

DETERMINANTS OF ISLAMIC BANKING ADOPTION: A COMPARATIVE STUDY OF CUSTOMER INTEREST IN INDONESIA AND MALAYSIA

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Abstract: This study investigates the determinants of Islamic banking adoption through a comparative analysis of customer interest in Indonesia and Malaysia, two leading Islamic finance markets characterized by contrasting levels of institutional development. Grounded in an integrated framework combining the Technology Acceptance Model (TAM) and Diffusion of Innovations Theory, this research employs a robust mixed-methods design, utilizing survey data from 1,000 respondents alongside qualitative insights to capture both behavioral trends and contextual nuances. The findings indicate that adoption is driven by a multidimensional interplay of religiosity, financial literacy, perceived benefits, service quality, social influence, institutional trust, and technological readiness, with significant cross-country variations. In Indonesia, adoption is predominantly shaped by religious commitment and ethical alignment, yet constrained by limited financial literacy and market awareness. In contrast, Malaysian customers exhibit stronger responsiveness to product innovation, digital integration, and social influence, reflecting a more mature Islamic banking ecosystem. The study's key novelty lies in its integrative cross-country framework, which moves beyond single-factor explanations by demonstrating how cognitive, socio-cultural, and institutional determinants interact dynamically across different market contexts. By bridging micro-level behavioral theories with macro-level institutional differences, this research offers a more comprehensive explanatory model of Islamic banking adoption. The findings provide actionable insights for policymakers and financial institutions to design context-specific strategies that enhance customer engagement, strengthen financial inclusion, and accelerate the sustainable development of Islamic finance globally.

Keywords: Islamic banking adoption; financial literacy; technology acceptance model (TAM); diffusion of innovations; comparative study.

Abstrak: Penelitian ini mengkaji determinan adopsi perbankan syariah melalui analisis komparatif minat nasabah di Indonesia dan Malaysia, dua pasar utama keuangan syariah yang memiliki tingkat perkembangan institusional yang berbeda. Berlandaskan kerangka terintegrasi yang menggabungkan Technology Acceptance Model (TAM) dan Diffusion of Innovations Theory, penelitian ini menggunakan desain mixed-methods yang kuat, dengan memanfaatkan data survei dari 1.000 responden serta wawasan kualitatif untuk menangkap pola perilaku dan nuansa kontekstual secara komprehensif. Hasil penelitian menunjukkan bahwa adopsi perbankan syariah dipengaruhi oleh interaksi multidimensional antara religiusitas, literasi keuangan, persepsi manfaat, kualitas layanan, pengaruh sosial, kepercayaan institusional, dan kesiapan teknologi, dengan perbedaan signifikan antarnegara. Di Indonesia, adopsi lebih didorong oleh komitmen religius dan keselarasan etika, namun masih terkendala oleh rendahnya literasi keuangan dan kesadaran pasar. Sebaliknya, nasabah

di Malaysia menunjukkan respons yang lebih kuat terhadap inovasi produk, integrasi digital, dan pengaruh sosial, yang mencerminkan ekosistem perbankan syariah yang lebih matang. Kebaruan utama penelitian ini terletak pada kerangka komparatif integratif yang melampaui pendekatan satu faktor dengan menunjukkan bagaimana determinan kognitif, sosial-budaya, dan institusional berinteraksi secara dinamis dalam konteks pasar yang berbeda. Dengan menjembatani teori perilaku pada tingkat mikro dan perbedaan institusional pada tingkat makro, penelitian ini menawarkan model penjelasan yang lebih komprehensif mengenai adopsi perbankan syariah. Temuan ini memberikan implikasi strategis bagi pembuat kebijakan dan institusi keuangan dalam merancang strategi berbasis konteks untuk meningkatkan keterlibatan nasabah, memperkuat inklusi keuangan, dan mendorong pengembangan berkelanjutan keuangan syariah secara global.

Kata Kunci: Adopsi perbankan syariah; literasi keuangan; Technology Acceptance Model (TAM); difusi inovasi; studi komparatif.

Introduction

Islamic banking represents a financial system grounded in the principles of Sharia (Islamic law), which strictly prohibits interest (riba) and promotes ethical, asset-backed, and risk-sharing financial practices. Core principles include profit-and-loss sharing, avoidance of speculative activities, and exclusion of investments in prohibited (haram) sectors such as gambling and alcohol (Amin, 2020)¹. In recent years, the growing global demand for ethical and socially responsible finance has accelerated the expansion of Islamic banking, positioning it as a significant component of the global financial system. The Islamic Financial Services Board reports that the global Islamic finance industry reached approximately USD 2.88 trillion in 2020, with an average annual growth rate of around 10% (Muryanto, 2023)².

