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Research Paper

Customer Response towards Funding Return Uncertainty in Indonesian Islamic Banking

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ABSTRACT

A guaranteed return on funding is the expectation of customers when engaging in transactions with Islamic banks, yet it remains uncertain. This study aims to explain customer responses to the uncertainty of funding returns in Islamic Banks in Indonesia. The research is based on descriptive qualitative methods, with data collected through observations and interviews. Observations involved visiting bank branches and interacting with employees to explain the research intent. The researchers directly observed funding transactions at several selected Islamic banks in Semarang municipality, Indonesia. Interviews were conducted with customers from these banks, selecting at least one funding customer for each interview (N= 4). Data were analyzed using descriptive analysis methods. The study found that the uncertainty of funding returns is attributed to the application of the *mudharabah* contract. Customers are not overly concerned with the return uncertainty as long as the Islamic bank operates normally. Loyal customers prefer Islamic banks for their funds placement, considering the total return competitive. This research refutes the perception among some in the public that Islamic banks are similar to conventional banks. Islamic banks must maintain competitive equivalent rates to preserve customer loyalty.

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Introduction

The issue of Islamic banks is important to discuss in the context of Indonesia, which is the country with the largest Muslim population in the world. However, despite promoting the Sharia concept and being supported by government policies for 30 years, the market share of Islamic banks only reached 6.52% of Indonesia's total banking assets as of September 2021 (Financial Service Authority - OJK). This phenomenon indicates a problem between the understanding of the majority Muslim Indonesian population and Islamic banks, which apply a profit-sharing system with uncertain returns (Ridwan & Mayapada, 2020; Shah et al., 2020). Some segments of the population respond to this profit-sharing system without issue. Meanwhile, rejection responses do not appear openly, and clear loyal responses are also absent. This indicates an issue with the uncertainty of returns in Islamic banks. The most dominant consideration for customers to save or deposit in Islamic banks is the factor of service and trust, not the characteristics of Islamic banks, knowledge, or physical attributes of Islamic banks.

Islamic banks are profit-making institutions, just like conventional banks, and are not non-profit organizations. Building bank profits starts from the activities of accepting public funds and channeling these funds back to the community. Public funds, known as third-party funds, collected by Islamic banks during the period of September 2017-2021 showed an increase. In September 2017, it was IDR 325.1 trillion, in 2018 IDR 363.2 trillion, in 2019 IDR 398.4 trillion, in 2020 IDR 460.5 trillion, and in 2021 IDR 503.8 trillion (OJK). These funds are then re-channeled to the community through financing. Financing disbursed according to OJK data from September 2017-2021 also showed an increase. The financing disbursed for the period of September 2017 was IDR 279.1 trillion, in 2018 IDR 319.2 trillion, in 2019 IDR 253.9 trillion, in 2020 IDR 384.7 trillion, and in 2021 IDR 413.3 trillion (OJK).

The topic of Islamic banks has garnered significant attention from both academics and practitioners. Existing studies predominantly focus on three main trends. First, previous studies have examined the conceptual frameworks applied by Islamic banks (Musa et al., 2020; Rizvi et al., 2020; Usman et al., 2019). Musa et al. (2020) focus on the concept of intermediation and the efficiency of Islamic banks. Rizvi et al. (2020) concern on the concepts of funding and lending in Islamic banks. Moreover, Usman et al. (2019) scrutinize the concept of balanced management of financial and social fund sources. Second, studies have been conducted to reveal the management of Islamic banks (Basah et al., 2018; Islam & Sultana, 2019; Nurdin & Yusuf, 2020). Basah et al. (2018) study the risk management of Islamic banks due to the use of complex contracts and the necessity for adjusting risk measurement and management in Malaysia. In addition, Islam and Sultana (2019) focus on Islamic financial management in Islamic banks in Bangladesh.

Last but not least, precedent studies have enormously concerned on the opportunities and challenges faced by Islamic banks (Naeem, 2019; Riza, 2019; Sutikno et al., 2022; Zouari & Abdelhedi, 2021). Naeem (2019) examines the correlation between the public's tendency to read content about Islamic banks and their interest in using Islamic banking products. This study found that Islamic banks still use outdated marketing methods and do not utilize applications or content on social media. The study of Sutikno et al. (2022) focus on the opportunities and challenges for Islamic banks in the digital era, particularly with the emergence of digital banks. Furthermore, Zouari and Abdelhedi

(2021) direct their research on digitalization as a quality service that provides customer satisfaction.

