Exploring Trust in Pakistan's Financial Institutions

By Fasih Zulfiqar *

The existing literature on Pakistan's financial institutions, especially the banking sector, primarily focuses on comparative performance, overlooking the essential question of how banks gained acceptance in a society where they are labeled non-compliant with Islamic principles. This paper fills this gap by using existing literature and performing an ordered logit regression on survey data. It shows that despite religious challenges, banks gained trust through performance, job creation, and ongoing Islamization since 2002. The paper concludes that the banking sector's successful, subtle integration into a conservative society can be used as a model to liberalize other institutions without causing rifts with religion.

I. Introduction

Trust in financial institutions refers to people's confidence and reliance that banks, investment firms, and related entities will safeguard their money and provide reliable financial services. This paper aims to answer the following question: Is it possible for individuals to have trust in financial institutions that conflict with their religious injunctions and cultural characteristics?

Out of the global Muslim population of 1.6 billion, just 14% utilize banking services, while around 21% of adults in Pakistan had bank accounts as of December 2017 (Khurram Zia Khan, 2022). While there are multiple factors behind the low bank account penetration in Muslim-majority nations, religion plays a pivotal role. Our findings indicate that, even though all banks in Pakistan have introduced avenues for Islamic financial products, the association between religion and trust in banks remains negative in both the 2012 and 2018 World Value Surveys (WVS). A significant barrier hindering Muslims from placing trust in banks is the issue of interest.

The Quran, believed to be the word of God by Muslims, says, "those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity" (Quran 2:275). Citing this verse, the Federal Shariat Court of Pakistan (SCP), as part of an effort to Islamize the country, has again issued a directive in 2022, instructing the Government of Pakistan to undertake the process of removing riba (usury) from its economic apparatus by December 2027 (State Bank of Pakistan, 2022). The SCP was set up in 1980 and is responsible for ensuring the country's laws abide by Islamic principles, as outlined in the Constitution of Pakistan. The Government challenged SCP's verdict

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in Pakistan's highest court; however, driven by pressure from the religious factions in the coalition government, this appeal was subsequently retracted. This verdict is not unique, as the Shariat Court has issued similar directives on over six occasions since 1980. The examination of SCP's 381-page judgment shows the court perceives riba as a mechanism of exploitation and accentuating inequality, wherein lenders benefit at the expense of borrowers, thus leading to wealth concentration in the hands of a select few. Moreover, according to the verdict, riba proliferates "money for money" transactions without creating real economic activities.

Well before this judgment, opposition to the conventional banking industry alleged it had concentrated wealth in the hands of a select few. To illustrate, in 1974, following the official declaration of Pakistan as an Islamic state, the government, claimed that 22 influential families held dominion over Pakistan's industry and banking sector, these families were reported to possess 66% of the country's industrial wealth and 87% of its banking and insurance (Easterly, 2001). Although Islam recognizes the limited right of private property, the Government, instead of breaking up large monopolies into smaller companies, took complete control of banks in the name of Islam. This move was supported by religious parties and largely by the masses. This discussion raises questions: Can people develop trust in the interest-based banking system under such difficult circumstances? And if so, how can trust theories explain such trust and its determinants?

To address these questions, the paper is structured in the following manner. The first section provides a literature review of trust theories, particularly those that explain why in certain settings institutional trust may or may not develop. The second section covers the methodology and results, which provide evidence that Pakistanis have developed trust in banks and that it has increased over time, and, using an ordered logit model and different specifications, explores the determinants of trust in banks in Pakistan. The third section discusses the results, and, with the help of trust and other theories, explains how Pakistanis are gradually embracing the banking system. Lastly, the fourth section concludes that the successful integration of the conventional banking system in Pakistan's conservative settings can be used as a model for other liberal institutions to establish their foothold in non-secular societies.

II. Dynamics of Trust in Pakistan's Banks

Trust in financial institutions, like banks, constitutes a subset of institutional trust. Studies indicate that the general disposition of society regarding institutional trust affects how inclined people are to trust financial institutions (van der Cruijsen et al., 2023, p. 1236). Individuals are unlikely to develop trust in financial institutions in societies with a history of institutional corruption, political instability, economic inequality, a preference for individualism over collectivism, monolithic structures, collusion, ethnic divisions, and religious polarization. Studies have put Pakistan in the category of a 'particularist society'—a society where individuals are treated by institutions differently according to their ties and status—arguing that people in particularist societies are unlikely to trust institutions (Mungiu-Pippidi, 2015, p. 14). Similarly, Pakistan has been characterized as a weak state (Paul, 2020) and even a failed state by some authors (Ġanī et al., 2009). Political instability, military intervention in the civilian sphere, corruption, and compromised bureaucracy are hallmarks of Pakistan's governance system. Authors see patronage and clientelism as providing a material foundation for Pakistan's economic system. Pakistanis, therefore, distrust institutions, and authors show the quality of poor governance in Pakistan has significant effects on financial institutions (Ahad & Imran, 2023).

