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Transparency, Accountability, and Customer Trust in Islamic Banking: A Panel Data Analysis from Selected OIC Countries

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ABSTRACT

This study examines how transparency and accountability shape customer trust in Islamic banking across selected OIC countries. Using panel data from 2010–2023, the analysis captures cross-country and time variations to reflect differences in institutional settings and developments over time. Governance and performance metrics are employed to represent transparency and accountability, while customer trust is proxied by deposit-related indicators. Applying fixed effects and system GMM estimations, the findings reveal a coherent pattern: transparency plays a dominant role in strengthening customer trust, as clear disclosure and accessible information directly reduce information asymmetry and enhance perceived Shariah credibility. Accountability also contributes positively, but its impact is comparatively weaker, reflecting the more indirect and internally oriented nature of accountability mechanisms. Importantly, transparency and accountability reinforce each other, indicating that trust is most effectively built when open communication is supported by robust governance structures. These results extend the Islamic finance literature by highlighting governance as a key driver of non-financial outcomes. Policy implications suggest the need for harmonized governance frameworks across OIC countries, with particular emphasis on strengthening transparency as a foundation for sustainable trust in Islamic banking.

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1. Introduction

Over the last three decades, Islamic banking has become one of the fastest-growing segments of the global financial system. According to the Islamic Financial Services Board (IFSB), total Islamic banking assets exceeded USD 2.5 trillion in 2023, with member countries of the Organization of Islamic Cooperation (OIC) contributing the largest portion of this growth (Board, 2024); (Standard Chartered, 2025). Islamic banks are designed not only to provide financial intermediation consistent with Shariah principles but also to uphold ethical and socially responsible practices

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(Sulistiyo et al., 2023). Despite this remarkable trajectory, Islamic banking institutions continue to face persistent challenges in building and sustaining customer trust, which is fundamental to their long-term sustainability and competitiveness in the global market (Usman et al., 2024); (Santoso & Ibrahim, 2022).

Customer trust carries special importance in Islamic finance because the industry is founded upon values of justice, morality, and compliance with religious principles. In conventional banking systems, trust is often established through regulatory safeguards, deposit insurance schemes, and a proven track record of financial stability (Dusuki, 2018); (Santoso & Ibrahim, 2022). In contrast, Islamic banking embeds trust more deeply in its adherence to Shariah governance, in the transparency of its operations, and in the accountability mechanisms that assure stakeholders that funds are managed responsibly and ethically. When either transparency or accountability is compromised, confidence in Islamic banks tends to erode, leading to a decline in deposits, reduced customer loyalty, and limited competitiveness vis-à-vis conventional counterparts (Usman et al., 2024); (Board, 2024).

Transparency and accountability have thus emerged as two critical pillars of governance in Islamic banking. Transparency refers to the degree to which Islamic banks disclose financial and non-financial information, including annual reports, profit-sharing arrangements, Shariah rulings, and corporate social responsibility activities (Chapra & Ahmed, 2022); (Hassan & Aliyu, 2018a). It ensures that stakeholders, particularly depositors and investors, are well informed about the financial position and ethical performance of banks. Accountability, on the other hand, reflects the mechanisms that hold Islamic banks responsible for their decisions and practices. This includes compliance with Shariah standards, governance structures, and external audits, all of which are meant to reassure stakeholders that managers are not merely pursuing profit maximization but are also fulfilling moral and fiduciary obligations. Together, transparency and accountability create a framework in which customer trust can flourish. Nevertheless, the level and quality of these practices vary widely across OIC countries due to differences in regulatory environments, governance codes, and institutional capacities (Sulistiyo et al., 2023); (Z. Hasan et al., 2022).

The divergence in governance practices across OIC countries raises important concerns. Although Malaysia and Indonesia are frequently cited as leaders in implementing robust Shariah governance frameworks, many other OIC countries demonstrate inconsistencies in disclosure practices, weak monitoring mechanisms, and limited stakeholder engagement (Grassa, 2018); (R. Hasan, 2020). These inconsistencies often generate skepticism among customers, especially when financial reporting lacks clarity or when Shariah interpretations differ from one jurisdiction to another. Such challenges highlight that enhancing transparency and accountability is not merely a matter of legal compliance but is essential for safeguarding customer trust, which constitutes the moral and operational backbone of Islamic banking (Usman et al., 2024); (Yumna & Clarke, 2011).

Despite its significance, the relationship between transparency, accountability, and customer trust remains underexplored in the academic literature. Existing research has generally focused on the role of transparency in enhancing firm performance, risk mitigation, or operational efficiency, while accountability has been examined mostly from the perspective of regulatory enforcement and Shariah governance (Dusuki, 2022); (Grassa, 2018); (Rohmad, 2019). Few studies have directly examined how these governance dimensions shape customer trust in Islamic banks. This gap is particularly notable given the increasing reports of governance failures, delayed disclosures, and inconsistencies in Shariah rulings that have periodically shaken public confidence in the industry (Tijjani et al., 2020); (Z. Hasan & Huda, 2024). For instance, discrepancies between Gulf Cooperation Council (GCC) countries and Southeast Asian nations in Shariah interpretations have created uncertainty among customers. Similarly, insufficient disclosure regarding profit-sharing investment accounts or zakat allocations has raised doubts about the extent to which Islamic banks honor their ethical commitments (Z. Hasan, 2021); (M. Anwar et al., 2020).