From the comprehensive literature review, we are well-notified that previous studies have not extensively explored customer responses to the uncertainty of returns in Islamic banks. Hence, this study directs its concern on this issue. The novelty of such research lies in its focus on customer responses using a qualitative approach. This research is based on the argument that customer perceptions of Islamic banks do not differ from those of conventional banks (Sobarna, 2021; Husna & Pratama, 2021). The relationship between customers and Islamic banks is based on rational-functional considerations rather than emotional ones. The implementation of Sharia principles alters the nature of customer-bank relationships but does not automatically encourage Indonesians to exclusively and consistently use Islamic bank funding products (Husna & Pratama, 2021). Islamic banks are more functionally responsive. The pattern of the relationship between customers and Islamic banks is determined by how effectively the bank functions or benefits the customers. Islamic banks will be more viable in Indonesia by strengthening their intermediation function.

Customer response is defined as the customer's reaction that has a positive impact on operational management and financial performance (Enad & Gerinda, 2022). The central dimensions comprising compliance, assurance, reliability, tangibles, empathy, and responsiveness significantly affect customer satisfaction. This indicates that customer response is a part of the customers' reaction in their banking experience (Pabbajah et al., 2019). For instance, Islamic bank customers hold savings deposits that may face return uncertainties in their monthly account statements. This generates reactions and responses from the public regarding their savings. Desviana and Kusumawati (2020 and Enad and Gerinda (2022) explain that the growth and development of Islamic banks must be based on positive public responses, meaning increased customer interest. In other words, customer responses provide feedback to the banking system that reflects uncertainties in the deposits held. Thus, the development of a bank can be observed from the responses given by its customers.

Alfalih (2022) explains that the construction of the customer or client matrix involves different steps identified in the customer engagement cycle, building a co-constructive and dynamic model of customer engagement related to mutual trust and smart automation. In line with this, Borg and Boldt (2020) explain that customer support for company or bank operations involves handling dissatisfied customers who may have different requirements. This awareness significantly influences commitment and brand image towards promotion and commitment (Pabbajah et al., 2019; Sobarna, 2021).

Uncertainty is a condition that can lead to financial risks or problems and an increase in a company's economic performance. According to Killins et al. (2020), uncertainty is based on financial regulatory policies regarding the bank's profits and risks. In line with this, Baum et al. (2021) interpret that uncertainty is inflation that reduces the availability of private sector credit: disrupting bank operational efficiency and performance, evidenced by low yields and increased dependence on non-interest income activities; and distorting sectoral stability due to increased liquidity, banks' risk appetite, and credit risk. An example of this is the uncertainty in Islamic bank savings that experience fluctuations in monthly or annual income. Additionally, the capital adequacy ratio, loan-to-deposit ratio, and net interest margin affect the return on banking company shares (Iskandar, 2020). In

p-ISSN: 2503-4235

other words, uncertainty is a change in stocks or savings that undergoes changes in the financial system.

Muhari (2021) explains that uncertainty causes global infections and daily returns on stocks. Similarly, Riski et al. (2019) explain that the risk of uncertainty on returns is due to a lack of knowledge on financial management concepts supported by skills in addressing existing financial problems. For example, investors need financial information as an important indicator to assess company performance and the return on their investment (Rusydina & Praptoyo, 2017). This means that the company's or bank's performance in maintaining investor investments illustrates that financial management must clearly understand financial knowledge to observe monthly or annual deposit increases. Agung and Susilawati (2021) also explain that economic uncertainty leads to much speculation about which sectors benefit and suffer. Therefore, such uncertainty can affect the development of companies or banks with investment, stock, or savings systems in each region.

In recent years, significant research has been conducted on customer response towards funding return uncertainty in the banking sector, particularly within the context of Islamic banking. Enad and Gerinda (2022) examined the dimensions of compliance, assurance, reliability, tangibles, empathy, and responsiveness, highlighting their significant influence on customer satisfaction in Islamic banks. They argued that these dimensions are crucial for understanding customer reactions to return uncertainties. Similarly, Desviana and Kusumawati (2020) emphasized the importance of positive public response for the growth and development of Islamic banks, suggesting that customer perceptions of return uncertainties could directly impact their willingness to engage with these financial institutions. Alfalih (2022) contributed to this discourse by exploring the construction of customer engagement matrices, which involves identifying different steps in the customer engagement cycle and building a dynamic model of customer engagement based on mutual trust and smart automation.

