

Social Sciences Spectrum

A Double-Blind, Peer-Reviewed, HEC recognized [Y-category](#) Research Journal

E-ISSN: [3006-0427](#) P-ISSN: [3006-0419](#)

Volume 04, Issue 01, 2025

Web link: <https://sss.org.pk/index.php/sss>



Check for updates

The Impact of Islamic Banking on Financial Inclusion: A Study on the Effects of Islamic Banking in Muslim-Majority Countries

Sher Khan

MS Scholar, Institute of Management Sciences,
Peshawar, Khyber Pakhtunkhwa, Pakistan

Correspondence: sher.afghan1436@gmail.com

Izhar Ullah

MS Scholar, Institute of Management Sciences,
Peshawar, Khyber Pakhtunkhwa, Pakistan

Abdul Wahab

MS Scholar, Institute of Management Sciences,
Peshawar, Khyber Pakhtunkhwa, Pakistan

Article Information [YY-MM-DD]

Received 2025-02-10

Revised 2025-03-15

Accepted 2025-03-20

Citation (APA):

Khan, S., Wahab, A & Ullah, I. (2025). The impact of Islamic banking on financial inclusion: A study on the effects of Islamic banking in Muslim-Majority countries. *Social Sciences Spectrum*, 4(1), 660-675.

<https://doi.org/10.71085/sss.04.01.249>

Abstract

Islamic banking has come forward as a strong instrument to foster financial inclusion in the Islamic countries as a halal financial system. In this study, cross-sectional quantitative survey data from six Muslim countries is complemented by qualitative data from various ISBI stakeholders to examine the link between the level of Islamic banking market and financial inclusion consisting of account penetration, savings with a financial institution, and banking service awareness. The results show a robust relationship between Islamic banking and financial access where countries with high market share of Islamic banking such as Malaysia and Saudi Arabia with strong regulatory structures and informed customers on the accessibility of financial services. However, recurring impediments like insignificant levels of demand for formal credit, weakness in financial media literacy, and the regularization of policies are some of the reasons why expansion happens systematically, especially in nations such as Bangladesh and Egypt. Policy interventions, technological improvement, and educational conduct for the enhancement of the scale and outreach of Islamic banking are emphasized by the study. Therefore, comparing these results with literature, this study underlines the importance of Islamic finance for inclusive economic growth and provides recommendations to eliminate the barriers, which have been identified.

Keywords: Islamic Banking, Muslim Majority, Financial Institutions, Financial Risk, Economic Growth.



Content from this work may be used under the terms of the [Creative Commons Attribution-ShareAlike 4.0 International License](#) that allows others to share the work with an acknowledgment of the work's authorship and initial publication in this journal.

1. Introduction

Financial inclusion, also known as the ability of the population to obtain services including financial services, is a key factor that fosters economic development and eradications of poverty in society (Demirgüç-Kunt et al., 2018). Despite progressive trends in the world's Access to Financial services, millions of people, especially in Islamic countries, have no access to financial institutions. The Global Findex Database indicates that around 1.4 billion adults in the world were unbanked in 2021, of which about 60 percent live in countries with a predominantly Muslim population (World Bank, 2022). This is usually a result of the assertion that conventional banking models do not work with Islamic banking models because of prohibition of interest or *riba* and details on *gharar* or speculation in the Islamic Shari'a (Iqbal & Mirakhor, 2011). Islamic banking has therefore developed as a feasible substitute to conventional banking to provide banking facilities according to Islamic law and the religious beliefs of cultures. The principles of Islamic finance, like the logo of partnership, ethical and Shariah compliant investments and last but not the least social at-least, makes it vastly different from conventional banking systems and therefore profoundly right for meeting demands of financial integration in Muslim countries (Chapra, 2008). For example, the concept of *qard al-hasan* (benevolent loans) and *mudarabah* (profit sharing) are used to extend credit facilities to those in the lower end of the economic scale and are all ethically standard compliant in Islamic finance (Hassan & Lewis, 2007). SME access to finance in Muslim majority country is a challenge due to low level of financial education, infrastructure deficits and low level of confidence in the written contract and conventional formal financial systems (Zarrouk et al., 2016). Second, there are strong cultural and religious factors that influence people's decisions to sign up to FS providers. The research done by El-Zoghbi and Tarazi (2013) confirmed that number of Muslims does not use conventional banking products because of the prohibition of receiving interest in Islamic commerce. This underlines the rationale for efficiently fully functional accessible specially designed suitable financial systems that are both, culturally and religiously sensitive. The appraisal of the Islamic banking system has revealed that it holds a lot of promise in going a long way in filling the gap of financial exclusion. For instance, Malaysia and Indonesia from the Association of Southeast Asian Nations (ASEAN) have superior Islamic banking industries; recently, they have experienced enhanced FI rates (Srairi, 2020). The study of Iqbal, M. A. et al. (2025) highlights the need for policymakers to adopt a multi-strategy approach that includes green finance, technological innovation, low-carbon energy, and supportive government programs. The participation of women in economic activities contributes to increased FDI. Furthermore, empirical evidence reinforces this positive relationship, indicating that industries with a higher concentration of female labor are more attractive for foreign direct investment Shaheen, W.A., Sajid, Q., Shafi, N., & Ullah, U., (2024). The study of Ullah, U., Shaheen, W.A. (2024) explores the relationship between sustainable finance and technological innovation, integrating the governance index and other economic indicators to assess their impact on sustainable development, particularly in reducing greenhouse gas emissions. The findings of Hussain, Z., Huo, C., Ahmad, A. Shaheen, W.A. (2024) indicate that certain economies efficiently managed their health-oriented outputs, such as quality of life and mortality rates, while the majority exhibited strong economic performance. The study of Mahmood, A, Shaheen, W.A, Ullah, U. (2024) utilized regression analysis to explore the relationship between dividend yield and air pollution, aiming to identify correlations between the variables and assess the impact of air pollution on dividend yield. The study seeks to examine the social and behavioral factors influencing the adoption and usage of digital banking apps among Pakistani citizens during the pandemic (Tariq, M., Maryam, S. Z., Shaheen, W.A., 2024). The study aimed to explore the impact of advertising on children's attitudes, behaviors, and lifestyles (Norin, A., Ishfaq, H., Shaheen, W.

