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Consumer Attitude and Adoption of Islamic Banking in Khyber Pakhtunkhwa, Pakistan: An Empirical Analysis using Structural Equation Modeling

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Abstract

The adoption of Islamic banking in Khyber Pakhtunkhwa (KP), a province with a significant rural population and economic challenges, faces unique barriers, such as limited awareness, inadequate financial literacy, and lack of infrastructure. This study aims to analyze the factors influencing customers' intentions toward Islamic banking, using evidence from KP, Pakistan. Primary data was collected from 383 bank customers through a structured closed-ended questionnaire by employing convenience and snowball (non-probability) sampling methods. The dependent variable was the intention to use Islamic banking, while the moderating variable was the attitude toward Islamic banking. The independent variables included customer intimacy, awareness, and social influence. SEM was used to assess both direct effects (such as the influence of customer intimacy and social influence on attitude) and moderating effects (such as how attitude moderates the relationship between awareness and the intention to use Islamic banking). The results indicate that customer intimacy and social influence are statistically significant and positively correlated with the moderating variable, that is, attitude toward Islamic banking. However, awareness, while positively correlated with the attitude toward Islamic banking, remains statistically insignificant. This insignificance may be attributed to several factors, such as the general lack of targeted campaigns or effective educational programs on Islamic banking products, or the entrenched preference for conventional banking systems in the region. It is possible that the awareness of Islamic banking is not sufficiently deep or specific to influence customers' attitudes and intentions significantly. The study suggests that Islamic banks (IBs) in KP should focus on customer intimacy through personalized services and building strong relationships and may leverage social influence from family and peers.

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***Keywords*:** awareness, attitude, customer intention, customer intimacy, Islamic banking, social influence, Structure Equation Modeling (SEM)

Introduction

Islamic banking, rooted in ethical principles and *Shariah* law, is rapidly expanding, globally. It prohibits interest (*riba*), speculation, gambling, and alcohol consumption. Malaysia is a leading center for Islamic finance, with government support for a dual banking system (Amin et al., 2011). Malaysian banks offer a wide range of *Shariah*-compliant products to meet the growing consumer demand. In Pakistan, the prohibition of *riba* was implemented by 1980 and the Islamic banking sector has been growing steadily since then. By the third quarter of 2014, assets in the Islamic banking sector had increased by 1.3%, reaching Rs 934 billion and representing 9.8% of the total banking sector (Faisal et al., 2014). As of 2023, the share of Islamic banking in Pakistan's overall banking sector has grown to more than 19%, with assets totaling PKR 5.7 trillion (State Bank of Pakistan [SBP], 2023).

Despite the growth of Islamic banking in Pakistan, the sector faces unique challenges in Khyber Pakhtunkhwa (KP), a province with a large rural population and significant economic limitations. KP's economy is largely dependent on agriculture and small businesses, which require accessible, *Shariah*-compliant financing solutions. While the government promotes Islamic banking, conventional banking remains dominant due to entrenched perceptions and limited number of Islamic financial products. In 2020, the asset share of Islamic banks (IBs) in the province was only 9.5% of the total banking assets, lower than the national average (Khan, 2020). KP also faces various challenges such as limited financial literacy and infrastructure, hindering the adoption of Islamic banking (Iqbal & Molyneux, 2016). However, its integration can promote financial inclusion, particularly in underserved communities, by offering ethical financing models that foster trust and support sustainable growth. According to the Pakistan Social and Living Standards Measurement (PSLM) Survey 2020-21, only 35% of the population in the province has access to formal banking services, which is lower than the national average of 50% (Pakistan Bureau of Statistics, 2021).

Research on Islamic personal finance in Pakistan remains limited, particularly in KP. This study, among the first of its kind, explores Islamic

personal finance through the Theory of Reasoned Action (TRA). It introduces three key factors—government support, cost of Islamic finance, and religious obligations—that influence the need for Islamic personal finance (Manzoor et al., 2010). Further, by applying the TRA framework introduced by Ajzen and Fishbein (1975), this study seeks to assess the influence of key factors—social influence, religious considerations, cost-effectiveness, intention to use, government support, and service facilitation—on customer attitude toward Islamic banking (Mukhtar & Butt, 2012). Moreover, the research identifies social influence, religious considerations, cost-effectiveness, and government support as critical factors shaping customer intentions toward Islamic banking (Mukhtar & Butt, 2012).

Various Islamic banking products, such as *Murabaha, Musharaka, Ijara*, and Diminishing *Musharaka*, are popular in Pakistan (Anwar, 2014; Usmani, 2015). While, financing options including *Salam* and *Istisna* remain underutilized (Jabaly et al., 2013; Klarner et al., 2013). *Mudaraba*, which involves profit-and-loss-sharing, remains an essential yet complex contract in Islamic banking (Marimuthu et al., 2010). High-quality services are crucial for customer satisfaction and dissatisfaction often leads customers to switch to competitors (Abdullah et al., 2012). In the competitive dual-banking system of Pakistan, IBs must offer superior performance and a range of high-quality products to attract a broad customer base. Meeting customer needs and enhancing service quality are essential for their survival in such an environment.