While factors transcending religious beliefs, such as collusions among banks and government officials, poor performance of banks, insider trading, money laundering, predatory lending, financial records' manipulation, and inflated invoicing, can also erode people's trust in banks (Jansen et al., 2015), Pakistani financial institutions, particularly private banks, have maintained a record of stability and integrity even at the time of the 2008 global financial crisis, which had profound consequences for the global market (*Crash and Beyond*, 2013).

Can such effective functioning of banks overshadow the deterrence of religious backlash? Is trust influenced by religious beliefs across all societies? Research indicates the extent to which religion impacts trust is contingent upon the significance individuals attribute to their religion, the specific values associated with that faith, and their perception of institutions. Despite the considerable emphasis placed on religion by the Ghanaian population, the overall influence of religion on trust is weak, particularly when it comes to institutional trust (Dingemans & Van Ingen, 2015). Similarly, studies have linked religiosity (integration in religious communities, the importance of God in people's lives, and the religious context) more to general trust than to institutional trust (Dingemans & Van Ingen, 2015). However, when comparing religious groups and non-religious groups with regards to their propensity to trust institutions, research indicates religious groups, owing to their proclivity to prioritize conformity over independent thought, tend to exhibit higher levels of trust in institutions compared to non-religious groups (Devos et al., 2002). But in China, religious beliefs, though encourage conformity, are averse to state institutions and hence negatively associated with institutional trust (Zhai, 2023).

While Islam encompasses diverse belief systems, it is noteworthy that all sects in Pakistan, both Sunni and Shia and even their subsects, regard riba as incompatible with Islamic principles. Furthermore, various surveys indicate that religious precepts hold paramount importance in Pakistanis' lives (Gallup Pakistan, 2023). Durkheim and Weber have demonstrated religion does not necessarily foster trust between different groups, but it significantly reinforces trust and affiliation within a particular religious community (Sosis, 2005). Based on their analysis, the unanimity among religious groups in Pakistan over riba being incompatible with Islamic principles erodes the basis for trusting conventional banking systems. Additionally, scholars show when a government opts to endorse the predominant religious point of view, it leads to greater doctrinal uniformity and compliance, resulting in elevated levels of trust within the majority religious group (Fox et al., 2022). Although the Pakistani government lacks popular legitimacy, no government from 1980 to 2023 has disagreed with the SCP's verdict that interest must be eradicated from the banking system; their only request has been an extension of the eradication timeline.

Besides religious factors, cultural factors also influence trust levels. From Hofstede's Cultural Dimensions, a large power distance, indicating the populace feels distanced from the people in authority and accepts policies without objections, seems to be linked to low institutional trust (Kaasa & Andriani, 2022). Another of Hofstede's cultural dimensions, uncertainty avoidance—defined as how risk-averse people, their level of discomfort when dealing with uncertainty—seems to both directly and indirectly bring about low institutional trust (Mari et al., 2022). The indirect effect is through the spread of conspiracy beliefs, which can be seen as instruments that help people deal with uncertainty, whereas the direct effect arises because trusting institutions necessitates the acceptance of vulnerability and an unpredictable and uncertain relationship with the institution (Hetherington, 2005). Thus, it might be difficult for a culture with high uncertainty avoidance to trust institutions.

While there is a lack of data on conspiracy beliefs in Pakistan, apart from those spread during COVID-19 (Arif et al., 2022), we do have Pakistan's index on the two cultural dimensions directly provided by Hofstede's website. Pakistan seems to have a score of 55 on the power distance index, which is low. It is just above the midpoint, 50, and much lower than that of other developing countries such as China (80), India (77), and Bangladesh (80) (Hofstede's Insights, 2023). As for the uncertainty avoidance dimension, Pakistan scores 77, which is above the midpoint. But it is not considerably higher than that of Bangladesh (60), albeit quite higher than China (30) and India (40). However, if Pakistan's high-uncertainty-avoidant culture makes its people less open to being vulnerable to institutions and hence trusting them less, then the same argument can be applied to financial institutions such as banks.

