

Article

Perceptions of Islamic Banking Products Among University Students in Pakistan

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Abstract

This study examines the relationship between knowledge, perceived usefulness, Shariah compliance, social influence, and understanding of Arabic terminologies and the perception of Islamic banking products. University students in Pakistan were selected as the target population because they represent both current and potential users of Islamic banking services, making their perceptions particularly significant for the industry's future growth. Data were collected through an online survey questionnaire completed by 269 students from Islamabad, Karachi, and Lahore. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS software, while descriptive statistics were computed using the Statistical Package for the Social Sciences (SPSS). The findings indicate that knowledge, perceived usefulness, Shariah compliance, and social influence have significant positive relationships with students' perceptions of Islamic banking products. However, understanding of Arabic terminologies does not demonstrate a significant relationship with perception. The study faced certain limitations, including reliance on online data collection due to the COVID-19 pandemic and time constraints that restricted the sample size. Based on the findings, Islamic banks are encouraged to enhance awareness through social media marketing initiatives and interactive digital strategies, such as educational gaming platforms targeting youth. Furthermore, Islamic banking operations should be structured in a way that clearly differentiates their products from those of conventional banks to strengthen consumer understanding and perception.

Keywords: Islamic banking products; Islamic banking; perception; university students

Received: 25 January 2026; Revised: 18 February 2026; Accepted: 22 February 2026; Published: 24 February 2026

Citation: Rafiq, S., & Fareed, M. A. (2026). Perceptions of Islamic banking products among university students in Pakistan. *Journal of Islamic Finance and Sustainability*, 1(1), 1-14. <https://doi.org/10.65072/jifs.v1i1.1>

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1. Introduction

Banking constitutes the backbone of economic development at both macroeconomic and microeconomic levels. Historically, early banking practices date back to approximately 2000 BC, when merchants extended loans to farmers and traders to facilitate commercial activities. In contemporary economies, banks function as financial intermediaries, mobilizing savings, allocating capital, and supporting the transmission of monetary policy. Central banks regulate money supply, while commercial banks facilitate the circulation of funds within markets. Through these mechanisms, banking institutions contribute significantly to economic growth and financial stability.

The conventional banking system primarily operates on an interest-based model, where profitability is achieved by charging interest (riba) on loans while offering comparatively lower returns to depositors. Interest rates are typically determined based on borrowers' creditworthiness (Chong & Liu, 2009). However, in Islam, riba is strictly prohibited due to its potential to create economic injustice and unequal wealth distribution. Given that Muslims constitute nearly one-quarter of the global population, the prohibition of interest led to the development of Islamic banking as a Shariah-compliant alternative (Rahmi et al., 2020).

Islamic banking is founded upon ethical and legal principles derived from Shariah. It promotes fairness, transparency, risk-sharing, and the avoidance of exploitative or speculative transactions. The profit-and-loss sharing

(PLS) mechanism is considered the core principle of Islamic finance, although in practice, a significant portion of Islamic banking operations relies on trade-based or debt-like instruments such as Murabaha (Chong & Liu, 2009). Despite criticism regarding similarities with conventional banking products, Islamic financial institutions are often recognized for their emphasis on social responsibility, ethical investment, and financial inclusion (Dasuki, 2007; Fianto et al., 2018).

In Pakistan, Islamic banking has witnessed considerable growth since its formal reintroduction in 2001 through a parallel system alongside conventional banking. The sector has expanded in terms of branch network, asset base, and deposits. Nevertheless, sustainable growth depends not only on regulatory support and institutional expansion but also on consumer perception, awareness, and acceptance. Among various demographic segments, university students represent a strategically important group, as they are both current and future users of financial services. Their attitudes and perceptions can significantly influence the long-term positioning of Islamic banking products.

Although previous studies have examined customer satisfaction, service quality, and comparative performance between Islamic and conventional banks, limited research has focused specifically on university students' perceptions in the Pakistani context. Moreover, existing literature often emphasizes religiosity and Shariah compliance while giving comparatively less attention to other influential factors such as financial knowledge, perceived usefulness, social influence, and understanding of Arabic terminologies used in Islamic financial contracts. The interaction of these determinants in shaping perception remains underexplored, particularly among educated youth.

Therefore, this study seeks to address this gap by empirically examining the relationship between knowledge, perceived usefulness, Shariah compliance, social influence, and understanding of Arabic terminologies and the perception of Islamic banking products among university students in Pakistan. By identifying the key factors that shape perception, the study contributes to the literature on Islamic banking adoption and provides practical insights for policymakers and Islamic financial institutions seeking to enhance awareness, product differentiation, and market penetration among young consumers.

2. Literature Review

Islamic banking has attracted considerable scholarly attention over the past three decades, with a significant proportion of empirical research conducted in Malaysia. The Malaysian context is frequently examined due to its relatively mature Islamic banking industry and supportive regulatory framework. Existing studies have primarily focused on customer perceptions, service quality, satisfaction, loyalty, and comparative analyses between Islamic and conventional banking systems. Similar research trends are also observed in Pakistan, where scholars have explored consumer awareness, religious motivation, and service evaluation of Islamic banking institutions.

In addition to customer-based studies, some research has investigated the perceptions of bank employees, as well as comparative attitudes of Muslims and non-Muslims toward Islamic banking products. These studies have provided valuable insights into factors influencing acceptance and adoption, particularly emphasizing religiosity and Shariah compliance as dominant determinants.

However, despite the growing body of literature, limited attention has been given to university students as a distinct demographic segment. University students represent an educated, financially active, and future-oriented population group that is likely to become long-term users of banking services. Their perceptions are shaped not only by religious considerations but also by financial literacy, social influence, and perceived functional benefits. Therefore, examining this segment is essential for understanding the sustainability and future trajectory of Islamic banking.

Only a few studies have specifically focused on university students. For example, Rahmi et al. (2020) examined student perceptions in Malaysia, while Noonari et al. (2015) conducted a study in Pakistan. However, the Pakistani study primarily assessed prior knowledge, perception, and the relationship between socio-economic background and awareness, without incorporating a broader set of explanatory variables. The multidimensional determinants of perception—such as perceived usefulness, social influence, Shariah compliance, and understanding of Arabic terminologies—remain insufficiently explored in the Pakistani university context.

