T. C.

Social Sciences University of Ankara

Institute for Islamic Studies

Islamic Economics and Finance Department

ISSUES AND CHALLENGES OF PARTICIPATION BANKING IN TURKEY: THE PERCEPTION OF EMPLOYEE

Master Thesis

Fatma Sayar

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Fatma Sayar

185310019

Supervisor: Assist. Prof. Dr. Tawfik Azrak

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ACCEPTANCE AND APPROVAL PAGE

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ABSTRACT

The main purpose of this study is to provide empirical analyzes of the issues and challenges faced by the participation banking in Turkey.

The study focuses on factors that prevent further growth of the participation banking in the financial sector. These factors are collected under six headings which are legal and regulatory framework, management issues, Shariah governance, industrial issues, the perception of society, and risks.

Primary data are collected by the survey conducted in the study and analyzed with a statistical program. Secondary data of the participation banking in Turkey is obtained from the authority institutions. The participants of the survey consist of participation bank employees in Turkey. It is aimed to present the issues and challenges faced by participation banking in Turkey through the perspective of the employees of participation banks directly with this survey.

According to the survey results, the participation banking system in Turkey has not yet reached the potential level. The study concludes that there is a need for further regulations that would pave the way for participation banking for the legal and regulatory framework. Among the management issues, the competition in the financial system, and the similarity with conventional banking in terms of products and services are observed to be important challenges that slow the further development of participation banking. Due to the structure of participation banking, the lack of Shariah standards and central Shariah auditing are seen main issues within Shariah governance. Featured industrial issues are the lack of the wide range of products, skilled human resources, and complementary financial institutions. Along with the negative reputation, there is a lack of awareness about the participation banking system on the customer side within the perception of society. Finally, when the risks faced by participation banks are evaluated, the first three risks are: (1) the rate of return risk, (2) the credit default risk in debt-based financial products, and (3) the liquidity risk.

Key words: Participation banking, Conventional banking, Legal and regulatory framework, Shariah governance

ÖZET

Bu çalışmanın temel amacı, Türkiye'de katılım bankacılığının karşılaştığı sorunların ve zorlukların ampirik analizini yapmaktır.

Çalışma, katılım bankacılığının finans sektöründe daha da büyümesini engelleyen faktörler üzerinde yoğunlaşmıştır. Bu faktörler, yasal ve düzenleyici çerçeve, yönetim, dini/fıkhî problemler, sektörel sorunlar, toplum perspektifi ve riskler olmak üzere altı başlık altında toplanmıştır.

Birincil veriler çalışmada yapılan anket ile toplanmış, istatistiksel bir program ile analiz edilmiştir. Katılım bankacılığına ait ikincil veriler otorite kurumlardan elde edilmiştir. Çalışma kapsamında bulunan anket çalışmasının katılımcıları Türkiye'de faaliyet gösteren katılım bankalarının çalışanlarından oluşmaktadır. Bu anket ile katılım bankacılığının karşılaştığı sorunların doğrudan katılım bankaları çalışanlarının bakış açısıyla sunulması hedeflenmiştir.

Anket sonuçlarına göre, Türkiye'de katılım bankacılığı henüz beklenen potansiyele ulaşmamıştır. Yasal ve düzenleyici çerçeve için katılım bankacılığının önünü açacak düzenlemelere ihtiyaç olduğu ortaya çıkmıştır. Yönetim sorunları içinde, geleneksel bankacılık ile benzerlik ve finansal sistemdeki rekabet katılım bankacılığının gelişimini yavaşlatan önemli etkenler olduğu belirtilmiştir. Katılım bankacılığının yapısı nedeniyle Şer'i yönetim çerçevesinde standartların ve merkezi denetim eksikliği öne çıkmıştır. Sektörel problemlerin başında geniş ürün yelpazesi, eğitimli insan kaynağı ve tamamlayıcı finans kurumlarının eksikliği gelmektedir. Toplum algısı içerisinde, olumsuz itibarla birlikte finansal sistemin önemli bir paydaşı olan müşteri tarafında katılım bankacılığı sistemine yönelik bilgi eksikliği olduğu sonucuna varılmıştır. Katılım bankalarının karşılaştığı riskler değerlendirildiğinde ilk üç riskin; (1) geri dönüş riski, (2) borca dayalı sözleşmelerde kredi riski ve (3) likidite riski olduğu ortaya konmuştur.

Anahtar kelimeler: Katılım bankacılığı, Konvansiyonel bankacılık, Yasal ve düzenleyici çerçeve, Şer'i yönetim

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LIST OF ABBREVIATIONS

AAOIFI:	Accounting and Auditing Organization for Islamic Financial Institutions
BCBS:	Basel Committee on Banking Supervision
BRSA:	Banking Regulation and Supervision Agency
CBRT:	Central Bank of the Republic of Turkey
CIBAFI:	General Council for Islamic Banks and Financial Institutions
CMBT:	Capital Markets Board of Turkey
COMCEC:	Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
DESIYAB:	State Industry and Laborer's Investment Bank Ltd / Devlet Sanayi ve İşçi Yatırım Bankası
GCC:	Gulf Cooperation Council
IFSB:	Islamic Financial Services Board
IMF:	International Monetary Fund
IsDB:	Islamic Development Bank
ISRA:	International Shariah Research Academy for Islamic Finance
IT:	Information Technology
KGK:	Kamu Gözetimi Kurumu
MENA:	Middle East and North Africa
OIC:	Organization of Islamic Cooperation
PBAT:	Participation Banks Association of Turkey
PFI:	Private Financial Institution
POAASA:	Public Oversight Accounting and Auditing Standards Authority

SDIF:	Savings Deposit Insurance Fund
SPSS:	Statistical Package for the Social Sciences
TKBB:	Türkiye Katılım Bankaları Birliği
UAE:	United Arab Emirates
UK:	United Kingdom
USA:	United States of America

INTRODUCTION

Islamic economics is a discipline that aims to ensure the fair sharing of limited resources and income in society in line with the rules set by the Qur'an and Sunnah of Prophet Muhammad (peace be upon him). Islamic economics opposes the negative and materialist view of the modern world to the human and treats people in the way suggested by Islam. It puts the social utility at the center, unlike the capitalist system which places individual utilitarianism at the heart of the economy. Thus, the commercial, economic, legal, moral, cultural, religious, and political aspects of social life in Islamic economics are not independent from each other. Islamic moral principles that guide Islamic economics policies have five main objectives. They are; (i) human freedom, (ii) social justice, (iii) education, (iv) economic growth, and (v) maximum employment (Naqvi, 2018, p. 86). These goals may appear like those of the capitalist system. However, Islamic moral rules play an important role to guide the pursuit of these goals in Islamic economics.

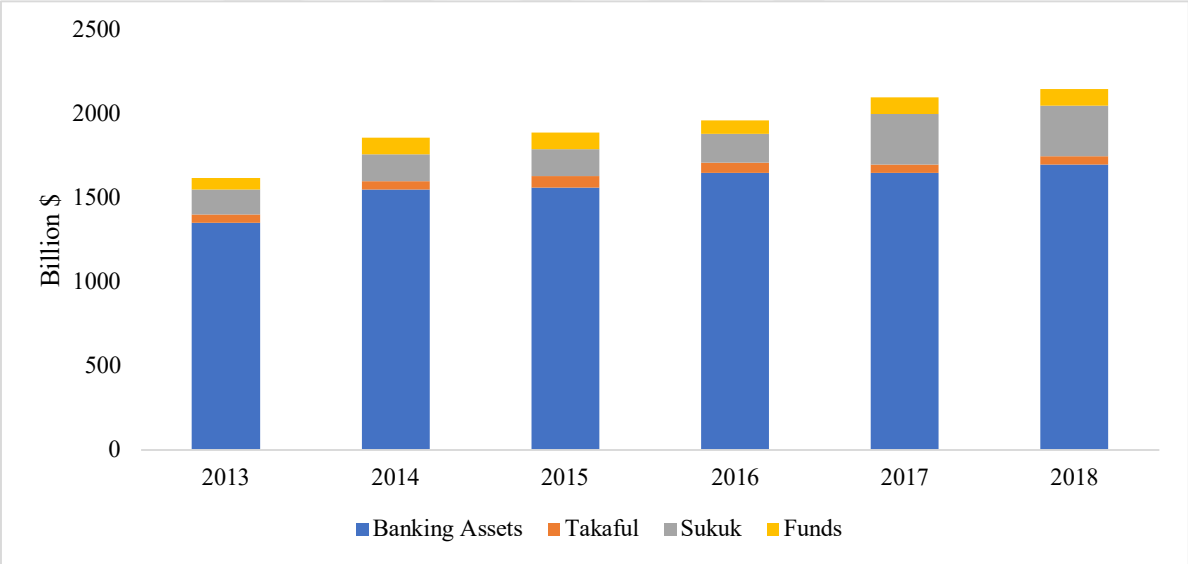
Islamic finance is one of the components of Islamic economics. It can be defined as equity-based, asset-backed, ethical, sustainable, environmentally, and socially responsible finance. It promotes risk sharing, connects the financial sector with the real economy, and emphasizes financial inclusion and social welfare (World Bank). Although Islamic finance is implemented according to the Islamic law of contract principles, it is not only limited to Muslims rather non-Muslim populations also implement it, such as the UK, USA, Luxembourg.

While the following principles guide this industry, the main thing is complying with the Islamic law of contract principles in every transaction, such as the prohibition of interest (*riba*), uncertainty (*gharar*), and gambling (*maysir*). Secondly, the moral values of society are needed to be respected during financial implementations. Engagement in immoral or ethically problematic businesses not allowed (e.g., arms manufacturing or alcohol production). Thirdly, Islamic financial institutions channel financial resources into the production of real values. Financing must be linked to real assets (materiality) in the Islamic financial system. Finally, all the returns must be linked to risks. They operate on a partnership

basis and do not trade money. The resulting profit or loss of a financial transaction based on trade is shared between the parties.

There are many components of Islamic finance such as Islamic banking, Islamic funds, sukuk, and takaful. As of 2018, the sectoral distribution of global Islamic finance is as follows; 71,7% Islamic banking, 24,2% sukuk, 2,8% Islamic funds, and 1,3% takaful (IFSB, 2019, p. 10). The dominant component is Islamic banking. Sukuk is the second important instruments of Islamic finance. Islamic funds come as the third place after sukuk. The last place is takaful, which is known as Islamic insurance. The common feature of these four Islamic finance complements, in general, is that they show improvement even at different levels and rates.

Figure 1: Islamic Finance Industry Growth



Source: Islamic Finance Outlook, S&P Global Ratings (2020)

This figure shows the change of components of Islamic finance over the years. Between 2013 and 2018, almost every component has shown growth at different levels in the Islamic finance industry all over the world.

The foundations of Islamic banking practices date back to the 1960s (Molyneux & Iqbal, 2005, p. 37). In a short time, it has attracted the attention of non-Muslim countries

along with the Muslim countries. Especially the economic situation of Gulf countries, which generates significant wealth from oil and natural gas production, has drawn the attention of western countries. Also, the deficiencies of the current financial system, the financial strength of Islamic societies, and the strong moral motivation of participation banking are the most important factors of the recent development of the Islamic financial system (Polat, 2009, p. 81).

