International Journal of Economics and Management Research

E-ISSN: 2830-2508
P-ISSN: 2830-2664

Artikel Penelitian

Lack of Understanding of Shariah Economics to Improve Shariah Bank Performance

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Received: 13 June 2025
Revised: 29 June 2025
Accepted: 03 July 2025
Published: 07 July 2025
Curr. Ver.: 07 July 2025

Abstract: This study examines the impact of the lack of understanding of Islamic economics on the performance of Islamic banks. The main problem identified is that although interest in Islamic banking continues to increase, the level of understanding of the public and even some practitioners regarding the principles of Islamic economics is still relatively low. This condition has the potential to hinder the growth and effectiveness of Islamic bank operations. This study aims to analyze in depth how this lack of understanding affects various aspects of Islamic bank performance, including fund raising, financing distribution, customer loyalty, and institutional reputation. The research approach used is a qualitative method with case studies of several Islamic banks in Indonesia. Data were collected through in-depth interviews with bank management, employees, customers, and Islamic economics experts, as well as through analysis of internal documents and financial reports. The results of the study indicate that the lack of understanding of Islamic economics is negatively correlated with the performance of Islamic banks. This can be seen from the low interest of potential customers, difficulties in developing innovative products that are in accordance with Islamic law, high levels of complaints due to misunderstanding of contracts, and lack of trust from some of the community. The implications of this study highlight the urgency of massive and sustainable improvement of Islamic economic education and literacy, both for internal Islamic banks and the general public. Recommendations put forward include the development of a comprehensive Islamic education curriculum, ongoing training programs for bank employees, and effective socialization campaigns to improve public understanding. Thus, it is expected that the performance of Islamic banks can improve along with a better understanding of Islamic economic principles.

Keywords: Banking Work, Islamic Bank, Islamic Economics, Islamic Financial Literacy, Understanding Islamic Economics.

1. Introduction

The Islamic banking sector in Indonesia has shown significant growth in recent decades, strengthening its position as an integral component of the national financial system. This development is driven by increasing public awareness of Islamic economic principles, as well as support from conducive government regulations (Ascarya, 2010; Financial Services Authority, 2023). Islamic banks offer alternative financing and fundraising based on the principles of justice, transparency, and profit sharing, in contrast to the interest system in conventional banking (Antonio, 2001). The presence of Islamic banks is expected to not only provide financial benefits, but also have a positive impact on the social and economic welfare of the community in accordance with the maqashid sharia (Chapra, 2008).

However, behind the optimistic growth, the lack of understanding of Islamic economics among the wider community and even some practitioners is a fundamental challenge that hinders the acceleration and optimization of Islamic bank performance. The study of Islamic financial literacy conducted by the Financial Services Authority (OJK) consistently shows that the level of public understanding of Islamic banking products, mechanisms, and basic principles is still relatively low compared to conventional banking (Financial Services Authority, 2023). This lack of understanding often leads to a mistaken perception, where Islamic banks are considered the same as conventional banks, only "without interest" or "Islamic in name only", without understanding the essence of the fundamental differences in the agreement, objectives, and socio-economic implications (Safar, 2020).

This lack of understanding has serious implications for the performance of Islamic banks. In terms of fundraising, minimal literacy can cause potential customers to be reluctant to place their funds in Islamic banks because they do not understand the profit-sharing scheme or the difference in risk with conventional interest (Misbahuddin & Huda, 2018). In the context of financing distribution, lack of understanding of sharia contracts such as murabahah, mudharabah, or musyarakah can cause doubt, misinterpretation, or even disputes in the future, which ultimately affect the quality of assets and the level of non-performing financing (NPF) of banks (Wicaksono & Adityo, 2021). Furthermore, the image and public trust in Islamic banks can also be negatively affected if there is miscommunication or inability to explain sharia principles comprehensively by bank staff (Umar, 2017).

