

BEYOND CONVENTIONAL FINANCE: WHAT SHAPES CONSUMER INTENTIONS TOWARD ISLAMIC PERSONAL FINANCING

Mohib Farooqui¹, Sumera Mehmood^{*2}

¹Student, Business Administration, Iqra University, Karachi, Pakistan

²Doctoral Student & Senior Lecturer of Finance, Iqra University, Karachi, Pakistan.

¹sumera.mehmood@iqra.edu.pk

DOI: <https://doi.org/10.5281/zenodo.18401964>

Keywords

Attitude, Social Influence, Religious Obligations, Pricing of Islamic personal financing, Perceived Risk, Perceived Image

Article History

Received: 28 November 2025

Accepted: 13 January 2026

Published: 28 January 2026

Copyright @Author

Corresponding Author: *

Sumera Mehmood

Abstract

This study investigates the factors influencing customers in Pakistan to adopt Islamic personal financing using the Theory of Reasoned Action (TRA). The model includes two original components, attitude and subjective norm, along with four additional factors adapted from the research papers including pricing, religious obligations, perceived risk, and perceived image. Data was collected from 260 customers of Meezan and Faysal Banks through a structured survey, and Partial Least Squares Structural Equation Modeling (PLS-SEM) was used for analysis. The findings reveal that religious obligations, perceived image and attitude significantly influence customers' intentions to use Islamic personal financing, with religious beliefs emerging as the strongest predictor. Contrary to initial expectations, pricing, perceived risk, and social influence were found to have no significant impact on intention. The model explains 58.4 percent of the variation in customer intention, highlighting that perceived image and attitudes matter more than peer pressure, cost, or risk perception. The study suggests that Islamic banks should prioritize aligning their products with religious values and fostering positive consumer attitudes to enhance adoption rates.

INTRODUCTION

Islamic banking has grown significantly worldwide due to its Sharia-compliant and ethical financial principles. Unlike conventional banking, it prohibits investments in unethical sectors (e.g., gambling, alcohol) and bans interest (riba) (Shahariman et al., 2024). Malaysia is a global leader in Islamic finance, with a government-backed dual banking system (Alaoui & El Marzouki, 2022). Islamic personal finance products, such as funding for homes, cars, and electronics, align with religious values, driving adoption (Saba et al., 2021). In Pakistan, the prohibition of riba began in 1970 and was fully enforced by 1980 (Rizvi et al., 2022). Islamic banks now offer products like Diminishing

Musharakah (31.9% market share), Murabaha (10.9%), and Ijarah (State Bank of Pakistan, 2024). Despite growth, Islamic personal finance adoption remains low, prompting this study. The adoption regarding the Islamic personal financing remains limited in Pakistan, partly due to low public awareness about Sharia-compliant products. Despite availability, many potential customers in Karachi lack understanding of Islamic finance principles, hindering uptake alongside other unexplored factors. Existing studies have highlighted the significance of components such as perceived image, pricing, religious obligations, and perceived risk in shaping individuals' attitude and their intention

toward Islamic financial products. This research aims to fill this gap by examining how these determinants interact to affect consumers' decisions to adopt Islamic personal financing in Pakistan, specifically focusing on Karachi. By employing the Theory of Reasoned Action (TRA) and expanding it with additional variables, the research will offer valuable insights into how perceived risk, pricing, religious values, and other factors influence the intention of adopting Islamic personal financing, providing a clearer understanding of the barriers and drivers for consumer acceptance in the Pakistani market.

This study examines key factors influencing Pakistani consumers' adoption of Islamic personal financing, focusing on Karachi. Using an extended Theory of Reasoned Action (TRA) model, it analyzes how perceived risk, pricing, religious obligations, perceived image, attitude, and social norms shape decisions. The research assesses the impact of these factors and how Sharia compliance affects consumer behavior. The findings aim to provide Islamic banks with actionable strategies to boost adoption by addressing barriers and strengthening consumer confidence in Sharia-compliant financing products.

Research Questions

What are the key determinants influencing consumers' intention to use Islamic personal financing in Pakistan?

What extent do these determinants affect our decisions to adopt Islamic personal financing in Pakistan?

Literature Review

Theoretical Background

The Theory of Reasoned Action (TRA) links beliefs, attitudes, intentions, and behavior (Fishbein & Ajzen, 1975). Previous studies have successfully applied TRA to Islamic finance adoption, incorporating additional variables like religious obligations and pricing (Charag et al., 2020; Ali et al., 2023). This study employs TRA's core components - attitude and subjective norms - while extending the model with four key variables: "Religious Obligations", "Pricing",

"Perceived Risk", and "Perceived Image". Empirical evidence supports TRA's effectiveness in explaining Islamic financial behavior, making it suitable for investigating Pakistani consumers' intention to adopt Islamic personal financing. The adapted model aims to provide comprehensive insights into adoption drivers within Pakistan's unique Islamic banking context.

