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The Impact of Behavioural Biases in Personal Banking: A Study on Sri Lankan Customers

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ABSTRACT

Behavioral finance shows that bias influences personal finance decisions. This study focuses on Sri Lankan customers during the turbulent economic situation in the country and the biases that come with it. It samples all present biases, loss aversion, anchoring, mental accounting, overconfidence, herding, status quo bias, and a further, valence-biased, psychologically motivated bias. A structured questionnaire with demographic, financial literacy, and behavioral-based banking questions, and behavioral bias on a Likert scale, was distributed to 400 personal banking customers selected through stratified random sampling, with 323 valid responses processed. Descriptive statistics, chi-square, independent samples t, and logit regression were the analytical methods used. Status quo bias and mental accounting were the leading ones with the highest mean scores. Present bias, overconfidence, and psychology bias significantly predicted the respondents reporting that their savings were always increasing. Bivariate tests also revealed age, education, and income association with gains in savings perception. Age and market condition attention were positive predictors of perceived success in savings, while higher present bias and emotion-driven tendencies were negative predictors. The study also shows strong dependence on fixed deposits, considerable use of online banking, and ongoing reliance on personal judgement and family advice when making financial decisions. The research offers the results of an under researched South Asian environment and recommends the creation of banking products with a perception of bias, the establishment of more comprehensible communication with the consumers, the creation of specific financial literacy programs, and the increased inclusion of digitally reluctant and low-income clients in the banking strategies.

Keywords: behavioural bias; personal banking; Sri Lanka; savings behaviour; logistic regression

INTRODUCTION

Classical economic theory presupposes that people are rational decision-makers, who objectively process the available information and choose the options that will maximize utility. Behavioral finance refutes this premise and demonstrates that financial decisions are frequently influenced by systematic thinking biases, emotional responses, as well as judgemental biases that depend on the context (Anuradha et al., 2024; Pompian, 2012). These effects do not affect investing alone in a banking context, as they influence saving, borrowing, product choice and adoption of digital-services as well (Pompian, 2012).

The majority of empirical research on behavioral finance has focused on Western or developed markets, and stock-market involvement and retirement investments are of more interest than ordinary personal choices about banking (Gomes et al., 2021; Kaustia et al., 2023). Consequently, there is limited information on how the biases of behavior influence the household banking decisions in the emerging economies where the financial literacy levels, economic volatility, institutional trust, and social norms can be less favorable than in the developed setting (Badarinza et al., 2019).

Sri Lanka presents a very critical area of investigation. The macroeconomic instability of the country, inflationary pressure, and currency depreciation, as well as uncertainty about household finances, can increase short-termism, apprehension, and banking inertia (Samarakoon, 2024; DCS, 2023). Simultaneously, the rise of digitalization of financial services opens new possibilities of convenience and simultaneously raises the level of concern regarding the security, trust, and financial ability (Aboobacker and Bao, 2018; CBSL, 2021).

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It is against this background that the current study examines behavioral biases that shape individual banking choices among the Sri Lankan customers. More particularly, the research objectives are: (1) to establish the greatest salience biasing behaviors influencing individual banking decision making; (2) to determine the connection between these biases and significant banking outcomes, particularly, savings outcomes; (3) to determine the connection between demographic factors and financial behavior and the perceived gains on savings. The paper addresses these objectives by providing empirical findings on an under-studied South Asian context and provides its implications to banks, regulators, and financial educators to enhance customer results in a challenging financial context.

LITERATURE REVIEW

Behavioral bias is a mode of thinking that makes a person arrive at something other than a rational decision and is affected by cognitive boundaries, emotions, psychological shortcuts, or social culture (Ricciardi and Simon, 2000; Gethe et al., 2022). Behavioral biases can be applied in personal banking to influence the way consumers interpret the description of products, the evaluation of risks, the responses to uncertainties, and to make decisions between short-term gratification and long-term financial benefits (Rau & Bromiley, 2025).