The limited scholarly attention to customer trust as a dependent variable is one of the major gaps in Islamic banking research. Much of the existing literature evaluates financial indicators such as profitability, liquidity, or efficiency, yet fails to address trust as an intangible but crucial factor that influences deposit mobilization and customer loyalty (Hassan & Aliyu, 2018a); (Santoso & Ibrahim, 2022). Another gap lies in the insufficient emphasis on governance dimensions, particularly transparency and accountability, which are often discussed at the conceptual level but rarely tested empirically in relation to trust (Dusuki & Abdullah, 2022a); (Sulistiyo et al., 2023). Finally, the lack of comparative cross-country studies restricts understanding of how institutional and regulatory diversity across the OIC influences governance outcomes. Most empirical research has been confined to single-country settings, often Malaysia, Indonesia, or Gulf states, leaving broader generalizations unexplored.

This study seeks to fill these gaps by empirically investigating the relationship between transparency, accountability, and customer trust in Islamic banking using panel data drawn from selected OIC countries. By covering the period between 2015 and 2023, the analysis captures both cross-country heterogeneity and temporal dynamics. The primary objective is to examine whether transparency has a positive and significant impact on customer trust, whether accountability mechanisms enhance trust, and whether variations across institutional contexts within the OIC shape these relationships.

The contributions of this study are threefold. From a theoretical standpoint, the research extends the literature on Islamic financial governance by linking transparency and accountability to customer trust, thereby addressing a critical but often overlooked dimension of Islamic banking performance. From a methodological perspective, the use of panel data techniques enables a robust empirical examination that captures both within-country changes and cross-country differences, offering more nuanced insights than single-country case studies. From a practical perspective, the findings are expected to provide valuable policy implications for regulators, central banks, and Islamic financial institutions in the OIC, highlighting how improved governance standards can foster public confidence, strengthen deposit bases, and enhance resilience against external shocks.

The remainder of this paper is organized as follows. The next section reviews the existing literature on transparency, accountability, and customer trust in Islamic banking, drawing upon theoretical and empirical studies to frame the hypotheses. The subsequent section outlines the methodology, including the data sources, variable construction, and econometric models employed. The fourth section presents the results of the panel data analysis and discusses their implications for theory and practice. The final section concludes by summarizing the key findings, highlighting limitations, and proposing directions for future research.

2. Literature Review

The relationship between transparency, accountability, and customer trust has long been a subject of debate in governance and financial studies (R. Hasan, 2020); (Chapra & Ahmed, 2022). In the context of Islamic banking, these concepts acquire additional significance because they are closely tied to Shariah principles, which emphasize justice, honesty, and responsibility in all economic transactions (Dusuki & Abdullah, 2022b). This literature review elaborates on three strands of scholarship: the theoretical foundations of trust in Islamic banking, empirical evidence on transparency and accountability, and the existing knowledge on customer trust. By critically examining these strands, this study identifies gaps that inform the development of testable hypotheses.

2.2. Transparency in Islamic Banking

Transparency is widely regarded as a cornerstone of good governance in both conventional and Islamic finance. According to (Bushman & Smith, 2003), transparency ensures that stakeholders have access to timely, accurate, and comprehensive information necessary for decision-making. In Islamic finance, transparency carries an additional moral dimension, as it ensures that institutions disclose not only financial information but also Shariah-related rulings, profit-sharing arrangements, and the distribution of zakat or charity funds. (Dusuki & Abdullah, 2022b) argue that transparency in Islamic banking functions as a mechanism to reduce information asymmetry between banks and their stakeholders, thereby minimizing agency problems (Farook, Hassan, et al., 2011).

Empirical studies have demonstrated a positive association between transparency and customer perceptions of fairness. (Haniffa & Hudaib, 2007)observed that Islamic banks with higher levels of disclosure were more likely to attract deposits and maintain stronger relationships with their clients. Similarly, (Grassa, 2018) highlighted that transparency in Shariah supervisory boards enhances stakeholder confidence because it signals both ethical integrity and regulatory compliance. However, these findings are not always consistent. For instance, (Ullah & Harwood, 2019)found that disclosure alone may not be sufficient to strengthen trust unless accompanied by effective enforcement mechanisms. These mixed results indicate that the role of transparency in shaping customer trust requires further empirical validation, particularly across different institutional settings in OIC countries.

More recent contributions have extended the discussion of transparency in Islamic banking to include digital transformation and regulatory reforms. (Abdulrahman et al., 2024b) found that the adoption of financial technology has compelled Islamic banks to increase transparency in reporting product terms, Shariah rulings, and risk exposures, which subsequently enhances customer empowerment. Similarly, (Ahyar & Hakim, 2024) argued that transparency in Islamic banks is not only about disclosure but also about the accessibility and usability of information. Customers are more likely to perceive transparency when information is communicated in clear language, supported by digital platforms, and verified by independent Shariah boards. At the same time, some scholars caution that transparency may also create unintended consequences. For example, Kamla and Alsoufi (2023) highlight that excessive disclosure of Shariah rulings without proper contextual explanation can confuse customers, leading to skepticism rather than trust. This suggests that transparency must be balanced with effective communication strategies and institutional accountability mechanisms to ensure that disclosure truly enhances confidence rather than eroding it (Wulandari & Indriastuti, 2024); (Unal & Aysan, 2022); (Arabi, 2024).