Further expanding on these themes, Borg and Boldt (2020) focused on customer support and the handling of dissatisfied customers in banking operations, underscoring the impact of customer awareness on commitment and brand image. Killins et al. (2020) provided insights into the regulatory aspects of financial uncertainty, discussing how financial policies influence bank profits and risks. They highlighted the need for banks to manage operational efficiency and sectoral stability amid fluctuating financial returns. Baum et al. (2021) examined the effects of inflation and credit availability on banking performance, revealing how these factors disrupt operational efficiency and increase dependence on non-interest income activities. These studies collectively underscore the multifaceted nature of customer response to return uncertainties in Islamic banking, revealing a complex interplay of financial, regulatory, and customer engagement factors.

Despite the extensive research conducted, a notable gap exists in understanding how these dimensions specifically affect customer behavior in the context of return uncertainties within Indonesian Islamic banking. Previous studies have predominantly focused on general banking contexts or other regions, leaving a void in the literature regarding the unique dynamics of Indonesian Islamic banks. Moreover, while the importance of customer engagement and satisfaction has been well-documented, there is limited empirical evidence linking these factors to specific outcomes in customer behavior related to funding return uncertainties. This research aims to address these gaps by providing a detailed examination of customer responses within the Indonesian Islamic banking sector, focusing on the unique regulatory, cultural, and operational characteristics that influence these responses.

The primary purpose of this research is to investigate how Indonesian Islamic bank customers respond to uncertainties in funding returns and to identify the factors that significantly influence their reactions. By conducting a comprehensive analysis, this study seeks to contribute to the existing body of knowledge by offering insights into the specific challenges and opportunities faced by Islamic banks in Indonesia. The findings are expected to provide practical implications for bank managers and policymakers, helping them to devise strategies that enhance customer satisfaction and trust. Ultimately, this research aims to promote a deeper understanding of customer behavior in the face of financial uncertainties, thereby supporting the sustainable growth and development of Islamic banking in Indonesia.

Method

The data of this study are the response of funding customers in sharia banks, as the researcher aims to explore what is in their minds regarding the phenomenon of return uncertainty they experience. The customers' response is intriguing to investigate because they face systemic return uncertainty. Islamic banks have two primary functions, namely funding (raising funds) and lending (providing loans), both of which are interconnected. The researcher chose to focus on one function, starting with the initial function of the bank, which is funding.

This study utilizes a qualitative approach to collect data. This design was chosen to address the research problem comprehensively. The qualitative approach allows for a deeper understanding of customer responses and post-response actions, and it better reveals the customers' interpretations of return uncertainty (Cartwright & Igudia, 2023). Descriptive qualitative analysis was employed in data collection, sorting, presentation, and analysis. This method was chosen to uncover the meanings behind the customer responses in this study.

Participants in this study are funding customers of Islamic banks, specifically those who are savers or depositors (N= 4). They are representing four sharia banks in Semarang municipality, central java province of Indonesia, i.e., *Bank Syariah Mandiri MT Haryono Ngaliyan Semarang, Bank Jateng Syariah Ngaliyan Semarang, BPRS Asad Alif,* and *BPRS Arta Surya Barokah.* They use profit-sharing contracts, which are the primary cause of return uncertainty. In this research, their names are written in pseudonym as *Saekhu, Fatoni, Maknunah,* and *Supriyanto*. The researchers did not include current account holders as participants, despite them being funding customers, because their accounts are based on *wadiah* (custodianship) contracts. The return uncertainty is minimal for these accounts since their returns come from bonuses that are generally small and relatively fixed. Participants willing to be interviewed were selected randomly.

Data for this study were collected through observation and interviews. Observations were conducted to gather data on customer mapping. Banks that were part of the plan were visited, and the researchers conveyed their intentions to the bank employees, prioritizing those the researchers knew to facilitate the study. The researchers observed the behavior of funding customers visiting the bank to understand their

p-ISSN: 2503-4235

responses through their actions. Additionally, the researcher identified target participants during these observations. Interviews were then conducted with willing participants to confirm the observational data. Observations began with mapping the location of banks whose customers would be interviewed. Interviews were conducted in a relaxed manner, like casual conversations, to obtain more comprehensive responses from funding customers.