Therefore, this study is crucial to analyze in depth how the phenomenon of lack of understanding of Islamic economics concretely affects various aspects of Islamic bank performance, as well as formulate strategic recommendations to improve public literacy and understanding in order to optimize the role of Islamic banks in the Islamic economic ecosystem.

2. LITERATURE REVIEW

This section presents a comprehensive literature review related to the research topic "Lack of Understanding of Islamic Economics to Improve the Performance of Islamic Banks". The discussion will be divided into several main segments, including the theoretical and philosophical foundations of Islamic economics, indicators for measuring the performance of Islamic financial institutions, and the crucial relationship between the level of understanding (literacy) of Islamic economics and the performance of Islamic banking institutions.

1. Theoretical and Philosophical Foundations of Islamic Economics

` Islamic economics is an economic system rooted in Islamic values and principles, which are primarily sourced from the Qur'an and As-Sunnah. Unlike conventional economic systems that often focus solely on the accumulation of wealth, the goal of Islamic economics is broader, namely to achieve comprehensive welfare (falah) for individuals and society (Chapra, 2008). This welfare is achieved through fair, equitable, and sustainable economic practices, and always pays attention to moral and spiritual dimensions. Some fundamental principles that are the pillars of Islamic economics and distinguish it from other economic systems include:

a. Prohibition of Usury: Interest obtained from money loans is strictly prohibited. Instead, financial transactions must be based on real economic activities or profit-and-loss sharing schemes (Usmani, 2002; Kahf, 1999).
b. Prohibition of Gharar (Excessive Uncertainty): Transactions must be clear and transparent, free from elements that cause significant uncertainty that can harm one of the parties (El-Gamal, 2006). This aims to avoid exploitation and injustice.
c. Prohibition of Maisir (Gambling/Speculation): All forms of speculative activities that resemble gambling are prohibited because they involve risk without any real productive added value (Ascarya, 2010).
d. Justice and Equality: Islamic economics encourages fair distribution of wealth, prohibits monopolistic practices, and prevents excessive hoarding of wealth. Every transaction must be based on the principle of justice for all parties (Siddiqi, 1981).
e. Emphasis on the Real Sector: Money is viewed as a medium of exchange, not a commodity. Therefore, financial transactions must be related to productive activities and real assets (Muhammad, 2004).

2. Dimensions of Islamic Bank Performance

The performance of Islamic banks can be evaluated from various perspectives, including financial aspects that describe profitability and efficiency, as well as non-financial aspects that include sharia compliance and social impact. These performance measurements are essential to assess the effectiveness of banks in achieving their goals.

a. Profitability: Ratios such as Return on Assets (ROA) and Return on Equity (ROE) are used to measure how efficient a bank is in generating profits from its assets and capital (Rosly & Bakar, 2003).
b. Operational Efficiency: Indicators such as Operating Costs to Operating Income (BOPO) reflect the effectiveness of a bank in managing its operating costs relative to its income (Samad & Hasan, 1999).
c. Sharia Compliance: This is a unique and crucial performance dimension for Islamic banks. Compliance is assessed through sharia audits, alignment with fatwas, and operational consistency with sharia principles (Abdullah & Sa'ad, 2011; Shaharuddin & Ahmad, 2014).
d. Customer Satisfaction and Loyalty: Measuring the level of customer satisfaction with the services, products, and sharia values offered by the bank. High satisfaction is generally positively correlated with long-term customer loyalty (Dusuki & Irfani, 2008).

3. Sharia Economic Literacy and Understanding

Sharia economic literacy can be defined as the level of knowledge and understanding of individuals—both customers, prospective customers, and internal banks—regarding the basic concepts, principles, products, and operational mechanisms of sharia finance (Hafiz, 2004; Ramadhan & Kholiq, 2023). This understanding is not just about knowing the product, but also understanding the philosophy, goals, and ethics that underlie every sharia transaction. The Importance of Sharia Economic Literacy:

a. Increasing Market Participation: Adequate literacy encourages active community participation in the sharia financial ecosystem, both as customers, investors, and business actors, which ultimately expands the market share of sharia banks (Mustapha & Ahmad, 2011; Financial Services Authority, 2023).

b. Reducing Information Asymmetry: Good knowledge allows customers to make more rational financial decisions, understand their rights and obligations, and minimize misunderstandings regarding product features or contracts (Wicaksono & Adityo, 2021).

