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Islamic Financial Regulations, Islamic Financial Literacy and Financial Inclusion: Insights from ASEAN

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Abstract

This research aims to explore the relationship between Islamic financial regulation, Islamic financial literacy, and financial inclusion in the ASEAN region. This study employs a Systematic Literature Review (SLR) methodology, analyzing 15 empirical studies drawn primarily from Indonesia and Malaysia, while drawing on contextual literature on Brunei Darussalam to enrich the regional comparative discussion. With the growing interest in Islamic finance in ASEAN, a deeper understanding of these three components has become crucial. The research collects and analyzes relevant articles, journals, and reports from 2016 to 2024, employing strict inclusion and exclusion criteria. The review results indicate that effective Islamic financial regulation contributes to an increase in Islamic financial literacy, which in turn positively impacts the level of financial inclusion in ASEAN countries. Additionally, the study identifies the challenges faced in the implementation of regulations and strategies to enhance financial literacy among the population. These findings provide valuable insights for policymakers and financial practitioners to formulate policies that support the growth of sharia-compliant inclusive finance in ASEAN. The research emphasizes the need for collaboration among stakeholders to maximize the potential of Islamic finance in enhancing the economic welfare of the community. The novelty of this study lies in its integrative synthesis of the regulation literacy inclusion nexus within the ASEAN Islamic finance context, offering a comparative regional perspective that has not been systematically consolidated in prior single country reviews.

Keywords: *Islamic Financial Regulation, Islamic Financial Literacy, Financial Inclusion, Systematic Literature Review, ASEAN*

INTRODUCTION

The role of Islamic finance in promoting financial inclusion and economic development has garnered considerable attention, particularly within the ASEAN region, which is characterized by a diverse socio-economic landscape and a significant Muslim population. Islamic finance, rooted in Shariah principles, prohibits interest (riba) and emphasizes ethical financial practices, making it a compelling framework for addressing the financial needs of underserved populations. Countries such as Indonesia,

Malaysia, and Brunei Darussalam exemplify the potential of Islamic finance to foster financial inclusion and economic growth in the region.

Indonesia, as the largest muslim majority nation globally, presents a unique context for examining the impact of Islamic financial regulations on financial inclusion. Despite experiencing rapid economic growth, a substantial portion of Indonesia's population remains unbanked or underbanked, particularly in rural areas. The Indonesian government has implemented various policies to enhance financial literacy and accessibility, notably the 2016 Financial Inclusion Roadmap, which emphasizes Islamic financial products as a means to address the financial needs of marginalized groups (Siswantoro, 2022). These initiatives underscore the potential of Islamic finance to bridge the gap in financial services for underserved populations, making Indonesia a critical case study for understanding the dynamics of financial inclusion.

Malaysia is recognized as a global leader in Islamic finance, boasting a well-established regulatory framework that integrates Islamic banking, securities, and insurance into its broader financial system. The Malaysian government's proactive approach to financial literacy, exemplified by the National Strategy for Financial Literacy, has significantly raised public awareness of Islamic financial products and services (Suseno et al., 2021). Furthermore, Malaysia's commitment to ensuring access to financial services for all segments of society, including low-income and rural populations, highlights the role of Islamic finance in promoting inclusive economic growth (Suseno et al., 2021). The country's experience offers valuable insights into regulatory, educational, and financial inclusion strategies that can be adapted by other ASEAN nations to enhance their Islamic finance sectors.

Brunei Darussalam, although smaller in scale, plays a significant role in Islamic finance within Southeast Asia. The country's financial system is firmly grounded in Shariah law, and the government has implemented regulatory frameworks that promote Shariah-compliant banking, ensuring that financial services are accessible to its citizens (Kuanova et al., 2021). It should be noted that Kuanova et al. (2021) is a general literature review of Islamic social finance rather than a Brunei specific empirical study, so this observation is offered as contextual background rather than as direct evidence. Brunei's emphasis on financial literacy, demonstrated through collaborations with international institutions, is often cited in the literature as illustrative of efforts to

integrate Islamic finance into national economic policy, although robust country specific empirical evidence remains limited. Studying Brunei's experience can provide valuable lessons for other nations seeking to develop robust Islamic finance sectors and enhance financial inclusion. This discussion of Brunei is included to enrich the regional comparative narrative; however, as detailed in the Methodology section, the systematic literature review sample analyzed in this study is drawn exclusively from Indonesia and Malaysia.

The intersection of Islamic financial regulations, financial literacy, and financial inclusion is crucial for the success of Islamic finance in any country. Islamic financial regulations ensure that products and services align with Shariah principles, fostering trust and ethical standards within the financial system (Anggraini dkk. 2026; Djamaluddin, Marzuki, dan Novianty 2026; Nazia 2026). However, regulations alone are insufficient to drive widespread financial inclusion; financial literacy is equally vital. It empowers individuals to make informed financial decisions and engage more fully with the formal financial system. In Indonesia, Malaysia, and Brunei, enhancing financial literacy and ensuring access to Islamic financial products are essential strategies for overcoming barriers to inclusion, particularly for marginalized and low income groups.

