

DOES SHARIA TAG CONSTITUTE HEURISTIC WHILE CHOOSING AN ISLAMIC FINANCIAL INSTITUTE? EVIDENCE FROM PAKISTAN.

Awais Ur Rehman

Faculty of Management Studies, University of Central Punjab, Lahore, Pakistan

Arsalan Haneef Malik*

College of Business Management, Department of Accounting and Finance, Institute of Business Management (IoBM), Karachi, Sindh, Pakistan.

Corresponding Author: arsalan.haneef@live.com

Malik Shahzad Shabbir

Department of Management Sciences, ILMA University, Karachi, Pakistan.

Arsalan Hussain and Khawaja Masood Raza

College of Business Management, Department of Accounting and Finance, Institute of Business Management (IoBM), Karachi, Sindh, Pakistan.

Abstract

Purpose

Know your customer is one of the cornerstones of financial industry success. Extant literature has explained the reasons for choosing an Islamic financial institute, but no study has explored customers' psychological behavior in making this decision. Based on attribute substitution theory, this study examined the psychology of customers during the selection process, and whether differences in personality type could influence the decision-making process.

Design/methodology/approach

Methodologies combining qualitative and quantitative approaches were employed. An experiment was conducted to generate a discussion among the five focus groups, and their personalities were also noted.

Findings

Results suggest that, despite customers feeling more attached to Islamic institutions that perform better in terms of Sharia compliance, interest-free, and CSR programs, their interpretations of these aspects vary considerably. In addition, the name tag of Islamic and Sharia had been the source of heuristically made decisions, where customers adopted Islamic institutes solely because of their Islamic labels or positive recommendations from Sharia scholars. Finally, it was found that different personality types have different selection criteria.

Originality

This paper was the first attempt to analyze the decision-making process of customers when choosing an Islamic financial institute by employing attribute substitution theory. It is pertinent to note that personality types were also discussed for the first time in this regard.

Keywords: Attribute substitution, behavioural finance, heuristics, Islamic finance, Sharia tag.

JEL classifications: G20, G40.

1. Introduction

The International Monetary Fund has elaborated that increased competition in the financial industry has resulted in more efficiency. Nevertheless, it also triggered a fiercer competition (International Monetary Fund, 2004). Accordingly, this competition has prompted market players to step up their efforts to win customers' confidence (Ahmad & Burki, 2010; Akhtar, 2002; Akhtar, et al., 2011; Burki & Niazi, 2006). Under a credit crisis's gloom, the turbulent financial scenario has given a negative shock of 45-60% to customers' confidence in financial institutes (Ernest & Young, 2010). The customer base plays a crucial role in determining the profitability of an organization. Such factors make it essential to know the customers' specific preferences, perceptions, and their decision-making criteria in the selection of an institute (Khazeh & Decker, 1992; Haron, et al., 1994; Lee & Marlowe, 2003; Mokhtar, et al., 2008; Butt, et al., 2011) especially in the post crisis scenario (Hammond, 2009; SEI Investments Company, 2008; Capgemini & Bank of America, 2010). Khan (2010) argues that Islamic financial institutes (IFI) are also facing similar competitive pressure and they are strategizing techniques like know your customers and their decision making in choosing a bank.

Financial decisions can be complex and time consuming (Pompian & Longo, 2004), which makes them susceptible to application of heuristics (Yin, et al., 2021). While discussing the IFI specifically, customers may prefer them due to their Islamic nature, which allows them to adhere to their religious views and norms (Pitchay, et al., 2019). Moreover, it draws a close link between religion-based heuristics and the selection of an IFI. Furthermore, the studies have highlighted the fact that personality types (PT) may also have an influence on this nexus (Thanki, et al., 2020), with different PTs developing different styles of choosing an IFI and the heuristics. Against this backdrop, the study attempts to identify the customers' decision-making criteria when selecting IFI and whether there are any heuristics to be identified. Another objective is to explore the correlations of PT with decision-making criteria.

The study is important due to the fact that banks act as intermediaries, making their investments dependent upon their deposits. Approximately 95.9% to 97.7% of all deposits made in Pakistani banks are made by account holders (SBP, 2010). Having bank deposits is the most cost-effective way to grow a business and be able to produce lucrative returns with a lower cost of capital (SBP, 2005). These factors, triggered by liquidity regulations, have forced banks to develop a strategic approach to deposit marketing (SBP, 2005; SBP, 2011), while IFI have no exceptions.

It has therefore been discussed extensively by researchers (Ranjbar, 2008; Haque, et al., 2009; Marimuthu, et al., 2010; Butt, et al., 2011; Hamid & Masood, 2011) to understand the customer's behavior and to determine whether they are patronized (Haron, et al., 1994 ; Kim & Jin, 2001; Al-Ajmi, et al., 2009; Rehman & Masood, 2012), and how satisfied they are (Wisner, 2001). Similarly, Lee & Marlowe (2003) conducted a study to find that consumers' decision-making may be influenced by heuristics, however their study, which focuses exclusively on conventional banks, does not address the pertinent question of whether the label "Islamic" or "Sharia" constitutes a heuristic. A number of studies have shown that PT has the potential to influence individuals' decision-making processes (Pompian & Longo, 2004; Bailard, et al., 1977; Eswaran, et al., 2011). In spite of this, the past literature remains silent with regards to whether or not the PT is associated with decision-making heuristics when choosing an IFI. From the applied side, these studies' results help financial institutes develop customer-oriented financial products.

For the purposes of addressing its research objectives, Section 2 reviews the previous literature to construct a hypothesis. Following the construction of the hypothesis, section 3 presents the methodology that will be used to ignite the results. The results and discussion in section 4 are contested for testing these hypotheses. The whole discussion leads to the conclusion of this study and generates implications for policy recommendations and future research in section 5.