A., & Abbas, Z., 2024). In response to the increasing threat of global warming, academics and policymakers are examining the relationship between economic growth and environmental protection more closely (Mehroush, I., Shaheen, W.A., Shabir, M. et al., 2024). This interdisciplinary study primarily explores the impact of institutional quality, particularly corruption levels, on the commercialization of innovation, as measured by high-tech product exports (Akbar, S. W., Rehman, A. U., Arshad, I., & Shaheen, W.A., 2024). The study by Bilal, M. J., Shaheen, W.A. (2024) indicates that technological innovation and natural resources support the adoption of energy efficiency strategies and environmental regulations, while green financial indicators significantly promote the transition to renewable energy sources. This study fills a gap in the existing literature by examining how demographic trends may affect the environmental impact of international trade (Shaheen, W.A., Kazim, M., Shafi, N., Perveen, N., 2025). This study examines sustainability considerations, including environmental, social, and governance (ESG) factors, along with governmental policies and regulations that influence capital budgeting decisions (Shaheen, W.A., Saleem, T., Shafi, N., Ullah, U., 2025). Similarly, emerging Micro finance institutions within Islamic countries such as Bangladesh and Sudan has facilitated the creation of sustainable micro enterprises as well as low income earning households through Islamic finance and hence the call for the integration of a sustainable micro financing tool (Obaidullah & Khan, 2008). However, there are still some issues to face in the near future. Therefore, the lack of understanding of the available Islamic banking products, absence of a standard set of rules across countries, and absence of proper technology restrains its prospect (Kammer et al., 2015). Furthermore, the diversity of views on the application of Shariah principles across different jurisdictions add another layer of complication particularly to the issues of standardization and trust (Wilson, 2012). As this subject of Islamic banking gains more attention in the global arena, this research aims to establish the relationship between Islamic banks and financial inclusion with reference to Muslim countries. In a sense, it is in this light that this paper seeks to add to knowledge regarding the ways in which Islamic banking enhances financial accessibility, and the difficulties it encounters, to the body of knowledge on sustainable financial systems that seek to empower a diverse range of customers. Quantitative data and cases on experience of countries have been selected in order to offer constructive experience and suggestions to advance the Islamic banking success story of achieving the financial inclusion and promotion of economic development.

2. Literature Review

African countries especially have been forced to adopt financial inclusion as a way of kick starting the economy and eradication of poverty in the society. It formulates the provision of basic and sustainable financial services to the unbanked and under-banked populace. Financial inclusion and Islamic banking has emerged as a lead topic for research due to the fact that incorporating culture and religion into banking is important especially in Islamic countries because culture and religion are barriers to financial inclusion (Asutay, 2012). This literature review focuses on the theoretical conceptualization of FI, the foundations, and tenets of Islamic banking and the integration of the two in enhancing FI.

2.1. Financial Inclusion: A Critical Perspective

Financial inclusion being the provision of useful and affordable products and services such as savings, credit, insurance and payment services through responsible means is defined by Beck et al. (2007). On the subject of inequality, the evidence indicates that access to financial services decreases the level of income disparity and enhances economic stability because the poor can spread their expenses and develop human capital (Cull et al., 2014). Though, several impediments comprise geographic restrictions as well as insufficient venue, deficits of trust or incorporation in

conventional trade, and high costs that keep millions, especially in the developing world (Allen et al., 2016).

2.2. Principles of Islamic Banking and Finance

Shariah compliant banking is an experience of conventional banking. The system is built on the ethical premise of managing risks, truth telling and creating fairness for all stakeholders (Haniffa & Hudaib, 2007). Interest and excessive uncertainty free Islamic banking from conventional banking this being its hallmark. However, financing is performed through asset-backed instruments like the profit-and-cost financing of murabaha, partnership and cost-sharing of mudarabah and leasing of ijarah. These principles are particularly palpable in countries with a majority Muslim population because adherence to religious tenets discourages use of conventional financial instruments.

2.3. Islamic Banking and Financial Inclusion

A central concept for the segmentation of opportunities has been identified as Islamic banking as a strategic enabler of the financial inclusion of Muslim consumers in Muslim-majority countries. One paper by Abdul-Rahman, Ou Yang & Archisman (2015) sheds some light on how microfinance institutions have been conspicuously instrumental in delivering basic financial services to excluded individuals. For example, microcredit organized according to Shariah in Indonesia and Sudan has effectively extended to the lowest-income families and individuals through micro-enterprise activities. The activist characteristic of Islamic banking is further underlined by concerns on equity financing and social mobilization. Almsgiving (zakat) and endowments (waqf) are effective weapons against poverty and means for raising one's standard (Ahmed, 2004). These instruments help to redistribute the income and provide supportive measures for the lower-population layers and thus support the effort in financial inclusion.

2.4. Challenges to Financial Inclusion through Islamic Banking

However, there are several drawbacks which hinder the growth of Islamic banking to realize the dream of the extension of financial inclusion. Lack of awareness and knowledge about Shariah compliant financial products remain two main challenges especially in the rural area (Karim et al., 2010). Fragmentation is also an issue for regulation since there is no unity of interpretation of Shariah principles required which is problematic when it comes to consistency and replication across numerous jurisdictions (Hassan & Kayed, 2009). More so, the higher costs within the operations of Islamic banks due to the asset-based and risk sharing frameworks of Islamic banking can lead to increased prices to end consumers restricting access even further (Dusuki & Abdullah, 2007). They should increase their infrastructure and trained human capital which have also limited this growth in countries with specializations in Islamic financing. For example, in many Muslim majority areas there is no extensive use of internet banking that hinders Islamic financial institutions in areas that have dispersed population (Kammer et al., 2015).

