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Islamic Financial Literacy and Intention to Use Islamic Banking: Empirical Evidences from Lahore Pakistan

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The purpose of this study is to investigate the impact of Islamic Financial Literacy, Awareness, and Cost & Benefit on the Intention to use Islamic banking among the students from universities from Lahore. Data were collected through a structured questionnaire and analyzed using SmartPLS 3.0 with structural equation modelling to test the hypothesized relationships. Results revealed that majority of the respondents lack Islamic banking knowledge, they are less aware about Islamic banking, products and services, and perceive that the cost of Islamic banking products is high. Moreover, the results suggest that the IFL, Awareness, and Cost and Benefit are increasing the intention to use Islamic banking. So it's better for Islamic banks and the State Bank of Pakistan's Islamic Banking Department to run ads and awareness programs to help more people understand and use the Islamic banking system.

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1. Introduction

Today, many Muslim countries are working to build strong Islamic financial systems, and Pakistan is quickly becoming one of the key players in this area. By December 2024, the Islamic banking industry in Pakistan had grown to 22 institutions six complete Islamic banks and sixteen conventional banks giving Islamic banking services (SBP, 2024). These banks continue to operate actively across the country (Islamic Banking Department, 2024; SBP, 2025). Islamic banks now participate directly with conventional banks and provide new Shari'ah-compliant products that attract both Muslim and non-Muslim clients. According to Andreza et al. (2022), after several crises in the conventional banking system, Islamic banking and finance have gained more worldwide attention. While many studies have looked at Islamic banks' performance, risk management, and response to financial crises, there is still inadequate research on Islamic financial literacy. (Kevser, 2021).

The fundamental motivation for this study is the government of Pakistan's strong interest in the growth of the Islamic financial system in general and the Islamic banking industry in particular. The survey also aims to regulate the current level of Islamic financial literacy in Pakistan.

The Islamic banking industry (IBI) continued its robust growth by Rs. 1,189 billion from the previous quarter (PKR 9,881 billion), bringing total assets to Rs. 11,070 billion by December 2024. The Islamic banking industry's deposits increased to Rs 7,905 billion. At the end of June 30, 2025, the year-over-year (YoY) growth of assets and deposits was 27.4 percent and 29.5 percent, respectively. Islamic Banking Department (IBD) of the state bank suggests that this is the greatest YoY rise since June 2020. IBI assets and deposits had a market share of 20.7 percent and 25.5 percent, respectively (SBP, 2025).

Financial literacy has attracted significant attention from various stakeholders, including governments, the business community, investors, bankers, financial markets, and academics, particularly in emerging economies (Ganesan, Pitchay, & Nasser, 2020). Factors such as the advancement of new financial products, the increasing complexity of financial markets, political shifts, and demographic and economic changes have further heightened the importance of financial literacy (Rehman & Mia, 2024). Moreover, advancements and expansions in information technologies worldwide have made financial literacy even more critical for effective participation in economic and financial systems.

According to Islamic Banking Department of State Bank of Pakistan, Lack of public knowledge could stymie the Islamic banking business's future growth. There is a gap between academics and industry both locally and globally, which is crucial in generating quality talent that matches the sector's needs. SBP has long been at the forefront, opting for a holistic approach to capacity development and spreading awareness. The establishment of three Centers of Excellence in Islamic Finance Education (CEIFEs) at prestigious academic institutions, as well as media advertising, focus group meetings, workshops, and initiatives in various trade groups and higher education institutions, are among SBP's initiatives to raise awareness about Islamic finance (Islamic Banking Department, 2021). In this context, a survey will be directed to sample population in Lahore.

The large population in Muslim majority countries do not understand Islamic banking services, being the second largest Muslim majority country Pakistan is also facing the same issue (Khattak 2010). The degree of expectations, their misconceptions, and the aspects that effect people's decisions to use Islamic banking rather than traditional banking haven't been thoroughly investigated. (Mehmood et al., 2017). Moreover, Muslims should have Islamic Financial Literacy and have a knowledge and understanding of Islamic finance that enable them to take financial decisions within the boundaries of Islam (Dinc, Çetin, Bulut, & Jahangir, 2021).

Furthermore, limited knowledge about the basics of Islamic finance, household financial matters and company needs may prove to be costly for individuals as well as corporations in short term and long-term financial decisions (Ab Rahman et al., 2018b). As the Riba (interest), Gharar (uncertainty) and Maysir (gambling) are forbidden in Islam therefore the Muslims should adopt a financial system that is grounded on the teachings of the religion (Ab Rahman et al., 2018).