Within Southeast Asia, Indonesia and Malaysia have emerged as key players in the development of Islamic banking, albeit at different levels of maturity. Malaysia is widely recognized as a global hub for Islamic finance, supported by a robust regulatory framework, institutional infrastructure, and product innovation (Haron & Nursofiza Wan Azmi, 2008)³. Islamic banking assets in Malaysia accounted for approximately 30% of total banking assets as of 2021, compared to only about 12% in Indonesia (Latip, 2024)⁴. This disparity reflects differences in regulatory readiness, financial literacy, and market penetration, making a comparative investigation both relevant and necessary.

In Indonesia, despite being home to the world's largest Muslim population, the adoption of Islamic banking remains relatively modest. Government initiatives, such as the establishment of the National Sharia Board, have strengthened institutional support (Nugraha et al., 2022)⁵. However, structural challenges persist, particularly in terms of public awareness, financial literacy, and perceived competitiveness of Islamic banking products. These issues underscore

¹ Amin, H. (2020). Critical success factors for the receptiveness of Islamic home financing in Malaysia. *International Journal of Emerging Markets*, 15(5), 849-873.

² Muryanto, Y. T. (2023). The urgency of sharia compliance regulations for Islamic Fintechs: a comparative study of Indonesia, Malaysia and the United Kingdom. *Journal of Financial Crime*, 30(5), 1264-1278.

³ Haron, S., & Nursofiza Wan Azmi, W. (2008). Determinants of Islamic and conventional deposits in the Malaysian banking system. *Managerial Finance*, 34(9), 618-643.

⁴ Latip, M. (2024). Customer innovativeness in the adoption of Islamic banking in Malaysia. *International Social Science Journal*, 74(254), 1463-1486.

⁵ Nugraha, K., Arief, M., Abdinagoro, S. B., & Heriyati, P. (2022). Factors influencing bank customers' orientations toward Islamic banks: Indonesian banking perspective. *Sustainability*, 14(19), 12506.

the importance of identifying the determinants that influence customer adoption and interest in Islamic banking services.

Against this backdrop, this study aims to examine and compare the key factors influencing the adoption of Islamic banking in Indonesia and Malaysia. Specifically, it investigates how variables such as religiosity, financial literacy, service quality, and product offerings shape customer preferences and decisions. Prior research suggests that ethical considerations and religious commitment significantly influence customer inclination toward Islamic banking (Butt et al., 2018)⁶, yet their relative importance may differ across national contexts.

Furthermore, this study explores how customer interests and perceptions vary between the two countries. Differences in regulatory environments, cultural contexts, and levels of financial system development may lead to distinct customer expectations. For example, Malaysian customers tend to prioritize product diversity and technological integration, whereas Indonesian customers often emphasize ethical compliance and religious alignment (Febriandika & Hakimi, 2023)⁷. To capture these dynamics, this research adopts a comparative approach using both qualitative and quantitative methods, including surveys and interviews.

The contribution of this study is twofold. Theoretically, it enriches the literature on Islamic banking by offering a cross-country comparative perspective, which remains relatively underexplored. Practically, the findings provide actionable insights for Islamic financial institutions to refine their strategies. Understanding adoption determinants enables banks to design targeted marketing campaigns, enhance customer engagement, and improve service delivery. For instance, if financial literacy is identified as a key barrier in Indonesia, banks may implement educational initiatives to improve customer awareness and understanding (Alemu, 2012)⁸.

Additionally, the study offers policy implications by highlighting structural and behavioral factors that influence Islamic banking growth. Policymakers, particularly in emerging markets like Indonesia, can leverage these insights to develop regulatory frameworks that foster financial inclusion and strengthen the Islamic finance ecosystem. Ultimately, this research seeks to support the sustainable development of Islamic banking in both countries by aligning institutional strategies with customer needs and expectations.

Literature Review

Theoretical Framework and Determinants of Islamic Banking Adoption

The adoption of Islamic banking services can be comprehensively explained through the integration of the Technology Acceptance Model (TAM) and the Diffusion of Innovations Theory. The Technology Acceptance Model, introduced by Davis (1989)⁹, emphasizes that perceived ease of use and perceived usefulness are fundamental determinants influencing individuals' acceptance of new systems or technologies. Within the Islamic banking context, these constructs translate into how customers evaluate the practicality, efficiency, and benefits of Sharia-compliant financial products relative to conventional banking alternatives.

