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# BRIDGING THE GAP: ENHANCING NON-MUSLIM ADOPTION OF ISLAMIC BANKING IN PAKISTAN - INSIGHTS FROM MALAYSIA

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## Abstract

Using key insights from the successful case of Malaysia, this paper empirically examines factors affecting non-Muslims in Pakistan to shift towards Islamic Banking. It examines the effects of social pressure, awareness, attitudes and behaviors on the non-Muslim customers' adoption intention of Islamic Banking in Pakistan. Data from 466 non-Muslims in Karachi were collected via structured questionnaires using stratified random sampling. The results show the important influence of social pressure and awareness on positive attitudes and behaviors that eventually lead to the adoption of Islamic Banking. Accordingly, this paper suggests key action plans that focus on educational programs geared towards specific target groups and culturally sensitive marketing strategies with the aim of increasing awareness and studying attitudes. The quantifiable results include monitoring the percentage growth of non-Muslim customers using its Islamic Banking facilities and reviewing the performance of promotional campaigns via frequent surveys. The Malaysia case also highlights the need for strong regulatory support, a broad public education campaign and targeted promotion efforts. Incorporating these tactics would help Pakistan create a more inclusive Islamic Banking space for a wider range of customers who seek both financial and moral healthcare. Based on the findings, this paper suggests a number of actionable recommendations for policymakers and banking institutions in order to enhance the Islamic Banking acceptance behavior in relation to non-Muslims in Pakistan.

**Keywords:** Islamic Banking, Non-Muslim Customers, Social Pressure, Awareness, Attitude And Behavior.

## Introduction

Islamic Banking is based on Sharia law and prohibits interest (riba) - whether earned or paid. In practice, it is a sharing system of lenders and borrowers and advocates good moral principles & ethical investing. Islamic Banking inculcates traits of transparency, cooperation and economic conservatism. Particular financial contracts such as mudarabah (profit-sharing) and musharakah (joint venture) cause better financial sustainability and performance because of adherence to Islamic morals in its economic activities (Farooqui, 2022; Bhalekar, 2020).

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The adoption of Islamic Banking in Pakistan faces many constraints for people of Pakistan, including non-Muslims, which range from a lack of knowledge, perceptions of incompatibility and cultural influences. Yaseen and Kamran (2019) identified that most of the conventional banking customers in Pakistan stick to conventional banking because they are uninformed about the procedure of Islamic banks, social factors, or are of the opinion that operations of Islamic banks are still not as per Sharia.

One of the primary challenges is the lack of awareness and understanding of Islamic Banking principles among the general public. Many consumers in Pakistan perceive Islamic Banking operations as complex and are skeptical about their compliance with Sharia law (Ali et al., 2022). This skepticism is further compounded by inadequate marketing strategies and limited efforts to educate the public on the benefits and procedures of Islamic Banking (Shafique et al., 2023).

Institutional inertia and cultural resistance to change also pose significant barriers. In Pakistan, the presence of a dual banking system results in conventional banking being largely favored over Islamic Banking because of long-term exposure and familiarity (Ayub 2022). Moreover, the disparity between the theory of Islamic Banking and its informative concepts in practice underlie consumer suspicion and hesitancy (Shaukat & Naveed, 2020).

The economic instability and political factors also influence the growth of Islamic Banking in Pakistan. This is true due to the poor level of political will and policy consistency that fails to encourage the creation of a conducive Islamic banking ecosystem. Furthermore, country-level economic issues of high inflation and currency depreciation that plague the country in general also bear an impact on how stabilized and strengthened Islamic Banking services are regarded (Qureshi & Hussain, 2022).

In the field of Islamic finance, a huge problem exists in the education and training of professionals. Since limited institutions are available for Islamic Banking education in the country, Islamic Banking professionals do not represent a diversity of backgrounds and perspectives (Akbar et al., 2023). Improving the educational infrastructure and putting in place holistic training programs are crucial to grooming a competent labor force that can drive the Islamic Banking sector.

Islamic banks in Pakistan often have a limited branch network and fewer product offerings compared to conventional banks. This restricts their accessibility and appeal to potential customers (Ahmad et al., 2023). Islamic banks may seek to broaden their pool of potential customers by further increasing the branch network and broadening the scope of products offered.

This is unlike Malaysia, where a much better-structured Islamic banking model exists and can be adopted as a suitable benchmark model for Pakistan in many ways. This leans towards success when it comes to Malaysia, which has the right marketing and regulatory frameworks as well as widespread publicity. Mustapha et al. (2022) again supported the understanding that awareness of Islamic Banking had a significant influence on the attitude and intentions of non-Muslims in Malaysia with powerful public relations or a supportive social environment. Moreover, Mohd Thas Thaker et al. (2020) stated that in Malaysia, convenience is a significant determinant

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of loyalty towards Islamic Banking among its non-Muslim customers, followed by product pricing and value-added services.

Since Malaysia's Islamic Banking Model is becoming more dominant, Pakistan must model the strategic Islamic Banking approach to broaden outreach among non-Muslim segments of Pakistan. A comparative study conducted by Haider et al. (2019) showed that the dual banking system in Malaysia plays an important role in improving the operational efficiency of Islamic banks as it allows both conventional and Islamic banks to operate side-by-side, which has resulted in diversification and competition. This competitive environment with robust regulatory support has ensured that Malaysia was able to cater to the spectrum of the needs of its multi-race and religious populations (including non-Muslims).