2. Literature Review

2.1 Attribute Substitution

Everyday life is filled with a variety of questions, varying in difficulty and urgency. Answers to these questions require relevant information and the ability and time to process these pieces of information in order to construct the corresponding decision. Another reality is that life at many paces imposes time constraints on making decisions. Therefore, individuals may substitute some difficult questions with easier and more useful ones. By putting it another way, the respondents focus their attention on another relevant, but easier, reality in order to make quick and frugal decisions (Kahneman, 2003; Fisher, 1999; Payne, 1976; Koutsobinas, 2021). There is a phenomenon widely observed in many walks of life known as attribute substitution. Attribute substitution is manifested in two steps. Firstly, the original question is difficult, or the relevant information is too little available, or decision-makers lack the time or ability to process the information. Secondly, another easy but relevant question exists. Thus, at the third step, the difficult question is replaced by the easier one, in which time constraints and the ability to process information act as catalysts (Anderson, 1991; Fisher, 1999; Payne, 1976; Koutsobinas, 2021).

Past researchers have shown that attribute substitution drives heuristically made decisions. The study of Strack, Martin, & Schwarz (1988) gave the first evidence, where the relatively difficult question of determining the holistic satisfaction with ones' life was answered by the respondents through substituting it with another relatively easier attribute of happiness and satisfaction derived out of recent happy dating (Strack, Martin, & Schwarz, 1988). Another elaborative study tells that when people undergo the decision of enrolling into some medical programs, it needs some information from medical facts and the ability to process it to produce the decision. Since all the public is not well-versed in it; hence, instead of enrolling into a medical program on medical facts, they decide whether this program has won the government support or not (Frakt & Pizer, 2007). Heuristics are shortcuts in arriving out at judgments. Past literature praises the use of heuristics in clinical health care, nanotechnology risk (Siegrista, Cousin, Kastenholz, & Wiek, 2007), judgment regarding the risk and return perception (Finucane, Alhakami, Slovic, & Johnson, 2000) since it reduces the complexity to work out issues (Cioffi, 1997), and be responsible for lubrication, subtlety, and sophistication (Slovic, Finucane, Peters, & MacGregor, 2002).

Studies also state the use of heuristics in economic decision-making as a natural and indispensable phenomenon, accepting them as an efficient source of decision-making (Yin, Zheng, Yeoh, & Ren, 2021). While parallelly, literature also warns that heuristics may be driven by negativities (Slovic, Finucane, Peters, & MacGregor, 2002) may fall to biases (Groopman, 2007). The phenomenon of attribute substitution has also been observed to work in the business and financial decision makings too (Barrett, Mesquita, Ochsner, & Gross, 1997), such as, in evaluating the performance (Choi, Hecht, & Tayler, 2010), stock investment management (Srivastava, 2010), accounting behaviours (Kadous, Koonce, & Thayer, 2011), and even in the selection of the financial institute (Lee & Marlowe, 2003) and financial investments (Lavin, Valle, & Magner, 2019). The above discussion can be expressed in the form of hypothesis as:

H1 The phenomenon of attribute substitution is observable in the decision-making to select an IFI.

2.2 Religion and Heuristics

Precisely, the heuristics are shortcuts in arriving out at judgments. These are problem-solving techniques based upon past experiences and aim to speed up the mental process of decision-making. They provide the swift reflexes to build the response in a time-barred decision, especially when the respondent lacks details of relevant information or settles as a cognitive miser with relatively lower pieces of working information (Fiske & Taylor, 1991).

Religion is the creatures' connection to their creator. It takes them on a broader scheme, including this world to hereafter, from the matter and materials to the metaphysics, from mortal to immortal (Wright, 1981). Sociocultural norms and religion influence human behaviour and financial decision-making (Sunstein, Social Norms and Social Rules, 1996; Masomi & Ghayekhloo, 2010; Zhou, Yu, & Zhou, 2021). Prior researches have linked religiosity with individual decision making in areas such as marriage (Lehrer, 2004), divorce (Heaton & Pratt, 1990), suicide (Bainbridge, 1989), drug and alcohol consumption (Cochran & Akers, 1989), and likewise upon the investment decision (Louche, Arenas, & Cranenburgh, 2012; Tahir & Brimble, 2011; Rehman A. u., 2014; Zhou, Yu, & Zhou, 2021).

Past literature affirmatively responds to whether religious and cultural beliefs and practices can be the source of heuristics (Kahan, Donald, Paul, John, & Cohen, 2009; Shirasuna, Honda, Matsuka, & Ueda, 2020). Religious beliefs can offer heuristic reactions to troublesome interrogations (Carone Jr. & Barone, 2001). Studies emphasise that people's religious behaviour forms their heuristic attitude about their beliefs in scientific inventions (Scheufele, Corley, Shih, Dalrymple, & Ho, 2009). Similar is voting behaviour, where the voters' decision-making is heuristic and impacted by their religious thought (Calfano & Djupe, 2013; Boas, 2012). Literature talks more about identifying in and out-group heuristics in religion and profession-driven voting behaviour (Boas (a), 2013). Another study from Pakistan suggests that religious concerns carry a lot to influence socio-political thoughts. It positions that the Pag (tribune worn by religious leaders) and Politics have much in common to nestle public world views (Osman M. Karatepea, 2005). Another prominent exploration made by Pew Research Center, after conducting interviews with 38,000 respondents of different Muslim countries, established that adherents take many times their everyday life decisions upon the stances of their religious law (Pew Forum, 2009; Marshall, 2006; Pew Research Center, 2013).

Religion inciting its own world view can be taken as the cause of heuristically made decisions (Boutekkouk, 2017; Siddiqui, 2020). This phenomenon makes the adherents fast and frugal decision-makers. Hence, religion-based heuristics are often rightly framed until their application is not made without contextual framing (Sunstein, Moral Heuristics, 2003). Our stance that religious believes may cause heuristics is rooted in the fast & frugal theory of heuristics, stating them worthily with accuracy in decision making at the relatively lesser expense of time and abilities (Gigerenzer & Gaissmaier, Heuristic Decision Making, 2011). The following hypothesis can be inferred from the above discussion.

H2 Heuristics based upon religious beliefs can be present in financial decision-making.