The current study also emphasizes that Islamic banking offers an alternative financial system aligned with local cultural and religious values, making it particularly relevant to KP, where access to conventional banking services is limited (Rashid & Ghazi, 2021). By focusing on customer intimacy and social influence, the study provides insights into promoting Islamic banking in the province. It also lays the foundation for further research on Islamic finance in Pakistan, contributing to a better understanding of customer intentions and preferences. Islamic banking in Pakistan, particularly in KP, faces challenges but also offers significant opportunities for financial inclusion and economic development. The findings would help to inform strategies to enhance the adoption of Islamic banking and also offer valuable insights for policymakers, banking professionals, and researchers.

Literature Review

Pakistan, founded on Islamic principles, envisioned an economic system free from interest. Quaid-e-Azam Muhammad Ali Jinnah emphasized this stance during the inauguration of the State Bank of Pakistan (SBP) in 1948, advocating for an economic system based on the Islamic ideals of equality and social justice (Akhtar, 2007). However, it wasn't until the 1970s that significant efforts to eliminate interest gained traction. In 1979, institutions such as the National Investment Trust (NIT) and House Building Finance Corporation (HBFC) introduced interest-free operations (Akhtar et al., 2016). By 1984, banks used markup instead of interest, but the Federal *Shariat* Court declared these methods as non-Islamic in 1991. Despite a Supreme Court order to abolish interest by 2001, the transition to interest-free banking faced challenges due to a lack of expertise and infrastructure (Akhter et al., 2011; Ali, 2012; Awan & Shahzad, 2011; Farooq et al., 2010). The government established the Commission for Transformation of Financial Systems in 2000. By 2001 (Almossawi, 2001), guidelines were set for the establishment of IBs. Meezan Bank became Pakistan's first IB in 2002. By 2015, the sector had grown to five fully operational banks and 1,783 branches, with investments reaching $392.4 billion (Usmani, 2015). Globally, over 1,100 institutions offer Islamic banking services, with the industry is projected to reach $1.3 trillion (Riaz et al., 2017). This growth reflects the growing recognition of the limitations of interest-based banking and the need for an ethical, *Sharia*-compliant alternative (Hossain, 2009).

Adoption of Islamic Banking in KP

Research on the adoption of Islamic banking in KP highlights the region's unique socioeconomic and cultural characteristics, which significantly influence customer attitude. KP's rural population, cultural conservatism, and strong religious values shape the people's financial behavior. In this regard, Khan et al. (2018) emphasized various challenges, such as low financial literacy, lack of trust in banking institutions, and limited awareness about Islamic banking. Despite this, opportunities exist due to the growing awareness of Islamic finance principles and religion's role in shaping financial decisions. Their study found that rural areas exhibit low adoption due to limited outreach. Ali et al. (2023) focused on how Islamic banking promotes financial inclusion in rural KP, noting that aligning financial products with religious values and offering educational campaigns can increase its adoption. Muhammad (2017) highlighted that

cultural and religious factor strongly impact customer attitude toward Islamic banking, with IBs seen favorably if they align with these values. However, limited awareness and a preference for informal transactions hinder adoption. Riaz et al. (2017) stressed the importance of education and awareness campaigns to overcome skepticism, especially in rural areas where financial literacy is low. Zafar and Sulaiman (2020) discussed the role of social influence in the adoption of Islamic banking, noting that family and community leaders play a critical role in encouraging its adoption. These region-specific studies underscored the importance of addressing cultural, educational, and social factors in promoting Islamic banking in KP.

Drivers of the Adoption of Islamic Banking Products and Services

This study examines the primary factors influencing customer adoption of the Islamic banking products, focusing on whether *Shariah* compliance or convenience is the stronger driver. It addresses a gap in understanding customer behavior within Islamic banking (Butt et al., 2018; Jamshed & Uluyol, 2024). Using convenience sampling, data from 310 respondents was collected via an online survey, with AMOS 25 and Smart-PLS 4.0 used for analysis. The study found that attitude, Islamic values, and convenience significantly influence adoption, with Islamic values and convenience playing key roles. Contrary to expectations, *Shariah* compliance does not directly impact the intention or behavior to adopt Islamic banking. Moreover, gender has no significant effect on its adoption. The findings suggest that IBs should focus on customer-centric services and ease of access, rather than solely emphasizing *Shariah* compliance. This research extends Ajzen's Theory of Planned Behavior (TPB) by introducing new constructs—Islamic value, convenience, and *Shariah* compliance—into the Islamic banking context (Andespa et al., 2024). It challenges the assumption that *Shariah* compliance is the main factor behind adoption, instead highlighting the importance of Islamic values and convenience for the strategic development of Islamic banking (Jamshed & Uluyol, 2024).