(Chong & Liu, 2009). These products have been offered equally to Muslims and Non-Muslim customers (El-Galfy & Khiyar, 2012). Consequently, it is essential to measure Islamic financial literacy among education sector in general and university students in particular in order to evaluate the level of knowledge and understanding about Islamic financial products (Rahim, Rashid, & Hamed, 2016). This is of immense importance to grow the share of Islamic banking industry to 1/3 of overall financial industry including conventional financial institutes (Islamic Banking Department, 2021).

Following questions are developed as a tool to understand the significance of study:

1. What effect does IFL have on the intentions of university students to use Islamic banking?
2. What effect does awareness have on the intentions of university students to use Islamic banking?
3. What effect does cost and benefit have on the intentions of university students to use Islamic banking

1.1 Research Objective

To study the impact of Islamic financial literacy, awareness, and the perceived cost and benefits on the intent to use Islamic banking.

2. Literature Review

2.1 Islamic Financial Literacy (IFL)

The Organization for Economic Cooperation and Development (OECD) defines financial literacy as “the process of enhancing financial well-being by ensuring that financial consumers have knowledge about financial products and concepts or have sufficient awareness to make informed choices between financial risks and alternatives." Essentially, financial literacy discusses to an individual's ability to apply financial knowledge, awareness, services, and attitudes in managing financial resources. In the context of Islamic finance, this involves making financial choices in accord with Islamic principles, which in turn influences effective Islamic financial practices (Rahim et al., 2016; Ab Rahman et al., 2018a; Kevser, 2021; Antara et al., 2016).

Earlier studies have shown that religion and religiosity significantly influence investment decisions and risk-taking behavior (Mahdzan, Zainudin, Hashim, & Sulaiman, 2017; Schneider, Linsbauer, & Heinemann, 2015; Yusuff & Mansor, 2016). Mehmood et al. (2017) quoted that Muslims are facing issues in adopting Islamic financial products and services due to a lack of information and knowledge. In their study, they concluded that masses have very limited knowledge about different terms and concepts used in Islamic finance. Muslims with a strong knowledge of Islamic Financial Literacy (IFL) are knowledgeable about concepts such as riba (interest), gharar (uncertainty), and maysir (gambling). Based on Shari'ah principles, they are better able to differentiate between Halal and Haram financial products.

One of the studies on the IFL and Personal Financial Planning found that IFL has a positive influence on personal financial planning and management. This suggests that individuals with a strong understanding of Islamic finance are better prepared to make informed financial decisions (Setyowati, Harmadi, & Sunarjanto, 2018). Similarly, Ali, Nazim, Hussain, Rehman, and Rehman (2021) reported that financial literacy significantly influences customers' intentions to adopt Islamic banking products and services a majority is using conventional finance instead of Islamic finance due to lack of information about products and services.

Employees also face hurdles in managing their finances and financial decision- making due to changing financial markets. Although the financial literacy programs are arranged for them but those have very little impact on their financial well-being (Kamakia, Mwangi, & Mwangi, 2017). The level of financial literacy among public and private sectors employees is at low level and it need a serious effort from different government and non-government educational groups to improve financial literacy (Abdalla & Srivastava, 2017). A study confirmed that those Islamic banks are still not contributing to Indonesian Economic Growth as rapid as expected. This positive but weak relationship between Islamic Banks and economic grow. This because of lack of financial literacy (Wardhany & Arshad, 2015).

The perception of customers to invest in Islamic banking products depends on certain factors which are knowledge of the product, quality of the product, risk associated with its investment and the value of customers perception in different sectors. This can affect the conclusion to invest in Islamic banking products especially Islamic banks term deposits (Hati, Wibowo, & Safira, 2020). It is observed that the decision-making ability is not different in genders but the level of income has a positive and significant impact on the investment results (Rahman & Arsyianti, 2021). A study carried out in Indonesia confirmed the knowledge and awareness of their students are very high and they are religiously connected with the products and services of Islamic banks and the ratio is overall positive while examining the purpose to use the Islamic finance (Ilyana, Purna, & Friantoro, 2021).

H1: IFL has a positive impact on the intention to adopt Islamic banking and finance.

2.2 Awareness

Individuals' attitude towards a product is positive when he/she has higher brand awareness (Lu, Chang, & Chang, 2014; Valkenburg & Buijzen, 2005). Brand awareness can affect decision-making about brands under consideration as suggested by Keller (1993). Also, brand awareness is related to familiarity with product (Barreda, Bilgihan, Nusair, & Okumus, 2015; Keller, 1993)

Islam and Rahman (2017) and Obeid & Kaabachi, (2016) investigated Muslim awareness and desire to engage in Islamic banking due to its emergence as alternative to conventional banking after the global crises. They found that due to low level of awareness about Islamic finance and products minimum number of Muslim are using Islamic banking and finance. Research in Philippines also proved the same were also unaware of Islamic banking products and services, as well as Islamic finance mechanisms such as Musharakah, Mudarabah, Murabaha, and Ijarah. (Latif, 2019).