Given the diverse experiences of Indonesia, Malaysia, and Brunei Darussalam, these countries serve as valuable research objectives for understanding the broader dynamics of Islamic finance in the ASEAN region. Indonesia's large and diverse population provides an opportunity to explore how Islamic finance can address regional disparities and enhance financial inclusion in a developing economy. Malaysia's advanced regulatory framework and emphasis on financial literacy offer lessons on integrating Islamic finance into the mainstream financial system while promoting inclusion. Brunei's highly integrated Islamic finance sector provides insights into the role of Islamic finance in smaller economies and the significance of Shariah-compliant financial products in achieving inclusive growth.

The comparative study of these three nations is particularly timely, given the growing interest in Islamic finance across Southeast Asia and globally. Institutions such as the World Bank and the International Monetary Fund have identified Islamic finance as a key tool for promoting financial inclusion, especially in countries with large

Muslim populations. This research aims to deepen the understanding of how Islamic financial regulations, literacy, and inclusion interact to foster a more inclusive financial system. The lessons learned from Indonesia, Malaysia, and Brunei Darussalam will be crucial for other ASEAN countries and beyond as they seek to develop or strengthen their Islamic finance sectors and promote greater financial inclusion.

In conclusion, examining the Islamic finance frameworks of Indonesia, Malaysia, and Brunei Darussalam presents a significant opportunity to understand how Islamic financial regulations, financial literacy initiatives, and financial inclusion strategies intersect to promote sustainable economic growth. These countries, with their varying levels of economic development and regulatory approaches, provide valuable insights into the broader role of Islamic finance in fostering financial inclusion in Southeast Asia. By focusing on these nations, this research will contribute to the ongoing discourse on the potential of Islamic finance to drive inclusive development in the ASEAN region and globally.

REVIEW OF LITERATURE

Islamic Financial Regulations

The literature on Islamic financial regulations reveals a complex interplay between regulatory frameworks, financial literacy, and financial inclusion, particularly within the ASEAN context. Islamic financial regulations are essential for ensuring compliance with Shariah principles while fostering a conducive environment for the growth of Islamic financial institutions (IFIs). The regulatory landscape influences the performance and acceptance of Islamic finance products, which is critical for enhancing financial inclusion among underserved populations.

One of the primary roles of Islamic financial regulations is to establish a framework that promotes Shariah compliance while ensuring the stability and integrity of the financial system. For instance, the Islamic Financial Services Act (IFSA) 2013 in Malaysia was designed to regulate Islamic financial institutions and ensure adherence to Shariah principles. It emphasizes the importance of a robust Shariah governance framework, which is crucial for maintaining consumer trust and promoting the use of Islamic financial products (Budiman et al., 2019). Similarly, the necessity for tailored regulations that address the unique characteristics of Islamic finance, such as profit-and-

loss sharing arrangements, has been highlighted in various studies (Khan et al., 2021; Anwer et al., 2020).

Moreover, the effectiveness of Islamic financial regulations is closely linked to the performance of Islamic banks. Research indicates that stringent regulatory oversight can negatively impact bank performance, suggesting that a balanced approach is necessary to foster growth while ensuring compliance (Malim et al., 2021). This is particularly relevant in the ASEAN region, where the dual banking system operates alongside conventional banks, necessitating a regulatory framework that accommodates both systems (Khan et al., 2021). Furthermore, the integration of financial technology (fintech) into Islamic finance presents additional regulatory challenges and opportunities. The development of Shariah-compliant fintech products can enhance financial inclusion by providing access to financial services for the unbanked and underbanked populations (Ajouz, 2023; Supriadi, 2023).

In addition to regulatory frameworks, financial literacy plays a pivotal role in the acceptance and utilization of Islamic financial products. Studies have shown that enhancing financial literacy among consumers can significantly impact their understanding and engagement with Islamic finance (Indrianti, 2022; Shinkafi et al., 2019). This is particularly important in the ASEAN context, where varying levels of financial literacy can affect the uptake of Islamic financial services. By promoting financial literacy, regulators and financial institutions can empower consumers to make informed decisions, thereby fostering greater financial inclusion (Ernawati et al., 2022).

Furthermore, the collaboration between regulatory bodies and industry stakeholders is crucial for developing innovative Shariah-compliant financial products that meet the needs of diverse populations. This collaboration can lead to the establishment of a more inclusive financial ecosystem, which is essential for achieving broader financial inclusion goals (Fidhayanti, 2024; Razak et al., 2020). The regulatory landscape must evolve to accommodate new financial technologies and practices while ensuring that they remain compliant with Islamic principles (Muryanto, 2022; Kanwal, 2023).

Islamic financial regulations are fundamental to the growth and stability of the Islamic finance sector in ASEAN. They not only ensure Shariah compliance but also facilitate financial inclusion by promoting innovative financial products and enhancing

consumer financial literacy. The interplay between regulation, financial literacy, and the adoption of fintech solutions presents a unique opportunity to advance the Islamic financial ecosystem in the region.

