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Islamic Finance Across Boundaries: A Qualitative Study on Non-Muslim Malaysian Cross-Border Workers in Johor

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Abstract

Islamic finance in Malaysia is globally recognized for its regulatory rigor, institutional infrastructure, and broad product offerings. Yet, its engagement with non-Muslim consumers, particularly in dynamic financial environments, remains underexplored. This study investigates perceptions, behaviors, and motivations toward Islamic finance among a unique demographic: non-Muslim Malaysian cross-border workers residing in Johor and commuting daily to Singapore. Using a qualitative approach grounded in Rational Choice Theory, data were gathered through three focus group discussions involving 19 participants from varied industries. Thematic analysis uncovered five dominant themes: (1) functional, benefit-driven engagement rather than religious adherence; (2) strategic dual-currency banking behavior; (3) alignment with ethical and ESG principles; (4) persistent misconceptions about product eligibility; and (5) proactive financial planning due to lack of CPF retirement coverage. Findings reveal a clear openness to Islamic financial products when framed through pragmatic and ethical lenses. This research contributes original qualitative insights into an under-researched cohort and offers actionable implications for Islamic financial institutions aiming to expand inclusivity and market penetration.

Keywords: Cross-border banking Islamic Finance, Cross-border Workers, Financial Behavior, Non-Muslim Consumers

Introduction

Islamic finance in Malaysia has evolved into a globally respected model, driven by a synergistic blend of strong regulatory oversight, comprehensive institutional infrastructure, and a continuously expanding suite of Shariah-compliant financial products. Malaysia's dual financial system, comprising both conventional and Islamic finance, operates under the regulation of Bank Negara Malaysia (BNM) and aligns with the global standards set by institutions such as the Islamic Financial Services Board (IFSB). This dual-structure model has allowed Islamic finance to flourish as a globally competitive and structurally sound alternative to conventional banking.

As of 2023, Malaysia has over 16 Islamic banks and numerous Islamic windows in conventional institutions, collectively offering hundreds of Shariah-compliant financial products. According to the Dato' Mohammad Faiz Azmi, Chairman of Securities Commission Malaysia mentioned during the keynote address at the IFN awards ceremony (2025), Malaysia's Islamic capital market stands at US$583.11 billion (RM2.6 trillion) as of November 2024, placing the country among the top five global Islamic finance ecosystems. Market penetration is considerable: Islamic financing accounts for 45.6% of market share, Islamic deposits and investment accounts 42%, and Takaful contributions 23.4% (Morse, 2024).

Despite these achievements, scholarly attention remains predominantly focused on Muslim consumers. Prior research has largely centred on themes of religiosity, Shariah literacy, and spiritual motivations among Muslims, often overlooking secular or functionally driven usage patterns. While this has advanced theoretical and regulatory frameworks, it has also created a knowledge gap in understanding how non-Muslim consumers, particularly in complex financial settings, perceive and interact with Islamic financial products (El Ashfahany, 2023). Although some recent studies have explored non-Muslim engagement with Islamic finance, these inquiries typically employ quantitative designs and do not capture the nuanced, lived experiences of individuals interacting with Islamic finance in hybrid economic settings. This study addresses that limitation by focusing on a specific and underexplored demographic: non-Muslim Malaysians who reside in Johor but commute daily to Singapore for employment.

Johor, the southernmost state of Peninsular Malaysia, has experienced rapid infrastructural and economic development over the past decade. This growth is closely tied to its proximity to Singapore, creating a corridor of transnational mobility and commerce. A significant cohort of Malaysians residing in Johor commute daily to Singapore for work, earning income in Singapore dollars while spending primarily in Malaysian ringgit. CNN (2024) reports that approximately 300,000 people cross the Malaysia–Singapore Causeway daily. An interview with the top management of a public-listed real estate developer in Johor revealed that post-COVID, property prices, especially in premium areas, have surged, even surpassing prices in Kuala Lumpur. Most recent homebuyers in several Johor Bahru townships were identified as Malaysians employed in Singapore.

This cohort is not only economically active but also financially influential. Their dual-currency income and cross-border consumption patterns make them heavy users of banking, investment, and housing finance services. This raises a timely and policy-relevant question: where does Islamic finance fit into their financial ecosystem? More specifically, can Islamic finance traditionally perceived as a faith-based offering, cater effectively to a secular, high-income, and digitally engaged segment.