2.3 Financial Decision Making and Personality Types

Heuristics provide a framework in which good decisions are made easily and quickly (Shah & Oppenheimer, 2008), as consumers may face many choices among financial institutions and services offered. Based on its general characteristics, financial institution selection can be complex while making a wise decision that best meets present and future

needs. Mokhlis, Salleh, & Mat (2011) conducted a quantitative study using responses from 482 undergraduate students. The results demonstrate that ATM services, security aspects, and financial benefits are the factors that students consider in selecting financial institutes (Mokhlis, Salleh, & Mat, 2011) It is the competitiveness of loan rates, service-charge policy, and reputation factors upon which consumers choose a financial institute (Khazeh & Decker, 1992).

Although risk and return characteristics are crucial for any financial decision, consumers' willingness to invest in these characteristics can be impacted by many other strong factors, such as their gender and PT, that can affect how they go about making decisions for the selection of financial investment (Pompian & Longo, 2004). Soane & Chmiel (2005), while investigating the risk preferences consistency across three decision domains, i.e., work, health, and personal finance, concluded that PT impacts decision making due to risk-taking behaviour. Further, Pompian & Longo (2004) identified the behavioral biases regarding PT and gender. The results suggest that creating investment programs consistent with both gender and PT will compensate for these behavioral biases' ailing effect. The results of a meta-analytical study show that personality traits such as agreeableness, conscientiousness, and emotional stability are positively related to investment in society across the given domain of work, family, religion, and volunteerism. While high psychoticism is negatively related (Lodi-Smith & Roberts, 2007). Lown (2008) conducted a two-phase study to motivate baby boomer women to plan for the future, different personalities of women impact their choice for saving plans, and even many women are not ready to take the risk.

Individuals have different types of personalities. Their mode of feeling, thinking, and decision-making in certain circumstances depending on their PT. PT refers to personality descriptors to suppose individual intents and probable future behavior (Kumari, Chandra, & Pattanayak, 2019). PT shapes individuals' risk-taking behavior that in turn shapes their financial and investment decisions (Thanki, Karani, & Goyal, 2020).

It was noted by extant literature that the investors acquiring more information used to be active in trading. While the investors with conscientiousness, extraversion, and agreeableness, their PT positively moderate this relationship. Moreover, openness and neuroticism traits in the personalities have negative moderation (Tauni, Fang, & Iqbal, 2017). Stock trading by extrovert and agreeable individuals is impacted by word-of-mouth suggestions from their social circles. Open-minded, conscientious, and neurotic personalities change their investment decisions with lesser frequency under the impact of such social interaction (Tauni, et al., 2017). The literature also manifested that consumer of the banking industry with differences in their PT vary in their preferences for online banking services. Consumers with more up-to-date, imaginative, and intellectual personalities tend to appreciate online banking (Khare, Khare, & Singh, 2010). Based on the above discussion, we can propose the following hypothesis.

H3 Different personalities do not have similar behavior in financial decision-making.

3. Methodology

This study sought to highlight the heuristics involved in customers' decision-making process when selecting Islamic financial institutions. Islamic banks acted as proxy for the IFI. As a matter of fact, it makes sense to use this proxy, since both at the Pakistani level and at the global level, the core of Islamic banks is represented by Islamic banks (SBP, 2012; SBP, 2019). As this study examined the customers' decision making regarding choosing an IFI, the

sample consisted exclusively of individuals who had their deposit accounts with an IFI. The respondents were then divided into five focus groups, comprising a total of 30 participants. Qualitative research traditionally uses small sample sizes of respondents (usually between 6 and 30). These samples were arranged in such a way that group two was composed exclusively of female respondents, group three included both genders with executive employees, while groups one, four, and five comprised primarily of male students. We intended to use this distribution in order to achieve better sampling and homogeneity among participants in a focused group. The use of such mechanisms is likely to enhance discussion among focus groups (Krueger, 1997).

The experiences and observations of individuals within the focus groups served as the primary basis for analysis. Careful consideration was given to ensure their diverse representation across various groups, taking into account of their socioeconomic factors. In developing countries, females exhibit distinct patterns of participation and utilization of banking products. Hence, gender, as well as expertise and past experience in obtaining bank financing, were key criteria for assigning members to specific groups. Group two consisted of executives, with a deliberate effort made to include at least two high-ranking officials from the banking sector. These individuals possessed extensive experience in their respective fields and had been actively involved in banking transactions. Similarly, in the male groups comprising students, the strategy was to include at least two post-graduate researchers specializing in economics and finance. These post-graduates were selected based on their familiarity with bank loan mechanisms and were also screened if they have utilized banking products previously. Some of these students were also working as besides their studies. By implementing these measures, the collected data became more authentic and dependable, enhancing the overall credibility of the study, aligned with the extant literature where the students were the unit of analysis (Shome, et al., 2018; Rosli, et al., 2023; Rahmawati, et al., 2019).

There were some screening questions asked to each group. These questions were adapted from Lee & Marlowe (2008) and modified to fit the specific context of Islamic finance. To expand the ambit of analysis, some questions were novel, like about Sharia scholars, etc. Each group underwent the experiment in a different room. A research moderator moderated each experiment in each focus group. Recordings were made to collect data for later psychanalysis to determine the relative frequency (the times a variable is discussed) and extensiveness (the passion with which a variable was discussed, by the proxy of timespan, a variable was discussed or elaborated, or counter-stated). The data obtained from this study was used to generate the tables that would spark the discussion in subsequent sections.

Moreover, PT of respondents was taken to investigate what personality contributes towards which selection variable. Then a correlation was run between the PT and these variables. PT indicators were coded in zero-one form, while the other variables were in continuous form. It illustrates a nonlinear relation between these PT and variables. Hence out of this non-linearity, Spearman correlation was adopted instead of Pearson correlation.

4. Results and Discussion: Decision making Criteria and Heuristics

4.1 Analytical Analysis

Table 1 lists all the influential variables that steer consumers' decision-making criterion for selecting IFI. Moreover, the aggregate frequency, extensiveness, and ratio in Table 1 confirm the highest variables that consumers cited in their decision-making process. Table 3 illustrates the decision-making heuristics employed by the respondents in the

selection of IFI Among all variables Sharia compliance is highly discussed variable in terms of F(frequency) + E(extensiveness) scores (41) as well as both aggregate frequency (7) and aggregate extensiveness (75), revealing its undisputed importance for the consumers in the selection process (Marimuthu, Jing, Gie, Mun, & Ping, 2010).

