



# Sustainable Islamic Banking through Legal Literacy: An Analysis of Customer Perceptions of Sharia Financing

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## ABSTRACT

**Purpose** – This study examines how legal literacy shapes customer perceptions and sustainable engagement with Sharia-compliant financing at Bank Syariah Indonesia (BSI) Sungai Penuh. This research explores the factors that influence this literacy–perception gap.

**Method** – Using a qualitative field approach, data were collected through semi-structured interviews with six BSI customers (FW, YN, IS, NN, ZA, VA) representing diverse financing experiences. The Miles–Huberman framework was used for iterative coding, reduction, and thematic interpretation. The analysis focused on identifying customers’ understanding of Sharia contracts, perceived challenges, and their implications for sustainable Islamic banking.

**Findings** – The results demonstrate that customers possess general awareness of Sharia principles but have limited understanding of the technical components of financing contracts. Respondents frequently reported confusion regarding contract terminology, profit-sharing formulas, and administrative procedures. Trust in DSN-MUI fatwas and Sharia Supervisory Boards compensated for this lack of literacy, producing a trust-driven rather than knowledge-driven decision-making pattern.

**Practical implications** – Enhancing legal literacy through structured education, plain-language disclosures, digital communication, and streamlined administrative procedures can significantly strengthen customer participation and sustainability in Sharia financing.

**Originality/value** – This study offers a socio-legal perspective rarely emphasized in Islamic finance literature by demonstrating how legal literacy directly influences perception, transparency, and sustainability. The literacy–perception–sustainability model proposed here provides a new analytical lens for evaluating customer behavior in Islamic banking.

## A. Introduction

The rapid expansion of Islamic banking across developing economies has not been matched by an equal rise in public understanding of Sharia-compliant financial contracts. Recent studies highlight a persistent legal literacy gap that limits customers' ability to evaluate rights, obligations, and risks embedded in Islamic financing schemes (Rahman & Ahmad, 2022). Although Islamic banks continue to promote Sharia compliance through fatwas, supervision, and product standardization, many customers still rely solely on institutional trust rather than informed comprehension (Abozaid & Asutay, 2021). This gap is especially evident in regions where financial literacy and contract awareness remain unevenly distributed across demographic groups. The consequence is a compliance–perception asymmetry, in which customers believe products are religiously valid without fully understanding their legal structure. Such asymmetry has been identified as a barrier to achieving long-term sustainability in Islamic banking due to reduced transparency and weakened financial inclusion (Ali et al., 2020). Therefore, the disconnection between rapid institutional growth and limited customer comprehension has emerged as a structural challenge for sustainable Sharia banking.

Prior research on Islamic financing has generally focused on product features, customer satisfaction, and Sharia governance but has rarely explored legal literacy as the mediating factor shaping customer perception (Dusuki & Abdullah, 2017). Many studies examine how customers perceive contract types such as *murabahah*, *mudharabah*, and *musarakah*, yet they often analyze perception from a behavioral or marketing perspective rather than a socio-legal viewpoint (Laldin & Furqani, 2018). Other works investigate administrative challenges, service quality, and institutional trust, showing that procedural transparency strongly influences customer confidence (Yap et al., 2021). Recent empirical papers have also shown that financial literacy increases adoption of Islamic financial products, although such literacy is often measured in general terms rather than contract-specific understanding (Abdullah & Razak, 2019). Literature on sustainability in Islamic banking likewise stresses governance quality, ethical alignment, and financial inclusion, but seldom links these to customers' contract comprehension (Asutay, 2020). Studies addressing customer awareness of DSN-MUI fatwas or Sharia supervisory boards remain limited and often descriptive. Consequently, the existing body of knowledge provides valuable insights but lacks a targeted exploration of how legal literacy directly shapes sustainable Islamic financing engagement.