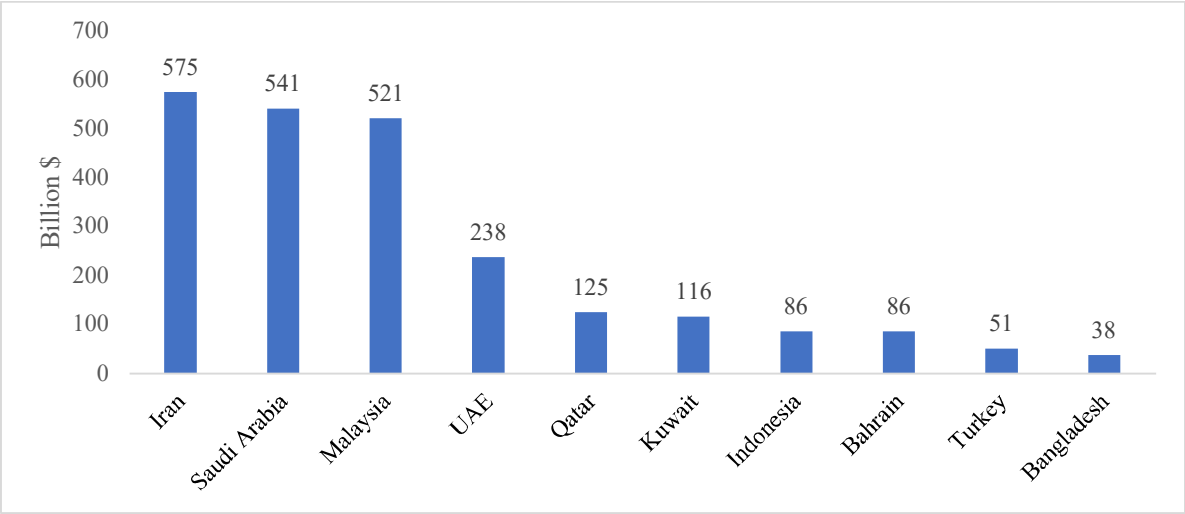
Islamic banking has taken the name of participation banking in Turkey. The first institution operating with the principle of interest-free was State Industry and Laborer's Investment Bank Ltd (Devlet Sanayi ve İşçi Yatırım Bankası - DESIYAB) which was established in 1975 as a development bank. After this first attempt, the participation banking activities started in 1985 under the name of private financial institutions. These institutions were included in the Banking Act (no. 4389) in 1999 and have earned bank identity. In 2005, with the Banking Act (no. 5411) the title of private financial institutions has changed to participation bank. As of 2020, there are six participation banks actively operating in Turkey. Three of them are run by the government; Emlak Participation Bank, Ziraat Participation Bank, and Vakıf Participation. The other three are privately owned, Albaraka Turk Participation Bank, Türkiye Finans, and Kuveyt Turk Participation Bank.

As of 2019, the share of participation banking in the financial sector is 6.3% in terms of the total assets (TKBB, 2020a, p. 122). This ratio could not go beyond the current situation in about 40 years in which participation banks have been operating. Turkey has a high potential of the participation banking system with the high Muslim population. However, the current numbers of Banking Regulation and Supervision Agency (BRSA) show that the market share of the participation banking in Turkey has not reached the desired and expected level. Many countries that have started the Islamic finance activities in the same period with Turkey have taken more progress such as Malaysia, Gulf Cooperation Council (GCC) countries.

PROBLEM STATEMENT

The Islamic finance system has attracted international attention and accelerated its growth in the 2000s. The services provided by Islamic finance institutions have started to be accepted and demanded internationally. The participation banking system has become more prominent with its resistance and flexibility in the 2008 global financial crisis.

Figure 2: Top Islamic Financial Markets in terms of Assets in 2018



Source: State of the Global Islamic Economy Report 2019/20

As of the year 2018, the existing Islamic finance market stands at $2.53 trillion in assets (DinarStandard, 2019, p. 54). The biggest share comes from Iran which has changed the financial system to interest-free finance (Ashraf & Giashi, 2011, p. 33). The second biggest player in terms of assets is Saudi Arabia and the third one is Malaysia. The Islamic finance industry is an important market for Turkey because of its young and dynamic population, developing economy, and the importance given to Islamic values. Despite all these, Turkey has the ninth-largest Islamic financial market.

The purpose of this study is to determine the main issues and challenges faced by the participation banking in Turkey and to propose solutions and recommendations. Determining the reasons which hamper the development and growth of participation banks help for further improvement. The number of studies that reveal the issues of participation banking from

multiple aspects is quite low, so this study aims to a make contribution to this missing part of the sector in the literature.

In this study, both qualitative and quantitative methods were used. A survey was conducted with the participation banking employees who constitute an important part of the participation banking sector. The issues and challenges of the participation banking were tried to be revealed from their perspective with this survey. Thus, the importance of the study comes from determining the issues and challenges of the sector through the perspective of the participation employees. While the primary data were obtained through the survey study, the current data of the banking sector are obtained from the authority institutions. The obtained information was analyzed with the statistical program called SPSS version 23.

RESEARCH OBJECTIVES

The main objectives of the thesis:

1. Exploring the issues and challenges that prevent further growth of the participation banking in Turkey's financial system.
2. Looking into the issues and challenges through the perspective of the sector itself is more helpful to provide solutions. With the survey in the study, these issues will be evaluated from the perspective of the employees of participation banks.
3. Formulating policy recommendations and suggestions to the participation banking to face these challenges and the policymakers and regulators to support and formulate policies regarding issues.

RESEARCH QUESTIONS

The main questions of the thesis:

1. Turkey has started its participation banking implementations at the same time with many countries, but why could not show the same improvements?
2. What are the main issues and challenges of participation banking in Turkey?

3. What are the solutions and recommendations to overcome these issues and challenges of participation banks and increase its market share in Turkish financial system?

STRUCTURE OF THE THESIS

The thesis consists of five chapters along with the introduction and conclusion.

The introduction contains the background of the thesis. In this section, general information is mentioned such as problem statement, research objectives, and research questions of the thesis as well as the structure of the thesis is explained.

The first chapter concentrates on the literature review. In the literature review, previous similar studies are reviewed, examined, and evaluated. The results obtained from these studies are presented.

In the second chapter, the outlook of the participation banking is discussed. The developments of Islamic finance in the world and Turkey are discussed, in addition to the principles and main instruments of participation banks.

The third chapter explains the issues and challenges of participation banking in Turkey. The issues and challenges that prevent the development of participation banks are expressed and explained under six headlines.

The fourth one is methodology part. In this section, the methodology of the thesis is elaborated, and information are given about the survey and the collected data.

The chapter five is focused on the findings and results. The results of the survey study are revealed.

The conclusion consists of suggestions and policy recommendations for the issues and challenges of participation banking and the thesis is completed.

1. LITERATURE REVIEW

1.1. INTRODUCTION

The main purpose of the literature review is to reveal the results and outcomes of the previous similar studies on the investigated subject. Thus, this chapter puts existing literature that relates to issues and the challenges that are facing participation banking in Turkey. Also, there are some studies about other countries that implement participation banking.

There are many studies in the literature about participation banking in Turkey. While some studies have examined the history of participation banking in Turkey, some of them have presented a comparative analysis with the conventional banking system. However, the studies regarding the issues and challenges of the participation banks through the perception of employees in Turkey are limited.

The collected and examined studies related to this thesis can be divided into three groups: the history of participation banking in Turkey, performance analyzes of participation banking in Turkey, and issues and challenges of participation banking.

1.2. THE HISTORY OF PARTICIPATION BANKING IN TURKEY

One of the oldest academic studies about the participation banking system was done by Bayındır (2005) in Turkey. In his study, the purpose, method, and sources of participation banking was explained in detail. Especially the fiqh perspective of the products and services of participation banks was discussed. Şahin (2007), Arabacı(2007), Yılmaz (2010), Fidancı (2011), Demir (2015), Topdağ (2018) studied the history of participation banking in Turkey. All these studies provided information regarding participation banks from the establishment to the methods of working. The overall result of these studies was that the participation banking system is an important complement to the Turkish economy. Another result of these studies was that participation banking is a financial system that has attracted attention since its establishment and has a high development and growth potential.

In another study, Bayındır (2015) examined money and capital markets within the framework of Islamic finance. In the study, it was emphasized that the products used in the Islamic financial markets are not much different from the interest-based products and that more specific products are needed for Islamic finance. Similarly, Dede (2017) emphasized that with the development and growth of participation banks, the importance of treasury products and capital market products has emerged for liquidity management. In the study, existing products for liquidity management were examined, and it was stated that new products are needed due to the rapid growth of participation banks. Kazancı (2019) examined the relationship of the central bank which the largest monetary policy authority in the country with participation banks. In the study, the changes made for the participation banks to be able to make transactions in the money and capital markets were specified, the deficiencies and solution suggestions required for the future were presented.

1.3. PERFORMANCE ANALYZES OF PARTICIPATION BANKING IN TURKEY

In recent years, the studies on performance analysis of participation banking system as a master's and doctoral thesis/ dissertations at universities have increased.

Kaya (2010) studied the general situation of participation banks and growth of them in terms of efficiency in the whole financial system between 2003 and 2008. The result of the study expressed that the participation banks showed stable and healthy growth in the financial system in this period. Similarly, Doğan (2013) and Sanna (2014) compared the performance of participation banks and commercial banks in Turkey between 2006-2011 and 2010-2012. According to the findings, the participation banks showed lower performance in terms of management quality, liquidity status, and their stabilizing duties in the system but higher performance in terms of sensitivity to market risks. In another study, Coşan (2016) evaluated the efficiency of participation banks in Turkey in terms of corporate and commercial banking between 2011 and 2015. The conclusion of the study stated that the survival of the participation banks with their dynamics during the crisis differs from that of conventional banks. Because of this reason, they can make great gains in the long term in the

field of corporate and commercial loans. Also, Erol, Baklacı, Aydoğan, and Tunç (2014) mentioned the history of participation banking in Turkey and reached a similar conclusion about better performance of participation banks in earnings, asset quality, and foreign currency liquidity ratios. As a similar study, Karapınar, and Çağrı (2015) compared the performance of participation banks and conventional banks. The study revealed that participation banks performed better performance in terms of risk, but they were not efficient about liquidity and management the period between 2006-2011. All these studies analyzed the performance of participation banking in certain periods and revealed the shortcomings and strengths of this system.

Avcı (2017), in his study, compared the performance of participation banks and investigated the financial ratios that influence their performance in the Islamic countries between 2011-2015. The study summarized that along with Qatar and Malaysia, Turkey is one of the countries which has an efficient participation banking system. In another study, Güneş (2014) and Özdemir (2014) investigated the efficiency of participation banks in Turkey and Malaysia between (2011-2013) and (2008-2012). The result of the study showed that there is a huge difference between Turkey and Malaysia in terms of the efficiency of participating banks. The reasons for this difference are the lack of research centers on Islamic finance and insufficient promotion. Although Turkey shows great development in Islamic finance, Malaysia is far ahead of Turkey in many indicators. Similarly, Sürücü (2018) compared the current situation of Islamic finance in Malaysia and Turkey. He stated that the journey of Islamic finance in both Malaysia and Turkey has started at the same time, but Malaysia has made much more progress. Through establishing the required laws and institutions, support from the central bank and government are particularly important to make progress. These studies which compare the countries based on their participation banking implementations show that Turkey is behind many of them.

1.4. ISSUES AND CHALLENGES OF PARTICIPATION BANKING

Öztürk & Eken (2019), in their study, emphasized that the current finance theory is not constructed according to the profit and loss partnership structure. This situation causes

the profit loss partnership system to move away from the ideal structure and is one of the most important obstacles to the development of the participation banking system.