Islamic Financial Literacy

Islamic financial literacy is crucial for enhancing the financial capabilities of individuals and businesses, particularly in the micro, small, and medium enterprises (MSMEs) sector. Suseno et al. highlight that promoting IFL through educational programs and national campaigns can significantly improve the understanding of Islamic financial products among MSME actors (Suseno et al., 2021). This is particularly relevant in Indonesia, where a large Muslim population exists, and enhancing financial literacy can lead to better financial management and decision-making (Suseno et al., 2021). Furthermore, Widyastuti et al. emphasize that a deeper understanding of Islamic financial principles can lead to more informed investment decisions, thereby promoting market discipline and enhancing financial stability (Widyastuti et al., 2021).

Moreover, the relationship between IFL and financial inclusion is well-documented. For instance, Fithrie et al. report that the levels of Islamic financial literacy and inclusion in Indonesia are still relatively low, which hampers the growth of Islamic banking (Fithrie et al., 2022). This correlation is further supported by Barus, who asserts that improving IFL is essential for the growth of micro-businesses, as it directly influences their financial performance and decision-making capabilities (Barus, 2023). The findings suggest that enhancing IFL can lead to increased usage of Islamic financial products, thereby promoting financial inclusion (Barus, 2023).

Additionally, the role of IFL in personal financial management cannot be overstated. Yustati indicates that a higher level of IFL supports better personal financial management, which is a key determinant of financial inclusion (Yustati, 2024). This is echoed by Handayani et al., who argue that a combination of high IFL and financial inclusion positively affects individuals' financial planning abilities, thereby improving their overall living conditions (Handayani et al., 2021). Such insights underscore the necessity of integrating IFL into broader financial education initiatives to ensure that individuals can navigate the complexities of Islamic financial products effectively.

In the context of the ASEAN region, where diverse economic conditions exist, the promotion of IFL can serve as a catalyst for economic development. For instance, Durak et al. note that low levels of financial literacy are often linked to lower rates of financial inclusion, particularly in less developed countries (Durak et al., 2020). This highlights the need for targeted educational initiatives that address the unique cultural and religious contexts of the ASEAN member states. Furthermore, studies like that of Abbas et al. illustrate that enhancing IFL can lead to improved marketability and earnings growth within Islamic banking, thereby contributing to the overall economic landscape of the region (Abbas et al., 2022).

Islamic financial literacy is a critical component that links Islamic financial regulations and financial inclusion. It empowers individuals and businesses to make informed financial decisions that align with Islamic principles, thereby fostering a more inclusive financial ecosystem in the ASEAN region. The literature consistently supports the notion that enhancing IFL can lead to better financial management, increased usage of Islamic financial products, and ultimately, improved economic outcomes for individuals and communities.

Financial Inclusion

Financial inclusion is a critical aspect of economic development, particularly within the ASEAN region, where it serves as a catalyst for enhancing economic growth and reducing poverty. The literature indicates that financial inclusion encompasses the accessibility, availability, and usage of financial services by individuals and businesses, particularly those traditionally underserved by formal financial institutions. This review synthesizes key findings from various studies to elucidate the relationship between financial inclusion, economic growth, and the broader socio-economic landscape in ASEAN.

Suidarma emphasizes that increased access to financial services, such as ATMs and bank branches, has a direct positive impact on economic growth within ASEAN countries. This growth is particularly vital in the aftermath of global economic shocks, where enhanced financial services can stimulate productive economic activities (Suidarma, 2019). Khusniati and Wardani further support this notion by demonstrating that financial inclusion significantly correlates with GDP per capita across selected

ASEAN nations, highlighting the necessity for inclusive financial services to improve overall welfare (Khusniati & Wardani, 2022). Such findings underscore the importance of governance in facilitating financial inclusion, as effective regulatory frameworks can enhance access to financial resources, thereby fostering economic development (Khusniati & Wardani, 2022).

Moreover, the role of Islamic financial inclusion is particularly noteworthy in the context of ASEAN, where it can serve as a bridge for micro, small, and medium enterprises (MSMEs) to access financial services. Trianto et al. reveal that the inclusiveness of Islamic finance is influenced by the perceptions of MSME owners towards Islamic banking, indicating that positive attitudes towards these institutions can enhance financial participation among businesses (Trianto et al., 2021). This is complemented by the findings of Ali et al., who developed an Islamic financial inclusion index, demonstrating that accessibility and usage of Islamic banking services are crucial for improving financial inclusion levels in Indonesia (Ali et al., 2019).

Digital financial inclusion has emerged as a transformative force in the region, especially in the wake of the COVID-19 pandemic. Banna and Alam argue that digital financial inclusion can significantly contribute to banking stability in ASEAN, suggesting that the integration of technology in financial services can enhance access and efficiency (Banna & Alam, 2021). This sentiment is echoed by Ong et al., who assert that digitalization plays a pivotal role in improving financial inclusion, particularly for lower-middle-income ASEAN economies, thereby facilitating broader economic participation (Ong et al., 2023).

The intersection of financial literacy and inclusion is another critical area of focus. Handayani et al. highlight that a combination of high financial literacy and financial inclusion can significantly enhance individuals' financial planning capabilities, which is essential for improving living conditions (Handayani et al., 2021). This relationship is further supported by Grohmann et al., who provide cross-country evidence indicating that higher financial literacy levels correlate with improved financial inclusion outcomes (Grohmann et al., 2018). The implications of these findings suggest that enhancing financial literacy should be a priority for policymakers aiming to boost financial inclusion in ASEAN.