Islamic Banking has grown in Pakistan as well, but at a much slower pace; it is not growing at such an accelerated rate as Malaysia. Malaysia's strategic government policies and strong institutional support have consistently driven the expansion of its Islamic Banking industry, whereas Pakistan's progress has been hampered by less comprehensive policy initiatives (Saw et al., 2022).

To replicate Malaysia's success, Pakistan needs to study the effective strategies and policies implemented by Malaysia. This study adopts a dual approach. Firstly, it illustrates how Pakistan can emulate Malaysia's success in promoting Islamic Banking adoption among non-Muslims. Secondly, it investigates the influence of social pressure, awareness and attitudes/behaviors towards Islamic Banking among non-Muslim communities located in Karachi, near the headquarters of Islamic banks in Pakistan.

Learning from Malaysia's experience, Pakistan can develop policies and frameworks that not only boost the adoption of Islamic Banking but also ensure that it meets the ethical and financial needs of a broader customer base. This study will be pivotal in providing directions on how to emulate the success of leading players like Malaysia.

## Rationale

Pakistan has seen rapid development in its financial services industry, specifically in the Islamic banking vertical. However, it initially targeted Muslim consumers only but is now trying to understand the aspects of how it can attract non-Muslims as well. To achieve the objectives of the research and to increase the market share of Islamic Banking, it is necessary to examine the factors affecting the behavioral intentions of non-Muslim customers. Thus, Malaysia's positive example of non-Muslim integration into Islamic banking can prove useful for Pakistan in successfully addressing the issues related to non-Muslim demands and, therefore, spreading the acceptance of Islamic banking services.

## Problem Statement

Use of Islamic banking is still generally low in Pakistan even with the expansion, despite the fact that quite a number of customers are non-Muslims. The purpose of this research study is to reveal the factors that affect non-Muslim client's

behavioral intentions for opting for Islamic Banking in Pakistan. It will also discuss the experience of the Malaysian function to attract non-Muslim customers into Islamic banking in a bid to discuss implications that can be implemented in the Pakistan content. Last but not least, the study will offer useful and viable suggestions to popularize the Isl sweeps afresh among the Non-Muslim population in Pakistan – for improved financial inclusion and expanded market share.

**Research Questions**

This study aims to address the following research questions:

- How does social pressure from family, peers, and community leaders influence non-Muslims' attitudes and behaviors toward adopting Islamic Banking in Pakistan?
- How does awareness of Islamic Banking principles and benefits influence the attitudes and behaviors of non-Muslims in Pakistan?
- In what ways do attitudes and behaviors mediate the relationship between social pressure and the adoption of Islamic Banking by non-Muslim customers in Pakistan?
- How do attitudes and behaviors mediate the relationship between awareness and the adoption of Islamic Banking by non-Muslim customers in Pakistan?
- What direct impact do attitudes and behaviors have on the adoption of Islamic Banking by non-Muslim customers in Pakistan?
- How can targeted and culturally sensitive marketing strategies be optimized to enhance the appeal of Islamic Banking among non-Muslims in Pakistan?
- What specific lessons can Pakistan learn from Malaysia's successful Islamic Banking model to address unique challenges faced by non-Muslims?

**Study Objectives**

The specific objectives are:

- To assess the impact of social pressure from family, peers, and community leaders on non-Muslims' attitudes and behaviors towards adopting Islamic Banking in Pakistan.
- To evaluate the influence of awareness about Islamic Banking principles and benefits on the attitudes and behaviors of non-Muslims in Pakistan.
- To determine the mediating role of attitudes and behaviors in the relationship between social pressure and the adoption of Islamic Banking by non-Muslim customers in Pakistan.

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- To determine the mediating role of attitudes and behaviors in the relationship between awareness and the adoption of Islamic Banking by non-Muslim customers in Pakistan.

- To examine attitude and Behavior as predictors of Islamic Banking adoption among non-Muslim customers in Pakistan.

- To devise and trial out marketing strategies geared at making Islamic Banking more appealing to the non-Muslim population in Pakistan.

- To investigate the viability of a proven Islamic Banking model from Malaysia and propose tailored strategies to promote non-Muslim consumers' adoption in Pakistan.

## Theories in the context of Islamic Banking Adoption

### Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) is a well-known psychological theory that has been used a number of times to figure out why people do things they do, like using Islamic Banking services. Ajzen (1991) came up with TPB, which says that three main things affect a person's decision to do something: attitude, subjective norms, and perceived behavioral control. These factors affect the behavioral intentions and, as a result, aim to predict what the actual Behavior will be.

A study by Maryam et al. (2021) has shown how crucial attitude is in attracting customers to use Islamic Banking. It was found that cost-benefit analysis and reputation influence the perception of Islamic banking in addition to internal and external factors. This, in turn, conditions the relationship between these determinants and plans to introduce such a system. Similarly, Purwanto et al. (2022) investigated the TPB by demonstrating that religiosity and knowledge are prerequisites of attitude and intentions to use Islamic microfinance.