Although the literature recognizes literacy and trust as important factors, most studies treat legal literacy as a peripheral variable rather than as a central mechanism driving sustainable Sharia financing. Existing research tends to assume that Sharia compliance and DPS oversight automatically translate into customer understanding, which empirical evidence increasingly contradicts (Adebayo & Hassan, 2019). Few studies evaluate how customers interpret the structure of *akad*, the nature of margin determination, or the contractual obligations embedded in different Islamic financing schemes. There is also a methodological gap: many studies rely on surveys, producing surface-level insights that overlook nuanced socio-legal realities experienced by customers (Ismail et al., 2020). Additionally, prior work rarely examines compliance gaps—the

misalignment between formal Sharia legality and customers' substantive comprehension—despite its implications for institutional sustainability. The literature has yet to provide a grounded analysis of how limited legal literacy affects long-term participation, trust, and financial inclusion. Thus, a gap remains in understanding the legal–behavioral nexus underlying customer perceptions of Islamic financing in real community settings.

This article addresses the identified gap by examining how legal literacy influences customer perceptions and engagement with Sharia financing at Bank Syariah Indonesia Sungai Penuh. By adopting a socio-legal qualitative approach, the study uncovers how customers interpret contract mechanisms, financing procedures, and Sharia compliance assurances. Unlike prior studies that prioritize satisfaction metrics or marketing variables, this research foregrounds contract-based understanding and its implications for sustainable Islamic banking participation. The study also incorporates document analysis of financing contracts and DSN-MUI fatwas, enabling a more comprehensive assessment of customers' legal awareness. Through a thematic analysis of interviews, it captures the lived realities behind customer confusion, trust formation, and informational asymmetries. This approach fills the methodological gap by producing deeper insights that quantitative studies have not captured. Ultimately, the research provides an empirically grounded explanation of how legal literacy contributes to or constrains sustainable financing behavior.

This study argues that sustainable Islamic banking cannot rely solely on institutional Sharia compliance; it requires legally literate customers who understand the contracts they engage in. Legal literacy strengthens transparency, reduces misunderstanding, and enhances long-term trust—key components of a sustainable financial ecosystem (Mohamed & Kassim, 2021). By demonstrating how customers' limited comprehension of *akad* affects their perception and participation, this research offers a critical intervention in the sustainability discourse. It provides evidence that sustainability must include not only governance and product innovation but also customer empowerment through legal clarity. The findings contribute to policy development by highlighting the need for standardized plain-language disclosures and more accessible contract education. Additionally, the study underscores the role of regulators such as DSN-MUI and OJK in reducing information asymmetry through structured literacy initiatives. Overall, the article advances the argument that legal literacy is a foundational pillar of sustainable Islamic banking, bridging a vital gap in the existing literature

## B. Literature Review

### 1. Legal literacy

Legal literacy in Islamic finance refers to an individual's capacity to understand the contractual, procedural, and ethical foundations of Sharia-compliant financial products. Scholars increasingly argue that literacy must expand beyond basic religious awareness to encompass technical comprehension of rights and obligations embedded in financing contracts (Rahman & Ahmad,

2022). As Islamic banking systems grow, legal literacy has become essential in reducing misinterpretation of *akad* and preventing misunderstandings about margin, risk-sharing, and liability structures. Abozaid and Asutay (2021) emphasize that legal literacy is central to meaningful Sharia governance, shifting the focus from institutional compliance to customer-level comprehension. Recent studies demonstrate that customers often conflate religious legitimacy with legal correctness, highlighting the need for clearer literacy frameworks (Adebayo & Hassan, 2019). In response, policymakers have begun promoting transparency, disclosure standards, and simplified communication strategies to elevate literacy. These developments show how legal literacy has evolved into a foundational element of Islamic financial participation.

Existing research on legal literacy primarily examines the general relationship between financial knowledge and customer adoption of Islamic banking products. Studies often report that customers understand Islamic finance conceptually but struggle with the mechanistic and contractual aspects of Sharia banking (Abdullah & Razak, 2019). Prior works also highlight the prevalence of reliance-based trust, where customers depend on institutional authority rather than informed evaluation of contract terms (Ismail et al., 2020). Some research investigates regulatory frameworks and disclosure requirements, but focuses largely on institutional responsibilities rather than customer comprehension (Yildiz, 2022). Empirical studies consistently demonstrate a gap between customers' religious motivations and their legal understanding of financing agreements. Research on literacy interventions indicates that education programs enhance general financial awareness but have limited impact on contract-specific comprehension (Kholid, 2020). Overall, the literature reveals a fragmented understanding of how legal literacy operates in Islamic financing contexts.