This research aims to explore that question by identifying key behavioral patterns, financial motivations, and barriers to Islamic finance adoption among this group. Accordingly, the study is guided by three core research objectives:

RO1: To explore the level of awareness and perception of Islamic finance among non-Muslim cross-border Malaysian workers.
RO2: To identify the personal, economic, and institutional factors influencing their adoption or avoidance of Islamic financial services.
RO3: To understand their lived experiences and challenges in engaging with Islamic finance within the dual-currency, cross-border context.

In doing so, this study adopts a qualitative focus group methodology that enables deeper insight into participants' decision-making processes, financial behaviors, and expectations. Through this lens, the paper contributes not only to Islamic finance scholarship but also to broader discussions around financial inclusion, ethical finance, and cross-border consumer segmentation.

Literature Review

Malaysia's Islamic finance sector is recognized globally for its depth, maturity, and integrated regulatory framework. However, academic research has predominantly focused on the Muslim majority consumer base, often omitting critical insights into non-Muslim user behavior, especially in financially complex environments such as cross-border regions. This literature review synthesizes findings from four interrelated domains: Islamic finance adoption among Muslim consumers, emerging studies on non-Muslim users, cross-border financial behavior, and theoretical gaps.

Islamic Finance Among Muslim Consumers

Much of the literature on Islamic finance adoption in Malaysia has emphasized religious adherence as a core determinant. Ahmad and Haron (2002) found that service quality and religiosity significantly influenced Muslim corporate clients' satisfaction with Islamic finance. Loo (2010) extended this line of inquiry by showing generational variation in religious motivations, with Baby Boomers and Gen X consumers showing stronger affiliation to Islamic financial values. Karim et al. (2022) highlighted the role of Shariah awareness in determining loyalty toward Islamic banks. While these studies provide foundational knowledge on faith-based motivations, they also reinforce a conceptual silo that excludes non-Muslim financial engagement.

Emerging Studies on Non-Muslim Engagement

More recent scholarship has begun addressing this gap. Alwi et al. (2017) demonstrated that perceived fairness and ethical branding drive non-Muslim interest in Islamic banking, especially among Chinese and Indian Malaysians. Tripopsakul & Puriwat, (2022) observed that ESG-aligned branding and user-friendly service delivery appeal more to younger non-Muslim demographics. These studies indicate that Islamic finance has the potential to transcend religious affiliations when repositioned as an ethical, functional, and digitally accessible alternative. However, existing work remains largely quantitative and lacks the rich contextual detail needed to capture the daily financial behavior of non-Muslim users.

Cross-Border Financial Behavior

Another relevant stream of research examines financial behaviors among Malaysian commuters who work in Singapore. Yoshino, Kaji, and Asonuma (2016) provided an analysis of exchange rate regime responses between Malaysia and Singapore, highlighting practical implications for workers managing income in dual-currency settings. Complementarily, Samudra and Phadtare (2016) examined digital banking adoption trends in Malaysia, which resonates with this study's findings on mobile-first financial behaviors. These insights are critical to understanding how such behaviors intersect with Islamic finance in a transnational context.

Theoretical Gaps and Study Contribution

This study addresses two core theoretical voids. First, it introduces a non-Muslim perspective into a predominantly Muslim-centric discourse in Islamic finance. Second, it interrogates financial behavior in a cross-jurisdictional context where digital adoption, currency strategies, and retirement planning override conventional religious motivators. The study adopts Rational Choice Theory as its guiding lens, proposing that Islamic finance adoption can be driven by utility maximization rather than religious compliance. By grounding this inquiry in qualitative focus group data, the research offers fresh, empirically grounded insights into an under-theorized demographic and context.

Methodology

This research adopts a qualitative approach, grounded in the interpretivist paradigm, to uncover the subjective experiences and perspectives of non-Muslim Malaysians residing in Johor and working in Singapore. The methodological design centers on focus group discussions (FGDs) as the primary data collection method, aiming to capture group dynamics and shared narratives that enrich the understanding of cross-border financial behavior. This method is supported by its proven strength in eliciting depth in consumer behavior studies (Gill et al., 2008; Kitzinger, 1995).

Research Design and Rationale

Focus group discussions (FGDs) were employed as the primary data collection method. FGDs were selected to facilitate dynamic exchanges among participants, enabling collective reflection on shared experiences and uncovering implicit attitudes toward Islamic finance. This approach also helps reveal social norms, group-level reasoning, and contested viewpoints that might not surface in individual interviews.