Abid and Jie (2022) looked at how non-economic factors such as family leadership and religiosity negatively affect farmers applying for Islamic Banking in Pakistan. This paper ground the findings into the TPB framework, where it is indicated that subjective norms and religiosity are important factors influencing behavioral intentions in the perception of Islamic finance. Afief et al. (2023) found that knowledge about Islamic Banking strengthens the link between perceived behavioral control and intention. This means that educating non-Muslims about Islamic Banking could help pave the way for its acceptance.

Haryanto and Wulandari (2022) conducted a study that concluded that social influence has a great influence on people's plans to save in Islamic banks. In the same way, Alzadjal et al. (2021) observed the relationship between subjective norms and intention to contract with Islamic banks, mediated through religiosity. This discovered that social and religious factors majorly influence adoption behavior.

### Institutional Theory

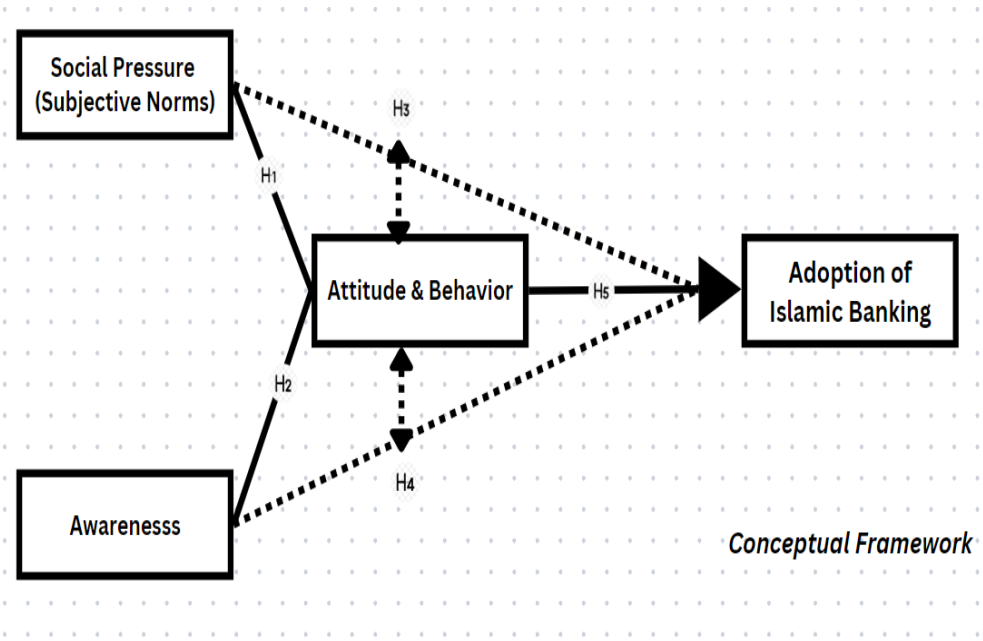
For Islamic banks, institutional theory is essential for conceptualization, discussing what society expects first from the financial institution and what the needs are to ensure customers' compliance with Shariah principles can be met by the banks themselves. The theory also helps promote and develop Shariah-compliant products and services that fulfill financial needs in mutual harmony with religious beliefs. In other words, institutional theory sheds light on the importance of Shariah governance mechanisms in ensuring that banks lay the solid foundation of such structures, as it plays a crucial part in enriching transparency and accountability, which ultimately gives further strength to customer confidence (Karbhari et al., 2020). Theoretical frameworks like institutional theory contribute to the academic debate while explaining why Islamic banks in a country like Pakistan, with high religious adherence, are responding by ensuring strong Shariah governance and clean operations, enticing Muslim and non-Muslim clients who are concerned about ethical Behavior in banking. For non-Muslim customers, an overall focus on integrity and transparency creates a surety when dealing with the bank for its reliability and accountability in handling banking operations.

**Stakeholder Theory**

Stakeholder theory, at the core, is about ensuring that all stakeholder interests - customers included - are being balanced. In Islamic banking, this philosophy guarantees that the health of the customers is maintained as part of the moral compass of a bank, beyond merely treating them as profit centers. Islamic banks then can give priority to social/ethical objectives and, at the same time, create a line of products and services geared to meet the financing needs of customers in a process safeguarded from any unethical practice, thereby ensuring fairness, transparency and social welfare. Doing so can improve client satisfaction and loyalty, as clients know that their regionally functioning bank works within high ethical guidelines (Al-Shamali et al., 2013). This reinforces the commitment the Islamic banks make to social welfare and ethical conduct to their stakeholders (including non-Muslims) in the case of Pakistani customers. In the process, it creates a culture of inclusiveness and trust - making non-Muslim customers more likely to approach banks, which are seen as genuinely caring about society at large.

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## Conceptual Framework




## Hypotheses Development

$H_1$: Social pressure has a significant effect on non-Muslim attitudes and Behavior towards Islamic Banking.

It is validated by the evidence that subjective norms and social influences have a significant impact on attitudes and Behavior in Islamic Banking (Abid & Jie, 2022; Haryanto & Wulandari, 2022).