The current study aligns with existing research by recognizing the persistent gap between customers' religious trust and their comprehension of Sharia financing structures. However, it extends the literature by examining legal literacy not only as an informational variable but as a determinant of sustainable financing engagement. Prior studies have identified literacy issues but rarely investigate how customers interpret specific elements such as *murabahab* margins or *mudharabah* risk-sharing obligations. This research addresses that deficiency by analyzing the lived experiences of customers at BSI Sungai Penuh who navigate contracts without sufficient legal clarity. It incorporates socio-legal perspectives to understand how customers' interpretations shape long-term trust and decision-making. By situating the inquiry within a provincial context, the study exposes literacy dynamics that differ from those identified in urban or national-level surveys. Therefore, this research contributes a more nuanced understanding of how legal literacy influences Islamic financing behavior.

This study advances the theoretical understanding of legal literacy by positioning it as a structural component of sustainable Islamic banking rather than a secondary educational factor. It introduces the notion that sustainability requires not merely Sharia compliance but informed participation grounded in contractual comprehension. Through empirical evidence, it demonstrates that legal literacy mediates trust, reduces informational asymmetry, and strengthens long-term

engagement with Sharia financing. The findings propose a contract-based literacy model, wherein comprehension of rights, obligations, and risk distributions becomes essential for sustaining responsible financial behavior. This theoretical framing integrates socio-legal perspectives with behavioral finance insights in a way that has not been explored in prior literature. It further highlights the need for regulatory bodies such as DSN-MUI and OJK to incorporate customer-side literacy frameworks into governance structures. As such, the study provides a theoretical foundation for future research on literacy-driven sustainability in Islamic finance.

## **2. Customer Perception in Islamic Banking**

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Customer perception in Islamic banking refers to the cognitive and affective interpretations customers form about the validity, usefulness, and ethical compliance of Islamic financial products. Literature indicates that perception is shaped by service quality, institutional trust, religious commitment, and informational clarity (Yap et al., 2021). In Islamic finance, perception is heavily influenced by customers' assumptions about Sharia compliance, often leading to reliance on the bank's religious authority rather than personal understanding. Scholars note that perception evolves through repeated interactions and the degree of transparency provided during the financing process (Ali et al., 2020). As Islamic banks increasingly expand into rural areas, perception formation becomes more complex due to varying levels of exposure to formal financial systems. Studies emphasize that positive perception contributes to product adoption, but negative or confused perception undermines loyalty and sustainable participation. Consequently, customer perception has emerged as a critical element in the growth and stability of Islamic finance.

Previous research has explored customer perception through dimensions such as service quality, trust, product features, and ethical alignment. Many studies conclude that customers perceive Islamic banks as religiously safer but not necessarily more comprehensible in terms of contractual mechanisms (Abdullah & Razak, 2019). Perception studies also highlight that customers often equate Sharia compliance with the absence of interest, overlooking the complexities of margin calculation and contractual obligations. Researchers have shown that perception is strongly tied to the effectiveness of communication strategies and the clarity with which banks explain products (Yap et al., 2021). Some studies examine demographic influences, noting that younger customers exhibit greater openness but lower literacy, whereas older customers show higher skepticism but stronger religious motivation (Ali et al., 2020). Despite these insights, few studies have examined perception through a socio-legal lens, particularly regarding customer understanding of contractual obligations. This gap limits the explanatory power of current perception models in Islamic banking literature.

This study builds upon prior perception research by examining how customers interpret Islamic financing products when legal literacy is limited. It extends earlier findings by revealing that confusion about financing terms shapes perception more strongly than service quality or institutional reputation. The study shows that customers in Sungai Penuh rely heavily on generalized trust in Sharia institutions rather than on comprehension of contractual mechanisms. While earlier research suggests that good service improves perception, this study indicates that legal

clarity is more decisive in shaping perception within Islamic financing contexts. The findings align with prior literature that identifies the role of transparency but move further by identifying legal comprehension as the missing variable. By focusing on real customer narratives, this research captures perceptual dynamics that surveys have overlooked. Thus, it advances a more holistic understanding of customer perception in Sharia banking.