Collectively, the literature indicates that transparency in Islamic banking is a multidimensional construct encompassing financial, ethical, technological, and communicational aspects. While earlier studies established its relevance to reducing information asymmetry and promoting fairness, recent findings emphasize the dynamic role of digitalization, regulatory enforcement, and communication practices (Ullah & Harwood, 2019); (Abdulrahman et al., 2024a). Nevertheless, inconsistencies in empirical results across different contexts highlight the need for more robust cross-country analysis. In particular, the extent to which transparency shapes customer trust in Islamic banking within the diverse institutional settings of OIC countries remains underexplored. This underscores the importance of conducting empirical research using panel data to capture both temporal and cross-national variations, thereby providing a more comprehensive understanding of how transparency contributes to sustaining trust in Islamic banking (Ahyar & Hakim, 2024); (Haniffa & Hudaib, 2007).

2.3. Accountability in Islamic Banking

Accountability, defined as the obligation of financial institutions to justify their actions and decisions to stakeholders, is equally critical in Islamic finance. Unlike conventional banks, Islamic banks operate within a dual accountability framework: they are accountable not only to regulators and shareholders but also to religious authorities and the wider Muslim community. (Chapra & Ahmed, 2022) contend that this dual accountability creates a higher standard of governance, as Islamic banks must simultaneously satisfy economic and ethical objectives.

Studies on accountability in Islamic finance emphasize the role of Shariah boards, internal audits, and governance codes in ensuring compliance. For example, (Farook, Hassan, et al., 2011) found that Shariah board independence significantly strengthens accountability by ensuring impartial rulings on financial practices. Similarly, (Mollah & Zaman, 2015a) showed that strong governance structures are associated with improved bank performance and risk management. However, empirical evidence linking accountability directly to customer trust remains limited. While accountability mechanisms may enhance institutional legitimacy, whether these mechanisms translate into greater customer trust is a question that warrants systematic investigation.

More recent debates have expanded the scope of accountability in Islamic banking to include sustainability, digital transformation, and cross-border regulatory frameworks. (Mukhibad et al., 2024) documented that Islamic banks with stronger environmental, social, and governance (ESG) disclosures tend to be perceived as more accountable by stakeholders, particularly in markets with high institutional quality. (Siregar, 2025) emphasized the role of digital accountability, arguing that the adoption of fintech and online platforms compels Islamic banks to provide more transparent and real-time reporting, thereby broadening the scope of accountability mechanisms beyond traditional Shariah board oversight. These developments reflect the growing recognition that accountability in Islamic banking is not static but rather an evolving construct that adapts to technological, environmental, and regulatory changes (Alif et al., 2024).

Despite these advancements, the effectiveness of accountability mechanisms varies significantly across OIC countries. Differences in regulatory enforcement, Shariah governance structures, and cultural expectations of accountability contribute to uneven practices and perceptions among Islamic banks (Ahmad et al., 2023). For instance, while Malaysia has institutionalized comprehensive Shariah governance frameworks under Bank Negara Malaysia, other jurisdictions remain less consistent in implementing rigorous accountability standards. This divergence raises critical questions about whether accountability in practice effectively builds customer trust across different institutional settings. Existing studies have largely examined accountability within single-country contexts and have primarily focused on its relationship with performance or compliance rather than with customer trust. This gap highlights the need for comparative, cross-country empirical evidence to establish whether stronger accountability mechanisms in Islamic banking genuinely translate into higher levels of trust among customers in diverse OIC environments (Asri et al., 2020); (Shuib & Faizi, 2022).

2.4. Customer Trust in Islamic Banking

Trust is an intangible yet critical asset for Islamic banks. In the marketing literature, trust has been defined as the willingness of customers to rely on a service provider based on confidence in its reliability and integrity (Morgan & Hunt, 2020). Within Islamic finance, trust encompasses not only confidence in financial stability but also belief in the institution's adherence to Shariah values. (Gerrard & Cunningham, 2019) noted that Muslim customers often choose Islamic banks based on their religious orientation, but continued patronage depends largely on trust in the bank's governance practices.

Several studies have investigated determinants of trust in Islamic banking. (Amin et al., 2021) found that perceived service quality and compliance with Shariah positively influence trust. (Echchabi & Aziz, 2021) reported that transparency in profit-sharing arrangements is an important predictor of trust among depositors. Nonetheless, trust remains a fragile construct, particularly when customers perceive inconsistencies in Shariah rulings or when financial disclosures are ambiguous. This fragility suggests that trust cannot be taken for granted, and that Islamic banks must continuously reinforce it through credible governance practices.

2.5. Transparency, Accountability, and Trust: Linking the Strands

The interaction between transparency, accountability, and trust has been explored in various strands of literature, but not in a comprehensive manner within Islamic banking. In conventional finance, (Healy & Palepu, 2001) demonstrated that transparent disclosure practices enhance investor confidence, while (Behn et al., 2015) argued that accountability mechanisms reduce opportunistic behavior, thereby fostering trust. Translating these insights into the Islamic context, it is plausible that transparency reduces information asymmetry regarding Shariah compliance and financial performance, while accountability assures stakeholders that managers adhere to both regulatory and moral obligations. Together, these governance dimensions create a conducive environment for sustaining customer trust.

