

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) is a widely used model to understand and predict consumer behavior, based on three key factors: attitude, subjective norms, and perceived behavioral control (Darmansyah et al., 2020). In Islamic finance, TPB has been applied to study consumer intentions toward products like Islamic hire purchases, mobile banking, and Sharia investments (Setyono, 2022). Many studies enhance TPB by adding factors such as religious beliefs, financial literacy, and trust, recognizing the strong influence of religion and ethics in Muslim consumer decisions (Fahmi et al., 2024). These factors significantly shape consumer behavior, especially among younger generations. By integrating TPB with cultural and religious aspects, researchers and financial institutions can better understand what drives the adoption of Islamic financial services and create more targeted strategies (Ibrahim Dasuki et al., 2023).

This study draws on four key theoretical frameworks to better understand how people engage with Islamic finance the Adoption of Islamic Finance (Ahmed et al., 2019), Consumer Behavior Theory (Fahmi et al., 2024), Diffusion of Innovation (DOI) Theory (Setyono, 2022), and the Theory of Planned Behavior (TPB) (Darmansyah et al., 2020). These frameworks help explain what shapes consumer decisions, including socio-economic and psychological factors in the UK (RQ1), the role of regulatory frameworks in building trust and encouraging adoption across different countries (RQ2), broader institutional and structural influences (RQ3), and the differences in consumer motivation between the UK, Malaysia, and Indonesia (RQ4). The adoption framework highlights factors like awareness, attitudes, religious commitment, and perceived complexity, shedding light on both personal and structural barriers to adoption. Consumer Behavior

Theory focuses on individual needs, motivations, and perceptions, though it may not fully capture cultural or religious dynamics.

DOI Theory looks at how people assess new financial products like whether they see them as better, compatible, or too complex and also helps explore how institutions and regulations influence adoption (RQ2 and RQ3). TPB is especially useful for understanding how attitudes, social expectations, and people's confidence in using Islamic finance shape their intentions while also pointing out that having good intentions doesn't always lead to action. Taken together, these frameworks offer a well-rounded foundation for exploring the many factors that influence Islamic finance adoption in different contexts.

2.1.2 Diffusion of Innovation (DOI)

The Diffusion of Innovation (DOI) theory provides valuable insights into how consumers adopt new products and services in Islamic finance. The key factors that influence consumer decisions, such as relative advantage, compatibility, and complexity. People's perceptions of these factors often shaped by their cultural values and religious beliefs play a crucial role in whether they embrace or reject Islamic financial innovations. Additionally, the theory recognizes the influence of social systems in spreading new ideas and acknowledges that religiosity has a strong internal impact on adoption (Khamiliyah et al., 2022).

Research applying DOI theory to Islamic finance has shown that factors like relative advantage, technology self-efficacy, and complexity significantly affect whether non-users adopt digital banking services. Customer awareness, satisfaction, and attitudes also play a major role in shaping the intention to use Islamic credit cards. These insights highlight the importance of understanding consumer experiences and perceptions to promote wider acceptance of Islamic financial products (Shaikh et al., 2023). By taking these factors into account, financial institutions and policymakers can develop more effective strategies to encourage people to embrace Islamic banking services (Shaikh et al., 2023).

The Diffusion of Innovation (DOI) theory helps explain why consumers in different regions either embrace or resist Islamic financial innovations. For example, if Islamic banking services offer better benefits than conventional

banking, people are more likely to adopt them. Likewise, when these services align with the cultural and religious values of Muslim customers in the UK, Malaysia, and Indonesia, adoption rates tend to rise. On the other hand, if Islamic financial products seem too complex or difficult to use, potential customers may be discouraged. However, individuals with higher confidence in using financial technology are more likely to engage with these services. By understanding these DOI factors, policymakers and Islamic financial institutions can develop better strategies to encourage wider adoption.