Additionally, sociodemographic factors, including age, general trust, gender, education, and income influence trust levels in financial institutions. Authors show that women tend to trust banks more than men; trust in banks tends to increase with income but decreases with age and education (Fungáčová et al., 2019). However, research indicates that the impact of factors such as age, gender, or other variables is contingent upon the overall makeup of both society and the state (Ahunov & Van Hove, 2020; Elvin Afandi & Nazim Habibov, 2017)

In summary, the poor state of governance, as well as the prevailing religious and sociodemographic factors in Pakistan, are not conducive for institutional trust. It will be interesting to see how banks can establish trust among the population in such unpropitious settings.

III. Service Quality and Trust

At the time of independence (1947), Pakistan had three private conventional banks that were controlled by the central bank. As of 2023, the banking landscape has witnessed substantial growth, boasting a total of 27 private schedule banks, six publicly owned institutions, 7 foreign banks, 8 microfinance banks, and 18 Islamic bank chapters. The growth can be evidenced by just the Islamic banking sector having 3,956 branches as of 2017 (State Bank of Pakistan, 2022)

Pakistan's banking system has passed through three critical stages: nationalization of 1970s, privatization of 1990s and Islamization of 2000s. According to the Governor of the State Bank of Pakistan, banks constitute 95% of Pakistan's financial system. However, it is noteworthy there are merely 82 million unique accounts among a population of 132 million adults, resulting in an account penetration rate of 62%, among the lowest globally (Elvin Afandi & Nazim Habibov, 2017).

The process of Islamization spurred the expansion of Pakistan's banking sector, with Islamic banks constituting a substantial increase of 61.2% shares as of September 2022, 19% of total shares. Furthermore, their deposit base has surged to Rs 5 trillion, a figure that represents more than one-fifth of the entire banking industry (Mutaher Khan, 2023).

From 1974 to 1990, during the nationalization period, the public's confidence in banks reached its lowest point. A total of Rs. 243 billion in loans, mainly obtained by public officials, remained unpaid. Furthermore, politically influenced appointments that hindered service delivery, along with numerous scandals, added to the tarnished reputation of the banking sector (Hayat, 2011).

A few studies using statistical methods were conducted to comparatively measure the performance of banks during the nationalization and privatization periods. For example, Hayat (2011), using Data Envelopment Analysis to measure banks' efficiency, and Khalid (2006), using CAMEL analysis (Capital adequacy, Asset quality, Management soundness, Earnings and profitability, Liquidity), show liberalization and privatization of banks improved performance, efficiency, and public trust. Other works also support this finding (Ahmad, 2011; Akhtar & Nishat, 2002). All these studies indicate that the privatization of banks led to improved performance and increased efficiency. The rise in confidence in banks becomes evident with the privatization of the financial sector, underscoring the pivotal role of performance and efficiency in shaping trust in the realm of finance.

IV. Data and Methods

Using secondary data, based on the WVS, the paper examines the association between sociodemographic factors and trust in banks. The WVS has Pakistan's data in waves 3, 4, 6, and 7, but there is no question pertinent to how much people trust banks in waves 3 and 4. Wave 6 and 7 in Pakistan was conducted in

2012 and 2018 respectively. The period of 6 years is sufficient to see the factors influencing trust in banks and any changes in the trust level. If our hypothesis holds (performance is key to producing trust in banks), we should anticipate an increase in trust levels over the years, even in the presence of a negative correlation between trust in banks and religion.

The WVS data uses an inverted scale, where lower values indicate higher trust and higher values indicate lower trust. The data was coded to ensure consistency between the two years of 2012 and 2018. For the sake of interpretability, the trust levels were recorded on the following scale: Trust a great deal = 4; Quite a lot = 3; Not very much = 2; None at all = 1.

The WVS also asks people various other questions that can shed light on their sociodemographic characteristics, ideological leanings, religious tendencies, and much more. A regression can therefore be run to examine the main sociodemographic and socioeconomic factors behind how much people in Pakistan, on average, trust banks. Such regression analysis can elucidate if people's religious tendencies, our independent variable, can impact their trust in banks.