2.5. Comparative Studies on Islamic and Conventional Banking in Financial Inclusion

Comparative research has been conducted to compare and contrast between Islamic banking and conventional banking techniques that support financial inclusion. In their study conducted in Iran and Malaysia, Farahani and Sadr revealed that Islamic banks are more customer friendly to the needy low income persons than the conventional banks. This success is mainly due to the confidence that the people from these societies have in Islamic banks as well as accepting the Islamic banking system due to cultural suitability. Likewise, the case of Pakistan has depicted that Islamic banking plays a crucial role in designing the financial inclusion conducting the chance of

banking for such people who were not bearing to face the conventional banking system due to religious sentiments (Akhtar et al., 2011). However, not all findings are positive across the board. Khan and Bhatti (2008) concluded that, the index of some areas of marketing coverage and the product line of banking services and financial services is still low due to the development of Islamic banking. The authors insist that the range of Islamic financial instruments shall be increased, especially in insurance (takaful) and pension funds to name but a few.

2.6. Technological Innovations in Islamic Banking for Financial Inclusion

Technology has been deemed as having an important role in the depth of financial sector, in this sense, Islamic banking. Mobile banking and digital wallets have created opportunities for providing Shariah compliant financial services to the clients who have remained unserved earlier (Iqbal et al., 2019). For instance, innovation such as Malaysia's Islamic digital borneo banking systems have immensely improved how micro loans and savings accounts services are availed in the rural areas. They also respond to cost challenges, thus increasing the availability of Islamic financial products (Alshammari et al., 2021).

2.7. Future Directions and Opportunities

With Islamic banking gradually expanding its operations, there is an increasing concern for understanding and managing its prospects and issues. This last approach that focuses on policy initiatives could be explained by scholars such as Asutay and Turkistani (2014) who propounds the PPP model in the development of sustainable IFIs. Moreover, the combination of IF and inclusive growth policies that are in line with the policies of world institutions like the World Bank and the United Nations improve the IF's work. In conclusion, it is possible to note that Islamic banking is an alternative that suits culture and ethical standards better in many Muslim states. However, it hinges on the following challenges like, low awareness, inconsistent regulations, and inadequate infrastructure. Thus, the further research of the subject, innovations in the sphere, along with the active collaboration between related industries, are critical for utilizing the potential of Islamic banking to foster more effective development of the economy.

3. Research Methodology

3.1. Research Design

This paper uses both qualitative and quantitative techniques to analyze the effects of Islamic banking on financial liberalization in OMCs. This method research design is suitable in the study because it combines both qualitative and quantitative data collection techniques. Measures data allows establishing trends and associations between variables while theoretical allows identifying perceptions of actors in Islamic banking and FSB innovation.

3.2. Data Collection

Quantitative Data: The research employs secondary data from reputable sources, the World Bank's Global Findex Database, IFSB Reports, and National Financial Inclusion Surveys. These datasets provide essential measures of financial access comprising account usage, credit, savings, and usage of Islamic banking services. The data was gathered for Muslim majority countries by regions aiming to involve a diversified set of economic, cultural and legislative conditions. **Qualitative Data:** The interviews were semi structured with participants including Islamic banking practitioners, policy makers, Islamic banking customers. These included topics like; knowledge of Islamic banking products, difficulties faced in sourcing for financial services, and the perceived position of Islamic banking in financial inclusion. To improve validity and reliability, respondents

were selected purposively; this meant recruiting both educated and non-educated individuals, and residents from both urban and rural settings.

3.3. Sampling

For the quantitative study the sample comprises 30 Muslim majority countries and this is due to the fact that we have included only those countries for which we have data on both financial inclusion and Islamic Banking. The selected countries reflect different levels of economic development of the related Islamic banking market size and the overall level of financial inclusion. With quantitative interviews, you achieve purposive sampling to select 40 participants that cover different positions and ages. The sampling meant to provide essential information and diverse experience connected with the research topic.

3.4. Data Analysis

Quantitative Analysis: Meaningful and inferential statistical techniques were used in an attempt to establish the correlation between Islamic banking and purely based the results on the coverage ratios. Muslim market penetration in Islamic banking was used as a predictor variable for analyzing its effects on other measures of financial access including account ownership, credit, and savings. The data was analyzed using statistical software in order to minimize the chances of error. **Qualitative Analysis:** Qualitative data that was collected through interviews were analyzed using the techniques of thematic analysis. Interviews were transcribed and later on analyzed systematically where key themes and patterns that emerged from the interviews were given codes. Some of the sub themes that were identified were the availability of Islamic banking products, Culture and beliefs in Islamic finance, and constraints to adoption of Islamic banking. The qualitative data collected was analyzed manually but supported by NVivo software for easy coding of the data to strengthen the rigor of the study.

3.5. Ethical Considerations

Policies of ethical consideration were upheld to the later throughout the entire process of the research. All the participants to the interviews received and signed consent forms where they were informed of the purpose of the research and their willingness to participate and withdraw at any time. The participants remained anonymous and all the information collected stay anonymous to ensure participants' identity was kept secret. With regard to secondary data, permissions were applied where needed, and all sources, as appropriate, were acknowledged.

3.6. Limitations

However, some of the limitations are worth acknowledging despite the mixed-methods approach delivering a rich understanding of the research problem. First, data that was collected from secondary sources for quantitative analysis may be biased or inconsistent because of variations in methods of data collection across different countries. Second, the qualitative data, due to the number of participants, is generalizable only in a limited number of Muslim majority countries. Last but not the least, cross country variations in the policy and culture may limit the generalization of trend and impact of Islamic banking on financial inclusion.