Zaim (2010) provided information about the history and developments of the participation banking system and its working principles. He explained that the member states of the Organization of Islamic Cooperation (OIC) implement participation banking with two different models: the first one is building a new economic and financial system in the context of Islamic society; the second one is integrating Islamic finance into the current secular financial system. For both models, he summarized the faced issues and challenges in the system as follows; inadequate explanation of the theory of Islamic finance to the society by Islamic scholars, incorrect application of models, shortcomings of executives working in these institutions, lack of political will of the governors of the member countries, the disintegration of the Islamic world. Akten Çürük (2013) examined the development of Islamic finance in Turkey and the existing problems of the system. According to the results obtained, the issues faced by the system are grouped under five headings. They are (i) an independent law regarding the functioning of participation banks, (ii) advisory board, (iii) Islamic finance education in the universities, (iv) interdisciplinary collaboration, (v) a transparent structure and confidence. Also, Ayrıçay, Ada, and Kaya (2013) studied the barriers to the growth of participation banking in Turkey as a field study. They listed the problems and barriers faced by participation banking as follows: lack of quality customer service, low effectiveness of the services provided, high cost, deficiency in new product development, insufficient internet banking, inadequate state promotion. In another study, Kutval (2014) analyzed the development of participation banking in Turkey. The findings of the survey which was done in the study showed that there is a lack of awareness about the participation banking system in the society.

Özdemir and Aslan (2015) also investigated the development of Islamic finance in Turkey with a survey study. Their primary findings demonstrated that there is a need for a central Shariah board, takaful, and micro takaful markets. Also, Islamic finance institutions need to express themselves more clearly to society. In the other study, Yanıkkaya and

Pabuççu (2017) examined the reasons for the stagnation of Islamic finance in Turkey. In the study, Shariah governance, instrument variety, perception of Islamic finance, and lack of academic study and institutions are emphasized. Kızılkaya (2012) discussed the Islamic banking and fiqh issues in the modern period and stated that what needs to be done is to reconsider the fields of economy and finance with the framework of morality and the Islamic law of contract principles, and these issues should be evaluated together with the view of human and universe, the social, political, economic and legal dimensions of Islam. As a similar study, Soysal (2019), in his study, examined the importance of Shariah governance, the current management structure of the countries which implements Islamic banking, and the governance standards set by international institutions such as AAOIFI and IFSB. The summary of the study was that the first step related to regulations of Shariah compliance management for the participation banks in Turkey was taken in 2018 by the government, but with these arrangements, Turkey is among the countries with the optimal regulations in terms of Shariah governance. Avşar (2019) investigated the relation between AAOIFI accounting standards and international accounting and financial reporting standards through measuring the compliance of financial statements of participation banks in Turkey with AAOIFI accounting standards. The results of the study show that the level of compliance with AAOIFI guidelines regarding general presentation and disclosure in the financial statements of participation banks in Turkey is lower than the compliance achieved by the Islamic banks in Bahrain.

Also, Güney (2015) revealed the practices of Shariah governance in Islamic finance and also overviews the debates about Shariah governance. In the study, advisory boards within Islamic financial institutions stand out. Transparency, efficiency, and independence of these advisory boards are emphasized. Another study about advisory boards is done by Kartal (2019). This study examined the communiqué published about advisory committees and compliance with Islamic banking principles and standards in Turkey. These studies attracted attention to Shariah compliance management in the participation banking system and revealed the deficiencies related to Shariah compliance and governance.

Savaşan, Saraç, and Gürdal (2013) investigated the demand side issues of participation banking in Turkey. The findings of the study showed that there are four types of challenges which are the implementation of the Islamic law of contract principles, competition with conventional banks, lack of law and regulations and human capital, and corporate governance. Egresi and Belge (2017) also, in their study, analyzed the population perception and development challenges of participation banking in Turkey. According to the conclusion of the study, people chose their bank based on financial advantages, financial products, and quality of the services they received. As a similar study, Katırcı (2019) investigated the reasons of customers to rationalize their bank preferences. The result of the study showed that individuals prefer conventional banks due to reasons such as lack of information and suspicion about the transactions of participation banks.

Çidem (2020), in his study, brought together the criticisms and discussions of participation banking in Turkey. The discussions can be listed as follows; being close of profit share rates and interest rates to each other, continuous profit distribution of participation banks not to distribute losses, looking at the participation banking system from different perspectives, similarity to the conventional banking system, and needing a participation insurance system. Another similar study is done by Arslan (2018). With this study, it is stated that there is a problem of trust in society because of the lack of central advisory board. In addition, shortcomings in legal regulations, narrow product range, and lack of capital are other criticisms. Similarly, Yıldız (2017) also examined the existing problems of participation banks. In addition to the results of the previous study, it emphasized that conventional banks are less costly than participation banks, and there is a lack of advertising and promotion about the participation banking system. Also, Bozkurt (2018) pointed out the different decisions made in the advisory boards within the institutions such as military service by payment, the lack of legal infrastructure and the lack of expert personnel as main issues in the participation banking system. Duramaz (2016) also, noted the competitive weakness of participation banks against conventional banks, low level of awareness about the system, and deficiency of Islamic auditing as major criticisms. Similarly,

Kelleroğlu (2017) stated that the participation banking system could not be fully explained to society and pointed out the similarity with conventional banks.

On the other hand, there are similar studies for other countries where participation banking is implemented. Zamil (2014) investigated the problems and challenges faced by Islamic banking in Malaysia. The study focused on four main issues which are Shariah compliance, legal and regulatory frameworks, auditing and accounting practices, and management. Similarly, Alamgir, Hossain, and Faisal (2017) overviewed the issues and challenges of Islamic banking in Bangladesh. The study showed that the main problems are legal and regulatory framework, Shariah compliance, lack of skilled professionals, lack of awareness about Islamic banking in the society, and liquidity management. Also, Abdi (2014) focused the awareness, perception, challenges, and opportunity of establishing the Islamic finance system in Somalia in his study. According to this study, lack of regulator and financial institutions, lack of qualified Islamic banking personnel, and the absence of a Shariah advisory board are the main issues and challenges of Islamic banking in Somalia. Another study about Somali was done by Hassan (2017) and the results were almost similar. Along with the previous study's results, poor financial literacy, the disparity in account standard, absence of liquidity instrument, competition challenge, and inappropriate institutional framework are the additional problems of Islamic banking in Somalia.

These studies on participation banking are particularly important in terms of creating literature specific to this field. This study intents to contribute the literature about the present issues and challenges of participation banking in Turkey from the perspective of the participation banks' employees.

2. THE OUTLOOK OF PARTICIPATION BANKING

2.1. INTRODUCTION

It has been almost 60 years since the first implementation of participation banking in the world (Molyneux & Iqbal, 2005, p. 36). This system, which is used by Muslim countries as well as non-Muslim societies, has specific operating principles. This section will focus primarily on these principles. The instruments which are used by participation banking are demonstrated and the current situation of participation banking is going to be examined. Finally, the history of participation banking is going to be discussed.

2.2. PRINCIPLES OF PARTICIPATION BANKING

In Islamic law, there are two important sets of rules. The first one is *ibadah* (worship) which covers the relationship between people and Allah. The second one is *muamalat* (dealings) which covers the relationships among people in the society (Alrifai, 2015, p. 100). The source of both sets of rules is the Qur'an and Sunnah. While *ibadah* requires sincerity, rationality and ijtihad are important for *muamalat*. Also, Islamic finance takes its basic principles from the Islamic law of contract which is known as *muamalat*.

The main objective of the Islamic law of contract principles is to create a fair system by protecting the rights of financially poor people in society. Justice means treating people in a way that does not harm others and creating a fair environment among people. The emphasis on justice in Islam makes all parties of a contract informed decisions and do not mislead each other. One of the ultimate goals of participation banking is to achieve this justice.

Another important objective is to ensure equality in society. Islam encourages individuals to pursue personal economic well-being, but within the allowed commercial activities. Increasing the welfare of the general society by ensuring equal rights of individuals

is among the main purpose of these rules. In other words, caring the society is more prominent than the individualist approach according to the Islamic law of contract principles.

2.2.1. Main Prohibitions in Islamic Finance

The main prohibition in participation banking is involving interest. Interest (*riba*) can be defined as any return on money that is predetermined in amount whether large or small amount. In all religions, cultures, philosophies, and ideologies, the legitimacy of interest has been discussed and almost all of them have banned, but today Islam can be said as the only religion that tries to enforce the prohibition of interest and continues to apply it (İstekli & Ustaoglu, 2019, p. 348).

In the Qur'an, interest is mentioned as *riba* term. Interest can involve not only in monetary activities but also in other commercial activities as well. Therefore, there are different types of interest. *Riba al-nasiah* is the type of interest that arises from delayed or postponed payment. *Riba al- fadl* is the type of interest arising from the difference in the change of goods in terms of the quality or an excess in the exchange of ribawi goods in the case of a single genus on both sides. (Ayup, 2007, p. 493).

The main reasons for the prohibition of interest are socio-economic justice, intergenerational equity, and distortion of economic stability. Interest affects not only the borrower but also the lender. Especially in developing countries, this negative impact is more severe with the effect of irregular inflation (Molyneux & Iqbal, 2005, p. 32). Interest, while creating uncertainty in the economy, causes the inefficient distribution of resources. With the prohibition of interest, the accumulation of wealth in the hands of a certain segment whether people or institutions are prevented. Islam encourages individuals to turn the remaining money into an investment after spending part of their income as much as they need. Zakat appears as a regulatory task when individuals do not turn their idle money into investment(Askari, Iqbal, & Mirakhor, 2009, p. 266). Likewise, the interest prevents individuals from involving in production activities that are beneficial for both themselves

and society and opens a door to have additional money without contributing added value to the economy.

The prohibition of interest is the main difference of participation banking from conventional banking. However, the prohibitions are not limited only with interest. Another major prohibition under the Islamic law of contract principles is uncertainty (*gharar*) (Venardos & Abdul Rashid, 2010, p. 150). Uncertainty can be defined as a person's knowingly or unknowingly endangering himself or his property. Asymmetric information problem arises because of uncertainty. There are two kinds of uncertainty. The first one is *gharar fahish* which means severe uncertainty. The second one is *gharar yasir* which means moderated uncertainty (Md Akhter, 2015, p. 3). Uncertainty is inevitable in commercial activities. The point to be noted is the size of this uncertainty. The current uncertainty should be reduced by clarifications in the contracts as much as possible.

Another prohibition is gambling (*maysir*) (Balala, 2011, p. 25). Gambling can be defined as getting easily available wealth or acquisition of wealth by chance. In other words, one gains at the cost of others (Ayup, 2007, p. 62). Daily business activities also involve some risks such as entrepreneurial risk, the possibility of natural disasters and calamities, etc. Therefore, the risks in gambling and in inherent of commercial activities should not be confused with each other. Causing loss to someone with the results that others benefit is prohibited. A lottery is an example of that. For the winner of the lottery, there is an unfair gain without any liability or doing work, which is prohibited by the Islamic law of contract.

It is seen that the foundations on which participation banking is built are not only considering economic and financial development but also the welfare, justice, and morality of the society.

In addition to the prohibition of interest, uncertainty, and gambling, the Islamic law of contract principles has set some ethics and norms for conducting economic and financial activities. Justice is primarily at the center of financial activities. The business rules apply to

everyone without exception. Business partners need to avoid harshness with each other and be gentle with other parties and stakeholders.