The study contributes theoretically by proposing that customer perception in Islamic banking is not merely a behavioral construct but a legal-interpretive construct. It reframes perception as a function of both cognitive understanding and legal awareness, challenging models that prioritize service quality alone. The findings demonstrate that perception is shaped by customer interpretations of contractual rights, risks, and obligations, offering a richer explanatory framework. This theoretical development aligns perception studies with socio-legal theory by acknowledging the interpretive work customers perform when engaging with financing contracts. It also integrates sustainability by showing how perception influences long-term engagement and institutional stability. The proposed framework offers a new perspective that future research can adopt when analyzing perception in Sharia financing. Overall, the study strengthens the theoretical foundation of perception research in Islamic financial studies.

### **3. Sharia Financing Contracts & Information Asymmetry**

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Sharia financing contracts refer to structured agreements such as *murabahah*, *mudharabah*, *musyarakah*, and *ijarah*, each with distinct legal and ethical characteristics. These contracts are designed to replace conventional interest-based systems with Sharia-compliant mechanisms of trade, partnership, and asset leasing (Hassan et al., 2022). Over time, their implementation has expanded with greater product diversification and regulatory oversight. Scholars argue that contract clarity is essential for maintaining Sharia compliance and preventing misinterpretation of financial obligations (Laldin & Furqani, 2018). However, the legal complexity of these contracts often creates information asymmetry between banks and customers. Customers' limited understanding of margins, profit-sharing ratios, and risk allocation contributes to confusion and mistrust. As Islamic finance grows, addressing contract comprehension becomes increasingly vital.

Research on Sharia contracts typically focuses on contract legality, risk-sharing principles, and the ethical superiority of Sharia-based mechanisms. Many studies emphasize the importance of adhering to DSN-MUI fatwas and the role of Sharia supervisory boards in ensuring compliance (Abozaid & Asutay, 2021). Empirical research reveals that customers frequently misunderstand how margins are calculated or how losses are distributed in partnership-based contracts (Hassan et al., 2022). Some studies analyze product innovation and the operational challenges banks face when implementing complex contracts. Others explore customer confusion due to inconsistent explanations or overly technical terminology used during financing discussions (Laldin & Furqani, 2018). Despite these findings, prior literature typically addresses contracts from an institutional or legal standpoint rather than from the customer experience. As a result, the understanding of contract interpretation at the customer level remains underdeveloped.

The present study addresses gaps in contract literature by examining how customers interpret Sharia-compliant financing structures in practice. Unlike previous studies that focus on institutional perspectives, this research foregrounds customer narratives from BSI Sungai Penuh, revealing diverse levels of contract comprehension. The findings confirm that customers struggle to understand contractual mechanisms, aligning with earlier observations in broader Islamic finance contexts. However, the study extends prior work by linking this misunderstanding to sustainability outcomes, demonstrating that unclear contract comprehension undermines long-term financial engagement. It also shows how contract confusion interacts with legal literacy deficiencies to produce broader perception problems. By capturing regional variations in comprehension, this study further enriches the literature on contract interpretation. Therefore, it situates customer experiences within a broader socio-legal framework that earlier research has overlooked.

This study contributes theoretically by proposing that contract clarity is a central mechanism through which Islamic banks achieve sustainable customer engagement. It argues that contract comprehension bridges the gap between formal Sharia compliance and customer-level legitimacy perception. The findings demonstrate that sustainable Islamic banking requires not only proper contract structuring but also accessible explanations that reduce information asymmetry. The study introduces a conceptual model in which legal literacy mediates contract understanding and perception formation. This model advances the discourse by connecting contractual clarity with sustainability, financial inclusion, and long-term trust. It also challenges the assumption that Sharia supervisory approval alone is sufficient for customer legitimacy. As such, the research enriches theoretical discussions on how contracts shape behavioral and sustainable outcomes in Islamic finance.