The data analysis method used is descriptive qualitative. The researchers aim to provide a coherent description of funding customer responses to return uncertainty. This method was chosen for its suitability in answering the research questions. The data analysis followed the three stages outlined by Miles and Huberman (1994): data reduction, data display, and data verification. Data reduction was performed by summarizing the data based on themes. Observations and interview results that matched the research themes were separated from those that did not. Data were presented in sentences and direct quotes according to their themes. After the data were displayed, they were verified by checking for coherence and consistency.

Results

The results of this study indicate that the returns on customer funding in Islamic banks experience fluctuations. This is due to factors such as the bank's profits and the contracts used. The first factor, the bank's real profit, cannot be presented in numerical form. This study focuses only on customer responses to the uncertainty of the returns they receive, rather than presenting the fluctuations in the bank's profits. The fluctuations in the bank's profits are common sense. As a business entity, Islamic banks inevitably experience profit increases and decreases. Data analysis shows that Islamic bank funding customers understand that Islamic banks also experience profit fluctuations, even though they cannot specify the numbers. In this regard, several informants stated the following:

> Saekhu (BSI customer) said, "*A bank is a business entity. Customers entrust their money to the bank for business purposes. It is a fair relationship pattern; the results or profits can fluctuate. I can understand that. I hope the bank is honest. We cannot know the numbers. If given the report, it is difficult to read. Trust and our understanding are important in this relationship*."

> Maknunah (BPRS Asad Alif customer) said, "*I was informed by the bank staff that this is an Islamic bank. Profits can fluctuate. Therefore, the profit-sharing I receive can also fluctuate. I just trust it. It's like a partnership; the results depend on the profits.*"

> Supriyanto (BPRS Arta Surya Barokah customer) said, "*There is a formula for the bank's profit. As a customer, I cannot reach that level. I can only guess the profit fluctuations from the profit-sharing I receive each month. If the profit-sharing is good, it means the bank's profit is up, and vice versa.*"

Saekhu's response emphasizes the trust-based relationship between the bank and its customers, which is foundational in Islamic banking. He acknowledges the fluctuating nature of profits in a business entity like a bank and expresses an understanding of this variability. However, his concern about the lack of transparency and the complexity of financial reports highlights a critical issue. For many customers, the intricate details of profit calculations are inaccessible, making it difficult for them to fully grasp the financial health of their investments. This lack of clarity can undermine trust, which is paramount in Sharia banking, where ethical considerations are crucial. Therefore, Islamic banks need to enhance transparency and simplify communication to strengthen customer trust and satisfaction.

In a similar direction, Maknunah's statement reflects a straightforward acceptance of the profit fluctuation inherent in Islamic banking. Her trust in the bank staff's explanation about the nature of profit-sharing indicates a strong reliance on institutional credibility. This points to the importance of effective communication and education by the bank staff to ensure customers are well-informed about the profit-sharing mechanism. However, her analogy of the banking relationship to a partnership suggests a deeper expectation of mutual benefit and transparency. Islamic banks must ensure that their customers perceive this relationship as equitable and just, aligning with the principles of Sharia, which emphasize fairness and shared risk.

Moreover, Supriyanto's observation about the profit formula indicates a perceived barrier in understanding the financial operations of Sharia banks. His reliance on the profit-sharing outcomes as an indicator of the bank's profitability reveals a gap in financial literacy among customers. This highlights the need for Sharia banks to provide clearer, more accessible financial education to their customers. By doing so, banks can empower their customers with the knowledge to better understand and trust the profit-sharing process. This approach not only aligns with the ethical framework of Islamic banking but also fosters a more informed and engaged customer base, ultimately enhancing the overall customer experience and trust in the banking system.

The findings of this study also illustrate that the experience of profit fluctuations experienced by customers of Islamic banking units is the same as that experienced by customers of general Islamic banks and Islamic Rural Banks (BPRS). They feel the ups and downs of the bank's profits from the profit-sharing they receive, but they cannot grasp the real profit figures of the bank.