Information is important in the financial transactions for every side. Misleading marketing activities, changing information, or not clearly disclosing to all sides of the transaction are prohibited. Parties of financial activities are responsible for each other. The statements in the contract must be fulfilled as agreed. The parties should cooperate and overcome the difficulties they face together.

The Islamic law of contract principles orders fair pricing. Economic activities cannot be restricted, and market entrances and exits are free. The balance of supply and demand is determined by market forces. The market mechanism also operates within the framework of certain rules and ethical principles because community justice and equality are the most important issues.

2.2.2. Differences Between Conventional and Participation Banking

In the changing and developing world conditions, financial transactions have become a need for individuals in society. It is important for Muslims to perform such transactions in permissible ways. Although both the conventional banking and the participation banking meet in common terms in terms of function, their working methodology, implementations, and the financial instruments are different from each other.

2.2.2.1. Risk Sharing

There are many methodological differences that distinguish the participation banking from the conventional banking. Risk sharing is one of them (Ainley, Mashayekhi, Hicks, Rahman, & Ravalia, 2007, p. 5; Iqbal, Ahmad, & Khan, 1998, p. 15). In the conventional system, all risks between the investor (fund provider) and the entrepreneur (fund user) are transferred to the entrepreneur. The profit or loss of the project where the fund will be used is not important because the investor gets his money back with a predetermined interest rate.

Unlike the conventional banking, the participation banking eliminates the injustice and offers a fair risk share between the investor and the entrepreneur.

2.2.2.2. Credit Worthiness

Another important difference is the creditworthiness (Iqbal et al., 1998, p. 16). For a client to use funds in the conventional system, creditworthiness is firstly considered. Besides, timely repayment of borrowed money is also important. It is unnecessary to know where the money is to be used and for what purpose. However, in the participation banking, the project in which the money will be used is explained to the bank in detail. The efficiency of the project is more important since the bank will only make a profit if the project is successful. In cases where the bank concerned with the credibility and profitability of the project, and not the creditworthiness of the borrower, the funds are not collected only in large multinational organizations. So, small, and medium-sized entrepreneurs can have equal conditions with large entrepreneurs in the participation banking system.

2.2.2.3. Moral Dimensions of Financial Activities

The moral dimension of the financial activities carried out in participation banking is also important. All financial institutions work concerning moral values (Iqbal et al., 1998, p. 17). Participation banks cannot deal with commercial activities that harm human health and lead to unfair gains. They cannot support the production and trade of substances considered haram. The funds provided by the bank cannot be used for non-Shariah compliant activities such as alcohol, gambling, pornography, etc. They cannot contribute to illegitimate activities and transactions that are unfair and cause harm to someone else.

2.2.2.4. Stability

In the conventional banking system, mostly debt-based contracts are used, and the risk is transferred between the contract parties. However, in participation banking, asset-based contracts are commonly used, and the risk is shared between the parties of the contract. Besides these, maintain higher liquidity and profit/loss-sharing nature of investment deposits

make participation banking system and their activities more closely related to the real economy. In this manner, participation banks tend to reduce their contribution to excesses and bubbles (Hasan & Dridi, 2011, p. 33). For example, in the conventional system, there is an asymmetry between the cash flow of banks and the cash flow of enterprises. In case of any recession or failure of a project, the entrepreneur must pay a stipulated interest repayment to the bank because the bank does not concern the actual return of the project. Or the bank must pay a predetermined return to the depositor because the liabilities of the bank are fixed. There is an imbalance between the assets and liabilities of the bank. However, in the participation banking system, the liabilities of the bank are variable along with the assets because the transactions are done based on *mudarabah* or *musarakah*. Thus, when there is any recession or external shock, while the assets of the bank will decrease, the liability of the bank decreases as well because the bank does not guarantee even the principal money. Because of the interrelations of assets and liabilities in the system, the system does not allow imbalance (Molyneux & Iqbal, 2005, p. 34). Thus, the risk of instability is reduced.

2.2.2.5. Effecting Real Economy

Participation banking finance the projects or investments that do not produce negative externalities to society. With the risk-sharing principles, society is encouraged to be productive. Promoting morally acceptable projects becomes an advantage especially in local environments, in low- and middle-income countries. Thus, the participation banking system is positively related to economic growth (*Glob. Rep. Islam. Financ. 2016 A Catal. Shar. Prosper.*, 2017, p. 68).

2.3. INSTRUMENTS OF PARTICIPATION BANKING

The main feature of participation banking is working with interest-free principle. There are different types of contracts that are used instead of classic loan contracts in the conventional banking system. Islamic modes of finance, as a general framework, can be divided into four groups which are a partnership in profit and product, commodity finance, leasing, agency agreement (Al-Jarhi, 2019, p. 323).

The most commonly used contracts are labor-capital partnership (*mudarabah*), cost plus profit financing (*murabahah*), partnership financing (*musharaka*), leasing (*ijara*), forward sale (*salam*) and construction financing (*istisna*) (Alrifai, 2015, p. 126).

2.3.1. Labor-Capital Partnership (*Mudarabah*)

Labor-capital partnership contract is one of the important contracts used in participation banking. Its functioning is simple. A party contributes its money or investment property. The other party is responsible for evaluating this money or investment property with the Islamic law of contract principles. The generated profit of the investment made is shared between the parties at predetermined rates. In the event of loss, the owner of the money bears to the entire loss because the other party has no capital contribution but the time and labor force.

2.3.2. Cost Plus Profit Financing (*Murabahah*)

Cost plus profit financing is the most used contract globally by participation banks. Also known as deferred payment financing. The buyer goes to a participation bank after choosing the goods or services to buy. The bank buys the product for the buyer and sells the property to the buyer by adding profit above the cost price and dividing it into installments. There is almost a consensus among Shariah scholars that the credit price of a commodity can genuinely be more than its cash price (Ayup, 2007, p. 89). The important point is that the buyer aware of the profit due to the installment payment. This situation is acceptable within the Islamic law of contract principles.

2.3.3. Partnership Financing (*Musharakah*)

Partnership financing is one of the contracts where risk-sharing comes to the fore. This is made up of two or more parties coming together. All parties of the contract contribute capital. The profit or loss incurred is shared between the parties in proportion to the capital. In some cases, one of the parties that contributes the same amount of capital can receive more

profit. This is because that party spends more labor or experience in the implementation part of the project. In this case, profit sharing is made in line with the predetermined rates.

2.3.4. Leasing (*Ijarah*)

Another contract frequently used in participation banking is leasing. It is a contract for the transfer of ownership of a usufruct for compensation. One party leases the right of use of the property or asset it owns to another party. Leasing contracts are classified based on various considerations such as the subject types, the specification of the subject matter, the time the contract becomes effective, the bindingness, and the contractual relationship (ISRA, 2016, p. 238). Its difference form sale contract is that leasing is a sale but only of the usufruct while sale contract is a transfer of the corpus.

2.3.5. Forward Sale (*Salam*)

The most important point that distinguishes forward sale contract from other contracts is that the money is paid in advance, goods or products are delivered after a while. It is often used by agricultural workers who need financing. For example, the farmer needs money to start an agriculture-based business. The participation bank guarantees the purchase of the farmer's product and makes the payment. The farmer who takes the money starts production and delivers the product to the bank after harvesting it. In this contract, the bank makes a profit by getting the products cheaper than market value. The farmer gets the opportunity to produce when he has no money. It is important to determine the quantity, quality, and delivery date of the product to be produced in advance.

2.3.6. Construction Financing (*Istisna*)

Construction financing contract is largely like the forward sale contract. The difference is that this contract is used frequently by the construction sector, not in agriculture-based business. A landowner wants to build a house but does not have money. The bank negotiates with a manufacturer who can make a house and buys the house. When the process

is completed, the bank adds capital plus profit and sells the house to the landowner in installments. The profit of the bank comes from the installment payment.

2.4. HISTORY OF ISLAMIC BANKING

The basic dynamics of Islamic finance, which is applied all over the world today, emerged with the birth of Islam. The Qur'an and Sunnah are the most important information source of this system, the methods used in the past also help shape the Islamic finance system.

The promotion of Islamic banking can be connected to three reasons. The first reason was the need for Muslims who would not want to put their money into an interest-based financial system. The second reason was the oil revenues of the 1970s which were often described as petrodollars. The final reason was the rapid industrialization and urbanization with the gained freedom from years of colonialism (ISRA, 2016, p. 113).

2.4.1. Milestones of Islamic Banking

The Islamic finance system which was established at the beginning for agricultural activities in Egypt has turned into a large, international systematic (Orhan, 2018, p. 89). Although it was firstly implemented in Muslim countries, it managed to attract the attention of Western countries as well.

The Islamic financial system is the result of the efforts of Islamic scholars and organizations to eliminate interest from the economic and financial system. Mit-Ghamr Social Bank which was established in Egypt in 1963 is considered the pioneer of the formation of contemporary Islamic banking and finance. The founder of the bank was Ahmed Al-Najjar. He influenced by Germany saving banks (Orhan, 2018, p. 89). Then, he combined the Germany savings banks with rural banking and Islamic values. The purpose of the bank was to circulate the savings of Muslim people within Shariah principles. The partnership was the foundation of all activities of the bank. Most of the credits were used for rural needs so the bank can be called a rural bank (Orhan, 2018, p. 94). The bank had achieved quite good

success with social support. However, it was closed in 1967 because of some political and legal reasons.

In the same year, Tabung Haji was established by the Malaysian government for the people who want to go on pilgrimage in Malaysia. It is an institution that provides various facilities which are comprehensive and systematic for the welfare of pilgrims. Other than hajj, investment and savings management are important services of this institution. People deposit their savings into this institution, and they are invested in Shariah-compliant investment to generate sustainable and competitive returns.

The conferences that brought together the finance ministers of Islamic countries in Saudi Arabia in 1973 and 1974 were important for shaping the contemporary Islamic financial system (Molyneux & Iqbal, 2005, p. 37). The intent of establishing the Islamic Development Bank (IsDB) was explained in the first conference and the articles of agreement were accepted by the finance ministers of Islamic countries in the second conference. As a result of the conferences, IsDB, the first high-level financial institution in the world, was established in 1974 started functioning in 1975. The main purpose of the establishment of this institution is to assist the development of the economies of the member states and non-member countries within the framework of the Islamic law of contract principles (IsDB, 2013, p. 1).

By the end of the 1970s, the Islamic financial system became very noticeable worldwide. The most important reason for this was the economies of the Gulf countries which were enriched because of natural gas and oil production. The petrodollars held by the rich Gulf countries attracted the attention of non-Muslim countries (Askari et al., 2009, p. 37). As a result of this interest and relevance, many Western banks tried to integrate into Islamic finance by opening Islamic windows or issuing alternative interest-free products to their interest-based products to obtain the funds held by Muslim countries.

The Islamic finance movement gained momentum in the late 70s and 80s. In Islamic countries, interest-free financial institutions became widespread. Interest-free products were introduced which could be an alternative to interest-based products. In addition to these developments, countries like Pakistan (1981), Iran (1983) and Sudan (1984) left the interest-based financial system and switched to the interest-free finance system. This decision affected not only these countries, but also the countries they cooperated with and even international organizations such as IMF and World Bank (Askari et al., 2009, p. 39). They have made contributions to Islamic finance through research. Special units of the World Bank executed several Shariah-compliant transactions and provided a guarantee for Shariah-compliant project financing.