$H_2$: Awareness has a widespread effect on the attitude and conduct of non-Muslims towards Islamic banking.

Studies revealing that focus on Islamic Banking subjects in regard to mindset and Behavior in the direction of Islamic Banking guide this speculation (Purwanto et al., 2022; Afief et al., 2023).

$H_3$: Attitude and Behavior mediate the relationship between social pressure and the adoption of Islamic Banking among non-Muslim customers.

Studies illustrate that attitudes may be insightful in explaining the connection between social pressure and plans to adopt. (Maryam et al., 2021).

$H_4$: Attitude and Behavior mediate the relationship between awareness and adoption of Islamic Banking among non-Muslim customers.

Awareness influences people's feelings, and feelings influence plans to adopt (Purwanto et al., 2022).

$H_5$: Attitude and Behavior positively influence non-Muslim customers' intention to adopt Islamic Banking.

A number of studies suggest that attitudes are a key driver of intentions to adopt this type of service (Maryam et al., 2021; Afief et al., 2023)

## Literature Review

Islamic Banking has grown worldwide, and it now also caters to non-Muslim customers. There are several reasons why non-Muslims are growing increasingly interested, including societal pressure, education and awareness. One important topic of research is non-Muslims switching Behavior to Islamic Banking, and below is the literature review on such studies, primarily in a Malaysian context.

Many studies have also been done on the adoption of Islamic Banking as well as its consumers who are Muslim or even not Muslim in Malaysia. It is undeniable that an increasing number of non-Muslims are now using Islamic Banking. Mohd Thas Thaker et al. (2020) proved that non-Muslim consumers' convenience, competitive pricing and value-added services are the factors giving way to Islamic Banking growth. Therefore, the Islamic Banking system of Malaysia contains precious lessons for Pakistan to learn from and apply.

Research has also considered the financial literacy of Islamic Banking customers. Ganesan et al. (2020) investigated the effect of perceived behavioral control attitude and subjective norms on the intention to learn about Islamic Banking products. Some Muslims will struggle to understand Arabic-sounding marketing, and so will many who are not Muslim. This illustrates why it is of paramount importance to educate the clients about Islamic Banking products in an accessible way. Educating the masses about such products here is just as important because if marketed properly and shown in easy terms, people can understand Islamic Banking products in almost every part of Pakistan.

It has also been examined why non-Muslim people choose Islamic Banking from multiple perspectives. If non-Muslims learn about Islamic Banking (awareness), this changes the way they think and plan to use Islamic Banking services (Mustapha et al., 2022). This research finds information as a significant moderator to the theory of planned Behavior. It further exhibited the significant role of mediating factors, such as attitudes and subjective norms as well. The people in Pakistan can become more knowledgeable through educational campaigns and other such initiatives.

In addition, the results further signify that attitudes, subjective norms, knowledge and religiosity are interrelated with non-Muslim intentions toward Islamic Banking products (Si and Chin, 2023). This underscores the importance of personal values and social drivers in making people use Islamic banking services. Using these results, Pakistani policymakers can attract more non-Muslim clients to use Islamic banking products through the enhancement of awareness in both personal and social aspects.

To solve the problems encountered by Islamic Banking in terms of lack of experts, interest rates as a benchmark and similarity with conventional banks, one must

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increase the literacy of Islamic finance and ensure strict compliance with Shariah principles (Chowdhury et al., 2020). Through effective Shariah compliance education and adherence, the Islamic finance market in Pakistan will develop a strong base of confidence among potential customers.

In Malaysia, studies have found that every attitude and religious belief factor plays a considerable role in the goal of undertaking Islamic banking services (Siswadi et al., 2021). Pakistan can attract non-Muslims by focusing on the ethical and community-based principles on which Islamic Banking is based. Emphasizing these aspects can also exemplify Islamic Banking as inclusive and ethically sound, attracting a wider demographic.

Even in Malaysia, lower-income groups have indicated higher intentions to adopt Islamic digital banking due to perceived social and economic benefits (Aziz & Mustafar, 2022). Pakistan has an opportunity to focus on the inclusive and beneficiary nature of Islamic digital banking with low-income segments. Making financial services widely available and inclusive can greatly contribute to increasing financial inclusion, as it could interest these segments.

Islamic Banking sources have contributed significantly to Malaysia's economic expansion, in part through the financial intermediary and capital productive activities (Gani & Bahari, 2021). The economic benefits and stability of Islamic Banking can help Pakistan attract non-Muslim customers. Long-term economic stability, ethical investment opportunities and some overall contribution to the real economy is a broad enough value proposition to appeal to large sections of the addressable market.

The findings indicate that non-Muslims are increasingly receptive to Islamic Banking in Malaysia. The reasons for this are a mix of economic and service design factors. These studies also highlighted the need to increase the level of awareness regarding Islamic Banking amongst customers and how socio-cultural and political changes impact this sector. Regarding the evolution of Islamic Banking in Malaysia, this study provides an overall understanding of how Islamic Banking is changing and reformed, including the level of openness to changes as well as problems and future challenges faced. Pakistan may well be able to sell Islamic Banking to non-Muslim customers by focusing on such key lessons and by paying particular attention to the critical factors: awareness and social influence.