Furthermore, much of the existing literature tends to concentrate heavily on religiosity as the central explanatory factor, while comparatively underemphasizing cognitive and social determinants that may shape perception among educated youth. This creates a conceptual gap in understanding how multiple factors simultaneously influence perceptions of Islamic banking products.

2.1. Theory of Planned Behavior

The Theory of Planned Behavior (TPB), originally developed by Ajzen (1980) as an extension of the Theory of Reasoned Action (TRA), is one of the most widely applied theoretical frameworks for predicting and explaining human behavior. The theory posits that an individual's behavioral intention is the most immediate determinant of actual behavior. Behavioral intention reflects the motivational factors that influence a given behavior and indicates

how hard individuals are willing to try to perform that behavior (Ajzen, 1980; cited in Sekaran, 2003). According to TPB, behavioral intention is determined by three core components: attitude toward the behavior, subjective norms, and perceived behavioral control. These components are shaped by underlying beliefs categorized as behavioral beliefs, normative beliefs, and control beliefs.

Attitude toward the behavior refers to the degree to which an individual has a favorable or unfavorable evaluation of performing the behavior. It is influenced by beliefs about the likely outcomes of the behavior and the evaluation of those outcomes. When individuals perceive positive consequences, their attitude toward performing the behavior becomes more favorable.

Subjective norms represent the perceived social pressure to perform or not perform a particular behavior. This construct reflects an individual's perception of whether significant referent groups—such as family, friends, or peers—approve or disapprove of the behavior (Wilson & Liu, 2011). In collectivist societies, including Pakistan, subjective norms can exert substantial influence on decision-making.

Perceived behavioral control (PBC) refers to the perceived ease or difficulty of performing the behavior. It is conceptually similar to self-efficacy and reflects the extent to which individuals believe they possess the necessary resources, opportunities, and abilities to perform the behavior. PBC is influenced by control beliefs, which relate to factors that may facilitate or hinder behavioral performance. Unlike the original Theory of Reasoned Action, TPB incorporates perceived behavioral control to account for situations in which individuals may not have complete volitional control over their actions.

Although TPB primarily includes three determinants of intention—attitude, subjective norms, and perceived behavioral control—subsequent applications have extended the framework to various domains, including health behaviors, financial decision-making, consumer behavior, and banking adoption (Taib et al., 2008; Hoque et al., 2018). The theory has been widely used to explain behaviors such as healthcare utilization, smoking cessation, substance use, and financial product adoption. In the context of Islamic banking, TPB provides a robust theoretical foundation for understanding how perceptions and intentions are formed. For example, knowledge and perceived usefulness may shape attitudes toward Islamic banking products; social influence aligns closely with subjective norms; and understanding of Arabic terminologies may affect perceived behavioral control by influencing individuals' confidence in engaging with Islamic financial contracts. Therefore, TPB offers a suitable conceptual framework for examining the determinants of perception and potential adoption of Islamic banking products among university students in Pakistan.

2.2. Perception of Customers toward Islamic Banking

Customer perception has been widely examined in the context of Islamic banking, particularly in Malaysia and Pakistan. The majority of existing studies focus on behavioral intention, service quality, awareness, and comparative evaluation between Islamic and conventional banking systems. In Malaysia, Hoque et al. (2018) proposed a conceptual framework linking customers' attitudes to their intention to purchase Islamic banking products. The study emphasized that intention is positively associated with favorable attitudes toward Islamic banking. Relationship marketing, effective advertising, ease of online banking usage, perceived benefits, and profit-and-loss sharing mechanisms were found to strengthen customers' attitudes and purchase intentions. Conversely, perceived financial risk negatively influenced the relationship between attitude and intention. These findings align with the Theory of Planned Behavior, suggesting that attitudes significantly shape behavioral intentions.

In Oman, Belwal and Al Maqbali (2018) conducted an interview-based study to explore customer perceptions of Islamic banking. The findings revealed limited understanding of Islamic banking concepts among clients, primarily due to insufficient explanations by bank staff and inadequate knowledge of Shariah-compliant mechanisms. The study also highlighted concerns regarding Islamic banking windows operating within conventional banks, as this arrangement weakened perceived authenticity. Furthermore, customers were largely attracted to Islamic banks for financing products, while other services received limited attention. The results underscored the importance of customer education and institutional clarity in shaping perception.

Within Pakistan, Murad et al. (2016) investigated awareness, understanding, and perception of Islamic banking products in Faisalabad. Although respondents demonstrated relatively high awareness, their understanding of Islamic banking principles was only moderate. Educational level emerged as a significant determinant influencing attitudes, knowledge, and perception. Similarly, Riaz et al. (2017) examined university students and Islamic bank employees in Khyber Pakhtunkhwa and found that awareness, knowledge, and religiosity positively influenced perception of Islamic banking.

Saqib et al. (2016) analyzed customer perception of Shariah compliance in Islamabad and Rawalpindi using the SERVQUAL model. The study incorporated service quality, Shariah compliance perception, and customer satisfaction, indicating that perceived adherence to Shariah principles plays a crucial role in shaping consumer attitudes. Ayyub et al. (2019) applied the Theory of Planned Behavior in Pakistan to compare users and non-users of Islamic banking. The predictors included attitude, subjective norms, perceived behavioral control, and perceived usefulness. The findings indicated that perceived usefulness was a strong determinant of intention among both users and non-users.

However, Islamic banking was not yet considered a strong social norm in Pakistan, suggesting limited societal influence. The study emphasized the need for marketing strategies that build positive attitudes over time. Similarly, Ganesan et al. (2020) found that attitude, subjective norms, and perceived behavioral control positively influenced depositors' intention to learn more about Islamic banking in Malaysia. Among these variables, perceived behavioral control was identified as the most influential factor, highlighting the importance of financial literacy and confidence in decision-making.

