TRUST BEYOND DEPOSIT INSURANCE: LOYALTY IN COMMUNITY-BASED ISLAMIC MICROFINANCE

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ABSTRACT

Community-based Islamic microfinance institutions, such as Baitul Maal wa Tamwil (BMT), can maintain members' loyalty to saving at the BMT despite operating outside formal deposit insurance. This study explains how BMT members interpret risk and construct trust in this setting and identifies the mechanisms that sustain loyalty. A qualitative single interpretive case study was conducted at a community-based BMT in Yogyakarta through semi-structured interviews with seven active members. Data were analyzed using inductive thematic analysis. The findings show that risk is not ignored or eliminated; it is socially and morally reinterpreted through prior experience, religious values, and community relationships. Trust is supported by community institutional legitimacy, managerial integrity and track record, relational service practices, moral-religious values, and social embeddedness. Together, these mechanisms produce perceived trust that functions as a behavioral substitute, but not a legal or financial equivalent to formal deposit insurance in sustaining saving decisions. This study contributes to Islamic microfinance literature by demonstrating how socially embedded trust can support institutional continuity while members continue to recognize residual financial risk.

Keywords**:** trust; member loyalty; Baitul Maal wa Tamwil; sharia microfinance; deposit insurance

ABSTRAK

Lembaga keuangan mikro syariah berbasis komunitas seperti Baitul Maal wa Tamwil (BMT) mampu mempertahankan loyalitas menabung anggota meskipun beroperasi di luar penjaminan simpanan formal. Penelitian ini menjelaskan bagaimana anggota BMT memaknai risiko dan membangun kepercayaan dalam kondisi tersebut serta mengidentifikasi mekanisme yang menopang loyalitas. Penelitian menggunakan studi kasus interpretatif tunggal pada satu BMT berbasis komunitas di Yogyakarta melalui wawancara semi-terstruktur dengan tujuh *anggota aktif. Data dianalisis menggunakan analisis tematik induktif. Hasil penelitian menunjukkan bahwa risiko tidak diabaikan atau dihilangkan, tetapi dimaknai ulang secara sosial dan moral melalui pengalaman, nilai religius, dan relasi komunitas. Kepercayaan ditopang oleh legitimasi institusional komunitas, integritas dan rekam jejak pengelola, praktik layanan relasional, nilai moral-religius, dan keterlekatan sosial. Secara bersama-sama, mekanisme tersebut membentuk perceived trust yang berfungsi sebagai substitusi fungsional secara perilaku, tetapi bukan pengganti hukum atau finansial bagi penjaminan simpanan formal dalam mempertahankan keputusan menabung. Penelitian ini memperkaya literatur mikrofinans syariah dengan menunjukkan bahwa kepercayaan yang tertanam secara sosial dapat menopang keberlanjutan lembaga, meskipun anggota tetap menyadari adanya risiko finansial residual.*

Kata kunci: kepercayaan; loyalitas anggota; Baitul Maal wa Tamwil; keuangan mikro syariah; penjaminan simpanan

INTRODUCTION

Islamic microfinance institutions play a strategic role in expanding financial inclusion, particularly for communities that are not fully served by formal banking. In Indonesia, Baitul Maal wa Tamwil (BMT) collects and distributes community funds in accordance with sharia principles (Septianingsih et al., 2024). Government data reported approximately 4,500 BMT units in 2018, indicating the broad institutional presence of BMTs within Indonesia's Islamic financial ecosystem (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2021). BMTs therefore remain relevant as locally accessible fund-management institutions even though they operate outside the formal banking system.

In the modern financial system, the trust of depositors is generally strengthened through formal deposit insurance mechanisms. In Indonesia, this function is carried out by the Lembaga Penjamin Simpanan (LPS), which insures bank customers' deposits to a certain extent, thereby maintaining financial system stability and preventing public panic (Lembaga Penjamin Simpanan, 2023; Republik Indonesia, 2004). Several previous studies have demonstrated that the presence of deposit insurance plays a crucial role in reducing risk perception and enhancing depositors' confidence in formal financial institutions (Alam et al., 2021; Alamsyah et al., 2020; Basaran & Bagheri, 2020; de Leon, 2025). However, this mechanism does not cover non-bank microfinance institutions such as BMTs, which are generally cooperative legal entities and are not deposit insurance participants.