To avoid omitted variable bias and endogeneity in regression, several control variables, such as the individual's tendency for secularism, age, gender, education, income, and general (interpersonal) trust were included. People who are more likely to argue that religious authorities should interpret laws in a democracy are more likely to distrust banks since conventional banks are against Islamic principles. The other controls have been identified in the literature as significant determinants of trust in banks (Fungáčová et al., 2019; van der Cruijsen et al., 2023), so it is essential to control for them. They are defined in the appendix.

The following questions were chosen to represent different aspects of people's religiosity. Each question gives us a slightly different view of the strength of the religious beliefs of an individual.

1. Important in life: Religion? (1 represents high importance and 0 low or none)

2. Democracy: Religious authorities interpret the laws? (indicator variable that is 1 when the respondent agrees)

However, using just the 2018 survey data for the regression analysis can not only make the results biased but it will not be sufficient to demonstrate how the strength of the effects of the determinants on trust in banks has changed over time in Pakistan as new policies have been implemented and Islamization of banks has taken place since 2002. For analyzing the effects over time, regressions on both the 2012 survey and 2018 survey data were run. Moreover, since the determinants of general trust and trust in banks can be interrelated (Fungáčová et al., 2019), two specifications were constructed, the first one without controlling for general trust and the other one with. For further testing of robustness of results, the outcome variable was converted to binary, and a logistic regression was employed on the 2018 data. We expect religiosity to be a significant negative variable in all specifications.

V. Results

A. 5.1 Change in Trust Levels

The mean values of trust in banks of both years were calculated. The mean level of trust, after re-coding, has increased by 0.293, to 3 decimal places, and 0.3 to 1 decimal place, from 2012 to 2018. A 0.3 difference might not seem too significant, but on a scale with a range of 3, it is a significant change. In percentage terms, the trust of Pakistani people in banks, on average, has increased by 16.6% (to 1 decimal place) between 2012 and 2018. This was the period in which Islamization of banks took momentum and even conventional banks opened windows for Islamic banks.

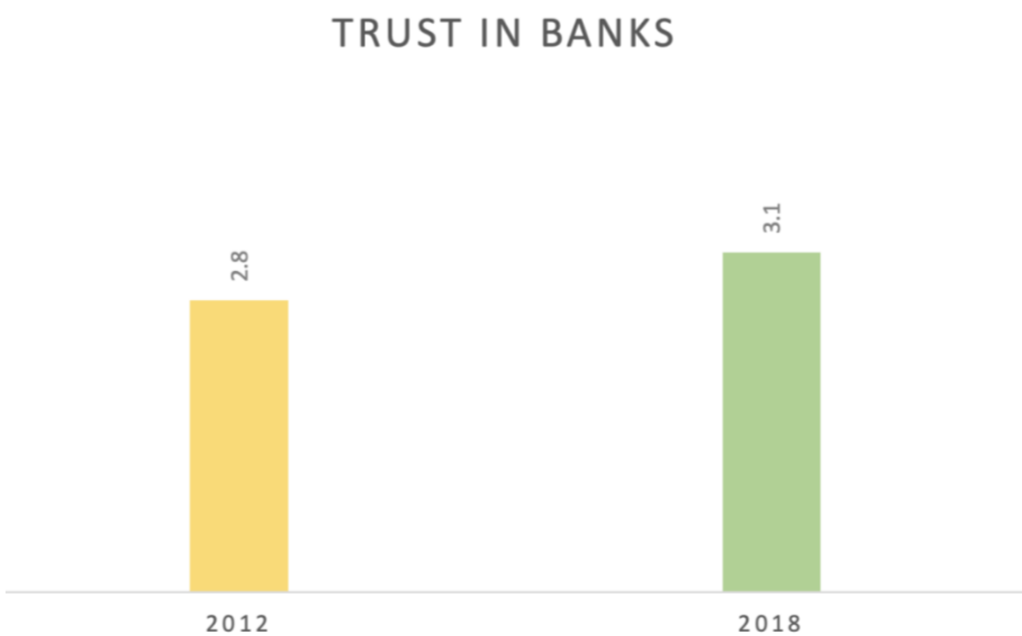

Figure 1. The difference in trust between 2012 and 2018

To statistically prove that there is a significant difference in the mean values, a Welch Two Sample t-test was conducted. The p-value came out to be much less than 0.01, thus allowing a rejection of the null hypothesis that the mean values are not statistically different. The results corroborate the hypotheses.