Table 1:

Frequency and extensiveness of decision-making factors.

| Variables | F G1 | F G2 | F G3 | F G4 | F G5 | F Ag | E G1 | E G2 | E G3 | E G4 | E G5 | Ex Ag | F+E |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|------|
| Convenient Location | 2 | 2 | 0 | 1 | 1 | 6 | 2 | 12 | 0 | 7 | 2 | 23 | 16.5 |
| E Banking | 1 | 1 | 0 | 0 | 0 | 2 | 1 | 2 | 0 | 0 | 0 | 2 | 3 |
| Low Fee | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 16 | 0 | 16 | 8.5 |
| Min Balance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Services Range | 1 | 0 | 0 | 0 | 0 | 1 | 2 | 0 | 0 | 0 | 0 | 1 | 3 |
| Personal Relation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CSR | 0 | 0 | 1 | 0 | 2 | 3 | 0 | 0 | 8 | 0 | 44 | 52 | 27.5 |
| Service quality | 1 | 3 | 0 | 0 | 0 | 4 | 3 | 14 | 0 | 0 | 0 | 15 | 12.5 |
| Recommendation | 0 | 1 | 1 | 0 | 0 | 2 | 0 | 12 | 8 | 0 | 0 | 20 | 11 |
| Good will | 0 | 2 | 0 | 0 | 0 | 2 | 0 | 18 | 0 | 0 | 0 | 18 | 10 |
| Employees' behaviour | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Relevant Knowledge | 0 | 1 | 0 | 2 | 0 | 3 | 0 | 10 | 0 | 19 | 0 | 29 | 16 |
| Current Account | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 5 | 0 | 5 | 3 |
| Islamic Window | 1 | 0 | 1 | 0 | 0 | 2 | 2 | 0 | 15 | 0 | 0 | 17 | 11.5 |
| Sharia Advisor | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 12 | 0 | 0 | 0 | 12 | 6.5 |
| Sharia Audit | 0 | 2 | 0 | 0 | 0 | 2 | 0 | 22 | 0 | 0 | 0 | 22 | 12 |
| Sharia Compliance | 0 | 3 | 3 | 0 | 1 | 7 | 0 | 28 | 37 | 0 | 10 | 75 | 41 |
| Interest Free | 0 | 0 | 1 | 0 | 3 | 4 | 0 | 0 | 9 | 0 | 52 | 61 | 32.5 |

Notes: F: Frequency (the times a variable is discussed). E: Extensiveness (the passion with which a variable was discussed, measured by timespan). G: the focus groups through 1 to 5. Ag: Aggregate Score. For example,

“My reason to choose Islamic banks was its Sharia business” was divulged by the third male participant group 5 (M3 of G5). People are more emotionally attached to the Sharia tag and give a vital prestige to it in numerous respects of decision making (Marimuthu, Jing, Gie, Mun, & Ping, 2010) which causes them to be heuristically engaged in the selection process even without knowing it. For instance, “Islamic banks are marked to choose, they are Islamic, they are the followers of Sharia law” (M2 of G5). “Decision to choose an Islamic bank is that it provides all Sharia values as people choose because they want it to be according to Islam” (M6 of G2). Consumers also allow Sharia tag-based heuristics in the de-selection of IFI. “I am not satisfied with the Sharia working mechanism of Islamic banks. Hence, in the future no intention to have the banking relations here” (M3 of G1). “Islam means a Nazafa (purification), so if our Islamic banks are not Nazeef (error-free) till then, they can't claim to be fully Islamic” (M5 of G3).

Table 2:*Weights and averages of decision-making factors.*

| Variables | Sum | Mean | Weight |
|----------------------|-----|------|--------|
| Sharia Compliance | 82 | 41 | 20.05 |
| Interest Free | 65 | 32.5 | 15.89 |
| CSR | 55 | 27.5 | 13.45 |
| Relevant Knowledge | 32 | 16 | 7.82 |
| Convenient Location | 29 | 14.5 | 7.09 |
| Sharia Audit | 24 | 12 | 5.87 |
| Recommendation | 22 | 11 | 5.38 |
| Good will | 20 | 10 | 4.89 |
| Service quality | 19 | 9.5 | 4.65 |
| Islamic Window | 19 | 9.5 | 4.65 |
| Low Fee | 17 | 8.5 | 4.16 |
| Sharia Advisor | 13 | 6.5 | 3.18 |
| Current Account | 6 | 3 | 1.47 |
| E Banking | 4 | 2 | 0.98 |
| Services Range | 2 | 1 | 0.49 |
| Min Balance | 0 | 0 | 0.00 |
| Personal Relation | 0 | 0 | 0.00 |
| Employees' behaviour | 0 | 0 | 0.00 |

CSR: Corporate Social Responsibility. E Banking: Electronic Banking. Min Balance: Minimum Balance.

Source: Author's Calculations

"Sharia-based banking is more responsible for having more facilities" (M4 of G3). The second most influential variable in selecting an IFI is Interest-free, with mean scoring of 32.5 (Table 2). Both names that are Interest free and Islamic banking are interchangeably used for IFI and frequently cited in the discussions. Since many people, due to lack of knowledge, consider IFI as Interest-free only. For example, "I heard that Islamic banks are interest-free" (M1 of G4). M3 of G5 mentioned that "Islamic banking is Sharia complaint but not interest-free." The variable is repeatedly used to select IFI by the consumers and tint the decision-making process. "I have selected Islamic banks because it is interest-free. As a Muslim, we must enjoin others towards Islamic banking to remove the interest from banking" (M1 of G5). "Interest is Haram (forbidden) in Islam, so we must prefer Islamic banking. Because Interest is a big sin, so Islam laid down severe punishments for it" (F4 of G3).