Research conducted about determinants to adopt Islamic banking in Indonesian banking sector, variables of the study were customers' product image and materialism in the Indonesian banking segment. The study used an experimental method to test the research hypotheses. The finding of the paper showed that consumer brand awareness positively influences decision making process when choosing Islamic banking products. The study also suggested that the regulators and Islamic banks must educate people about Islamic banking products and services and how they are unlike from conventional banking system (Junaidi, Anwar, Alam, Lantara, & Wicaksono, 2022).

One of the studies on awareness and perception of Islamic banking products and services due to emergence of Islamic banking as a strong and prudent banking system around the world implied that there is a lack of awareness in both Muslim and Non- Muslim countries which is a hurdle in growth of IBI. According to the findings, a high degree of public awareness and perception of Islamic banking products and services is critical for the expansion of Islamic banking and finance (Jibril, Hamid, Muhammad, & Rabi'u, 2021).

A study conducted in Nigeria examined the impact of Islamic bank customers' awareness and perceptions on their propensity to use the banks' products and services. Data were accumulated through a survey questionnaire administered to the academic staff of a state-run university. Analysis of the responses from 103 participants using Structural Equation Modeling revealed that both awareness and perception significantly and positively influenced customers' intention to adopt Islamic banking products and services (Yahaya, 2021).

Earlier research has also highlighted a positive relationship between awareness and the willingness to use Islamic financial products (Amin, Rahman, Razak, & Rizal, 2017; Husin & Ab Rahman, 2016; Obeid & Kaabachi, 2016; Rammal & Zurbruegg, 2016). Conversely, an absence of knowledge about Islamic banking products has been recognized as a barrier to expanding Islamic banking and financial services to a wider Muslim population, compared to conventional banking systems (Albaity & Rahman, 2019; Sun, Goh, Fam, & Xue, 2012).

H2: Awareness positively influences the intention to adopt Islamic banking and finance.

2.3 Cost and Benefit

Consumers often weigh the costs and benefits of becoming “regular customers” when deciding whether to continue using a service. Drawing on the literature regarding service quality, transaction costs, and switching costs, a study examined potential determinants of service loyalty and assessed their relative impacts using data collected from bank customers. The results indicated that, alongside perceptions of service worth, considerations of business and substituting costs significantly influence service constancy (Lee & Cunningham, 2001).

One study conducted in Bahrain that studied the motives of customers that why they choose specific banks. They conducted it by categorizing clients into three majors. Those who belongs to Islamic Banks, others belong to conventional and then combination of both. The study found that cost-benefit considerations rank as the third most important factor in bank selection, following Islamic religious beliefs and social responsibility (Al-Ajmi, Hussain, & Al-Saleh, 2009).

Dusuki and Abdullah (2007) reported in their study conducted in Malaysia that the common of individuals choose Islamic banks primarily due to perceptions of religious adherence and the financial reputation of the institution.

They also considered the quality service given by banks. This clearly shows that the cost factor is considered somehow after these factors.

A study examining the key features prompting the growth of Islamic banking and customers’ trust in using Islamic banking products over conventional ones found that the interest and aim to adopt Islamic products increase with higher returns on assets. The study concluded that the future prospects of Islamic banking are stronger compared to conventional banking (Salman & Nawaz, 2018).

Given the intense competition between Islamic and conventional banks, it is essential for Islamic financial institutions to understand the factors that influence customers’ decisions to choose Islamic banking. In this context, Raja Abdullah (2017) conducted a study to detect the determinants influencing customers’ acceptance of Islamic banking. The survey findings revealed that cost and benefit is a significant element that clients evaluate when choosing Islamic banking.

Saha, Hock-Eam, and Yeok (2018) investigated the efficiency of a large bank's retail branches and identified the performance driver characteristics. The fractional regression approach was used to examine the drivers of bank branch efficiency. The study's findings clearly signal to senior administration that low-priced deposits are a crucial driver of branch efficiency.

Another study conducted on the degree to which Malaysian equity buyers can gain from diversification of their portfolios into both traditional and shariah compliant in Southeast Asian markets using multivariate GARCH-dynamic conditional correlation revealed that the investors can gain a benefit by diversifying their investment as the Islamic investments provide more diversification benefits (Saiti & Noordin, 2018).

Awan, Bukhari, and Iqbal (2011) studied the connection between service value and customers' satisfaction among consumers of conventional and Islamic banks. The relationship of client approval with service quality on their behavioral intentions was also investigated in the study. The results of a survey of 200 walk-in customers from three large conventional banks and three Islamic banks in Pakistan's urban districts revealed that the value and affordability of products and services are critical factors in client satisfaction.