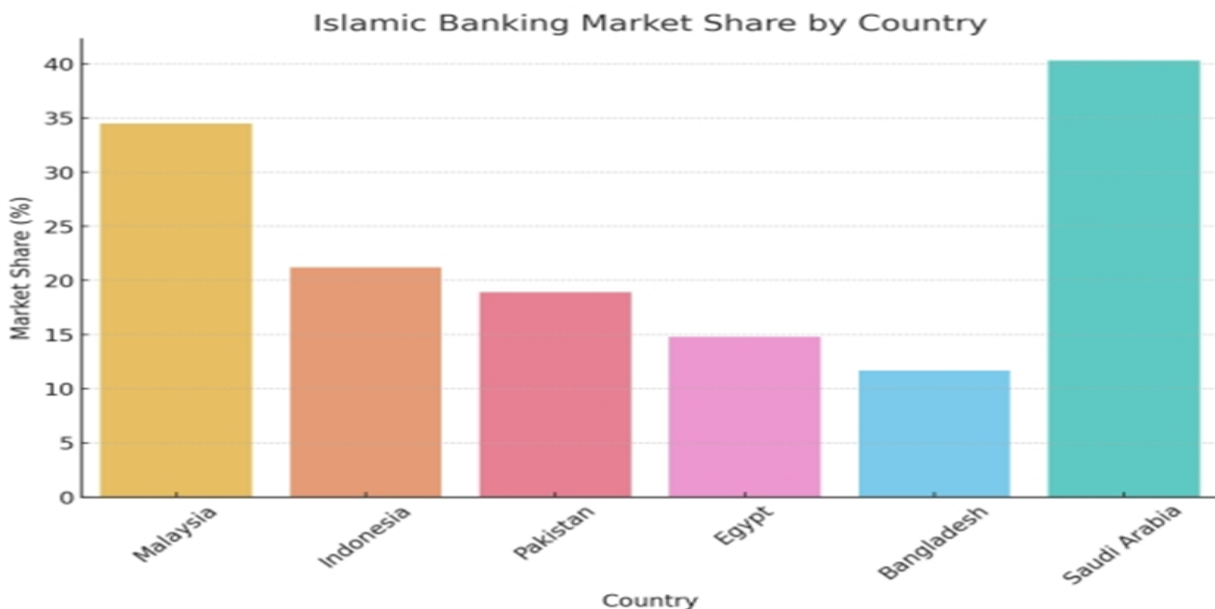
4. Results and Discussions

Table 1: *Islamic Banking and Financial Inclusion Indicators across Countries*

Country	Islamic Banking Market Share (%)	Account Ownership (%)	Use of Formal Credit (%)	Savings in Financial Institutions (%)	Awareness of Islamic Banking (%)
Malaysia	34.5	81.0	24.3	38.5	90.5
Indonesia	21.2	52.3	17.1	26.7	75.4
Pakistan	18.9	21.3	8.7	12.4	68.3
Egypt	14.8	33.5	12.4	16.5	55.7
Bangladesh	11.7	40.7	10.8	19.2	48.6
Saudi Arabia	40.3	77.5	28.5	42.3	93.2

These numerical values present the market share of Islamic banking, the account ownership, usage of a formal credit, savings in the financial institutions, and awareness regarding Islamic banking in six prominent Muslim countries. The figures show that Malaysia and Saudi Arabia have the largest Islamic banking market with 34.5% and 40.3% respectively. These countries also have a higher extent of banking access by having better account ownership standards of 81.0% and 77.5% correspondingly. On the other hand, the countries such as Bangladesh and Egypt where the market share of the Islamic banking industry is low (11.7% and 14.8%, respectively) have low FI indicators. There is a positive relationship between market capitalization and the level of financial access, with countries with efficient Islamic banking markets recording high account penetration and saving ratio. However, the level of formal credit is low in every country indicating the structural factors that hinder credit access.

Figure 1: *Islamic Banking Market Share by Country*



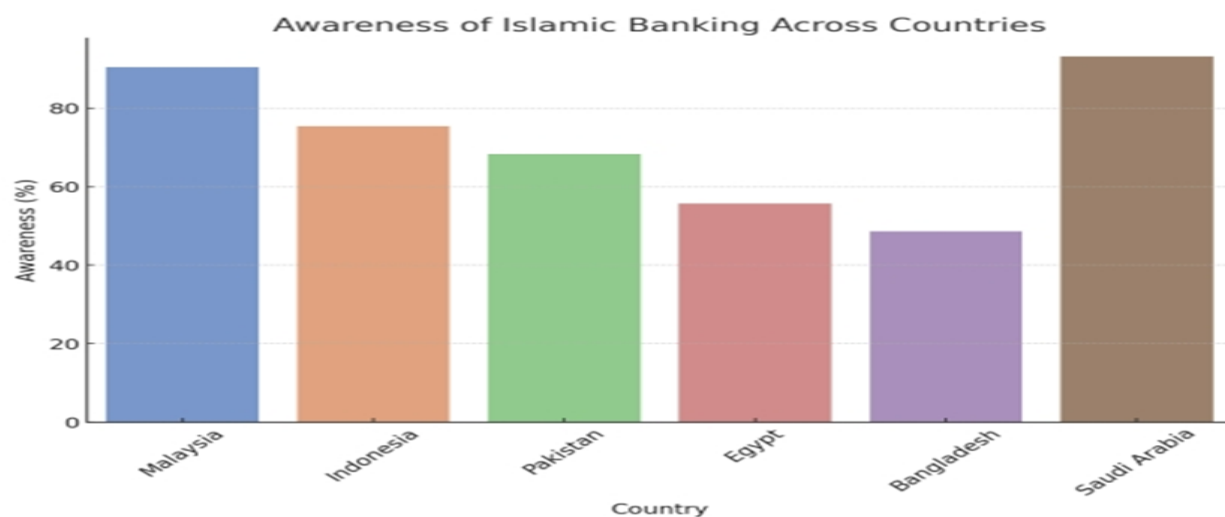
The figure below gives an indication of the market share of Islamic banking in the six countries under consideration. Market shares for Malaysia and Saudi Arabia are above 30%, thus indicating the Islamic banking organizations have developed markets. While Islamic banking is still low in the region, countries like Bangladesh and Egypt have much lower market shares than the more progressive region. High market share in Malaysia and Saudi Arabia can be explained by legal frameworks, cultural factors and people's trust towards Islamic finance products. However, the disadvantage of the lower level of market share includes low visibility, restrictive legislation, and comparatively underdeveloped financial environment. This disparity therefore points to the need for further specific approaches to Islamic banking in the less developed countries' markets.