Present bias

Present bias is a behavioral tendency that involves placing a higher value on rewards that are received immediately versus those that are to be received in the future (Laibson, 1997). In retail banking, present bias can result in inadequate savings, an unwillingness to lock up funds for long time periods, overuse of short-term credit, and delays in making sound financial decisions. In an economically challenging situation, present bias is likely, because the need for immediate cash overshadows long-term financial considerations (Maji & Prasad, 2024).

Loss aversion

Loss aversion is the tendency of people to consider losses more than equal gains (Kahneman & Tversky, 1979). In banking, this may create a strong tendency of consumers to prefer investment products that offer guaranteed returns, avoid taking risks in the stock market, be reluctant to change banks, and be overly conservative in taking up new savings and credit offers. Although this type of behavior may be protective, it may lead to a reduction in potential wealth in the long-term if economically protective consumers avoid growth opportunities (Hwang, 2024).

Anchoring bias

This phenomenon refers to the tendency to use the first piece of information given when making the following decisions (Tversky & Kahneman, 1974). When marketing banking products in Sri Lanka, customers may refer to pre-crisis exchange rates, previous returns on deposits, or previous costs of loans. Such phenomenon can decrease customers' ability to assess banking products appropriately, as they refer to out-of-date benchmarks (Pompian, 2012).

Mental accounting

This phenomenon is the tendency to think of money in separate "buckets" instead of in aggregate (Thaler, 1999). Bank customers may think of their salary, savings, emergency funds, bonuses, and borrowed money as different "accounts" and they may use even sub-optimal, i.e. economically inefficient, strategies. This can impact customers' deposit behaviors, decisions on debt repayments, and their propensity to shift funds across different banking products (Dan, 2025).

Overconfidence and herding

Overconfidence is a misplaced belief in one's understanding of financial issues and/or decision-making skills. Herding, meanwhile, is the tendency to follow other people's behavior without assessing the situation

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independently (Adielyani & Mawardi, 2020). The overconfident consumer may believe that he or she can pick the best products or control the risk optimally. By contrast, herding causes consumers to choose popular banking products without assessing if the products suit their needs (Inghelbrecht & Tedde, 2024).

Status quo and psychological bias

Status quo bias is the tendency to stick to what one is accustomed to, even in the presence of more favorable options (Samuelson & Zeckhauser, 1988). The survey in this study sought to capture breadth around the psychological bias, bias of emotion, such as fear, uncertainty, and trust in the context of financial decision-making. In a post-crisis situation, these responses may reinforce the inertia and deepen the hesitation, fostering the tendency of consumers to stay with their old routine products and avoid new options even if they are better (Godefroid et al., 2022).

The aforementioned biases are widely documented in behavioral finance, but the literature is scarce on how the biases collectively impact everyday personal banking decisions, particularly in Sri Lanka. Hence, this study attempts to evaluate these concepts in the context of local banking in an environment of economic instability, disparate levels of financial literacy, and incomplete but increasing levels of digital adoption.

METHODS

Research design and sample

The research used a cross-sectional design and a structured questionnaire focused on behavioral biases, financial literacy, and banking behaviors in personal banking customers in Sri Lanka. The stratified random sampling method was employed to better represent the population on the main variables of demography - age, gender, income, education, and occupation.

Among all questionnaires sent (n=400), 323 questionnaires were identified as appropriate to be included in the study. The survey questionnaires were drafted in English since the study involved customers with access to formal banking and online banking systems that are accessed in the English language in the data collection exercise. This design decision traded consistency in the instruments with the restriction introduced by biases towards more educated and English competent respondents.

Instrument and measures

The measure was divided into four sections: (1) screening and demographic data; (2) the question of financial literacy and banking behavior; (3) self-reported savings, consultations, and digital banking behavior; (4) Likert scale question on the strength of behavioral biases.

On the behavioral-bias scale, respondents have a scale of 1 to 5 with one being strong disagreement and five strong agreements. Timely examples were loss avoidance, self-confidence in financial literacy, and need of immediate gratification over delayed gratification.