In 1990s, complementary institutions of Islamic finance such as standard-setter were established. In 1991, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in Bahrein to form and issue accounting, auditing, governance, Shariah standards, and ethical thought for Islamic financial institutions.

In 2001, the General Council for Islamic Banks and Financial Institutions (CIBAFI) had established in Bahrain. The responsibilities of this OIC affiliated institution are to cooperate among Islamic financial institutions in order to increase the market share of Islamic finance in the global financial sector, advocacy of Islamic finance values, related policies, regulations, and increasing research, innovations, professional empowerment about Islamic finance.

The Islamic Financial Services Board (IFSB) is an international standard-setting organization that promotes and enhances the soundness and stability of the Islamic financial services industry. It was established in 2002 in Malaysia. The mission of the institution is enhancing the stability and wellness of Islamic finance which includes banking, capital market, and insurance with the help of new or existing international standards consistent with Islamic principles.

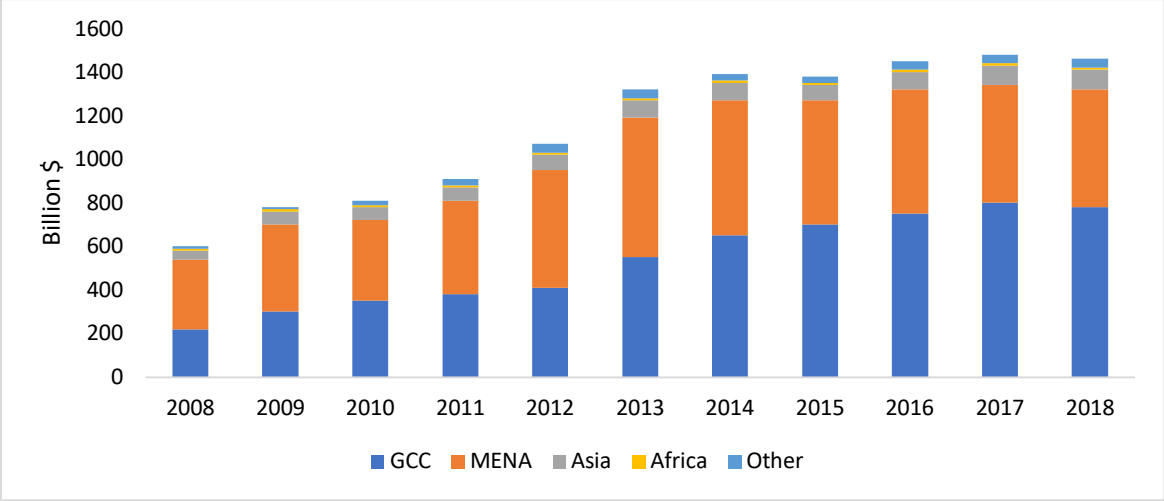
Table 1: Historical Development of Islamic Banking Products and Services

Period	**Before 1970s**	**1970s**	**1980s**	**1990s**	**2000s**
Developments	The Emergence of Islamic Banking	Increase in Oil Prices Limited Increase in the Number of Islamic Banks	New Interest-Free Financial Institutions New Interest-Free Finance Products Geographic Expansion	Increase in Growth Rates Expansion in Retail Banking Increase in Product and Service Types	Growth in the Market Globalization
Product and Services	Basic Retail Banking Services	Commercial Banking Services	Takaful Project Finance Commodity Financing	Investment and Securities Funds Sukuk Interest-Free Securitization Leasing Ijara	Advanced Treasury Services Innovative Portfolio Management Services
Company	Islamic Banks		Takaful Companies Interest-Free Investment Companies		Interest-Free Investment Banks Asset Management Companies
Region	Gulf and Middle East		Asia Pacific and Turkey		Europe and America

Source: Yaşayan ve Gelişen Katılım Bankacılığı (2019, p. 107)

Table 1 summarizes the historical development of Islamic banking all around the world.

Figure 3: Islamic Banking Assets 2008-2018



Source: Islamic Financial Services Industry Stability Report 2019

By the 2000s, Islamic finance has reached a remarkable size in the world as well as in Turkey. When it is examined regionally the biggest contribution in terms of Islamic banking assets comes from GCC countries as shown in figure 3. In these countries, the Muslim population and oil revenues of these countries are the important factors. For the second place, the Middle East and North Africa (MENA) (ex-North Africa) region follows GCC. Asia region comes in third place. In this region, Malaysia, where Islamic finance is applied extensively, makes a serious contribution. In addition, each region has increased its volume in the sector compared to previous years.

2.4.2. Participation Banking in Turkey

Islamic finance development of Turkey had started with the establishment of DESIYAB in 1975 (Polat, 2009, p. 87). Its headquarters was Ankara and was affiliated with the ministry of industry and technology. The capital of the bank has consisted of stocks of three groups which were owned by the treasury and various institutions of the state. With this capital, the bank worked to accelerate industrialization with savings, based on the principle of profit and loss partnership (Resmi Gazete (15425), 1975). After 1978, it left the interest-

free working principle. In 1988, it became subject to the new regulations and the name was changed to the Development and Investment Bank of Turkey.

1980s are shown as liberal economic transition years in Turkey. There were significant changes in the economic policies and structural reforms such as liberalization and privatization (Kepenek, 2011, p. 71). During this period, Turkey experienced a serious transformation in the economy, has issued regulations supporting entrepreneurs and exporter. In addition, studies on the infrastructure of participation banking have been intensified during these years (Kızılkaya, 2012, p. 141). Government intervention in the market was restricted and a freer economy was created. These initiatives also had implications for the financial sector. There were some reasons for this. Firstly, it was the purpose of evaluating the idle savings of people who have interest sensitivity Another aim was to attract the wealth that came from Gulf countries after increasing the oil prices.

After DESIYAB, the period of private financial institutions (PFI) began in Turkey. Islamic finance initiatives that have gained importance across the world, began in Turkey at a similar time. With the decision of the Council of Ministers (no. 83/7506), in 1983, the establishment permission of PFI was granted (Resmi Gazete (18323), 1984). While these institutions are called Islamic banks in many parts of the world, they were called as a private financial institution in Turkey. In 1999, they were included in the Banks Act (No. 4389) in 1999. PFIs that operate in Turkey were Albaraka Turkish Private Finance Corporation (1985), Faisal Finance Institution (1985), Kuwait Turkish Private Finance Corporation (1989), Anadolu (1991), Ihlas Finance Corporation (1995) and Asya Finance (1996).

In 2001, the Union of Private Financial Institutions was established. In this period, PFIs organized many meetings and publications to inform society and aimed to raise public awareness about participation banking.

The 2001 crisis has been a serious test for the PFIs. Ihlas Finance was severely affected by the crisis and its operations were suspended with the decision of BRSA in 2001

since it could not fulfill its financial obligations. Liquidity congestion, eroded depositor confidence, poor management, lack of official support, and weak regulatory system for PFIs are shown as the reasons behind the insolvency of Ihlas Finance (Ali, 2007, p. 30). The bankruptcy of Ihlas Finance, which was the most important player of PFIs as of the period, caused a problem of trust towards these institutions. Many of the above bankruptcy factors had also affected other PFIs in the sector. As a result of the unease occurring throughout the sector, an assurance fund established for these institutions within the Union of Private Financial Institutions in 2001 (Resmi Gazete (24416), 2001).

With the political change that took place after the general elections held in 2002, the PFIs caught development momentum. This change was the breaking point for the future of these institutions. Islamic finance has been taken into consideration and started to take place in the government's economic and financial programs.

In 2005, with the Banking Act (no. 5411), the title of the institution in the sector was changed from "Private Financial Institution" to "Participation Bank" (Resmi Gazete (25983), 2005). This change was welcomed by the players of the sector because the concept of the private financial institution, which was used from its establishment until 2005, caused some misunderstandings both in Turkey and abroad. The word "participation" in the new title refers to the work of these institutions on the principle of participation in profit and loss.

With the same Banking Act (no. 5411), the name of the Union of Private Financial Institutions was changed to the title of the Participation Banks Association of Turkey (PBAT) (Resmi Gazete (25983), 2005). PBAT defines itself as follows: The Participation Banks Association of Turkey works to raise the market share of the participation banking sector to 15% by 2025 and to deliver world-class financial products and services. Its headquarters is in Istanbul. It aims to defend the rights and interests of participation banks within the framework of the principles of a free-market economy and perfect competition, to ensure and implement the necessary decisions for healthy operation and development of the banking

profession, to increase competitiveness and to prevent unfair competition, and to demand its implementation(TKBB, 2020b).

In December 2013, the Participation Banking and Interest-Free Finance Workshop was organized in cooperation with BRSA and PBAT(BDDK & TKBB, 2013, p. 2). The workshop helped to attract the attention of the public to participation banking. Participation banking, with the contribution of academicians, practitioners, and regulatory agencies, has been extensively studied. With this workshop, it emphasized that the participation banking in Turkey has become a social need and demonstrated the system's shortcomings in Turkey.

In 2015, the first state-owned participation bank Ziraat Participation Bank, in 2016 the second state-owned Vakıf Participation Bank, and in 2019 Emlak Participation Bank were opened. The opening of these three banks shows that the government aims to enter the sector as an actor and targets permanence for the development of the participation banking system.

In 2016, the operating license of Bank Asya was canceled by the Savings Deposit Insurance Fund (SDIF) and it left the sector (Resmi Gazete (29779), 2016). The market share of participation banking decreased with the separation of this bank from the sector.

In 2018, the Central Advisory Board has been established within the body of PBAT. It was an important move to eliminate the differences among fatwas comes from different Islamic scholars and Shariah boards within the participation banks.

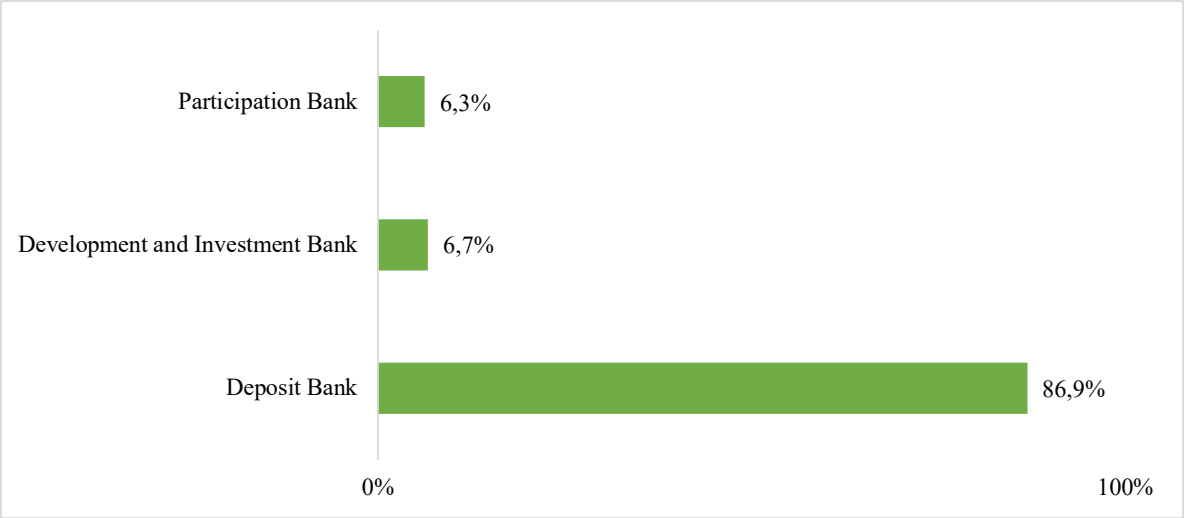
Table 2: Milestones of Participation Banking in Turkey

	Milestones of Participation Banking in Turkey
1975	Establishment of DESIYAB
1983	Giving legal activity permission of PFI
1984	Opening of first PFI – Albaraka Turk Participation Bank
1999	Subjecting PFIs to banking law
2001	Establishing the Union of Private Financial Institutions
2005	Chancing from PFI to Participation Bank, Chancing from Union of Private Financial Institutions to Participation Banks Association of Turkey (PBAT)
2018	Establishment Central Advisory Board
2019	Establishment of third state-owned participation bank Emlak Participation

Source: PBAT (2020), COMCEC (2020)

As of 2019, the shares of participation banks in the Turkish banking sector in terms of assets is 6.3% (TKBB, 2020a, p. 122). There are six participation banks operating in the sector which 3 of them owned by the government: Vakıf Participation, Ziraat Participation Bank, and Emlak Participation Bank. The private participation banks are Albaraka Turk Participation Bank, Kuveyt Turk Participation Bank, and Türkiye Finans.