Why Non-Muslims Subscribe to Islamic Banking

The study of Saiti et al. (2022) explores factors influencing non-Muslim customers' choice of Islamic banking in Nigeria, where Islamic finance has grown significantly despite criticism rooted in religious sentiments. Using TPB as the theoretical framework, it aims to understand the drivers behind

non-Muslim patronage of Islamic banking (Mbawuni & Nimako, 2018; Saiti et al., 2022). Adopting a positivist approach, the research relies on quantitative data and regression analysis to identify the key determinants of non-Muslim customers' behavior-the most significant factor influencing their choice of Islamic banking. Attitude also plays a role, albeit a less prominent one. Islamic banking institutions and regulators must strengthen these factors to enhance non-Muslim patronage and mitigate skepticism. The research of Saiti et al. (2022) addresses a gap in the literature by focusing on non-Muslim customers' motivations, providing insights into the growing cross-religious appeal of Islamic banking in Nigeria

Theory of Reasoned Action (TRA)

The Theory of Reasoned Action (TRA), developed by Ajzen and Fishbein in 1975, serves as a paradigm to understand the relationship between attitudes, beliefs, intentions, and behavior (Ramayah & Razak, 2008). This theory posits that an individual's intention to perform a particular behavior is influenced by their attitude toward that behavior and the subjective norms they perceive. Over time, TRA has been adopted in various studies due to its adaptability across different settings of behavioral intentions (Metawa & Almossawi, 1998).

For instance, Ramayah and Razak (2008) applied TRA in a study investigating the demand for *Musharakah Mutanaqisah* (Diminishing Partnership) home financing among Malaysian Islamic banking customers. The theory was similarly employed by Lada et al. (2009) to assess the willingness of Malaysian undergraduate students to adopt Islamic accounting practices. These studies, along with others (Amin et al., 2011; Yu, 2012), demonstrated the model's versatility in different empirical contexts, particularly in understanding behavioral intentions in Islamic finance.

In the context of Islamic banking customers in Pakistan, this study extends the TRA model by incorporating additional factors relevant to Islamic finance. Specifically, it builds upon the two primary constructs of TRA—attitude and subjective norm—by integrating variables such as "government assistance," "price of Islamic banking," and "religious obligation." These modifications allow for a more nuanced understanding of the adoption of Islamic banking and align with the findings from previous researches, which suggested that TRA is an effective model to explain

consumer behavior in the realm of Islamic finance (Amin et al., 2011; Gait & Worthington, 2008; Rashid & Hassan, 2009; Riggall, 1980). By adapting TRA to include these culturally and contextually relevant factors, this study aims to provide deeper insights into the determinants of adopting Islamic banking in Pakistan.

Research Gap

While there is considerable research available on the adoption of Islamic banking in urban areas and provinces like Punjab and Sindh, limited number of studies have focused on customer attitude and intention in KP. The province's unique socioeconomic and cultural characteristics, such as a predominantly rural population, low financial literacy, and conservative values, may influence the adoption of Islamic banking products. Additionally, historical challenges in accessing formal financial services make it crucial to understand the barriers to the adoption of Islamic banking in KP in order to improve financial inclusion in the region.

Methodology and Data

Data Description

Data for this study was collected through a structured questionnaire targeting 383 Islamic banking customers in the Khyber Pakhtunkhwa (KP) province of Pakistan. The sample consisted of the residents of KP actively engaged with Islamic banking services, providing insights into factors influencing customer intention and attitude. Structured interviews were conducted to gather responses, with the questionnaire designed to assess key factors affecting customer intention towards Islamic banking. Table 1 presents detailed information about the questionnaire.

Table 1

Categorization of total questions, usable questions, and their distribution

Categorization of Questions	Questions are Distributed	Usable Questions
Demographic Information	10	10
Bank Account Information	3	0
Intention to Use	5	5
Attitude	5	5
Social Influence	5	5
Religious Factors	5	5

Categorization of Questions	Questions are Distributed	Usable Questions
Open-Ended Questions	2	2
Total	35	32

The Bank Account Information section has no usable questions. The Demographic Information section and the remaining categories are fully usable.

The data provides insights into customer perceptions and intentions regarding Islamic banking in KP. Structural Equation Modeling (SEM) was used to analyze the relationships between variables, offering a deeper understanding of factors shaping customer behavior.

Sampling Method

Sampling Method Justification

The study employed convenience and snowball (non-probability) sampling methods, where respondents were selected from individuals actively engaged with Islamic banking services in KP, Pakistan. KP was specifically chosen due to its distinct socioeconomic and cultural factors, which directly impact banking decisions. Convenience sampling is often used in regions with limited access to large, random sampling frameworks, such as rural areas, where respondents might be more difficult to reach (Flick, 2019).