Islamic Finance in ASEAN

Islamic finance has gained traction in ASEAN, particularly as a mechanism for enhancing financial inclusion. The region's unique socio-economic landscape necessitates tailored financial solutions that align with Islamic principles. For instance, Suidarma emphasizes that the expansion of financial services, including Islamic banking, has positively impacted economic growth in ASEAN, particularly in the wake of global financial crises, which necessitated innovative policy responses to bolster economic resilience (Suidarma, 2019). This sentiment is echoed by Khusniati and Wardani, who argue that financial inclusion significantly influences GDP growth across ASEAN nations, underscoring the need for inclusive financial services to enhance overall welfare (Khusniati & Wardani, 2022). Furthermore, Adzimatinur and Manalu highlight the potential of Islamic banking to foster financial inclusion, particularly through its adherence to Sharia principles, which can attract a broader demographic into the financial system (Adzimatinur & Manalu, 2021).

The role of fintech in promoting financial inclusion within ASEAN is also noteworthy. Basri discusses the comparative strategies employed by ASEAN countries and India in leveraging fintech for financial inclusion, suggesting that these innovations can bridge gaps in access to financial services (Basri, 2022). This is particularly relevant in the context of digitalization, as Ong et al. illustrate how digital innovations can enhance financial inclusion, especially for lower-middle-income economies in ASEAN (Ong et al., 2023). The integration of fintech solutions is crucial for reaching underserved populations, thereby promoting economic stability and growth.

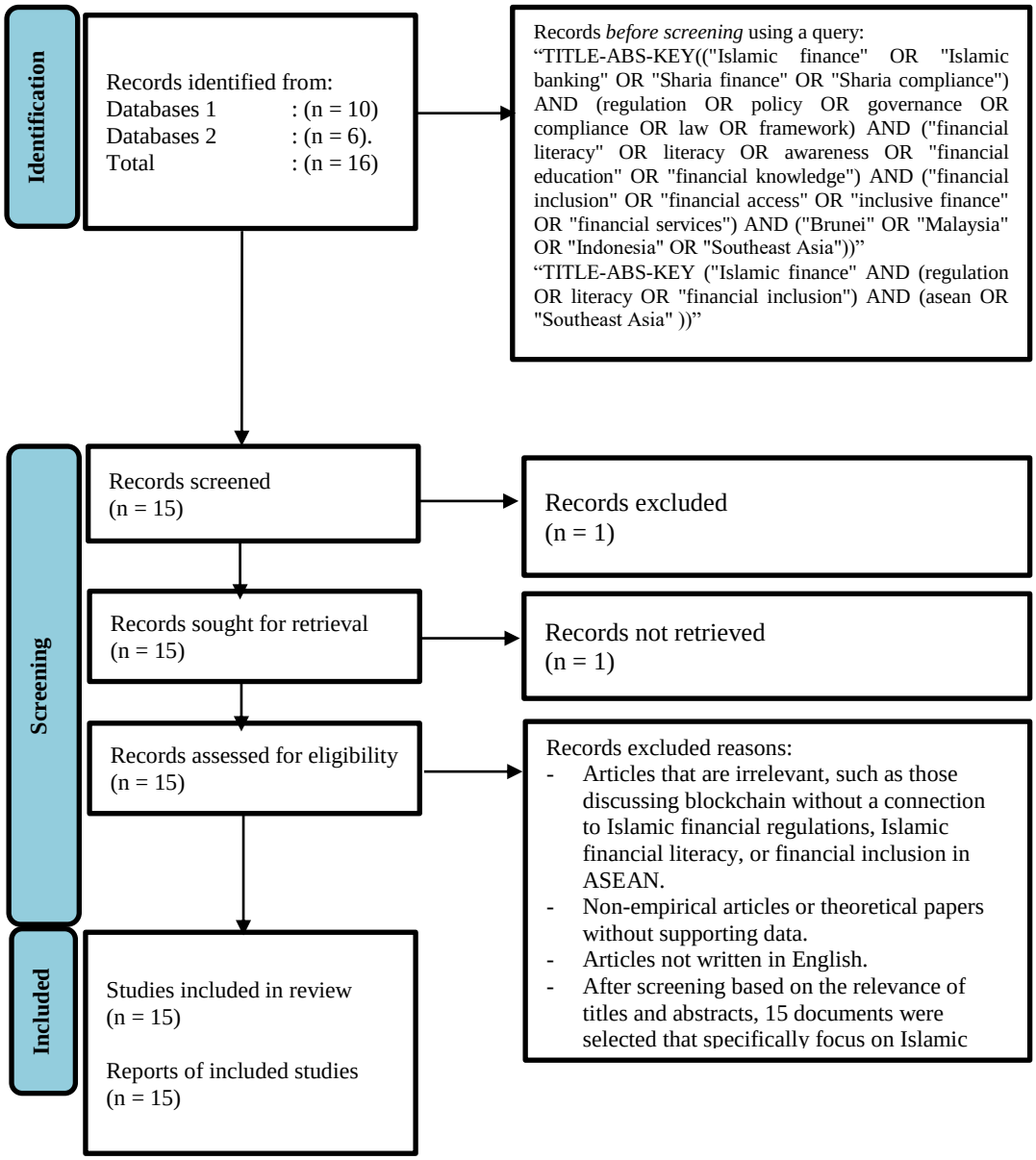
Moreover, the governance frameworks surrounding Islamic finance are pivotal in ensuring effective financial inclusion. Emara and Said argue that strong governance structures are essential for enhancing financial inclusion, which in turn contributes to economic growth (Emara & Said, 2021). This is supported by the findings of Park and Mercado, who identify the rule of law and governance as critical factors influencing financial inclusion and its subsequent impact on poverty reduction and income inequality in developing Asia (Park & Mercado, 2015). The emphasis on governance is further supported by the work of Banna and Alam, which suggests that robust regulatory frameworks can enhance the stability of financial institutions, thereby fostering a more inclusive financial environment (Banna & Alam, 2021).