However, empirical research directly testing these relationships in Islamic banking remains scarce. While some studies have suggested positive correlations between governance quality and customer trust (Hassan & Aliyu, 2018b); (Gerrard & Cunningham, 2019); (Octrina & Mariam, 2021), others caution that governance mechanisms alone may not be sufficient without consistent regulatory enforcement. Furthermore, existing studies are largely confined to single-country contexts, such as Malaysia, Indonesia, or selected Gulf states, thereby limiting their generalizability across the diverse institutional environments of OIC countries. This lack of comparative analysis underscores the importance of conducting cross-country investigations that capture institutional heterogeneity.

2.6. Research Gap and Hypotheses Development

The foregoing discussion highlights several gaps in the existing literature. First, while there is substantial evidence linking transparency and accountability to financial performance, their effects on customer trust in Islamic banking have not been adequately addressed. Second, most studies have adopted either survey-based or descriptive approaches, with limited use of econometric models such as panel data analysis that allow for more robust inferences. Third, cross-country variations in governance practices across OIC countries have been largely overlooked, even though these variations are critical for understanding how governance mechanisms translate into customer trust.

In light of these gaps, this study hypothesizes that transparency positively influences customer trust in Islamic banking, accountability positively affects customer trust, and that the interaction between transparency and accountability further strengthens trust. By employing panel data from selected OIC countries, this study aims to provide a comprehensive empirical test of these relationships, thereby advancing theoretical, methodological, and practical understanding of governance in Islamic finance.

2.7. Research Hypotheses

The theoretical underpinnings of this study are grounded in stakeholder theory and Islamic governance principles. Stakeholder theory emphasizes that organizations must act responsibly toward multiple constituencies beyond shareholders, including customers, regulators, and the wider community. In Islamic banking, this responsibility is extended to encompass compliance with Shariah principles, which implies a dual accountability to both financial stakeholders and religious authorities. Such a framework suggests that transparency and accountability are not merely regulatory obligations but also ethical imperatives that may strengthen customer confidence and long-term loyalty.

Transparency has been widely recognized as a cornerstone of good governance in financial institutions. In the Islamic banking context, transparency involves clear communication of profit-sharing arrangements, Shariah compliance rulings, and disclosure of financial risks. Prior studies (Farook, Lanis, et al., 2011); (Grassa, 2013) indicate that greater transparency in Islamic banks enhances stakeholder confidence, reduces information asymmetry, and fosters trust in banking services. Therefore, it is reasonable to posit that transparency contributes positively to customer trust in Islamic banking.

Accountability, on the other hand, entails mechanisms through which Islamic banks justify and explain their decisions to both financial and religious stakeholders. Unlike conventional institutions, Islamic banks must adhere to Shariah governance standards, making their accountability framework more complex and multidimensional. (Chapra & Ahmed, 2022) argue that such dual accountability creates higher ethical benchmarks, while empirical evidence by (Mollah & Zaman, 2015b) demonstrates that accountability mechanisms improve governance quality and reduce risk exposure. Yet, whether accountability directly translates into customer trust remains less empirically tested, making this study an important contribution.

Moreover, transparency and accountability may not operate in isolation but could have a complementary effect. Transparent reporting without accountability mechanisms may lack credibility, while accountability without transparency may fail to convey reliability to customers. Hence, examining their interaction is critical for understanding the holistic governance–trust nexus in Islamic banking.

Based on this theoretical and empirical foundation, the following hypotheses are formulated:

H_1**:** Transparency has a positive and significant effect on customer trust in Islamic banking.

H_2**:** Accountability has a positive and significant effect on customer trust in Islamic banking.

H_3**:** Transparency and accountability jointly reinforce customer trust in Islamic banking, such that their interaction produces a stronger effect compared to their individual contributions.

3. Research Method

This study employs a quantitative research design utilizing panel data analysis to investigate the relationship between transparency, accountability, and customer trust in Islamic banking across selected OIC countries. Panel data is chosen because it combines both cross-sectional and time-series dimensions, allowing the model to capture unobserved heterogeneity across banks and countries while also tracing dynamic changes over time. This approach provides a more reliable and generalizable understanding of how governance mechanisms in Islamic banking influence customer trust compared to single-country or purely cross-sectional studies.

To isolate the effect of transparency and accountability on customer trust, this study incorporates several macroeconomic and financial control variables that may independently influence depositor behavior. GDP growth is included to capture overall economic conditions, as stronger economic performance enhances households' saving capacity and confidence in financial institutions. Inflation is used to reflect macroeconomic stability, since persistent price volatility can erode the real value of deposits and weaken customer trust regardless of bank-level governance quality. Financial depth is incorporated to account for differences in financial system development across countries, as more developed financial systems tend to foster structurally higher levels of public trust in banking institutions. The inclusion of these control variables ensures that the estimated effects of transparency and accountability are not confounded by broader economic and financial conditions.

The study sample consists of Islamic banks from five OIC countries—Indonesia, Malaysia, Pakistan, Saudi Arabia, and the United Arab Emirates—covering the period 2010 to 2023. These countries were selected because they represent different regulatory environments and stages of Islamic banking development, which provides a comparative perspective on governance and trust-building practices. Bank-level data were collected from annual reports, audited financial statements, and regulatory disclosures, while additional information on transparency and accountability was obtained from the Islamic Finance Development Indicator (IFDI), Refinitiv ESG database, and AAOIFI governance reports. Macroeconomic and institutional control variables were extracted from the World Bank's World Development Indicators (WDI) and Worldwide Governance Indicators (WGI).