Questionnaire Development and Validation

The questionnaire used in this study was developed to capture key factors influencing customer attitude and intention towards Islamic banking. It was constructed based on the existing literature and expert opinions to ensure content validity (Sekaran, 2016). The final version of the questionnaire consisted of 32 usable questions categorized into different sections, namely demographic information, customer attitude, intention to use, social influence, and religious factors.

To ensure construct validity, the questionnaire was pre-tested with a small sample from the target population. Feedback was collected from 15 participants to identify potential issues, such as ambiguous wording or unclear questions. Following pre-test, revisions were made to improve clarity and ensure that questions effectively measured the intended

constructs. The questionnaire's reliability was assessed using Cronbach's alpha, which indicated acceptable reliability levels ($\alpha > 0.7$) for most of the constructs (Tavakol & Dennick, 2011).

Sampling Biases and Mitigation Strategies

Several potential biases may affect the results, particularly due to the use of convenience sampling. These include selection bias (where the sample may not be fully representative of the entire population) and response bias (where respondents may provide socially desirable answers or misunderstand the questions).

Selection Bias. Efforts were made to include respondents from diverse demographics within KP, ensuring a mix of age groups, educational backgrounds, and income levels. Although convenience sampling limits complete randomness, the sample size of 383 respondents helped to provide a broad view of the population's attitudes.

Response Bias. To minimize response bias, anonymity was guaranteed and the participants were assured that their answers would remain confidential. Additionally, the respondents were encouraged to provide honest feedback by explaining the importance of their genuine opinions in shaping Islamic banking services in KP.

Furthermore, steps were taken to minimize nonresponse bias by employing follow-up procedures to ensure a high response rate, which is critical in improving the representativeness of the sample (Groves at al., 2011).

Structural Equation Modeling (SEM)

Structural Equation Modeling (SEM) is a sophisticated statistical technique used to evaluate complex relationships between observed and latent variables. It allows researchers to test hypotheses about how different variables are related, both directly and indirectly, through path diagrams and associated equations. SEM is widely used in fields like social sciences, economics, marketing, psychology, and medical research to validate and confirm theories (Byrne, 2013; Raykov & Marcoulides, 2012).

Core Characteristics of SEM

Use of Latent Constructs. SEM focuses on latent constructs—variables that cannot be directly measured but are inferred from observed

variables (indicators). These constructs represent abstract concepts like attitudes, motivation, intelligence, or socio-economic status. These latent variables are measured indirectly through multiple observed indicators or items, which are then modeled as indicators of the underlying construct.

Example: A latent variable like Customer Satisfaction could be inferred from observed indicators like satisfaction with service, product quality, and pricing.

Measurement Error Consideration. SEM accounts for measurement errors in both observed (independent) and predicted (dependent) variables. Measurement error refers to the inaccuracies that can occur when recording data, such as in survey responses or sensor readings. By introducing error terms in the model, SEM helps to improve the accuracy of the results and provides a more precise estimation of relationships.

Equation: For an observed variable Y_i, the measurement model would include both the latent variable η_i and an error term ϵ_i:

$$Y_i = \lambda_i \eta_i + \epsilon_i$$

where λ_i is the factor loading (strength of the relationship between the observed and latent variable), η_i is the latent variable, and ϵ_i is the measurement error.

Fitting to Covariance or Correlation Matrices. SEM typically works by analyzing covariance or correlation matrices. These matrices represent the interrelationships among all observed variables, capturing how they co-vary or correlate with each other. The model fits the hypothesized structure to these matrices and evaluates whether the model is a good fit to the data based on fit indices (e.g., Chi-square test, RMSEA, CFI).

Equation: The SEM model involves a system of equations representing the relationships between latent and observed variables. For example, a simple path model might be expressed as:

$$\eta = B\eta + \Gamma x + \zeta$$

where:

η is the vector of latent variables,

x is the vector of observed independent variables,

B is the matrix of direct effects between latent variables,

Γ is the matrix of direct effects of the observed variables on the latent variables,

ζ is the error term.

Equations in SEM

Measurement Model (Latent to Observed Variables).

$$Y = \Lambda_Y \eta + \epsilon$$

where:

Y is the vector of observed variables,

Λ_Y is the factor loading matrix for observed variables on the latent variables η,

ϵ is the error term for the observed variables.

Structural Model (Latent Variables).

$$\eta = B_\eta + \Gamma X + \zeta$$

where:

η is the vector of latent variables,

B is the coefficient matrix representing the relationships among latent variables,

X is the vector of observed independent variables,

Γ is the matrix of coefficients linking observed variables to latent variables,

ζ is the error term.

Fit Indices in SEM. To evaluate the goodness of fit between the proposed model and the actual data, several fit indices are used:

Chi-square (χ^2). Tests the overall model fit (a non-significant value indicates a good fit).

Root Mean Square Error of Approximation (RMSEA). Values close to 0 indicate a good fit (values below 0.08 are generally acceptable).

Comparative Fit Index (CFI). Values close to 1 indicate a good fit (values above 0.90 are considered acceptable).