Table I: Descriptive statistics of trust in banks

Variables	Mean	St. Deviation	Observations
Trust in Banks – 2012	2.77	0.993	1148
Trust in Banks – 2018	3.06	0.998	1911

Table II: Welch t-test

Variable	Difference in means	95% CI Lower	95% CI Upper	t-value	df	p-value
Trust in Banks	0.29	0.366	-0.220	-7.88	2423.90	<0.001

B. 5.2 Does Religion Matter?

Coming to the regression analysis, the results for both the years (tables III and IV) show religiosity is a significant variable when it comes to trusting banks. To isolate the impact of Religiosity alone, the first specification of 2018 data does not include General Trust as a control variable, whereas the second specification includes it. Religiosity is highly significant and negative in both cases, and Secularism, people's opinion on whether religious authorities should interpret the laws, is too.

Table III: Ordered Logit Model (2018)

Regression results	(1)	(2)
Income	0.301*	*0.258**
	(0.077)	*(0.077)*
Religiosity	*-1.716****	*-1.658*
	(0.242)	*(0.242)*
Secularism	*-0.519****	*-0.500****
	(0.104)	*(0.104)*
Rural	*-0.038*	*-0.049*
	(0.096)	(0.096)
Education	*-0.175**	*-0.161*
	(0.094)	(0.094)
Female	*0.143*	*0.133*
	(0.092)	(0.092)
Age	*0.008*	*0.009*
	(0.004)	(0.004)
General Trust	-	0.456***
		(0.105299)
Observations	*1705*	1705
Mcfadden Pseudo R Squared (Log Likelihood)	*0.025*	0.030

Only one specification, with general trust included, is constructed for the data from the 2012 survey. The result shows Religiosity is still highly significant and negative, but Secularism is insignificant, unlike in 2018. Overall, religiosity seems clearly significant.

Table IV: Ordered Logit Model (2012)

Regression results	(1)	(2)
Income	*0.168*	*-0.213**
	(0.091)	*(0.092)*
Religiosity	*-1.222****	*-0.948***
	(0.039)	*(0.391)*
Secularism	*-0.151*	*0.120*
	(0.131)	*(0.134)*
Education	*-0.154*	*-0.160*
	(0.083)	(0.083)
Female	*-0.026*	*-0.059*
	(0.113)	(0.113)
Age	0.000003	*-0.001*
	(0.005)	(0.005)
General trust	-	-0.865**
		(0.119)
Observation	1128	1128
Mcfadden Pseudo R Squared (Log Likelihood)	0.295	0.308

C. 5.3 What Other Variables Matter?

While religiosity certainly seems to matter, many other sociodemographic variables shown to be significant determinants of trust in banks do not matter so much in Pakistan. For example, the factor of age. How old people are seems to have no impact on their level of trust in banks in all specifications, in contrast to the literature above. This implies all age groups in Pakistan are just about equally likely to trust banks.

In contrast to the consensus that females trust banks more (Heyert & Weill, 2023), the gender of an individual, in Pakistan, does not account for trust in banks. Additionally, whether an individual belongs to a rural or an urban area does not impact how much they trust banks. Pakistanis living in rural areas tend to be less educated and financially literate, but since the model controlled for education, the rural variable turned out insignificant.

How educated an individual is seems to matter in determining how much they trust banks. The more literate one is the less one trusts banks. The variable is in some specifications highly significant and in some just significant but consistently negative. While financial literacy might be positively associated (Van Der Cruijsen et al., 2021), general literacy per se is not, as also shown by other papers (Fungáčová & Weill, 2018).

In 2018, and in all specifications, income is positively associated with trust in banks, whereas in 2012 it is negatively associated. This discrepancy corroborates other studies which find sometimes positive effects (Fungáčová et al., 2019) and sometimes no effects (Fungáčová & Weill, 2018). This could be because income tends to show mixed results due to the nonlinear nature of the variable. Either way, in the case of Pakistan, it is a significant variable.

It seems intuitive that an individual with high social capital and who tends to trust others might trust banks too (Fungáčová et al., 2019). In 2018, that seems to be the case, but not so in 2012 where the variable is negatively associated with trust in banks. It is plausible that the banking sector reforms in Pakistan might have made people (with high social capital) who were generally untrusting of banks in 2012 trust banks more over this span of 6 years.