Understanding of Islamic economics is one of the important aspects to improve the performance of Islamic banks. Lack of understanding of Islamic economics can reduce the performance of Islamic banks. Various studies show that there is a lack of understanding of human resources related to Islamic economics. The following is a summary of several relevant previous studies:

1. Islamic economics is an economic system based on Islamic principles, including the prohibition of usury (interest), gharar (uncertainty), and maysir (gambling). Islamic banks operate based on the principles of profit sharing (mudharabah and musyarakah), buying and selling (murabahah), and rent (ijarah). However, the lack of understanding of the community and stakeholders about these principles can hinder the performance of Islamic banks (Ascarya, 2021).
2. According to Antonio (2008), low understanding of Islamic economics causes customers to be reluctant to switch from conventional banks to Islamic banks due to misperceptions about the complexity of Islamic products. This has an impact on low asset growth and profitability of Islamic banks.
3. Several studies have shown that low sharia economic literacy hampers the growth of sharia banking. According to Hasan (2019), the lack of customer understanding of sharia products causes their preference to remain with conventional banks. Meanwhile, Abduh & Omar (2012) found that the lack of knowledge of bank management about sharia principles resulted in operational inefficiency and low public trust.
4. The lack of understanding of sharia economics among customers can have a negative impact on the performance of sharia banks in several ways. First, it can hinder the adoption of sharia products and services if customers do not understand their advantages or see them as not significantly different from conventional products (Metawa & Almossawi, 1998). Second, it can affect customer loyalty if they do not have a strong belief in the sharia principles that underlie the bank's operations.
5. The performance of sharia banks is a representation of the bank's success in achieving its goals in accordance with sharia principles. Measurement of sharia bank performance can be done through various financial and non-financial indicators. Financial indicators include profitability (ROA, ROE, NIM), efficiency (BOPO), asset quality (NPF), and asset growth. Meanwhile, non-financial indicators can include customer satisfaction, bank image, sharia compliance, and social responsibility (Hassan & Lewis, 2007; Khan & Bhatti, 2008).

Through various research results, it can be concluded that understanding Islamic economics is an important role in Islamic economic banking. By understanding Islamic economics, it is hoped that Islamic banking will be filled by human resources who are indeed experts in Islamic economics.

3. METHOD

The type of research used in this study is a qualitative research method which is a study using a natural setting to interpret a phenomenon that occurs and is carried out with various existing methods. Qualitative research is a research method that aims to gain an understanding of reality through an inductive thinking process. The data source used in this study is a secondary data source where the data is obtained through questionnaires and interviews with Islamic economic actors in the city of Medan, precisely in Medan Amplas District, Harjosari II Village. This study aims to examine in depth the impact of the lack of understanding of Islamic economics on the performance of Islamic banks. To achieve this goal, this study will adopt a qualitative approach with a case study method. The qualitative approach was chosen because it allows researchers to understand the phenomenon holistically and in depth, exploring the perceptions, experiences, and views of informants regarding the complexity of the interaction between sharia understanding and bank performance. The case study method will allow researchers to intensively analyze one or more specific Islamic banks, obtaining rich and contextual data.

4. RESULTS AND DISCUSSION

The results of the study show that the level of understanding of the Harjosari II Village community regarding sharia economics, especially sharia banking, is still relatively low. The majority of customer informants, even those who already have accounts at sharia banks, tend to understand sharia banks only as "no interest" or "in accordance with religious teachings", without a deep understanding of the concept of contracts, profit-sharing principles, or fundamental differences with conventional banks.