## Research Methodology

### Research Design

This quantitative study uses a structured and organized questionnaire that enables gathering information about factors considered by non-Muslims in Pakistan regarding Islamic banking. Structured surveys lend themselves well to banking research in the sense that they allow you to get a better sense of how satisfied customers are with a service by gathering data more consistently, making it considerably easier and more efficient to analyze data. (Khan et al., 2009).

### Sampling and Data Collection

The non-Muslim population for this study was selected using the stratified random sampling technique in Karachi, where almost all the Islamic banks have their head offices and significant reach. The sample size taken was 510, out of which 492 questionnaires were returned. After rejecting some cases as they were not valid for analysis, 466 questionnaires were accepted for analysis. Stratified random sampling ensures that different groups are well represented by raising the generalizability and precision of results. This method is especially useful in bank research, as it allows us to obtain a more complete picture of the perception and Behavior of customers. (Mariadas & Murthy,2017).

### Questionnaire Development

### Likert Scale:

A 5-point Likert scale from "strongly disagree" to "strongly agree" was used in the questionnaire to measure the attitudes, subjective norms, perceived behavior control and adoption intention of Islamic Banking.

### Content and Face Validity

Islamic banking experts also reviewed the questionnaire to ensure its comprehensiveness and relevance. Some non-Muslims also completed questions that tested whether the questions were conducive.

### Pilot Testing

The reliability and validity of the questionnaire were confirmed in the pilot stage when 30 non-Muslims were initially surveyed. It concluded that all items were understandable to the respondents through the pilot testing (Fianto et al., 2021). Feedback from the pilot test was used to make adjustments and arrive at the final questionnaire.

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## Data Analysis and Results

## Descriptive Statistics

**Table 1: Descriptive Statistics**

| Demographic Variable | Category | Percentage (%) |
|---|---|---|
| Gender | Male | 77.47 |
| Female | 22.53 | |
| Age | 18-25 years | 6.22 |
| 26-35 years | 10.73 | |
| 36-45 years | 64.81 | |
| 46-55 years | 6.01 | |
| 56 and above | 0 | |
| Education Level | High School | 14.59 |
| Bachelor's degree | 65.02 | |
| Master's degree | 20.39 | |
| Doctorate | 0 | |
| Occupation | Student | 12.88 |
| Employed | 11.16 | |
| Self-employed | 60.09 | |
| Unemployed | 3.65 | |
| Retired | 12.23 | |

The sample shows male dominance, with 77.47% males and 22.53% females. This gender bias suggests different financial priorities and risk perceptions. Therefore, gender-specific marketing strategies should be developed. For males, focus on investment opportunities and wealth management, while for females, emphasize financial security, savings plans, and family-oriented products.

The age distribution reveals that most respondents are between 36-45 years (64.81%), with fewer in younger (18-25 years: 6.22%; 26-35 years: 10.73%) and older age brackets (46-55 years: 6.01%; 56 and above: 0%). This indicates a focus on individuals in their prime earning years who are likely planning for both immediate and future financial needs. Thus, financial products should be tailored to this age group, including retirement planning, children's education savings, and long-term investment opportunities, highlighting the stability and ethical nature of Islamic Banking.

Regarding education, 65.02% of respondents hold a Bachelor's degree, 20.39% have a Master's degree, and 14.59% have a high school education. This indicates a relatively well-educated sample with potentially higher financial literacy and expectations for sophisticated financial products. Hence, it's crucial to provide detailed, informative content through webinars, detailed financial comparisons, and personalized financial planning services. Simplify complex terms for high school graduates and offer advanced financial information for those with higher education.

Occupationally, the data shows a significant portion of respondents are self-employed (60.09%), with others being students (12.88%), employed (11.16%), unemployed (3.65%), and retired (12.23%). The high percentage of self-employed individuals suggests a need for flexible, business-friendly financial products. Therefore, specialized products such as Sharia-compliant business loans, investment schemes, and microfinance solutions should be developed, emphasizing ethical investment and risk-sharing aspects.

To enhance the overall adoption of Islamic Banking, targeted educational campaigns should be launched, catering to different demographic groups. Simplify financial concepts for younger and less educated individuals while providing in-depth information for the highly educated. Additionally, inclusive marketing strategies should be created, addressing the financial needs of both genders and highlighting success stories from male and female customers.

Utilizing digital platforms to engage potential customers through webinars, interactive Q&A sessions, and personalized financial advice will increase accessibility and convenience, especially for tech-savvy and educated customers. Collaborating with community leaders and influencers to promote Islamic banking, as well as organizing community events & workshops to build trust-forming campaigns, will definitely help end misconceptions

Socio-economic determinants such as gender, age and education level, as well as occupation, have a positive influence on the Non-Muslims towards the adoption of Islamic Banking in Pakistan. Islamic banks, too, can create a more appealing and educational banking environment through methods such as inclusive marketing techniques.

