

CHAPTER V

FINDINGS AND DISCUSSIONS

5.1 Research Findings

5.1.1 Regulatory Framework and Consumer Trust

5.1.1.1 United Kingdom

The regulatory environment for Islamic finance in the United Kingdom is generally supportive but not specifically designed to cater to the unique characteristics of Islamic financial products. While UK financial authorities such as the Financial Conduct Authority and the Bank of England have implemented favorable policies to encourage the sector's growth, the absence of a dedicated regulatory framework tailored to Islamic finance creates challenges. This regulatory uncertainty, coupled with a lack of specialized Islamic finance infrastructure, contributes to lower consumer trust and slower adoption rates. Many consumers perceive Islamic financial products as less competitive and sometimes question their Shariah compliance, which further hinders market expansion. Consequently, despite regulatory goodwill, Islamic finance in the UK faces persistent barriers related to market-driven factors and consumer confidence, limiting its growth compared to conventional finance (Ainley et al., 2007) .

5.1.1.2 Malaysia and Indonesia

Malaysia has developed a comprehensive and robust regulatory framework for Islamic finance, which significantly enhances consumer confidence. The central regulatory authority, Bank Negara Malaysia (BNM), oversees the sector through the Islamic Financial Services Act 2013 (IFSA), which ensures that all Islamic financial institutions operate in full compliance with Shariah principles. Malaysia employs a dual system of regulation, integrating centralized Shariah governance via the Shariah Advisory Council (SAC) within BNM, alongside internal Shariah supervisory boards in each institution. This structure is supported by clear legal provisions and guidelines that harmonize Islamic finance with civil law, fostering a transparent and stable environment that encourages widespread adoption of Islamic financial products (Rakuten Insight, 2024) .

Similarly, in Indonesia, the regulatory framework for Islamic finance is also well-established, with the central bank holding full authority to enact laws and policies governing Islamic financial institutions. Indonesia maintains a dual financial system that accommodates both conventional and Islamic finance, allowing for clear regulatory oversight and Shariah compliance. This regulatory clarity, combined with the presence of dedicated Islamic financial institutions, has contributed to increased consumer trust and greater market penetration of Islamic finance products in the country (Makka et al., 2024).

Table 5. 1 A Comparative Table Summarizing the Regulatory Framework and Consumer Trust Aspects of Islamic Finance in the UK, Malaysia, and Indonesia.

Country	Regulatory Framework	Consumer Trust & Market Perception
United Kingdom	<ul style="list-style-type: none"> • Operates under a dual financial system where Islamic finance coexists with conventional finance. • Regulatory oversight primarily by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) • Islamic finance products must comply with Sharia principles while also meeting UK financial regulations. 	<ul style="list-style-type: none"> • Growing interest among Muslim and non-Muslim consumers seeking ethical finance options. • Consumer trust is supported by strong regulatory protections and transparency requirements. • Islamic finance is still a niche market but expanding with increasing awareness and product innovation.

	<ul style="list-style-type: none"> • Focus on transparency, consumer protection, and financial stability tailored for Islamic finance specifics. 	
Malaysia	<ul style="list-style-type: none"> • Dual financial system allowing both Islamic and conventional finance to operate. • Regulated by Bank Negara Malaysia (BNM) under the Islamic Financial Services Act (IFSA) 2013, replacing the earlier Islamic Banking Act 1983. • Strong Sharia governance framework, including the National Sharia Advisory Council advising BNM. • Comprehensive regulations covering Islamic banking, takaful (Islamic insurance), capital markets, and investment instruments. 	<ul style="list-style-type: none"> • High consumer trust due to robust regulatory oversight and clear Sharia compliance mechanisms. • Islamic finance is mainstream with wide acceptance among Muslims and increasing interest from non-Muslims. • National Sharia Advisory Council enhances confidence in Sharia compliance. • Malaysia is a global hub for Islamic finance, reflecting strong market development and consumer confidence.

	<p>- Government actively supports Islamic finance through legislation and issuance of Sharia-compliant securities</p>	
Indonesia	<ul style="list-style-type: none"> • Dual financial system regulated by the Financial Services Authority (OJK) and Bank Indonesia. • Legal foundation under Law No. 21 of 2008 on Islamic banking. • Sharia governance supported by the National Sharia Council (DSN-MUI) issuing fatwas that guide regulatory enforcement. • Regulatory framework is comprehensive but faces challenges like fragmentation and enforcement gaps. • Government provides fiscal incentives and liquidity policies to support Islamic finance growth. <p>- Roadmap for strengthening Islamic banking launched for</p>	<ul style="list-style-type: none"> • Consumer trust is growing but mixed due to regulatory fragmentation and limited enforcement. • Islamic finance is expanding rapidly, supported by government policies and increasing public awareness. • Perception that Islamic finance mainly serves Muslim consumers, with efforts ongoing to broaden appeal. • Regulatory improvements aim to boost consumer confidence and financial inclusion.