2.1.3 Consumer Behavior Theory

Consumer behavior encompasses the actions and decision-making processes individuals or groups undertake when selecting, buying, using, and disposing of goods, services, ideas, or experiences (Hilmi et al., 2018). Researchers examining consumer behavior often consider variables such as customer loyalty, repeat purchases, and buying interest (Setyo, 2021). Understanding consumer behavior is crucial for businesses as it directly impacts their overall performance. Factors influencing consumer behavior are diverse and can be categorized into situational, personal, social, and cultural factors. A consumer's decision to purchase a product begins with recognizing needs and desires, followed by information gathering and the selection of alternatives (Hilmi et al., 2018). Consumer interest indicates the likelihood of a consumer buying a brand or switching brands according to Keller 1998 (Hilmi et al., 2018).

Consumer Behavior Theory provides a foundation for understanding the decision-making processes of individuals when choosing financial products and services (Schiffman L. G. Kanuk L. L. & Wisenblit J., 2007). This theory posits that consumers make choices based on various factors, including their needs, motivations, perceptions, attitudes, and learning. In Islamic finance, Consumer Behavior Theory helps us understand the factors driving individuals to choose Islamic financial products over conventional alternatives. These factors include the fulfillment of religious obligations, ethical considerations, and the desire for Shariah-compliant investments. For example, Muslim consumers may be motivated to adopt Islamic finance to align their financial practices with their religious beliefs,

viewing it as a means to achieve both financial and spiritual well-being (Makka et al., 2024).

2.1.4 Integration of TPB and DOI in Adoption Behaviour

The integration of the Theory of Planned Behaviour (TPB) and the Diffusion of Innovation (DOI) theory offers a comprehensive framework for understanding consumer adoption of Islamic finance across various cultural and regulatory settings. TPB highlights how individual attitudes, perceived social expectations, and a sense of control over financial decisions shape one's intention to adopt new products (Ibrahim Dasuki et al., 2023). At the same time, DOI theory examines how the characteristics of Islamic finance such as its ethical advantage, compatibility with consumer values, and perceived complexity influence the speed and extent of adoption within society (Shaikh et al., 2023). By combining these perspectives, it becomes clear that adoption is not solely determined by personal motivation or product features, but by the dynamic interplay between individual intentions, social influences, and the broader innovation environment.

Empirical evidence from the UK, Malaysia, and Indonesia illustrates the value of this integrated approach. In the UK, for example, perceived complexity and limited awareness (DOI) can hinder adoption, but strong regulatory oversight improves perceived behavioral control (TPB) and builds trust among both Muslim and non-Muslim consumers (Lescher, 2015). Meanwhile, in Malaysia and Indonesia, the alignment of Islamic finance with religious and ethical norms (TPB), along with its clear relative advantage and compatibility (DOI), serve as powerful catalysts for widespread acceptance (Dusuki & Abdullah, 2007). Thus, integrating TPB and DOI allows researchers and practitioners to identify both psychological and structural drivers and barriers, enabling more targeted strategies to foster Islamic finance adoption in diverse markets.

2.2 Regulatory Perspectives

2.2.1 Regulatory Framework in Islamic Finance: UK, Malaysia, Indonesia

A well-developed regulatory framework plays a vital role in supporting the credibility, stability, and expansion of Islamic finance. It not only ensures compliance with Shariah principles but also enhances consumer confidence by

providing clear guidelines, governance structures, and legal protections. In this regard, Malaysia, Indonesia, and the United Kingdom have each established regulatory systems tailored to their domestic financial landscapes, reflecting their unique socio-economic contexts and levels of Islamic finance integration.

Despite their differences, these countries also share several regulatory commonalities such as Shariah advisory boards, licensing requirements for Islamic financial institutions, and efforts to promote transparency and risk management. However, variations in regulatory clarity, enforcement mechanisms, and institutional support significantly influence consumer trust and the broader acceptance of Islamic financial products (Syarif, 2019). Understanding these similarities and divergences is crucial for assessing how regulatory environments shape the adoption patterns and behavior of consumers within Islamic finance markets.

2.2.1.1 United Kingdom

In the United Kingdom, Islamic financial institutions are regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), under a framework designed to ensure stability and fair competition across the financial sector. Unlike Malaysia and Indonesia, the UK does not maintain a centralized Shariah advisory body; instead, individual Islamic financial institutions appoint their own Shariah scholars or advisory boards. This decentralized approach reflects the UK's broader regulatory principle of a "level playing field," wherein both Islamic and conventional financial institutions are subject to the same regulatory standards, with specific accommodations such as tax neutrality for sukuk to support Sharia-compliant operations (Ainley et al., 2007).