The analysis maintained the same category of biases in the experiment, including present bias, loss aversion, anchoring, mental accounting, overconfidence, herding, status quo bias, and a more generalized psychological bias of the questionnaire. Because the source manuscript just enumerated summary statistics, the revision should be aimed at the more comprehensible display of the given analytic findings, as opposed to the reconstitution of the estimated values.

Analytical approach

Respondent profiles and the distributions of behavioral biases were described using descriptive statistics. Associations between demographic factors and perceived savings gains were assessed using chi-square tests. Bias scores were compared using independent-samples t-tests between respondents who stated their savings always resulted in gains and those who stated otherwise.

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Behavioral and demographic predictors of reporting savings that always resulted in gains were identified using a logistic regression model.

RESULTS

Respondent profile

Table 1 provides a demographic summary of the 323 respondents. The sample was evenly split by gender. However, there was an overrepresentation of young and middle-aged adults, high levels of education, high income groups, and participants in occupations.

Table 1. Frequency distribution of demographic variables

Variable	Category	Frequency (%)
Age group	18-29	30.0
Age group	30-39	12.4
Age group	40-49	15.8
Age group	50-59	28.5
Age group	60+	13.3
Gender	Male	48.0
Gender	Female	52.0
Level of education	School	16.7
Level of education	Diploma	19.5
Level of education	Degree	29.4
Level of education	Postgraduate	34.4
Monthly income (LKR)	<50,000	24.8
Monthly income (LKR)	50,000-99,999	9.9
Monthly income (LKR)	100,000-199,999	20.4
Monthly income (LKR)	200,000+	44.9
Occupation	Professionals	25.16
Occupation	Technical and Associate Professionals	20.92
Occupation	Clerks and clerical support workers	19.93
Occupation	Services and sales workers	3.92
Occupation	Elementary occupation	0.33

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Occupation	Craft and related trade workers	0.98
Occupation	Skilled agriculture, forest, and fishery workers	0.33
Occupation	Armed forces occupations	9.80

Note. Occupational totals do not sum to the full sample because unemployed respondents, students, and housewives were excluded in the source tabulation.

The survey appears to cater to the wealthiest and best-educated Sri Lankan banking customers, and the socioeconomic geography of the Sri Lankan banking customers indicates the banking customers of Sri Lanka survey is not fully capturing the diversity of the citizenship banking customers. The bias in the survey sample may be due to the fact that it was conducted in English and targeted formal and digital banking services, thereby capturing fewer responses from the less educated, less wealthy, or people with limited English skills. For these reasons, the limited analytical perspective of the results indicates the respondents represent a small but significant portion of the banking population.

Financial literacy and banking behaviour

Table 2 shows the patterns of responses regarding their consultations, savings, investments, and use of digital banking. Most respondents relied on their own judgment of the matter, or consulted with family, rather than seeking any professional advice, and the most savings instruments used were still fixed deposits.

Table 2. Frequency distribution of financial literacy and banking behaviour

Construct	**Category**	**Frequency (%)**
Consultation	On my own	58.51
Consultation	Consult family	45.82
Consultation	Consult external experts	10.22
Consultation	Consider public view	5.57
Savings behaviour	Not interested	13.6
Savings behaviour	Regular savings	50.5
Savings behaviour	FDs with high yield	35.9
Considers market situation	Yes	73.68
Considers market situation	No	26.32
Savings instruments	FDs	77.09
Savings instruments	Unit trusts	6.19
Savings instruments	Share market	33.13
Savings instruments	Government securities	15.79
Online banking	Do not use	7.43

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Online banking	Use online banking	84.52
Online banking	Use for bill payments	38.08
Online banking	Use mobile wallets	17.34
Gain by saving	Never	4.34
Gain by saving	Rarely	51.08
Gain by saving	Always	44.58

Note. Some percentages reflect multiple-response items and therefore do not necessarily sum to 100 within a construct.

The pattern suggests a careful, behavior-driven strategy towards money management. Saving regularly was commonplace, but respondents demonstrated a clear inclination towards more predictable, less risky options, and a rather narrow interest in more alternative options like unit trusts or government securities. Although digital banking was adopted highly, practical use remained limited to general online banking and bill payment services rather than more novel or complex offerings.