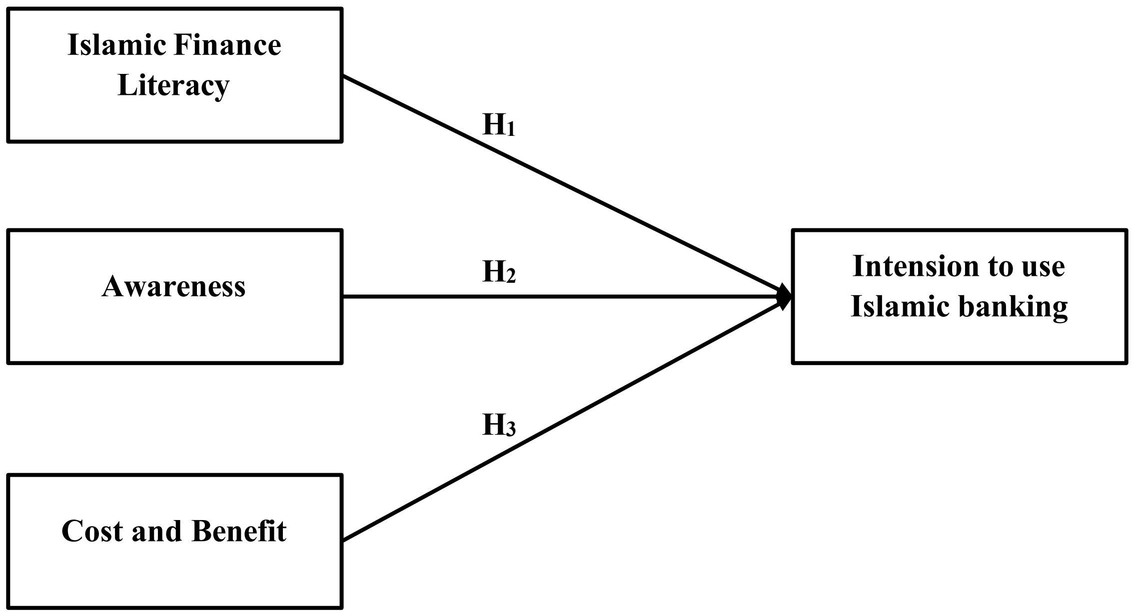
A study employing structural equation modeling to explore the factors shaping perceptions and influencing the acceptance of Islamic banking among potential consumers in Pakistan indicated that cost and seeming benefits are significant predictors of the purpose to adopt Islamic banking services (Maryam, Ahmad, Aslam, & Farooq, 2021). Nurhayati, Mandey, Taroreh, Trang, and Djamali (2021) studied about the development of Islamic bank assets in North Sulawesi. The research aimed to reveal the factors that contributed to the increase in non-Muslim clienteles of Islamic banks. The results of the study exposed that the number of non-Muslim customers using Islamic banks has increased, primarily due to the perceived cost advantages, benefits, and superior service quality offered by these institutions.

H3: The adoption of Islamic banking is positively influenced by the cost and benefits associated with Shariah-compliant products and services.

2.4 Theoretical Framework

Figure 1 presents the conceptual framework of this study, illustrating the direct effects of the independent variables on the intent to adopt Islamic banking. Three direct impacts are indicated in a unified framework. These impacts are investigated concurrently.

Figure No 1. Theoretical Model



The focus of this research was to observe Islamic Financial Literacy (IFL) among university students as a determinant inducing their intent to use Islamic banking, using a quantitative research approach. Previous studies show that IFL plays a significant role in positively influencing individuals' intentions toward adopting Islamic banking and financial services (Nugroho & Apriliana, 2022). The goal of conducting our examine was to determine the degree of Islamic financial knowledge in university students. The hypotheses were developed based on the existing research. For the purpose a quantitative analysis was performed to test the theoretical framework.

3. Research Methodology

3.1 Research Strategy

The IFL is the most important factor in the adoption of Islamic banking as well as for the expansion of the Islamic banking sector, hence the contribution of educated individuals from universities is required (Rahim et al., 2016). For the quantitative analysis and evaluation of the research model, a survey questionnaire was adapted from Albaity and Rahman (2019). The respondents were individuals who are likely to use Islamic banking services in the future. The data was accumulated from university students having bank account. The data was collected in the month of January 2022.

a) Population and Sampling

The target population for the study was university students from Lahore. Purposive and convenience sampling techniques were adopted in this study by collecting data form business department students having bank account in any bank. Non probability sampling design was chosen because This method is faster and more cost-effective than probability sampling, as it involves respondents who are already known or easily accessible to the researcher. The questionnaire was distributed among university level graduates and post- graduate students of business department having bank account. A total of 125 questionnaires were circulated in the targeted population, and 100 were properly filled. Therefore, 80 percent responses were usable.

b) Unit of Analysis

The goal of this research was to study the effect of Islamic financial literacy on individuals' intentions to use Islamic banking in Pakistan. For this purpose, the unit of analysis consisted of individual banking customers or participants are all university students pursuing bachelor or master degree. Lahore was the location for data collection procedure. The demographics of the participants is presented in the table below.