Interviews with customers revealed that their decision to choose a sharia bank was more often based on spiritual factors or recommendations from family/religious figures, not because of a comprehensive understanding of the sharia economic system itself. "I use a sharia bank because the ustadz said it was good, he said it was more blessed, but I don't know what the details are that are different," said one customer in Harjosari II (Interview, Customer 1, May 15, 2025). This condition indicates a significant information asymmetry between sharia banks as service providers and the community as users.

On the other hand, interviews with Islamic bank employees in the area also revealed that they often face challenges in explaining Islamic products to prospective customers. Some employees find it difficult to simplify the explanation of complex contracts so that they are easily understood by the general public. "Sometimes it has been explained at length about murabahah or mudharabah, but the customer is still confused, in the end they just say yes," said a customer service (Interview, Bank Employee, May 17, 2025). This is in line with the findings of Misbahuddin and Huda (2018) and Safar (2020) which show low Islamic financial literacy in the community.

The lack of understanding of the Harjosari II Village community regarding Islamic economics has a significant impact on the performance of Islamic banks in the area. This hampers the collection of Third Party Funds (DPK), where investment products such as mudharabah are less in demand than wadi'ah products, so that the mobilization of productive long-term funds is limited. In financing distribution, lack of understanding of sharia contracts such as murabahah and mudharabah/musyarakah causes a longer education process, low financing conversion rates, and potential post-contract misunderstandings. In addition, customer loyalty tends to be fragile because they prioritize convenience over in-depth sharia principles, and this lack of understanding also has the potential to damage the image and reputation of sharia banks in the eyes of the community, hindering their efforts to build trust as transparent and fair financial institutions.

Various educational efforts have been carried out by sharia banks in Harjosari II Village to improve community understanding, including direct education by employees, provision of brochures and printed materials (although often too technical), and participation in local community events. However, this initiative is considered not yet massive and sustainable, so the results are not optimal because the community has difficulty absorbing the information amidst their busy lives. This shows the need for a more easily digestible communication strategy and consistent education to improve understanding.

The lack of in-depth understanding of the Harjosari II Village community regarding the principles of sharia economics has proven to be a significant obstacle that affects the performance of sharia banks in the region as a whole. This impact is most clearly seen in the collection of Third Party Funds (TPF), where customer preferences are still dominated by deposit products (such as wadi'ah) which are considered simpler and have minimal risk. This has resulted in low interest in investment-based TPF products (mudharabah), which are actually very vital for banks to optimize the mobilization of more productive and sustainable long-term funds.

Furthermore, the most crucial and real impact is seen in the distribution of financing. Although there is potential interest from prospective customers, their lack of understanding of the concept of sharia contracts, such as the fundamental differences between murabahah profit margins and conventional interest, or the profit-sharing mechanisms in mudharabah and musyarakah, often triggers doubts and even rejections. This condition directly prolongs the process of customer education and acquisition, because bank staff must devote extra time and energy to explaining basic concepts. As a result, the financing conversion rate is lower, and many potential sharia financing fails to be realized because customers feel they are not fully convinced or familiar with the contract scheme offered. In fact, in some cases, the potential for post-contract misunderstandings can also arise, leading to complaints or protests from customers who feel they do not fully understand the consequences of the agreement they have agreed to at the beginning.

In addition, this lack of understanding also has an impact on the level of customer loyalty and satisfaction. Although some customers may choose sharia banks because of spiritual motivations, their loyalty tends to be fragile and easily shaken. If there is an offer that is considered more competitive than conventional banks, either in terms of ease of process or perception of lower costs, customers with minimal understanding of sharia have a high potential to switch. Their loyalty is not yet fully rooted in the principles of sharia itself, but rather in the aspects of ease and speed of service. This situation also has the potential to damage the image and reputation of sharia banks. When the public cannot see substantial differences between sharia and conventional banks, or there is miscommunication regarding products and services, negative perceptions can arise. This will clearly hinder the efforts of sharia banks to build an image as a financial institution that is not only sharia compliant, but also transparent, fair, and provides clear added value to the community.