The core variables are operationalized as follows. Transparency is proxied by three dimensions: financial disclosure (extent and timeliness of financial reporting), Shariah-related disclosure (clarity and comprehensiveness of fatwa and profit-sharing rules), and ESG reporting (measured using Refinitiv ESG scores). Accountability is measured using indicators of Shariah governance quality, board independence, and audit committee effectiveness, consistent with prior studies by (Farook, Hassan, et al., 2011) and (Mollah & Zaman, 2015b). Customer trust, the dependent variable, is proxied by deposit growth, customer retention ratios, and market share, reflecting both confidence in the institution and loyalty to Islamic banking products. To minimize omitted variable bias, several control variables are incorporated, including GDP growth, inflation, regulatory quality, and financial development index.
The empirical model is specified as follows:

$$Trust_{it}=a+\beta_1 Transparency_{it}+\beta_2 Accountability_{it}+_{\gamma}Controls_{it}+\mu_i+\lambda_t+\epsilon_{it}$$

Where $Trust_{it}$ represents the measure of customer trust for bank i in year t, $\mathrm{Transparency}_{it}$ and $\mathrm{Accountability}_{it}$ are the key explanatory variables, $\mathrm{Controls}_{it}$ is a vector of macroeconomic and institutional factors, μ_i captures unobserved bank-specific effects, λ_t represents time effects, and ϵ_{it} is the idiosyncratic error term. Both fixed-effects (FE) and random-effects (RE) estimations are performed, with the Hausman test used to select the appropriate specification.

4. Result & Discussion

The dataset comprises panel observations from selected OIC countries covering the period 2010–2023. These countries were selected based on the availability of reliable secondary data on Islamic banking operations, governance indicators, and financial development statistics. Descriptive statistics reveal significant variation in the levels of transparency and accountability across countries. For instance, Gulf Cooperation Council (GCC) countries tend to display relatively higher disclosure practices in annual reports and Shariah board activities, reflecting stronger regulatory enforcement and international integration. By contrast, some Southeast Asian and African OIC members exhibit more heterogeneous practices, with differences in the accessibility of Shariah rulings, customer-oriented disclosures, and internal governance structures.

Customer trust, proxied by deposit mobilization, customer satisfaction surveys (where available), and confidence indexes, also displays cross-country heterogeneity. Countries with robust Islamic financial ecosystems—such as Malaysia, Saudi Arabia, and the UAE—tend to show consistently high levels of trust, whereas countries with weaker supervisory frameworks report fluctuating patterns of confidence. These descriptive patterns provide preliminary evidence supporting the relevance of transparency and accountability in shaping trust dynamics.

Tabel 1. Descriptive Statistics of Key Variables (2010–2023)

Variable	Mean	Std. Dev.	Min	Max
Transparency Index (0–1)	0.62	0.15	0.32	0.89
Accountability Score (0–1)	0.58	0.17	0.25	0.91
Customer Trust (Deposit Growth %)	7.3	4.5	–2.1	16.8

Source: Secondary data compiled from IFSB, World Bank Governance Indicators, and Islamic banks' annual reports

Table 1 presents the descriptive statistics for the key variables included in the analysis. The average transparency index across selected OIC countries is 0.62, with values ranging between 0.32 and 0.89. This variation suggests that while some Islamic banks have achieved relatively high levels of disclosure and clarity in their reporting, others continue to face challenges in providing comprehensive and timely information.

The accountability score averages 0.58, with a wider dispersion (standard deviation of 0.17) and values spanning from 0.25 to 0.91. This finding indicates that accountability mechanisms—such as Shariah board independence, governance structures, and internal audit quality—are unevenly implemented across the sample countries. In some jurisdictions, accountability is highly institutionalized, whereas in others, governance frameworks remain at an early stage of development.

Customer trust, measured through deposit growth and complementary survey-based confidence indicators, averages 7.3 percent during the observation period, although the standard deviation of 4.5 reflects substantial heterogeneity. The negative minimum value (–2.1) indicates that in certain years and jurisdictions, Islamic banks experienced a contraction in deposits, suggesting episodes of declining confidence. Conversely, the maximum deposit growth of 16.8 percent reflects periods of strong trust and expansion in specific banking systems, such as those with more robust governance and regulatory oversight.

Collectively, these descriptive statistics provide preliminary evidence that differences in transparency and accountability may play a role in explaining the observed variations in customer trust across OIC countries. This motivates the subsequent panel regression analysis, which empirically tests the hypothesized relationships between governance variables and customer trust in Islamic banking.