D. 5.4 Marginal Effects Estimations

Having investigated statistical significance, we can now investigate economic significance with the computed marginal effects of the ordered logit of 2018 in Table IV and 2012 in Table V. The marginal effect of a variable shows the magnitude of the change in the probability of falling within a particular outcome category as the variable changes by a point. For the sake of simplicity, each variable's average marginal effect of each is computed. To simplify, the average marginal effect of each variable is calculated. This is the average likelihood of transitioning from a lower trust category to a higher one—specifically, moving from no trust to some trust (category 1 to 2), low trust to moderate trust (category 2 to 3), and moderate trust to high trust (category 3 to 4). Marginal effects are based on a change by one category for the dummy variables, whereas they are based on a change in one standard deviation for the other variables.

Table V: Average Marginal Effects (2018)

Variables	(1)	(2)
Income	*0.028*	*0.024*
	(0.012)	*(0.011)*
Religiosity	*-0.275*	*-0.259*
	(0.040)	*(0.039)*
Secularism	*-0.053*	*-0.051*
	(0.015)	*(0.015)*
Rural	*-0.004*	*-0.005*
	(0.009)	(0.009)
Education	*-0.0164*	-0.015
	(0.009)	(0.009)
Female	*0.014*	*0.013*
	(0.010)	(0.010)
Age	0.001	*0.007*
	(0.001)	(0.001)
General trust	-	*0.046*
		(0.017)

5.4.1 Religiosity

Considering only the full specification for both years, being religious decreases the probability of being in a higher trust category by 25.9 percentage points in 2018 and by 14.4 in 2012. The marginal effect for religiosity is the biggest of all variables in both years. This further corroborates our hypothesis.

5.4.2 General Trust

Although positive in 2018 and negative in 2012, if compared with the other control variables, general trust is economically the most significant. Being a generally trusting person increases the probability of being in a higher trust category by 4.7 percentage points in 2018 and decreases the probability by 10.8 percentage points in 2012.

5.4.3 Income

Income's statistical significance is almost the same in both years and even the economic significance, in absolute terms, is the same. In 2018, an increase in income class (from low to middle or from middle to high) raises the probability of being in a higher trust category by 2.4%, while in 2012 it decreased the probability by 2.4%. This supports the other results that income has mixed effects.

5.4.4 Education

Just like education's statistical significance fell from 2012 to 2018 in predicting trust in banks, its economic significance fell too. In 2018, an increase in education level (from lower to middle or from middle to higher) decreases the probability of being in a higher trust category by 1.5%, like it is decreasing the probability by 1.8% in 2012.

Our findings indicate that the factors of age and gender did not have a significant impact in both the 2012 and 2018 surveys, and while education was a significant factor in the 2012 survey, it lost its significance in the 2018 survey. Given that the questionnaire, sample composition, and measurement scale were the same in both surveys, they cannot explain the change. It is beyond the remit of the paper to give a detailed answer to these changes. A study by Law et al (2023) shows that the user characteristics of gender and age did not significantly impact trust, but prior experience did. Other studies also endorse the proposition that performances and experiences with banks neutralize the effects of gender and age on trust in banks (Fungáčová et al., 2022). Regarding the effects of education on trust in banks, the evidence is mixed. Some studies have found that education has a positive effect on trust in banks, as it increases financial literacy and reduces information asymmetry (Österman, 2021) whereas other studies have found that education has no significant effect on trust in banks, as it does not affect the perception of institutional quality or the experience of banking crises (Fungáčová et al., 2022). However, there is an overwhelming evidence on the inverse relationship that trust determines both education and quality of institutions (Bjørnskov & Méon, 2013) In the context of Pakistan's unstable economic conditions and poor educational system that has failed to educate people, one can find education having no influence on trust in banks intuitive and plausible.

E. 5.5 Robustness Tests

To start with, the multiple specifications defined for the ordered logit models of 2012 and 2018 show consistent results when it comes to Religiosity. For further robustness testing, a logistic regression was run on both specifications for both datasets.

The log-odds and significance remain consistent with the ordered logit model results, albeit with a few minor discrepancies in 2012: Religiosity is not highly significant but just significant in the specification with General Trust; Education is now more significant than in the ordered logit model, whereas Income is now insignificant. Again, this complies with the fact that income tends to show mixed results. Regardless, in the 2018 model, the results of both specifications match that of the ordered logit model. Since there could be a chance of multicollinearity, variance inflation factor (VIF) was conducted on the two models. The results in the appendix show that the coefficients in both models were around 1, thus obviating any chances of multicollinearity.