> Fatoni (a customer of Bank Jateng Syariah) said, "*A bank must try to get as much profit as possible from its business. As a customer, I don't know what the real profit of the bank is. Maybe there's a formula for it. This Islamic bank applies Sharia principles to funding and lending. Among the many customers who receive financing, not all of them repay smoothly. If some don't pay, it reduces the profits when calculated, right? Let the bank employees calculate that, I'll just calculate my profit-sharing.*"

Fatoni's remarks shed light on several critical aspects concerning the profitability of Sharia banks in Indonesia. His understanding that a bank's primary objective is to maximize profits underscores a recognition of the inherent business nature of Islamic banks, despite their adherence to Sharia principles. Fatoni's acknowledgment of his limited knowledge about the exact profit figures and the possible existence of complex formulas indicates a gap in transparency and financial literacy among customers. This gap highlights a need for Sharia banks to improve their communication and education efforts to ensure customers are well-informed about profit calculations. Furthermore, Fatoni's observation that not all financed customers repay smoothly and its impact on overall profitability underscores the risks and challenges Islamic banks face in maintaining financial stability. His reliance on bank employees to handle complex profit calculations while he focuses solely on his profit-sharing reflects a level of trust in the bank's operations but also a potential area where enhanced customer engagement and understanding could lead to a more robust relationship between the bank and its customers.

The second factor relates to the contracts used. Islamic banks apply the principles of *wadiah* and *mudharabah* to their funding products. *Wadiah* refers to deposited funds, while *mudharabah* refers to partnership funds. In a *wadiah* contract, the bank gives a bonus to the customer; whereas in a *mudharabah* contract, the bank shares the profit according to the agreed profit-sharing ratio. The bank has a prerogative right in a *wadiah* contract, meaning the bank can choose to give a bonus at its discretion, and not giving one is not prohibited. However, in a *mudharabah* contract, the bank must provide profits according to the agreed ratio when the bank makes a profit. Regarding the contracts, here are some statements from informants:

> Maknunah said, "*My contract with the bank is mudharabah. My profit fluctuates. The profit-sharing ratio I receive is stated in the contract*."
>
> Saekhu said, "*My contract is wadiah. The profit I receive is small and fluctuates. The product I use leans more towards easy service and the bank provides facilities for me, such as payroll and special financing offers*."
>
> Supriyanto said, "*From the beginning, I was aiming for profits from the funds I placed in the Islamic bank. I chose a product that gives a high profit-sharing ratio for me. A high ratio will result in high profits in rupiah*."
>
> Fatoni said, "*I have several accounts in the Islamic bank. Sometimes I pursue the benefits of the facilities, sometimes I pursue the profits. Each contract has consequences, including the profits I receive*."

The results of this study also show that Islamic bank funding customers respond to return uncertainty rationally. Customers view return uncertainty due to the fluctuating profit-sharing they receive each month. This fluctuation is seen as an opportunity to achieve a higher final return compared to interest in conventional banks. Regarding this, several informants stated the following:

> Maknunah said, "*I have a 12-month deposit in an Islamic bank and in a conventional bank. I have placed money for 15 months in the Islamic bank. I am pleased with the results. My experience with placing money in a conventional bank gives me a fixed interest. The profit I get from the Islamic bank is higher in rupiah. The pleasing aspect of Islamic banking is this. Another pleasing aspect is that when I took my deposit in the 15th month, the Islamic bank did not impose a penalty. Usually, there is a penalty because I should have taken it in the 24th month. This might not happen in all Islamic banks, only this Islamic bank provides such ease. For me, this is extraordinary, easy to deposit and easy to withdraw without hassle. Honestly, I was also worried when the profit-sharing decreased, whether it could rise again or not. Alhamdulillah, it could rise again.*"
>
> Fatoni said, "*I have several deposits in an Islamic bank. Coincidentally, I do not have savings in a conventional bank. The terms are 3 months and 12 months. I do compare the profit-sharing of both. There is a considerable difference between them. I changed the term from 3 months to 12 months to pursue a higher profit-sharing ratio. The 3-month term profit-sharing ratio is 42%, while the 12-month term profit-sharing ratio is 46%. I have experienced fluctuating profit-sharing incomes during the pandemic. During the early days of COVID-19 in 2020, during the early stages of the PPKM (community activity restrictions) in early 2021, and during the easing of PPKM at the end of 2021. During the early COVID-19 period, my profit-sharing was still high, then it leveled off during the PPKM, and increased again during the easing of PPKM. When the profit-sharing decreased, I was*

worried and hoped the situation would improve. Alhamdulillah, it could rise again. There is hope that the deposit can be relied upon as my income."