CSR is ranked third in the consumers' decision-making factors for selecting IFI with a mean score of 27.5 (Table 2). Some of the respondents use the IFI as a proxy for the full Islamic economy. F4 of G2 commented, "Islamic banks should be preferred on conventional because this is a step towards the Islamic economic system for the whole community". The respondents frequently related Islamic banking also as community-based banking. "Islamic banks must be community banks as CSR adds you a flavour that you live in a community, where being in community is valued" (M2 of G4). The reason behind this is the name tag of Islam or Sharia, as Islam prefers to talk about the whole community rather than individuals. Therefore, Sharia's name tag is heuristically used for CSR in the decision-making process for Islamic financial institutions as well. Such as "We work in groups and prefer the institutes facilitating our community needs. We are liberal, we are Islamic, but for CSR we are one" (M1 of G4). "Islamic banking has impressive growth in short history. But what lies more attractive for me, that it not only works for digits and indices, rather for socially desired

(socially responsible) projects. Sharia as built in has the mechanism to cater for whole and general community" (M1 of G3).

Table 3:

Heuristics in decision-making.

| Variables | Example |
|---------------------|--|
| Convenient Location | "I selected my bank because it has branches in every city every sector of country. Also, it has Islamic branches as well. (M1 of G4). "I can go for Islamic banking, if it is near to my house" (M4 of G1). "Banks are deposit-hungry, go for maximizing customers, with their <i>crowdy</i> (crowded) floor. Hence, the Islamic bank is convenient, if am not to haste and waste in waiting-lines" (F1 of G3). |
| E Banking | "Islam enjoins a better management, so Islamic banks should have a bigger shoulder for E services" (M4 of G3). "Islam aims at truth and spreading it. The E banking is a channel to have this destination" (M3 of G1). |
| Low Fee | "I switched to Islamic bank because conventional banks charge some extra amounts on pay orders. And I can't afford to pay the amount on every of them. Since I am a dealer and got a small business. That's I say Islamic banks can be a fit alternative" (M3 of G4). "If Islamic banking is costly, then we have the options to open current accounts in conventional banks" (M5 of G1). |
| Services Range | "Islamic banking can be a right choice if it has, products, skilful staff, personal relation, branch network, Sharia compliance, advertisement" (M6 of G1). "Service range is reasonable in a bank if it can sale its offerings through an active channel, more accessible and readily available" (F1 of G2). |
| CSR | "Islamic bank stands for me as a hope to eradicate the interest from society" (M1 of G5). "Islamic banks must be community banks as CSR adds you a flavour that you live in a community, where being in community is valued" (M2 of G4). |
| Service quality | "I changed from conventional bank just because its service quality was so pathetic to feel myself alone and broken hearted" (M6 of G4). "Service quality is possessed by an Islamic bank if it is giving you all the ease, as procured by conventional banks" (M2 of G5) |
| Recommendations | "I tell you that recommendation has its big role here, say my father has been advised about a specific bank by a Mufti (Islamic law expert), for sure he would have chosen that bank" (M2 of G1). "In our circles, who goes to open the volumes of books to discuss the Sharia and business issues in daily life? Here works the recommendation. And for Islamic banks, the best recommendation that works is that of Imam of Masjid and Ulems (Islamic clerks and scholars)" (M3 of G3) |
| Good will | "Conventional banks have a stronger history. Like spanning over 50 years in Pakistan. So, for a new born Islamic bank, Islamic window of a conventional bank is giving you a better ease and management, under its well established brand name" (M5 of G3). "Good will be must giving convenience to the customers" (M2 of G4) |
| Relevant Knowledge | "I just heard that Islamic banking is interest free" (M4 of G1). "I have studied the whole system of Islamic banking, and then I realised that it is Islamic and Interest free" (M1 of G5). "Knowledge is scarce about Islamic banking, but it is |

| | |
|-------------------|---|
| | not so interesting. Interesting is that Islamic banks have no care about it. Even their employees are unable to deliver the satisfactory answers” (M2 of G1). |
| Current Account | “If Islamic banking is costly, then we have the options to open current accounts in conventional banks” (M5 of G1). “Current account is lesser severity, so our family opened current account in conventional. But for fixed account we searched for Islamic. What we considered was just the purified (Islamically permitted) returns” (F4 of G2). |
| Sharia Advisor | “I like Islamic banks. Among other reasons, Taqi Usmani is its Sharia advisor. And my father has a great liking for him” (M2 of G1). “Sharia advisor’s name is of great concern for a lay man follower of religion. It adds strength to his believe that Islamic banks are Islamic, his reason to opt this system” (M4 of G4) |
| Sharia Audit | “Islamic banks have their clear sanctity for us, but for its transparency, that whether our minds are anchored on reality or not, it must undergo Sharia audit” (M1 of G3). “Sharia audit, if done by a bank, it adds value to the customers’ attraction, because they know that a Sharia scholar is working for their rights to stop the bank for unfair charges and cuttings” (F2 of G3) |
| Islamic Window | “Conventional banks have a more strong history. Like spanning over 50 years in Pakistan. So, for a new born Islamic bank, Islamic window of a conventional bank is giving you a better ease and management, under its well established brand name” (M5 of G3). “A bank should be Islamic in its all spheres. What’s this, if half conventional with half Islamic windows” (M4 of G3). “Having account in Islamic window is like strengthening the conventional banks, in an Islamic way. Even knowing that they are not Islamic” (M1 of G1). |
| Sharia Compliance | “For Islamic banking tag of Shariah compliance only is not enough many other factors are important too” (M3 of G3). “Decision to choose an Islamic bank is that it provides all Shariah values as people choose because they want it to be according to Islam” (M6 of G2). “Islamic banks are located far away, but people still prefer to choose it, because of the level of satisfaction, out of its Sharia nature. Even though the fee is high” (F5 of G2). “My reason to choose Islamic banks was its Sharia business. But it must be convenient too” (M3 of G5). “I am not satisfied with the Sharia working mechanism of Islamic banks. Hence, even in the future no intention to have the banking relations here” (M3 of G1). “Islam means a Nazafa (purification), so if our Islamic banks are not Nazeef (error-free) till then, they can’t claim to be fully Islamic” (M5 of G3). “Islam is just, so being in Islamic bank, gives you a comfort that whatever they receive or return you is Sharia based. But at the same level it may be a shock for the people who care more of their financials than the religiosity, because Islamic bank will sure cut the Zaka and higher fee and even may have lower returns. Then all the idea comes to the point of the religiosity of customer” (F1 of G2). |
| Interest Free | “I have selected Islamic banks, because it is interest free. As a Muslim, we must enjoin others towards Islamic banking to remove the interest from banking” (M1 of G5). “If I could transfer my account, definitely my choice is Islamic bank. It is interest free, provides you all offerings, without indulging into interest” (M4 of G5). |

Notes: M represents the male participants while F stands for females. G represents groups through 5 to 1.