Islamic finance in ASEAN serves as a vital tool for promoting financial inclusion and economic growth. The interplay between Islamic financial regulations, financial literacy, and governance structures is crucial in shaping the landscape of financial services in the region. As ASEAN continues to navigate the complexities of economic development, the integration of Islamic finance principles offers a promising pathway toward achieving greater financial inclusion and stability.

METHODOLOGY

The Systematic Literature Review (SLR) methodology follows the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework, which provides a structured approach to the review process. The first stage is Identification, where relevant literature is gathered through a comprehensive search in academic databases. The search is conducted using keyword sets focused on Islamic financial regulations, Islamic financial literacy, and financial inclusion within the ASEAN context.

Figure 1. PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) Framework



In the Screening stage, the 16 documents are evaluated against inclusion and exclusion criteria. The inclusion criteria focus on studies that specifically address Islamic financial regulations, financial literacy, or financial inclusion in ASEAN, including studies discussing Islamic fintech or blockchain applications when they are explicitly linked to Islamic financial regulation, literacy, or inclusion outcomes. The exclusion criteria involve filtering out irrelevant articles, such as those discussing blockchain or fintech purely from a technical standpoint with no connection to Islamic financial regulation, literacy, or inclusion, as well as topics without relevance to the

primary themes, non empirical studies, or articles not published in English. After reviewing the relevance of the titles and abstracts, 15 documents are selected for a more detailed review.

These selected documents are then assessed for eligibility, ensuring they provide evidence-based discussions and directly align with the research focus on Islamic financial regulations, financial literacy, and financial inclusion. Ineligible records are excluded based on irrelevance or lack of empirical evidence.

The final stage, Included, involves a full-text review of the 15 selected documents. These studies are confirmed to contribute valuable insights into Islamic financial regulations, financial literacy, and financial inclusion in ASEAN. They are analyzed based on key themes such as governance frameworks, literacy improvement strategies, and financial inclusion initiatives in Islamic finance. The PRISMA flowchart visually summarizes the review process, illustrating the progression from the identification of 16 records, through screening and eligibility assessment, to the final inclusion of 15 relevant studies. This PRISMA-based SLR ensures a transparent and systematic approach to reviewing literature on the targeted themes in the ASEAN context.

DISCUSSION AND CONCLUSION

Existing Research

Main Topic	Subtopic	Title	Authors
Islamic Financial Regulations	Governance and Structure	Corporate governance of Islamic banks: A comparative study between GCC and Southeast Asia countries	Grassa & Matoussi (2014)
	Regulatory Framework	Promoting Financial Inclusion Through Financial Literacy, Socialization, and Commitment to Islamic Financial Law in Aceh, Indonesia	Majid et al. (2023)
Islamic Financial Literacy	Consumer Perception	Consumers' Perception of	Johan et al. (2017)

		Islamic Credit Cards: An Exploratory Study	
	Digital Finance	Digital Technology and Its Impact on Islamic Social Finance Literacy	Beik & Arsyianti (2021)
	Digitalization and Fintech Integration	ISLAMIC FINTECH: DIGITALIZATIO N OF GLOBAL ISLAMIC FINANCE	Nagimova (2022)
	SME Financial Literacy	Improvement Strategies for Sharia Financial Literacy on Creative Economy	Ma'ruf (2019)
Financial Inclusion	Consumer Adoption	Determinants of Consumer Adoption of Islamic Mobile Banking Services in Indonesia	Febriandika & Hakimi (2023)
	Literature Analysis	Developments in Islamic Finance Literature: Evidence from Specialized Journals	Hanif & Zafar (2020)
	Earnings and Marketability	Earnings Growth, Marketability, and the Role of Islamic Financial Literacy and Inclusion in Indonesia	Abbas et al. (2023)
	Investment Sentiment in Islamic Finance	Foreign Direct Investment and Investor Sentiment: A Causal Relationship	Hassan et al. (2016)
	Determinants of Inclusion	Islamic Financial Inclusion Determinants in Indonesia: An ANP Approach	Ali et al. (2020)
	Role of Islamic Microfinance	Islamic microfinance	Weill (2019)

