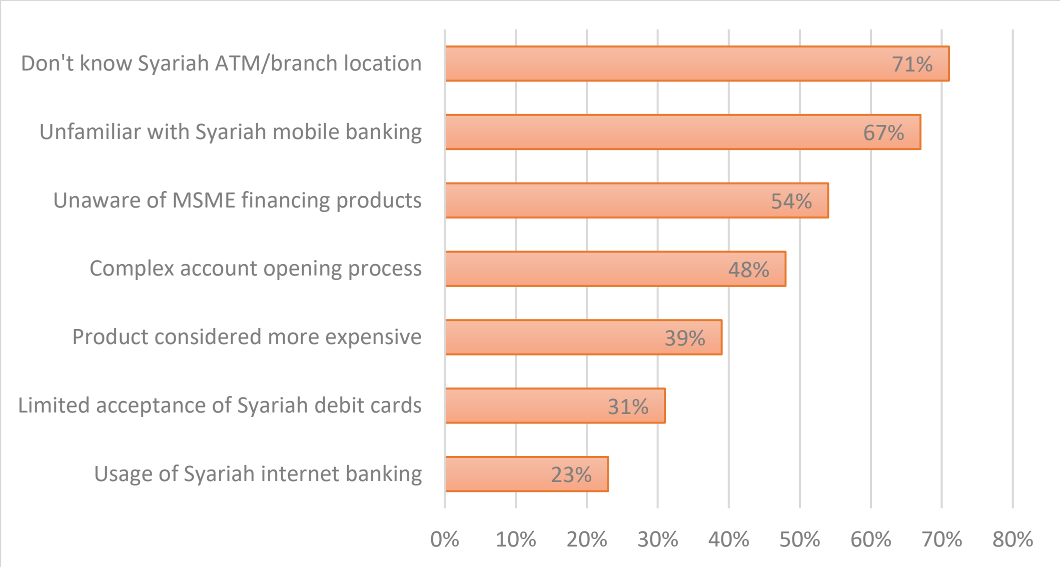
Structural and Informational Inclusion Barriers

Easy access to Islamic banking institutions has not been fully possible for some people in Makassar. The results of the study reveal that the inclusion of Islamic banking in

Makassar City still faces significant obstacles that are informational, structural, and perceptual.

Figure 3

Barriers to Islamic Financial Inclusion



Source: Primary data. Authors' presentation.

Figure 3 shows that information barriers are the most dominant finding, as seen from the low level of public knowledge about Islamic banking services and infrastructure. As many as 67% of respondents do not know the location of the nearest Islamic bank branch or ATM, indicating that physical access has not been properly communicated to the public. In addition, 71% of respondents are not familiar with Islamic mobile banking applications, indicating the low penetration of information regarding digital services that can actually expand the reach of services. Knowledge about sharia financing products for MSMEs is also still limited, where 54% of respondents admitted that they were not aware of the existence of these facilities provided by Islamic banking.

In addition to informational barriers, this study also identifies structural barriers that narrow people's access to sharia services. One of the main obstacles is the limitation of the sharia ATM network which only covers 15% of the total national ATMs, so that people are more dependent on conventional networks. The adoption of digital services such as Islamic internet banking is also still low, with only 23% of respondents having used it. The process of opening a sharia account is also perceived by 48% of respondents to be complicated, indicating the need to simplify procedures to reduce entry barriers.

Perceptual barriers also worsen the level of inclusion in Islamic banking. Some respondents have the assumption that sharia products tend to be more expensive, as shown by 43% of respondents who conveyed this perception. Meanwhile, 39% consider Islamic services to be less innovative than conventional banking services. Concerns about the limited acceptance of sharia debit cards also emerged, with 31% of respondents stating that sharia debit cards cannot be widely used on various platforms or merchants. These perceptual barriers reflect the gap between the actual function of sharia services and public perceptions, which are influenced by the lack of information and direct experience.