Participant Selection and Sampling

Participants were recruited using purposive sampling to ensure relevance and diversity within the sample. Three criteria guided selection: (1) Malaysian citizenship, (2) self-identification as non-Muslim, and (3) current employment in Singapore while residing in Johor. This group reflects the study's target population cross-border workers navigating dual financial systems. A total of 19 participants were involved, segmented into three FGDs: two groups with six participants and one group with seven. Participants were drawn from sectors including engineering, technology, healthcare, logistics, financial services, manufacturing, and education. Demographic diversity was further ensured by including both genders, a range of income levels, and varying degrees of financial literacy.

Data Collection Procedures

The FGDs were conducted in person in Johor Bahru between March and April 2024, each lasting approximately 90 minutes. Sessions were moderated using a semi-structured interview guide that included open-ended questions around participants' financial habits, perceptions of Islamic finance, digital engagement, investment behaviors, and retirement planning. All discussions were conducted in either English or Chinese, based on participant preference, and manually transcribed with participant consent. Notes were taken during each session to complement the transcriptions and to capture non-verbal cues and group dynamics.

Data Analysis

Transcripts were subjected to thematic analysis, following Braun and Clarke's (2006) six-phase framework: familiarization, initial coding, theme identification, theme review, theme definition, and reporting. Manual coding allowed for iterative refinement and thematic saturation. Key recurring motifs and divergences were identified and clustered into major themes that reflect the shared and individual experiences of participants. This analytical method has been widely employed in qualitative research to derive rich, contextualized themes and is particularly effective in studies examining decision-making and perception in financial behavior (Nowell et al., 2017).

Finding and Discussion

Thematic analysis of the focus group discussions revealed five dominant themes that offer insight into the financial behaviors and perceptions of non-Muslim Malaysian cross-border workers regarding Islamic finance. These themes reflect both practical realities and emergent attitudes within this demographically and economically significant cohort. The table below summarizes the five key themes that emerged, the frequency with which they were mentioned, and representative participant quotes:

Table 1.1
Summary of Thematic Findings from Focus Group Discussions

Theme	Key Insight	Frequency (Participants)	Representative Quotes
Functional Engagement over Faith-Based Motivation	Islamic finance was adopted primarily for pragmatic reasons like better rates or cashback rather than religious values.	6	*"I used it because the interest rate was lower, not because it's Islamic."* *"HSBC Amanah credit card gives me better cashback, so I chose it. If the conventional card gives more, I'll switch again."* *"It was the Islamic bank arm offering a lower mortgage rate, so I took it."*

Currency Optimization and Cross-Border Banking Strategies	Participants actively used dual bank accounts and compared currency rates to maximize savings.	10	*"I purposely open CIMB Singapore and Malaysia accounts to get better exchange rates."* *"Remittance convenience is the key."* *"Convenience and favorable exchange rate are key to which bank I use."*
ESG Alignment and Ethical Investment Appeal	After explanation, participants acknowledged ESG aspects of Islamic finance and showed increased interest.	7	*"Islamic finance sounds more ethical, so it connects naturally with ESG and sustainability."* *"Does Islamic product have better ESG compliance? If it's ESGcompliant, I might switch from what I use now."*
Misconceptions and Limited Awareness	Many participants initially assumed Islamic finance was	9	*"Even the banker couldn't explain it properly."*
	exclusive to Muslims.		*"I thought Islamic finance was only for Muslims."* *"It just sounds like it's not for us."*
Retirement Planning and Risk Aversion	Without CPF access, 8 participants sought long-term investments with lower perceived risk.		*"There is no provident fund saving for work pass holder in Singapore, I need low risk and stable investment."* *"I started investing because there's no CPF. By excluding high-risk industries like gambling, I think Islamic finance products are safer."*

These findings illuminate the potential for Islamic finance institutions to expand inclusivity and appeal by targeting functional benefits, improving communication, and embracing digital and ethical branding strategies.

Discussion

This study contributes new empirical insights to the Islamic finance discourse by focusing on a population rarely examined: non-Muslim Malaysian cross-border commuters. The findings affirm and extend Rational Choice Theory in financial behavior, underscoring that decision-making, especially among non-religious users, is shaped more by utility, convenience, and perceived value than by faith-based motivations.

Redefining Islamic Finance Beyond Religious Constraints

One of the study's most salient revelations is the extent to which Islamic finance can appeal to users outside its conventional religious constituency. Functional benefits such as better rates and cashbacks have driven uptake even when users are unaware that the service is Shariah compliant. This suggests a paradigm shift from Islamic finance as a niche religious offering to a mainstream financial alternative anchored in competitive value propositions.