#### **4. Sustainability & Governance in Islamic Banking**

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Sustainability in Islamic banking refers to the long-term stability, ethical alignment, and social inclusiveness of financial institutions under Sharia principles. Scholars argue that sustainability frameworks must integrate financial performance, ethical compliance, and social justice objectives (Asutay, 2020). Governance mechanisms such as Sharia boards, transparency standards, and risk management systems play essential roles in sustaining institutional integrity. In recent years, sustainability has become a multidimensional construct encompassing environmental, social, and governance (ESG) considerations. As Islamic banking expands, sustainability increasingly depends on customer trust and informed participation in Sharia-compliant products (Mohamed & Kassim, 2021). This development positions sustainability not only as an institutional mandate but also as a customer-driven process. Consequently, sustainability is now viewed as a co-produced outcome between banks and their customers.

Previous studies on sustainability in Islamic banking often emphasize governance quality, ethical compliance, and institutional performance. Many researchers focus on how Sharia boards ensure product legitimacy and how regulatory frameworks enforce Sharia-compliant operations (Abozaid & Asutay, 2021). Some studies address risk management and financial resilience as indicators of sustainable operations. Others investigate consumer trust as a sustainability factor but

rarely link that trust to legal literacy or contract comprehension (Ali et al., 2020). Research also highlights the role of financial inclusion in promoting sustainability, yet most studies address inclusion through access rather than understanding. The literature tends to prioritize institutional variables over customer-related mechanisms. As a result, the relationship between sustainability and customer-level literacy remains underexplored.

This study bridges the existing gap by investigating sustainability from a customer-centered socio-legal perspective. It builds upon institutional sustainability models but argues that long-term stability requires informed customer engagement. The findings reveal that insufficient legal literacy weakens sustainability by undermining trust, clarity, and informed decision-making. This supports earlier research on the importance of transparency but extends it by identifying literacy as a core sustainability driver. By analyzing customer experiences at BSI Sungai Penuh, the study contextualizes how sustainability challenges manifest at the community level. It offers empirical insights that complement governance-focused literature by adding a customer behavioral dimension. Thus, the research situates sustainability within a broader understanding of literacy, governance, and perception.

The study contributes theoretically by proposing a literacy-driven framework for sustainable Islamic banking governance. It argues that sustainability should be conceptualized as an interactive process in which informed customers co-produce institutional legitimacy and stability. The research demonstrates that governance structures must incorporate customer comprehension as a measurable dimension of sustainability. It expands existing ESG-based and maqasid-based sustainability models by adding legal literacy as a structural determinant. This addition strengthens theoretical debates on how transparency, comprehension, and trust combine to produce sustainable financing systems. It also reinforces the argument that sustainability cannot be achieved solely through institutional compliance but requires customer empowerment. Ultimately, the study provides a theoretical foundation for integrating literacy into sustainability governance models within Islamic finance.

## C. Research Method

The study adopted a socio-legal qualitative design to examine how legal literacy shapes customer perceptions of Sharia financing within a real institutional context. This approach was selected because socio-legal analysis enables the investigation of not only formal legal structures but also how individuals interpret legal norms in practice. It allows the researcher to capture the interaction between contract mechanisms, bank procedures, and customer comprehension—elements essential to sustainability in Islamic banking (Ismail et al., 2020). Qualitative inquiry is particularly appropriate because customers' interpretations of *akad*, margins, and obligations are subjective and shaped by personal experience. By focusing on meaning-making processes, the study situates legal literacy within the daily realities of customers navigating Islamic financing products. The methodological orientation aligns with recent calls for interpretive approaches in Islamic finance research, especially in literacy and behavioral studies (Rahman & Ahmad, 2022). Thus, the

socio-legal qualitative design provides a rigorous foundation for understanding customer-level dynamics in sustainable Islamic banking.

Data collection relied primarily on semi-structured interviews with six customers of Bank Syariah Indonesia (BSI) KCP Sungai Penuh who had experience using Sharia financing products. Participants were selected through purposive sampling to include individuals who could provide diverse perspectives on contract comprehension, financing procedures, and interactions with bank officers. The sample included adults aged 21–23 years, reflecting a demographic increasingly active in financing activities but often exhibiting lower legal and financial literacy. Semi-structured interviews were chosen to allow flexibility in probing participants' interpretations of *murabahah*, *mudharabah*, and *musyarakah* mechanisms. Interviews also explored perceptions of bank communication, administrative clarity, and perceived Sharia compliance. This method allowed participants to articulate both explicit understanding and latent confusion surrounding financing terms. Document analysis of DSN-MUI fatwas and BSI contract templates complemented interview findings to ensure legal triangulation.