Results and Discussion

Profile Analysis of the Respondents

The personal attributes and individual characteristics of the respondents are crucial to analyzing survey data effectively. This process, referred to as profile analysis, involves a detailed description of the respondents' characteristics prior to conducting the core analysis (Robson, 2002). This stage, often called descriptive statistical analysis, helps to organize, summarize, and present data in a clear and meaningful way (Keller, 2018). To analyze the data, the study used SPSS and Stata, two sophisticated statistical software packages widely employed for survey data analysis. Both tools allowed for efficient data management and provide a wide range of functions for conducting statistical tests, including frequency distributions, cross-tabulations, and other forms of descriptive and inferential analyses. Data was imported into these programs and specific commands were executed to generate the required results.

Descriptive Statistics

The descriptive statistics of the variables taken into consideration are presented below in Table 2. The analysis covers various personal characteristics of the respondents, such as their age, gender, educational background, income level, occupation, and other demographic information. The aim of this initial analysis is to provide an overview of the sample's composition, offering insights into who participated in the survey. These characteristics are vital as they can influence the respondents' perceptions and intentions, which are central to research questions.

Table 2

Descriptive of the Respondents According to their Bank Affiliation

Bank name	Frequency	Percent
Meezan Bank Limited	87	23%
Al Baraka Bank	4	1%
Bank Alfalah Islamic	3	1%
Bank Islami Pakistan Limited	12	3%
Askari Bank Ltd	4	1%
MCB Islamic Banking	15	4%
UBL Islamic Banking	52	14%

Bank name	Frequency	Percent
HBL Islamic Banking	35	9%
National Bank of Pakistan	145	38%
Allied Islamic Bank	11	3%
Faysal Bank (Islamic)	3	1%
Islamic banking Pakistan (Islamic)	12	3%
Total	383	

Table 2 presents the frequency and percentage distribution of the respondents according to their bank affiliation. The majority of respondents (38%) had their account in the National Bank of Pakistan, followed by Meezan Bank Limited (23%), and UBL Islamic Banking (14%).

Table 3
Demographic Information

	Frequency	Percent
Religion		
Islam	378	99%
Others	5	1%
Sects		
Sunni	376	98%
Others	7	2%
Gender		
Male	275	72%
Female	108	28%
Age Group		
18 to 25 Years	49	13%
26 to 35 Years	281	73%
36 to 45 Years	43	11%
46 to 55 Years	10	3%
Education Status		
High School	4	1%
Graduate	379	99%
Monthly Average Income		
Below 20,000	36	9%
Below 40,000	76	20%
Below 50,000	60	16%

	Frequency	Percent
Above 50,000	211	55%
Occupation		
Public Servant	291	76%
Private Servant	81	21%
Businessman	11	3%

Table 3 shows the respondents' demographic information, religion, and sect. Almost all the respondents (99%) were Muslims, with the majority being Sunni (98%). This aligns with the predominant religious makeup of KP. Gender was mostly male (72%), reflecting either the cultural trend of gender participation in banking or the greater accessibility of bank surveys to men, as compared to women. With respect to age group, the majority of respondents were between 26 to 35 years old (73%), indicating a youthful customer base for Islamic banking in this region, with fewer older respondents. With respect to education status, almost all respondents (99%) were graduates, showing a highly educated sample population. The income of more than half of the respondents (55%) was above PKR 50,000, which suggests a middle-to-high-income customer base for Islamic banking. Occupation-wise, most respondents were public servants (76%), followed by private-sector employees (21%), showing that public sector employees are the main users of Islamic banking services in this region. This demographic profile provides insights into the dominant characteristics of Islamic banking customers in KP.

Reliability Analysis

Reliability analysis is a crucial step in validating the measurement scale used in the research. Cronbach's alpha is utilized as a standard measure of internal consistency (Fields et al., 2011). The Cronbach's alpha coefficient ranges from 0 to 1, where a higher value indicates greater reliability. According to Orhan (2016) and Asif et al. (2016), an alpha coefficient greater than 0.80 signifies a highly reliable scale. Furthermore, the acceptable range for Cronbach's alpha is above 0.60, as noted by EL Hajjar and Alkhanaizi (2018). These benchmarks help to ensure that the scale used in this study accurately measures the constructs of interest, thus contributing to the validity of the findings.

Table 4

Reliability Analysis

Variables	Cronbach's Alpha
Intention toward Islamic banking	0.746
Attitude toward Islamic banking	0.731
Customer Intimacy	0.870
Awareness	0.933
Social influence	0.755

Table 4 showed that all constructs have acceptable to excellent internal consistency. Intention (α = 0.746), attitude (α = 0.731), and social influence (α = 0.755) exhibit acceptable reliability, while customer intimacy (α = 0.870) and awareness (α = 0.933) demonstrate good to excellent reliability. These results confirm the robustness of the measurement scales, with "awareness" standing out as particularly strong.