Research by Butt et al. (2018) explored the reasons for low adoption of Islamic banking in Pakistan. The findings revealed that Islamic banks struggle to differentiate themselves from conventional banks, and many non-users perceive a lack of adequate information regarding Islamic banking products. Religious commitment was found to be a primary motivator among users, while service quality, product diversity, and employee competence remained critical concerns. The study concluded that Islamic banks must enhance product differentiation, staff training, and communication strategies. In Bangladesh, Rahman et al. (2020) examined perceived relative advantage, risk management, and customer engagement as determinants of overall satisfaction with Islamic banks. All three variables were positively associated with satisfaction, indicating that customers evaluate Islamic banking comparatively against conventional alternatives. Likewise, Ali et al. (2017) studied consumer intention to adopt Islamic credit cards in Pakistan and found that attitude, subjective norms, and perceived financial cost significantly influenced adoption intentions, reinforcing the applicability of behavioral theories in Islamic finance research. Figure 1 presents research model.

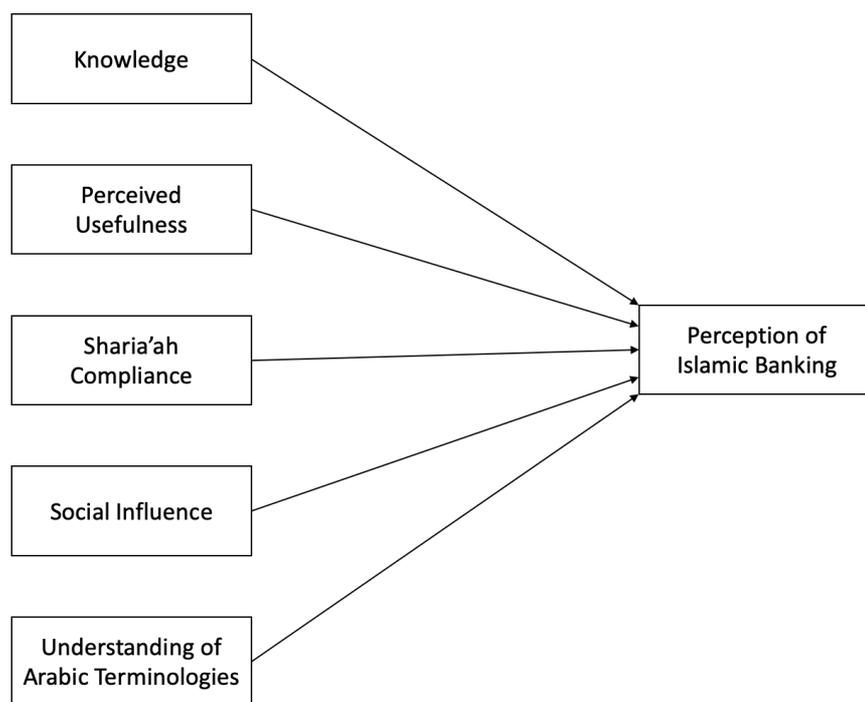


Figure 1. Research model.

2.3. Knowledge and Perception

Knowledge is generally defined as a valued cognitive state in which an individual possesses awareness or understanding of reality (Zagzebski, 1999). Philosophically, knowledge represents a relationship between a knowing subject and an aspect of reality. It can be categorized into knowledge by acquaintance (direct experiential awareness) and propositional knowledge (understanding of factual statements or concepts). In the context of Islamic banking, knowledge refers to an individual's awareness and understanding of Islamic financial principles, products, contracts, and operational mechanisms. Within financial services research, knowledge plays a critical role in shaping consumer perception and decision-making. Awareness alone does not necessarily translate into informed perception; rather, a deeper understanding of product features, Shariah compliance mechanisms, and operational differences between Islamic and conventional banking is required to form accurate evaluations.

Empirical evidence highlights the significance of knowledge in influencing perception. Murad et al. (2016) reported that although 60% of respondents were aware of the existence of Islamic banking in Pakistan, awareness did not automatically imply comprehensive understanding. Similarly, Riaz et al. (2017) found a significant positive relationship between knowledge and perception, indicating that increased knowledge leads to more favorable attitudes toward Islamic banking. The reported beta coefficient ($\beta = 0.166$, $p = 0.001$) suggests that knowledge significantly influences consumer perception in the Pakistani context. However, findings are not entirely consistent

across regions. Conteh (2020) reported that knowledge and understanding did not significantly influence perception among respondents in The Gambia. In contrast, Mbawuni and Nimako (2017) concluded that knowledge is a critical determinant influencing consumers' attitudes toward the adoption of Islamic banking services.

These mixed findings suggest that contextual factors—such as financial literacy levels, religious orientation, and market maturity—may moderate the relationship between knowledge and perception. From a managerial perspective, increasing public knowledge through integrated marketing communication strategies is essential for promoting Islamic banking. Prior studies recommend emphasizing Shariah compliance, product differentiation, and ethical benefits to strengthen consumer trust and positive word-of-mouth (Awan & Bukhari, 2011; Ayyub et al., 2019; Riaz et al., 2017; Saqib et al., 2016). Religion-based or Halal marketing strategies have also been suggested to enhance credibility and customer engagement (Ahmed et al., 2020). Enhancing knowledge may also strengthen perceived behavioral control within the Theory of Planned Behavior framework, as informed consumers feel more confident in engaging with Islamic financial products. Based on the theoretical arguments and empirical evidence discussed above, the following hypothesis is proposed:

H1: There is a positive relationship between knowledge and perception of Islamic banking products.

2.4. Perceived Usefulness and Perception

Perceived usefulness refers to the degree to which an individual believes that using a particular system or product enhances his or her performance, efficiency, or effectiveness. Originating from the Technology Acceptance Model (TAM), perceived usefulness is considered a primary determinant of user attitude and behavioral intention. In the context of Islamic banking, perceived usefulness reflects the extent to which individuals believe that Islamic banking products effectively meet their financial needs, improve financial management, and provide practical advantages compared to conventional alternatives.

Empirical findings regarding the relationship between perceived usefulness and perception of Islamic banking products are mixed. Rahmi et al. (2020) reported no significant relationship between perceived usefulness and perception among university students in Malaysia. Their findings suggested that a one-unit increase in perceived usefulness resulted in a marginal decrease in perception, indicating a statistically insignificant or negative association in that context.