Theoretically, the absence of formal deposit insurance at a BMT has the potential to increase risk perception and reduce public interest in saving funds (Rahajeng, 2018). However, various microfinance studies show that people's decisions to participate in microfinance institutions are often not solely based on formal risk considerations, but are influenced by social relations, community proximity, and the reputation and integrity of managers (Hasan et al., 2019; Henegar et al., 2024; Hossain & Mia, 2024; Ojong & Simba, 2019; Panda, 2016). In the context of community-based and religiously affiliated institutions, the perception of risk can even be constructed through moral values, religious affiliations, and strong social ties between managers and members (Dzingirai et al., 2022; Tegambwage & Kasoga, 2025).

Research on BMT in Indonesia has so far highlighted its role in empowering micro-enterprises, the effectiveness of sharia financing, and its contribution to financial inclusion (Hidayah et al., 2021; Mahfudz et al., 2024; Septianingsih et al., 2024; Wulandari, 2019). Other studies emphasized the influence of service quality, religiosity, and member satisfaction on BMT customer loyalty (Abror et al., 2020; Ati et al., 2020; Fatmawati et al., 2024; Silalahi et al., 2020; Suseno, 2024). However, these studies have generally not explored in depth how BMT members interpret the risk of saving funds and how rationality in saving decisions is formed in conditions without formal deposit insurance protection. Thus, a research gap remains regarding members' subjective understanding of assessing the risk and security of deposits in Islamic microfinance institutions.

Based on these gaps, this study examines how members of a community-based BMT interpret deposit risk and security and how social, moral, and institutional mechanisms shape continued saving decisions in the absence of formal deposit insurance. Two research questions guide the inquiry: (1) How do BMT members interpret financial, institutional, liquidity, moral-hazard, and social-reputation risks when their savings are not covered by formal deposit insurance? and (2) Through what mechanisms is perceived trust constructed and translated into member loyalty? Addressing these questions offers an alternative to financial explanations that treat formal protection as the principal determinant of depositor behavior and provides a more context-sensitive basis for Islamic financial-inclusion policy.

LITERATURE REVIEW

Islamic Microfinance as Community-Based Intermediation

Islamic microfinance combines financial intermediation with social and religious objectives. BMTs do not merely supply small-scale savings and financing products; they frequently operate through cooperative membership, local organizations, and repeated face-to-face interaction. Their contribution to micro-enterprise empowerment and financial access is well established (Hidayah et al., 2021; Mahfudz et al., 2024; Septianingsih et al., 2024; Wulandari, 2019). For a community-based BMT, however, institutional access is inseparable from the social environment through which members encounter managers, evaluate organizational conduct, and interpret sharia commitments. This community location makes BMT an appropriate setting for examining financial behavior as relationally situated rather than purely transactional.

Deposit Insurance and Residual Risk

Deposit insurance reduces depositor uncertainty by transferring part of the loss associated with bank failure to a formal protection system. In Indonesia, LPS protects eligible bank deposits and contributes to public confidence and financial-system stability (Lembaga Penjamin Simpanan, 2023; Republik Indonesia, 2004). Empirical research generally associates deposit insurance with stronger depositor confidence, although its design may also affect risk incentives and market discipline (Alam et al., 2021; Alamsyah et al., 2020; Basaran & Bagheri, 2020; de Leon, 2025). BMT savings, by contrast, are not covered by this banking protection. The absence of insurance therefore creates residual financial and institutional risk, but it does not predetermine how members perceive that risk or whether they withdraw their participation.

Social Embeddedness and Sources of Trust

The embeddedness perspective holds that economic action is situated within concrete social relations rather than conducted independently of them (Granovetter, 1985). Repeated interaction, known reputations, and community networks can generate trust and discourage opportunistic behavior. Mayer et al. (1995) further distinguish ability, benevolence, and integrity as central assessments of a trustee's trustworthiness. In a BMT context, operational competence reflects ability, responsive and member-oriented service signals benevolence, and amanah, transparency, and a consistent track record indicate integrity. Zucker's (1986) typology complements this model by distinguishing process-based trust derived from repeated experience, characteristic-based trust associated with shared identity, and institution-based trust supported by recognized structures. These perspectives explain why formal insurance may coexist with, or be partially substituted by, relational and community-based sources of confidence.