Structural Equation Model (SEM)

Structural Equation Modeling (SEM) is a robust statistical technique that combines the elements of factor analysis and multiple regression to analyze complex relationships between the observed and latent variables (Kline, 2023). SEM is widely used in social sciences, behavioral research, marketing, and other disciplines for testing hypotheses about the relationships among variables (Byrne, 2013; Schumacker & Lomax, 2004).

Figure 1

Structural Equation Model (SEM)

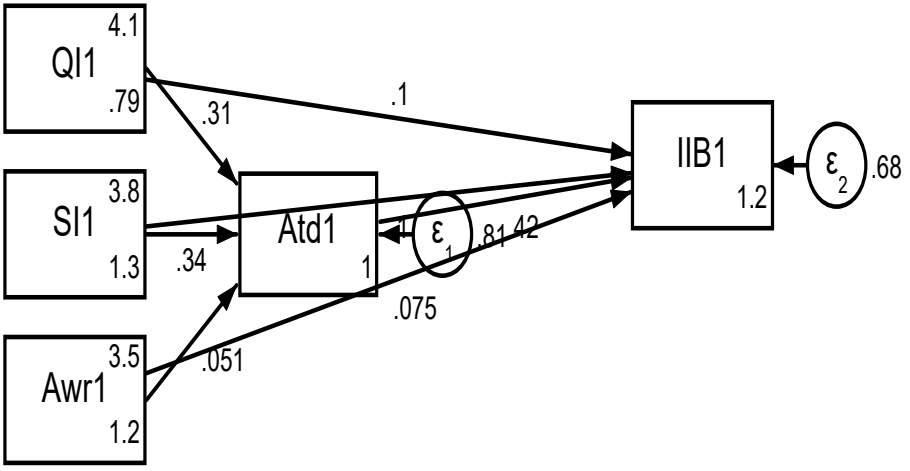

Figure 1 provides a graphical representation of the relationships between various constructs in the study. The path from QI to Atd (0.31) indicates that as the quality index increases, the attitude towards Islamic banking also tends to increase, with a moderate strength of 0.31. The path from SI to Atd (0.34) suggests that social influence positively affects the attitude towards Islamic banking, with a slightly stronger effect than quality index. The path from Atd to IIB (0.42) shows a strong relationship, where a positive attitude towards Islamic banking significantly increases the intention to use Islamic banking services. The above figure illustrates how various factors (quality index, social influence, awareness) interact to shape attitude which, in turn, influences the intention to engage with Islamic banking. The model helps to understand the dynamics of customer behavior in the context of Islamic banking in KP.

Table 5

Structural Equation Modeling (SEM)

Structural	Coefficient	*SE*	*z*	*p>z*
Attitude toward Banking				
Customer Intimacy	0.311	0.051	6.140	0.000
Social Influence	0.337	0.040	8.360	0.000
Awareness	0.051	0.039	1.310	0.189
_cons	1.028	0.228	4.520	0.000
Intention toward Banking				
Attitude toward Banking	0.417	0.042	9.890	0.000
Customer Intimacy	0.102	0.048	2.110	0.035
Social Influence	0.103	0.039	2.600	0.009
Awareness	0.075	0.036	2.110	0.035
_cons	1.185	0.212	5.580	0.000
var (attitude toward Banking)	0.814	0.053		
var (intention toward Banking)	0.678	0.044		

Note. *LR test of model vs. saturated:* $\chi^2(0) = 0.00$

Table 5 presents the results of the SEM analysis, highlighting key relationships among the variables. Customer intimacy (coefficient = 0.311, $z = 6.140$, $p < 0.001$) and social influence (coefficient = 0.337, $z = 8.360$, $p < 0.001$) significantly and positively impact attitude toward Islamic banking. On the contrary, awareness (coefficient = 0.051, $z = 1.310$, $p = 0.189$) shows a positive but insignificant effect. The baseline attitude toward

banking, represented by the constant (_cons = 1.028), remains positive. Attitude toward banking strongly predicts the intention to engage with Islamic banking (coefficient = 0.417, z = 9.890, $p < 0.001$). Likewise, customer intimacy (coefficient = 0.102, z = 2.110, p = 0.035), social influence (coefficient = 0.103, z = 2.600, p = 0.009), and awareness (coefficient = 0.075, z = 2.110, p = 0.035) also positively influence intention, with varying strengths. The constant (_cons = 1.185) indicates a baseline intention. The variance explained by the model is 0.814 for attitude and 0.678 for intention. The chi-square value of 0 (LR test) confirms a good model fit, indicating that SEM provides an accurate representation of the relationships among the variables.