Table No 1: Demographic Variables

Demographic Variable	*Groups*	*Percentage*
Gender	Males	73%
	Females	27%
Age	20-24	55%
	25-29	35%
	29-above	10%
Qualification	Bachelor	69%
	Master	31%

4. Data Collection and Data Analysis

The main goal of this study was to find out how Islamic financial literacy affects people's intention to use Islamic banking in Pakistan. For this purpose, primary data were collected through a survey questionnaire. The questionnaire included basic information about the respondents and questions related to the study model. To make sure the questions were valid and reliable, items were taken from previous research. The measures for Islamic Financial Literacy (IFL), Awareness, Cost and Benefit, and Intention to Use Islamic Banking were adapted from Albaity and Rahman (2019). Example items included statements such as "Islamic methods of finance are interest-free," "Islamic banking provides lease-based financing (Ijara)," and "Islamic banking operates on a profit and loss sharing principle." and others were used to measure basic understanding of Islamic banking principles. We used seven items to measure the IFL, four items for awareness, four items for cost and benefit, A three-item scale was used to measure the aim to use Islamic banking, with all items adopted from Albaity and Rahman (2019). A five-point Likert scale was used to assess all of the items in this research.

The direct effects are shown in the following equation:

$$INT_i = \beta_0 + \beta_1 IFL_i + \beta_2 AW_i + \beta_3 CB_i + u_{i,} \ (1)$$

Where INT denotes the intention of the individual for using Islamic banking, IFL denotes Islamic financial literacy, AW denotes awareness of Islamic banking system and products, CB denotes the cost and benefit, and 03 denotes the correlation coefficient for the positive relation, and ui denotes the disturbance term. The direct links between the independent variables and the intention to adopt Islamic banking system are shown in above equation (Albaity & Rahman, 2019).

A Structural Equation Model (SEM) was used to test the relationships proposed in Figure 1. The model was analyzed through the Partial Least Squares (PLS) method using SmartPLS version 3.0 software. Following the approach of Albaity and Rahman (2019), this method was chosen because it is well-suited for analyzing complex models. The data were analyzed using a single-step procedure. Prior to examining the direct relationships within the theoretical model, The validity and reliability of the measurement tools were checked using suitable statistical methods.

4.1 Descriptive and Demographic Analysis

a) Profile of Respondents

As shown in Table 1, 73% of the respondents were male and 27% were female, suggesting that male students were more active in participating in this study. Most participants (55%) were between 20 and 24 years old, followed by 35% between 25 and 29 years, while 10% were aged 29 and above. In terms profession, all participants were university students. With regard to their qualification, 69 percent were graduates having completed or pursuing bachelor degree, about 31 percent had master degree. The nationality of all participants was Pakistan.

b) Descriptive Statistics of IFL

The data collected showed that 25.24% of respondents (10.68% + 14.56%) perceive Islamic finance as interest-free, whereas 59.24% (36.89% + 22.33%) believe that Islamic finance is not interest-free. If the percentage of those who are neutral is added, then it would mean 74.76 percent believe that Islamic method of finance is not interest free. Likewise, only 8.74 percent agree that the Islamic banking provides lease banking called Ijarah. Whereas 51.36 percent believe that the Islamic banking does not provide lease banking. Similarly, 20.39 percent are of the view that the Islamic banks operate on the foundation of profit and loss sharing mechanism, whereas 57.28 percent believe it does not. And 22.33 percent are neutral in their view. Moreover, 23.30 percent know that in Mudaraba the only party that bear losses is capital provides. And majority 54.37 percent does not know about this principle. Furthermore, 16.50 percent are aware that the Gharar is prohibited in Islam, while the 41.75 percent are not aware. In addition, 19.42 percent know that Islamic banking provides trade banking method called Murabaha. Total of 56.31 percent does not know about Murabaha. In response to "it is not speculative to buy stocks based on short-term fluctuations 18.45 percent have answered that it is not speculation. Whereas the majority of 53.40 percent answered correctly that it is speculation.