Organizational Legitimacy, Perceived Trust, and Member Loyalty

Organizational legitimacy refers to a generalized perception that an organization's actions are appropriate within a socially constructed system of norms and values (Suchman, 1995). For a BMT affiliated with a pesantren or foundation, legitimacy may be transferred from the community institution to the financial organization and its managers. Prior BMT and Islamic-finance studies show that service quality, religiosity, satisfaction, reputation, and social relationships affect loyalty (Abror et al., 2020; Ati et al., 2020; Fatmawati et al., 2024; Silalahi et al., 2020; Suseno, 2011). In this study, perceived trust is defined as members' subjective confidence that the BMT and its managers will safeguard funds, act responsibly, and remain responsive despite the absence of formal deposit insurance. Member loyalty is operationalized as continued use of BMT savings products and the stated intention to maintain savings at the institution; it does not imply that long-term behavioral loyalty was observed for every informant. The theoretical gap concerns how embedded relations, trustee characteristics, and community legitimacy jointly transform acknowledged risk into sufficient perceived trust for continued saving.

METHOD

This study employed a qualitative approach and a single interpretive case study design to understand how members' loyalty to saving is sustained without formal deposit insurance (Creswell & Poth, 2018; Yin, 2018). The bounded case was BMT Sanden, established in 1997 and serving 847 members, an Islamic microfinance institution operating within the social and institutional environment of Yayasan/Pondok Pesantren Al-Furqon in Sanden, Bantul, Special Region of Yogyakarta, Indonesia. A community-based BMT is operationally defined here as an Islamic microfinance institution whose legitimacy, membership relations, governance practices, and routine services are embedded in a pre-existing local community organization. The selected case displays these characteristics through its pesantren or foundation affiliation, shared religious values, personal familiarity between members and managers, and repeated community interaction.

Primary data were obtained through semi-structured in-depth interviews with seven active BMT members selected purposively. Selection sought variation in age, gender, education, occupation, membership duration, savings products, and prior understanding of LPS. The case boundary comprised BMT Sanden, its community affiliation, and members' experiences of saving within the institution. Table 1 presents the informant profile and describes prior knowledge of LPS from each interview response rather than assigning evaluative literacy levels. Principal and mandatory membership contributions are distinguished from voluntary savings and investment products.

Table 1. Informant Characteristics

Code	Demographic profile	Membership duration	Membership contributions and savings/investment products	Prior understanding of LPS
P1	52; male; bachelor's degree; entrepreneur	1 year	Contributions: principal and mandatory. Savings: voluntary daily (wadi'ah).	Knew the general LPS function; uncertain about BMT coverage.
P2	27; female; senior high/vocational; student	8 years	Contributions: principal and mandatory. Savings: education and qurban.	Understood the LPS function and that BMT savings were not covered.
P3	47; female; master's degree; civil servant	12 years	Contributions: principal and mandatory. Savings/investment: business/daily and 12-month term.	Knew the LPS function and that BMT Sanden was not covered.
P4	44; male; junior high; entrepreneur	8 years	Contributions: principal and mandatory. Savings: umrah-hajj and voluntary emergency.	Had paid little attention to LPS; learned of non-coverage during the study.
P5	32; male; senior high/vocational; private-sector employee	3 years	Contributions: principal and mandatory. Savings/investment: education and 6-month term.	Did not know the term LPS; recognized the absence of a formal guarantee.
P6	44; female; senior high/vocational; homemaker	3 years	Contributions: principal and mandatory. Savings/investment: daily/business and restricted mudharabah (mudharabah muqayyadah).	Knew the LPS function and understood that BMT savings were not covered.
P7	51; female; bachelor's degree; civil servant	12 years	Contributions: principal and mandatory. Savings: Eid (TAHARFA) and qurban.	Had no prior knowledge; learned of BMT non-coverage during the interview.

The interview materials were in Indonesian; quotations reported in English were translated for publication while retaining their substantive meaning. Data were analyzed through inductive thematic analysis involving familiarization, initial coding, cross-informant comparison, category development, and theme refinement (Braun & Clarke, 2006; Miles et al., 2019). Coding was organized manually in a structured matrix. Credibility was strengthened through systematic comparison across the seven informants, retention of divergent and negative cases, and an explicit code-category-theme trail. Source triangulation was not claimed because the primary dataset consisted solely of member interviews. Table 2 illustrates how empirical statements were developed into categories and themes.