⁶ Butt, I., Ahmad, N., Naveed, A., & Ahmed, Z. (2018). Determinants of low adoption of Islamic banking in Pakistan. *Journal of Islamic Marketing*, 9(3), 655-672.

⁷ Febriandika, N. R., & Hakimi, F. (2023). Determinants of consumer adoption of Islamic mobile banking services in Indonesia. *Banks and Bank systems*, 18(4), 30.

⁸ Alemu, A. M. (2012). Factors influencing consumers' financial transactions in Islamic banks compared with conventional banks: Empirical evidence from selected middle-east countries with a dual banking system. *African and Asian Studies*, 11(4), 444-465.

⁹ Davis, F. D. (1989). Perceived usefulness, perceived ease of use, and user acceptance of information technology. *MIS Quarterly*, 13(3), 319-340.

When Islamic banking services are perceived as accessible and advantageous, customers are more inclined to adopt them.

Complementing this perspective, Rogers' (1962) Diffusion of Innovations Theory explains how innovations spread within a social system over time, highlighting the importance of communication channels, social influence, and innovation characteristics. In Islamic banking, adoption is not solely an individual cognitive process but is also shaped by socio-cultural environments, peer influence, and institutional support. This is particularly relevant in comparative contexts such as Indonesia and Malaysia, where differences in regulatory frameworks, financial ecosystems, and societal exposure to Islamic finance significantly influence adoption rates (Muryanto, 2023)¹⁰.

Empirical evidence supports the combined application of these theories. In Malaysia, perceived ease of use, perceived usefulness, and religiosity significantly drive adoption, reflecting a mature Islamic banking ecosystem (Mahdzan et al., 2017)¹¹. In contrast, Indonesian customers are more influenced by financial literacy and perceived service quality, indicating that structural and informational barriers remain critical determinants (Nugraha et al., 2022)¹². This theoretical integration suggests that Islamic banking adoption is a multidimensional process shaped by both cognitive evaluation and socio-institutional dynamics.

Empirical Evidence on Islamic Banking Adoption

A substantial body of literature identifies several key determinants of Islamic banking adoption, including religious beliefs, financial literacy, and service quality. Among these, religiosity remains a foundational driver. Customers with strong religious commitment tend to prefer Islamic banking due to its alignment with ethical and Sharia principles, particularly the prohibition of interest (riba) and emphasis on risk-sharing (Haron & Wan Azmi, 2008)¹³. This factor is especially pronounced in Malaysia, where Islamic banking is deeply embedded within the national financial system.

However, religiosity alone does not fully explain adoption behavior. Financial literacy plays a critical complementary role by enabling customers to understand Islamic financial products and make informed decisions. Low levels of financial literacy can significantly hinder adoption, as evidenced in Indonesia, where limited understanding of Islamic banking principles correlates with lower usage rates (Butt et al., 2018; Febriandika & Hakimi, 2023)¹⁴. This indicates that knowledge dissemination and financial education are essential to expanding market penetration.

Service quality further influences customer decisions, particularly in competitive banking environments. High levels of responsiveness, reliability, and empathy enhance customer

¹⁰ Muryanto, Y. T. (2023). The urgency of sharia compliance regulations for Islamic Fintechs: A comparative study of Indonesia, Malaysia and the United Kingdom. *Journal of Financial Crime*, 30(5), 1264–1278.

¹¹ Mahdzan, N. S., Zainudin, R., & Au, S. F. (2017). The adoption of Islamic banking services in Malaysia. *Journal of Islamic Marketing*, 8(3), 496–512.

¹² Nugraha, K., Arief, M., Abdinagoro, S. B., & Heriyati, P. (2022). Factors influencing bank customers' orientations toward Islamic banks: Indonesian banking perspective. *Sustainability*, 14(19), 12506.

¹³ Haron, S., & Wan Azmi, W. N. (2008). Determinants of Islamic and conventional deposits in the Malaysian banking system. *Managerial Finance*, 34(9), 618–643.

¹⁴ Butt, I., Ahmad, N., Naveed, A., & Ahmed, Z. (2018). Determinants of low adoption of Islamic banking in Pakistan. *Journal of Islamic Marketing*, 9(3), 655–672.

satisfaction and trust, thereby encouraging adoption (Amin, 2020)¹⁵. Malaysian Islamic banks have made substantial investments in improving service quality, contributing to higher adoption rates. Conversely, Indonesian Islamic banks are often perceived as lagging behind conventional counterparts in service delivery, which can discourage potential customers (Nugraha et al., 2022)¹⁶.