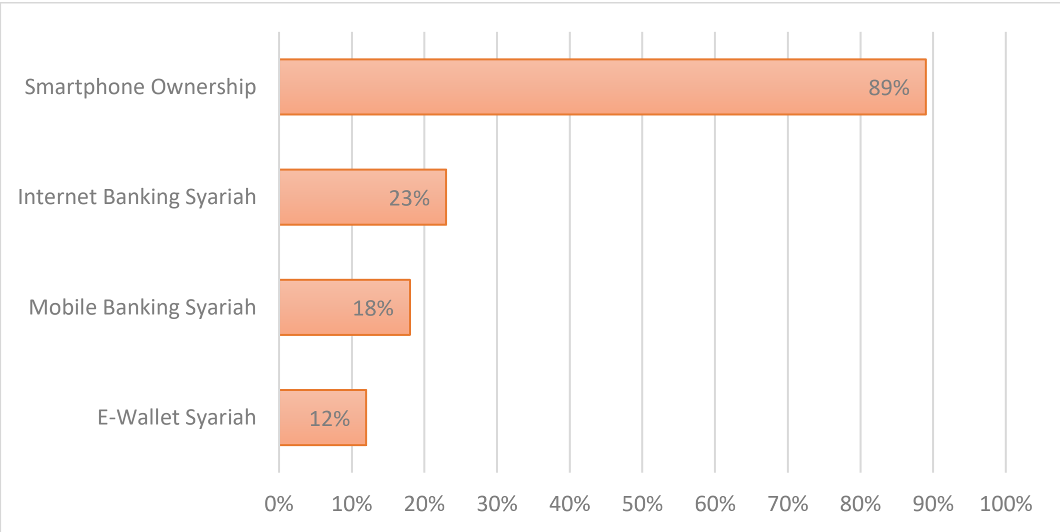
Overall, the findings of the study show that the inclusion of Islamic banking is hampered by a combination of information, infrastructure, and perception factors, which reinforce each other. Limited physical and digital access, coupled with negative perceptions that have not been corrected, have led to low public participation in utilizing Islamic banking services. This condition confirms the need for a comprehensive strategy that not only expands infrastructure, but also strengthens public communication and improves quality of service experience.

Digital Technology Adoption: Untapped Opportunities

The use of digital technology for the people of Makassar has spread quite well, especially through the use of smartphones. However, there are still many Makassar people who are not used to the use of digital technology in the banking sector. This study found that the adoption rate of Islamic banking digital services in Makassar City is still very low even though the penetration of technology in the community is relatively high.

Figure 4

Barriers to Islamic Financial Inclusion



Source: Primary data. Authors' presentation.

Figure 4 shows that as many as 89% of respondents already have smartphones, which theoretically should facilitate the use of digital banking services. However, the use of sharia-based digital services is not developing in line with the availability of these technological devices. Active users of Islamic internet banking only reached 23%, while Islamic mobile banking users were at 18%, and the use of sharia-based e-wallets was even lower, at 12%.

These findings indicate that the main obstacle to the adoption of digital services lies not in access to technology, but in informational and perceptual factors. Most of the respondents were unaware of the existence of Islamic banking digital platforms or the features available in them. In addition, concerns about the security of digital transactions are one of the reasons often cited by respondents as the cause of the low use of Islamic banking applications. This shows that the perception of risk is still high, especially related to the protection of personal data and the security of the transaction process.

In terms of user experience, respondents assessed that the user interface and user experience of sharia applications are still less intuitive than conventional banking digital platforms. The lack of feature integration in sharia applications also causes users to feel disadvantaged, especially when the application does not support comprehensive transactions in an increasingly connected digital ecosystem. Features such as bill payment, investment, zakat management, or integration with e-commerce services are still not optimally available, thus reducing the added value of sharia applications in the eyes of users.

Overall, these findings show that the low adoption of sharia digital services is more due to awareness, security perception, and quality of digital experience factors, rather than device limitations or internet access. This condition also indicates a great opportunity for Islamic banking institutions to increase the digitalization of their services through innovations that are oriented to user needs and through a more comprehensive increase in Islamic digital literacy.

DISCUSSION

Islamic Financial Literacy in Islamic Banking

The findings of this study demonstrate that public trust in Islamic banking in Makassar is closely associated with the depth of Islamic banking literacy, which remains largely normative rather than operational. While most respondents recognize foundational principles such as the prohibition of *riba* and the use of profit-sharing mechanisms, their understanding weakens significantly when confronted with technical and applicative dimensions, including contract differentiation, *gharar*, and the role of the Sharia Supervisory Board. Most notably, only a small proportion of respondents could relate Islamic banking principles to long-term personal financial stability. This pattern suggests that literacy is confined to symbolic or religious recognition, rather than functional competence. Consequently, such superficial literacy constrains individuals' ability to make informed financial decisions consistent with sharia objectives, thereby limiting trust formation and weakening the practical relevance of Islamic banking in everyday financial management.

