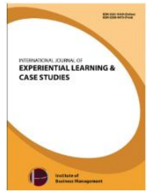
9:1 (June 2024) pp 165-193 https://doi.org/ 10.22555/ijelcs.v9i1.1125

International Journal of
Experiential Learning & Case Studies

Journal homepage: https://ijelcs.iobm.edu.pk/



The Role of Islamic Banks to Increase Financial Inclusion in Southeast Asia, the Middle East, and North Africa

[a]Khizra Massab, [b]Dr. Danish Ahmed Siddiqui

[a]M-Phil scholar, Karachi University Business School, Pakistan. Email: h.khizra@gmail.com
[b]Associate Professor, Karachi University Business School, Pakistan. Email: daanish79@hotmail.com

ARTICLE INFORMATION

Article history:
Received 23 May2024
Received revised submission 4 June 2024
Accepted 15 June 2024
Available online 30 June 2024

Keywords:
Financial inclusions
Islamic banks
Financial services
Financial markets
Traditional banking

ABSTRACT

This article investigates the contribution of Islamic banks to enhancing access to financial services by looking at their unique method of offering Sharia-compliant goods and services. Islamic banking principles, the study claims, encourage profit-and-loss sharing and forbid riba (interest), which increases access to financial services, particularly for devout Muslims. In particular, this paper looks at how Islamic banks affect financial inclusion in Southeast Asia, the Middle East, and North Africa. This is accomplished by assessing academic literature, industry reports, and statistical data. It looks at potential substitutes, including mobile banking and microfinance, to reach those who need access to traditional banking services and delves into the difficulties Islamic banks have, such as a lack of knowledge about money and location. Data indicate that Islamic banks support economic development and stability by establishing trust via Sharia governance structures. In its last part, the report offers some suggestions on how governments may utilize Islamic banking to increase public access to financial services and promote social change.

1 Introduction

When all members of an economy can easily access, utilize, and profit from the formal financial system, one may say that the economy is financially inclusive (Oanh, Van, & Dinh, 2023). Simply put, when a population can afford to maintain a bank account with a financial institution, one may say that the population is financially included. This facilitates the ability to borrow cash, make purchases, and save money for account holders. People who are not part of the financial system must make do with what they have, whether saving for college or starting a business (Khmous & Besim, 2020).

The financial inclusion importance was acknowledged by the G20 leaders at their 2010 meeting in Seoul. Since then, it has been crucial in the World Bank's worldwide development strategy to achieve universal financial access by 2020. The backing of the financial authorities, regulators, and central banks of developing and growing countries is crucial to achieving this objective. They need to take this tack and figure out how to prioritize financial inclusion in their nations. The hope is that it will help the oppressed and the impoverished.

1.1 Inclusion of Southeast Asian countries in financial markets

The socioeconomic environment of Southeast Asia is complicated and diversified, making it challenging to achieve financial inclusion. The World Bank reports that several nations' populations lack access to conventional financial services, this includes the Philippines, Vietnam, and Indonesia (Yeung, 2022). When individuals are not accepted in certain groups, it might make it difficult to contribute financially and improve their standard of life. The widening economic gap in Southeast Asia worsens the issues of financial inclusion. Poverty and insufficient finance are prevalent in certain nations, whereas fast economic growth is the norm in others. These discrepancies widen the disparity between people who have and do not have access to financial services (Zhang & Naceur, 2019). Some geographical characteristics, such as rural areas and isolated islands, challenge establishing conventional banking infrastructure. As a result, the banking alternatives accessible to the local population are limited (Paniagua, 2021).

Further impediments to financial inclusion include technological ones, such as a lack of internet access and an insufficient mobile infrastructure (Kandpal et al., 2023). Despite the proliferation of digital technology like mobile banking, there are still pockets where issues with these systems are a constant. In addition, individuals may hesitate to utilize it due to their lack of knowledge about personal finance and distrust of conventional financial institutions (Kats, 2022). Southeast Asian nations should work together on public financial education initiatives, new banking practices, and regulatory reforms to address the issue of financial inclusion. Microfinance and mobile banking offer individuals in rural and underprivileged regions access to banking services. (Group, 2020). The initiatives' focus on increasing participation in formal economic activity and access to financial services will allow more individuals to better their economic circumstances.

1.2 Arab countries' access to financial services

With only 44.4% of adults having a bank account compared to 61.5% worldwide, compromised financial inclusion is a significant problem in the Middle East and North Africa (MENA). Furthermore, compared to the worldwide average of 27.4%, just 15.2% of MENA people have their savings held in a formal institution. Compared to the global average of 14.7 per cent, the financial inclusion of middle-income MENA countries is much lower, with borrowing rates as low as 8.6 per cent. According to Demirgüç-Kunt and Klapper (2013), a country's economic growth is a major factor in explaining why financial inclusion is low, particularly in MENA nations. The Organization (2016) proposed that small company assistance and increased access to financing might decrease young unemployment in the Middle East and North Africa (MENA) area, which has the world's highest youth unemployment rate. More evidence indicating easier access to credit reduces poverty lends credence to this idea (Wang & Luo, 2022).

Apart from Iran, 164 Islamic banks are in the MENA area; 45 of these banks are in the top 100 in the world. Their combined assets in 2017 were close to US$600 billion, or around 18% of all banking assets in the area (M.K. & Reddy, 2019). Sharia law forbids Muslims from paying riba (interest) on borrowed money, which contributes to the low level of financial inclusion in the MENA area, according to Makina and Walle (2019), who examined the supply-side data of financial inclusion. In contrast to traditional banking, Islamic banking bases its transactions on "profit and loss sharing" rather than interest (Abdul-Rahman & Nor, 2017). According to the World Bank's (2014) Global Findex database, 10.4% of people in MENA nations, double the global average, have “religious reasons” for not having access to financial services. Having said that, it is well-known that many Sharia-compliant items are designed to benefit the impoverished. According to preliminary research, Islamic banking may help expand access to banking services (Horvath et al., 2016).