2.2.1.2 Malaysia

Malaysia is widely acknowledged for its comprehensive and forward-looking regulatory framework in Islamic finance. Central to this framework is the Islamic Financial Services Act 2013 (IFSA), implemented by Bank Negara Malaysia (BNM), which provides clear and detailed guidelines on Shariah compliance, consumer protection, and institutional governance. The establishment of the Shariah Advisory Council further strengthens the system by ensuring that all

financial products conform to Islamic principles. This robust oversight and regulatory clarity have significantly enhanced consumer confidence, positioning Islamic finance as a mainstream financial option that appeals not only to Muslim consumers but also to non-Muslims interested in ethical and socially responsible financial alternatives (USIM, n.d.).

2.2.1.3 Indonesia

Indonesia's regulatory framework for Islamic finance operates under a dual oversight system, involving both the Financial Services Authority (OJK), which supervises financial institutions and the National Sharia Board (DSN-MUI), which is responsible for issuing Shariah rulings and guidelines. This structure helps ensure alignment with Islamic principles, but it can also lead to regulatory complexity and occasional delays in product development and innovation. Despite these challenges, recent reforms particularly those aimed at regulatory streamlining and financial digitalization have enhanced accessibility and strengthened public trust, especially among the expanding Muslim middle class (Syarif, 2019).

Nevertheless, Indonesia's regulatory clarity is still maturing, which can influence consumer perceptions and levels of confidence when compared to more established systems like Malaysia's. Continued efforts to harmonize oversight and improve institutional coordination are essential for advancing consumer engagement and sustaining the growth of Islamic finance in the country.

2.2.2 Comparative Analysis of Regulatory Impact on Consumer Trust

Table 2. 1 Key Comparative Insight and Impact on Consumer Behavior

Aspect	Malaysia	Indonesia	United Kingdom
Regulatory Body	BNM, Sharia Advisory Council	OJK, DSN-MUI	FCA, PRA
Shariah Oversight	Centralized, national council	Dual: national & institutional	Decentralized, institutional
Consumer Trust	High, due to clear regulation	Improving, but some complexity	Moderate, depends on awareness

Product Innovation	Fast, supportive environment	Growing, but can be slower	Moderate, marker-driven
Market Maturity	Advanced, mainstream adoption	Emerging, rapid growth	Niche, but expanding.

Source: (USIM, n.d.) (Alkhalifa, 2022)

2.3 Empirical Studies on Consumer Adoption

2.3.1 Psychological and Socio-Economic Factors

Empirical studies reveal that psychological factors such as individual attitudes perceived behavioral control, and social norms significantly influence consumer adoption of Islamic finance products. Consumers' trust, perceived fairness, and ethical alignment with Islamic principles are key psychological drivers shaping their intention to adopt these products. Socio-economic factors including income level, education, and financial literacy also play a crucial role. Higher education and awareness tend to correlate with greater adoption rates, as consumers better understand the benefits and compliance of Islamic finance with their values. Additionally, socioeconomic status affects access and preference, with middle to upper-income groups more likely to adopt Islamic financial services due to their ability to engage with more complex financial products.

In the UK, studies (Chusniah & Samsuri, 2023) highlight that limited awareness and perceptions of complexity are key psychological barriers. However, trust in robust regulatory oversight has been found to positively influence adoption among both Muslim and non-Muslim consumers.

In Malaysia and Indonesia, empirical research (Hatta et al., 2023) consistently identifies religious identity, social influence, and perceptions of ethical alignment as strong predictors of consumer engagement with Islamic finance. Moreover, the appeal of Islamic finance is not limited to Muslim consumers. Non-Muslim individuals are also drawn to Islamic financial products due to their emphasis on ethical conduct, transparency, and social responsibility, underscoring the broader psychological relevance of these factors (Ashfahany et al., 2023).