Empirical studies widely support these findings by identifying a persistent gap between normative awareness and operational understanding of Islamic banking among Muslim communities. Research in Malaysia and Indonesia shows that religious motivation often drives initial acceptance of Islamic banking, yet does not guarantee the technical competence required to utilize products effectively (Mahdzan et al., 2017; Suseno et al., 2021). Other studies demonstrate that higher levels of Islamic financial literacy are positively associated with trust, financial inclusion, and service adoption, reinforcing the argument that operational knowledge is a critical mediating factor (Abbas et al., 2023). Moreover, inadequate understanding of profit-sharing mechanisms and contract structures has been shown to foster skepticism, reduce confidence, and divert consumers toward conventional banking alternatives (Al-Awlaqi & Aamer, 2023). Collectively, this literature confirms that the literacy profile identified in this study reflects a broader structural pattern rather than an isolated local phenomenon.

Some studies, however, suggest that Islamic banking adoption may occur even in contexts of limited operational literacy, thereby partially challenging the centrality of literacy emphasized in this study. Research highlights that religiosity, perceived service quality, and institutional reputation can outweigh literacy in shaping trust and usage intentions (Bananuka et al., 2019; Sudarsono et al., 2023). In such cases, customers may rely on symbolic trust in Islamic identity rather than informed evaluation of products. Nonetheless, these findings do not negate the importance of literacy; instead, they indicate that trust built solely on religiosity is fragile and potentially unsustainable. Without sufficient operational understanding, misconceptions persist and dissatisfaction may emerge over time, ultimately undermining long-term loyalty. Thus, even studies that appear contradictory ultimately reinforce the argument that operational literacy is essential for sustaining trust beyond initial adoption.

The implications of these findings are significant at theoretical, practical, and policy levels. Theoretically, they call for a reconceptualization of Islamic financial literacy that integrates normative knowledge with operational competence and financial decision-making skills. Practically, Islamic banks should move beyond promotional religious narratives toward transparent education on contracts, risk-sharing mechanisms, and supervisory governance, supported by user-friendly digital tools. The Sharia Supervisory Board also has a strategic role in public-facing education to strengthen credibility and trust. From a policy perspective, regulators should institutionalize Islamic financial literacy within national education frameworks and digital inclusion programs, ensuring that literacy initiatives address both principles and practice. Such integrated interventions are crucial for enhancing consumer well-being and ensuring the long-term sustainability of Islamic banking systems.

Public Trust, Riba Perception, and Transparency in Islamic Banking

The findings of this study indicate that public trust in Islamic banking remains relatively low, as reflected by an average score of 2.8 on a five-point scale. Although respondents generally acknowledge that Islamic banks are institutionally grounded in Sharia principles, this belief does not automatically translate into confidence that all operational practices are fully free from riba. The dominant sources of skepticism relate to doubts about the practical effectiveness of profit-sharing mechanisms, perceived similarities between profit-sharing returns and conventional interest, and limited transparency in operational disclosures. The data further show that concerns over transparency—particularly regarding the use of funds, profit-sharing calculations, and Sharia compliance monitoring—directly undermine institutional credibility. These findings suggest that public trust is shaped not only by normative acceptance of Sharia principles but also by how consistently, transparently, and verifiably those principles are implemented in daily banking operations.

A growing body of empirical research supports these findings and highlights similar challenges across different contexts. Studies by Harahap & Risfandy (2022) and Maraliza (2024) demonstrate that while awareness of riba prohibition is high, public skepticism persists due to limited understanding of Islamic banking operations and perceived operational similarities with conventional banks. Research by Bidabad et al. (2017) further emphasizes that insufficient transparency in profit-sharing mechanisms weakens public confidence, especially when governance and disclosure practices are perceived as inadequate. Additional evidence from Alwathan & Nugraheni (2021), Wijaya et al. (2019), and Nursari et al. (2022) confirms that low financial literacy and unclear communication significantly reduce trust in Islamic banking institutions. Collectively, these studies reinforce the argument that transparency, education, and clear differentiation from conventional banking are central determinants of public trust.