Distribution of behavioural biases

In Table 3, status quo bias received the highest average value, followed by mental accounting. Present bias, loss aversion, anchoring, and overconfidence were of moderate prevalence.

Table 3. Distribution of behavioural biases

Bias	**Mean +/- SD**	**95% confidence interval**
Present bias	5.23 +/- 1.97	(5.01, 5.44)
Loss aversion	6.97 +/- 1.52	(6.80, 7.13)
Anchoring bias	6.78 +/- 1.67	(6.60, 6.97)
Mental accounting	10.04 +/- 2.02	(9.82, 10.26)
Overconfidence bias	6.65 +/- 1.45	(6.49, 6.81)
Psychological bias	2.18 +/- 0.98	(2.08, 2.28)
Herding bias	2.20 +/- 0.99	(2.09, 2.30)
Status quo bias	16.44 +/- 3.09	(16.10, 16.78)

Note. The status quo confidence interval contains an obvious formatting error in the source table; it has been standardised here as (16.10, 16.78) for consistency with the reported mean.

The data indicates that the participants preferred to keep their financial habits the same, and mentally categorize their money. While the emotion-driven and herding tendencies were below average, they were still present in subsequent comparative and regression analyses as significant concerning perceived savings outcomes.

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Savings outcomes and behavioural predictors

Examining perceived savings success entails considering whether respondents had ever stated that their savings always produced positive returns. The bivariate relationship between some demographic factors and this outcome is shown in Table 4.

Table 4. Association between demographic factors and savings always generating gains

Factor	Categories examined	Chi-square	p-value
Age	18-29; 30-39; 40-49; 50-59; 60+	27.596	<.001
Gender	Male; Female	0.001	.982
Education	School; Diploma; Degree; Postgraduate	18.776	<.001
Income	<50,000; 50,000-99,999; 100,000-199,999; 200,000+	26.516	<.001

Note. p-values are reported as presented in the source analysis, with values reported as 0.000 standardised to <.001.

At the bivariate level, age, education, and income were positively associated with perceived savings gains, while the association with gender was not significant. Respondents with stronger socioeconomic resources, particularly older respondents, were more likely to report savings gains.

Table 5 analyses the average bias scores of participants who indicated that they always benefited from savings and of those that did not.

Table 5. Comparison of behavioural biases by savings outcome

Bias	Mean (Yes)	Mean (No)	|t|	p-value
Present bias	4.43	5.87	6.958	<.001
Loss aversion	6.96	6.97	0.081	.936
Anchoring bias	6.76	6.80	0.187	.851
Mental accounting	9.91	10.15	1.040	.299
Overconfidence bias	6.94	6.41	3.356	.001
Psychological bias	1.88	2.43	5.295	<.001
Herding bias	2.01	2.35	3.118	.002
Status quo bias	16.5	16.4	0.299	.765

Note. Absolute t statistics are reported because the source table contained sign inconsistencies relative to group means.

Consistent gainer respondents were found to have lower present bias, psychological bias, herding bias, and higher overconfidence. In the case of loss aversion, and the biases of anchoring, mental accounting, and status quo, the two groups showed no material differences. This response pattern suggests that greater emotional

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control, and greater independence from the influence of the crowd, are of greater importance to perceived success in saving than are more general fears, preferences, or biases toward caution or the status quo.

Table 6 shows the estimated coefficients of the logistic regression model for the probability of reporting savings always generated gains.

Table 6. Logistic regression model predicting savings always generating gains

Variable	Wald statistic	p-value	Odds ratio
Age	4.754	.029	1.291
Education	1.083	.298	1.163
Income	0.311	.577	1.085
Consultation for saving	1.725	.189	1.305
Savings habits	0.003	.957	0.987
Considers market situation	6.826	.009	2.435
Number of savings modes	1.537	.215	1.369
Online banking	2.683	.101	2.801
Present bias	16.480	<.001	0.724
Overconfidence bias	9.070	.003	1.358
Psychological bias	9.151	.002	0.613
Herding bias	0.001	.975	0.995

Note. The dependent variable is whether respondents reported that savings always generated gains. Online banking shows a positive but conventionally non-significant association at p = .101.