These psychological and socio-economic factors collectively influence consumer confidence and trust, which are essential for adoption, especially in non-Muslim majority contexts like the UK where awareness and familiarity are lower compared to Malaysia and Indonesia.

2.3.2 Barriers and Drives in Muslim vs Non-Muslim Majority Countries

Barriers to adoption differ markedly between Muslim-majority countries (Malaysia and Indonesia) and non-Muslim-majority countries (UK). In Muslim-majority countries, religious adherence and cultural familiarity act as strong drivers for adoption, supported by robust regulatory frameworks and government initiatives promoting Islamic finance (Syarif, 2019). However, challenges such as limited product variety, lack of innovation, and occasional regulatory inconsistencies can hinder growth. In contrast, the UK faces barriers including low consumer awareness, misconceptions about Islamic finance, and the challenge of integrating Sharia-compliant products within a predominantly conventional financial system. Drivers in the UK include a growing demand for ethical and socially responsible finance, an increasing Muslim population, and proactive regulatory support that fosters market development.

The comparative analysis highlights that while religious motivation is a primary driver in Malaysia and Indonesia, ethical and values-based considerations alongside regulatory trust play a more significant role in the UK (Lescher, 2015).

2.3.3 Role of Culture and Religion in Adoption

Culture and religion deeply influence consumer adoption of Islamic finance (Lescher, 2015). In Muslim-majority countries, religious beliefs strongly motivate consumers to seek Sharia-compliant products, as adherence to Islamic law is integral to daily life and financial decisions. Cultural norms reinforce this preference, making Islamic finance a natural choice. Conversely, in multicultural and secular societies like the UK, religion plays a more nuanced role; while Muslim consumers prioritize religious compliance (USIM, n.d.) non-Muslim consumers are attracted to the ethical, transparent, and socially responsible aspects of Islamic finance.

This dual appeal broadens the market but also requires tailored marketing and educational strategies (Lescher, 2015). Additionally, cultural perceptions of finance, risk, and trust vary, which affects adoption rates. Understanding these cultural and religious dynamics is critical for financial institutions and policymakers to design effective products and communication strategies that resonate with diverse consumer segments across different countries.

2.4 Related Literature Review

Table 2. 2 Related Literature Review

No	Topic	Research Method	Research Findings
1	Islamic Finance, Consumer Protection, and Financial Stability	<ul style="list-style-type: none"> • Qualitative • Literature Review 	<ul style="list-style-type: none"> • Regulatory differences between countries. • Customer loyalty and engagement
2	Marketing Islamic Financial Services: A Review, Critique, and Agenda for Future Research	<ul style="list-style-type: none"> • Multi-stage review • Databases • Snowballing technique 	<ul style="list-style-type: none"> • People's decisions to use Islamic financial services. • Customer loyalty and trust
3	Examining financial well-being among students: Islamic social finance and theory of planned behaviour approach	<ul style="list-style-type: none"> • Quantitative • Statistical Analysis • Validation 	<ul style="list-style-type: none"> • Relationship between attitudes, subjective norms, perceived behaviour control, and Islamic social finance

4	A Comparison between Malaysia and Indonesia in the Islamic banking industry.	<ul style="list-style-type: none"> • Comparison 	<ul style="list-style-type: none"> • Good progress in Islamic banking industry • Malaysia leads in some areas.
5	Islamic Finance in the Era of Financial Technology: A Bibliometric Review of Future Trends	<ul style="list-style-type: none"> • Bibliometric Review • Data sources Web of Science and Scopus (2000,2022) 	<ul style="list-style-type: none"> • Four important improving areas.
6	Islamic Consumer Behaviour: A Bibliometric Approach	<ul style="list-style-type: none"> • Data sourcing • VOSviewer • Bibliographic coupling analysis 	<ul style="list-style-type: none"> • Product religiosity, models, intention, and value.
7	Challenges inhibiting Islamic banking growth in Indonesia using the Analytical Hierarchy Process	<ul style="list-style-type: none"> • Analytical Hierarchy Process (AHP) • Expert interviews. 	<ul style="list-style-type: none"> • Regulatory environment most critical • Lack of qualified human resources • Lack of public awareness
8	Potential demand for Islamic banking: examining the	<ul style="list-style-type: none"> • Quantitative Approach 	<ul style="list-style-type: none"> • Stronger social factor • Personal factors