1.3 Financial inclusion in Afghanistan, Pakistan, the Middle East, and North Africa

Financial inclusion leads to economic growth and reduces poverty, according to the (Bank, 2023). In order to quantify and assess financial inclusion on a global scale, a group of economists from the World Bank have released several research and working papers. Using data from the Global Findex Database 2014, Demirgüç-Kunt et al. (2015) provide financial inclusion metrics on a global, national, and regional scale. As of 2014, 60.7% of individuals throughout the globe held official accounts with financial institutions, up from 50.6% in 2011, according to the database. Further, in 2014, 27.4% of individuals saved money in institutions, compared to 22.6% in 2011. Therefore, there was a significant improvement in the global financial inclusion measures of account holding and saving from 2011 to 2014. Also, there was a gradual uptick from 9.1% in 2011 to 10.7% in 2014 in the proportion of people who borrowed from official sources. In Middle Eastern nations, 14% of people held a formal account in 2014, up from 10.9% in 2011, according to the same data for financial inclusion metrics. Additionally, in 2014, 4% of people held formal savings accounts, down from 2.7% in 2011. Compared to worldwide indications, the percentages were lower in both years. Among Middle Eastern adults, 5.6% borrowed in 2014 compared to 4.4% in 2011 (Demirgüç-Kunt et al., 2015).

Among individuals in the MENA region, 17.7% held formal accounts and 4.5% saved at formal financial institutions in 2012 (according to financial inclusion metrics). In the same year, 5.1% of the borrowing was done formally (World Bank, 2012). Compared to other low-income countries, Afghanistan's financial inclusion indicators are low: only 9% of adults had a formal account, 2.8% of adults saved at formal institutions, and 7.4% actively borrowed money. According to Demirgüç-Kunt and Klapper (2013), 10.3% of people in Pakistan had a formal account, whereas 1.4% made savings and 1.6% borrowed on average. A comparison of financial inclusion metrics throughout areas globally is shown in Figure 1. Formal accounts, formal savings, and formal borrowing are the metrics that are derived from the 2014 World Bank Database.

According to the comparable indicators mentioned above, the financial inclusion indicators (having an account, saving, and borrowing) are low in MENAP. This is particularly true when the comparison data does not include the Gulf area, whose nations tend to have higher incomes. Indicators of saving and borrowing were low on a global and regional scale. These problems include a high unemployment rate, an unstable financial and economic regime, civil wars and political conflicts; thus, financial inclusion could improve economic growth and development sustainability by increasing equality, access, and utilization of financial sources, and the region has the world's lowest financial inclusion indicators (Kukaj et al., 2022).

1.4 Islamic Banks and Financial Inclusion in Southeast Asia

By catering to Muslim groups that may be wary of using traditional banking, Islamic banks in Southeast Asia help to broaden access to banking services by offering goods and services that comply with Sharia law (Khan et al., 2021). By adhering to Sharia law, financial dealings are guaranteed to be in harmony with Islamic principles, such as the gharar (speculative trades) and the riba (interest ban). Islamic banking assets have surpassed those of conventional banks in some Southeast Asian countries due to the rapid growth of Islamic finance in the area. Muslim-majority countries (Brunei, Indonesia, and

Malaysia) efforts aid the growth to promote a more unified Islamic financial system (Ghouse et al., 2022). This expansion has contributed to better financial inclusion by making a broader range of financial products available, particularly those tailored to the needs of Muslim customers (Hussain et al., 2024)

Islamic banks use Sharia governance procedures to maintain their conformity with Islamic criteria. Over time, these approaches assist in increase access to financial services by fostering trust between stakeholders and clients. Islamic banks in Southeast Asia prioritize partnership financing, which might make it simpler for small firms and the impoverished to acquire loans (Muhammad et al., 2021). By being transparent and following Sharia governance standards, Islamic banks may attract investors and achieve financial success. Because of their dedication to Sharia compliance and financial inclusion, Islamic banks impact Southeast Asia's economic development and stability (Aspiranti et al., 2023). Islamic banks are vital in increasing access to banking services, especially for underbanked and unbanked populations, because they promote ethical financial practices and religiously aligned product offerings (Khémiri et al., 2024).

1.5 Purpose of the Study

In this research, the aim is to:

- Exemplify how Islamic banking practices facilitate greater accessibility to banking services for a greater number of individuals, particularly those who identify as Muslims or are affiliated with religiously observant organizations, through the provision of Sharia-compliant products and services.
- Determine the most prevalent barriers Islamic banks face when connecting with individuals who lack or have inadequate bank accounts.

- Ascertain how Islamic banks bolster public confidence in using financial services; an analysis of their Sharia compliance frameworks and good governance practices will be conducted.
- Determine whether Islamic finance forms such as microfinance, partnership financing, and Islamic insurance are the most effective means of reaching impoverished communities.
- Describe how Islamic banks contribute to the expansion and stabilization of economies in specific regions, and then demonstrate how this knowledge can be utilized to construct universally accessible financial systems.

1.6 Significance of Research

Due to their adherence to Sharia law, Islamic banks have the potential to attract clients who are otherwise hesitant to patronize conventional banks on account of religious or moral considerations. Financial services access may be extended to communities that hold these ideals in high regard (Aspiranti et al., 2023). By offering a diverse range of products that adhere to the principles of Sharia law, Islamic banks enable individuals who were previously unable to avail themselves of financial services to do so. Expanding into regions with substantial Muslim populations, where traditional banking services may be inadequate, is paramount (Alam et al., 2017).