As per the data collected, 51.46 percent respondents are well aware about the Islamic financial institutes that are working in Pakistan. In total, 19.42 percent are moderately aware;

19.42 percent are slightly aware; and 9.71 percent are not aware about those institutes. Similarly, 43.69 percent are very aware about Islamic banking products, whereas 26.21 percent are moderately aware, 20.39 percent are somehow aware, and 9.71% are not at all ware about Islamic banking products. Additionally, 44.66% of the respondents reported that they clearly understand the difference between Islamic and conventional banking, while 42.72% indicated that they have a partial understanding of the distinction between the two systems. whereas 12.6 believe there is no any difference between both banking systems. Moreover, 41.75 percent respondents were of the view that Islamic financial products are for both Muslims as well as non-Muslims, while 17.48 percent are moderately aware about the fact, 19.42 are slightly aware, whereas 21.36 percent believe that the Islamic products are for Muslims only.

c) Reliability and Validity Analysis

Table No 2: Factor Loadings, Composite Reliability, Internal Validity

Construct	Items	Factor Loading	Cronbach's Alpha	Composite Reliability	Average Variance Extracted	VIF
IFL	IFL1	0.759	0.916	0.933	0.666	1.854
	IFL2	0.873				3.274
	IFL3	0.870				3.189
	IFL4	0.760				2.039
	IFL5	0.770				2.315
	IFL6	0.845				2.977
	IFL7	0.824				2.562
AW	AW1	0.709	0.771	0.851	0.590	1.588
	AW2	0.757				1.671
	AW3	0.847				1.692
	AW4	0.753				1.529
C&B	C&B1	0.703	0.779	0.857	0.601	1.337
	C&B1	0.833				1.738
	C&B1	0.703				1.523
	C&B1	0.851				1.813
INT	INT1	0.853	0.889	0.931	0.818	2.048
	INT2	0.924				3.225
	INT3	0.935				3.466

Composite reliability was computed to evaluate internal consistency and construct reliability. All variables showed composite reliability values higher than 0.70, which indicates a good level of reliability. In the same way, the outer loadings of all measurement items were above 0.70, matching the standards suggested by Leguina (2015) and used by Albaity and Rahman (2019). Moreover, Cronbach's alpha (α) was applied to check the internal consistency of the scales used in the study. It measures how closely the items as a group are related to each other and it ranges from 0 – 1. For each item, α was above 0.7, which is outstanding for internet consistency. A value of $\alpha \geq 0.70$ is important for measurement accuracy (Cronbach, 1951).

To check convergent validity, the Average Variance Extracted (AVE) values were calculated following the method suggested by Khattak. All AVE values were above 0.50, showing that the constructs had a good level of convergent validity. Discriminant validity was tested using the Fornell and Larcker (1981) criterion, which states that the square root of each construct's AVE should be higher than its correlations with other constructs. As shown in Table 2, this condition was met, confirming that all constructs in the study had acceptable validity.

Table No 3: Fornell-Larcker Criterion

	AW	C&B	IFL	INT
AW	0.768			
C&B	0.252	0.775		
IFL	0.471	0.519	0.816	
INT	0.461	0.592	0.621	0.905

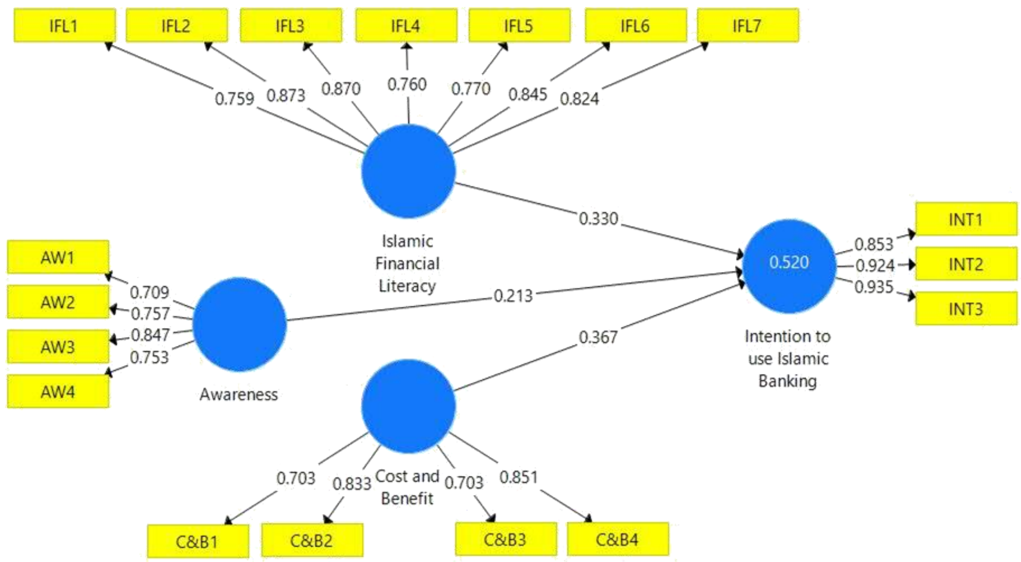
d) Structural Model Analysis

Table No 4. Hypotheses Results

Hypot heses	Relationship with Intention	Original Sample (O)	Sample Mean (M)	Standard Deviation	T Statistics	P Values
H1	IFL -> INT	0.330	0.324	0.090	3.676	0.000
H2	AW -> INT	0.213	0.213	0.073	2.921	0.004
H3	C&B -> INT	0.367	0.378	0.080	4.608	0.000