	Islamic consumer behaviour as driving factor.		<ul style="list-style-type: none"> • Psychological factors
9	Islamic Finance in the United Kingdom: Factors behind its Development and Growth.	<ul style="list-style-type: none"> • Thematic analysis • Literature review 	<ul style="list-style-type: none"> • The UK is a leading Western country in Islamic Finance.
10	Islamic Finance and Accounting Standards in the UK: A political Perspective	<ul style="list-style-type: none"> • Systematic Literature Review (SLR) 	<ul style="list-style-type: none"> • Significant need for specific accounting standards in the UK, tailored to Islamic Finance principles.

The study on Islamic finance, consumer protection, and financial stability by (Lukonga, 2015) employed qualitative methods and a literature review. The research found that regulatory differences between countries significantly affect consumer decisions and that evolving factors influence customer loyalty and engagement. Additionally, promotional strategies play a crucial role in shaping customer perceptions of Islamic banking products and services. However, despite Sharia principles naturally aiming to protect consumers in Islamic finance, there is still limited real-world evidence demonstrating how effectively current regulations fulfill this promise, particularly as financial products become more complex and involve cross-border transactions.

The study on marketing Islamic Financial Services A Review, Critique, and Agenda for Future research by (Alam & Seifzadeh, 2020). The research uses a multi-stage review which is planning, article collection, and analysis. The databases

used in this research were Academic Search Complete, EBSCO, Science Direct, ABI Inform, and snowballing technique. The research found people's decisions to use Islamic financial services are strongly influenced by how institutions are structured and how regulations vary across countries.

Customer loyalty and trust are shaped by changing expectations and how well Islamic banks promote their services, especially through social media, as seen in places like Malaysia and the UAE. The gap found in this research study highlighted key themes such as how marketing works in Muslim countries, the role of organizational dynamics, and the impact of regulatory framework and relationships.

The study by (Noraisyah et al., 2025) examines financial well-being among students using the Islamic social finance and theory of planned behavior approach. Employing a quantitative approach, statistical analysis, and validation, the research found a significant relationship between attitudes, subjective norms, perceived behavioral control, and Islamic social finance concerning financial well-being. The findings validate the study's hypothesis. Furthermore, the study focuses on the intersection of financial well-being and Islamic social finance mechanisms, such as zakat and waqf, providing an integrative approach to understanding financial behavior through both conventional and Islamic finance perspectives.

A comparative study between Malaysia and Indonesia in the Islamic banking industry by (A. Abdullah, 2017) found that both countries have made good progress, with neither country significantly ahead overall. Malaysia leads in some areas, while Indonesia excels in others, indicating that each country has its strengths and weaknesses. The research highlights that both countries have advantages and disadvantages in the Islamic banking sector and suggests that there is a need for both to address their weaknesses and build on their strengths to realize their aspirations of becoming a hub in the Islamic banking industry.

The study titled "Islamic Finance in the Era of Financial Technology: A Bibliometric Review of Future Trends" (Qudah et al., 2023) employs a bibliometric review using scientific techniques, drawing data from the Web of Science and Scopus databases for the years 2000 to 2022. The analysis utilizes tools such as

RStudio and VOSviewer, with a focus on mapping research trends, identifying key themes, and analyzing collaboration networks in the fields of FinTech and Islamic finance. The research highlights four important areas: improving access to finance, strengthening corporate governance, advancing technology, and understanding FinTech's role on a global scale. It notes that Malaysia and Indonesia are at the forefront due to strong regulations and increasing demand.

Furthermore, the findings suggest that FinTech holds significant potential to support sustainable development and reduce economic gaps. However, the convergence of technology and Islamic finance introduces both opportunities and challenges, necessitating careful analysis and the establishment of effective regulatory frameworks. The bibliometric analysis of existing literature also reveals key themes and underexplored areas within Islamic finance and FinTech, guiding future research endeavors.