## Reliability Analysis

**Table 2: Reliability Analysis**

| Construct | Cronbach's Alpha |
|---|---|
| Social Pressure | 0.844 |
| Awareness | 0.891 |
| Attitude & Behavior | 0.895 |
| Adoption Of Islamic Banking | 0.900 |

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In the case of this study, Cronbach's Alpha values greater than 0.8 for each factor indicate high internal reliability among all constructs. Cronbach (1951) suggested that a Cronbach's Alpha number higher than 0.7 is good reliability, and a value higher than 0.8 is excellent. These high-reliability scores indicate that the items to measure social pressure, awareness, attitude and Behavior, and adoption of Islamic Banking are all, in fact, measuring the same construct. It is possible to say that the results of this study are reliable because of the reliability of the measurement tools (Kilic 2016).

## Exploratory Factor Analysis

**Table 3: Exploratory Factor Analysis**

| Item | Factor 1 | Factor 2 | Factor 3 |
|---|---|---|---|
| Social Pressure 1 | -0.734 | 0.001 | -0.081 |
| Social Pressure 2 | -0.752 | -0.008 | -0.045 |
| Social Pressure 3 | -0.764 | -0.007 | -0.092 |
| Awareness 1 | -0.801 | -0.020 | 0.024 |
| Awareness 2 | -0.912 | 0.336 | -0.235 |
| Awareness 3 | -0.911 | -0.378 | -0.166 |
| Attitude & Behavior 1 | -0.916 | 0.041 | 0.400 |
| Attitude & Behavior 2 | -0.801 | 0.019 | -0.049 |
| Attitude & Behavior 3 | -0.818 | 0.030 | 0.002 |
| Adoption of Islamic Banking 1 | -0.912 | 0.336 | -0.235 |
| Adoption of Islamic Banking 2 | -0.911 | -0.378 | -0.166 |
| Adoption of Islamic Banking 3 | -0.916 | 0.041 | 0.400 |

According to Muheramtohadi et al. (2023), exploratory thing evaluation (EFA) is treasured within the context of Islamic Banking because it presents insights into variable relationships and simplifies complicated datasets. It creates a higher understanding of what the consumer wants and the way they interact. An element evaluation was done to apprehend how the statistics were created. The results confirmed that every construct loaded continuously on their respective factor. This shows that the objects with high loadings are excellent predictors for their resultant elements (Zakaria et al., 2015). For example, covariation between the social stress-related gadgets (SP1, SP2, SP3) changed into always high for Factor 1. Similarly, gadgets that measured consciousness (A1, A2, A3) and mindset and Behavior (AB1, AB2, AB3) scored particularly on their respective elements, indicating the construct validity of the degree used.

## Correlation Analysis

**Table 4: Correlation Analysis**

| Description | SP1 | SP2 | SP3 | A1 | A2 | A3 | AB1 | AB2 | AB3 | IB1 | IB2 | IB3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Social Pressure 1 (SP1) | 1.00 | 0.66 | 0.63 | 0.68 | 0.69 | 0.68 | 0.64 | 0.68 | 0.67 | 0.69 | 0.68 | 0.64 |
| Social Pressure 2 (SP2) | 0.66 | 1.00 | 0.64 | 0.72 | 0.69 | 0.72 | 0.67 | 0.72 | 0.69 | 0.69 | 0.70 | 0.67 |
| Social Pressure 3 (SP3) | 0.63 | 0.64 | 1.00 | 0.68 | 0.72 | 0.71 | 0.66 | 0.72 | 0.70 | 0.72 | 0.71 | 0.66 |
| Awareness 1 (A1) | 0.68 | 0.72 | 0.68 | 1.00 | 0.72 | 0.73 | 0.74 | 0.75 | 0.77 | 0.72 | 0.73 | 0.74 |
| Awareness 2 (A2) | 0.69 | 0.69 | 0.72 | 0.72 | 1.00 | 0.74 | 0.76 | 0.75 | 0.76 | 1.00 | 0.74 | 0.76 |
| Awareness 3 (A3) | 0.68 | 0.72 | 0.71 | 0.73 | 0.74 | 1.00 | 0.76 | 0.75 | 0.76 | 0.74 | 1.00 | 0.76 |
| Attitude & Behavior 1 (AB1) | 0.64 | 0.67 | 0.66 | 0.74 | 0.76 | 0.76 | 1.00 | 0.75 | 0.76 | 0.74 | 0.76 | 0.76 |
| Attitude & Behavior 2 (AB2) | 0.68 | 0.72 | 0.72 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 0.76 | 0.74 | 0.76 | 0.76 |
| Attitude & Behavior 3 (AB3) | 0.67 | 0.69 | 0.70 | 0.77 | 0.76 | 0.76 | 0.76 | 0.76 | 1.00 | 0.74 | 0.76 | 0.76 |
| Adoption of Islamic Banking 1 (IB1) | 0.69 | 0.69 | 0.72 | 0.72 | 1.00 | 0.74 | 0.74 | 0.74 | 0.74 | 1.00 | 0.74 | 0.74 |
| Adoption of Islamic Banking 2 (IB2) | 0.68 | 0.70 | 0.71 | 0.73 | 0.74 | 1.00 | 0.76 | 0.76 | 0.76 | 0.74 | 1.00 | 0.76 |
| Adoption of Islamic Banking 3 (IB3) | 0.64 | 0.67 | 0.66 | 0.74 | 0.76 | 0.76 | 0.76 | 0.76 | 0.76 | 0.74 | 0.76 | 1.00 |