Islamic banks contribute to preserving economic stability by facilitating greater public access to financial services. Inclusive financial institutions foster economic activity and financial inclusion, augmenting economic resilience and activity. The existence of this positive association is well-documented (Khémiri et al., 2024). Islamic banks frequently participate in community development and social welfare initiatives to strengthen the link between financial inclusion and positive social changes. It is right to say that social change and inclusive economic growth could potentially be promoted by prioritizing equitable financial practices (Ahmad, 2021). The assessment of strategies Islamic banks use to expand their financial service accessibility could provide insights into the potential of ethical banking practices for promoting social welfare, credit accessibility, and economic development. Financial institutions foster economic activity and financial inclusion, thereby augmenting economic growth and development (Tok & Yesuf, 2022).

2 Methodology

The following section discusses the data collection and analysis methods to determine how Islamic banks contribute to expanding access to financial products and services. Here are the key components of the methodology:

Data is collected and analyzed from academic and business-related sources using a qualitative technique. It is critical to comprehend the potential role of Islamic banks in fostering financial inclusion in areas where traditional banking services may conflict with cultural or religious norms. Academic journals, studies, and reports are good places to get research and primary sources of information on financial inclusion and Islamic banking. Some examples of secondary sources of information include government reports, books and articles on Islamic banking. Using this secondary data leads to a better understanding of Islamic banks' role in broader efforts to promote financial inclusion.

This study focuses on Islamic banks in Muslim-majority regions, including North Africa, Southeast Asia, and the Middle East. This approach ensures that Islamic finance will include a broad range of perspectives and methodologies. Relevance to Islamic banking and financial inclusion is a criterion for article and report selection. There is a strong emphasis on studying Islamic banking and how it affects people's access to financial services in developed and developing countries.

Applying content analysis to Islamic finance allows one to uncover themes and trends. As part of this process, the paper will examine the effects of Islamic banks' adherence to Sharia law on financial inclusion, as well as how Islamic insurance, profit-and-loss sharing, and partnership financing all contribute to this goal (Hassan et al., 2021). Statistical analysis allows for the quantification of financial inclusion measures in many industries. The World Bank's Global Findex is one place that accomplishes this. The purpose of this research is to examine the similarities and differences between financial inclusion programs and Islamic banking practices. Verifying the chosen studies and reports using a rigor evaluation guarantees their validity and credibility. This necessitates checking the sources for quality and assessing their methodological rigor.

This article analyzes and aggregates the data to provide a full picture of Islamic banks' responsibilities in fostering financial inclusion. This research looks at the pros and cons of Islamic banking so that stakeholders and politicians can make an informed decision about how to utilize it to expand people's access to banking services. The paper offers a fair assessment of Islamic banking from a financial inclusion perspective, outlining its benefits and drawbacks and proposing avenues for further study and regulation.

2.1 Inclusion criteria:

For a literature review to be successful, it is necessary to set clear inclusion criteria to filter out irrelevant studies and only include those that address the research question or review objectives. Some typical inclusion criteria followed in this study are as follows:

1. Studies published in the last ten years were considered.
2. Research question determination ensured the inclusion of qualitative studies.
3. Research studies conducted in English Language.
4. Research that studied the effect of Islamic banking on financial inclusion.

5. Studies published in journals with an Impact Factor were considered for inclusion in this meta-analysis.
6. To guarantee the accuracy and trustworthiness of the data, only research that has been peer-reviewed was included.
7. To show the findings with broader coverage, include research from all areas.

The author has saved time and effort during the search process and ensured that the studies included in the paper review are closely related to the study goals by outlining these criteria in advance.

2.2 Exclusion criteria

When conducting a literature search, establishing exclusion criteria is just as crucial as defining inclusion criteria. Exclusion criteria help to systematically eliminate studies that do not meet the necessary standards or relevance for research. The exclusion criteria considered in this study are outlined below.

1. Non-peer-reviewed articles, abstracts, conference proceedings, editorials, commentaries, and reviews.
2. Studies with designs inappropriate for addressing the research question.
3. Studies failing to meet quality standards, including those published in non-impact factor journals.
4. Studies involving populations irrelevant to the research question, such as conventional banks.
5. Articles not published in English.
6. Studies that did not align with the research question.
7. Studies with incomplete data or results that were not fully reported.
8. Studies with small sample sizes.

2.3 Keywords and Search String

Databases of paper extraction: For a literature search on the topic of the role of Islamic banks in increasing financial inclusion, there is a need to develop a set of keywords and phrases that capture the essence of the research question. The following keywords were used to develop an effective search string:

1. Islamic Banks: Among all financial institutions, this study considered only Islamic Banks.
2. Financial Inclusion: Focuses on the broader concept of providing access to financial services.
3. Islamic Finance: Captures the broader field within which Islamic banks operate.
4. Access to Finance: A synonym for financial inclusion.
5. Microfinance: Related to financial inclusion, especially in developing countries.
6. Banking Services: Refers to the services that might contribute to financial inclusion.
7. Financial Services: More general than banking services.
8. Economic Development: Often a goal or result of increased financial inclusion.
9. Poverty Alleviation: Related goal of financial inclusion initiatives.
10. Sharia Compliance: Specific to Islamic banking.

2.4 Search String

The following basic search string combines primary keywords with Boolean operators:

- (“Islamic Banks” OR “Islamic Banking”) AND (“Financial Inclusion” OR “Access to Finance” OR Microfinance)
- (“Islamic Banks” OR “Islamic Banking” OR “Islamic Finance”) AND (“Financial inclusion”)

2.5 Time Frame

When conducting a literature search, setting a time frame is crucial to ensure that the information you gather is relevant and timely, particularly in rapidly evolving fields or where recent developments are significant. The literature published in the last 5 to 10 years (e.g., from 2013 to 2023) focused on the most recent data and analyses.

Tools used for data extraction: The study used various databases such as Google Scholar, scinapse, JSTOR, and others. In addition, Harzing's publish or perish was also used.