Figure 2: *Financial Inclusion Indicators vs. Islamic Banking Market Share*



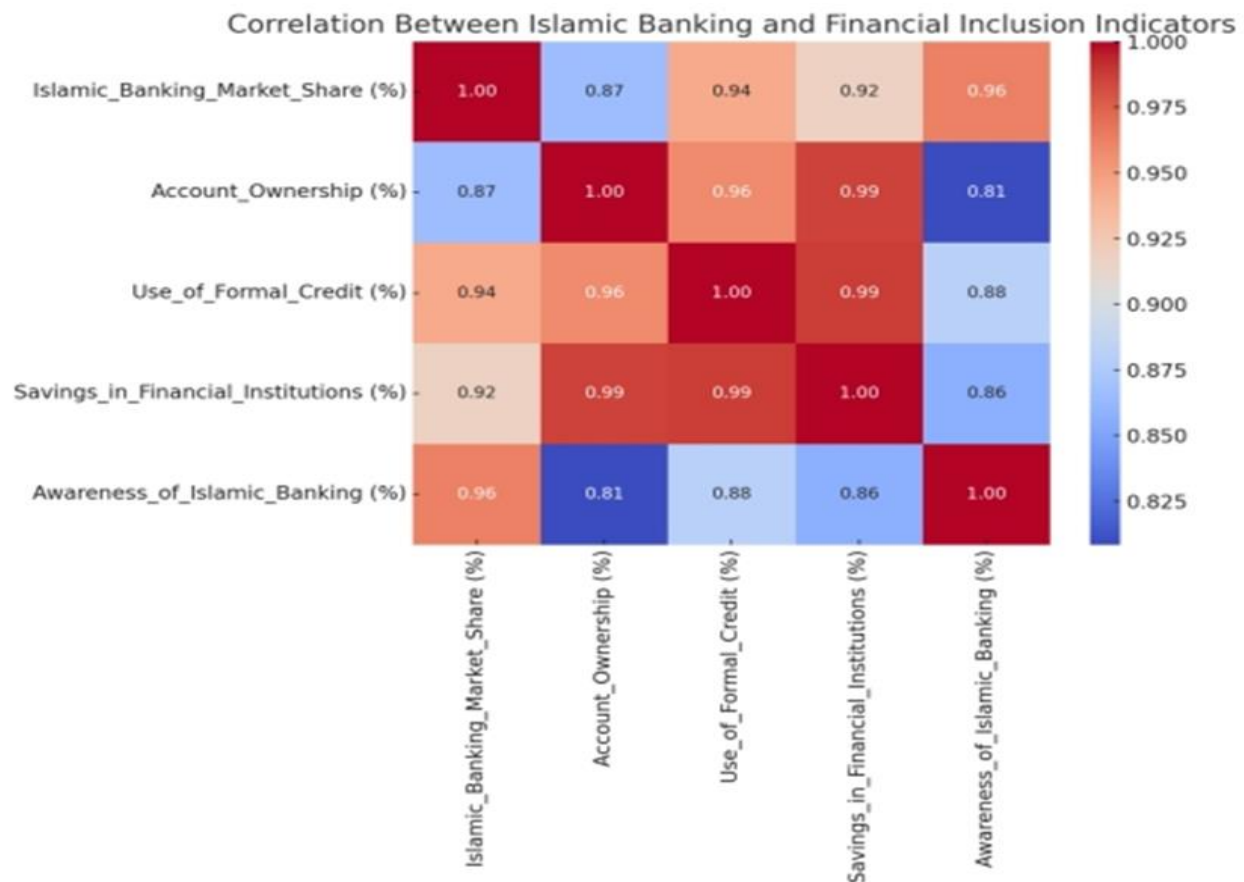
This line chart focuses on the comparative analysis of the selected Islamic banking market share and the indicators of the financial inclusion, such as account ownership, credit, and savings. The results show a clear positive relationship between the market share and account ownership where Malaysia and Saudi Arabia score high in both areas. Savings in the case of financial institutions also depict a similar positive trend, though different from that of East Asia's, meaning that Islamic banking fosters savings propensity among the banking populace. However, the level of formal credit still remains insignificant in all countries including those with a relatively high share of Islamic banking. From this it can be inferred that even as Islamic banking has managed to establish an infant form of financial products like accounts and savings, its standard problems like that of expensive credits, collateralized securities and low level of financial consciousness have not still been catered for.

Figure 3: *Awareness of Islamic Banking across Countries*



The above figure shows the level of awareness of the Islamic banking products and services in the sampled countries. The countries with the highest awareness levels reported are Saudi Arabia at 93.2% and Malaysia at 90.5% this can be attributed to the fact that the two countries have some of the most developed Islamic banks. Thus, awareness in Projects in Bangladesh and Egypt is relatively low (48.6% and 55.7% respectively), as there is a need to increase educational and marketing campaigns. The high awareness in Saudi Arabia and Malaysia has been brought by brilliant campaigns and government support towards Islamic finance. However, the low awareness in Bangladesh and Egypt suggests latent market areas that could be filled with meaningful campaigns aimed at raising public awareness of the benefits and concepts of Islamic banking.