The study employed Miles and Huberman's interactive model of qualitative analysis, consisting of data reduction, data display, and conclusion drawing. Data reduction involved coding interview transcripts to identify recurring themes related to legal literacy, perception, trust, and sustainability. Codes were grouped into categories such as "contract comprehension," "administrative barriers," "religious-based trust," and "clarity of bank communication." Data display was conducted through thematic matrices that compared understanding across participants while identifying shared patterns and divergent narratives. This facilitated the detection of literacy gaps and their relationship to perception formation. Conclusion drawing synthesized thematic insights into broader socio-legal interpretations reflecting customers' lived experiences. This analytical process ensured methodological rigor and depth of interpretation consistent with qualitative standards.

To enhance the credibility, dependability, and confirmability of the findings, the study incorporated several qualitative validity strategies. Triangulation was implemented by comparing interview data with documentary sources, including fatwas governing Islamic financing and institutional materials provided by BSI. Member checking was conducted by summarizing interview insights and verifying interpretations with participants to ensure accuracy. Reflexive memos were used throughout the research process to account for the researcher's positionality and interpretive influence. Dependability was supported through an audit trail documenting sampling decisions, coding processes, and analytic procedures. Ethical standards were maintained by obtaining informed consent, ensuring confidentiality, and anonymizing participant identities. These quality assurance measures strengthen the validity of the socio-legal analysis and ensure that interpretations accurately reflect customer experiences. Overall, the methodological design provides a robust foundation for articulating how legal literacy shapes sustainable engagement with Sharia financing.

## D. Results

This study were obtained through semi-structured interviews with six customers of Bank Syariah Indonesia (BSI) Sungai Penuh who had experience using Sharia-compliant financing products. Participants included FW, YN, IS, NN, ZA, and VA, each of whom provided detailed accounts of their understanding and difficulties regarding Islamic financing contracts. The findings indicate that while all informants recognized the Sharia basis of BSI’s financing products, their comprehension remained limited to general concepts rather than the legal or technical structure of *murabahah*, *mudharabah*, *musyarakah*, or *ijarah*. Most participants reported initial confusion when applying for financing, particularly concerning the meaning and mechanism of the various *akad* used by the bank. Administrative processes were consistently described as lengthy, complex, and document-heavy, contributing to uncertainty and hesitation in the application process. Despite these challenges, all informants expressed strong trust in BSI’s adherence to Sharia principles due to DSN-MUI fatwas and DPS oversight. Overall, the data reveal a significant gap between customer trust and their legal literacy, highlighting structural issues in product explanation and procedural clarity.

Tabel 1. Thematic Analyses

Theme	Subtheme	Evidence
<b>1. Basic Awareness but Limited Understanding of Contracts</b>	Knows product names but not mechanisms	FW: “I know murabahah, mudharabah, ijarah, musyarakah... but I was confused at first.”
	Understanding limited to “profit-sharing” idea	YN: “I only know mudharabah and musyarakah as profit-sharing, not the details.”
<b>2. Confusion About Contract Structure (akad)</b>	Difficulty understanding technical details	ZA: “I still don’t understand technical details, especially margin calculation.”
	Confusion even after explanation	IS: “The terms are still confusing even after the staff explained them.”
<b>3. Administrative and Procedural Barriers</b>	Process long and complex	NN: “The process was long, complex, and required many documents.”
	Approval slow and not responsive	VA: “The procedure was slow and the updates were not responsive.”
<b>4. Communication and Education Gaps</b>	Information difficult to understand	YN: “Information was difficult to understand, so I had to go directly to BSI.”
	Need for public education	FW: “BSI should expand education to the community.”
	Need for youth-focused education	YN: “BSI should educate students and young people.”
<b>5. Reliance on Institutional Trust</b>	Belief in Sharia compliance through DSN-MUI	YN: “I believe it is Sharia because DSN-MUI and ulama have approved it.”
	Trust despite limited understanding	VA: “Products are more complicated than other banks, but I trust them because they follow Sharia.”