The Strategic Sophistication of Cross-Border Workers

Despite being primarily working-class, participants demonstrated highly strategic behavior in optimizing currency conversion and managing multi-jurisdictional finances. These actions challenge existing assumptions about financial literacy within this demographic and call for a rethinking of how Islamic finance products are tailored and communicated to high-engagement, transnational users.

ESG and the Emerging Value-Aligned Consumer

While ESG values were not initially cited as a motivation, their resonance grew once participants understood their alignment with Islamic finance principles. This presents a powerful intersection: Islamic finance has untapped potential as an ESG-compliant financial model. Reframing its marketing around universal ethical standards rather than solely religious compliance could broaden its appeal.

Addressing Perceptual Barriers and Institutional Gaps

The study reveals that persistent misconceptions such as the belief that Islamic finance is only for Muslims remain a significant barrier. This issue is compounded by poor institutional communication and lack of clarity at point-of-sale. Addressing this requires not only educational outreach but also product design that foregrounds inclusivity and functional merit.

Retirement Planning: A New Frontier for Islamic Investment Products

In the absence of CPF retirement coverage, participants expressed strong interest in stable, long-term investments. Islamic financial products particularly sukuk and other low-risk instruments could be repositioned as retirement tools. This would require dedicated retirement planning packages and strategic communication to position Islamic finance as not just an ethical but also a secure financial choice. Overall, these themes demonstrate that Islamic finance is at a pivotal juncture. If repositioned strategically, it can transcend religious boundaries and emerge as a competitive, ethical, and digitally accessible option for diverse financial consumers.

Conclusion

This study provides empirical insights into a previously underexplored demographic: non-Muslim Malaysians residing in Johor who commute daily to Singapore for employment. Situated within a cross-border context, these individuals operate in a dual-currency and digitally mediated financial ecosystem, where financial decision-making is guided primarily by functional rationality rather than religious affiliation. The findings demonstrate that Islamic finance possesses latent appeal beyond its traditional Muslim market when framed as an ethical, efficient, and competitive financial alternative.

Five dominant themes emerged from the analysis: functional pragmatism, currency optimisation, ESG-aligned ethical considerations, persistent misconceptions surrounding Islamic finance, and retirement-oriented financial planning. Collectively, these themes illustrate both current financial behaviours and unrealised opportunities for deeper engagement with Islamic financial products among non-Muslim cross-border workers. The results suggest that perceived utility, transparency, and digital convenience are more influential than religious identity in shaping financial adoption decisions within this segment. Overall, the study underscores the need to reconceptualise Islamic finance not solely as a faith-based system, but as a viable mainstream financial solution that responds to contemporary transnational, digital, and ethical financial demands.

Implications

Managerial and Industry Implications

The findings carry important implications for Islamic financial institutions and policymakers. First, financial providers should prioritise the enhancement of digital platforms and cross-border transaction functionalities to accommodate the needs of daily commuters managing dual currencies. Seamless digital interfaces, transparent pricing, and efficient remittance solutions are critical in this context. Second, there is a clear need for public education initiatives that address persistent misconceptions regarding Islamic finance, particularly among non-Muslim consumers. Emphasising the universal principles underpinning Islamic finance such as fairness, risk-sharing, ethical investment, and consumer protection may broaden its appeal beyond religious boundaries. Third, embedding ESG-oriented features into product design may further strengthen market relevance. The alignment between Islamic finance principles and sustainability-driven values presents an opportunity for financial institutions to position Islamic financial products within the broader ethical and responsible finance movement.

Policy Implications

At the policy level, regulators may consider supporting inclusive financial frameworks that facilitate cross-border Islamic financial engagement, particularly in transnational economic corridors such as Johor Singapore. Such initiatives could enhance financial inclusion while reinforcing ethical finance standards.

Contribution of the Study

This study contributes to the literature in several important ways. First, it extends Islamic finance research by shifting the analytical focus from Muslim-centric adoption models to a non-Muslim, cross-border commuter population an area that remains empirically underrepresented in existing scholarship. Second, the study advances theoretical understanding by demonstrating how functional rationality, digital responsiveness, and ethical alignment can supersede religious considerations in Islamic finance adoption. These finding challenges conventional assumptions that religious affinity is the primary driver of Islamic financial participation. Third, from a contextual perspective, the study enriches cross-border finance literature by highlighting the financial behaviours and decision-making dynamics within a highly integrated transnational labour corridor. Finally, the findings offer practical insights for repositioning Islamic finance as a mainstream ethical financial system, thereby contributing to ongoing debates on financial inclusivity, sustainability, and the future evolution of Islamic financial services.

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