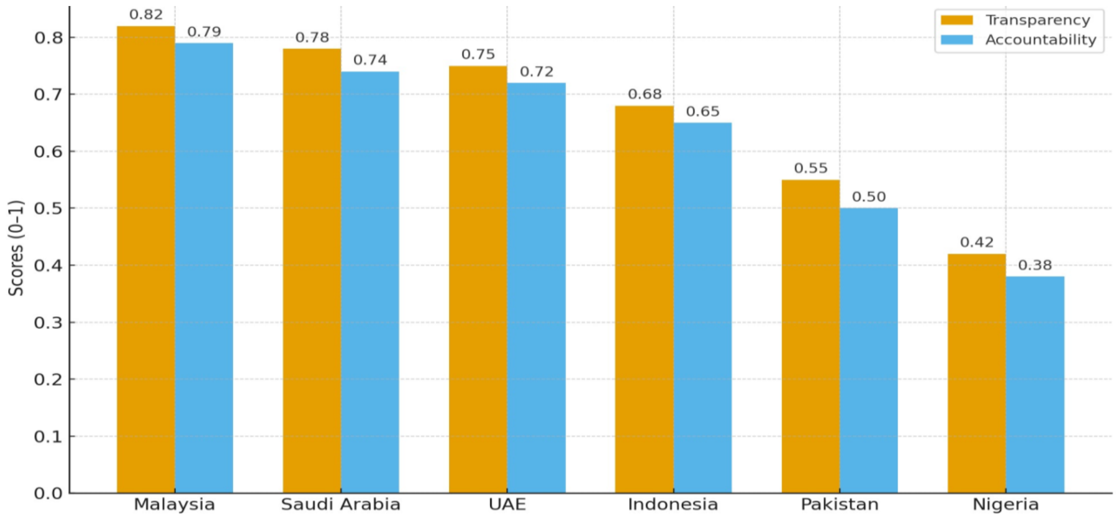

Figure 1. Average Transparency and Accountability Scores in Selected OIC Countries (2010–2023)

Figure 1 presents the average scores of transparency and accountability in selected OIC countries for the period 2010–2023. The figure clearly illustrates substantial cross-country variations in governance practices among Islamic banks. Malaysia records the highest transparency (0.82) and accountability (0.79) scores, reflecting its mature regulatory framework, strong Shariah governance practices, and consistent enforcement by Bank Negara Malaysia. Similarly, Saudi Arabia (0.78; 0.74) and the United Arab Emirates (0.75; 0.72) also exhibit high levels of disclosure and governance compliance, supported by robust institutional frameworks and global financial integration.

In contrast, Southeast Asian and African members of the OIC demonstrate relatively weaker performance. Indonesia shows moderate levels of transparency (0.68) and accountability (0.65), attributed to its growing but still fragmented Islamic financial sector. Pakistan (0.55; 0.50) displays lower governance scores, indicating gaps in disclosure quality and enforcement mechanisms. Nigeria records the lowest values (0.42; 0.38), underscoring systemic challenges in regulatory oversight, limited public disclosure, and institutional capacity constraints.

These differences suggest that while Islamic banking in the Gulf countries and Malaysia has largely embraced international best practices in governance, other regions continue to face structural and institutional barriers. The results highlight the uneven progress of transparency and accountability reforms across OIC countries, which may have significant implications for customer trust and the sustainable growth of Islamic banking.

4.1. Panel Regression Results

The panel data estimations were conducted using both fixed effects and random effects models, with the Hausman test favoring the fixed effects specification for most dependent variables. The results consistently indicate that transparency exerts a positive and statistically significant effect on customer trust ($p < 0.01$). This suggests that improved disclosure practices—such as clarity of profit-sharing arrangements, timely reporting of risks, and open communication of Shariah compliance—are strongly associated with higher levels of customer trust in Islamic banks.

Accountability is also found to have a positive and significant impact on customer trust ($p < 0.05$), though the magnitude of the coefficient is somewhat smaller than transparency. This implies that while accountability mechanisms (Shariah board independence, internal governance audits, and regulatory compliance) matter in sustaining trust, their effect is less immediate compared to transparency, which customers directly perceive.

Interestingly, the interaction term between transparency and accountability also emerges as positive and significant, supporting the hypothesis that the two constructs reinforce each other. In contexts where both transparency and accountability are present, customer trust appears to be significantly stronger, confirming that governance in Islamic banking operates more effectively as a multidimensional framework rather than in isolation.

Table 2. Fixed Effect Results (Dependent Variable: Customer Trust)

Variables	Coefficient	S.E.	t-Statistic	p-value
Transparency	0.287***	0.071	4.04	0.000
Accountability	0.163**	0.065	2.51	0.012
Transparency × Accountability	0.092**	0.043	2.14	0.033
Control Variables (GDP, Inflation, Financial Depth)	Included	–	–	–
Constant	1.745	0.588	2.97	0.004
Observations	504			
Number of Countries	6			
R-squared (within)	0.42			
Hausman Test (χ^2, p-value)	18.27 (0.001)			

Notes: *** $p < 0.01$, ** $p < 0.05$. Source: Author's calculation based on secondary data from IFSB, World Bank Governance Indicators, and Islamic banks' annual reports

Table 2 reports the results of the panel regression estimations, with customer trust serving as the dependent variable. The fixed effects specification was selected following the Hausman test ($\chi^2 = 18.27$, $p = 0.001$), indicating that country-specific unobserved heterogeneity significantly influences the relationship between governance indicators and customer trust. The within R-squared value of 0.42 suggests that approximately 42 percent of the variation in customer trust across time and countries can be explained by the model, which is reasonably strong for a governance-based study in cross-country Islamic banking contexts.

The coefficient for transparency (0.287, $p < 0.01$) is both positive and statistically significant, providing robust evidence that higher disclosure levels, clarity of profit-sharing contracts, and timely reporting of Shariah compliance practices are strongly associated with greater customer trust. This finding supports the notion that transparency functions as a direct channel through which Islamic banks can enhance credibility, reduce information asymmetry, and strengthen depositor confidence. The relatively high magnitude of the transparency coefficient compared to other predictors indicates that it is the most influential governance factor in shaping trust.