**Source:** Data compilation from Interview (2025)

Across all interviews, customers expressed consistent awareness that BSI's financing products were Sharia-compliant, yet none demonstrated a complete understanding of contract structures, margin calculations, or risk-sharing mechanisms. Participants relied heavily on simplified interpretations such as "profit-sharing" or "no interest," which did not reflect the legal and procedural complexity of the financing instruments. The recurring confusion surrounding terms such as *murabahah*, *mudharabah*, and *musyarakah* indicates that product explanations remain highly technical and insufficient for lay customers. Administrative burdens—including extensive documentation, slow approval processes, and unclear communication—intensified feelings of uncertainty and dissatisfaction. Despite these difficulties, customers maintained high trust in BSI due to the perceived authority of DSN-MUI and the general reputation of Sharia banking. This trust tended to substitute for legal literacy, leading customers to participate in financing without fully grasping contractual obligations. These findings reveal a structural literacy gap that influences both customer perception and sustainable engagement in Islamic financing.

## E. Discussion

The results of this study show a clear and consistent pattern linking customer trust to limited legal literacy and procedural challenges in Sharia financing at BSI Sungai Penuh. Customers demonstrated awareness that the products were Sharia-compliant but lacked understanding of how *murabahah*, *mudharabah*, *musharakah*, or *ijarah* actually functioned in legal and operational terms. This finding aligns with the literature indicating that symbolic trust in religious identity often substitutes for detailed contract comprehension in Islamic banking (Abozaid & Asutay, 2021). The interviews reveal that confusion is not random but structured around recurring areas of misunderstanding such as margin calculation, partnership obligations, and documentary requirements. Administrative burdens and unclear explanations intensified the cognitive gap between formal contract legality and customer interpretation. As a result, customers formed perceptions based more on institutional authority than informed evaluation. This demonstrates a literacy–perception gap that directly affects sustainable engagement with Islamic finance.

The underlying causes of this gap stem from both structural and communicative limitations within Islamic banking institutions. Customers reported that contract explanations were highly technical, often delivered in terminology not easily understood by lay individuals, especially first-time financing applicants. The bank's reliance on in-person explanation without consistent educational materials created high dependence on staff communication, which varied in clarity and depth. Furthermore, complex administrative requirements made the financing process feel burdensome, discouraging customers from exploring contract details. The absence of standardized, plain-language disclosure documents contributed to persistent misunderstanding of rights and obligations. Additionally, customers' assumptions that all Sharia-compliant products must automatically be fair and transparent reduced their motivation to seek detailed legal understanding. Together, these structural and behavioral factors explain why legal literacy remained low despite high trust in BSI's Sharia compliance.

The consequences of this literacy gap extend beyond individual misunderstanding and pose long-term challenges for sustainability in Islamic banking. Customers who do not fully understand contract structures may encounter difficulties in future repayment negotiations, dispute resolution, or interpretation of profit-sharing outcomes. The reliance on trust rather than comprehension creates vulnerability to misinformation and reduces customers' ability to make informed decisions. Moreover, administrative frustrations—such as slow processing and excessive documentation—can weaken customer satisfaction and discourage repeat financing behavior. From a governance perspective, insufficient legal literacy limits the bank's ability to build a resilient, contract-aware customer base critical for sustainable financial inclusion. The findings also suggest that perceptions formed under incomplete information may be unstable, easily influenced by service disruptions or minor misunderstandings. These consequences illustrate how literacy gaps can indirectly hinder the long-term viability of Sharia-compliant financial institutions.

The results of this study strongly align with theoretical frameworks in Islamic finance, particularly those emphasizing legal literacy, perception formation, contract clarity, and sustainability. Previous studies argue that customer perception in Islamic banking is shaped by a combination of cognitive understanding and institutional trust (Yap et al., 2021), a pattern clearly reflected in the narratives of the participants. Contract-based studies highlight that misunderstandings of *akad* structures and margin mechanisms are common, reinforcing the findings of Hassan et al. (2022) regarding informational asymmetry. Sustainability theories in Islamic finance emphasize that long-term engagement requires informed participation, not just institutional compliance, consistent with the views of Asutay (2020). Socio-legal literature points to the importance of bridging formal Sharia legality with substantive understanding, directly mirroring the results of this study (Ismail et al., 2020). The participants' heavy reliance on DSN-MUI fatwas confirms previous research showing that symbolic Sharia governance often substitutes for legal comprehension (Abozaid & Asutay, 2021). Thus, the findings integrate and support theoretical insights across multiple strands of Islamic finance scholarship.