Nevertheless, some studies report contrasting findings, suggesting that high levels of public trust in Islamic banking can be achieved under certain conditions. Research conducted in more mature Islamic finance ecosystems, such as Malaysia, indicates that strong regulatory frameworks, robust Sharia governance, and extensive disclosure practices contribute to higher trust levels (Abdul Rahim et al., 2023; Guizani & Ajmi, 2022). Khan et al. (2021) argue that effective profit-sharing mechanisms, when supported by innovation and clear ethical positioning, can strengthen public confidence and distinguish Islamic banks from their conventional counterparts. These contrasting results imply that trust in Islamic banking is context-dependent, shaped by regulatory quality, institutional maturity, and public financial literacy. Rather than contradicting the present findings, such studies suggest that low trust is not inherent but conditional on governance and communication practices.

From a theoretical perspective, these findings contribute to trust and legitimacy theories by emphasizing that formal Sharia compliance alone is insufficient to secure institutional legitimacy. Trust emerges when compliance is transparent, observable, and consistently enforced through governance mechanisms. Practically, Islamic banks must enhance operational openness, improve disclosure of profit-sharing calculations, and invest in sustained public education to bridge the gap between principle and practice. At the policy level, the results underscore the need for stronger regulatory oversight, standardized disclosure requirements, and more authoritative Sharia supervisory frameworks (Rahmatika et al., 2024). Policymakers and regulators play a crucial role in ensuring that Islamic banking operations are not only Sharia-compliant in form but also credible and verifiable in substance, thereby fostering sustainable public trust.

Informational, Structural, and Perceptual Barriers to Islamic Banking Inclusion

This study demonstrates that access to Islamic banking in Makassar remains constrained by interrelated informational, structural, and perceptual barriers. Informational constraints emerge as the most dominant factor, reflected in limited public awareness of branch locations, ATM networks, digital banking applications, and Sharia-compliant financing for MSMEs. Structural barriers further restrict inclusion, particularly the limited coverage of Sharia ATMs, low adoption of digital banking services, and procedural complexity in opening accounts. These constraints reinforce perceptual barriers, where Islamic banking is viewed as more expensive, less innovative, and less widely accepted than conventional banking. Collectively, the findings suggest that financial inclusion is not merely a matter of availability but also of effective communication, usability, and public experience. Limited access and weak dissemination of information contribute to negative perceptions, which in turn reduce participation, confirming that Islamic banking inclusion in Makassar is shaped by mutually reinforcing constraints rather than a single dominant factor.

These findings are strongly supported by existing empirical literature. Studies by Ahamed & Mallick (2019) and Ali et al. (2020) show that low financial literacy significantly limits participation in Islamic financial services, particularly when product features are poorly understood. Similar conclusions are reached by Mujiatun et al. (2023), who emphasize that insufficient communication and outreach reduce awareness among potential users, especially MSMEs. Structural constraints identified in this study align with Saifurrahman & Kassim (2024), who find that limited physical access and regulatory rigidity hinder Islamic banking inclusion in Indonesia. Furthermore, Nazeer et al. (2023) and Faisol (2017) document that negative public perceptions—often rooted in misinformation and lack of direct experience—discourage adoption. Together, these studies reinforce the argument that informational deficits, infrastructural limitations, and unfavorable perceptions are systemic challenges affecting Islamic banking inclusion across different contexts.

However, several studies present contrasting evidence, suggesting that these barriers are not inherent but context-dependent. Research Jedidia & Boubakri (2018) shows that infrastructure expansion and fintech adoption significantly improve access and usage of Islamic banking services. Hamadou et al. (2025) and Yati (2024) further demonstrate that digitalization and targeted financial education can effectively reduce informational barriers and improve public engagement. Improvements in perception are also documented by Ngaha & Mbenda (2024), who find that transparency and proactive communication enhance acceptance of Islamic banking, even in non-Muslim contexts. These contrasting findings indicate that higher levels of inclusion are achievable when Islamic banks operate within supportive regulatory environments, invest in digital infrastructure, and actively promote financial literacy, highlighting that observed barriers are conditional rather than structural inevitabilities.