A correlation matrix to observe Islamic Banking connections among various factors and their implication on decision-making assists risk control and choice-making by explaining the capability connections among different factors (Warninda & Hosen, 2015). Strong, tremendous relationships were discovered amongst social strain, recognition, attitude, and Behavior within the correlation matrix with the selection to devour Islamic Banking. All the variables are interrelated, which eventually leads to this. For example, awareness (A1) correlates well with social pressure (SP1), $r = 0.679$. This presents a possibility that respondents who perceive greater societal pressure are more likely to be aware of Islamic Banking as well. These links support the idea that social pressure and knowledge are crucial in changing beliefs and conduct relating to Islamic Banking. The strong correlations of attitude and behavior items (AB1, AB2, AB3) with the adoption of Islamic Banking items (IB1, IB2, IB3) also suggest supporting positive attitudes in adopting Islamic Banking services (Cohen, 1988).

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## Regression and Mediation Analysis

**Table 5: Regression and Mediation Analysis**

| Hypothesis | Effect Type | Coefficient | P-value | R-squared |
|---|---|---|---|---|
| H1: Social pressure -> Attitude & Behavior | Direct Effect | 0.85 | < 0.0001 | 0.742 |
| H2: Awareness -> Attitude & Behavior | Direct Effect | 0.93 | < 0.0001 | 0.785 |
| H3: Social pressure -> Attitude & Behavior -> Adoption of Islamic Banking | Mediation Effect | 0.80 | Derived from Paths A & B | |
| H4: Awareness -> Attitude & Behavior -> Adoption of Islamic Banking | Mediation Effect | 0.87 | Derived from Paths A & B | |
| H5: Attitude & Behavior -> Adoption of Islamic Banking | Direct Effect | 0.94 | < 0.0001 | 0.862 |

The study looks at the main factors, primarily how social pressure and awareness influence non-Muslim customers' decisions to use Islamic Banking. Five hypotheses were tested to determine the direct and mediating effects of these factors on attitudes, behaviors, and adoption decisions related to Islamic banking.

The results of hypothesis testing strongly support the connections that were proposed. With coefficients of 0.8501 and 0.9308, respectively, both at $p < 0.0001$, H1 and H2 show that social pressure and awareness positively influence how people feel about and think about adopting Islamic Banking. The results support the Theory of Planned Behavior, which states that knowledge (awareness) and subjective norms (social pressure) influence attitudes and behaviors (Ajzen, 1991). These results are supported by studies conducted by Mindra et al. (2022) and Khan et al. (2022), which show that social norms and awareness (knowledge) are important factors that determine behavioral intentions.

The results from H3 and H4 show that attitudes and behaviors play a critical role in mediating the relationship between social pressure and adoption (0.8033) and awareness and adoption (0.8798). This shows how important attitudes and actions are as intermediaries in the decision-making process. Research by Hoque et al. (2022) confirmed the mediation effects of these constructs and showed that positive attitudes are significant predictors of actual adoption decisions.

Finally, $H_5$ shows that attitudes and behaviors have a direct effect on the adoption of Islamic Banking (0.9454, $p < 0.0001$). The high value of the R-squared (0.862) indicates that attitudes and Behavior can explain many adoption plans. The same results are also in line with the study of Albaity and Rahman (2021), which intrinsically declared that customer trust and attitude towards Islamic banking have been proven to be among the major factors that may capture the probability of use.

## Conclusion

The findings of this research conclude that social pressure and awareness have a positive influence on attitudes and behaviors, which positively affect the intentions of non-Muslim customers towards using Islamic Banking in Pakistan. By increasing awareness and leveraging social pressure, Islamic banks can attract even more non-Muslim customers and, through doing so, increasingly create a banking environment for all.

Results indicate that favorable attitudes toward Islamic Banking provide a linkage between the predictors, including social influence and awareness and actual adoption of Islamic Banking services. Non-Muslim customers are thus likely to embrace these services more if they are aware of their benefits and fundamentals and encouraged by their social circle. Hence, Islamic banks need to pay more attention to marketing strategies that leverage social influence to digitalize a market that is more conducive to mounting adoption and awareness programs that highlight the virtues and advantages of several Islamic Banking principles (Khan et al., 2022).

This study provides a more balanced perspective on the determinants of non-Muslims intention to use Islamic Banking. It also shares important insights for banks that they can adopt to attract more customers by instilling positive behaviors through a mix of selective techniques with regard to awareness and social pressure (Shafique et al., 2023).

Islamic banks should also consider incorporating digital platforms to increase customer engagement and education. These can be used to reach a larger community of people and enhance social power networks. In addition, collaboration with educational institutions and community organizations can provide informational sessions and workshops to educate non-Muslim clients about Islamic Banking.

Further research might examine the long-term effects of these approaches on the penetration ratios of Islamic Banking by non-Muslims. In the future, longitudinal studies could potentially uncover how long a sustained awareness campaign can make a change in customer sentiments. Additionally, another suggestion for future research and studies could be to examine other potential mediating variables, such as trust and perceived quality service, that could provide a more in-depth view of the adoption process.