Islamic Financing and Debt

Islamic finance promotes wealth redistribution and ethical financial growth while adhering to Sharia principles (Ali et al., 2023; Asari, 2024). It discourages excessive debt, offering flexible solutions like debt-to-charity conversion or extended repayment periods for struggling borrowers (Abdullah et al., 2022; Ali et al., 2023). This approach aligns with Islamic banking's ethical framework, ensuring fairness and financial stability (Shah et al., 2024). However, Pakistan's Islamic banking growth faces challenges, including limited consumer awareness and Shariah compliance delays. Only six full-fledged Islamic banks operate in Pakistan, highlighting the need for fair pricing and better financial accessibility to boost adoption (Ali et al., 2023).

Empirical Reviews

Ali et al. (2023) conducted a pioneering study examining customer acceptance of Islamic personal financing in Pakistan. Using the Theory of Reasoned Action (TRA) model, they investigated how attitude, social influence, government support, religious obligations, and pricing affect adoption intentions. Their findings identified pricing as the most significant determinant, recommending fair pricing policies and government initiatives to enhance acceptance. The study highlighted the need for Islamic banks to develop more products emphasizing societal benefits and wealth mobilization, which could positively impact Pakistan's economy. Charag et al. (2020) analyzed Islamic banking adoption in Kashmir, India, extending the TRA model with additional variables including religiosity, culture, and perceived risk. Through structural equation modeling of survey data from academic

communities, they demonstrated how religious alignment and cultural factors influence banking choices. The research emphasized the importance of targeted marketing campaigns and collaborations with religious scholars to improve consumer perceptions. It also underscored government's role in building trust and reducing perceived risks, suggesting policy measures could accelerate Islamic banking's growth as an ethical alternative to conventional systems in developing markets. The TRA framework posits that attitude (positive/negative evaluation) significantly influences behavioral intentions (Fishbein & Ajzen, 1975). Studies confirm that favorable attitudes toward Islamic finance, shaped by religious values and ethical considerations, enhance adoption likelihood (Ali et al., 2022; Charag et al., 2020). Cultural context further strengthens this relationship (Ezeh & Nkamnebe, 2020). Consumers prioritizing Sharia-compliance show stronger usage intentions (Junaidi et al., 2023; Yusfiarto et al., 2023).

H1: Attitude will have a significant impact on the intention to use Islamic personal financing.

In this study, social influence refers to an individual's perception of expectations from significant others, such as family, friends, and community leaders (Fishbein & Ajzen, 1975). While Ali et al. (2023) and Charag et al. (2020) found no significant impact, Mindra et al. (2022) and Ezeh and Nkamnebe (2020) highlighted its contextual importance. Thus, the influence of social norms on adopting Islamic personal financing may vary across regions and cultures.

H2: Social influence will not have a significant impact on the intention to use Islamic personal financing.

Pricing in Islamic personal financing refers to the rate charged by Islamic banks (Ali et al., 2023). Fair, competitive pricing enhances consumer willingness to adopt Islamic products. Mahdzan et al. (2024) found that perceptions of high costs discourage adoption. Offering flexible options like reduced charges and payment holidays can

increase appeal. Thus, transparent and affordable pricing policies are crucial in influencing adoption decisions.

H3: Pricing will have a significant impact on the intention to use Islamic personal financing.

Perceived risk involves consumer concerns about financial loss or unfavorable outcomes (Charag et al., 2020). In Islamic finance, lack of understanding and uncertainty increase this risk perception (Ali et al., 2023). High perceived risk negatively affects consumer confidence, leading to lower adoption rates. As found by Charag et al. (2020), the more Islamic banking is viewed as risky, the less likely consumers are to engage with its services.

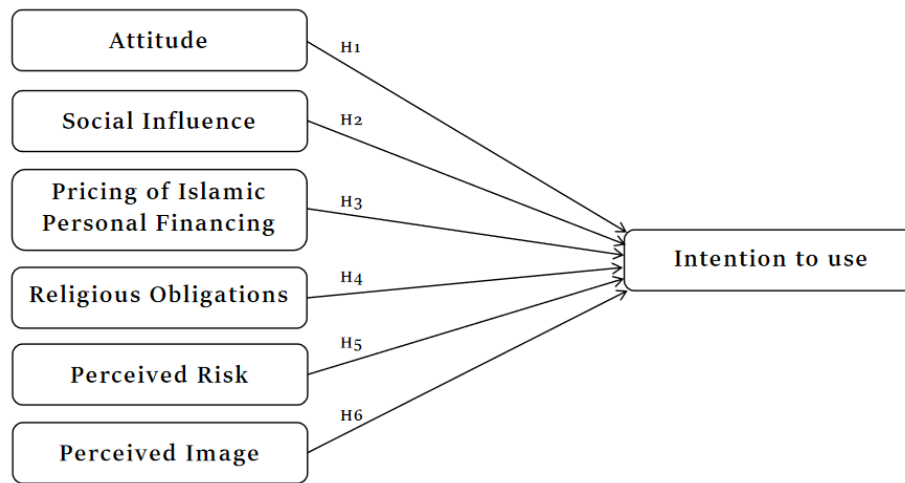
H5: Perceived risk will have a significant impact on the intention to use Islamic personal financing.