The study "Islamic Consumer Behavior: A Bibliometric Approach" by (Ramadhan et al., 2023) utilizes data sourced from Scopus-indexed publications containing the term "Islamic Consumer Behavior." The research employs VOSviewer for network, overlay, and density visualizations, while co-occurrence and bibliographic coupling analyses are used to determine influential sources, countries, journals, and authors. The findings reveal that research on Islamic consumer behavior spiked in 2012, 2019, and 2020, with a primary focus on product, religiosity, models, intention, and value. The Journal of Islamic Marketing and the author Amin are identified as the most influential in this field.

However, the study highlights several research gaps, such as the need to explore how the concept of "brand" connects with "halal" in product-related studies, as well as the links between religiosity and key factors like Islamic beliefs, purchase intention, and advertising. Additionally, specific areas such as Islamic home financing, Islamic credit cards, and the application of the Theory of Planned Behavior (TPB) to understand Islamic consumer behavior remain under-researched and require more attention.

The study by (Iswanaji, 2018) investigates the challenges inhibiting Islamic banking growth in Indonesia using the Analytical Hierarchy Process (AHP) and

expert interviews with Islamic finance experts and academics. The research identifies the top three challenges as the regulatory environment, which is considered the most critical (53.7%), the lack of qualified human resources (32.4%), and the lack of public awareness (13.9%). However, the study reveals research gaps, including a lack of in-depth exploration of solutions or strategies to address these challenges and limited analysis of how these challenges impact specific stakeholder groups or regions within Indonesia.

The study titled "Potential Demand for Islamic Banking: examining the Islamic consumer behavior as driving factor" (Puteri et al., 2022) employed a quantitative approach, surveying 1,818 respondents across 18 regions in West Sumatra, Indonesia, in 2019 to gather data on Islamic consumer behavior. The research utilized multinomial logistic regression to analyze the potential demand for Islamic banking, categorizing it into high, middle, and low-demand groups. The findings revealed that stronger social factors (1.661 times) and personal factors (1.592 times) significantly increased the likelihood of individuals being in the high-potential group for Islamic banking. Additionally, psychological factors played a role in increasing the likelihood of individuals being categorized in the medium-demand group for Islamic banking.

However, the research identified a gap in the lack of a comprehensive understanding of the factors influencing consumer behavior in Islamic financial institutions. Furthermore, low literacy and inclusion rates regarding Islamic banking hinder its market share growth compared to conventional banking.

The study by (Belouafi & Chachi, 2014) on Islamic Finance in the United Kingdom investigated the factors behind its development and growth using historical data and thematic analysis, as well as a literature review to identify challenges and opportunities related to Islamic finance in the UK. The research found that the UK is a leading Western country in Islamic finance, largely due to the significant number of institutions, universities, and law firms involved. Additionally, the proactive role of the UK government and the active participation of UK Muslim organizations were identified as key drivers of growth in this sector. However, the study also highlighted research gaps, noting that some previous

studies rely on outdated data that do not reflect the latest developments in Islamic finance in the UK, such as Wilson's (1999) data which only covers up to the 1990s.

Furthermore, some research tends to focus on narrow aspects, like Islamic mortgages, rather than providing a comprehensive overview of the entire Islamic finance landscape in the UK.

The study titled "Islamic Finance and Accounting Standards in the UK: A Political Perspective" (Munfariha, 2024) employs a systematic literature review (SLR) to gather and analyze existing research on Islamic finance and accounting standards in the UK. The SLR is conducted in three stages planning, conducting, and reporting to ensure a structured and unbiased review. The research findings indicate a significant need for specific accounting standards in the UK that are tailored to Islamic finance principles. Furthermore, the standard-setting process for Islamic finance is found to be significantly influenced by political factors and power dynamics.

The research gap identified highlights the importance of considering the political dimensions of Islamic finance and accounting standard-setting in the UK. Additionally, the results suggest key issues that may provide important recommendations to accounting standard setters, such as those responsible for United Kingdom Accounting Standards.