Realizing this challenge, sharia banks in Harjosari II Village have actually initiated several educational efforts. This includes direct product explanations by employees to prospective customers, provision of brochures and printed materials (although sometimes still using overly technical language), and participation in local community events for socialization. However, these efforts are considered not yet massive and sustainable. Limited resources, busy communities, and communication approaches that may not be entirely appropriate make information not optimally absorbed.

Therefore, the findings of this study in Harjosari II Village clearly indicate that increasing understanding of Islamic economics is a fundamental and non-negotiable prerequisite for improving the performance of Islamic banks in a sustainable manner. Without an adequate foundation of understanding, Islamic banks will continue to struggle in various aspects of their operations, from productive fund mobilization to building strong customer loyalty. To overcome this challenge effectively, a comprehensive strategy is needed that involves various related parties.

This strategy must include increasing Islamic financial literacy massively and sustainably. Educational programs should no longer be sporadic, but must be designed in very simple language, using easy-to-understand analogies, and delivered through various channels that are relevant to people's daily lives, such as digital platforms, community activities, initiatives in schools, and forums in mosques. In addition, comprehensive training for bank employees is crucial; especially for frontliners, they must have a deep understanding of Islamic economics and, no less importantly, excellent communication skills to explain products effectively and eliminate customer doubts. Banks also need to focus on developing simpler and more innovative products. The products offered must not only meet Islamic principles, but must also be easy for the general public to understand and truly meet real needs at the local level. Last but not least, is strategic collaboration with community leaders and religious leaders. The role of ustadz, traditional leaders, and local communities is very significant in disseminating correct information and building public trust in Islamic banking, given their strong influence in shaping opinions and behavior in society. With the synergy of these various parties, it is hoped that the understanding of Islamic economics can increase, paving the way for more optimal and sustainable Islamic banking performance in Harjosari II Village.

5. CONCLUSION

Research in Harjosari II Village, Medan Amplas, found that the lack of public understanding of sharia economics significantly affects the performance of sharia banks there. Although some customers choose sharia banks for spiritual reasons, in-depth understanding of the principles, contracts, and fundamental differences with conventional banks is still very minimal. The impact of this limited understanding is reflected in several aspects of bank performance, namely: the collection of Third Party Funds (TPF) which is dominated by deposit products (wadi'ah) rather than investments (mudharabah), hindering the mobilization of productive funds; financing distribution which is often hampered by customer doubts due to a lack of understanding of sharia contracts, prolonging the acquisition process, reducing the financing conversion rate, and triggering post-contract misunderstandings; customer loyalty and satisfaction which tend to be fragile and vulnerable to switching to conventional banks if there is an offer that is considered easier or more profitable; and the potential for damage to the bank's image and reputation due to erroneous perceptions and miscommunication. Therefore, to improve the performance of sharia banks in the region, increasing sharia economic literacy is a primary prerequisite. A comprehensive strategy is needed, including massive and continuous education with easy-to-understand language, in-depth training for all bank employees, development of simpler and more innovative products, and strategic collaboration with community leaders and religious leaders. With these efforts, Islamic banks are expected to be able to reach the community more effectively, build trust, and optimize their role in the Islamic economic ecosystem.

Suggestions

To overcome the challenge of a lack of understanding of Islamic economics that hinders the performance of Islamic banks in Harjosari II Village, Medan Amplas, collaborative efforts are needed. Islamic banks must intensify and innovate Islamic financial literacy education programs by simplifying the language, diversifying education channels (utilizing digital media and local communities), and providing comprehensive training to employees so that they are able to explain Islamic principles effectively. In addition, banks need to develop more adaptive and transparent products, ensuring that each contract is clearly explained to build customer trust. Regulators such as the Financial Services Authority (OJK) are advised to standardize national education materials and increase the reach of literacy programs, while academics can integrate Islamic economics curriculum into formal education. Finally, the community in Harjosari II Village is also encouraged to be more proactive in seeking information and participating in joint learning initiatives. The synergy of various parties is expected to increase public understanding, which in turn will encourage improved performance and sustainable growth of Islamic banks in the region.

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