Saekhu said, "*The profit-sharing or bonus I receive does fluctuate. I just try to accept it. If I am still given sustenance through this path, there will still be good profit-sharing. I have money in the Islamic bank because of marriage arrangements. My salary is there. It might be different if I had a choice. In my position, I can only accept and pray that the money is safe, the profit-sharing is good, and the bank is healthy and strong.*"

Supriyanto said, "*The money I place in the Islamic bank belongs to the institution I lead. I am required to be prudent in choosing investments in the bank. I know that profit-sharing in Islamic banks fluctuates. My experience with placing funds in an Islamic bank is that it is better in rupiah compared to interest. Islamic banks do not offer lottery prizes, but they genuinely provide higher profit-sharing. I compared Islamic bank A with Islamic bank B. Coincidentally, I have placements in both Islamic banks. Each competes in their profit-sharing. For me, the uncertainty of profit-sharing in Islamic banks is a challenge to achieve better returns in investment*."

Maknunah's experience highlights the competitive advantage of Islamic banking over conventional banking, particularly in terms of profit returns and flexibility. Her satisfaction with higher returns in rupiah from the Islamic bank, compared to the fixed interest from a conventional bank, underscores the potential for better financial outcomes in Islamic banking. Additionally, the absence of a penalty for early withdrawal showcases customer-centric policies that can enhance customer loyalty and satisfaction. However, her concern about the fluctuation in profit-sharing reveals an inherent uncertainty that requires customers to have a degree of financial resilience and trust in the system. This indicates that while Islamic banks may offer higher returns, they also demand a greater acceptance of variability from their customers.

Moreover, Fatoni's statements provide insight into the strategic decisions customers make regarding the terms of their deposits to maximize returns. His observation of the significant difference in profit-sharing ratios between short-term and long-term deposits reflects a rational approach to optimizing financial benefits. The fluctuations in profit-sharing he experienced during different phases of the COVID-19 pandemic highlight the external factors that can influence returns in Islamic banking. Fatoni's concern during periods of decreased profit-sharing and his relief when it rises again illustrate the psychological impact of financial volatility on customers. This underscores the need for Islamic banks to provide clear communication and possibly risk mitigation strategies to help customers navigate these uncertainties.

In addition, Saekhu's perspective is shaped by a sense of acceptance and reliance on the Islamic banking system due to his personal circumstances. His passive stance towards the fluctuating profit-sharing and his focus on the safety and health of the bank reflect a trust-based relationship rather than an active financial strategy. This highlights a segment of customers who may not engage deeply with the financial intricacies but rely on the stability and integrity of the bank. Saekhu's situation emphasizes the importance of maintaining robust and transparent banking practices to ensure customer trust and satisfaction, especially for those who might feel limited in their financial choices.

In regards with this, Supriyanto's comments highlight a more strategic and comparative approach to Islamic banking investments. His responsibility to make prudent investment decisions for his institution drives a careful assessment of profit-sharing offers from different Islamic banks. The comparison between banks and the focus

 p-ISSN: 2503-4235

on genuine profit-sharing over promotional incentives like lottery prizes demonstrate a sophisticated understanding of the financial benefits of Islamic banking. Supriyanto views the uncertainty in profit-sharing as a challenge and an opportunity to achieve better investment returns. This mindset reflects a proactive and informed approach to navigating the inherent uncertainties in Islamic banking, suggesting that transparency and competitive profit-sharing ratios are crucial for attracting discerning customers.

In a nutshell, the concerns and hopes of Islamic bank funding customers lead to choices about whether to continue investing in Islamic banks or return to conventional banks. Customers receive profit-sharing that can be checked and tracked through a printed savings book. They can compare the profit-sharing in Islamic banks with the interest on deposits or savings in conventional banks. Islamic banks provide uncertain, fluctuating returns, whereas conventional banks offer fixed returns. Another consideration in making choices is the service that meets the customers' expectations. For instance, Maknunah said that she will remain loyal to Islamic banking. The *mudharabah* partnership contract in Islamic bank funding will not result in lost funds, although if the bank incurs losses, there is a potential for customer funds to decrease or disappear. The losses that may occur to customers are limited to a reduction in nominal value in certain months. The majority of informants believe that the bank will maintain customer trust by providing reasonable profit-sharing. Customer funds in Islamic banks are guaranteed by the Deposit Insurance Agency (LPS) as a precautionary measure in case an Islamic bank goes bankrupt.