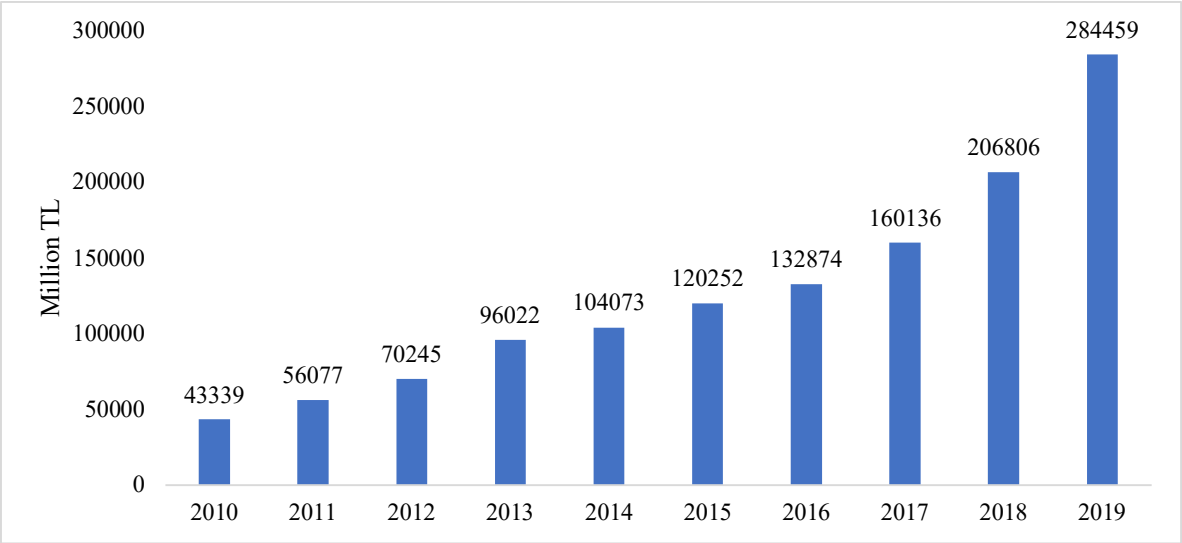
Figure 4: Shares in Assets in Turkish Banking Sector 2019



Source: PBAT, 2020

Participation banks in the Turkish financial sector have a 6.3% share in terms of assets as shown in figure 4. This share relatively small to deposit banks which have 86.9% of the finance sector. Thus, participation banks are in third place after deposit and development and investment banks in the Turkish financial sector.

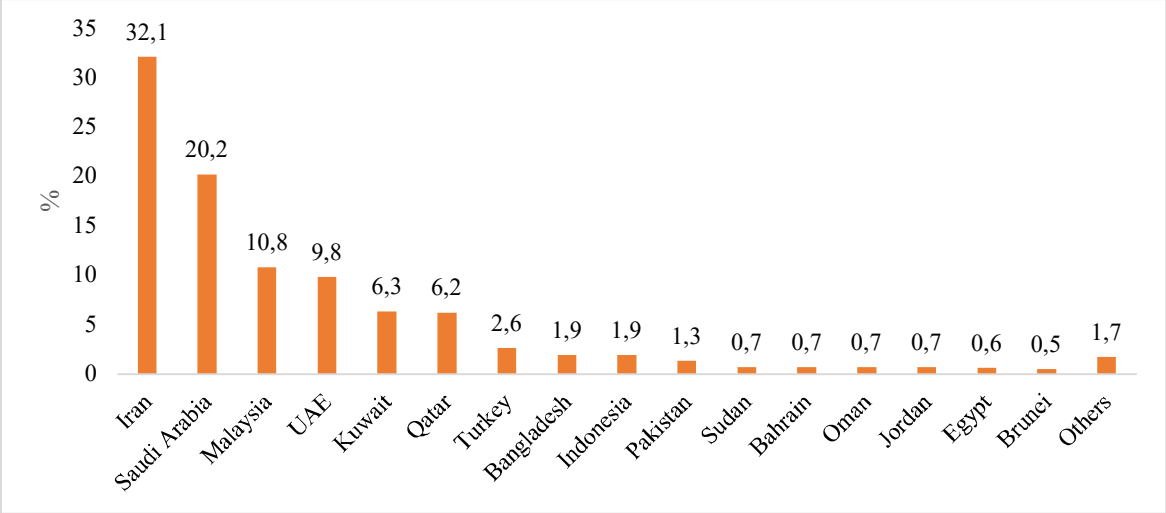
Figure 5: Asset Size Development of Participation Banks in Turkey



Source: PBAT, 2020

However, according to the data in figure 5, participation banks show a continuous development in terms of asset size. With this growth momentum, participation banking is targeted at 15% as the market share of 2025 (TKBB, 2015, p. 28).

Figure 6: Shares of Global Islamic Banking Assets (2018)



Source: Islamic Financial Services Industry Stability Report 2019

The figure above gives information about the global position of Turkey in terms of Islamic banking assets. The leader of Islamic banking assets and market share is Iran. Saudi Arabia and Malaysia follow Iran. Turkey has seventh big Islamic banking assets in the world.

3. ISSUES AND CHALLENGES OF PARTICIPATION BANKING IN TURKEY

3.1. INTRODUCTION

Islamic banking has taken its place in the global financial sector with its development. As a result of the literature review, the issues and challenges faced by Islamic banking in Turkey and the world, in general, are as follows:

Table 3: Issues and Challenges Faced by Islamic Finance in Turkey and the World

MAIN CATEGORY	ISSUES AND CHALLENGES	AUTHORS	YEAR	COUNTRY
Legal and regulatory framework	Infrastructure	Yıldız İ.	(2017)	Turkey
		Bozkurt A.	(2018)	Turkey
		Arslan F.	(2018)	Turkey
		Iqbal M. and others	(1998)	General
		Daud M. and others	(2011)	Nigeria
		Karbhari Y. and others	(2004)	UK
		Kinyanjui S. N.	(2013)	Kenya
		Sobol I.	(2015)	EU
		Piccinelli G.M.	(2010)	EU
		Polat A. and Yazıcı A.	(2019)	Turkey
		Khan M.F.	(2010)	EU
		Engels J.	(2010)	Germany
		Karimi A.J.	(2014)	General
		Alamgir M. and others	(2017)	Bangladesh
		Dolgun M.H. and others	(2019)	General
Legal and regulatory framework	Government Support	Akten Çürük S.	(2013)	Turkey
		Lone N.A.	(2015)	General
		Ayrıçay Y. and others	(2013)	Turkey
		Iqbal M. and others	(1998)	General
		Zaim S.	(2010)	General
		Bizri R. and others	(2017)	MENA
Shariah Governance	Shariah Boards and Resolutions	Polat A.	(2009)	Turkey
		Zamil N. A. M.	(2014)	Malaysia
		Abozaid A.	(2015)	General
		Iqbal M. and others	(1998)	General

		Abdi O.Y.	(2014)	Somalia
		Ashraf S.H. and Giashi A. A.	(2011)	Iran
		Sarker A.A.	(1999)	Bangladesh
		Malik M.S. and others	(2011)	General
		Sobol I.	(2015)	EU
		Grassa R.	(2013)	Southeast Asia - GCC
		Yanıkkaya H. and Pabuçcu Y.U.	(2017)	Turkey
		Alamgir M. and others	(2017)	Bangladesh
		Özdemir M. and Aslan H.	(2015)	Turkey
		Arslan F.	(2018)	Turkey
		Sarker A.A.	(1999)	Bangladesh
Industrial Issues	Lack of Instruments, Marketing, Educated Human Sources, Strategy	Polat A.	(2009)	Turkey
		Yıldız İ.	(2017)	Turkey
		Zaim S.	(2010)	General
		Akten Çürük S.	(2013)	Turkey
		Lone N.A.	(2015)	General
		Duramaz S.	(2016)	Turkey
		Zamil N. A. M.	(2014)	Malaysia
		Abozaid A.	(2015)	General
		Bozkurt A.	(2018)	Turkey
		Iqbal M. and others	(1998)	General
		Abdi O. Y.	(2014)	Somalia
		Yanıkkaya H. and Pabuçcu Y.U.	(2017)	Turkey
		Bizri R. and others	(2017)	MENA
		Sarker A.A.	(1999)	Bangladesh
		Malik M.S. and others	(2011)	General
		Karbhari Y. and others	(2004)	UK
		Kinyanjui S. N.	(2013)	Kenya
		Sobol I.	(2015)	EU
		Porzio C.	(2010)	EU
Management Issues	Competition	Iqbal M. and others	(1998)	General
		Duramaz S.	(2016)	Turkey
		Bizri R. and others	(2017)	MENA
		Sarker A.A.	(1999)	Bangladesh
		Karbhari Y. and others	(2004)	UK
		Khan M.F.	(2010)	EU
		Zamil N.A.M.	(2014)	Malaysia
		Akten Çürük S.	(2013)	Turkey

Management Issues	Similarity with the Conventional Banking System	Özdemir M. and Aslan H.	(2015)	Turkey
		Çidem T.	(2020)	Turkey
		Duramaz S.	(2016)	Turkey
		Kelleroğlu F.	(2017)	Turkey
		Bizri R. and others	(2017)	MENA
		Asker E.	(2020)	Turkey
		Gönen İ.	(2017)	Turkey
		Malik M.S. and others	(2011)	General
The Perception of Society	Population Perception	Bizri R. and others	(2017)	MENA
		Malik M.S. and others	(2011)	General
		F.E.Vogel	(2010)	EU
		Yanıkkaya H. and Pabuçcu Y.U.	(2017)	Turkey
		Özdemir M. and Aslan H.	(2015)	Turkey
		Güneşlik A.	(2018)	Turkey
		Katırcı Y.	(2019)	Turkey
		Zaim S.	(2010)	General
		Gönen İ.	(2017)	Turkey
		Egresi I. and Belge R.	(2017)	Turkey
The Perception of Society	Customer Profile and Behavior	Gönen İ.	(2017)	Turkey
		Yıldız İ.	(2017)	Turkey
		Katırcı Y.	(2019)	Turkey
		Güneşlik A.	(2018)	Turkey
		Akten Çürük S.	(2013)	Turkey
Shariah Governance	Shariah Standards and Auditing	Abozaid A.	(2015)	General
		Bozkurt A.	(2018)	Turkey
		Iqbal M. and others	(1998)	General
		Sarker A.A.	(1999)	Bangladesh
		Malik M.S. and others	(2011)	General
		Karbhari Y. and others	(2004)	UK
		Kinyanjui S. N.	(2013)	Kenya
		Porzio C.	(2010)	EU
		Çelik İ.	(2016)	Turkey
		Alamgir M. and others	(2017)	Bangladesh
		Duramaz S.	(2016)	Turkey
Risks	Liquidity	Polat A.	(2009)	Turkey
		Karbhari Y. and others	(2004)	UK
		Malik M.S. and others	(2011)	General
		Sarker A.A.	(1999)	Bangladesh
		Sobol I.	(2015)	EU
		Piccinelli G.M.	(2010)	EU
		Askari H. and others	(2009)	General