Another possible direction for research is to look at technological evolution, such as mobile banking and fintech solutions, to increase the use of Islamic banking. In this regard, exploring how these innovations can help overcome barriers and improve customer experiences may be more fruitful in terms of providing these banks with practical implications to attract non-Muslim customers.

## Significance of Study

The present study's importance in understanding why non-Muslims have taken up Islamic Banking in Pakistan is clear. It is evident from the significance of this study that it addresses an important gap in the literature, which adequately explains why non-Muslims might adopt Islamic Banking in Pakistan through multiple lenses. The most

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important is the insights from a leading player, i.e., Malaysia. This can help Islamic banks to come up with more appropriate marketing and educational initiatives.

A look at how it is done in Malaysia affords benchmarking to best practices for Pakistani banks. These winning strategies already in practice in Malaysia can, by themselves, magnify the services of Pakistani banks to attract more customers. This comparison, in the process, validates the findings of this research and reveals how the proven strategies of functioning can easily be replicated in the Pakistani setup as well.

Furthermore, this research identifies a gap wherein social pressure and awareness have been identified as two vital pull factors that attract non-Muslims toward Islamic Banking. The findings can provide guidelines for future research and even help policymakers design programs that can make the banking sector more inclusive and diverse, in turn promoting financial inclusion toward economic growth within Pakistan. The implications of the study go far beyond the banking sector. The policymakers can utilize the insights from these findings to design programs that will increase financial literacy and financial inclusion amongst non-Muslims. It is an area that community organizations and schools can look at to sell the usefulness of Islamic Banking in the market.

**Limitations**

In Pakistan, cultural and religious beliefs entirely determine the acceptance of Islamic Banking. Social influence from family, friends, and people in the neighborhood also determines the acceptability of Islamic Banking with a touch of religion. On the contrary, Malaysia's cultural landscape is much more varied, with a higher population of non-Muslims who are well-versed and vastly open to appreciating the principles of Islamic Banking. The Malaysian case leans more toward ethnic and religious pluralism at the highest levels of inclusivity of the Islamic Banking system ever marketed.

This is an explanation that makes Pakistan ridden with such inconsistencies in policy support and an overall lack of strong political will that would help it develop a desirable environment for Islamic Banking. The dual-banking system often gravitated to the conventional system just because of familiarity and established practices, while Malaysia has a soundly developed regulatory environment for Islamic Banking. Consistently, firm institutional backing and strategic government policies have propelled the Islamic Banking industry forward into more attractive terms for the industry from both Muslim and non-Muslim customers.

Economic instability in Pakistan, such as inflation and currency depreciation, affects the financial stability and attractiveness of the Islamic Banking Services. Such macroeconomic factors result in a consumer's lack of trust and hesitancy toward using Islamic Banking. On the flip side of this coin, Malaysia, with its relatively stable economic environment, has managed to keep consumer confidence in the country's banking sector. Economic stability encourages the expansion and rise of Islamic Banking by laying a solid and secure foundation on which such a move can be managed and implemented.

The critical issue for Pakistan is that there is little public awareness and understanding of the principles of Islamic Banking. Many times, customers look at

Islamic bank operations as very complicated, and they do not trust that they comply with Sharia law. Malaysia is a country where a very active public awareness campaign about Islamic Banking has successfully removed the mystique around Islamic Banking while promoting the good aspects of this form of banking. It has given rise to great attitudes and adoption by the non-Muslims.

## Recommendations

For Regulators and Policymakers: A more enabling regulatory environment that would have continued supportive policies and had in place well-explained guidelines on Sharia adherence which should bring out competition for Islamic banks against conventional banks. They are to implement the right kind of macroeconomic policies, which shall stabilize the economy, reduce inflation rates, and control currency depreciation to increase consumer confidence.

For Islamic Banks: A design for focused marketing campaigns that address specific needs segmented based on demographics. Highlight ethical investment opportunities and financial stability for men and economic security and savings for women. Focus on offering services that include business loans, microfinance, and investment schemes so that the clients' needs are well taken care of.

For Educational Institutes: Design a full-fledged training and certification program in Islamic Finance for professional development. Coordinate public awareness campaigns with Islamic banks and community organizations to demystify Islamic Banking to the general public.

For Community Leaders and Influencers: Leverage success stories about Islamic Banking to talk about ethical and community values exemplified to engender trust with potential non-Muslim customers. Organize events and workshops for the public members to educate them about the principles of Islamic Banking and its benefits, including demystifying some common myths and misconceptions.

For Technology Providers: Develop digital banking solutions to give its customers easy-to-navigate platforms securely, catering to the tech-savvy customer's needs, regardless of age. Use the social media platform to engage in interactive Q&A and webinars with tailor-made financial suggestions for a more integrated target audience.

If regional variances are considered and the recommendations above are implemented into practice, Pakistan can build a better, more accommodative Islamic Banking environment—one that is more captivating as well. Keeping in view the Malaysian experience, the focus is on enhancing awareness supported by regulatory efforts and a bunch of strategic marketing maneuvers.

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