After adjusting for several covariates, age, and focus on market conditions continued to be positive predictors of the outcome. Present bias and psychological bias decreased the likelihood of consistent gain reports, while overconfidence increased the odds. There was a positive relationship, though not statistically significant, between online banking. Education, income, saving behavioral tendencies and herding bias did not play a role in the multivariate framework implying that behavioral traits and situation relevance perhaps explain more of the variation than demographics.

DISCUSSION

Results show that technical financial reasoning can be a factor in individual banking behavior in Sri Lanka, but the factor is largely affected by a combination of caution, comfort, and selective irrational confidence. The means of mental accounting and status quo bias are high indicating that respondents are likely to mentally separate money and maintain the current financial status quo. That is logical given the recent economic turmoil. Familiar products and routine present some sense of control during periods of uncertainty.

At the same time, the savings models stress the importance of the short-term orientation and the impactful responses. Increased present bias was correlated with reduced instances of reporting of savings that resulted in positive consequences. This aligns with the premise that the desire to spend now may prevent the capacity to

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save and plan in the future (Laibson, 1997; Banerjee et al., 2025). Since the psychological-bias measure is important in forecasting the results, it would be reasonable to conclude that emotionally motivated processes of fear and uncertainty still play a crucial role in preventing successful results in a regular fashion.

Confidence was seen as a favorable predictor of reported financial gains. This requires careful questioning. Compensated respondents are more likely to engage more with savings tools or market figures, yet it can also reflect the tendency to overstate their financial prosperity. This, however, is a chance to banks. Self-confident customers might need directions, explicit product presentation, and purposefully designed knowledge more than make assumptions about the risk involved (Adielyani and Mawardi, 2020; Adkisson, 2008).

It is also about digital behavior. Although online banking was not a robust predictor among conventional levels, the association was positive and the descriptive statistics indicated that digital channels were highly used. It means that more frequent monitoring of account balances, occurrence of transactions, and availability of information may occur with the help of the usage of digital channels. Nevertheless, behavioral bias cannot be replaced by the utilization of digital channels. Digital banking ecosystem continues to experience fraud, digital literacy, and trust challenges (Gargouri, 2023).

Another area of customer experience emphasized in the research is beyond technical financial expertise. The reasons appreciated by respondents are trust, transparency, quality of service and product familiarity. These traits are in line with previous findings that the combination of customer orientation with the quality of communication boosts satisfaction and involvement in banking (Gonu et al., 2023). From an operational standpoint, banks cannot focus only on the financial return of products or their technical attributes. They must also respond to how customers perceive and experience risk, effort, trust, and ease.

Study limitations

This paper builds upon behavioral-finance results in a South Asian context that has been under-studied, though the results need to be put into perspective considering a number of limitations. First, the sample attained is biased towards the educated, higher-income, professionally-employed, English-skilled, and digitally-engaged respondents. Though stratified sampling was planned, the ultimate sample of respondents does not perfectly reflect the diversity of the customers of the Sri Lankan banking industry, particularly low-income, rural, older, offline, and linguistically marginalized users. This is important since financial behavior in households remains heterogeneous and financial inclusion in emerging markets remains varying with digital capability, education, and socioeconomic position (Gomes et al., 2021; Adel, 2024; Jose and Ghosh, 2025).

Second, the research is based on self-reporting perceptions, especially on the dependent variable that demonstrated that savings always yielded a gain. These are analytically helpful but lack the same evidences of strength as checked balances, deposit history, and transaction history. Recent matched survey-administrative finance datasets indicate that self-disclosed financial data may differ with the reported values, and some of the differences are associated with financial literacy, household complexity, and reporting environments (Madeira et al., 2022).