In contrast, several studies have identified perceived usefulness as a significant predictor of adoption intention and favorable perception. Ayyub et al. (2019) and Mbawuni and Nimako (2017) found that perceived usefulness strongly influences consumers' intention to adopt Islamic banking services. In Pakistan, perceived usefulness was identified as a critical determinant among both users and non-users of Islamic banking. Interestingly, even non-users acknowledged the usefulness and efficiency of Islamic banking products, yet continued to rely on conventional banking systems. This finding suggests that while perceived usefulness may positively shape evaluation, other factors—such as habit, social norms, or perceived switching costs—may influence actual adoption behavior. From a managerial standpoint, enhancing perceived usefulness requires clear communication of functional benefits, competitive advantages, and operational efficiency of Islamic banking products. Effective advertising and awareness campaigns may strengthen consumers' perception of utility and ultimately influence their evaluation and potential adoption decisions.

Given the theoretical foundation of TAM and the supporting empirical evidence in the Pakistani context, it is important to assess whether university students perceive Islamic banking products as useful in managing their financial activities. Therefore, the following hypothesis is proposed:

H2: There is a positive relationship between perceived usefulness and perception of Islamic banking products.

2.5. Shariah Compliance and Perception

Shariah compliance refers to the adherence of financial transactions and business practices to the principles and ethical guidelines of Islam. In Shariah-compliant investments, both parties share profits and losses, interest (riba) is strictly prohibited, gambling is avoided, and all transactions occur within the real economy while upholding moral and ethical standards. Compliance with Shariah principles is a key differentiator of Islamic banking products from conventional banking offerings. To promote Shariah compliance, Islamic banks may involve recognized religious scholars on their executive boards and develop policies to communicate adherence to Shariah standards to the public (Ayyub et al., 2019; Mbawuni & Nimako, 2017; Ullah, 2014). Such measures enhance consumer trust by signaling that products are designed and reviewed in accordance with Islamic law. However, research indicates that some customers place Shariah compliance lower in their selection criteria when choosing an Islamic bank, prioritizing factors such as service quality and convenience (Awan & Bukhari, 2011).

Empirical studies reveal mixed levels of compliance perception. Majeed and Zainab (2017) highlighted that certain profit-and-loss sharing contracts and Qard-ul-Hassan offerings are limited in Pakistan, potentially leading to perceived

Shariah violations. Saqib et al. (2016) found that in Pakistan, perceived Shariah compliance is significantly associated with customer satisfaction, reflecting the importance of religious considerations for Muslims in selecting banks. Conversely, Buchari et al. (2014) reported that less than half of respondents believed that Islamic banks' operations fully comply with Shariah, while Butt et al. (2018) found that non-users often perceive claims of Shariah compliance as superficial, labeling Islamic banking as a "window-dressing scheme."

International evidence suggests that Shariah compliance can positively influence perception and satisfaction. Fianto et al. (2018) demonstrated that customers of Islamic microfinance institutions in Indonesia perceive their financing contracts as Shariah-compliant, resulting in higher satisfaction levels. Rahmi et al. (2020) empirically confirmed a positive relationship between Shariah compliance and perception of Islamic banking products, reporting that a one-unit increase in perceived Shariah compliance corresponds to a 0.10 increase in perception. University students, as current or potential users of Islamic banking products, may evaluate financial services based on Shariah adherence. Assessing their perception of compliance is therefore crucial for understanding factors that shape attitudes toward Islamic banking. Based on the theoretical and empirical evidence, the following hypothesis is proposed:

H3: There is a positive relationship between shariah compliance and perception of Islamic banking products.

2.6. Social Influence and Perception

Social influence refers to the perceived pressure or guidance exerted by individuals' social environment when making decisions or performing behaviors. It is closely related to the concept of social norms, where the expectations of family, peers, religious authorities, or other significant groups shape individual attitudes and actions.

In the context of Pakistan, a country founded on Islamic principles, religious scholars, schools, and community leaders exert considerable influence over societal behavior. Despite the rapid growth of Islamic banking in Pakistan, it has yet to become a widespread social norm that drives large-scale social influence on adoption decisions (Ayyub et al., 2019). In Malaysia, Ganesan et al. (2020) found that within the framework of the Theory of Planned Behavior, social influence had the least impact on the intention to learn about Islamic banking compared to other constructs, such as attitude and perceived behavioral control. Nonetheless, even if social influence is less dominant, individuals—particularly non-Muslims or new adopters—may still seek validation and approval from their social circle when making financial decisions.

Several studies highlight the importance of social influence in Islamic banking adoption. Amin et al. (2011) reported that social influence significantly affects the intention to use personal financing products offered by Islamic banks. Ali et al. (2017) and Taib et al. (2008) emphasized that social or religious endorsement often carries more weight than individual attitudes, especially when Shariah compliance is concerned. Approval from recognized religious authorities or socially respected groups reinforces consumer confidence and supports adherence to Islamic principles in financial decisions.

University students, in particular, are highly susceptible to social influence due to their developmental stage and strong peer, family, and educational networks. Their perception of Islamic banking products may therefore be shaped not only by personal knowledge and attitudes but also by the opinions and expectations of referent groups. Based on the theoretical and empirical evidence, the following hypothesis is proposed:

H4: There is a positive relationship between social influence and perception of Islamic banking products.

2.7. Understanding of Arabic Terminologies and Perception

Understanding of Arabic terminologies in Islamic finance refers to the ability of individuals to comprehend commonly used terms in Islamic banking products and contracts, such as Shariah (Islamic religious laws), Riba (interest), Hiba (gift), Wadiah (safe custody deposits), Takaful (Islamic insurance), Murabaha (cost-plus financing), Mudarabah (profit-and-loss sharing), Qardh Hassan (interest-free loan), Musharakah (partnership contract), and Ijarah (rental agreement). While many Pakistanis learn to read Arabic from an early age, comprehension of these financial terms is limited, creating potential barriers to understanding and evaluating Islamic banking products.