The least three decision-making variables in the selection method are service range, E-banking, and current account with the mean score of 1, 2, and 3, respectively. M6 of G1 remark service range as the most important decision-making factor. He commented, “Islamic

banking can be a right choice if it has products, skilful staff, personal relation, branch network, Sharia compliance, advertisement” (M6 of G1). Very few respondents highlighted the importance of E-banking and those who highlighted heuristically relate it with different terminologies. Like “Islam enjoins a better management, so Islamic banks should have a bigger shoulder for E services” (M4 of G3). The third least discussed variable is the current account. F4 of G2 mentioned that “Current account is lesser severity, so our family opened current account in conventional. But for fixed account we searched for Islamic. What we considered was just the purified (Islamically permitted) returns”. Despite having a low rank in decision-making factors, all these variables have an unavoidable role by owning an outstanding level of significance. Even though for some, they are standalone reason in the decision-making process for selection of financial institute.

Interestingly, nobody mentioned the minimum balance, personal relation, and employee behaviour in their decision-making criteria, which are considered an important factor in choosing Islamic and conventional financial institutions in Pakistan and abroad (FRS, 2000; Khazeh & Decker, 1992; Stavins, 1999). As per our sample, this study's participants revealed no difference between minimum balance and service fee. The probable reason for this may be a specified amount charged and deducted whenever the amount in the account falls below the minimum requirement. Therefore, minimum balance and service fees are taken alike. As for as personal relation and employee behaviour are concerned, the respondents relate them to the recommendation and relevant knowledge. Such as "I tell you that recommendation has its big role here, say my father has been advised about a specific bank by a Mufti (Islamic law expert), for sure he would have chosen that bank" (M2 of G1). "Knowledge is scarce about Islamic banking, but it is not so interesting. Interesting is that Islamic banks have no care about it. Even their employees are unable to deliver the satisfactory answers" (M2 of G1).

In the light of the above discussion, we may conclude that while evaluating any IFI, the consumers' decisions are easily influenced by availability and recognition heuristics. They take all the available Islamic notions for individuals and apply them to the Islamic financial institutions in the appraising and selection process. The name tag of Sharia or Islamic for Islamic financial institutions is the reason at the back that people heuristically use in their decision making. Seeing that, consumers mind Sharia tag to be everything regarding Islam without knowing the proper distinguishing in the Ahkam (principles) for an individual and financial institute. Hence, based on the above findings, *H3 4* the proposition is accepted.

4.2 Correlation Analysis

Past literature witnesses that different individuals tend to have a varied interpretation of the variables responsible for their selection of financial institution (Lee & Marlowe, 2003). While PT has been proved to impact the financial decisions (Lodi-Smith & Roberts, 2007; Pompian & Longo, 2004; Lown, 2008; Soane & Chmiel, 2005). Hence, on the groundwork of these facts, this study paces a step further to correlate the variables responsible for the selection and the PT of respondents as reported in Table 4.

Table 4:***Correlations***

| | | Magnitude | Sig (2T) |
|-----------------|-----------------------|------------------|-----------------|
| Convenience | Calm | 0.853 | 0.031 |
| | Relevant Knowledge | 0.831 | 0.000 |
| | Service Quality | 0.791 | 0.000 |
| Service Quality | Good Will | 0.733 | 0.000 |
| | Extrovert | 0.811 | 0.000 |
| Islamic Window | Calm | -0.899 | 0.000 |
| | Nervous | 0.871 | 0.000 |
| | Agreeable | -0.869 | 0.000 |
| Recommendation | Nervous | -0.839 | 0.000 |
| | Calm | 0.761 | 0.000 |
| CSR | Interest Free Banking | 0.695 | 0.000 |
| Interest Free | Shariah Compliant | 0.881 | 0.000 |

Source: Author's calculations.

The correlation was found at the first level, between convenience and calm type of personifying. To state that, the calm people go towards such an Islamic bank that procures convenience to them. While on parallel, convenience is also positively correlated to relevant knowledge. Here, the people with little or no knowledge, otherwise to put that, unable to distinguish the conventional and Islamic banks, select a conveniently located bank. Like “out of busy routines, everyone has limited time, has to select a bank, but with convenient location.”

Moreover, convenience has been found in the correlation to service quality, and the service quality correlated to goodwill (Lee & Marlowe, 2003). The phenomenon here is that the layman, with limited or no knowledge of the financial industry, goes to mix the interpretations of different variables. Respondents go to select an Islamic bank based on an attribute, for which they are not so clear. They assign a heuristic interpretation, and on this heuristic interpretation, the selection is off course. For illustration, take this response “Islamic banking can be a right choice if it has products, skilful staff, personal relation, branch network, Sharia compliance, advertisement,” where a single attribute has been coupled up with a lot of exclusive variables.

Extrovert people have been found to select a bank with better goodwill. These people are more socially active, influencing the public around them and getting influenced by the public. Hence, when a bank has established its goodwill in society, this fact is responsible for impacting their selection process, being a more active part of society. And in turn, their selection is taking the impression of the Islamic banks' goodwill. For the nervous people, Islamic windows are the right choice, as witnessed by the perfect correlation. With their lesser ability to have decision-making, the nervous people have made it their selection out of the name tag of a conventional bank. For instance, one of the respondents remarked, “Conventional banks have a stronger history, like spanning over 50 years in Pakistan. So, for a new-born Islamic bank, the Islamic window of a conventional bank is giving you better ease and management, under its well-established brand name”.