Table 2. Illustrative Code-Category-Theme Development

Illustrative empirical codes	Category	Theme
"LPS would make it safer"; "a bank covered by LPS is safer"	Acknowledgment of formal protection and residual risk	Risk awareness and qualified trust
"The BMT belongs to the pesantren/foundation"; "we are in the same foundation"	Transferred community legitimacy	Socially embedded trust mechanisms
"The managers are amanah"; "I look at their track record"	Integrity- and process-based trust	Socially embedded trust mechanisms
"Pick-up service"; "transactions are close, easy, and flexible"	Relational accessibility and service benevolence	Trust translated into continued saving
"There is some caution, but I continue to trust"	Residual doubt and negative case	Qualified rather than unconditional loyalty

RESULTS AND DISCUSSION

Risk Perception and the Rationality of BMT Members' Saving Decisions

The findings show that members recognized the absence of formal protection rather than simply ignoring it. Several informants stated that LPS would provide greater safety and comfort. P3 explained, "Actually, if there were LPS it would be safer, more comfortable, and more trustworthy. However, I already trust BMT Sanden, so its absence is not a problem." P7 expressed a clearer comparison: "A bank covered by LPS is safer, but I still choose to save at BMT because it is simpler." These statements indicate that members' continued saving was based on qualified trust: formal risk was acknowledged, but it was weighed against other forms of assurance.

Table 3. Qualitative Matrix of Risk Interpretation among BMT Members

Risk dimension	Dominant orientation of interpretation	Explicit mentions	Illustrative evidence
Financial loss risk	Formal-economic risk acknowledged, then qualified by experience and relational confidence	6/7	“A bank covered by LPS is safer, but I still choose BMT because it is simpler” (P7).
Institutional failure risk	Mixed formal and community interpretation	5/7	“One weakness of BMT is that there is no institution guaranteeing members’ savings if it becomes insolvent” (P5).
Liquidity risk	Practical-relational interpretation through access and service experience	5/7	“Withdrawals can be delivered to the house on the same day” (P1).
Moral hazard risk	Moral-relational interpretation through amanah, character, and track record	7/7	“I assess it from the track record of the BMT managers” (P6).
Social reputation risk	Community-social interpretation through affiliation, visibility, and informal accountability	5/7	“I am still within Al-Furqon, so saving there also maintains the relationship with the foundation” (P4).

Table 3 maps five dimensions that emerged from the interviews. Financial-loss and institutional-failure risks were interpreted partly through formal-economic reasoning because members understood that state-backed protection would improve security. Liquidity risk was interpreted through practical experience, particularly ease of deposits, withdrawals, proximity, and same-day service. Moral-hazard and social-reputation risks were predominantly interpreted through manager character, amanah, institutional affiliation, and community visibility. Variation remained visible. P1 stated that the absence of LPS “does create doubt” because of reported cases of funds being taken by insiders, whereas P4 said, “There is some caution, but I am more convinced and continue to trust that, God willing, it is safe.”

The pattern supports the embeddedness argument that economic choices are shaped by concrete relations and known reputations (Granovetter, 1985). Risk was not erased; it was made tolerable through accumulated experience and socially available judgments. The negative cases are analytically important because they show that loyalty did not arise from complete certainty. Instead, members retained concerns about insolvency, fraud, or the comparative safety of banks while deciding that these concerns were offset by institutional familiarity and everyday evidence of responsible management.

Trust Mechanisms in the Absence of Formal Deposit Insurance

Perceived trust was constructed through five mutually reinforcing mechanisms rather than through a single assurance. Community institutional legitimacy connected BMT credibility to the pesantren or foundation. Managerial integrity and track record provided person-based evidence that funds would be handled responsibly. Relational service practices made trust observable in routine transactions. Moral-religious values supplied a normative standard of amanah and sharia compliance, while social embeddedness enabled reputation and informal community oversight to operate.