2.4.1 Critical Evaluation of Existing Literature and Research Gaps

A review of the existing literature demonstrates that research on consumer behaviour in Islamic finance has made notable progress, particularly in highlighting the significance of Shariah compliance, ethical values, and regulatory frameworks (Hatta et al., 2023), (Khamiliyah et al., 2022). Much of this research has concentrated on Muslim-majority countries such as Malaysia and Indonesia, where religious motivations and strong government support are widely recognized as key drivers behind the adoption of Islamic financial services. These studies have contributed valuable insights into the macro-level factors that support the development of Islamic finance in these national contexts.

However, a critical examination of the literature reveals several important gaps. While the influence of religious adherence is well documented, there is often insufficient attention given to socio-economic and psychological factors such as perceived risk, trust, awareness, and social influence that also shape consumer behavior, particularly in non-Muslim-majority countries like the United Kingdom (Chusniah & Samsuri, 2023). Where these factors are acknowledged, they are frequently addressed in a limited or fragmented manner, without a thorough exploration of how they interact.

In addition, comparative studies across different national settings remain relatively scarce. Although some works compare the adoption of Islamic finance between countries, few employ a systematic, side-by-side framework that evaluates the United Kingdom, Malaysia, and Indonesia using consistent criteria. Existing comparisons often focus on institutional or regulatory contrasts, with limited consideration of how these structural differences influence consumer perceptions and decision-making.

Moreover, while regulatory frameworks are often described in detail, there is a lack of empirical research examining their direct impact on consumer trust and adoption. Many studies stop at outlining the regulatory landscape without delving into how these frameworks affect consumers' confidence in Islamic financial services or their willingness to engage with them.

Finally, the growing role of Islamic fintech and digital innovation remains underexplored in much of the existing literature. Given the rapid advancement of financial technologies especially in Malaysia and Indonesia there is a pressing need for updated studies that investigate how digital platforms and fintech solutions are transforming consumer interaction with Islamic finance.

This study seeks to address these gaps through a systematic literature review that moves beyond summarizing previous findings. It will critically analyze the dynamic interplay between socio-economic, psychological, and regulatory factors in shaping consumer behavior within Islamic finance. By offering a comparative analysis of the United Kingdom, Malaysia, and Indonesia, the research will explore how varying regulatory environments influence consumer trust and adoption across

different cultural and religious contexts. Additionally, it will consider the emerging role of fintech and propose practical recommendations for policymakers and financial institutions aiming to expand and strengthen the reach of Islamic financial services.

2.5 Conceptual Framework



Diagram 2. 1 Framework

The framework outlined in Section 2.3 is key to understanding how consumers engage with Islamic finance in the UK, Malaysia, and Indonesia. It brings together three main areas: socio-economic factors (like income, education, and cultural background), psychological motivations (such as religious commitment, trust, and personal intentions), and regulatory influences (including government policies and market competitiveness). These elements all shape how people decide whether to adopt Islamic financial products.

Rooted in the Consumer Behaviour Theory and the Diffusion of Innovation (DOI) model, the framework shows how ethical appeal and alignment with cultural or religious values can significantly influence adoption rates. It also accounts for the unique circumstances in each country, for instance, the UK's focus on ethical financial choices, Malaysia's strong government-driven support, and Indonesia's rapidly developing Islamic finance sector.

Diagram 3 illustrates how these factors interact, with arrows showing cause-and-effect relationships and color-coded sections highlighting differences across the three countries. The framework brings together the key socio-economic and psychological factors that influence why people choose Islamic finance, along with the role of regulatory policies in shaping that decision specifically in the UK, Malaysia, and Indonesia. Combining these elements offers a solid foundation for exploring the research questions in depth. It also helps to highlight how consumer

motivations differ across the three countries, offering valuable insights that can guide practical strategies for growing the Islamic finance sector in Malaysia and Indonesia, inspired by lessons from the UK's experience.

2.6 Hypothesis

H₁: More religious People are more likely to be interested in using Islamic finance in the UK.

H₂: When strong regulations ensure Sharia compliance, people tend to have more trust in Islamic finance and are more likely to use it.

H₃: Countries that have centralized Islamic finance regulations, like Malaysia, tend to see higher levels of consumer trust.

H₄: Combining the UK's inclusive policies with the strong Sharia governance seen in Malaysia and Indonesia could help boost the Islamic finance sector in growing markets.