	2023-2027 to enhance regulatory coherence and market competitiveness	
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Sources: (*Global Islamic Finance Development Center*, 2017), (Lukonga, 2015),

Table above shown as of 2025, Malaysia, Indonesia, and the UK all operate dual regulatory systems that accommodate both Islamic and conventional finance, though the UK does so within a predominantly conventional financial market. Malaysia stands out with the most developed and integrated Shariah governance framework, which has fostered high consumer trust and positioned the country as a global leader in Islamic finance. Indonesia also maintains a comprehensive regulatory framework, but its complexity and enforcement challenges are the focus of ongoing reforms aimed at improving integration and boosting consumer confidence. Meanwhile, the UK emphasizes consumer protection and financial stability, implementing regulatory adaptations to support Islamic finance, which has led to increasing consumer trust in a niche but steadily growing market.

5.1.2 Socio-Economic and Psychological Determinants

5.1.2.1 United Kingdom

In the United Kingdom, awareness and understanding of Islamic finance remain generally low, particularly among non-Muslim populations. While socio-economic status does influence the adoption of Islamic financial products, psychological barriers such as misconceptions and unfamiliarity play a more significant role in limiting uptake. Additionally, some Muslim consumers continue to prefer conventional financial products, largely due to their perceived convenience and greater accessibility. These factors collectively contribute to slower growth and lower consumer engagement with Islamic finance in the UK (Lescher, 2015).

5.1.2.2 Malaysia and Indonesia

In Malaysia and Indonesia, the primary impetus for the widespread adoption of Islamic finance is deeply rooted in strong religious adherence. The pervasive

normalization and active promotion of Islamic finance within these societies have cultivated an environment where Sharia-compliant financial practices are not merely an alternative but often the preferred choice. This societal embrace is further solidified by a profound cultural alignment with Sharia principles, which inherently reinforces consumer loyalty and trust in Islamic financial institutions. Consequently, the integration of religious conviction with cultural norms acts as a powerful driver, cementing the prominent role of Islamic finance in these nations' economies (A. Abdullah, 2017).

5.2 Discussions

5.2.1 Interpretation of Findings

The findings highlight the essential role of regulatory frameworks in building consumer trust and facilitating the adoption of Islamic finance. In Malaysia and Indonesia, proactive and comprehensive regulatory approaches have been key to establishing Islamic finance as a mainstream financial option (Khotimah, 2024). These frameworks provide clear guidelines and ensure Sharia finance products, which not only enhance transparency but also foster confidence among consumers. As a result, Islamic finance in these countries enjoys broad acceptance and integration within their financial systems. Conversely, the United Kingdom's regulatory environment, which lacks specific provisions tailored to Islamic finance, has led to a more limited adoption. Here, Islamic finance remains largely a niche market, primarily serving Muslim communities rather than the wider population.

Beyond regulatory factors, socio-economic and psychological determinants play a significant role in shaping adoption patterns. In Muslim-majority countries like Malaysia and Indonesia, religious obligation and social influence act as strong motivators, deeply embedding Islamic finance within the cultural and social context. This cultural alignment reinforces consumer loyalty and drives sustained growth in the sector. In contrast, the UK faces notable psychological barriers, including low awareness, misconceptions, and unfamiliarity with Islamic finance principles. These factors hinder broader market penetration and often outweigh

socio-economic influences, limiting the sector's expansion beyond its core demographic (Belouafi & Chachi, 2014).

Together, these findings reveal a complex interplay between regulatory environments and socio-cultural dynamics that shape the trajectory of Islamic finance adoption. While robust regulation and cultural integration promote widespread acceptance in Malaysia and Indonesia, the UK's less tailored regulatory framework combined with psychological challenges constrains growth, highlighting the need for targeted strategies to enhance consumer trust and awareness in non-Muslim majority contexts.

5.2.2 Comparison with Previous Studies

The results of this study align closely with previous research emphasizing the critical importance of regulatory clarity and religious motivation in the adoption of Islamic finance. Prior studies have consistently highlighted that well-defined regulatory frameworks provide the necessary foundation for consumer trust and market growth, while religious adherence remains a key driver for engagement with Sharia financial products. What distinguishes this study is its systematic comparison between a non-Muslim-majority context, the United Kingdom, and Muslim-majority contexts such as Malaysia and Indonesia. This comparative approach reveals distinct challenges and opportunities unique to each setting, including the UK's regulatory gaps and psychological barriers versus the integrated regulatory and cultural support found in Malaysia and Indonesia. By doing so, the study contributes valuable insights into how different socio-religious environments and regulatory landscapes influence Islamic finance adoption, offering a nuanced understanding that can inform policymakers and practitioners aiming to foster growth in diverse contexts.