	Regulatory Bodies and Influence	Monopolising Islam: The Indonesian Ulama Council and state regulation of the 'Islamic economy'	Lindsey (2012)
	Legal Systems and Sharia Compliance	More than one law for all: Legal pluralism in Southeast Asia	Hussain (2011)
	Social Finance and Virtual Reality	Responding to Islamic Finance Anomalies in Indonesia: Sharia Financial Literacy using VR	Sari et al. (2024)

Islamic Financial Regulations

Grassa & Matoussi (2014) examine the governance practices and structures of Islamic banks (IBs) in Gulf Cooperation Council (GCC) and Southeast Asia countries, focusing on differences in corporate governance attributes such as ownership structure, the board of directors, the Shariah board, and CEO attributes. Their study highlights significant divergences between the governance frameworks in GCC and Southeast Asia, acknowledging existing shortcomings that require improvement and standardization. By providing fresh data and comparative analysis, the study offers valuable insights for improving corporate governance systems in IBs, aligning them with regulatory and Sharia principles to ensure robust governance and ethical financial practices.

Majid et al. (2023) investigate the impact of Islamic financial literacy, socialization, and regulatory commitment (Qanun) on fostering Islamic financial inclusion in Aceh Province, Indonesia. Using data from 100 clients of Islamic Financial Institutions, the study employs a partial least squares (PLS) model to analyze the relationships. The findings highlight that improving financial literacy equips individuals with better knowledge of Islamic financial products and services, increasing adoption and utilization. Socialization initiatives are identified as critical in raising awareness and familiarity with Islamic finance, while the implementation of Qanun provides a strong legal foundation for expanding financial inclusion. The research underscores the importance of collaborative efforts among stakeholders to strengthen financial literacy,

enhance socialization, and establish robust regulations, ultimately fostering Islamic financial inclusion and contributing to economic growth and welfare in Aceh Province.

Islamic Financial Literacy

Johan et al. (2017) explore the determinants of consumer acceptance of Islamic Credit Cards (ICCs) in Malaysia, focusing on key factors such as attitude, knowledge, perceived benefits, brand reputation, and Shariah compliance. The study highlights that while Malaysia's Islamic finance sector has grown under a comprehensive regulatory framework, the adoption of Islamic banking products remains limited due to a lack of consumer awareness and skepticism about Shariah-compliant financial products. By emphasizing Shariah compliance as a primary attribute, the study provides insights into improving consumer perceptions and increasing the acceptance of ICCs. This research underscores the importance of addressing knowledge gaps and misperceptions to enhance market adoption of Islamic financial products and services.

Beik & Arsyianti (2021) examine the role of digital technology in advancing Islamic social finance in Indonesia, with a focus on its impact on financial inclusion and social welfare. The study highlights the shift in payment systems among the middle class from traditional banking services to e-banking for social fund transactions, driving the digitalization of zakat and charity management. For instance, BAZNAS set a target for 30% of zakat and charity transactions to be conducted via digital platforms by 2020. This transition has contributed to a moderate zakat literacy index of 66.78, with basic zakat knowledge scoring the highest among dimensions. The findings emphasize the need for Islamic social finance institutions to enhance literacy and leverage digital frameworks to address poverty and promote maqasid sharia, ultimately fostering economic justice and social welfare.

Nagimova (2022) explore the growth and characteristics of the Islamic fintech sector over the past decade, focusing on key markets, investors, and business representation. Analyzing data from over 240 Islamic fintech companies through IFN Fintech Landscape and Crunchbase, the study reveals that Islamic fintech extends beyond the Middle East (79 companies) and Southeast Asia (71) to Western Europe (58) and America (20), with the UK (18%) and the UAE (13%) emerging as prominent hubs. Southeast Asia's Indonesia and Malaysia account for 24% of global Islamic

fintech activity, while the sector is also expanding financial inclusion in Africa, with 11 companies established. Key areas of business include P2P financing, neobanks, payment services, asset management, blockchain, cryptocurrency, charity, and real estate, with neobanks attracting $1.2 billion of the total $2.44 billion invested in Islamic fintech, primarily funded by venture capitalists from the Middle East, Southeast Asia, and Western countries like the USA, UK, Germany, and Switzerland. The study highlights the role of business mentoring and accelerators, such as Y Combinator, in supporting early-stage projects, and identifies Russian-speaking founders and investors contributing to the sector. Nagimova et al. conclude that the global expansion and innovation of Islamic fintech demonstrate its ability to align with Sharia principles while achieving optimal risk-to-reward efficiency, making it a transformative force in the financial ecosystem.

Ma'ruf (2019) explores the level of Sharia financial literacy among Small and Medium Enterprises (SMEs) in the creative industry sector in Yogyakarta, Indonesia, and formulates strategies to improve it. The study reveals that the majority of SMEs fall into the "sufficiently literate" category for Sharia financial literacy. Using a qualitative case study approach and SWOT analysis, the research proposes strategies to enhance literacy, including collaboration between stakeholders (penta-helix), the establishment of education centers and regional socialization programs, and more proactive financial services from Sharia-based bank and non-bank institutions. These strategies aim to empower SMEs by improving their understanding and access to Sharia-compliant financial services, ultimately strengthening the role of Islamic finance in the creative economy.