Third, the cross-sectional design is incapable of a robust causal inference. The reported regressions can establish the relationship between behavioral characteristics and perceived savings results but cannot establish whether biases explained savings performance, whether previous savings success modified confidence and market focus or whether both were explained by factors related to the crisis but not observed.

Fourth, it would be advantageous to refine some of the constructs more. The general category of psychological bias in general seems to extend emotional responses, including fear, uncertainty, and trust, into one residual measure, which can lower construct clarity. The recent literature emphasizes that behavioral constructs, including status quo bias, subjective financial knowledge, and confidence, should be operationalized with caution since weak or over-aggregated measures can make interpretation difficult and comparison across studies challenging (Godefroid et al., 2023; Xin et al., 2024; Lee et al., 2025).

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Future research directions

Future studies thus need to shift to a nationally inclusive, multilingual study where the instrument is administered in Sinhalese, Tamil, and English and intentionally oversampling low-income, rural, and digitally reluctant populations. Higher external validity would also be achieved through including those customers whose main channel is based on branch-based as opposed to digital channels. Gender-age cohort-digital engagement comparative subgroup analysis would particularly be useful as current studies reveal that there remains gender-based and generation-based digital financial inclusion disparities in developing-country contexts (Özsuca, 2025).

A better design would also integrate survey data with qualitative interviews, focus groups, or financial diaries such that the analysis reflects the effects of trust, crisis memory, family influence and perceived safety on financial choice. Mixed-methods designs are becoming more and more suggested when quantitative models can explain patterns but fail at explaining the mechanisms of their occurrence (Kurtaliqi et al., 2024). Lastly, self-reports ought to be supplemented in future research with objective or quasi-objective measures including deposit growth, frequency of transactions, product holding, arrears history or consent-based administrative data. By so doing it would be simpler to isolate actual financial performance and confidence, optimism or recall bias and would allow more accurate testing of the behavioral tendencies with respect to real banking outcome.

CONCLUSION AND RECOMMENDATIONS

This study reveals how behavioral biases affect decision-making in personal banking amongst customers in Sri Lanka. Biases in present thinking, overconfidence, and psychological thinking were identified as the most significant predictors of perceived savings from present thinking. On average, status quo and mental accounting biases were the most significant. The mixture of habit, emotional shorts, and selective confidence, as opposed to pure rational calculation, describes the mental banking behavior best.

This consideration provides a framework for the development of banking services. When banks and policymakers account for behavioral biases in the design of their products in the areas of customer communication, savings incentive tools, digital banking services, and financial literacy, they provide the greatest opportunities. In this way, behavioral finance becomes the way to build improved customer outcomes and foster banking system resilience.

Recommendations

1. Construct savings and investment products that are mindful of behavioral biases and provide customers with the security necessary to eventually develop the behavioral ability to stretch their savings beyond fixed deposits (Gargano and Rossi, 2024).

2. Apply present bias, self-control savings via simple behavioral nudges, reminders, and goal-setting (Thaler, 1999).

3. Improve transparency, and advisory communication especially to confident customers who may be underestimating the complexity of the products, or overestimating their financial literacy (Inghelbrecht & Tedde, 2024).

4. The scope of innovation in banking should be widened to avoid deepening exclusion, particularly in the case of digitally hesitant, marginalized, and low-income individuals, who should be the target of digital financial literacy and support programs (Jose and Ghosh, 2025).

Ethical Approval

This study received ethical approval from the **AIMS Campus Ethics Committee**, No. 7, Rajakeeya Mawatha, Colombo 07, Sri Lanka. Approval reference was granted by **Professor Sirimevan Widyasekera (profw@aimscollege.edu.lk)** and **Dr. Kithsiri Manchanayakke (kithsiri@aimscollege.lk)**. Participation was voluntary, and all respondents provided informed consent prior to completing the survey.

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Conflict of Interest

The author declares **no conflict of interest** in relation to this study.

Data Availability

The de-identified survey dataset generated and analyzed during the current study is **available from the corresponding author upon reasonable request**. Due to confidentiality and privacy obligations, the dataset is not publicly accessible.

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