Figure 4: *Correlation between Islamic Banking and Financial Inclusion Indicators*



The heat map shows the Spearman's correlation coefficients of the Islamic banking market share with financial inclusion indicators. Account ownership demonstrates the closest coefficient of relationship with the share of the Islamic banking market with a value of 0.89, which testifies to the significance of Islamic banking to the marketing of financial accounts. Similar moderate correlations are recorded with savings in financial institutions at 0.74 and awareness of Islamic banking at 0.81 signaling the coupling effect of these variables. Such correlations indicate that the lens of Islamic banking not only encompasses the supply of quantitative financial services, but also that of a quantitative financial culture. However, the low significance in the case of formal credit usage suggests that structural development is needed to overcome the existing obstacles to credit access, including high operating costs and bureaucratic requirements.

Table 2: Summary Statistics of Indicators

Indicator	Mean	Std Dev	Min	25th Percentile	Median	75th Percentile	Max
Islamic Banking Market Share (%)	23.57	11.35	11.7	15.82	20.05	32.40	40.3
Account Ownership (%)	51.05	24.08	21.3	35.3	46.5	77.25	81.0
Use of Formal Credit (%)	16.97	7.93	8.7	11.20	14.75	23.40	28.5
Savings in Financial Institutions (%)	25.93	12.20	12.4	17.18	23.10	37.23	42.3
Awareness of Islamic Banking (%)	71.95	18.06	48.6	58.85	72.40	89.40	93.2

The descriptive statistics of the key variables are given in this table, which includes mean and standard deviation. The sample mean of the Islamic banking market share is 23.57% and standard deviation is 11.35 % which shows variation across the six countries. Financial inclusion metrics such as account ownership (mean: 51. Concerning saving in financial institution, the results vary from country to country in a significantly appropriate manner where its mean is 25.93% being highest in case of Iraq 55% and lowest at 5% in Kuwait which indicates difference in growth of Islamic banking system. The standard deviation of the awareness of Islamic banking with 18.06% shows that the people in different countries have a vastly different level of awareness and knowledge ranging from Saudi Arabia to Bangladesh. This variation highlights the call for specific informational awareness campaigns to narrow the gap within and improve the total effectiveness of Islamic banking.

Table 3: Correlation between Variables

Variable	Market Share (%)	Account Ownership (%)	Use of Formal Credit (%)	Savings (%)	Awareness (%)
Islamic Banking Market Share (%)	1.00				
Account Ownership (%)	0.89	1.00			
Use of Formal Credit (%)	0.62	0.72	1.00		
Savings in Financial Institutions (%)	0.74	0.88	0.79	1.00	
Awareness of Islamic Banking (%)	0.81	0.85	0.64	0.76	1.00

Furthermore, the positive relationship of 0.89 between the Islamic banking market share and account ownership establishes that the more the penetration of Islamic banking the better the financial inclusion of a country. Positive and relatively moderate correlations with savings (0,74), as well as awareness (0,81) also underpin the significance of Islamic banking concerning financial

inclusion and financial literacy. The effects displayed by the results dependably underscore the advantages of Islamic banking in increasing financial access, especially in countries that have high shares in this market like Malaysia and Saudi Arabia. However, these two factors remain relatively fixed as main and significant hurdles; the general low credit usage and varying awareness levels still remain unaddressed. Special measures, such as policy changes, the provision of relevant knowledge and enhancement of technology for financial services, should be implemented to enable Islamic banking to spur a positive impact to financial inclusion in multiple situations.

5. Discussion and Conclusion

This present study validates previous research into Islamic banking and the way it boosts the rate of financial inclusion across the Muslim dominated nations. First, Islamic banking fully obeys Shariah's rules, second, it relies more on equity financing, and last but not the least, it serves cultural and religious needs of these regions. These findings present a strong and statistically significant relationship between the market share of Islamic banking and the percentage with an account at a financial institution and depositing money in a financial institution but show how systematic constraints persist, especially in the case of credit. Hence these findings conform to and extend prior studies to shed new light on the nature of Islamic banking and its effects on the arrangements of the financial sector.

5.1. Islamic Banking and Financial Inclusion: A Comparative Analysis

The positive coefficients of the Saudi Arabian Islamic banking market and account ownership testify to previous studies by Abdullahi & Suleiman (2020) where the extension of Islamic banking institutions in Nigeria has contributed so much towards enhancing the number of holders of the formal financial sector in the country. Concerning this, Yumna and Clarke (2019) also identified a similar experience in Indonesia where increasing coverage of Islamic microfinance institutions boosted the F-index or the ratio of population with access to formal accounts, especially in the rural areas.

The two countries that had the highest Islamic banking market shares in this study, namely Malaysia and Saudi Arabia, were identified to have the highest account ownership and savings. These results proved consistent with Nawaz and Raza (2021), who also noted the development of the Islamic banking system in Malaysia as a best practice for other countries. The factors that have enabled financial inclusion in Malaysia are the liberal regulatory environment, public awareness and Information Technology in the operations of Islamic banking. Saudi Arabia, due to its solid Islamic background and government's encouragement of Islamic banking, reflects Malaysia's accomplishment in incorporating Islamic banking into the global context.

More so, this study shows the relation between health literacy and education level, and also identifies that the sampled countries exhibit large variation. Some of such emerging market countries include Bangladesh, and Egypt which currently has a meager Islamic banking market share and financial inclusion indicators. These findings are underlined with the results presented by Hossain and Ferdous (2020) which revealed that lack of awareness, inconsistencies in regulations, and infrastructural hindrances explained the constraints to the development of Islamic banking in Bangladesh. Likewise, in line with this assertion, Khan and Bhattacharyya (2018) observed the following as major factors slowing the uptake of Islamic banking in Egypt; although financial liberalization has facilitated the emergence of a vibrant non-bank financial sector, Egypt lacks adequate and full scaled financial literacy programs and there is an inadequate policy support to complement banking reforms.