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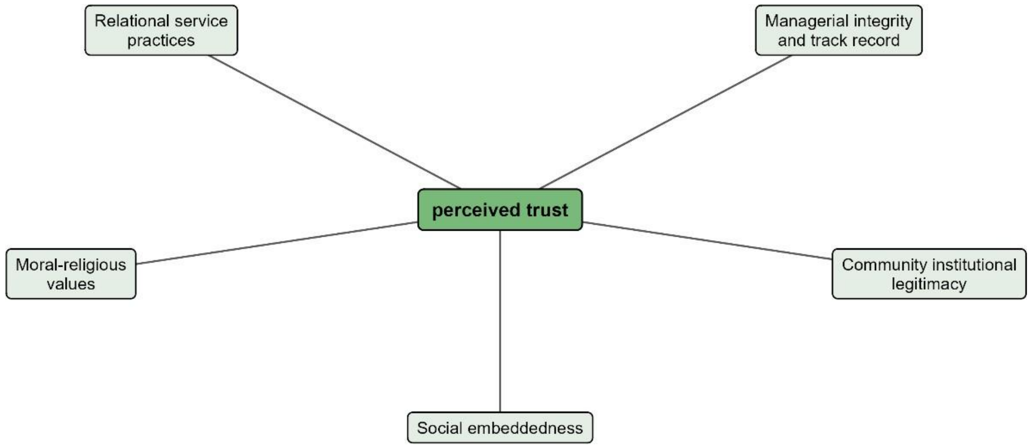

Figure 1. Configuration of Trust Mechanisms in Community-Based Islamic Microfinance
Source: Developed by the authors from interview data (2026)

Figure 1 summarizes this configuration. P1 connected institutional and personal legitimacy directly: "I save at BMT because I trust the institution, the pesantren environment, and the managers are teachers who teach at the pesantren." P6 emphasized process-based evidence, stating, "I assess it from the track record of the BMT managers." P7 similarly explained, "By seeing the personality of the officers and the pesantren institution, I am very confident about the safety of the savings even without LPS." Relational experience also mattered. P3 noted that the BMT was close, transactions were easier, and members were "in the same foundation."

These mechanisms correspond to established trust theory. Managerial competence and reliable services signal ability; responsive services indicate benevolence; and amanah, transparent transactions, and track record signal integrity (Mayer et al., 1995). The interviews also reveal process-based trust from repeated satisfactory transactions, characteristic-based trust from shared religious and community identity, and institution-based trust transferred from the pesantren or foundation (Zucker, 1986). The community affiliation further provides organizational legitimacy because members regard the BMT as appropriate and accountable within a recognized normative environment (Suchman, 1995). Perceived trust is therefore an outcome of cross-reinforcement among relational, moral, and institutional sources.

Interaction between Risk Perception and Trust in Shaping Member Loyalty

Continued use and stated intention to maintain savings resulted from the interaction between acknowledged risk and sufficient perceived trust. This

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operational form of loyalty was expressed in the continuation of savings over periods ranging from one to twelve years and in the use of multiple products, including daily, education, qurban, hajj, business, and term savings. However, the bases of loyalty varied. Some members emphasized community affiliation and manager integrity, whereas others prioritized convenience, spending discipline, sharia orientation, or the absence of monthly administration charges.