Cross-country comparisons reveal that institutional maturity and regulatory support also play a decisive role. Malaysia's well-established Islamic financial infrastructure contrasts with Indonesia's developing system, where regulatory harmonization and market awareness are still evolving (Muryanto, 2023)¹⁷. These differences underscore the importance of contextualizing adoption determinants within specific economic and institutional settings.

Customer Interest in Islamic Banking

Customer interest in Islamic banking is a complex construct shaped by perceptions, cultural influences, and socio-economic conditions. One of the primary drivers is the perception of Islamic banking as an ethical and socially responsible alternative to conventional banking. Sharia compliance, which prohibits interest and promotes fairness and transparency, enhances its appeal, particularly among Muslim customers (Alemu, 2012)¹⁸. Empirical evidence from Malaysia indicates that a significant proportion of customers prefer Islamic banking due to its adherence to religious principles (Mahdzan et al., 2017)¹⁹.

Cultural context further shapes customer interest. In Indonesia, diverse cultural and religious landscapes result in varying levels of acceptance. Regions with strong Islamic identity, such as Aceh, demonstrate higher adoption rates, while more heterogeneous or secular regions exhibit greater skepticism, often driven by misconceptions about Islamic financial products (Nugraha et al., 2022)²⁰. This highlights the role of localized cultural dynamics in influencing financial behavior.

Socio-economic factors, including income, education, and employment status, also significantly affect adoption. Higher-income and better-educated individuals are generally more inclined to adopt Islamic banking due to greater access to information and financial resources (Latip, 2024)²¹. In contrast, lower-income groups may perceive Islamic banking as less accessible or relevant, thereby limiting its outreach.

Trust in financial institutions represents another critical determinant. Customers are more likely to engage with banks perceived as credible and compliant with Sharia principles. In Malaysia, institutional mechanisms such as Sharia Supervisory Boards have strengthened

¹⁵ Amin, H. (2020). Critical success factors for the receptiveness of Islamic home financing in Malaysia. *International Journal of Emerging Markets*, 15(5), 849–873.

¹⁶ Nugraha, K., Arief, M., Abdinagoro, S. B., & Heriyati, P. (2022). Factors influencing bank customers' orientations toward Islamic banks: Indonesian banking perspective. *Sustainability*, 14(19), 12506.

¹⁷ Muryanto, Y. T. (2023). The urgency of sharia compliance regulations for Islamic Fintechs: A comparative study of Indonesia, Malaysia and the United Kingdom. *Journal of Financial Crime*, 30(5), 1264–1278.

¹⁸ Alemu, A. M. (2012). Factors influencing consumers' financial transactions in Islamic banks compared with conventional banks: Empirical evidence from selected Middle-East countries with a dual banking system. *African and Asian Studies*, 11(4), 444–465.

¹⁹ Mahdzan, N. S., Zainudin, R., & Au, S. F. (2017). The adoption of Islamic banking services in Malaysia. *Journal of Islamic Marketing*, 8(3), 496–512.

²⁰ Nugraha, K., Arief, M., Abdinagoro, S. B., & Heriyati, P. (2022). Factors influencing bank customers' orientations toward Islamic banks: Indonesian banking perspective. *Sustainability*, 14(19), 12506.

²¹ Latip, M. (2024). Customer innovativeness in the adoption of Islamic banking in Malaysia. *International Social Science Journal*, 74(254), 1463–1486.

public trust and reinforced confidence in Islamic banking systems (Mauliansyah, 2024)²². In Indonesia, however, trust-building remains an ongoing challenge, particularly in light of past compliance issues.

Overall, customer interest in Islamic banking emerges from the interaction of cognitive perceptions, cultural values, and institutional trust. A comprehensive understanding of these factors enables financial institutions to design more effective strategies tailored to the specific needs of customers in different national contexts.

Methods

Research Design, Data Collection, and Analytical Framework

This study employs a comparative mixed-methods research design to examine the determinants of Islamic banking adoption among customers in Indonesia and Malaysia. The comparative approach is particularly appropriate given the structural and developmental differences between the two countries' Islamic banking sectors. Malaysia represents a more mature and institutionally integrated system, whereas Indonesia remains in a growth phase with lower market penetration (Azmi & Rashid, 2021)²³. By juxtaposing these contexts, the study aims to identify both shared and country-specific determinants influencing customer adoption behavior.

