



**ANALYTICAL STUDY OF THE DETERMINANTS  
THAT INFLUENCE CUSTOMERS' ADOPTION  
OF ISLAMIC BANKING IN PAKISTAN**

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## DECLARATION

I, Syed Iradat Abbas, confirm that my Ph.D. research entitled: “Analytical Study of the Determinants that Influence Customers’ Adoption of Islamic Banking in Pakistan”. (Number of words 43285 and pages 235), I have read and understood the Rules and Regulations of University Islam Antarabangsa Sultan Abdul Halim Mu’adzam Shah (UniSHAMS) concerning plagiarism. I confirm that all the materials presented are my work and that any quotation or paraphrase from the published or unpublished work of another person has been duly acknowledged.



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## ABSTRACT

Although Islamic banks in Pakistan provided desiring opportunities to Islamic banking customers and the country at large, still the rate of customers' adoption remained low in Pakistan. The adoption of Islamic banking products and services in Pakistan was explored in this study using Rogers's (2003) Diffusion of Innovation Theory to assess the effects of relative advantage, compatibility, complexity, service quality, and religiosity on customer adoption. This study also investigated the moderating effect of religiosity between exogenous and endogenous variables. For this purpose, the current study employed two statistical software packages for data analysis: SPSS (v. 23) for primary data screening and preliminary analysis, followed by SmartPLS (v. 3.1.2) for the assessment of the measurement model and structural model, including the moderating analysis. The study tested the direct influence of relative advantage, compatibility, complexity, and of service quality on adoption. A significant influence on adoption was noted by relative advantage, compatibility, service quality, and religiosity which support hypotheses H1, H2, H4 & H5. Hypothesis H3 didn't support the study due to an insignificant relationship between complexity and adoption. A significant moderating effect of religiosity was observed between service quality and adoption and between complexity and adoption while an insignificant moderating effect was seen between relative advantage and adoption and between compatibility and adoption. Hypothesis H6a and H6b didn't support the study while H6c and H6d supported the study. The results of this study also demonstrated that service quality was found as a very significant factor in customers' adoption of Islamic banking in Pakistan. First, a positive link was established, and second, a considerably larger effect size supported the relationship's influence on adoption. This suggested that the service quality had the greatest impact on the adoption of Islamic banking services in Pakistan.

**Keywords:** Relative advantage, compatibility, complexity, service quality, religiosity, adoption, Diffusion of Innovation Theory, Islamic banking products and services.

## **ABSTRAK**

Walaupun bank Islam di Pakistan menyediakan peluang yang teringin kepada pelanggan perbankan Islam dan negara secara amnya, kadar penerimaan pelanggan kekal rendah di Pakistan. Penggunaan produk dan perkhidmatan perbankan Islam di Pakistan telah diterokai dalam kajian ini menggunakan Teori Penyebaran Inovasi Rogers (2003) untuk menilai kesan kelebihan relatif, keserasian, kerumitan, kualiti perkhidmatan, dan religiositi terhadap penerimaan pelanggan. Kajian ini juga menyiasat kesan penyederhanaan religiositas antara pembolehubah eksogen dan endogen. Untuk tujuan ini, kajian semasa menggunakan dua pakej perisian statistik untuk analisis data: SPSS (v. 23) untuk penapisan data primer dan analisis awal, diikuti oleh SmartPLS (v. 3.1.2) untuk penilaian model pengukuran dan model struktur, termasuk analisis penyederhanaan. Kajian itu menguji pengaruh langsung kelebihan relatif, keserasian, kerumitan, dan kualiti perkhidmatan terhadap penerimaan. Pengaruh yang signifikan terhadap penerimaan telah diperhatikan oleh kelebihan relatif, keserasian, kualiti perkhidmatan, dan religiositi yang menyokong hipotesis H1, H2, H4 & H5. Hipotesis H3 tidak menyokong kajian kerana hubungan yang tidak penting antara kerumitan dan penerimaan. Kesan penyederhanaan religiositas yang ketara diperhatikan antara kualiti perkhidmatan dan penerimaan dan antara kerumitan dan penerimaan manakala kesan penyederhanaan yang tidak ketara dilihat antara kelebihan relatif dan penerimaan dan antara keserasian dan penerimaan. Hipotesis H6a dan H6b tidak menyokong kajian manakala H6c dan H6d menyokong kajian. Hasil kajian ini juga menunjukkan bahawa kualiti perkhidmatan didapati sebagai faktor yang sangat penting dalam penerimaan pelanggan terhadap perbankan Islam di Pakistan. Pertama, pautan positif telah diwujudkan, dan kedua, saiz kesan yang jauh lebih besar menyokong pengaruh perhubungan terhadap penerimaan. Ini menunjukkan bahawa kualiti perkhidmatan mempunyai kesan yang paling besar terhadap penggunaan perkhidmatan perbankan Islam di Pakistan.

Kata kunci: Kelebihan relatif, keserasian, kerumitan, kualiti perkhidmatan, religiositi, penerimaan, Difusi Teori Inovasi, produk dan perkhidmatan perbankan Islam

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