Other informants also provided similar responses, stating that they remain comfortable investing in Islamic banks. Supriyanto, Saekhu, and Fatoni expressed that Islamic banks are a hope and solution to various financial issues experienced by customers. Supriyanto said that the operations of Islamic banks are guaranteed by the Deposit Insurance Agency. If something happens to the bank, the customers' money and savings will remain safe. The *mudharabah* scheme in Islamic banks is based on banking regulations, making it safe for customers. Similarly, Saekhu said that Islamic banks are a choice and hope. The profit-sharing provided by Islamic banks is in line with the real profits based on the agreed ratio. This system feels more comfortable for both parties, the bank and the customers.

Discussion

The findings of this study illuminate key insights into customer responses to funding return uncertainty in Indonesian Islamic banking. By focusing on customer perceptions and behaviors, the study addresses the overarching question of how customers react to and manage the inherent uncertainty in Islamic banking returns. The results indicate that customers exhibit a rational approach to profit-sharing variability, primarily due to their understanding and acceptance of the Sharia principles that underpin these financial products. This acceptance suggests a deep-seated trust in the operational integrity of Islamic banks, which is critical for maintaining customer loyalty.

The application of the *mudharabah* contract, which entails shared risk and profit between the bank and the customer, stands out as a significant factor influencing customer attitudes. This contract requires customers to accept a degree of uncertainty in their returns, as profits are shared based on the actual performance of the bank's investments (Rusydina & Praptoyo, 2017). Customers' willingness to accept fluctuating returns reflects their commitment to the ethical and communal values of Sharia banking. They appreciate the underlying principles of fairness, risk-sharing, and partnership that *mudharabah* represents. This ethical commitment is a distinguishing feature of Islamic banking that appeals to customers who prioritize values and religious adherence over guaranteed returns (Islam & Sultana, 2019). This aligns with previous studies, such as those by Kartika et al. (2020) and Yumna (2019), which emphasize the role of ethical considerations in customer loyalty to Islamic banking. These studies found that customers are drawn to Islamic banks not only for financial returns but also for the opportunity to engage in ethical financial practices that align with their personal beliefs. The consistency of these findings with existing literature reinforces the notion that the unique value proposition of Islamic banking lies in its ethical framework and profit-sharing principles. Unlike conventional banking, which often emphasizes fixed returns and individual gain, Islamic banking promotes a sense of collective well-being and social justice (Alfalih, 2022). This ethical appeal can create a strong sense of loyalty among customers, who view their relationship with the bank as part of a broader commitment to community and faith (Bilgin et al., 2021). Thus, the *mudharabah* contract is not just a financial agreement but a reflection of the customers' values and trust in the ethical foundations of Islamic banking (Yustiardi et al., 2020). This trust and alignment with personal values can lead to increased customer satisfaction and loyalty, even in the face of return uncertainties.

Interestingly, the study also reveals that despite the return uncertainties, customers of Islamic banks perceive the overall returns as competitive when compared to conventional banks. This perception is crucial for Islamic banks as it challenges the notion that only fixed returns can ensure customer satisfaction (Fatoni et al., 2024). Customers recognize that while the returns from Islamic banks may fluctuate, the overall potential for higher returns can outweigh the stability offered by conventional banks. This perspective aligns with the findings of Ryandono et al. (2021), which indicate that competitive profit-sharing ratios can enhance the attractiveness of Islamic banking products, even in the face of variable returns. The ability of Islamic banks to offer returns that customers deem satisfactory despite their fluctuating nature underscores the need for these institutions to continue focusing on competitive profit-sharing mechanisms (Riski & Sulistianingsih, 2019). Such mechanisms not only attract new customers but also retain existing ones by providing a compelling alternative to conventional banking (Enad & Gerinda, 2022; Yumna, 2019). Moreover, this competitiveness is not just about the numbers; it reflects the banks' commitment to ethical banking practices and their ability to manage funds efficiently. By highlighting the potential for higher returns through ethical and Sharia-compliant investments, Islamic banks can differentiate themselves in a crowded financial market.