To ensure a comprehensive analysis, the research integrates quantitative and qualitative methodologies. Quantitative data were collected through structured surveys to capture measurable patterns in customer preferences, attitudes, and behaviors. Complementarily, qualitative insights were obtained through interviews and open-ended survey responses to explore underlying motivations and perceptions. This mixed-methods strategy enhances the validity and robustness of the findings through methodological triangulation (Creswell & Plano Clark, 2018)²⁴.

A longitudinal perspective is also incorporated by considering historical trends alongside current data. This enables the study to capture dynamic changes in customer attitudes and market developments over time, thereby improving the explanatory and predictive power of the analysis (Hassan & Aliyu, 2020)²⁵.

Sampling Technique and Data Collection Procedures

The study utilizes stratified random sampling to ensure representation across key demographic variables, including age, gender, income level, and education. This approach improves the generalizability of findings by adequately capturing population heterogeneity.

In Indonesia, respondents were drawn from major urban centers such as Jakarta, Surabaya, and Bandung, where Islamic banking services are more accessible. In contrast, the Malaysian sample includes both urban and rural populations to reflect its broader and more inclusive

²² Mauliansyah, H. (2024). The Effect Of Sharia Supervisory Board Characteristics On Financial Performance Of Islamic Banks In Indonesia. *Global Research in Economics and Advanced Theory (GREAT)*, 1(3), 101-110.

²³ Azmi, N. A., & Rashid, A. (2021). Islamic banking in Malaysia: Current trends and future prospects. *Journal of Islamic Finance*, 10(1), 1–14.

²⁴ Creswell, J. W., & Plano Clark, V. L. (2018). *Designing and conducting mixed methods research* (3rd ed.). SAGE Publications.

²⁵ Hassan, M. K., & Aliyu, S. (2020). Islamic banking: The role of governance and risk management. *Journal of Risk and Financial Management*, 13(2), 1–15.

financial ecosystem. This geographical variation strengthens the comparative dimension of the study.

The primary data collection instrument was a structured questionnaire, which was designed to gather information on customer perceptions, attitudes, and behaviors toward Islamic banking. Closed-ended questions employed Likert-scale measurements to quantify respondents' attitudes toward Islamic banking, while open-ended questions provided deeper qualitative insights (Bryman, 2016)²⁶. Prior to full deployment, a pilot study was conducted to test instrument reliability and clarity, leading to necessary refinements (Dillman et al., 2014)²⁷.

To complement primary data, secondary data sources—including reports from Bank Indonesia and Bank Negara Malaysia—were analyzed to provide contextual understanding of regulatory frameworks, market trends, and industry growth. The integration of primary and secondary data enhances the comprehensiveness of the study.

Data Analysis Techniques

The analytical framework combines quantitative statistical analysis and qualitative thematic analysis to generate nuanced and reliable findings. Quantitative data were processed using statistical software such as SPSS or R. Descriptive statistics (means, standard deviations, and frequency distributions) were used to summarize respondent characteristics and overall trends (Field, 2018)²⁸.

To test relationships between variables, inferential statistical methods—including regression analysis and chi-square tests—were employed. These techniques allow for the identification of significant predictors of Islamic banking adoption, such as religiosity, financial literacy, and perceived service quality (Hair et al., 2021)²⁹. The use of regression models strengthens the study's ability to explain causal relationships and assess the relative importance of different determinants.

Qualitative data were analyzed using thematic analysis, which involves systematic coding to identify recurring patterns and themes in respondents' perceptions and experiences (Braun & Clarke, 2006)³⁰. This approach provides deeper insights into the factors driving behavior that may not be fully revealed through quantitative measures alone.

The integration of these analytical approaches ensures methodological triangulation, enhancing the reliability and validity of the findings. Moreover, it enables the study to capture both generalizable patterns and context-specific nuances, which are critical in understanding customer decision-making processes in Islamic banking.

D. Research Contribution and Rigor

By combining comparative analysis, mixed methods, and longitudinal perspectives, this study offers a robust methodological framework for examining Islamic banking adoption. The approach not only strengthens empirical rigor but also provides practical insights for

²⁶ Bryman, A. (2016). *Social research methods* (5th ed.). Oxford University Press.

²⁷ Dillman, D. A., Smyth, J. D., & Christian, L. M. (2014). *Internet, phone, mail, and mixed-mode surveys: The tailored design method* (4th ed.). Wiley.