The structural model was assessed through the SmartPLS bootstrapping method to analyze the relationships among the constructs. For the assessment, total of 500 subsamples were utilized (Figure 3). The significant impacts were assessed using a bootstrapping procedure in the structural equation model. Table 04 indicates that the IFL was associated to the intention to use Islamic banking in a favorable and significant way, as $\beta1 = 0.330$, and p is less than 0.05. This backs up hypothesis one that the IFL is correlated with a desire to adopt Islamic banking. Moreover, the results shown in the tables and figures support hypotheses two and three, indicating that awareness, cost, and perceived benefits exert a positive and significant influence on the intention to use Islamic banking. Specifically, β2 = 0.213 ($p < 0.05$) and β3 = 0.367 ($p < 0.05$), confirming that each variable contributes positively to the adoption intention.

Figure No 2: Structural Model



IFL represents Islamic Financial Literacy, AW denotes awareness, CB signifies cost and benefit, and INT indicates the intention to adopt Islamic banking services. The R^2 value is displayed within the blue circle, while path coefficients are shown as numbers on the connecting lines between variables.

After confirming that the measurement model met the required standards, the next step was to analyze the structural model. The predictive power of the structural model was assessed by looking at the amount of variance it could explain.

As per analysis, the findings in figure 02 and Table 5 show that structural model was able to state 52.0 percent of the variance in intention to use Islamic banking service (Figure 2). This method assured the model's ability to forecast the apparent measure of variables.

Moreover, the effect sizes of latent variables regarding the intent of participants to adopt the Islamic banking was also measured. F2 (f square) value is used to measure the effect of different construct in the structural model. Gignac and Szodorai (2016) established that effect sizes of 0.02 or above qualify as small; those reaching 0.15 or higher are classified as medium; and effect sizes of 0.35 and above are categorized as large. As presented in Table 6, awareness and Islamic financial literacy demonstrate minimal effects on Islamic banking adoption intentions, while cost and benefit factors exhibit a notably stronger effect size of 0.205, indicating a medium impact.

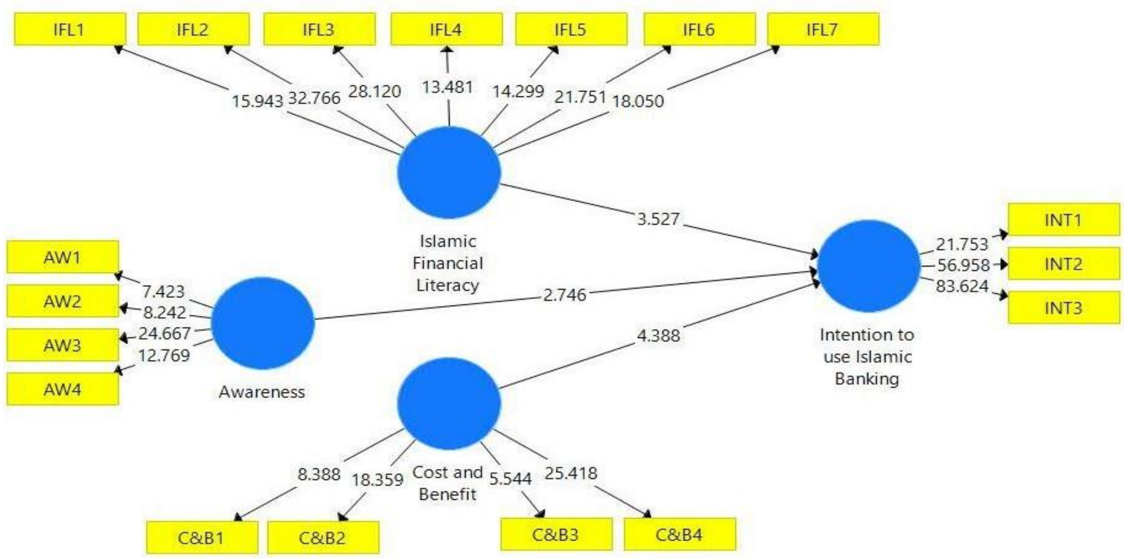
Table No 5: R Square (R^2)

	R Square	R Square Adjusted
INT	0.520	0.506

Table No 6: F Square (F^2)

Construct	*INT (intention)*
AW	**0.074**
C&B	**0.205**
IFL	**0.138**
INT	-

Figure No 3: Bootstrapping technique on structural model



Note (Figure 03): The t-values are displayed as numerical figures on the connecting lines between variables, indicated by arrows pointing toward the yellow boxes. IFL represents Islamic financial literacy; AW denotes awareness; CB signifies cost and benefit; INT refers to the intention to adopt Islamic banking. Discussion