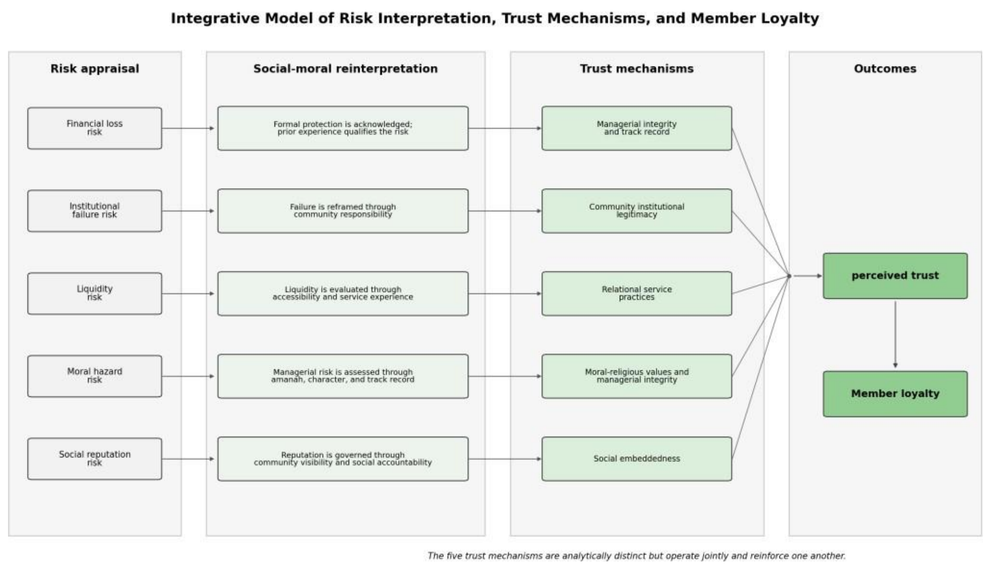

Figure 2. Integrative Model of Risk Interpretation, Trust Mechanisms, and Member Loyalty
Source: Developed by the authors from interview data (2026)

Figure 2 integrates all five risk dimensions consistently. Financial-loss risk is qualified by prior experience; institutional-failure risk is reframed through community responsibility; liquidity risk is evaluated through accessibility and service performance; moral-hazard risk is assessed through amanah, character, and track record; and social-reputation risk is governed through community visibility and informal accountability. Each reinterpretation activates one or more trust mechanisms, which jointly produce perceived trust and support continued saving.

The translation of trust into continued saving is visible in service-related accounts. P1 stated, "BMT has a service that other banks do not have, namely a pick-up service," and added that withdrawals could be delivered to the member's home on the same day. P5 stated, "I chose BMT because its service is more flexible. The existence of LPS in banks does not affect my choice of BMT as a place to save." Practical convenience was not the only explanation. P4 reported, "At Yayasan Pondok Al-Furqon, as a teacher I was expected to save there," while also explaining that the absence of an ATM helped control spending. This divergent account indicates that social embeddedness may generate trust and solidarity, but

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may also create normative expectations to participate. Continued saving therefore reflected distinct combinations of service convenience, spending discipline, religious-community affiliation, managerial trust, and organizational expectations. In this bounded case, perceived trust functioned as a behavioral and practical, but not legally or financially equivalent, substitute for formal deposit insurance. The distinction is important: social trust cannot reimburse losses in the manner of a statutory guarantee, and several informants still considered LPS desirable. Its functional role lies instead in making residual risk acceptable enough for members to continue saving. This qualified conclusion avoids treating community trust as unconditional and highlights the need for BMTs to reinforce governance, transparency, prudent financing, and service reliability alongside their social legitimacy.

CONCLUSION

This study shows that members' continued use of savings products and stated intention to keep saving in a community-based BMT without formal deposit insurance is produced through a gradual interaction between risk awareness and socially embedded trust. Members reinterpreted five dimensions of risk: financial loss was qualified through experience, institutional failure through community responsibility, liquidity through service accessibility, moral hazard through amanah and track record, and social reputation through community visibility and accountability. Community institutional legitimacy, managerial integrity, relational service practices, moral-religious values, and social embeddedness then combined to form perceived trust and sustain saving decisions.

Theoretically, the findings extend Islamic microfinance research by connecting embeddedness, trustee characteristics, trust-production mechanisms, and organizational legitimacy. They also qualify the claim that trust substitutes for insurance: perceived trust performs a behavioral function by sustaining participation, but it is not a legal or financial replacement for loss reimbursement. Practically, BMT managers should strengthen transparent fund management, prudent financing, reliable withdrawal access, consistent service, and accountability to the affiliated community. Policymakers may consider protection and supervision arrangements that recognize the distinctive cooperative and community-based structure of BMTs without assuming that social trust alone is sufficient.

The study is limited to a single community-based BMT, seven member interviews, and one stakeholder group; it therefore does not capture the perspectives of managers, regulators, non-members, or members who have exited the institution. The interview-only dataset also limits source triangulation, and the findings are not intended for statistical generalization. Future research should compare BMTs with different community affiliations, incorporate multiple stakeholder groups and documentary or observational evidence, and test quantitatively how the five trust mechanisms interact with risk perception and loyalty as institutions grow and become more organizationally complex.

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