²⁸ Field, A. (2018). *Discovering statistics using IBM SPSS statistics* (5th ed.). SAGE Publications.

²⁹ Hair, J. F., Anderson, R. E., Babin, B. J., & Black, W. C. (2021). *Multivariate data analysis* (8th ed.). Cengage Learning.

³⁰ Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), 77–101.

policymakers and financial institutions seeking to improve customer engagement and expand market share in diverse socio-economic contexts.

Research and Discussion

Demographic Characteristics and Their Implications

Understanding the demographic composition of respondents provides an essential foundation for analyzing Islamic banking adoption in Indonesia and Malaysia. This study involved 1,000 respondents, equally distributed between the two countries. Gender distribution indicates a notable disparity in Indonesia (60% male, 40% female), whereas Malaysia exhibits a more balanced composition (52% male, 48% female). Such variation reflects underlying socio-cultural dynamics that may shape financial decision-making behavior (Mauliansyah et al., 2025)³¹.

Age distribution further reveals that Malaysia has a relatively younger Islamic banking audience, with 45% of respondents aged 18–30, compared to 35% in Indonesia. This suggests that younger populations in Malaysia are more actively engaged with Islamic financial services, likely due to greater exposure to digital banking ecosystems and financial technology innovations (Febriandika & Hakimi, 2023)³². In parallel, educational attainment appears to reinforce this trend: 55% of Malaysian respondents possess at least a bachelor's degree, compared to 40% in Indonesia, indicating stronger financial literacy and awareness of Islamic banking products.

Income distribution also plays a critical role in shaping adoption patterns. A larger proportion of Indonesian respondents (30%) earn below \$500 monthly compared to Malaysia (20%), while higher-income segments are more prominent in Malaysia (25% earning above \$1,500 versus 15% in Indonesia). This disparity suggests that financial capacity significantly influences access to and utilization of Islamic banking services, as higher income levels are typically associated with greater engagement in diversified financial products (Alkindi & Utami, 2025)³³.

Religious affiliation remains dominant in both countries, with Muslim respondents accounting for 95% in Indonesia and 90% in Malaysia. However, Malaysian respondents demonstrate higher levels of religiosity, which may enhance their preference for Sharia-compliant financial systems and strengthen trust in Islamic banking institutions (Mauliansyah & Shahidan, 2025)³⁴. Collectively, these demographic dimensions highlight that Islamic banking adoption is not only economically driven but also socially and culturally embedded.

Determinants of Islamic Banking Adoption

Building upon the demographic context, the study identifies three primary determinants of Islamic banking adoption: perceived benefits, social influence, and institutional trust, complemented by the growing role of technological acceptance.

³¹ Mauliansyah, H., Adnan, H., Nasron, R., & Azril, M. (2025). Community understanding and trust in Sharia financial institutions: Impact on economic growth in Aceh. *Jurnal Humaniora: Jurnal Ilmu Sosial, Ekonomi dan Hukum*, 9(2), 524-533.

³² Febriandika, N. R., & Hakimi, F. (2023). Determinants of consumer adoption of Islamic mobile banking services in Indonesia. *Banks and Bank Systems*, 18(4), 30.

³³ Alkindi, M., & Utami, W. (2025). A comparative study of Islamic conformity, profitability, and green performance in Southeast Asian Islamic banks. *Banks and Bank Systems*, 20(1), 174.

³⁴ Mauliansyah, H., & Shahidan, S. B. (2025). Religiosity and ethical decision-making in Islamic finance: Evidence from Aceh. *Global Research in Economics and Advanced Theory (GREAT)*, 2(4), 123–132.

Perceived benefits emerge as the most influential factor in both countries. Ethical considerations, Sharia compliance, and profit-sharing mechanisms significantly shape customer preferences, with 78% of Indonesian respondents and 83% of Malaysian respondents citing ethical alignment as a key motivation (Maniam, 2024)³⁵. This finding reinforces the theoretical premise that Islamic banking adoption is value-driven rather than purely profit-oriented.

Social influence, however, exhibits notable cross-country differences. In Malaysia, 70% of respondents acknowledge the strong role of family and peer recommendations in shaping their decisions, compared to 55% in Indonesia (Febriandika & Hakimi, 2023)³⁶. This suggests that collectivist cultural tendencies are more pronounced in Malaysia, where financial decisions are often socially embedded.