Table 1: Literature Synthesis

Author(s)	Year	Title	Key Findings
Abdul-Rahman, A., & Nor, S. M.	2017	Challenges of profit-and-loss sharing financing in Malaysian Islamic banking	Explores operational difficulties in implementing PLS in Malaysia, emphasizing regulatory challenges and market acceptance.
Ahmad, S.	2021	How Islamic Social Finance Contribute to the Sustainable Development Goals: An Impactful Story of Al-Khidmat Foundation Pakistan	Describes how Al-Khidmat Foundation's initiatives align with and support various SDGs through Islamic financial solutions.
Alam, N., Gupta, L., & Shanmugam, B.	2017	Comparative Analysis: Islamic Banking Products and Services in Different Countries	Provides a comparative overview of the variations in Islamic banking products across multiple countries, highlighting unique adaptations.
Alaoui, Y. L., Tkiouat, M., & ELFAKIR, A.	2022	Prioritization of Customers' Preferences in Islamic banking system: An Artificial Intelligence Approach using Kano Analysis	Discusses how AI can optimize Islamic banking services by aligning them with customer preferences using Kano model analysis.
Aldibiki, A., & Ebrashi, R. E.	2023	The role of networks and capabilities in the internationalization of SMEs in North Africa: The case of Egyptian SMEs	Investigates the critical role of strategic networks and capabilities in aiding Egyptian SMEs to expand internationally.

Almarzoqi, R., Naceur, S. B., & Scopelliti, A.	2015	How Does Bank Competition Affect Solvency, Liquidity and Credit Risk? Evidence from the MENA Countries	Examines the impact of competitive banking environments in the MENA region on key financial stability metrics.
Aspiranti, T., et al.	2023	Shariah governance reporting of Islamic banks: An insight from Malaysia	Analyzes the transparency and efficacy of Shariah governance reporting within the Malaysian Islamic banking sector.
Ayyub, S., et al.	2019	Determinants of intention to use Islamic banking: A comparative analysis of users and non-users of Islamic banking: evidence from Pakistan	Identifies factors influencing Pakistani consumers' decisions to adopt Islamic banking, comparing users and non-users.
Bank, W.	2023	Financial Inclusion	Discusses global trends in financial inclusion, stressing the role of digital banking and policy frameworks.
Bhattacharyya, D., et al.	2023	The Great Banking Transition	Provides insights into the global shift toward digital banking, analyzing impacts on traditional banking models and customer engagement.

Figure 1 Prisma Protocol

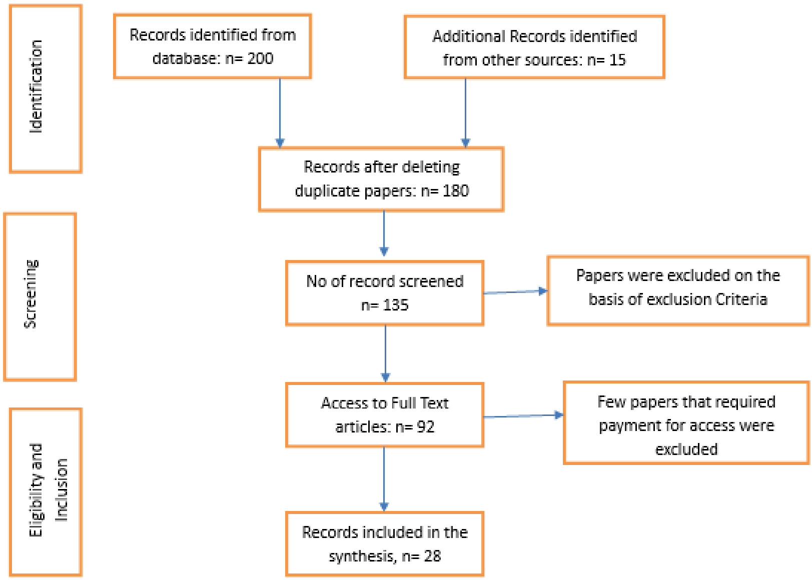


Table 2 and Figure 2 explain the steps to take when choosing studies for a systematic review. As seen in the figure, each step is broken down as follows:

2.6 Identification

Database searches turned up 200 records, which is the identification number. An additional fifteen documents were located via different sources. There were 180 records left for further screening after duplication was removed.

2.7 Initial evaluation

Only 135 out of 180 records were reviewed. Some articles were removed from consideration during the screening process because they did not meet the predefined criteria for inclusion. A small number of articles were removed from consideration as an additional criterion for removal since they demanded money to view them.

2.8 Eligibility and Inclusion

There were full-text articles accessible for evaluation in 92 of the records that were reviewed. Twenty-eight records met the inclusion criteria and were included in the qualitative synthesis after full-text assessment.

3 Literature Synthesis

Shihadeh (2018) investigates the impact of age, gender, income, and education on the prevalence of formal bank accounts, savings rates, and borrowing behaviors as part of his study on financial inclusion in MENAP. Several trends are shown in the report using the 2014 World Bank Global Findex Database. Using a probit model, this paper investigates the impact of these factors on MENAP financial inclusion. People of color and women with lower incomes are disproportionately underrepresented in the banking sector, (Shihadeh, 2018). There seems to be a positive association between education and financial inclusion since higher-educated individuals are more likely to hold formal bank accounts and utilize formal borrowing sources. Many low-income people in the MENAP area must take out loans to pay for expensive medical treatment. Therefore, it’s crucial to be able to borrow money when you need it. Despite Islam being the dominant religion in the area, it seems that religious sentiments have no bearing on the process of opening a legitimate bank account. However, those with the lowest income quintile are more likely to rely on unofficial financing sources. In contrast, those with degrees tend to choose legitimate ones. Expanding access to financial services should be a top priority for MENAP officials if they are serious about increasing economic growth. Low incomes, gender inequality, and educational attainment are obstacles to financial inclusion; central banks and ministries of finance may use these findings to address these issues (Shihadeh, 2018).