This study aimed to assess how much university students know about Islamic finance. A questionnaire was given to business students from different universities in Lahore who had bank accounts. The results show that only 25% of the respondents understood the basic principles of Islamic banking, while 75% did not. Additionally, 45% of the students were aware of Islamic banking institutions and products in the country and could distinguish between Islamic and conventional banking, whereas 41 percent respondents were somehow aware, and 13 percent were not at all aware about Islamic banking institutes and products. With respect to cost and benefit associated with Islamic banking services, 27 percent participants believe that Islamic banks are more profitable with lower service charge and borrowing cost and provide favorable terms of credit. While 40 percent participant think that Islamic banks are not much profitable as compared to conventional banks, they have high service charge and borrowing cost, and they do not provide credit at favorable terms. Whereas 33 percent respondent are indifferent and does not see any difference between Islamic and conventional banking systems. Ultimately, survey results showed that 24 percent of respondents expressed strong interest in selecting Islamic banking services going forward, while 41 percent indicated they might occasionally consider Islamic banks, and 35 percent stated they have no plans to transition to Islamic banking whatsoever.

The secondary goal of this study was to explore how Islamic financial literacy, consumer awareness, perceived costs, and expected benefits affect the decision to use Islamic banking services. Data were analyzed using SmartPLS 3.0 to examine the direct relationships between these factors and adoption intentions, following the methods suggested by Leguina (2015). The results are presented below.

The findings demonstrate that every construct examined in this research positively and significantly affects consumers' willingness to utilize Islamic banking products and services. Islamic financial literacy shows a positive correlation with adoption intentions, as seen in Figures 2 and 3. This implies that the greater an individual's knowledge of Islamic banking, the more inclined they will be to use Islamic banks. This means that if individual has knowledge and understands distinctive features of Islamic finance, they highly intend to use an Islamic bank.

Research by Albaity and Rahman (2019) similarly confirmed that consumer awareness positively influences the likelihood of adopting Islamic banking services. Religious motivations alone do not drive customers' choices regarding Islamic financial institutions. To effectively compete with traditional banks, Islamic banking providers must enhance public knowledge about their available products and service offerings. Also, there is need to advertise and market the products and services actively and more carefully to differentiate themselves for having better positioning in customers' mind. Moreover, on average less than 50 percent respondents are aware about Islamic banking products and services, this is a low level of awareness as the majority respondents were university graduates and post graduates including employees from banking and non-banking sector.

5 Conclusion and Policy Recommendations

The study was done on a sample of students from university and working in banking and non-banking sector. This research mainly examined how various factors have direct affect on people's willingness to accept Islamic banking services. Key results include:

The research found that Islamic financial literacy levels remain significantly low among the population. Most individuals lack understanding of fundamental Islamic banking concepts and cannot distinguish between Sharia-compliant and traditional banking models. Additionally, the study demonstrated that Islamic financial literacy, consumer awareness, perceived costs, and anticipated benefits all positively and meaningfully influence people's decisions to choose Islamic banking.

Based on these findings, Islamic financial organizations must prioritize educational initiatives and awareness campaigns that highlight the advantages of transitioning to Sharia-compliant banking. This strategy could help these institutions appeal to a broader customer base and increase adoption of their products and services. In addition, it was found that IFL and awareness alone cannot influence customers as the money is involved and the investors look for higher profits, lower service cost, and favorable terms of credit. Therefore, Islamic banks need to set additional efforts in lowering the cost of new products and transaction costs in order to achieve economies of scale and pass the incentive to the larger customer base.

5.1 Implications of the Study

The findings show that the Islamic banks' management is required to put efforts to enhance comprehension of the distinctions between Sharia-compliant and traditional banking systems. The analysis also revealed that perceived costs and expected benefits significantly and positively correlate with consumers' willingness to use Islamic banking. Findings indicate that individuals carefully evaluate the financial trade-offs when considering a transition to Islamic banks, and this assessment directly shapes their switching decisions. This suggests that customers are motivated not exclusively by religious considerations, but also by practical economic factors such as the costs and advantages related with Islamic financial institutions.

Therefore, the Islamic banks are required to pay particular focus on the effectiveness in terms of product cost. As the Islamic banks need to ensure additional compliance with sharia laws in addition to normal financial laws, therefore the cost of developing new products and services and transaction costs is high. As the pricing factor positively and significantly affect the customer perception about Islamic banking (Albaity & Rahman, 2019) Hence, to encourage greater customer adoption, Islamic financial institutions must offer more competitive profit-sharing rates on their products and services. Furthermore, many consumers perceive that Islamic bank impose elevated fees and maintain less attractive lending conditions. Consequently, these institutions need to improve their credit offerings by reducing charges and providing more customer-friendly terms.

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