VI. Discussion

Among the myriad factors impacting trust in banks, numerous studies emphasize that bank performance is the most crucial determinant (Bikker & Bos, 2008). Performance is a significant factor influencing trust in financial institutions, not only in advanced nations as evidenced by Hudson's examination of 15 EU countries but also in developing nations. In instances where favorable conditions for building trust in banks are lacking, like in developing countries, trust can still be established based on banks' credibility and performance. Qing Yang's (2010) study on China, a non-democratic country, illustrates that trust in financial institutions is rooted in their credibility and performance, despite the absence of democratic practices. Similarly, in African countries such as Botswana and Ghana, where several trust-building variables are absent, people still place trust in financial institutions (Sulemana & Issifu, 2015). This trend persisted even during the 2008 financial crisis, as trust in Indian banks declined more rapidly when their performance was deemed average (Deb & Chavali, 2010).

Individuals' interactions with banks involve navigating unpredictability, but this uncertainty is alleviated by the structured and rule-oriented nature of commercial banks in Pakistan, which distinguishes them from public institutions. Thus, the reason why Pakistan's populace puts more trust in banks as compared to public institutions might come down to the performance of these two groups of institutions. Therefore, we can say that the low level of trust in public institutions in Pakistan cannot be attributed to cultural factors only. The culture, indubitably, may have some impact, but it is far from the main cause. Authors, using regression analysis, grant support to the idea that in Pakistan too, there is a strong correlation between the service and system quality, reputation, structural assurance, perceived credibility and users' trust in branchless banking (Chaudhry, 2016). We have earlier shown at length that as soon as the privatization of conventional banking industry took place in Pakistan, the efficiency of the banking sector significantly improved and consequently people started to build trust in conventional banking.

Another factor that facilitated the acceptance of the conventional banking industry was the concept of Islamic economics, put forth by Syed Abul A'la Maududi, a political and religious figure from Pakistan. Despite his belief that the conventional banking industry contradicts Sharia principles, Maududi contended that it could be made compatible with Islam. As a result, he and other Muslim scholars did not advocate for the elimination of the conventional banking sector but instead called for the reformation, meaning that it should be riba-free (Maudūdī & Ahmad, 2011). Sharia-compliant financial institutions have been established not only in Pakistan but also in regions like the Middle East and Africa, where Muslims constitute the majority. Saudi Arabia has played a significant role in this, contributing to the establishment of two key Sharia-setting organizations: the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Islamic Fiqh Academy (IIFA). The fatwas issued by these institutions are widely recognized and accepted throughout Muslim-majority countries. According to AAOIFI, all products from conventional banking is not prohibited, as several of its services, including deposit services, commodity-based loans, credit cards, safe deposit boxes, and foreign exchange services, are considered permissible (AAOIFI, 2017).

Mufti Muhammad Taqi Usmani, a prominent figure in Pakistan, played a key role in the process of making the conventional banking sector in the country compliant with Islamic principles. Usmani proposed 15 recommendations to incorporate Islamic principles into conventional banking. Around two-thirds of the 15 suggested reforms were implemented (Siddiqi et al., 2021, p. 1812). Consequently, most conventional banks in Pakistan have now introduced several Islamic financial products, including *Mudarabah, Musharakah*, *Ijara, Murabaha, Sukuk, Takaful, Wakalah*, *Qard Hasan, Arbun* and Islamic Microfinance. Islamic banks offer a range of products that are nearly identical to those provided by conventional banks, creating a competitive parallel in the financial market. Moreover, Islamic jurists within Pakistan have granted permission for individuals to be employed in conventional banks, provided they actively seek alternative job opportunities. These rulings underscore the practical aspect of Islam, persuading numerous ordinary Muslims about the adaptability of Islamic principles in transforming conventional banks into Islamic ones and meeting the financial requirements of the populace. Although all banks, including conventional ones, have introduced Sharia-compliant products, we have shown that religion is still negatively correlated with trust in banks. One of the reasons is that Islamic banking comprises only 18% of the total Pakistan's financial banking sector. Another reason could be the growing critique of Islamic banking. Many Muslim critics contend that, at the core, there is no difference between Islamic and conventional banks and the process of Islamizing banks is merely a façade (Kuran, 2018).

The establishment of a conducive environment through enhanced performance, efficient service delivery, job creation, the incorporation of Islamic principles into financial products, and the reformation, rather than abolition, of the conventional banking sector has fostered trust in financial institutions in Pakistan.