Empirical studies highlight the significance of terminology comprehension for consumer perception, though results are mixed. In Shah Alam, Malaysia, Afif Muhamat et al. (2011) measured client sensitivity to Arabic terminologies and found that while customers recognize these terms as distinctive features of Islamic banks, their comprehension is limited, causing occasional confusion. Similarly, Akbar et al. (2012) noted that Islamic banks often use Arabic terms for standard interest-based products, which may create misconceptions among consumers, particularly in competitive markets like the United Kingdom, where depositors expect returns comparable to conventional banks. Conteh (2020) reported that in The Gambia, consumers are aware of fundamental principles such as Riba and Shariah, but have poor understanding of specific product terms. For instance, 63.8% of respondents were unfamiliar with terms such as Musharakah, Mudarabah, Ijarah, Salam, and Istisna. Bashir et al. (2021) similarly

concluded that most Islamic banking clients only understand basic concepts like Qardh Hassan, while terms such as Murabaha, Musharakah, Ijarah, and Bai' Bithaman Ajil remain poorly comprehended. Although clients may recognize the names of products, limited understanding of their features may reduce informed evaluation and trust. In Malaysia, Anas and Farid (2021) found that Arabic language courses are rarely integrated into finance curricula, limiting students' ability to fully comprehend Islamic banking terminology. While students may access Arabic terms in contracts or learning materials, formal education often does not equip them with sufficient understanding to interpret these terms meaningfully. In Pakistan, although Arabic is read in religious texts such as the Quran, comprehension of financial Arabic terminology remains limited, and no prior research has examined its impact on the perception of Islamic banking products. Understanding these terms is essential, as it may influence students' ability to evaluate products accurately, make informed financial decisions, and develop trust in Shariah-compliant banking services. Based on this rationale, the following hypothesis is proposed:

H5: There is a positive relationship between understanding of Arabic terminologies and perception of Islamic banking products.

3. Methodology

This study aimed to examine the perception of Islamic banking products among university students in Pakistan and the relationships of perception with knowledge, perceived usefulness, Shariah compliance, social influence, and understanding of Arabic terminologies. Since this study focused on measuring perception and analyzing relationships between variables, a quantitative research approach was adopted.

The target population for this study consisted of university students in Pakistan, as they represented potential users of Islamic banking products. Studying the entire population was impractical due to time and resource constraints; therefore, a representative sample was selected. Following guidelines by Schumacker and Lomax (1996) and Sekaran (2003), a sample size of 250 respondents was targeted. The questionnaire was distributed electronically to over 300 students across Islamabad, Karachi, and Lahore. A total of 280 responses were received, of which 269 were valid and included in the analysis, while incomplete or ineligible responses were discarded.

Primary data were collected using an online questionnaire created through Google Forms, which provided a convenient and efficient method of distribution. Secondary data were obtained from journals, research articles, books, websites, and other credible sources to provide context and support for the study. The questionnaire consisted of two sections. Section A measured the study variables across six sub-sections, using a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) for most items. Items assessing Understanding of Arabic Terminologies were measured using Yes/No responses. Section B collected demographic information, including gender, age, qualification, religion, major, university location, work background, monthly income or pocket money, and type of bank account held (Islamic, conventional, or none). No personal identifiers were collected, and all responses were kept confidential. Data were collected during June to August 2025. Four items for perceived usefulness were adapted from Conteh (2020). Four items for Shariah compliance and three items for social influence were adapted from Rahmi et al. (2020). In addition, ten items measuring understanding of Arabic terminologies were adapted from Ling et al. (2012). Finally, five items for perception of Islamic banking products were adapted from Conteh (2020).

The collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). SEM can be approached in two ways: covariance-based SEM (CB-SEM), which focuses on theory testing and model fit, and variance-based SEM (PLS-SEM), which emphasizes prediction, exploratory analysis, and handling complex models (Hair et al., 2017). PLS-SEM was chosen due to the exploratory nature of the study, the inclusion of multiple independent variables, and the objective to explain variance in perception of Islamic banking products. The analysis followed a two-step process: first, the measurement model was assessed to evaluate the reliability and validity of the constructs, and second, the structural model was tested to examine the hypothesized relationships and overall model fit. Using PLS-SEM ensured robust assessment of both measurement instruments and theoretical relationships, providing valid and meaningful results for the study.

4. Results

The demographic data of the 269 respondents is summarized in Table 1. In terms of gender, the sample was nearly balanced, with 51.3% male (138 respondents) and 48.7% female (131 respondents), indicating a fairly even representation of both genders. Regarding age, the majority of respondents were young adults. The largest age group was 22–26 years (39%, 105 respondents), followed by 15–22 years (34.6%, 93 respondents). Respondents aged 27–32 years accounted for 20.8% (56 respondents), while only a small fraction were 32–40 years (2.2%, 6 respondents) and above 40 years (3.3%, 9 respondents). The current qualification of respondents showed that 56.5% (152 respondents) were pursuing a bachelor's degree, followed by 29.7% (80 respondents) pursuing master's programs. MS students comprised 9.7% (26 respondents), and M.Phil. students were the least represented at 4.1% (11 respondents). In terms of majors, Finance students formed the largest group at 37.5% (101 respondents), followed by

Marketing (14.1%, 38 respondents) and HRM (11.5%, 31 respondents). Other disciplines such as Engineering (12.3%) and Supply Chain Management (5.6%) were less represented, while students from other majors comprised 19% (51 respondents). Regarding university location, most respondents were from Islamabad (58.4%, 157 respondents), followed by Karachi (30.9%, 83 respondents), and Lahore (10.8%, 29 respondents).

The religion of respondents was overwhelmingly Muslim (98.9%, 266 respondents), with only 1.1% (3 respondents) identifying as non-Muslim, reflecting the Islamic demographic context of Pakistan. When considering work status, a majority of respondents were full-time students (53.2%, 143 respondents). Students who worked full-time while studying represented 26%, those with part-time jobs were 12.6%, and 8.2% were business owners alongside their studies. The monthly income or pocket money varied, with the largest group earning between Rs. 1–5,000 (30.1%, 81 respondents). Finally, in terms of bank account ownership, most respondents held accounts with conventional banks (53.9%, 145 respondents), while 19.7% (53 respondents) had accounts with Islamic banks, and 26.4% (71 respondents) did not have a bank account.