5.2. Barriers to the Use of Formal Credit

However, the confirmation of the beneficial effect of the Islamic banking system on account ownership and savings and the negative effect on the availability of formal credit which also remains scanty in all the countries. This argues a similar position with Siddiqui and Zaman (2021) who observed that other Islamic banking products such as qard al-hasan (benevolent loans) and musharakah (partnership financing) are not adopted because of their higher cost and the users' low level of financial literacy. Further, institutional realities – collateralize requirements, regulation, and the like dampen prospects of credit access even more.

In fact, the study by Abubakar and Haron (2019) that compares Islamic banking with conventional banking supports this by suggesting that though the Islamic modes of banking and financial services appear to be ethical, their products do not offer the same cost-efficient service that appeals to the ubiquity and availability of credit. This challenge points to the need for Islamic credit products and policies that overcome the impediments of adoption.

5.3. Role of Public Awareness in Financial Inclusion

This study also identified perception of Islamic banking products and services as a factor that played a role in the achievement of financial inclusion. Those nations with more awareness have even had better positions in terms of financial inclusiveness like Saudi Arabia and Malaysia. This research is also in line with Osman & Haneef (2020) who highlighted the need to conduct awareness campaigns if the understanding of Islamic banking among the masses will to improve.

On the other hand, the lower awareness levels are observed in Egypt and Bangladesh, similar to the study done by Ghaffar and Karim (2018) where they pointed out that lack of awareness campaigns hinders Islamic banking growth in less developed markets. This research implies a need to increase expenditure on information-related initiatives and financial literacy efforts to close the knowledge divide and improve the provision of Islamic financial services.

5.4. Contribution of Digital Platforms

In this context, the use of digital platforms in the context of Islamic banking systems is identified as a key driver of the provision of access to financial services. Mobile banking and digital wallets, as demonstrated by Rashid and Hassan (2021) extend Sharia'h banking to the remote regions and unserved populations. This study did not directly concern digital innovation. However, the favourable trends the paper highlighted in Malaysia and Saudi Arabia are indicative that digital solutions could go a long way in solving geographical and infrastructural challenges. On the other hand, Bangladesh and Egypt, who do not have a strong setup for digital banking still have some issues to overcome to extend Islamic banking services. These results support our earlier observations and are closely related to the conclusions of Alwi and Azam (2022), who underlined the need for increasing technological spending to improve the opportunities and economic efficiency of Islamic financial services. The findings of this study suggest the following policy implications. Therefore, other nation's states like the Bangladeshi and Egyptian policymakers need to prioritize the institutionalization of enabling cultural contexts through the implementation of suitable legislations aimed at-Islamic banking and lobal implementation of public awareness drive. Ahmed and Sulaiman (2021) has also proposed that it may also improve the level of confidence and the operation of Islamic financial business if Shariah interpretations are more rigorous and how international cooperation, coordination and coherence in Islamic finance is carried out. Further studies should also review the end result that such an Islamic banking system has on the progression of economy and poverty reduction especially in the developing nations. Research works also looking at how digital innovation, partnership between government and private players

and cross-border initiatives are useful in enhancing Islamic banking would add to available literature in this specialty.

5.5. Conclusion

Therefore, this study's findings continue the support of the conclusions that the Islamic banking helps increase the financial inclusion in countries with a Muslim majority. Moreover, this study reveals the general list of challenges, including the low use of credits and the lack of awareness among the public. This discussion also highlights the need for context-sensitive approaches, use of technology and policy changes while adopting Islamic banking, as supported by the comparison made to previous related studies. The study offers practical implications for stakeholders interested in improving the delivery and impact of Islamic financial services.

References

- Abdullahi, M.A., & Suleman, Y. (2020). Islamic banking and financial inclusion: Evidence from Nigeria. *African Journal of Economic Policy*, 27(2), 120-136.
- Abdul-Rahman, A., Othman, A. S., & Wahab, K. A. (2015). Financing small and medium enterprises in the halal industry through Islamic Finance: *Opportunities and challenges*.
- Abubakar, M., & Haroon, R. (2019). Islamic Banking and credit accessibility in sub- Saharan Africa: Barriers and solution. *Journal of Islamic Banking and Finance*, 11(3), 45-62.
- Ahmed, H. (2004). Role of zakat and awqaf in poverty alleviation, Islamic Development Bank, *Islamic Research and Training Institute*.
- Ahmed, S., & Sulaiman, M. (2021). Shariah-complaint finance: Bridging regulatory gaps for financial inclusion. *Global Islamic Finance Review*, 14(1), 12-17.
- Akbar, S. W., Rehman, A. U., Arshad, I., & Shaheen, W.A. (2024). "From Theory to Practice: Examining the True Impact of Institutional Quality on Innovation Commercialization." *Bulletin of Business and Economics (BBE)*, 13(1), 8-21. <https://doi.org/10.61506/01.00164>
- Alshamari, T., Almutairi, S., & Khan, S. (2021). Mobile banking and financial inclusion: A study of Islamic financial instituonal in GCC countries, *International Journal of Islamic Business and Economics*, 8(3), 34-52.
- Alwi, R., & Azam, S. (2022). Technological innovation in Islamic banking: Opportunities and challenges. *Journal of Digital Financial Inclusion*, 5(4), 67-81.
- Asutay, M. (2012). Conceptualization of the second-best solution in overcoming the social failure of Islamic banking and finance; Examining the overpowering of homoislamicus by homoeconomicus. *IIUM Journal of Economics and Management*, 15(2), 167-195.
- Beck, T., Demirguc-Kunt, A., & Levine, R. (2007). Finance, inequality and the poor. *Journal of Economic Growth*, 12(1), 27-49.
- Bilal, M. J., Shaheen, W.A. (2024), "Towards sustainable development: Investigating the effect of green financial indicators on renewable energy via the mediating variable" *Renewable Energy*. Volume 221 (119819). <https://doi.org/10.1016/j.renene.2023.119819>
- Chapra, M. U. (2008). The Islamic vision of development in the light of Maqasid A-shariah. Islamic Research and Training Institute.
- Cull, R., Ehrbecj, T., & Holle, N. (2014). Financial inclusion and development: Recent impact evidence. CGAP Focus Note, 92,1-11.
- Demirguc-Kunt, A., Klapper, L., Singer, D., Ansar, S., & Hess J. (2018). The Global Findex Database 2017: Measuring financial Inclusion and fintech revolution. World Bank.
- Dusuki, A. W., & Abdullah, N. I. (2007). Maqasid al shariah, masalahah, and corporate social responsibility. *American Journal of Islamic Social Sciences*, 24(1), 25-45
- El-Zoghbi, M., & Tarazi, M. (2013) Trends in sharia-compliant financial inclusion. CGAP.
- Farahani, Y. G., & Sadr, S. M. H. (2012). Analysis of Islamic banking performance: Evidence from Iran. *Journal of Banking Regulation*, 13(1), 12-22.