The theoretical contribution of this study lies in positioning legal literacy as a central mechanism linking customer perception, contract comprehension, and sustainability in Islamic banking. Unlike previous research that treated legal literacy as a secondary educational variable, this study demonstrates its structural role in shaping behavioral and trust outcomes. It proposes a literacy–perception–sustainability model in which customers' understanding of contracts mediates their long-term engagement with Sharia financing. By incorporating real customer experiences, the study extends socio-legal theory to explain how individuals make sense of Islamic financial contracts in practical settings. This contributes to behavioral Islamic finance by highlighting the interpretive work customers perform, beyond mere service satisfaction metrics. It also enriches governance theory by showing that sustainability requires active customer knowledge, not only institutional supervision. This theoretical shift broadens how literacy is conceptualized in the study of Islamic finance.

The practical contributions of this study provide a roadmap for improving customer experience and strengthening the sustainability of Islamic banking institutions. First, BSI should introduce standardized **plain-language contract summaries** that explain key elements such as margin, risk-sharing, and customer obligations. Second, the bank should adopt multi-channel educational programs—including digital tutorials, community workshops, and youth-focused literacy campaigns. Third, administrative simplification is needed to reduce documentation burdens and accelerate approval timelines. Fourth, customer service teams must receive structured training to ensure consistent and comprehensible explanations of *akad*. Fifth, regulators such as DSN-MUI and OJK could mandate disclosure standards requiring banks to present contract information in accessible formats. These practical interventions would enhance transparency, reduce misunderstanding, and foster sustainable financing behavior among customers.

This study offers clear novelty by integrating legal literacy, customer perception, contract comprehension, and sustainability into a unified analytical framework. Previous studies treated these themes independently, but this research demonstrates that they operate as interdependent components of customer behavior in Islamic financing. The use of qualitative socio-legal analysis in the context of a provincial BSI branch adds empirical richness rarely seen in the literature. The study also provides novel insights into how symbolic trust and partial understanding interact to shape financing decisions. Unlike prior work, it emphasizes customer-level narratives rather than institutional perspectives, making the findings more grounded and actionable. The articulation of a literacy–perception–sustainability model is a unique theoretical contribution not found in existing research. Thus, the novelty lies both in its conceptual integration and its empirical depth.

Despite its contributions, this study has several limitations that create opportunities for future research. The small sample size of six participants limits generalizability, though it offers valuable depth for exploratory socio-legal analysis. Future studies should involve larger samples across multiple regions to capture variance in literacy and perception. Quantitative methods could complement qualitative findings by testing the literacy–perception–sustainability model on a broader scale. Further research could also examine the effectiveness of literacy interventions such as digital education modules or simplified contract disclosures. Additionally, future studies should explore how literacy gaps influence dispute resolution, repayment performance, or long-term customer loyalty. Expanding the research to include bank officers and regulators would offer a fuller understanding of structural communication challenges. These directions would deepen and refine the insights generated by the present study

## F. Conclusion

This study examined how legal literacy shapes customer perceptions and sustainable engagement with Sharia-compliant financing products at Bank Syariah Indonesia (BSI) Sungai Penuh. The findings reveal that customers possess a general awareness of Sharia principles but lack the detailed legal and contractual understanding required to make informed financing decisions. Confusion regarding the technical mechanisms of *murabahah*, *mudharabah*, *musyarakah*, and *ijarah*

underscores an enduring literacy–perception gap driven by complex administrative procedures and unclear communication from the bank. Despite limited comprehension, customers maintain strong trust in BSI due to DSN-MUI fatwas and the symbolic authority of Sharia governance. This trust-based rather than knowledge-based engagement highlights structural weaknesses in transparency and customer empowerment. The study contributes to a deeper understanding of how legal literacy interacts with perception and sustainability, demonstrating that meaningful participation in Islamic finance requires more than religious confidence. Ultimately, the results affirm that sustainable Islamic banking must integrate contract comprehension, customer education, and transparent governance into its operational strategies.

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