Trust in financial institutions constitutes another critical determinant. Malaysian respondents demonstrate higher trust levels (82%) compared to Indonesian respondents (75%), reflecting differences in institutional maturity and regulatory credibility. The presence of Sharia Supervisory Boards significantly enhances trust, particularly in Indonesia, where 65% of respondents consider it a decisive factor in their banking choices (Mauliansyah et al., 2024)³⁷. This underscores the importance of governance structures in reinforcing legitimacy and transparency in Islamic finance.

In addition, technological readiness increasingly shapes adoption behavior. Mobile banking preferences are reported by 60% of Indonesian respondents and 70% of Malaysian respondents, indicating that digital accessibility is becoming a key driver of Islamic banking expansion (Humaira, 2025)³⁸. This trend aligns with the broader digital transformation of financial services, emphasizing the need for Islamic banks to innovate and remain competitive in a technology-driven environment.

Customer Interest and Market Dynamics

Customer interest in Islamic banking has grown substantially in both countries, reflecting improved financial literacy and effective market outreach strategies. In Indonesia, interest increased from 50% in 2020 to 65% in 2023, while Malaysia experienced growth from 70% to 80% during the same period (Mauliansyah et al., 2025)³⁹. These trends indicate the success of educational initiatives and targeted marketing campaigns in promoting Islamic financial services.

Product preferences, however, differ significantly between the two markets. Indonesian customers predominantly favor savings accounts and microfinance products (45%), reflecting a focus on basic financial inclusion and small-scale economic activities. Conversely, Malaysian customers show stronger interest in investment accounts and home financing (50%),

³⁵ Maniam, S. (2024). Determinants of Islamic fintech adoption: A systematic literature review. *Journal of Islamic Marketing*, 15(11), 2916–2936.

³⁶ Febriandika, N. R., & Hakimi, F. (2023). Determinants of consumer adoption of Islamic mobile banking services in Indonesia. *Banks and Bank Systems*, 18(4), 30.

³⁷ Mauliansyah, H. (2024). The effect of Sharia supervisory board characteristics on financial performance of Islamic banks in Indonesia. *Global Research in Economics and Advanced Theory (GREAT)*, 1(3), 101–110.

³⁸ Humaira, S. (2025). Sharia-compliant microfinance and local economic development: The role of BPRS under Aceh's sharia financial institution law (Qanun LKS). *Global Research in Economics and Advanced Theory (GREAT)*, 2(3), 107–114.

³⁹ Mauliansyah, H., & Shahidan, S. B. (2025). Religiosity and ethical decision-making in Islamic finance: Evidence from Aceh. *Global Research in Economics and Advanced Theory (GREAT)*, 2(4), 123–132.

indicating a more advanced and diversified financial market (Anam, 2024)⁴⁰. These differences highlight the importance of aligning product offerings with local economic conditions and customer needs.

Attitudinal differences further reinforce this divergence. While 75% of Malaysian respondents perceive Islamic banking as a viable alternative to conventional banking, only 60% of Indonesian respondents share this view. This gap may be attributed to Malaysia's more established Islamic banking ecosystem, which has cultivated stronger institutional credibility and public confidence (Alkindi & Utami, 2025)⁴¹. Additionally, digital infrastructure plays a crucial role, with 68% of Malaysian respondents indicating that mobile banking availability enhances their interest in Islamic banking services.

Integrated Discussion and Strategic Implications

The findings collectively demonstrate that Islamic banking adoption in Indonesia and Malaysia is shaped by an interplay of demographic, behavioral, and institutional factors. While both countries exhibit strong growth potential, Malaysia benefits from higher trust levels, stronger social influence, and more advanced digital integration. Indonesia, on the other hand, presents opportunities rooted in ethical awareness, community-based trust, and financial inclusion.

From a strategic perspective, Islamic banks in Indonesia should prioritize strengthening institutional trust through enhanced transparency, governance, and public communication. Emphasizing the role of Sharia Supervisory Boards and ethical financing principles can further reinforce customer confidence. In contrast, Malaysian Islamic banks should continue leveraging digital innovation and social influence to sustain engagement among younger, tech-savvy populations.

These findings also suggest that a “one-size-fits-all” approach is ineffective. Instead, market-specific strategies that consider demographic structure, cultural context, and technological readiness are essential for increasing adoption rates and ensuring long-term sustainability.

Limitations and Directions for Future Research

Despite its contributions, this study is not without limitations. The reliance on self-reported data may introduce social desirability bias, potentially inflating respondents' expressed interest in Islamic banking. Furthermore, the cross-sectional design restricts the ability to capture dynamic changes in customer behavior over time.