Theoretically, these findings contribute to the financial inclusion and capability approach literature by emphasizing that access depends on both institutional provision and individual capability to utilize services. Practically, Islamic banks must prioritize information dissemination, simplify procedures, and expand user-friendly digital platforms to reduce entry barriers. Enhancing customer experience is essential to correcting misperceptions and increasing participation. From a policy perspective, regulators should strengthen digital and physical infrastructure, standardize service procedures, and integrate Islamic financial literacy into national education and inclusion strategies (Pinasti & Achiria, 2024; Rohmania et al., 2023; Sinulingga et al., 2023). Coordinated efforts between banks and policymakers are therefore critical to transforming Islamic banking from a formally available system into a genuinely inclusive financial alternative.

Digital Paradox in Islamic Banking: Explaining Low Adoption amid High Technology Penetration

This study reveals a clear digital paradox in Makassar: while smartphone ownership is widespread, the adoption of Islamic banking digital services remains notably low. Despite 89% of respondents owning smartphones, only a small proportion actively use Islamic internet banking, mobile banking, or Sharia-based e-wallets. The findings demonstrate that technological availability alone is insufficient to drive digital adoption. Instead, informational and perceptual barriers play a decisive role. Limited awareness of Islamic digital platforms, concerns about transaction security, and doubts regarding data protection significantly reduce user willingness to engage. Moreover, suboptimal user experience—characterized by less intuitive interfaces and weak feature integration—further diminishes perceived value. These results suggest that digital exclusion in Islamic banking is shaped more by cognitive and experiential constraints than by access to devices or internet connectivity.

The findings are consistent with prior empirical studies highlighting non-technological barriers to digital Islamic banking adoption. Riza & Wijayanti (2024) show that low awareness of Islamic digital banking products significantly suppresses usage, even in technologically advanced settings. Similarly, Giovanis et al. (2019) argue that insufficient consumer understanding limits mobile banking adoption across retail banking contexts. Security concerns also emerge as a persistent deterrent. Lestari et al. (2024) and Jusman & Fauziah (2024) document that fears of cybercrime and data misuse substantially weaken trust in digital financial platforms. In addition, studies by Stewart & Jürjens (2018) and Chattha & Alhabshi (2017) confirm that poor interface design and low usability discourage sustained engagement. Together, these studies reinforce the conclusion that awareness, trust, and user experience are critical determinants of digital adoption in Islamic banking.

However, contrasting evidence from other contexts suggests that low adoption is not an inherent characteristic of Islamic digital banking. Jedidia & Boubakri (2018) show that strong digital infrastructure and fintech integration significantly enhance user participation. Chitai et al. (2024) demonstrate that feature-rich platforms—offering bill payments, transfers, and integrated services—can increase engagement and trust. Similarly, Alamir (2024) finds that robust security mechanisms and user-friendly design positively influence adoption intentions in Saudi Arabia. These findings indicate that where Islamic banks invest in innovation, transparency, and digital capability, adoption rates improve substantially. The contrast underscores the contextual nature of digital adoption, shaped by institutional readiness, regulatory support, and service quality.

Theoretically, these findings extend the Technology Acceptance Model by emphasizing the roles of perceived risk, trust, and user experience alongside perceived usefulness and ease of use (Aysan et al., 2018; Islam & Rahman, 2017). Practically, Islamic banks must prioritize user-centered digital design, enhance feature integration, and communicate security safeguards more effectively. Improving Islamic digital literacy is essential to reducing informational gaps and correcting misconceptions. From a policy perspective, regulators should strengthen data protection frameworks and support digital literacy initiatives tailored to Islamic finance (Malik & Shahzad, 2025; Sarasi et al., 2025). Coordinated efforts between banks and policymakers are therefore crucial to transforming high technological penetration into meaningful digital inclusion within Islamic banking.

CONCLUSION

This study demonstrates that the challenges facing Islamic banking in Makassar extend beyond issues of availability and formal Sharia compliance. The findings reveal that public engagement with Islamic banking is constrained by a combination of limited operational literacy, low institutional trust, and weak financial inclusion, particularly in the digital domain. Although most respondents recognize the normative foundations of Islamic banking—such as the prohibition of riba—this awareness does not translate into confidence in daily banking practices. Doubts regarding profit-sharing transparency, Sharia compliance monitoring, and the actual distinctiveness of Islamic banking operations remain prevalent, weakening public trust and discouraging participation.