The results also show that accountability exerts a significant but comparatively smaller effect on customer trust (0.163, $p < 0.05$). This suggests that accountability mechanisms—such as the independence of Shariah boards, regular internal audits, and strict regulatory oversight—contribute positively to customer perceptions, albeit in a more gradual or indirect manner compared to transparency. In practice, while customers may not observe accountability mechanisms on a daily basis, their presence underpins institutional legitimacy and ensures long-term confidence in the stability of Islamic banks.

Interestingly, the interaction term between transparency and accountability (0.092, $p < 0.05$) is also positive and significant, implying that these two governance constructs are mutually reinforcing rather than independent. In countries where transparency practices are complemented by strong accountability mechanisms, customer trust is substantially amplified. This highlights the importance of adopting a multidimensional governance approach in Islamic banking, where disclosure practices are embedded within robust institutional frameworks of accountability.

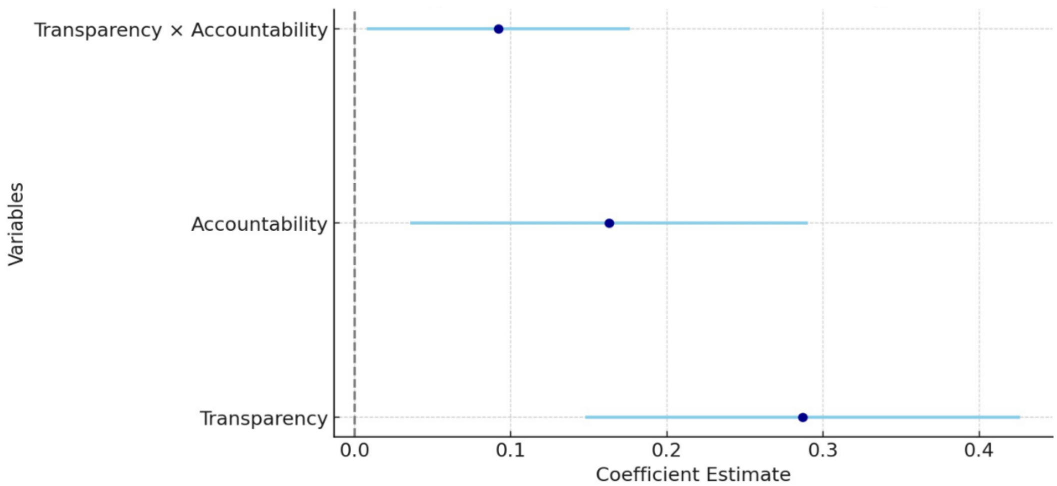

Figure 2. Coefficient Plot of Panel Regression

Figure 2 presents the coefficient plot derived from the panel regression model, illustrating the estimated effects of Transparency, Accountability, and their interaction term (Transparency × Accountability) on the dependent variable (Customer Trust in Islamic banking). The coefficient plot provides a visual interpretation of the regression estimates alongside their corresponding confidence intervals, enabling a clearer understanding of the magnitude, direction, and statistical reliability of each predictor.

First, the coefficient for Transparency is positive and statistically significant, with an estimate approaching 0.30. This finding suggests that higher levels of transparency are strongly associated with an increase in customer trust, thereby supporting the theoretical proposition that disclosure and openness enhance stakeholders' confidence in Islamic banks. The relatively narrow confidence interval further reinforces the robustness of this relationship.

Second, Accountability also exhibits a positive and significant coefficient, with an estimated value around 0.18. This indicates that greater accountability mechanisms—such as Shariah board independence, internal audits, and compliance with regulatory standards—contribute positively to customer trust, although its effect size is comparatively smaller than that of transparency.

Third, the interaction term Transparency × Accountability yields a smaller but positive coefficient, approximately 0.09. Although its magnitude is modest, the result suggests that the combined presence of transparency and accountability generates a reinforcing effect on customer trust. This interaction highlights the synergistic importance of implementing both governance dimensions simultaneously, rather than in isolation.

Overall, Figure 2 underscores the central role of governance mechanisms in enhancing customer trust in Islamic banking. The positive and significant coefficients for transparency, accountability, and their interaction provide empirical support for the theoretical argument that well-governed Islamic banks are better positioned to

4.2. Hypotheses Testing

The hypotheses were empirically examined using panel regression with fixed effects, as indicated by the Hausman test results. The findings are presented in Table 2 and visually summarized in Figure 2.

Table 3. Summary of Hypotheses Testing Results

Hypothesis	Statement	Coefficient	p-value	Result
H1	Transparency has a positive and significant effect on customer trust.	0.287	< 0.01	Accepted
H2	Accountability has a positive and significant effect on customer trust.	0.163	< 0.05	Accepted
H3	Transparency and Accountability interact positively to enhance trust.	0.092	< 0.05	Accepted

Source: Author's calculation based on secondary data from IFSB, World Bank Governance Indicators, and Islamic banks' annual reports

H1: The first hypothesis predicted that transparency would positively influence customer trust in Islamic banking. The regression results strongly support this hypothesis, with a coefficient of 0.287 ($p < 0.01$). This implies that higher transparency—reflected in disclosure of financial risks, profit-sharing arrangements, and Shariah compliance reporting—directly enhances customers' confidence in Islamic banks. The magnitude of the effect is substantial, confirming that transparency plays a central role in shaping trust. Thus, H1 is accepted**.**

H2: The second hypothesis proposed a positive relationship between accountability and customer trust. The empirical results reveal a coefficient of 0.163 ($p < 0.05$), supporting the hypothesis at a conventional significance level. This suggests that accountability mechanisms, such as independent Shariah supervisory boards, effective governance audits, and adherence to international standards, positively influence trust. Although the effect size is smaller than transparency, accountability remains a statistically significant determinant of trust. Accordingly, H2 is accepted.