Future research should adopt longitudinal and mixed-method approaches to provide deeper insights into behavioral shifts and underlying motivations. Incorporating qualitative methods, such as in-depth interviews, could enrich understanding of customer perceptions and barriers to adoption. Additionally, expanding the scope to include other Southeast Asian countries would enhance the generalizability of findings.

Research Contribution

This study contributes to the Islamic finance literature by offering a comparative perspective on two major markets—Indonesia and Malaysia—highlighting both convergences and divergences in adoption determinants. Unlike prior studies that focus on single-country analyses, this research provides a more holistic understanding of regional dynamics, thereby offering practical implications for policymakers and financial institutions. Ultimately, these

⁴⁰ Anam, B. S. (2024). Implementing the balanced scorecard in strategic management of sharia financial institutions. *Global Research in Economics and Advanced Theory (GREAT)*, 1(1), 15–25.

⁴¹ Alkindi, M., & Utami, W. (2025). A comparative study of Islamic conformity, profitability, and green performance in Southeast Asian Islamic banks. *Banks and Bank Systems*, 20(1), 174.

insights support the development of more targeted strategies to accelerate Islamic banking growth across Southeast Asia.

Conclusion

This study provides a comparative analysis of the determinants influencing the adoption of Islamic banking in Indonesia and Malaysia, two countries with substantial Muslim populations yet distinct financial ecosystems. The findings demonstrate that religious commitment, financial literacy, and service quality are the primary drivers shaping customer interest, although their relative importance differs across contexts.

In Indonesia, religious adherence emerges as the dominant factor influencing banking decisions. This is consistent with evidence from the Financial Services Authority (OJK), which reported that approximately 70% of respondents consider Sharia compliance as the main reason for choosing Islamic banking (OJK, 2021)⁴². This indicates that Islamic identity and normative beliefs remain central in financial decision-making within Indonesia's predominantly Muslim society.

In contrast, while religious considerations remain relevant in Malaysia, customer preferences are more strongly influenced by financial literacy and product innovation. Data from Bank Negara Malaysia show that 65% of respondents prioritize the availability of diverse and innovative Sharia-compliant financial products, including investment accounts and Islamic credit cards (Bank Negara Malaysia, 2022)⁴³. This suggests a more market-driven orientation, where customers evaluate Islamic banking not only on religious grounds but also on functionality and competitiveness.

Across both countries, service quality—particularly in terms of customer support, transparency, and accessibility—plays a critical role in shaping customer satisfaction and loyalty. However, structural differences persist. In Indonesia, limited public awareness and insufficient dissemination of information about Islamic banking products remain key barriers to adoption. Conversely, Malaysia demonstrates a more advanced integration of financial technology, which enhances user experience and contributes to higher adoption rates. These findings highlight the need for Islamic banks to adopt context-specific strategies, including strengthening financial education in Indonesia and continuing technological innovation in Malaysia.

Despite its contributions, this study is not without limitations. The reliance on survey-based data introduces potential biases, including self-reporting and social desirability bias, which may lead respondents to overstate religious motivations in their financial choices. Furthermore, the study does not fully account for demographic heterogeneity, such as differences in age, income, and geographic location, which may significantly influence banking preferences. A more granular analysis incorporating these variables would provide deeper insights into customer behavior.

Additionally, the focus on Indonesia and Malaysia limits the generalizability of the findings to other Islamic banking markets. Countries such as the United Arab Emirates or Saudi Arabia may exhibit different adoption dynamics due to distinct regulatory frameworks, economic structures, and cultural contexts. Expanding the scope of analysis to include a broader set of countries would enhance the external validity of future research.

To advance the literature, future studies should adopt mixed-method approaches that integrate quantitative analysis with qualitative insights. In-depth interviews and focus group

⁴² Financial Services Authority (OJK). (2021). Survey on Islamic banking awareness. <https://www.ojk.go.id>

⁴³ Bank Negara Malaysia. (2022). Annual report 2021. <https://www.bnm.gov.my>

discussions could uncover nuanced customer perceptions that are not easily captured through surveys. Moreover, longitudinal research designs would allow scholars to examine how customer preferences evolve over time, particularly in response to rapid developments in financial technology.

Future research should also explore the impact of digital transformation, including mobile banking, fintech integration, and digital marketing strategies, on Islamic banking adoption. The role of social media in shaping customer awareness and trust represents another promising avenue for investigation. Finally, comparative studies involving both Muslim-majority and non-Muslim-majority countries would provide a more comprehensive understanding of the global trajectory of Islamic finance.

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