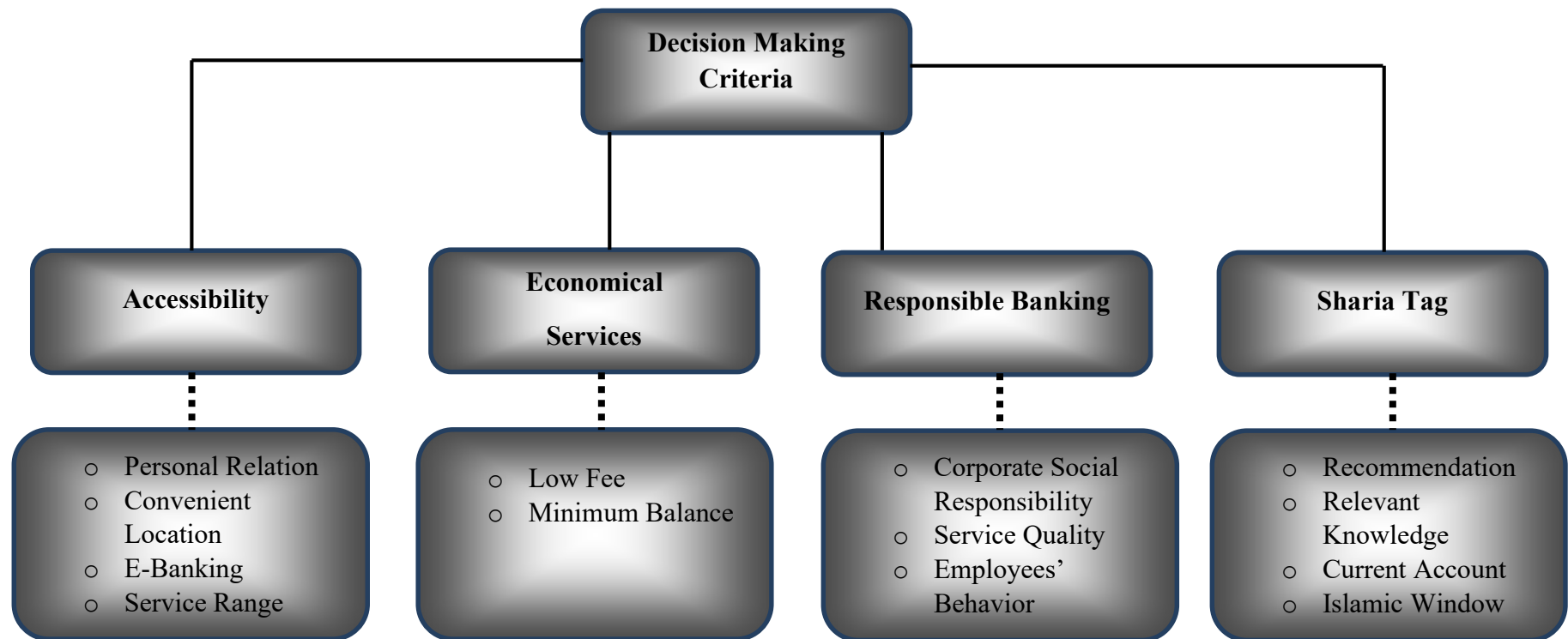
Another correlation, with the point of interest, is that of interest-free banking to CSR. Here the respondents have the view, most probably under the Islamic religious notions, that the interest is harmful to society at large. Hence to lift a society from the dungeons and chasms of injustice and inequality, it is crucial to eradicating interest-based transactions from

it; in a nutshell, an Islamic bank being interest-free is a better caterer of CSR. This fact is more supportive of our view that the respondents have taken an impression from Islamic dogmas and contempt for interest. Their psyche once takes the impact of Islamic injunctions; the rest of the logics and derivations are observed to be under its stimulus. This means to infer that the name tag effect of Islamic or Sharia banking is responsible for some justifiable impacts in the respondents' institute selection behaviour.

Furthermore, calm personalities choose an IFI upon its characteristics of being convenient in location, and operations and recommendations. These people, opposite to the agreeable or nervous subjects, base their institute selection choice upon recommendations. Unlike the nervous ones, they also go averse to select an Islamic window to prefer a full fledged Islamic bank. Past literature has signified the recommendations as the most prominent factor to choose an institute (Anderson, Jr., & Fulcher, 1976; Mokhlis, Salleh, & Mat, 2011) and similarly in the case of Islamic banks (Mokhlis, Salleh, & Mat, 2011; Haron, Ahmad, & Planisek, Bank Patronage Factors of Muslim and Non-Muslim Customers, 1994). But this study shows that it works in a positive way for calm personalities only. Otherwise, its effect is either negative or insignificant. It has also been observed that the factor of convenience is significant for the institute selectors having relevant knowledge and consideration for service quality. At the same time, the service quality goes parallel to the goodwill of an institute. Similarly, people also visage the CSR in the same nerves of interest-free and Shariah-compliant banking. To say that they take them as a substitute to the others.

This Discussion is evident to show that *H1* and *H3* hypothesis are strongly accepted.

Upon the recommendation of relevant literature, this study has noted the themes of the individuals' decision criteria. These themes were grouped to make the results more understandable, as depicted in Figure-I. It can be observed that the decision revolved around different themes, while the Sharia tag was one of the major themes. It was described by the individuals with reference to multidimensional sub-themes. It refers to the results mentioned above that although Sharia was the most frequently described concern of the individuals, they widely vary in their interpretation of how they have decided on the Sharia status of an IFI.

*Figure-1*

5. Conclusion

The study focused on taking a snapshot of customers' psychological decision-making on the eve of selecting an IFI. It was found that the main concern of the customers was deeply rooted in their religious beliefs. Sometimes, these concerns were cited by them under the guise of Sharia Compliance, and at other times, under the guise of Interest-Free Banking. Customers' inclination toward IFI was primarily motivated by these two factors, jointly and severely. Customers' emotions were too deep-rooted that IFI de-selection resulted from their dissatisfaction with the Sharia mechanism. CSR is one of the variables of significant significance here. On the other hand, if we tipped towards the other side, the variables least important was the minimum balance requirement, personal relations, and the behaviour of employees. These pure conventional variables even had zero frequency.