Khmous and Besim (2020) from fourteen MENA nations examined how gender, age, wealth, and level of education affected access to financial services. In addition, Khmous and Besim (2020) compared the proportion of total assets held by Islamic banks to the banking system. Financial inclusion and associated barriers were examined using data from the 2014 World Bank Global Findex database to determine the effects of nation developmental levels, Islamic banking share, and individual characteristics, and a probit estimation technique was used. Khmous and Besim (2020) found that middle-income MENA nations have lower financial inclusion rates than the world average. Despite greater financial inclusion rates among men, the rich, and the elderly, no statistically significant association was seen between education and this attribute. In middle-income MENA nations, particularly, Islamic banking practices benefited those with strong religious ties by increasing financial inclusion. Islamic financial institutions can potentially have a bigger impact in the fight for financial inclusion if they provide clients with cheap, all-encompassing Sharia-compliant solutions that address a range of demands. Governments should support Islamic banking and technical advancements that provide access to financial services. The Middle East and North Africa (MENA) area would reap economic and financial gains (Khmous & Besim, 2020).

According to Zins and Weill (2016), who used information from the 2014 World Bank Global Findex database, 37 African governments were considered. This research intended to use a probit estimation approach to understand how demographic variables affect financial inclusion measures including formal bank accounts, formal savings, and formal credit. Some of these factors were educational attainment, income, gender, and age. It also discusses the challenges of mobile money banking and financial inclusion (Zins & Weill, 2016). Increasing financial inclusion was associated with being older, male, having a greater salary, and having a higher degree of education. The individual’s traits and the specifics of the financial instrument determine the extent to which these factors vary.

Contrary to the strong favorable impacts of education and income, research about the impact of gender on formal financial inclusion is contradictory. Cultural and societal barriers still prevent women from breaking through, even if higher rates of formal financial engagement are connected with greater levels of education. Zins and Weill (2016) looked at the function of mobile banking in Africa and discovered that the same problems also affect conventional banking. The report identifies distance, high costs, and a lack of cash as the main reasons people are excluded from financial inclusion. It concludes that mobile banking may supplant financial inclusion in certain cases and that policies should focus on helping those suffering most from the latter. Zins and Weill (2016) state that the study's findings contribute to a better understanding of financial inclusion in Africa and may be useful for stakeholders and policymakers who want to increase financial inclusion.

3.1 Financial inclusion and Islamic banking

Studies have also investigated the factors that impact Muslims' choice to adopt Islamic banking and finance, and how these approaches may expand access to financial services for more individuals. "Muslims are significantly less likely than non-Muslims to own a formal account or save at a formal financial institution." (Demirgüç-Kunt et al., 2015) failed to find any evidence that Muslims, compared to other groups, utilize formal and informal borrowing.

Also, a large-scale survey of people in five MENA countries found that, while many people said they would theoretically prefer Sharia-compliant goods, even if they were costlier, relatively few bought and used them. According to Law et al. (2016), three subsets of Muslims prefer conventional or Islamic banking, depending on their degree of religious observance. Muslims who do not believe in conventional banking are in the first category. Second, a subset of Muslims now use conventional currency but would convert to Islamic funding if it were easier to get (Bitar et al., 2020). Thirdly, there's the category of people who aren't keen on Islamic money but would use traditional financing.

On the other hand, Kaabachi and Obeid (2016) investigated the factors that lead conventional bank clients in Tunisia to choose Islamic financial services. Customers' religious commitment, understanding of Islamic finance, the relative advantages of Islamic banking, and how well it fits with their beliefs, lifestyle, and banking habits are all factors for Islamic banking adoption. Based on his study on the impact of religion on Norwegians' access to financial services, Brekke (2018) concluded that younger, more educated Muslims do not like Islamic banking. Within the two Egyptian cities that Aldibiki and Ebrashi (2023) examined, there was no discernible relationship between demographic characteristics and the need for Islamic banking services.

If a country adopts Islamic finance, two things may happen: first, more people might get access to banking services (because more people would be ready to lend to those who have been turned down before), or second, people might switch from conventional to Islamic banks (Jouti, 2018). Along with pricing, branch location, and service quality, Sharia compliance is one of the elements that affects this migration (Alaoui et al., 2022). According to Gilani (2015), Islamic banking attracts both Muslims and non-Muslims because of its ethical standards.

Researchers such as Ayyub et al. (2019) examined sample form Pakistan to determine factors influencing people's decisions to utilize Islamic banking. The most important factors are individuals' beliefs in their value and agency over their actions. Mortimer et al. (2020) researched the elements that draw clients to Islamic banks in the UAE. Attitude and awareness have a direct impact on Islamic banking usage. In contrast, according to their results, other characteristics including image, Shariah compliance, originality, and awareness mitigate the effect of attitude on intention. Consumers' religious views, social influence and positive opinions affect their adoption of innovative Islamic home finance ideas in Malaysia. Kaawaase and LailahNalukwago (2017) found that in Uganda, a positive attitude affects the willingness to use Islamic banking.

In their theoretical investigation, Shinkafi et al. (2019) sought to determine what factors impact the effectiveness of Islamic financial inclusion initiatives. According to their analysis, the most critical factors are adequate financial access, political will, robust technology, and professional monitoring bodies and regulators. Additionally, they demonstrated that Muslims cannot engage in the financial system without first meeting religious and legal requirements and then having a thorough understanding of Islamic microfinance and Islamic financial products. Hassan and Modan (2018) state that the country's regulatory framework conflicts with Sharia principles. They also looked at how much Islamic banking has grown in Mozambique's financial system thanks to the current regulatory and legal framework. It was also feasible to do more research into the enabling aspects that were found.

An analysis of Islamic banks in Malaysia and their use of Islamic principles in public relations strategies was conducted by Halid et al. (2022). According to research, Islamic banks' public relations campaigns heavily use religious rhetoric. Zamer (2018) investigated the link between Islamic banking, GDP growth, and public opinion to increase access to financial services in the Middle East and sub-Saharan Africa. He discovered that laws, the need to deliver outstanding service to earn clients' confidence, and the issue of making services accessible without major bank investments are among the problems that Islamic banking, a new approach to financial inclusion, encounters. He also brought up digital channels and mobile money services as potential solutions.