Religious obligations strongly influence consumer intentions in Islamic societies (Ali et al., 2023). Adherence to Sharia principles motivates individuals to choose Islamic financial products (Purwanto, 2021). Studies by Junaidi et al. (2023) and Mindra et al. (2022) confirm that religiosity positively impacts adoption. When Islamic banks align with Islamic values such as avoiding riba and promoting social welfare, consumers see them as ethical and spiritually acceptable options.

H4: Religious obligation will have a significant impact on the intention to use Islamic personal financing.

Perceived image relates to how consumers view the social or ethical identity of Islamic financial institutions (Charag et al., 2020). While some studies report no significant influence, others, like Junaidi et al. (2021) and Amin (2020), find that a positive image linked to Sharia compliance, transparency, and moral practices can increase trust and intention. Consumers may adopt Islamic banking if it enhances social reputation and aligns with personal values.

H6: Perceived image will not have a significant impact on the intention to use Islamic personal financing.



Research Methodology

In the methodology section, we have provided complete information regarding the research design, approach, sampling techniques, the rationale for conducting the research, the population, and our sampling size. In this methodology, we ensured the validity and reliability of our instrument. Additionally, the study analysis has been highlighted, and the statistical techniques used for the main study have been discussed.

The study uses a quantitative approach to test hypotheses and analyze relationships between variables like consumer intention, pricing, religious obligations, attitude, social influence, perceived risk, and image. Data is collected using structured, closed-ended surveys suitable for statistical analysis (Mulisa, 2022). An explanatory research approach is adopted to understand the relationship between independent variables (e.g., attitude, social influence) and the dependent variable (intention to use Islamic personal financing), including mediators or moderators that may influence these relationships (Bentouhami et al., 2021). A correlational research design is used to observe and analyze the strength and direction of relationships between variables without manipulating them. This design supports the study's goal of identifying factors influencing the switch to Islamic personal financing (Mweshi & Muhyila, 2024).

The target population includes customers of Meezan Bank and Faysal Bank in Pakistan, aged 18 and above, from diverse educational and socioeconomic backgrounds, allowing for a comprehensive understanding of Islamic financing adoption. A sample of 170 participants was selected using SEM guidelines, considering 7 latent and 34 observable variables, with statistical power of 0.8 and effect size of 0.3. Participants were approached in-person or online in Karachi. Data was gathered using a five-point Likert scale questionnaire, divided into two sections: demographics and statements measuring study variables (e.g., attitudes, social influence). Responses range from "Strongly Disagree" to "Strongly Agree". Convenience sampling, a non-probability method, was used due to its speed and practicality. Participants were chosen based on accessibility and willingness to participate, making it suitable despite its limitations in generalizability. PLS-SEM (Partial Least Squares Structural Equation Modeling) was used for data analysis via SmartPLS 4. It is appropriate for predictive research with small or non-normal data and helps assess direct/indirect effects, validity, and hypothesis testing.

Data Analysis

This section presents the data analysis of the study, focusing on the factors influencing consumers' intention to use Islamic personal

financing in Pakistan. Using data from 260 Islamic bank customers, the analysis was conducted using Smart PLS to assess the relationships between key variables, providing insights into consumer decision-making processes. Data screening is an essential step to ensure the cleanliness of the dataset before conducting hypothesis testing. It involves identifying and addressing any missing value or

outlier in the dataset through SPSS. During the data screening process, the dataset comprising 260 responses was thoroughly reviewed using SPSS. No missing values or outliers were identified, confirming that the data was clean and suitable for further statistical analysis. This ensured the robustness of subsequent results and supported the validity of the findings.