		Donato L. and Freni M. A.	(2010)	Italy
		Khan M.F.	(2010)	EU
Industrial Issues	Lack of Committed Entrepreneur	Lone N.A.	(2015)	General
Shariah Governance	Reliance of Debt-Based Products	Zamil N. A. M.	(2014)	Malaysia
		Iqbal M. and others	(1998)	General
		Özdemir M. and Aslan H.	(2015)	Turkey
Industrial Issues	Lack of Equity Institutions	Iqbal M. and others	(1998)	General
		Sarker A.A.	(1999)	Bangladesh
		Khan M.F.	(2010)	EU
		Alamgir M. and others	(2017)	Bangladesh
		Özdemir M. and Aslan H.	(2015)	Turkey
		Molyneux P. and Iqbal M.	(2005)	General
The Perception of Society	Negative Reputation	Abdi O. Y.	(2014)	Somalia
		Sobol I.	(2015)	EU
		Askari H. and others	(2009)	General
Industrial Issues	Heightened Expectations of Economic & Social Development	Bizri R. and others	(2017)	MENA
Industrial Issues	Higher Cost	Sobol I.	(2015)	EU

There are many different types of issues and challenges that Islamic banks are faced all around the world. However, in this study, the issues and challenges that come forward in the participation banking system in Turkey will be examined.

The purpose of this chapter is to discuss the issues and challenges of participation banking in Turkey under six main headlines.

3.2. LEGAL AND REGULATORY FRAMEWORK

Participation banking system in Turkey has been striving for continuing its existence and boosting its development while facing a lot of issues and challenges for almost 40 years. Infrastructure issues and government support are among the legal and regulatory framework challenges.

3.2.1. Infrastructure

Turkey began implementing a dual banking system with the start of the participation banking. Both conventional and participation banking activities are carried out together. Participation banks were established with a decree-law, later subjected to the same banking act with conventional banks. However, the requirements of these two banking systems are quite different. The methods of collecting and using funds of the participation banks are unusual for the controlling authorities and other complementary institutions. While the conventional banks put the interest-based gain in focus, the participation banks work with a profit-based and asset-linked system completely free from interest.

Participation banks use the funds they collect from their customers by trading and share the profit obtained with the customers. In other words, the basic principle of participation banks is trade. According to the existing Banking Act, banks cannot trade. Only surface changes have been made for participation banks in the sub-articles of the same law. Also, the fact that two such different bank types are subject to the same law creates a perception that there is no difference between these banks in society (Yıldız, 2017, p. 61).

A law that considers the sensitivity of these institutions, guides the interest-free system, has a control mechanism, and sets standards for interest-free finance activities is necessary for further growth of participation banking.

3.2.2. Government Support

The participation banking has begun to attract attention and started to take part in government programs with the political change in 2002. However, until 2010, no purpose or target for participation banking or other components of the Islamic finance industry was specified in government programs. After 2010, the state studies on participation banking have gained momentum. The establishment of government-owned participation banks can be proof of government support. Within the scope of the tenth development plan, the project of Istanbul as a financial center has been put forward. The action plan focused on participation

banking and the development of the interest-free finance system and the works to be done in this area was specified (Kalkınma Bakanlığı, 2014, p. 72).

3.3. MANAGEMENT ISSUES

In this section, management issues are going to be discussed under two headlines which are competition and similarity with conventional banking.

3.3.1. Competition

Competition is generally considered to be a positive factor for the development of any sector. However, with the competition, players who are not effective in the sector are encouraged to be better or to withdraw from the market. Thus, it can reveal positive results as well as negative results.

In line with the current numbers of BRSA, the stronger side in the Turkish financial system is the conventional banking system. The conventional banks have an advantage over participation banks in terms of their experience and long-standing in the financial system. Their systems, procedures, techniques of product innovations, marketing strategies, diversification in the portfolio, are much improved to participation banks. Therefore, participation banking needs more support, protection, and encouragement to be able to compete against the conventional banking system.

3.3.2. Similarity with the Conventional Banking

Another important factor affecting the development of participation banking is its similarity with the conventional system in terms of products and services. While the methodology and functioning system of participation banking are completely different, the fact that it is subject to the same law as deposit, investment, and development banks and the similarity of their operations prevents it to stand out for its unique features. For example, it is confusing for the society to declare monthly and annual profit share rates of participation banks and to offer credit card service. Also, the procedures for using funds are like deposit

banks because the details of the operation are not known during the evaluation process of the fund in participation banks.

The use of conventional banking literature, the similarity of the instruments, and operating in a financial system designed according to conventional banking create a perception of similarity among customers.

3.4. SHARIAH GOVERNANCE

According to IFSB (2009, p. 2), Shariah governance means the structures and processes adopted by stakeholders in Islamic financial institutions to ensure compliance with Shariah rules and principles. The most important reason for the existence of participation banks is serving according to the Islamic law of contract principles. Thus, Shariah governance is an important mechanism that establishes the framework of the activities of participation banks according to the Islamic law of contract principles and controls this compliance. The smooth and effective operation of this mechanism affects the performance of the participation banks closely. Increasing the value of stakeholders is one of the primary objectives of each financial institution. The operational stability of conventional or participation banks is closely related to the confidence of stakeholders in these institutions. Thus, it is extremely important for stakeholders that financial activities carried out in participation banking comply with the Islamic law of contract principles.

In this section, the central advisory board and Shariah standards and auditing are going to be discussed.

3.4.1. Central Advisory Board

With the development of participation banking, the Shariah standards of Islamic financial implementations seem to be particularly important at present more than before. There was no central advisory board until 2018 in Turkey. Each participation bank had its own advisory board. One person could be on the advisory board of multiple institutions.

In 2018, a central advisory board was established under PBAT by BRSA. Following the establishment of the central advisory board, a communique was issued by BRSA for the participation banks to adapt to this new board. In that communique, it stated that the advisory boards within the participation banks should operate in line with the decisions of the new central advisory board (BDDK, 2019, v. 7). Also, according to this communique, one person cannot be a member of more than two advisory boards at the same time. These are undoubtedly important steps to make the participation banking standards clearer and more sustainable in Turkey. However, the independent and effective operation of this board is important for the development of participation banking. Sharing the decisions transparently with the public affects the trust of society.

3.4.2. Shariah Standards and Auditing

One of the most important issues of the participation banks is the difference of opinion on Shariah standards of financial matters in Turkey. For example, for military service by payment, while one participation bank provided the fund based on the murabahah contract, the other three participation banks rejected this implementation (Bozkurt, 2018, p. 67). International organizations such as AAOIFI and IFSB are among the important standard-setting organizations. Their standards promote and enhance the soundness and stability of the Islamic financial services industry, but the standards of these organizations are not binding. Thus, there is no global scale structure that guides and controls the participation banking. The inconsistency and conflict in fatwas pertaining to participation banking implementations and products have caused confusion in the public and induced suspicions over their legitimacy.

Shariah auditing is as important as the Shariah standards in the participation banking system. Generally, this audit is left to the initiative of banks in many countries where participation banking is applied (Abozaid, 2016, p. 225). In Turkey, there is no such external audit requirement in the law which the participation banks are dependent. In the communique issued by BRSA, it is stated that the activities of participation banks should be controlled by an internal audit mechanism in order to monitor the Shariah compliance (BDDK, 2019, v.

10). Audit staff of participation banks can perform such internal audits when it is necessary. However, external Shariah auditing is particularly important for the sophistication of participation bank's products and services. For the clients, the absence of external Shariah auditing can form a risk for the image and the credibility of the participation banks.

The latest regulations regarding Shariah governance were published by Public Oversight Accounting and Auditing Standards Authority (POAASA) (KGK, 2020). POAASA is an institution responsible for achieving effective public oversight in Turkey, setting standards that ensure the preparation and auditing of financial statements in compliance with international standards. The regulations are about auditing standards of interest-free finance and include 1 ethical norm and 6 auditing standards (Resmi Gazete (30978), 2019).

3.5. INDUSTRIAL ISSUES

Another type of issue that confronts participation banking is industrial challenges. Such challenges arise from within the industry. All participation banks operate in the sector face the same industrial issues. This section will examine the industrial issues under two headlines which are lack of instruments, marketing, educated human sources, and lack of equity institutions.

3.5.1. Lack of Instruments, Marketing, Skilled Human Sources

Lack of financial instruments, advertising strategy, and skilled human sources are the primary industrial issues that prevent the further development of participation banking.

Participation banking is built on the partnership model. However, the models presented in theory could not be implemented in practices (Aslan & Özdemir, 2015, p. 44; Aström, 2015, p. 56). Instead of partnership-based contracts such as *musharakah* and *mudarabah*, intensive use of debt-based products such as *murabahah* creates similarity with the conventional banking.

Lack of advertising and publicity causes the participation banks to fail to express themselves and their unique features to people. Thus, they are placed on the same scale as conventional banks in the eyes of society.

Since the basic principle of this system is following the Islamic law of contract, human sources should be skilled and knowledgeable not only about finance but also about the Islamic law of contract principles. Not only the personnel in high positions but also the personnel who have close contact with the customer must have enough information about the participation banking system. The fact that employees who are in direct contact with the customers do not know or not being able to explain the difference between the participation bank and the conventional bank affects negatively the perception of society such as all banks operate in the same way. In many countries researching, teaching, and training of Islamic finance have begun much earlier than Turkey. Universities providing Islamic finance education were opened in Malaysia, the UK, and many Gulf countries. Despite the high Islamic finance potential and interest, in Turkey, necessary steps have been taken for the skilled workforce recently.

3.5.2. Lack of Equity Institutions

When Islamic finance is mentioned, banking generally comes to minds. However, financial systems consist of many complementary institutions.

One of the main working principles of conventional banking is to use the funds collected from customers as loans. However, all banks must keep some of the funds they collect for reasons such as liquidity shortage, market risk, and reserve requirement. These funds, which remain liquid in conventional banks, are evaluated (or invested) in various ways in the money market, capital market, foreign exchange market, stock trading, and investment funds by the treasury departments of banks. Banks that manage cash in this way also seek the opportunity to make a profit.

Participation banks, like conventional banks, allocate some of the funds they collect to continue their banking activities and to be cautious against various risks. However, as

participation banks grow, the amount of funds controlled by their treasury departments increases, and the need for methods to evaluate these funds arises.

Money markets are where short-term surplus funds and those with short funds are traded. The main parties in these markets are conventional banks. Participation banks cannot operate or make transactions comfortably in these markets due to their working principles which include the prohibition of interest, uncertainty, and gambling. The bonds and bills traded in these markets are not based on any assets.