Almarzoqi et al. (2015) analyzed how the growth of Islamic banking will influence the accessibility of formal financial services for citizens of OIC member nations. Researchers from OIC nations found that financial services increased faster than the expansion of physical access to them. Not only that, but their research also indicated a weak but favorable correlation between Islamic banking and the granting of investment loans to individuals and businesses.

3.2 Discussion

Islamic banking has expanded access to financial services for many people, especially those from Muslim communities and those with strict religious backgrounds. This position is explained in relation to recent publications. As an ethical substitute for mainstream banks, Islamic financial institutions provide banking products and services in line with Sharia law. This strategy attracts people whose religious beliefs would otherwise prohibit them from using financial services, as stated by Bhattacharyya (2022). Islamic banks provide financial services to those who follow religious beliefs via partnership-based transactions and by reducing interest (riba) (Klapper & Ansar, 2017).

Islamic banking may reach disadvantaged communities regardless of their geography or socioeconomic status via the use of technology. Islamic banks can reach out to people in rural areas using digital platforms like mobile banking, which might help remove geographical obstacles to financial inclusion (Klapper & Ansar, 2017). By promoting trust via Sharia governance and improving financial literacy, Islamic banks may attract more customers to the conventional financial system, says the World Bank. By promising to execute all of their financial operations in line with Islamic principles via governance and Sharia compliance systems, Islamic banks gain the trust of their stakeholders and consumers. Bhattacharyya (2022) asserts that this causes a banking sector that is more stable and makes financial services more accessible. Islamic financial institutions facilitate the expansion of financial services because of their honesty and dedication to morality (Klapper & Ansar, 2017).

For low-income communities, crucial financial alternatives include Islamic insurance, microfinance, and partnership financing. According to the World Bank, these products are designed to help those who don’t have access to regular banking services. Doing so contributes to the expansion of both financial inclusion and the economy. Klapper and Ansar (2017) state that Islamic banks may help expand access to banking services by educating their clients and offering them reasonably priced products and services that adhere to Sharia law (Muhammad et al., 2021). The expansion of access to financial services is one way in which Islamic banks help to boost and stabilize economies. Bhattacharyya (2022) found that advocating for ethical actions and providing goods that match religious principles promotes stronger economic engagement and resilience. More individuals may use the formal banking services offered by Islamic banks, which increases financial inclusion and contributes to the sustainable expansion of the economy (Klapper & Ansar, 2017).

Regarding expanding access to banking services, Islamic banking is revolutionizing things, particularly for those who adhere to Sharia law. Because of Islamic restrictions on interest and speculative trading, devout Muslims may avoid conventional financial institutions. This offers a path to a community of such individuals (Kandpal, et al., 2023). Islamic banking is attractive due to its adherence to Islamic principles and its ethical emphasis on profit and loss sharing rather than interest. Religion certainly plays a role. Ensuring that these financial services are accessible to individuals who really need them is no small task (Khmous & Besim, 2020). The underbanked and unbanked may be hard to reach for a variety of socioeconomic reasons, including geography and a lack of financial education (Klapper & Ansar, 2017). For instance, conventional banking services may not be available in more distant and rural parts of Southeast Asia. Here, new methods like mobile banking and microfinance could be helpful.

Trust is the most important factor to Islamic banking. Their use of Sharia governance principles sets them apart from conventional banks. These frameworks encourage transparency and ethical corporate practices, which may improve consumer trust. More people use banks when they trust them (Klapper & Ansar, 2017). The Sharia-compliant products provided by Islamic banks include microfinance, Islamic insurance, and partnership financing. The products are designed for those who are financially vulnerable or who prioritize honesty while handling money. Brookings claims that Islamic banks have the potential to significantly impact financial inclusion via the diversification of their product offerings, which in turn will aid in the advancement and stability of the economy (Aspiranti et al., 2023).

Islamic finance is about more than just catering to a niche market. It can drive real economic growth and stability by promoting ethical financial practices and providing Sharia-compliant products. If ethical finance is successful, it may lead to broad social and economic transformation (Bhattacharyya J., 2022).

4 Conclusion

The study focused on how Islamic banking has significantly increased people's access to formal financial services by providing an alternative to traditional banking that complies with Sharia law. This approach can potentially win over religious people while promoting ethical financial transactions. By doing away with riba (interest) and placing emphasis on profit and loss sharing, Islamic banks establish credibility with their stakeholders and customers. This increases the attraction of the bank. Using the content analysis, the study found that Islamic financial institutions are reaching out to areas that may not have access to traditional banking services using innovative means such as microfinance and mobile banking. By reducing financial illiteracy and removing geographical barriers, these techniques can help to increase all individuals' access to financial services. As Sharia governance structures of Islamic banks ensure compliance to Islamic law, it is more likely to draw participants into the formal financial sector as these mechanisms promote trust and openness towards the banks' products and services. Partnership financing and Islamic insurance are two Sharia-compliant services that Islamic banks offer low-income people. With high ethical standards, Islamic banks also actively participate in society welfare and community development (Klapper & Ansar, 2017).

To sum up, since Islamic banking provides goods and services which are morally sound and based on significant religious beliefs, it seems obvious that it will lead to increased public access to financial services. Islamic Banks' strategies emphasize the prominence of moral and financial conduct, which promotes social development, economic growth, and stability. Growth in Islamic banking would enable more people to access to financial services.

References

Abimbola, T., & Vallaster, C. (2007). Brand, Organisational Identity and Reputation in SMEs: *an overview. Qualitative market research: an international Journal*, *10*(4), 341-348. https://doi.org/10.1108/13522750710819685.