Financial Inclusion

The landscape of Islamic finance is multifaceted, encompassing various studies that explore critical aspects such as consumer adoption, financial inclusion, and the role of technology. One significant area of research is the determinants of consumer adoption of Islamic mobile banking services in Indonesia, as examined by (Febriandika & Hakimi, 2023). This study identifies key factors influencing consumer acceptance, highlighting the importance of understanding user behavior in promoting Islamic financial products. Complementing this, Hanif & Zafar (2020) conduct a literature

analysis on the developments in Islamic finance literature, providing insights into the evolution of research in this field through specialized journals.

Further exploring the intersection of earnings and marketability, Abbas et al. (2023) investigate the role of Islamic financial literacy and inclusion in Indonesia, emphasizing how these elements contribute to earnings growth and marketability. This is crucial for fostering a more inclusive financial environment. Additionally, Hassan et al. (2024) delve into investment sentiment in Islamic finance, analyzing the causal relationship between foreign direct investment and investor sentiment, which is vital for understanding market dynamics and attracting investments.

The study by Ali et al. (2020) focuses on the determinants of Islamic financial inclusion in Indonesia, employing an Analytic Network Process (ANP) approach to identify factors that enhance access to financial services. This research underscores the need for targeted strategies to improve financial inclusion among underserved populations. Weill (2019) discusses the role of Islamic microfinance, highlighting its potential to empower small-scale entrepreneurs and promote economic development.

Lindsey (2012) examines the influence of regulatory bodies in the context of the Indonesian Ulama Council and its role in the state regulation of the Islamic economy, shedding light on the interplay between religious authority and financial regulation. Hussain (2011) addresses legal systems and Sharia compliance, discussing the concept of legal pluralism in Southeast Asia and its implications for the implementation of Sharia law in financial practices.

Lastly, Sari et al. (2024) explore the innovative use of virtual reality (VR) in enhancing Sharia financial literacy in Indonesia. Their study aims to address anomalies in Islamic finance understanding through immersive technology, demonstrating the potential of digital tools to improve financial education. Collectively, these studies highlight the critical need for enhanced literacy, regulatory frameworks, and technological integration to foster the growth and acceptance of Islamic finance across various sectors.

Lessons for Government

Authors	Findings	What Can Be Learned	Lessons for Governments	Further Study for Research
Grassa &	There are	Standardizing	Governments	Further

Matoussi (2014)	significant differences in corporate governance structures between Islamic banks in GCC and Southeast Asia. Existing frameworks lack standardization.	corporate governance frameworks for Islamic banks is challenging due to regional variations.	can enhance corporate governance by establishing unified regulations and standards for Islamic financial institutions.	research on the impact of standardized governance on Islamic banks' performance across regions.
Majid et al. (2023)	Islamic fintech has expanded globally, with notable growth in Southeast Asia. Fintech contributes to financial inclusion by providing Sharia-compliant financial products.	Islamic fintech offers financial inclusion opportunities, especially in underserved regions.	Encouraging fintech investment through regulatory support can boost financial inclusion and innovation in Islamic finance.	Further study on the regulatory needs of Islamic fintech and its impact on financial inclusion in various ASEAN countries.
Ma'ruf (2019)	Financial literacy among SMEs in creative industries in Yogyakarta is moderate, suggesting improvement strategies are needed, including collaboration and regional education centers.	SMEs need targeted financial literacy programs, especially in regions with diverse economic activities.	Establish regional literacy programs for SMEs and involve various stakeholders to strengthen financial literacy in local industries.	Research the effect of targeted literacy programs on the financial performance of creative industry SMEs.
Beik & Arsyianti (2021)	Investor sentiment significantly influences foreign direct	Positive investor sentiment can attract more FDI, especially	Governments can attract FDI by improving economic perceptions	Exploration of how investor sentiment impacts FDI across other

	investment (FDI) in Malaysia, with a bi-directional causality between FDI and investor sentiment.	when supported by stable macroeconomic conditions.	and creating favorable conditions for investment.	ASEAN countries and how policy changes influence these sentiments.
Nagimova (2022)	Islamic microfinance, which aligns with Sharia principles, is critical for financial inclusion in Southeast Asia.	Islamic microfinance promotes financial inclusion and supports the socioeconomic goals of Sharia-compliant finance.	Supporting Islamic microfinance through incentives and supportive regulations can help reach unbanked populations effectively.	Further study on the impact of Islamic microfinance on poverty alleviation and economic empowerment in rural ASEAN regions.
Ma'ruf (2019)	The Indonesian Ulama Council (MUI) plays a key role in regulating Islamic finance and holds significant influence over Sharia compliance in Indonesia's financial sector.	Religious bodies can significantly impact financial regulation in countries with strong religious governance systems.	Governments should collaborate with religious authorities to ensure Sharia compliance while balancing regulatory autonomy in financial sectors.	Further research on the balance between religious authority and governmental control in financial regulation in diverse ASEAN societies.
Febriandika & Hakimi (2023)	Legal pluralism exists in Southeast Asia with separate Sharia and civil law systems, particularly in Malaysia and Indonesia.	The coexistence of multiple legal systems can benefit diverse communities but also creates jurisdictional challenges.	To support legal pluralism effectively, governments should clarify jurisdictional boundaries and streamline court processes for efficiency.	Research on the impact of legal pluralism on economic development in Southeast Asia, particularly in areas with complex legal systems.
Hanif & Zafar (2020)	Financial literacy, socialization, and regulatory commitment	Strengthening literacy and socialization boosts inclusion.	Collaborate on literacy programs and support Qanun implementation	Explore impacts of socialization programs on financial