The study also highlights a structural and digital paradox. Despite high levels of smartphone ownership and widespread internet access, the adoption of Islamic digital banking services remains low. This gap is primarily driven by informational and perceptual barriers rather than technological constraints. Limited awareness of available digital platforms, concerns over transaction security, and dissatisfaction with user interface design and feature integration significantly reduce the perceived value of Islamic digital services. These findings indicate that digital transformation in Islamic banking cannot rely solely on technological deployment but must prioritize user experience, trust-building mechanisms, and clear communication.

Overall, this research contributes to the existing body of knowledge by empirically integrating literacy, trust, inclusion, and digital adoption within a single analytical framework. It underscores that strengthening Islamic banking requires a comprehensive approach that aligns education, transparency, governance, and digital innovation. By situating these issues within an urban Indonesian context, the study provides evidence that Islamic banking development is contingent on how effectively institutions translate Sharia principles into transparent, accessible, and user-centered financial practices.

Limitations of the Study

This study has several limitations that should be acknowledged when interpreting the findings. First, the research adopts a cross-sectional design, which captures public perceptions and behaviors at a single point in time. As a result, the study cannot fully explain how literacy, trust, and digital adoption evolve dynamically or how policy and institutional changes may influence these variables over time. Longitudinal evidence would be required to assess causal relationships and temporal shifts in public engagement with Islamic banking.

Second, the study relies primarily on self-reported survey data, which may be subject to response bias. Participants' answers could reflect socially desirable responses or incomplete recall, particularly regarding sensitive issues such as trust, religious compliance, and digital security perceptions. In addition, the study focuses on an urban context—Makassar City—which may limit the generalizability of the findings to rural areas or regions with different socio-economic and institutional characteristics.

Finally, the analytical approach is descriptive in nature and does not employ inferential or structural modeling techniques. While this approach is appropriate for mapping patterns and identifying dominant barriers, it limits the ability to statistically test the strength and direction of relationships among literacy, trust, inclusion, and digital adoption. These limitations suggest that the findings should be interpreted as exploratory rather than definitive causal explanations.

Recommendations for Future Research

Future research could extend this study in several important ways. First, longitudinal or panel-based studies are recommended to examine how changes in literacy programs, regulatory reforms, or digital innovation initiatives affect public trust and inclusion over time. Such approaches would allow researchers to move beyond descriptive patterns and assess causal mechanisms within the Islamic banking ecosystem.

Second, future studies should consider employing advanced quantitative methods, such as structural equation modeling or mixed-methods designs, to test the interrelationships among literacy, trust, perceived risk, user experience, and adoption behavior. Incorporating qualitative interviews with customers, bank managers, and Sharia supervisory board members could also provide deeper insights into institutional practices and governance challenges that are not fully captured through surveys.

Third, comparative research across regions or countries would be valuable in identifying contextual factors that shape successful Islamic banking adoption. Comparing urban and rural settings, or mature and emerging Islamic banking markets, could clarify which barriers are systemic and which are context-specific. Finally, future research should pay greater attention to digital user experience, fintech collaboration, and Sharia-compliant innovation as strategic pathways for strengthening trust and advancing sustainable financial inclusion in Islamic banking.

Author Contributions

Conceptualization	H.A.H. & A.R.R.	Resources	H.A.H. & A.R.R.
Data curation	H.A.H. & A.R.R.	Software	H.A.H.
Formal analysis	H.A.H. & A.R.R.	Supervision	H.B.S.
Funding acquisition	H.A.H. & A.R.R.	Validation	H.A.H. & H.B.S.
Investigation	H.A.H. & A.R.R.	Visualization	K.N. & Y.A.
Methodology	H.A.H. & H.B.S.	Writing – original draft	H.A.H. & A.R.R.
Project administration	H.A.H. & A.R.R.	Writing – review & editing	H.A.H. & H.B.S.

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Informed Consent Statement

Informed consent was obtained before respondents filled out the questionnaire for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work the authors used ChatGPT, DeepL, Grammarly, and PaperPal in order to translate from Bahasa Indonesia into American English, and to improve clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and take full responsibility for the content of the published article.

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