Azizi, S., & Daei, Z. (2014). A model of factors' effects on brand identification: evidence from Iran. *Asian Academy of Management Journal*, *19*(2), 123-128.

Afshardoost, M., Eshaghi, M. S., & Bowden, J. L.-H. (2023). Internal brand management, brand understanding, employee brand commitment, and brand citizenship behavior: a meta-analysis. *Journal of Strategic Marketing*, *31*(5), 983-1011, https://doi.org/10.1080/0965254X.2021.2016896

Alaoui, Y. L., Tkiouat, M., & ELFAKIR, A. (2022). Prioritization of Customers' Preferences in Islamic banking system: An Artificial Intelligence Approach using Kano Analysis. *Journal of Islamic Business and Management*, *12*(1),18-31, 10.26501/jibm/2022.1201-003

Aldibiki, A., & Ebrashi, R. E. (2023). The role of networks and capabilities in the internationalization of SMEs in North Africa: The case of Egyptian SMEs. *Thunderbird International Business Review*, *65*(6), 581-597. https://doi.org/10.1002/tie.22347

Almarzoqi, R., Naceur, S. B., & Scopelliti, A. (2015). How Does Bank Competition Affect Solvency, Liquidity and Credit Risk? Evidence from the MENA Countries. IMF Working Paper No. 15/210.

Aspiranti, T., Ali, Q., Sudrajad, O. Y., & Rusgianto, S. (2023). Shariah governance reporting of Islamic banks: *An insight from Malaysia. Cogent Business & Management,10*, (2), https://doi.org/10.1080/23311975.2023.2247220

Aspiranti, T., Ali, Q., Sudrajad, O. Y., & Rusgianto, S. (2023). Shariah governance reporting of Islamic banks: *An insight from Malaysia. Cogent Business & Management*, *10*, 344-351 https://doi.org/10.1080/23311975.2023.2247220.

Ayyub, S., Xuhui, W., Asif, D. M., & Ayyub, R. M. (2019). Determinants of intention to use Islamic banking: A comparative analysis of users and non-users of Islamic banking: evidence from Pakistan. *International Journal of Islamic and Middle Eastern Finance and Management*, *13*(1),147-163, https://doi.org/10.1108/IMEFM-05-2017-0135

Bank, W. (2023). Financial Inclusion. Retrieved from https://www.worldbank.org/en/topic/financialinclusion/overview.

Bhattacharyya, D., Dietz, M., Edlich, A., Höll, R., Mehta, A., Weintraub, B., & Windhagen, E. (2023). *The Great Banking Transition. McKinsey's Global Banking Practice.*

Bhattacharyya, J. (2022). The structure of sustainability marketing research: A bibliometric review and directions for future research. *Asia-Pacific Journal of Business Administration. 15*(2), 245-286. https://doi.org/10.1108/APJBA-06-2021-0239

Bitar, M., Pukthuanthong, K., & Walker, T. (2020). Efficiency in Islamic vs. conventional banking: The role of capital and liquidity. *Global Finance Journal*, *46*, 256-262, https://doi.org/10.1016/j.gfj.2019.100487.

Demirgüç-Kunt, A., & Klapper, L. F. (2013). Measuring Financial Inclusion: Explaining Variation in Use of Financial Services across and within Countries. Brookings Papers on Economic Activity.

Demirgüç-Kunt, A., Klapper, L., Singer, D., & Oudheusden, P. V. (2015). The global findex database 2014: Measuring financial inclusion around the world. *World Bank Policy Research Working Paper,*.

Ghouse, G., Ejaz, N., Bhatti, M. I., & Aslam, A. (2022). Performance of islamic vs conventional banks in OIC countries: Resilience and recovery during Covid-19. *Borsa Istanbul Review, 22*(1), S60-S78 https://doi.org/10.1016/j.bir.2022.11.020

Gilani, H. (2015). Exploring the ethical aspects of Islamic banking. *International Journal of Islamic and Middle Eastern Finance and Managemen*t, *8*(1), 85-98. https://doi.org/10.1108/IMEFM-09-2012-0087.

Group, W. (2020). Advancing Digital Financial Inclusion in ASEAN. ASEAN WC-FINC.

Halid, S., Rahman, R. A., Mahmud, R., & Mansor, N. (2022). Does ESG Scores have an impact on Financial Performance? A Conceptual Paper. Conference: The 1st International Colloquium on Accounting and Business (ICAB2022)At: Faculty of Accountancy, UiTM Cawangan Perak.

Hassan, M. K., Khan, A., & Paltrinieri, A. (2021). Islamic Finance: A Literature Review. In: Hassan, M.K., Saraç, M., Khan, A. (eds) *Islamic Finance and Sustainable Development* . Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-030-76016-8_5

Hassan, R., & Modan, C. (2018). The possible inclusion of legal provisions in Islamic banking and finance: The case study of the Mozambican regulatory framework.

International Journal of Law and Management, *60*(2), 662-680. https://doi.org/10.1108/IJLMA-10-2016-0097.

Horvath, R., Seidler, J., & Weill, L. (2016). How bank competition influences liquidity creation. Economic Modelling, 52, 155-161. https://doi.org/10.1016/j.econmod.2014.11.032.

Hussain, S., Rehman, A. u., & Hassan, S. (2024). Financial Inclusion and Economic Growth: Comparative Panel Evidence from Developed and Developing Asian Countries. SAGE Open, 14(1), 1-15. https://doi.org/10.1177/21582440241232585.

Jouti, A. T. (2018). Islamic finance: financial inclusion or migration? SRA *International Journal of Islamic Finance, 10*(2), 277-288. https://doi.org/10.1108/IJIF-07-2018-0074.