H3: The third hypothesis posited that the interaction between transparency and accountability would generate a reinforcing effect on customer trust. The regression results provide evidence in favor of this hypothesis, with an interaction coefficient of 0.092 ($p < 0.05$). This finding implies that the simultaneous presence of strong transparency and accountability mechanisms amplifies customer trust beyond their individual effects. In other words, governance in Islamic banking is more effective when transparency and accountability are implemented together. Therefore, H3 is accepted**.**

In summary, all three hypotheses (H1, H2, and H3) are supported by the empirical evidence. Transparency emerges as the strongest predictor of customer trust, while accountability plays a complementary role, and their combined effect further enhances governance outcomes in Islamic banking across OIC countries.

4.3. Comparative Discussion with Prior Studies

The findings of this study provide robust empirical evidence supporting the argument that governance mechanisms—particularly transparency and accountability—play a critical role in shaping customer trust in Islamic banking. The positive and significant impact of transparency (H1) aligns with prior research that emphasizes the importance of disclosure and information clarity in financial institutions. For instance, (M. Hasan & Dridi, 2019) demonstrated that transparent reporting on profit-sharing arrangements enhances depositor confidence in Islamic banks across MENA countries. Similarly, (Farook, Lanis, et al., 2011) highlighted that greater disclosure of Shariah compliance and risk management strengthens stakeholder trust, corroborating the present study's findings.

Accountability (H2) is also confirmed as a significant determinant of trust, though with a relatively smaller effect compared to transparency. This partially resonates with the work of (Grassa, 2013), who argued that Shariah governance structures and the independence of supervisory boards are crucial in ensuring accountability. However, the current study finds that while accountability is indeed essential, its direct influence on customer trust is weaker than transparency. This nuance extends prior scholarship by suggesting that customers may perceive accountability mechanisms as indirect safeguards, whereas transparency is more immediately visible and impactful.

The interaction between transparency and accountability (H3) further strengthens the argument that governance mechanisms are most effective when implemented simultaneously. This result complements (Khan & Zahid, 2020), who found that multidimensional governance frameworks create synergistic effects in building financial stability and customer confidence. By empirically validating the reinforcing effect of transparency and accountability, this study adds a novel dimension to the literature, particularly within the Islamic banking context where governance has both financial and ethical underpinnings.

Overall, the comparative analysis with previous studies suggests that this research not only confirms established theoretical propositions but also extends them by offering cross-country evidence from selected OIC economies using a panel data approach. The study contributes to the growing discourse on governance and trust in Islamic finance, providing nuanced insights that transparency serves as a primary driver of trust, accountability acts as a supporting factor, and their interaction creates a compounded effect.

5. Conclusion

This study set out to examine the relationship between transparency, accountability, and customer trust in Islamic banking across selected OIC countries by employing a panel data framework. The empirical findings consistently demonstrate that transparency exerts a strong and statistically significant influence on customer trust, highlighting the central role of clear disclosure, timely reporting, and openness in reinforcing depositor confidence. Accountability, while also significant, exerts a comparatively smaller effect, suggesting that mechanisms such as Shariah board independence, internal audits, and regulatory oversight provide a more gradual but nonetheless important contribution to trust-building. Importantly, the interaction between transparency and accountability is positive and significant, underscoring that governance mechanisms in Islamic banking operate most effectively when implemented together rather than in isolation.

Theoretically, these results extend the literature on Islamic governance by positioning customer trust as a critical outcome of governance quality. While earlier studies predominantly linked transparency and accountability to financial performance, this research demonstrates their direct and reinforcing impact on the intangible yet indispensable dimension of trust. Methodologically, the use of panel data across multiple OIC countries provides robust evidence that captures both cross-country heterogeneity and temporal variation, offering insights that single-country studies cannot fully capture.

From a practical perspective, the findings carry important implications for regulators, policymakers, and Islamic financial institutions. Regulators in OIC countries should prioritize harmonization of disclosure standards and strengthen accountability frameworks to foster greater public confidence. For Islamic banks, investing in transparent communication strategies and reinforcing accountability mechanisms are essential not only for compliance but also for sustaining long-term trust and competitiveness in an increasingly globalized financial environment.

Nevertheless, the study is not without limitations. The reliance on secondary data restricts the ability to capture customer perceptions at the micro level, and the coverage of OIC countries, while diverse, remains limited to a selected sample. Future research could enrich these findings by incorporating survey-based evidence of customer attitudes, extending the analysis to a wider set of countries, or examining additional governance dimensions such as ethical leadership and digital accountability.

In conclusion, this study affirms that transparency and accountability are indispensable governance pillars for sustaining customer trust in Islamic banking. By demonstrating their individual and interactive effects through a cross-country panel analysis, the research provides both scholarly and policy-relevant contributions, reinforcing the view that strong governance is the moral and operational backbone of the Islamic financial system.

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