Customer attachment to IFI was not without religious zeal. The impression of religion has brought about a significant impact on psychology, and past literature also highlighted such a relation (Kahan, et al., 2009). Sharia tag is associated with IFI; their subsequent perceptions of IFI become eccentric at religious thinking, to the point that even their spoken language becomes Arabic. Such as "Islam means a Nazafa (purification), so if our Islamic banks are not Nazeef (error-free) till then, they can't claim to be fully Islamic." Not merely the words, other attributes are also considered in the way to correlate them with religion, for example, the response of M2 of G4, to correlate CSR banking with Islamic banking. This phenomenon states the presence of attribute substitution heuristics, where the answer to a difficult query is given under consideration of an easy-to-understand attribute (Kahneman a, 2003; Kahneman & Frederick, 2002; Payne, 1976; Strack, et al., 1988).

Another pertinent point to ponder is their intention to see society benefit from religious law. Interest was a rivalry between religions and money lenders (Jones, 1989). In our respondents, this righteous urge is to see the whole society be cleaned off the negatives of interest. Such as "I have selected Islamic bank because it is interest free. As a Muslim, we must enjoin others towards Islamic banking to remove the interest from banking". Here it is quite clear that although their decision on an interest-based system is again religious, the argument is well supported by past literature logic to state that an interest-based system is unjust by contemporary economic thinking (Zaman (a) & Zaman, 2000; Zaman & Zaman, 2001; Shaikh, 2012). Hence, this response was built upon religiously driven heuristics, as witnessed by the words "as a Muslim," and was supported with the power of logic. Adherents were unaware of hefty skillful discussions of economics and finance, but religion provided them with the stance to be fast and frugal in their decision-making.

Additionally, they use Sharia-compliant and interest-free banking variables to discriminate against each other. Nevertheless, they are frequently used as alternatives in the literature of Islamic finance. It shows their weak knowledge of these variables, as witnessed by responses such as "I heard that Islamic banks are interest free" (M1 of G4). M3 of G5 mentioned that "Islamic banking is Sharia complaint but not interest free". Can a bank be the culprit in interest (Riba), the basic no-go area in Islamic law, yet at the same time, be taken as Islamic? On the one hand, they are weak in their knowledge to understand religious law, yet the same poses to be their reason to choose Islamic banks. Thus, their devotion to religion is evident, regardless of whether they are aware of it in detail. This inference coupled with another response, "Knowledge is scarce about Islamic banking, but it is not so interesting." Interesting is that Islamic banks have no concern about it, which creates an important implication for IFI to work for an Islamic knowledge economy. Even though they have a

limited understanding of IFI, they remain devotees; the greater their knowledge of it, the greater their faith in it will be.

Furthermore, it was found that the name Sharia advisor was a very effective marketing tool. A number of decisions have been made solely on the basis of this information. There is no doubt that recognition heuristics can have a significant impact on this phenomenon.

5.1 Implications and Limitations:

The present study represents one of the first attempts to understand the customer psyche in choosing an IFI. The article thus makes a significant contribution to the academic literature as well as to the field of application. In a nutshell, respondents choose Islamic banks for their Sharia tag. Consequently, their decision process is heuristic and susceptible to attribute substitution and recognition due to this tag effect. In spite of the fact that their decisions have been taken heuristically, the power of logic continues to guide them. As a result of this claim, the fast and fugal theory of heuristics has been observed in practice. In our study, it was found that respondents had a poor understanding of Islamic finance; banks will have a greater advantage in winning their trust and loyalty if they have a good understanding of Islamic finance. It will also attract customers who are renouncing IFI due to their distrust in their Sharia mechanism. It is recommended that IFI show transparency in this regard to inform the public. Additionally, the convenient location and recommendation were found to be important variables in this regard, particularly for those with clam and extravert personalities. In the case of word-of-mouth recommendations, the spell was found to be in the hands of Sharia advisors or scholars. The IFI must ponder how it can deepen its involvement in the society through these scholars because they are still the custodians of change in Islamic regions (Zaman, 2010). Moreover, the Pakistani population is one of the most financially excluded populations in the world (Malik et al. 2021, 2022). Hence, the Shariah position of IFI can be used to encourage the financially excluded population to participate in the formal financial system. This study may also be useful to policymakers in other countries who may use the appealing tags for financial institutions to encourage the population to participate and contribute to the formal economy.

Overall, it was observed that the multifaceted and complex process of selecting a financial institution was replaced by an easy attribute associated with Sharia law. It was found that none of the respondents made use of the financial analytical frameworks, such as cost-benefit analysis.

Nevertheless, the findings of this study strengthen the proposition that cognitively difficult concepts can be replaced by easier ones. In this study, we affirm the theory of attribute substitution in the context of Pakistan and anticipate its generalization to countries with similar characteristics due to the fact that core Muslim beliefs are universal, regardless of geographic location.

It is important to note that this study identifies the first limitation of qualitative nature for academia that should be explored in future studies involving a larger sample size. This study may be replicated with a difference in methodology in order to take advantage of the modern techniques of psychoanalysis. The study found that religion makes respondents more susceptible to attribute substitution and recognition heuristics. To empirically test this phenomenon, further research is required to examine the quantitative relationship between religiosity and these heuristics in individuals. According to the study, the respondents possessed a lower degree of relevant knowledge. This inference creates a gap to analyse whether the difference in relevant knowledge brings about a change in loyalty levels. In

addition, the study emphasizes the significance of recommendations from Sharia scholars. Again, this sparks a discussion to determine whose recommendation is more beneficial. It could be a teacher, a member of the local religious clergy, or even a close relative. Additionally, the study examined the correlation between banking attributes and PT. Again, this correlation may be enhanced with a greater number of respondents in order to obtain better quantitative results from regression analysis.

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