The above findings present a clear overview of the relationships between customer intimacy, social influence, awareness, attitude toward banking, and intention toward banking in the context of Islamic banking in KP. The results indicate that both customer intimacy and social influence have a significant and positive effect on the attitude toward banking. This finding aligns with the literature, suggesting that personal relationships and societal factors are crucial in shaping attitudes toward Islamic banking. Mindra et al. (2022) also highlighted the importance of understanding how contextual factors, such as pricing and social influence, affect the relationship between attitudes and intentions, especially in regions where Islamic banking might be viewed differently due to predominant religious affiliations.

While awareness has a positive correlation with the attitude toward banking, it remains statistically insignificant. This suggests that simply being aware of Islamic banking products does not necessarily translate into a positive attitude, which may indicate that awareness alone is insufficient to influence customer perceptions without additional supportive factors, such as customer intimacy and social influence. The current study finds that all the examined variables—attitude toward banking, customer intimacy, social influence, and awareness—are significantly and positively correlated with the intention toward banking. This underscores the multifaceted nature of customer decision-making, where attitudes and social interactions play a vital role in determining the intention to engage with Islamic banking services.

The reported values of variance (81% for attitude toward banking and 67% for intention toward banking) suggest a strong explanatory power of

the SEM model. The partial mediation effect, as indicated by the range of variance accounted for (20% ≤ VAF ≤ 80%), implies that while the model significantly explains the relationships among the variables, there may be other mediating or moderating factors not captured in this study. This finding is supported by Hair et al. (2021), which emphasizes the importance of understanding these dynamics in the SEM analysis.

The findings collectively indicate that enhancing customer intimacy and leveraging social influence can positively affect customer attitude and intention toward Islamic banking. Conversely, increasing awareness alone may not yield significant changes in attitude without addressing underlying relational and social dynamics. The study contributes valuable insights to the understanding of consumer behavior toward Islamic banking, particularly in regions where cultural and religious factors play a significant role.

Table 6

Mediation Models

Variables	Direct effects	Indirect Effects	Total Effect
	Coeff/Prob	Coeff/Prob	Coeff/Prob
Attitude toward Banking			
Customer Intimacy	0.311 (0.000)		0.311 (0.000)
Social Influence	0.336 (0.000)		0.337 (0.000)
Awareness	0.051 (0.189)		0.051 (0.189)
Intention toward Banking			
Attitude toward Banking	0.417 (0.000)		0.417 (0.000)
Customer Intimacy	0.101 (0.035)	0.025 (0.000)	0.231 (0.000)
Social Influence	0.102 (0.009)	0.022 (0.000)	0.243 (0.000)
Awareness	0.075 (0.035)	0.016 (0.193)	0.096 (0.014)

Table 6 outlines the mediation analysis examining the relationships between customer intimacy, social influence, awareness, attitude toward banking, and intention toward banking. As far as direct effects are concerned, customer intimacy (coefficient = 0.311, $p < 0.001$) and social influence (coefficient = 0.336, $p < 0.001$) significantly and positively affect attitude, while awareness (coefficient = 0.051, $p = 0.189$) has an insignificant effect. With respect to indirect effects, customer intimacy and social influence significantly shape the intention through attitude, with indirect effects of 0.025 ($p < 0.001$) and 0.022 ($p < 0.001$), respectively. Whereas, awareness shows an insignificant indirect effect (coefficient = 0.016, $p = 0.193$). With respect to total effects, customer intimacy (coefficient = 0.231, $p < 0.001$) and social influence (coefficient = 0.243, $p < 0.001$) positively impact intention. Awareness (coefficient = 0.096, $p = 0.014$) has a small yet positive total effect. Attitude partially mediates the relationship between customer intimacy, social influence, and intention, emphasizing that fostering positive attitude enhances intention. Awareness, while not directly impactful on attitude, contributes to intention when combined with strategies enhancing customer intimacy and social influence.

Table 7 provides an overview of the goodness of fit for SEM by reporting the performance of the endogenous variables, namely intention toward banking and attitude toward banking. Each one of the metrics helps to assess how well the model explains the observed data.

Table 7
Goodness of Fit

Dependent variables	Fitted	Variance	Residual	R^2
Observed				
Intention toward Banking	1.122	0.309	0.814	0.275
Attitude toward Banking	1.006	0.328	0.678	0.326
Overall				0.307

The model explains 81% of the variance in intention toward banking and 67% in attitude toward banking, indicating moderate explanatory power. However, substantial residual variance suggests that additional factors or unobserved influences may affect customer attitude and intention. Future research may explore variables such as trust, service quality, or economic conditions to improve model accuracy. Understanding these factors can help IBs to refine marketing strategies and enhance customer

engagement. Longitudinal studies and qualitative research could offer deeper insights into the evolving customer behavior and may uncover nuanced factors not captured by quantitative models.