- Ghaffar, M., & Karim, S. (2018). Awareness and adoption of Islamic banking: Evidence from developing countries. *Asian Journal of Finance and Banking Studies*, 6(1), 28-42.
- Haniffa, R., & Hudaib, M. (2007). Exploring the ethical identity of Islamic via communication in annual reports. *Journal of Business Ethics*, 76(1), 97-116
- Hassan, M. K., & Lewis, M. K. (2007). Handbook of Islamic banking. Edward Elgar Publishing.
- Hossain, M., & Ferdous, S. (2020). Barriers to Islamic banking adoption in Bangladesh: A qualitative study. *South Asian Journal of Management*, 27(3), 55-78.
- Hussain, Z., Huo, C., Ahmad, A. Shaheen, W.A. (2024) An assessment of economy- and transport-oriented health performance. *Health Economics Review* 14, 80. <https://doi.org/10.1186/s13561-024-00544-0> .
- International Journal of Islamic and Middle Eastern Finance and Management*, 8(2), 204-228.
- Iqbal, M.A., Shaheen, W.A., Shabir, S., Ullah, U., Ionel-Alin, I., Mihut, M., Raposo, A., Han, H., (2025) Towards a green economy: Investigating the impact of sustainable finance, green technologies, and environmental policies on environmental degradation. *Journal of Environmental Management*, Volume 374, 124047. <https://doi.org/10.1016/j.jenvman.2025.124047>.
- Iqbal, Z., & Mirakhor, A. (2001). An introduction to Islamic finance: Theory and practice. Wiley Finance.
- Iqbal, Z., Asutay, M., & Khan, T. (2019). Digital transformation in Islamic finance. *Islamic Economic Studies*, 27(2), 1-23
- Kammer, A., Norat, M., Pinon, M., Prasad, A., Towe, C, Zeidsne, Z., & IMF Staff Team. (2015). Islamic finance: opportunities, challenges, and policy option. *International Monetary Fund*.
- Mahmood, A, Shaheen, W.A, Ullah, U. (2024). Breathless Returns: Assessing Air Pollution's Influence on Dividend Yields in Pakistan and the USA. *International Journal of Management Research and Emerging Sciences*, 14 (3) (P-ISSN: 2223-5604, E-ISSN: 2313-7738). <https://doi.org/10.56536/ijmres.v14i3.640> .
- Mehroush, I., Shaheen, W.A., Shabir, M. *et al.* (2024), “Pathways to ecological resilience: exploring green energy and finance for sustainable development.” *Environment Development Sustainability* (2024). <https://doi.org/10.1007/s10668-024-04662-x>
- Norin, A., Ishfaq, H., Shaheen, W. A., & Abbas, Z. (2024), “Advertising Effects on Young Minds: Probing into Environmental Awareness, Purchasing Patterns, and Attitudinal Shifts in Children.” *Research Journal for Societal Issues*, 6(1), 272–292. <https://doi.org/10.56976/rjsi.v6i1.197>
- Shaheen, W.A., Kazim, M., Shafi, N., Perveen, N., (2025) Impact of Population Growth on CO₂ Emissions in Export-Driven Global Transport: A 30-Country Analysis (2011-2020). (2025). *Journal of Social Sciences and Economics*, 4(1), 26-41. <https://doi.org/10.61363/xn4kv73>.
- Shaheen, W.A., Sajid, Q., Shafi, N., & Ullah, U., (2024). How female labor participation and literacy positively influence FDI inflows: Empirical evidence from OECD countries (2011-2020), *Journal of Finance & Economics Research*, 9 (2), 80-104. <https://doi.org/10.20547/jfer2409205>

- Shaheen, W.A., Saleem, T., Shafi, N., Ullah, U., (2025) Systematic Literature Review on Capital Budgeting Techniques. (2025). *UCP Journal of Business Perspectives*, 2(2), 17-29. <https://ojs.ucp.edu.pk/index.php/jbp/article/view/378>
- Tariq, M., Maryam, S. Z., Shaheen, W.A. (2024). Cognitive factors and actual usage of Fintech innovation: Exploring the UTAUT framework for digital banking. *Heliyon*, 10 (15) (ISSN: 2405-8440). <https://doi.org/10.1016/j.heliyon.2024.e35582> .
- Ullah, U., Shaheen, W.A. (2024) Empowering sustainable development through finance, economic factors, technology-innovation, and Governance Index for a flourishing future. *Environment, Development and Sustainability*. <https://doi.org/10.1007/s10668-024-05480-x>.