Table 1. Demographic profile of study participants.

Category	Number of Respondents	Percent	Cumulative Percent
Gender			
Female	131	48.7	48.7
Male	138	51.3	100
Age			
15-22 years	93	34.6	34.6
22-26 years	105	39.0	73.6
27-32 years	56	20.8	94.4
32-40 years	6	2.2	96.7
40 Above	9	3.3	100
Current Qualification			
Bachelors	152	56.5	56.5
Masters	80	29.7	86.2
MS	26	9.7	95.9
M. Phil.	11	4.1	100.0
Majors			
Finance	101	37.5	37.5
HRM	31	11.5	49.1
SCM	15	5.6	54.6
Marketing	38	14.1	68.8
Engineering	33	12.3	81.0
Others	51	19.0	100.0
University Location			
Islamabad	157	58.4	58.4
Karachi	83	30.9	89.2
Lahore	29	10.8	100.0
Religion			
Muslim	266	98.9	98.9
Non-Muslim	3	1.1	100.0
Work			
Full time Job and Studying	70	26.0	26.0
Part time Job and Studying	34	12.6	38.7
Full time student	143	53.2	91.8
Business Owner and Studying	22	8.2	100.0
Monthly Income/Pocket Money			
Rs. 1-5,000	81	30.1	30.1
RS. 5,001-10,000	37	13.8	43.9
RS. 10,001-30,000	49	18.2	62.1
RS. 30,001-50,000	42	15.6	77.7
RS. 50,001-100,000	35	13.0	90.7
Above RS. 100,000	25	9.3	100.0
Bank Account			
Islamic Bank	53	19.7	19.7
Conventional Bank	145	53.9	73.6
None	71	26.4	100.0

The measurement model results indicate that all constructs in the study exhibited acceptable to strong reliability and convergent validity, supporting the suitability of the data for PLS-SEM analysis in Table 2. Knowledge demonstrated strong factor loadings ranging from 0.835 to 0.895, with high internal consistency ($\alpha = 0.885$, CR = 0.921) and a robust AVE of 0.744, indicating that the items effectively captured respondents' knowledge of Islamic banking products. Similarly, perceived usefulness showed very high loadings (0.894–0.933), excellent reliability ($\alpha = 0.936$, CR = 0.954), and strong convergent validity (AVE = 0.840), reflecting that students consistently perceived the utility of Islamic banking products in managing their financial needs.

The construct of Shariah compliance was measured reliably with loadings between 0.824 and 0.859, Cronbach's alpha of 0.787, CR of 0.875, and AVE of 0.700. This suggests that students had a clear perception of the extent to

which Islamic banking products adhered to Shariah principles. Social influence also showed strong measurement properties, with loadings from 0.894 to 0.918, high reliability ($\alpha = 0.894$, CR = 0.934), and AVE of 0.825, indicating that peer, family, and societal influences were effectively captured in shaping students' perceptions.

The construct understanding of Arabic terminologies showed more variability in loadings (0.649–0.845), with lower values for some items, suggesting partial difficulty among respondents in fully comprehending certain Arabic terms used in Islamic banking contracts. Despite this, overall reliability was satisfactory ($\alpha = 0.863$, CR = 0.892), though AVE was moderate (0.542), indicating a somewhat lower convergent validity compared to other constructs. Finally, perception of Islamic banking products demonstrated acceptable factor loadings (0.616–0.864), reliability ($\alpha = 0.803$, CR = 0.865), and AVE (0.567), reflecting that students' perception was measured consistently but with some variation across items.

Table 2. Measurement model.

Factors	Item Code	Factor Loadings	Cronbach's α	Composite Reliability (CR)	Average Variance Extracted (AVE)			
Knowledge (KNG)								
I would like to discuss the possibility to purchase Islamic banking products	KNG2	0.835	0.885	0.921	0.744			
I would like to know what documents are needed if I want to purchase Islamic banking products	KNG3	0.895						
I would like to know what benefits are covered if I decided to purchase Islamic banking products	KNG4	0.880						
I would like to know how Islamic banking products are better than conventional banking products	KNG5	0.838						
Perceived Usefulness (PU)								
Using Islamic banking products will improve my performance in handling my financial needs	PU1	0.930	0.936	0.954	0.840			
Using Islamic banking products will improve my productivity of handling my financial needs	PU2	0.933						
Using Islamic banking products will enhance my effectiveness of handling my financial needs	PU3	0.894						
Islamic banking products will be useful in handling my financial needs	PU4	0.909						
Shariah Compliance (SC)								
Islamic banking products just use different names for same conventional banking product	SC2	0.827	0.787	0.875	0.700			
Islamic Banking is not truly 100% Halal	SC3	0.824						
Islamic Banking's focus is on profit making	SC4	0.859						
Social Influence (SI)								
Most people who are close to me think that I must choose Islamic banking products	SI1	0.918	0.894	0.934	0.825			
It is expected by others that I should choose Islamic banking products	SI2	0.894						
Most people who are important to me think that Islamic banking products are useful	SI3	0.913						
Understanding of Arabic Terminologies (UAT)								
Understanding of Arabic terminologies used in Islamic banking "Hiba"	UAT3	0.660*	0.863	0.892	0.542			
Understanding of Arabic terminologies used in Islamic banking "Wadiah"	UAT4	0.702						
Understanding of Arabic terminologies used in Islamic banking "Takaful"	UAT5	0.649*						
Understanding of Arabic terminologies used in Islamic banking "Murabaha"	UAT6	0.812						
Understanding of Arabic terminologies used in Islamic banking "Mudarabah"	UAT7	0.845						
Understanding of Arabic terminologies used in Islamic banking "Musharakah"	UAT9	0.723						
Understanding of Arabic terminologies used in Islamic banking "Ijarah"	UAT10	0.742						
Perception of Islamic Banking Products (PIBP)								
Many Pakistanis will adopt Islamic banking if they know more about it	PIBP1	0.616*				0.803	0.865	0.567
Islamic banking products in Pakistan are different from conventional banking products	PIBP2	0.822						
Islamic bank provides the best way to reduce the inequality in society and avoid exploitation in	PIBP3	0.864						

business transactions in Pakistan through profit and loss sharing		
Without Riba (interest), Islamic banking provides the best source of financing and improves productivity and economic growth in Pakistan	PIBP4	0.800
Islamic banking products are properly marketed in Pakistan	PIBP5	0.629*