Table 8

Assessing the Overall Performance of SEM

Fit statistic	Value	Description
Likelihood ratio		
χ^2_ms(0)	0.000	model vs. saturated
$p > \chi^2$	.	
χ^2_bs(7)	335.184	baseline vs. saturated
$p > \chi^2$	0.000	

Table 8 indicates that the model fits the data well, as shown by the chi2_ms(0) value, suggesting perfect fit as compared to the saturated model. However, the chi2_bs(7) value with a *p*-value of 0.000 demonstrates a significant improvement over the baseline, highlighting the model's adequacy in capturing relationships. While the model fits well, additional fit indices (e.g., RMSEA, CFI, TLI) and residuals should be examined for completeness. For future improvements, testing the model in different contexts or populations and considering potential modifications may enhance its robustness and generalizability.

Discussion

The study of factors affecting customer intention toward Islamic banking in KP, Pakistan offers a comprehensive examination of various influences, drawing from the Theory of Reasoned Action (TRA) and relevant literature. Below is a structured summary and analysis based on the provided content, highlighting key findings, implications, and suggestions for future research. The study aimed to identify the factors that influence customer intention towards Islamic banking in KP, emphasizing the role of customer attitude. The Theory of Reasoned Action (TRA) posits that such behavior is within the conscious control of individuals, suggesting that attitudes, beliefs, and social influences shape behavioral intentions. This framework was augmented with perceived behavioral control for this study.

El Nagar et al. (2011) identified religious faith and social obligation as critical factors influencing bank selection, emphasizing the combination of Islamic principles and financial service quality. Marimuthu et al. (2010)

found that cost-effectiveness, including interest rates and returns, significantly impact banking decisions, especially in fostering loyalty towards IBs. Amin and Isa (2008) and Hin et al. (2011) indicated that service efficiency and staff interaction significantly influence customer bank selection (Javalgi et al., 1989).

The current study presents several significant findings regarding customer intention to use Islamic banking. It was found that social influence has a significant impact on the intention to use Islamic banking (H1 accepted). Religious factors were found to significantly affect the intention to use Islamic banking (H3 accepted). Similarly, cost-effectiveness positively influences the above intention (H3 accepted). Service facilitation shows a strong impact on the intention to use Islamic banking (H4 accepted). Customer attitude acts as a significant moderating variable, influencing the intention to use Islamic banking (H5 accepted). The results indicate that religious beliefs and social influences are primary motivators for customers considering Islamic banking products and services. A substantial number of respondents expressed willingness to deposit savings in IBs if competitive profit rates are offered, comparable to CBs.

Conclusion

The current research enriches the understanding of customer behavior towards Islamic banking, particularly in the context of a developing country like Pakistan. It underscores the relevance of TRA in studying banking behaviors and extends the framework by integrating additional factors, such as perceived behavioral control. Awareness was found to be statistically insignificant in this study, possibly due to the fact that the participants may already have the basic knowledge of Islamic banking products and services, rendering additional awareness efforts less impactful. This suggests that while awareness is important, other factors, such as customer intimacy and social influence, play a more substantial role in shaping customer intention. For policymakers and banking institutions, this highlights the need to focus not just on awareness campaigns but also on fostering stronger personal relationships and leveraging social networks to increase the adoption of Islamic banking.

Practical Recommendations

Transparent and Competitive Pricing

It is recommended to Islamic financial institutions to clearly communicate pricing structures and offer flexible, market-tied rates to build trust and attract more customers.

Diversify Product Offerings

Further, Islamic financial institutions need to develop a range of tailored products for diverse needs, simplify the application process to increase accessibility.

Strengthen Financial Literacy

Islamic financial institutions need to partner with educational institutions and platforms to promote understanding of Islamic banking through workshops and digital campaigns.

Leverage Digital Transformation

Islamic financial institutions need to invest in user-friendly digital platforms for enhanced customer convenience, transparency, and personalized service.

Policy Advocacy and Government Support

Government needs to encourage supportive policies, tax incentives, and regulatory frameworks to integrate Islamic banking into mainstream finance.

Collaborate with Religious Scholars

Islamic financial institutions need to work with religious authorities to ensure compliance with Islamic principles and enhance credibility.

Encourage R&D

Islamic financial institutions also need to invest in research to develop innovative financial products that meet evolving market demands.

Focus on Sustainability

They need to integrate green financing options and highlight the alignment of Islamic finance with global sustainability goals.

Limitations and Future Research Directions

The study's focus on KP limits its generalizability to other regions in Pakistan, suggesting that future research should expand its scope geographically. Conducting surveys during banking hours may impact the response quality, so alternative timings or methods should be explored. Future studies may investigate factors such as customer incentives, perceived risks, and cultural beliefs, and may also compare Islamic and conventional banking customers. The role of technology and digital banking in shaping customer intention should also be explored. Overall, the study provides valuable insights into the factors influencing customer intention toward Islamic banking in KP, focusing on religious beliefs, social influences, cost-effectiveness, service quality, and attitude.

Conflict of Interest

The authors of the manuscript have no financial or non-financial conflict of interest in the subject matter or materials discussed in this manuscript.

Data Availability Statement

The data associated with this study will be provided by the corresponding author upon request.

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