Furthermore, this study highlights the importance of customer service and transparency in fostering trust and loyalty. Customers like Maknunah value the flexibility and customer-centric policies of Islamic banks, such as the absence of penalties for early withdrawals. This approach to customer service not only meets the practical needs of customers but also reflects a commitment to ethical banking practices that prioritize customer welfare. This aspect of service quality is consistent with the findings of Amar et al. (2024), who noted that high-quality customer service is a significant determinant of customer satisfaction in Islamic banking. Moreover, transparency in communicating financial information and profit-sharing details builds trust among customers, making them feel more secure about their investments (Ahmed et al., 2022). When customers are well-informed about how their returns are calculated and the factors influencing them,

Shirkah: Journal of Economics and Business
Vol.9, No. 1 (2024), page 138-153
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they are more likely to stay loyal to the bank. This transparency is especially crucial in Islamic banking, where the principles of fairness and honesty are fundamental (Khamis & AbRashid, 2018). The emphasis on service quality and transparency can help Islamic banks differentiate themselves from conventional banks and attract a loyal customer base (Rahma & Sofyani, 2024). In addition to flexibility in services, personalized customer care and responsiveness to customer queries enhance the overall banking experience. When customers perceive that their individual needs and concerns are addressed promptly and effectively, their satisfaction increases. This customer-centric approach can be a significant competitive advantage for Islamic banks, helping them to retain existing customers and attract new ones.

The study's findings also touch upon the broader implications for the stability and trust in Islamic banking institutions. The reassurance provided by the Deposit Insurance Agency plays a vital role in mitigating customers' concerns about their investments' safety. Knowing that their deposits are insured helps customers feel more secure and confident in choosing Islamic banks, even in times of financial uncertainty (Naeem, 2019). This element of financial security is essential for maintaining confidence in the banking system, especially during economic uncertainties (Riza, 2019). When customers trust that their funds are protected, they are more likely to remain loyal to the institution and continue their investments. The alignment of these findings with those of Basah et al. (2018) underscores the critical role of regulatory frameworks in supporting the stability and credibility of Islamic banks. Effective regulation ensures that Islamic banks adhere to principles of transparency, ethical behavior, and sound financial management (Ryandono et al., 2021). This regulatory support not only enhances customer trust but also promotes a stable banking environment. Additionally, the presence of robust regulatory mechanisms can help Islamic banks manage risks more effectively and respond to crises with greater resilience (Yumna, 2019). By reinforcing the importance of these frameworks, the study highlights the need for continuous regulatory oversight to safeguard the interests of customers and maintain the overall health of the Islamic banking sector. This combination of financial security and regulatory support is vital for fostering a sustainable and trustworthy Islamic banking industry.

The present study provides valuable insights into the rational and informed nature of customer responses to funding return uncertainty in Indonesian Islamic banking. The findings emphasize the importance of ethical considerations, competitive profit-sharing ratios, high-quality customer service, and regulatory assurances in maintaining customer loyalty. Future research could further explore the long-term impacts of these factors on customer retention and satisfaction, providing a more comprehensive understanding of the dynamics at play in Islamic banking.

Conclusion

This study on Islamic banking has found that the relationship between customers and the bank is primarily functional. The shift from conventional bank capital lease contracts to *mudharabah* investment contracts in Islamic banks has resulted in return uncertainty. Customers are not overly concerned with the return uncertainty as long as the bank functions properly. The distribution of profit-sharing serves as a measure for customers to assess the performance of Islamic banks. This study fills a gap in existing research by accommodating responses in the study of Islamic banking. Changes in customer responses due to fluctuations in funding returns of Islamic banks necessitate adjustments in profit-sharing distribution by the banks. Thus, this study provides a new perspective in examining Islamic banks, specifically the relationship between customer responses and Islamic bank policies. Customer responses become an important consideration for Islamic banks in determining profit-sharing distribution policies.

This study is limited by a small sample size, respondents with relatively good literacy, and cases involving only a few respondents. Therefore, this study cannot be generalized for a comprehensive and in-depth understanding. To achieve a more comprehensive understanding, further studies involving a broader range of respondents and in-depth analysis are needed. Accordingly, follow-up studies should involve a larger and more varied sample of respondents. Comparative approaches will be necessary for these follow-up studies to provide a deeper analysis.

Authors' Declaration

The authors made substantial contributions to the conception and design of the study. The authors took responsibility for data analysis, interpretation and discussion of results. The authors read and approved the final manuscript.

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