Table 3 presents the discriminant validity of the constructs using the Heterotrait-Monotrait ratio (HTMT). The HTMT values among all constructs were well below the threshold of 0.85, indicating adequate discriminant validity and confirming that each construct measures a distinct concept. Specifically, the highest HTMT value observed was 0.685 between knowledge (KNG) and perceived usefulness (PU), suggesting a moderate relationship but still distinct constructs. The relationship between perception of Islamic banking products (PIBP) and social influence (SI) was 0.566, indicating that while social influence moderately affects perception, the constructs remain conceptually separate. All other HTMT values were below 0.5, including those for Shariah compliance (SC) and understanding of Arabic terminologies (UAT), demonstrating minimal overlap with other variables.

Table 3. Discriminant validity with Hetrotrait-Monotrait ratio (HTMT).

	KNG	PU	PIBP	SC	SI	UAT
Knowledge (KNG)						
Perceived Usefulness (PU)	0.685					
Perception of Islamic Banking Products (PIBP)	0.48	0.647				
Shariah Compliance (SC)	0.14	0.152	0.341			
Social Influence (SI)	0.13	0.36	0.566	0.051		
Understanding of Arabic Terminologies (UAT)	0.1	0.106	0.168	0.086	0.146	

Table 4 presents the results of the structural model and the testing of the study hypotheses. The findings indicate that knowledge had a positive and significant effect on the perception of Islamic banking products ($\beta = 0.130$, $t = 1.995$, $p = 0.026$), supporting Hypothesis 1. Perceived usefulness exhibited a strong positive relationship with perception ($\beta = 0.345$, $t = 5.586$, $p < 0.001$), confirming Hypothesis 2. Interestingly, Shariah compliance showed a negative but significant effect on perception ($\beta = -0.221$, $t = 5.030$, $p < 0.001$), supporting Hypothesis 3, suggesting that students may perceive Islamic banking products as less attractive despite compliance, possibly due to limited understanding or skepticism regarding true Shariah adherence. Social influence had a significant positive impact on perception ($\beta = 0.335$, $t = 5.759$, $p < 0.001$), supporting Hypothesis 4, indicating that peer, family, and societal norms play an important role in shaping students' perceptions. Lastly, Understanding of Arabic terminologies had a negative and non-significant effect on perception ($\beta = -0.055$, $t = 1.043$, $p = 0.149$), leading to the rejection of Hypothesis 5, implying that comprehension of Arabic terms does not substantially influence students' overall perception of Islamic banking products.

Table 4. Results of structural model and hypotheses testing.

Hypothesis	Predictor → Outcome	β	t-value	p-value	Decision
H1	KNG → PIBP	0.130	1.995	0.026	Supported
H2	PU → PIBP	0.345	5.586	0.000	Supported
H3	SC → PIBP	-0.221	5.030	0.000	Supported
H4	SI → PIBP	0.335	5.759	0.000	Supported
H5	UAT → PIBP	-0.055	1.043	0.149	Not Supported

Table 5 presents the coefficient of determination (R^2) for the dependent variable, perception of Islamic banking products. The R^2 value of 0.478 indicates that approximately 47.8% of the variance in students' perception of Islamic banking products is explained by the five independent variables—knowledge, perceived usefulness, Shariah compliance, social influence, and understanding of Arabic terminologies.

Table 6 presents the effect size (f^2) of each independent variable on the dependent variable, perception of Islamic banking products. The results indicate that knowledge had a small effect on perception ($f^2 = 0.019$), suggesting that while knowledge contributes positively, its impact on shaping students' perception is limited. Perceived usefulness demonstrated a medium effect size ($f^2 = 0.121$), highlighting that students' perception is moderately influenced by how useful they consider Islamic banking products for managing their financial needs. Similarly, Shariah compliance had a medium effect ($f^2 = 0.092$), indicating a moderate influence of perceived compliance with Islamic principles on students' perception, despite the negative relationship observed in the structural model. Social influence showed the largest medium effect ($f^2 = 0.188$), emphasizing the significant role of peers, family, and societal norms in shaping students' perception. In contrast, Understanding of Arabic terminologies had a negligible effect ($f^2 = 0.006$), confirming that comprehension of Arabic terms has minimal impact on students' perception of Islamic banking products.

Table 7 illustrates the level of understanding of commonly used Arabic terms in Islamic banking among university students. The results indicate that students were most familiar with Shariah (82.9%) and Riba (75.8%), reflecting their

basic awareness of core Islamic finance concepts. A moderate proportion of students understood terms such as Qardh Hassan (67.3%), Takaful (60.2%), Ijarah (58%), and Musharakah (54.3%), suggesting partial familiarity with financing and insurance-related products. However, comprehension was notably lower for terms like Hiba (43.5%), Murabaha (49.4%), Mudarabah (48.3%), and particularly Wadiah (29.4%), indicating that many students struggled to understand specific contract types and deposit arrangements used in Islamic banking.

Table 5. Dependent variable and related R-square.

No	Dependent Variable	R ²
1	Perception of Islamic Banking Products	0.478

Table 6. Effect size of f-Square.

Construct	Perception of Islamic Banking Products
Knowledge	0.019 (small effect)
Perceived Usefulness	0.121 (medium effect)
Shariah Compliance	0.092 (medium effect)
Social Influence	0.188 (medium effect)
Understanding of Arabic Terminologies	0.006 (small effect)

Table 7. Understanding of Arabic terms.