VII. Conclusion

This study found that Pakistanis trust banks more because they operate efficiently, especially after privatization. This trust endures despite religious condemnation from Islamic scholars and muftis, who label them as religiously illegitimate. This distinction sets banks apart from the majority of other institutions in Pakistan. The paper also establishes, both through examining the literature and regression analysis, that the Islamization of banks and the fact that Islamic scholars have made it permissible to work in the banking sector may have further induced the growth of the banking sector in recent years.

Despite 81% of total shares in the banking sector being owned by conventional banks, with an officially dubious religious legitimacy, the people of Pakistan, have come to not only let banks exist but have also enabled them to thrive. This remarkable example should provide a console to other liberal institutions in other non-secular countries. The people of other countries where religion plays such a central role in daily affairs and the constitution might also be receptive to welcoming liberal institutions if those institutions provide good quality service, and decent employment, and insinuate themselves in economic and daily affairs. A very similar case is that of non-Islamic financial institutions in the United Arab Emirates (UAE). Just like banks in Pakistan, conventional banks in UAE faced challenges due to Islamic banking principles prevalent in the region. However, over time, conventional banks, by providing good quality of service and adapting to align with Islamic finance principles, have gained wider acceptance, so much so that, in September 2022, the gross assets of conventional banks were 2978.6 (billions of Dirhams) as opposed to only 604.4 of Islamic banks—a 393% difference (CBUAE, 2022).

Apart from financial institutions, there are e-commerce platforms in Indonesia facing obstacles in garnering trust and gaining acceptance from Indonesian people. Indonesia, like Pakistan, is a Muslim-majority country but, unlike Pakistan, is not an Islamic republic. Indonesians are wary of the trading of non-halal products, such as wines and pork, that traditionally take place on some e-commerce platforms. The e-commerce industry in Indonesia, therefore, just like the banking industry in Pakistan, has been overcoming religious obstacles to gaining trust through the means of providing efficient service and legal employment and by being open to some degree of Islamization, which, in their case, has come in the form of specifying sections for halal products and embedding itself in the Sharia economy, which was valued at $114 billion in December 2020 (Hafiz. M. Ahmed, 2022). Most of the biggest e-commerce platforms in Indonesia have launched Islamic divisions of their businesses such as Tokopedia launching Tokopedia Salam, Indonesia Halal Life Center launching Etokohalal in 2020, and Bibli launching Bibli Hasanah for halal products (Yosi Winosa, 2021). The head of Tokopedia Salam, the biggest e-commerce platform in Indonesia, aims to further emphasize Sharia divisions by covering all Sharia e-commerce aspects such as halal product provision, Muslim fashion, and Sharia finance products (Sebastian Partogi, 2020). Not only is the platform going to work on launching these divisions, but it is already garnering support by offering an Umrah (minor haj) trip packages down to sharia investment tools e.g. Tokopedia Emas and Reksa Dana Syariah and by having partnered with the Islamic Ulema Council's (MUI) halal certification body.

Lastly, we have another exemplification of an institution facing obstacles from religious fronts in the form of Israel's public transportation on Sabbath. The operation of public transportation on the Sabbath faces great resistance from the Orthodox Jewish community due to religious observances. In most cities, public transportation is banned on the Sabbath, even though 60% of Israelis support it as shown in a recent poll by the Israel Democracy Institute (The Israel Democracy

Institute, 2019). However, even here, religious considerations have been put aside in some cities where the majority of the country's economic activity takes place, not least in Tel Aviv, which contributes to more than 50% of the nation's GDP (Tel-Aviv Government, 2022). Translated to English from Hebrew, Meital Lehavi of the Tel Aviv Municipality says, "An efficient public transportation system needs to work around the clock. When public transportation is shut down for more than 25 hours a week, its efficiency is severely compromised, becoming the default rather than the preferred option. Public transportation is an essential service and not a luxury…the solution we offer will allow them to reach cultural institutions, beaches, entertainment centers and also to visit patients" (Blumenthal, 2019). The argument, as in the case of the banking sector in Pakistan, is that of efficiency and demand. Public transportation is essential for people and economic activity (Haaretz, 2023). Banning it on the Shabbat makes things inefficient. Regardless, it is still banned on the Shabbat in most parts of Israel. But, if it follows the example set by banks in Pakistan and works on insinuating itself deeper into the daily and economic affairs of Israeli society, by making Israelis dependent on the transportation system, then public buses might soon be allowed to operate on the Shabbat in most cities of Israel, if not all cities.

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