	(Qanun) improve Islamic financial inclusion in Aceh.		for financial growth.	inclusion across different regions.
Abbas et al. (2023)	Supply-demand factors like literacy, commitment, and human capital drive Islamic financial inclusion in Indonesia.	Balancing supply and demand factors is essential for inclusivity.	Support financial literacy initiatives and improve infrastructure to meet demand.	Investigate demand factors impacting financial inclusion in Islamic finance within various ASEAN countries.
Hassan et al. (2016)	Sharia-compliant credit card acceptance hinges on attitude, knowledge, and Sharia compliance perceptions among consumers in Malaysia.	Educating consumers on Sharia compliance can increase product adoption.	Financial institutions should enhance product education, particularly Sharia-compliant aspects, to attract diverse consumers.	Study the influence of Sharia compliance perceptions on various Islamic financial products.
Ali et al. (2020)	Financial inclusion moderated by literacy positively influences Islamic banks' earnings growth in Indonesia.	Increased financial literacy supports marketability and growth of Islamic banks.	Governments can promote literacy to strengthen financial sector resilience and growth.	Research the role of Islamic financial literacy in the profitability of other Islamic banking services.
Weill (2019)	Digital technology enhances Islamic social finance literacy and facilitates financial inclusion, especially in	Digital finance solutions are critical in promoting social finance literacy and inclusivity.	Support the adoption of digital platforms for social finance, such as zakat, to increase accessibility and usage.	Study digital technology's role in increasing awareness and contributions in other forms of Islamic social finance,

	zakat contributions.			like waqf.
Lindsey (2012)	Key factors for adopting Islamic mobile banking in Indonesia include internet quality, bank reputation, and customer awareness.	Internet quality and strong bank reputations drive customer adoption of Islamic mobile banking.	Improve internet infrastructure and promote Islamic banking services to enhance mobile banking adoption rates.	Explore factors influencing Islamic mobile banking adoption in rural areas with limited internet access.
Hussain (2011)	Literature on Islamic finance highlights resilience to financial crises, with contributions from Malaysia and Pakistan. Shariah compliance and literacy remain areas needing improvement.	Islamic finance is resilient, yet literacy and regulatory improvements are needed.	Governments should encourage regulatory advancements and literacy in Islamic finance to bolster sector resilience.	Examine Islamic finance's impact on poverty alleviation and CSR within ASEAN's economic context.
Sari et al. (2024)	Virtual reality (VR) is effective in increasing Sharia financial literacy among Indonesian students, enhancing engagement and ease of understanding.	VR tools can improve engagement and comprehension in financial literacy programs.	Collaborate with educational institutions to implement VR-based literacy programs for financial education.	Study VR's effectiveness in enhancing other forms of financial literacy, such as conventional and mixed financial systems.

CONCLUSION

This study reveals that the interplay between Islamic financial regulations, Islamic financial literacy, and financial inclusion is essential for the sustainable development of Islamic finance within the ASEAN region. By employing a Systematic Literature Review (SLR) on 15 empirical studies drawn from Indonesia and Malaysia, complemented by contextual literature on Brunei Darussalam to broaden the regional

discussion, the research highlights how robust Shariah-compliant regulatory frameworks create a stable and trustworthy financial environment. These regulations, when effectively implemented, contribute to increased public awareness and trust in Islamic financial products. Simultaneously, improved levels of Islamic financial literacy empower individuals and communities especially those traditionally excluded from the formal financial system to make informed decisions, manage their finances ethically, and engage with Islamic financial institutions. Together, these factors significantly enhance the accessibility and inclusiveness of financial services, particularly for marginalized and underserved groups. A key limitation of this review is the absence of Brunei-specific empirical studies meeting the inclusion criteria; future systematic reviews should actively seek out Brunei-based empirical research to enable a fully comparative three-country analysis.

However, the research also underscores several ongoing challenges that hinder the full potential of Islamic finance in the region. Among these are the lack of standardization in governance across ASEAN countries, limited access to digital financial education tools, and insufficient public understanding of innovative Islamic financial instruments such as fintech. Furthermore, while countries like Malaysia demonstrate advanced integration of policy, literacy, and inclusion, others still struggle with fragmented implementation and outreach. Therefore, a coordinated effort among governments, financial institutions, educational bodies, and community organizations is crucial to bridge these gaps. Such collaboration will not only foster the inclusive growth of the Islamic finance sector but also support broader socio-economic development goals across ASEAN member states.

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