S. No	Arabic Terms	YES	NO
1	Shariah	82.9%	17.1%
2	Riba	75.8%	24.2%
3	Hiba	43.5%	56.5%
4	Wadiah	29.4%	70.6%
5	Takaful	60.2%	39.8%
6	Murabaha	49.4%	50.6%
7	Mudarabah	48.3%	51.7%
8	Qardh Hassan	67.3%	32.7%
9	Musharakah	54.3%	45.7%
10	Ijarah	58.0%	42.0%

5. Discussion

This research aimed to analyze the impact of independent variables—knowledge, perceived usefulness, Shariah compliance, social influence, and understanding of Arabic terminologies—on the dependent variable, which was the perception of Islamic banking products. The results showed that knowledge of Islamic banking products had a positive but small effect on perception, supported by a t-value of 1.995 and a p-value of 0.026. Despite this, 60.2% of respondents reported having limited knowledge about Islamic banking products, while only 16.7% felt knowledgeable. A significant portion of students expressed interest in learning more: 68% wanted guidance on purchasing Islamic banking products, 79.6% sought clarity on required documentation, 84.8% wanted to understand product benefits, and 88.8% were interested in how these products compare to conventional banking options. These results indicate that while knowledge currently has limited influence, there is a clear demand for awareness campaigns to enhance perception, aligning with previous research (Mbawuni and Nimako, 2017; Riaz et al., 2017; Conteh, 2020).

Perceived usefulness of Islamic banking products was found to have a moderate positive effect on perception, with a t-value of 5.586 and β of 0.345. Over 60% of respondents believed these products improve financial management, productivity, and effectiveness, and 58% considered them useful. Approximately 30% of respondents remained neutral, possibly due to limited knowledge about these products. These findings are consistent with studies by Ayyub et al. (2019) but differ from Rahmi et al. (2020), who found no significant relationship between perceived usefulness and perception. Overall, the results suggest that university students generally view Islamic banking products as beneficial in managing their finances.

Shariah compliance was also positively related to perception, although the effect was moderate and the β value was negative (-0.221), with a t-value of 5.030. While 51.3% of respondents believed that Islamic banking products adhere to Shariah principles, many expressed skepticism. Around half of the respondents perceived that Islamic products merely used different names for conventional products, that Islamic banking is profit-focused, or that some products may not be fully Halal. These results are consistent with previous studies highlighting the importance of Shariah compliance in shaping customer perception (Buchari et al., 2014; Butt et al., 2018; Saqib et al., 2016; Rahmi et al., 2020), although some studies reported higher consumer trust in Shariah-compliant products (Awan & Bukhari, 2011; Fianto et al., 2018).

Social influence had a positive and moderate effect on perception ($\beta = 0.335$, t-value = 5.759). More than half of the respondents reported that family, friends, and teachers influenced their choice of Islamic banking over conventional banking. Respondents also believed that people close to them viewed Islamic banking as useful and expected them to adopt it. These findings highlight the strong role of societal and religious influence in shaping

students' perception, consistent with studies by Ali et al. (2017), Amin et al. (2011), and Taib et al. (2008), although other research reported a weaker effect (Ayyub et al., 2019; Ganesan et al., 2020).

The understanding of Arabic terminologies did not significantly impact perception ($\beta = -0.055$, t -value = 1.043, $p = 0.149$). Although students were generally familiar with basic terms such as Shariah (82.9%) and Riba (75.8%), their comprehension of other terms like Wadiah (29.4%), Hiba (43.5%), Murabaha (49.4%), and Mudarabah (48.3%) was limited. This suggests that while knowledge of basic concepts exists, a deeper understanding of specific contract types and financing mechanisms does not substantially influence perception at this stage.

Overall, the study indicated that university students in Pakistan hold a generally positive perception of Islamic banking products. Around 73.9% of respondents believed that broader awareness could increase adoption, 55.7% perceived Islamic products as distinct from conventional ones, and 54.3% felt that Islamic banks promote equity through profit-loss sharing. Additionally, 68.7% appreciated interest-free financing, although only 44.6% found the marketing efforts satisfactory.

The findings provide several practical implications for Islamic banking institutions. Social influence emerged as the most impactful factor; therefore, marketing strategies could leverage religiosity-based campaigns and societal endorsements to enhance perception. The perceived usefulness of products can be increased through seminars, workshops, and case studies at universities, along with traditional marketing channels such as pamphlets, social media, and online blogs. Furthermore, maintaining strict Shariah compliance and robust supervisory mechanisms may enhance trust and confidence among potential customers.

The study faced certain limitations. Due to time constraints, limited resources, and COVID-19 restrictions, data were collected only from three cities (Islamabad, Karachi, and Lahore), limiting generalizability. The online questionnaire format might have affected response quality, as some students may have completed it hastily. Finally, the sample size of 269, although sufficient for statistical analysis, may not fully represent the national population of university students, and results could vary with a larger sample.

6. Conclusion

Islamic finance has emerged as a viable alternative to conventional finance, adhering to Islamic principles. The Islamic financial industry primarily consists of Islamic banking, Sukuk, Islamic funds, and Takaful, with Islamic banking being the most widely adopted, followed by Sukuk and Islamic funds. Measuring the perception of university students toward Islamic banking products was particularly important, as they represent a significant segment of potential users and, in some cases, current users of both Islamic and conventional banks. Their educational background also positions them as an influential group whose perceptions could shape future adoption trends. The study found that knowledge, perceived usefulness, Shariah compliance, and social influence positively influence the perception of Islamic banking products. In contrast, the understanding of Arabic terminologies was found to have no significant impact on perception. These findings indicate that while students may be familiar with basic Islamic banking terms, awareness campaigns and practical demonstrations of product usefulness and Shariah adherence are more critical for shaping favorable perceptions. This research offers valuable insights for Islamic banks and their marketing teams. It can guide the development of targeted awareness campaigns aimed at the younger generation, highlighting the benefits, Shariah compliance, and distinct features of Islamic banking products compared to conventional banking. Furthermore, the study emphasizes the need for banks to refine their operations and communication strategies to build a positive perception among customers, ensuring that their products are distinguishable from conventional alternatives and meet the expectations of an educated clientele.

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Statement: All author(s) have read and agreed to the published version of the manuscript.

Funding: No external funding was received for this research.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: Data are available upon request from the authors.

Conflicts of Interest: The authors declare no conflicts of interest.

Generative AI Statement: The author(s) used ChatGPT (OpenAI) only for language editing and stylistic improvement of author-written text. It was not used to generate research content, data, analyses, or references. The author(s) reviewed and approved the final manuscript and take full responsibility for its content.

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