Table 1: Demographic Profile

		Frequency	Percentage
Gender	Male	192	73.88
	Female	68	26.2
Age	18 - 25	156	60.0
	26 - 35	84	32.3
	36 - 45	16	6.2
	46 - 60	4	1.5
	Above	4	1.5
Education level	Higher Education	32	12.3
	Bachelor's Degree	168	64.6
	Master's Degree	60	23.1
	Other	-	-
Occupation	Employed	184	70.8
	Self-employed	20	7.7
	Unemployed	48	18.5
	Other	8	3.1
Are you a customer of an Islamic bank?	Yes	260	100.0
	No	-	-
Which bank do you have an Islamic bank account with?	Meezan Bank	212	81.5
	Faysal Bank	48	18.5
How long have you been using Islamic banking services	Less than 1 year	72	27.7
	1 - 3 years	100	38.5
	4 - 6 years	60	23.1
	More than 6 years	28	10.8

Table 2: Reliability and Validity

	Items	Loadings	CR	AVE
Attitude	ATT1	0.749	0.897	0.635
	ATT2	0.784		
	ATT3	0.800		
	ATT4	0.843		
	ATT5	0.805		
Social Influence	SI1	0.712	0.819	0.532
	SI2	0.767		
	SI3	0.712		
	SI4	0.725		
	SI5	Deleted		
Religious Obligations	RO1	0.790	0.898	0.639
	RO2	0.810		
	RO3	0.810		
	RO4	0.809		
	RO5	0.776		
Pricing of Islamic Personal Financing	PIPF1	0.741	0.901	0.698
	PIPF2	0.981		
	PIPF3	0.872		
	PIPF4	0.721		
	PIPF5	Deleted		
Perceived Risk	PR1	0.753	0.892	0.624
	PR2	0.805		
	PR3	0.777		
	PR4	0.852		
	PR5	0.758		
Perceived Image	PI1	0.851	0.936	0.787
	PI2	0.899		
	PI3	0.931		
	PI4	0.865		
Intention to use	IU1	0.816	0.901	0.695
	IU2	0.865		
	IU3	0.845		

IU4	Deleted
IU5	0.807

Table 3: Discriminant Validity by using Fornell and Larcker (1981) criterion

	ATT	IU	PI	PIPF	PR	RO	SI
ATT	0.797						
IU	0.553	0.833					
PI	0.255	0.403	0.887				
PIPF	-0.063	0.104	0.035	0.835			
PR	-0.043	0.121	0.213	0.582	0.790		
RO	0.424	0.646	0.260	-0.104	0.013	0.799	
SI	0.402	0.502	0.445	0.111	0.172	0.436	0.729

Table 5: Heterotrait-Monotrait Ratio (HTMT)

	ATT	IU	PI	PIPF	PR	RO	SI
ATT							
IU	0.644						
PI	0.295	0.448					
PIPF	0.151	0.094	0.144				
PR	0.138	0.153	0.238	0.727			
RO	0.494	0.750	0.286	0.130	0.137		
SI	0.527	0.644	0.560	0.206	0.235	0.557	

Table 6: Inner Model Results

Hypothesis No.	Hypothesized Effect	Coefficients	T-values	P-values	Decision
H1	ATT -> IU	0.288	5.583	0.000	Supported
H2	SI -> IU	0.099	1.930	0.054	Supported
H3	PIPF -> IU	0.166	1.349	0.177	Rejected
H4	RO -> IU	0.455	7.825	0.000	Supported
H5	PR -> IU	-0.022	0.312	0.755	Rejected
H6	PI -> IU	0.166	3.654	0.000	Rejected

Table 7: Predictive Quality Indicators of the Model

	R-square	R-square adjusted
IU	0.584	0.574

Discussion of Findings

The study found that religious obligations, attitude, and perceived image significantly influence Pakistani consumers' intentions to use

Islamic personal finance. Religious obligations were the strongest predictor, followed by positive attitudes and the bank's image. Contrary to expectations, social influence, pricing, and

perceived risk had no significant impact. These results highlight that personal beliefs, ethical perception, and institutional reputation are key motivators, while external pressures and financial factors are less influential.

Conclusion

The study concluded that religious values, attitudes, and perceived image significantly shape the intention to adopt Islamic personal finance in Pakistan. Religious obligations were the most influential factor, showing a strong connection between faith and financial decisions. Positive consumer attitudes and trust in the bank's image also played vital roles. Meanwhile, social influence, price, and risk were not significant, suggesting personal belief outweighs peer influence or financial concerns in this context.

To boost adoption of Islamic personal financing, banks should emphasize Shariah compliance and religious values in their marketing strategies. They must foster positive attitudes by educating the public on ethical and social benefits through awareness programs. Strengthening perceived image with ethical practices and community engagement is also crucial. While price and peer influence matter less, aligning products with faith, values, and trust will effectively drive consumer adoption in Pakistan.

This study has several limitations. The convenience sampling method may limit generalizability beyond Karachi's Islamic banking customers. Focusing on intentions rather than actual behavior and excluding conventional bank customers with Islamic windows narrows the findings. Data collection during peak hours may introduce response biases, while the exclusion of factors like service quality and financial literacy presents gaps. Although the study introduces Perceived Risk and Perceived Image, other influential factors remain unexplored. These limitations highlight opportunities for future research to expand sampling, examine real adoption behavior, and investigate additional variables for a more comprehensive understanding.