Kaabachi, S., & Obeid, H. (2016). Determinants of Islamic banking adoption in Tunisia: empirical analysis. *International Journal of Bank Marketing, 34*(7), 1069-1091. https://doi.org/10.1108/IJBM-02-2015-0020

Kaawaase, T. K., & LailahNalukwago. (2017). *Religiosity and Islamic Banking In Uganda. Makerere Business Journal*, *13*(1), 70-93

Kandpal, V., Chandra, D., Dalei, N. N., & Handoo, J. (2023). Key Drivers and Challenges for Financial Inclusion. *In Financial Inclusion in Circular Economy* . Springer, https://doi.org/10.1007/978-3-031-22723-3_2

Kats, D. (2022). The Rise of Mobile Banking: Challenges and Opportunities. Retrieved from www.globalbankingandfinance.com: https://www.globalbankingandfinance.com/the-rise- ofmobile-banking-challenges-and-opportunities/

Khan, A. A., Ghias, S., & Hyder, S. I. (2021). Islamic Banking Prospects, Challenges and

Criticism: A Systematic Literature Review. *Journal of Accounting and Finance in Emerging Economies. 7*(4), 921-930. 10.26710/jafee.v7i4.2072

Khémiri, W., Chafai, A., Attia, E. F., Tobar, R., & Fouad, H. F. (2024). Trade-off between financial inclusion and Islamic bank stability in five GCC countries: *the moderating effect of CSR. Cogent Business & Management*, *11*(1), 1-30. https://doi.org/10.1080/23311975.2023.2300524.

Khmous, D. F., & Besim, M. (2020). Impact of Islamic banking share on financial inclusion: evidence from MENA. *International Journal of Islamic and Middle Eastern Finance and Management*, *13*(4), 655-673, https://doi.org/10.1108/IMEFM-07-2019-0279

Klapper, L., & Ansar, S. (2017). Can Islamic finance boost financial inclusion? Retrieved from https://www.brookings.edu: https://www.brookings.edu/articles/can-islamic-finance-boostfinancial-inclusion/

Kukaj, H., Nimani, A., & Usaj, (2022). Foreign direct investment, economic growth, and unemployment: Evidence from developing countries. *Journal of Governance and Regulation*, *11*(2), 293-300, https://doi.org/10.22495/jgrv11i2siart8

Law, M., Kwok, R. C.-W., & Ng, M. (2016). An extended online purchase intention model for middleaged online users. *Electronic Commerce Research and Applications*, *20*(1), 132-146, https://doi.org/10.1016/j.elerap.2016.10.005

M.K., M. S., & Reddy, M. R. (2019). Viability and practices of interest-free microfinance in the state of Kerala: An analytical study based on customers' perceptions. *IIMB Management Review*. *31*(4), 350-367, https://doi.org/10.1016/j.iimb.2019.07.006

Makina, D., & Walle, Y. M. (2019). Financial Inclusion and Economic Growth: Evidence From a Panel of Selected African Countries. *Extending Financial Inclusion in Africa* (pp. 193–210). Elsevier. https://doi.org/10.1016/B978-0-12-814164-9.00009-8

Mortimer, G., Hasan, S. M., Grimmer, L., & Grimmer, M. (2020). Explaining the impact of consumer religiosity, perceived risk and moral potency on purchase intentions. *Journal of Retailing and Consumer Services*, *55*(7), 102115. https://doi.org/10.1016/j.jretconser.2020.102115.

Muhammad, R., Annuar, H. A., Taufik, M., & Nugraheni, P. (2021). The influence of the SSB's characteristics toward Sharia compliance of Islamic banks, *Cogent Business & Management*. *8*, 1-20. https://doi.org/10.1080/23311975.2021.1929033.

Niaz, M. U. (2022). Socio-Economic development and sustainable development goals: a roadmap from vulnerability to sustainability through financial inclusion. *Economic Research-Ekonomska Istraživanja*, *35*(1), 3243-3275. doi.org/10.1080/1331677X.2021.1989319.

Organization, I. L. (2016). World Employment and Social Outlook: *Trends 2016. Switzerland*.

Paniagua, A. (2021). Sustainable Geographical Changes in Rural Areas: Key Paths, Orientations and Limits. *Sustainability*, *13*(4), 2059. https://doi.org/10.3390/su13042059

Shihadeh, F. H. (2018). How individual's characteristics influence financial inclusion: evidence from MENAP. *International Journal of Islamic and Middle Eastern Finance and Management*, *11*(4), 553-574. https://doi.org/10.1108/IMEFM-06-2017-0153

Shinkafi, A. A., Yahaya, S., & Sani, T. A. (2019). Realising financial inclusion in Islamic finance. *Journal of Islamic Marketing*, *11*(1), 143-160. https://doi.org/10.1108/JIMA-02-2017-0020.

Tok, E., & Yesuf, A. J. (2022). Embedding Value-Based Principles in the Culture of

Islamic Banks to Enhance *Their Sustainability, Resilience, and Social Impact. Sustainability*, *14*(2), 916. https://doi.org/10.3390/su14020916

Wang, R., & Luo, H. (. (2022). How does financial inclusion affect bank stability in emerging economies? *Emerging Markets Review*, *51*, 100876. https://doi.org/10.1016/j.ememar.2021.100876.

Yeung, W.-J. J. (2022). Trends in Population and Socioeconomic Development in Southeast Asia. *In Demographic and Family Transition in Southeast Asia. Springer*, *Cham*, *1*, 17-31. https://doi.org/10.1007/978-3-030-85679-3_2

Zamer, K. (2018). Islamic Banking: A New Approach for Financial Inclusion. *International Journal of Economics and Finance*, *10*(7), 101-123. https://doi.org/10.5539/ijef.v10n7p118.

Zhang, R., & Naceur, S. B. (2019). Financial development, inequality, and poverty: Some international evidence. *International Review of Economics & Finance*, *61*, 1-16. https://doi.org/10.1016/j.iref.2018.12.015.

Zins, A., & Weill, L. (2016). The determinants of financial inclusion in Africa. *Review of Development Finance*, *6*(1), 46-57. https://doi.org/10.1016/j.rdf.2016.05.001