Some of the money market instruments that participation banking use in Turkey are commodity murabahah, sukuk, profit rate swap, cross-currency swap. The Capital Markets Board of Turkey (CMBT) published many communiqué about sukuk certificates to established sustainable infrastructure, the first one in 2010, the most comprehensive one in 2013 (Dede, 2017, p. 71). Participation banks made treasury and liquidity management relatively efficient with the increasing use of sukuk certificates and other products developed. However, they still do not have as many products as conventional banks have, and therefore cannot effectively evaluate their funds.

Another financial complementary institution is takaful which is known as Islamic insurance. The insurance sector works in the way of collecting a large amount of funds from the customers of the companies in the sector and evaluating these funds to increase the benefit of the customers and the profitability of the bank. However, there are issues of the takaful industry regarding Shariah governance and legal regulations (COMCEC, 2020, p. 82).

3.6. THE PERCEPTION OF SOCIETY

The point of view and attitudes of society towards participation banks have a great impact on their growth. This section will examine the part related to customers among the issues faced by participation banking under two headlines which are negative reputation and lack of knowledge.

3.6.1. Negative Reputation

Participation banks are exposed to higher reputational risks than conventional banks. Since the basic principle of participation banking and other interest-free financial institutions is following the Islamic law of contract, customers have a special "*trust*" for these institutions. Losing this trust can lead to the loss of customers' faith in these institutions. Besides, the fact that the share of cost plus profit financing (*murabahah*) among the products of participation banks is over 90% effects undesirably the perception of the society in Turkey (TKBB, 2015, p. 35). Also, the mistake of a single participation bank can attract the attention of the entire industry and seriously damage its reputation. The bankruptcy of Ihlas Finans in 2001 and the liquidation of Bank Asya in 2016 caused a sense of unease about participation banks in society.

3.6.2. Lack of Knowledge

Islamic finance has been present in many countries of the world for years. Gulf countries and South Asian countries with dense Muslim populations are among these countries. In this respect, Turkey which the overall population is Muslim, Islamic finance activities have fallen far behind these countries. However, the studies (Egresi & Belge, 2017; Savaşan et al., 2013) conducted show that individuals mostly choose the banks, they receive service from according to their financial advantages, service quality, and product variety.

It was also revealed that individuals do not trust these institutions in compliance with the Islamic law of contract principles. The perception of participation banking is poor within society (Aslan & Özdemir, 2015, p. 41; Yanıkkaya & Pabuçcu, 2017, p. 56). The main reasons for this prejudice in society may be the failure of these institutions to express themselves correctly or negative examples that have been witnessed in the past. Also, due to the low financial literacy, society is not able to distinguish between participation banking practices and conventional banking practices.

3.7. RISKS

In the framework of the Islamic law of contract principles, investing requires taking risks. Sharing risk between partners of a contract is one of the most important pillars of participation banking activities. Risk is the focus of economic analysis. In cases of risk, the unknown thing is tried to control following the previously obtained information (ISRA, 2016, p. 582).

Risk is classified in different ways. For example, some risks arise from the uncertainty caused by the nature of a business and are related to factors affecting the product market. On the other hand, some risks arise from the uncertainties of financial assets in financial markets.

Risk requires trading between vulnerability and opportunities. None of the successful institutions reduced the risk to zero. Most of the time, they evaluate the opportunities well by making necessary risk analyzes. Trade is at the center of Islamic finance, and risk is at the center of trade. Therefore, risk management is particularly important regardless of the sector.

Classification of risks may vary according to the literature. Among the risks described below, no classification has been made, only those that stand out in participation banking according to Global Islamic Bankers' Report 2019 which is published annually by CIBAFI, have been explained.

3.7.1. Credit Default Risk in Debt-Based Financial Products

Credit risk can be defined as a failure of the counterparty to meet its obligations on time and follow the determined terms. In the general financial system, it is related to the lending and deposit transactions of banks. Thus, this type of risk arises because of the failure of the customer to repay its debt.

There are two components of credit risk to which banks are exposed. They are systematic and unsystematic credit risks. Systematic risk originates from the unsteadiness of economic, political, and social life. It affects all financial markets and all financial assets traded in markets. It is affected by the general economic conditions of the society. Market

risk, political risk, inflation risk, interest rate risk, operational risk, and exchange rate risk are classified as systematic risk (Yurdakul, 2014, p. 785).

Another one is the unsystematic credit risk. This type of risk arises from the players in the economy, rather than the whole. It is created by a firm or the characteristics of the industry in the economy. The main causes of unsystematic fluctuation can be cited as poor management, technological advances, new inventions, and changes in consumer preferences. Financial, management, operational, and industrial risks are classified as unsystematic risks (Yurdakul, 2014, p. 784).

3.7.2. Liquidity Risk

Liquidity risk is the risk of a bank's deterioration in cash flow and operational requirements due to insufficient liquidity. It is one of the important risks faced by banks. It may arise from either difficulty in obtaining cash from borrowing at the rational price or selling commodities/assets.

Participation banks experience liquidity risk more severely than conventional banks because of the shortage of complementary institutions. These institutions must observe the Islamic law of contract principles when trade in money markets to reduce this risk.

3.7.3. Technology and IT Risk

Technology is developing in the financial system as in every field day by day. Financial technology has become more important with artificial intelligence and cryptocurrencies. These innovations are effective enough to change people's habits. Technology risk is the risk of not being able to use information technologies at an advanced level. Therefore, keeping up with financial innovations increases competition between banks. This situation opens the door to some risks. Financial technologies can be dangerous for consumer protection and financial stability when necessary measures are not taken. Cyber-attacks that banks face are examples of this kind of risk.

3.7.4. Reputation Risk

The risk of losing capital or market share because of damage to a firm's reputation is called reputation risk. For participation banks, this risk can be defined as the risk of loss arising from the negative perception of the bank's reputation due to its commercial practices or behaviors that may adversely affect its activities, profitability, or shareholder value.

3.7.5. Rate of Return Risk

The rate of return is linked to the rate of return provided to depositors of participation banks. It arises in case of the disappointment of the account holders about returns on their deposits that are lower than the market rate. Thus, the rate of return risk changes with the investor's expectations regarding an investment's rate of return (Rhanoui & Belkhoutout, 2019, p. 141)

3.7.6. Operational Risk

Operational risk is considered as the risks faced by a bank, except for market risk and credit risk. According to the Basel Committee on Banking Supervision (BCBS), the operational risks faced by banks are divided into seven categories. In general, operational risks can be a failure to fulfill a promise obligation to a customer or the nature of a product without intentional or negligent. Deterioration of work between trade counterparties or system malfunction, physical assets damaged by natural disasters, or similar situations can be considered as operational risk.

3.7.7. Foreign Currency Risk

The probability of losses that banks may be exposed to over their foreign exchange assets and liabilities because of changes in exchange rates is called foreign currency risk. The possibility of changing the value of a national currency against foreign currencies leads to foreign currency risk, especially for financial institutions that borrow money and lend.

3.7.8. Collateral Risk

Collateral plays a critical role in financial contracts. It aims to reduce the credit risk or default risk of the borrower in the financial contracts. In the case of the borrower defaults, the counterparty may meet the loss by selling the collateral received. Both conventional banks and participation banks face collateral risk in their financial activities.

4. METHODOLOGY

4.1. INTRODUCTION

This chapter gives information about the methodology used in the thesis. The research design, sources of data, data collection, and data analysis are going to be discussed.

4.2. RESEARCH DESIGN

Research design serves to make causal inferences from data. A well-prepared research design allows the thesis to produce effective and efficient results.

This study aims to demonstrate the issues and challenges that prevent the further development of participation banking in the financial sector in Turkey. In the thesis, both qualitative and quantitative data were used. To put into consideration the current situation of participation banking in the world and Turkey secondary data that were obtained from authorities are used. A survey was conducted to reveal the issues faced by the participation bank through the perception of participation bank employees.

4.3. POPULATION OF THE SURVEY

The population of the survey consists of the employee of participation banks in Turkey. The main target of the survey population was the participants working in the manager position and the survey was conducted with 163 employees.

4.4. DATA COLLECTION

In the thesis, primary and secondary data were used. While the current data of the banking sector are obtained from the authorities such as BRSA, PBAT, CMBT, the primary data were obtained through the survey study.

The literature of similar studies in this field is another important source of information. There is no specific questionnaire scale for this study. For this reason, a new questionnaire was prepared by considering the questionnaires created for similar studies.

4.5. DATA ANALYSIS

The primary data was obtained from employees who work in a participation bank in various regions of Turkey. The obtained information was analyzed with the statistical program called SPSS version 23. SPSS means Statistical Package for the Social Sciences. This statistical software is used for editing and analyzing all sorts of data.

5. FINDINGS AND RESULTS

5.1. INTRODUCTION

In this section, the results of the survey which was conducted to see issues and challenges of participation banking in Turkey are presented. Participants consist of employees who are in different cities of participation banks in Turkey and the total number of them is 163.

One way of measuring the reliability of expressions or statements found in survey studies is Cronbach's Alpha. Cronbach's Alpha measures of internal consistency of a set of scale or test items especially when the survey consists of multiple Likert questions to see if the scale is reliable (Tavakol & Dennick, 2011, p. 53).

The value of Cronbach's Alpha ranges between 0 and 1. The generally accepted optimal value is 0.7 and above. However, when the value of Alpha is higher than 0.9 the scale should be reconsidered because there may be unnecessary questions or items on the scale (Kilic, 2016, p. 47).

As a result of the reliability test of this survey study, Cronbach's Alpha value was measured as 0.887 for 34 items. This value is acceptable and shows that there is consistency among the statements in the survey.

Table 4: Reliability Statistics of the Survey

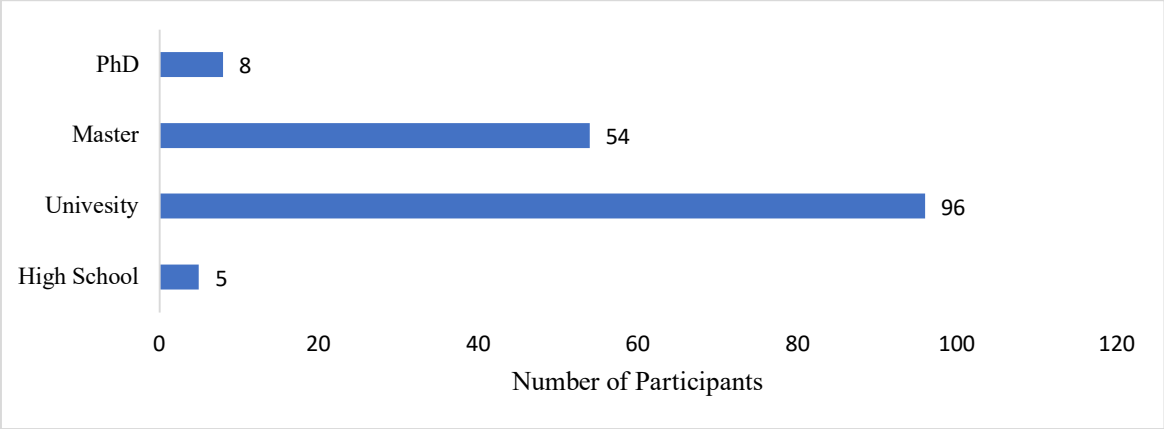
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
,887	,889	34

5.2. DESCRIPTIVE STATISTICS

Descriptive statistics contain information showing the educational status, experience, and positions of the participation bank employees.

The first question in the survey is about the educational status of the participation bank employees.

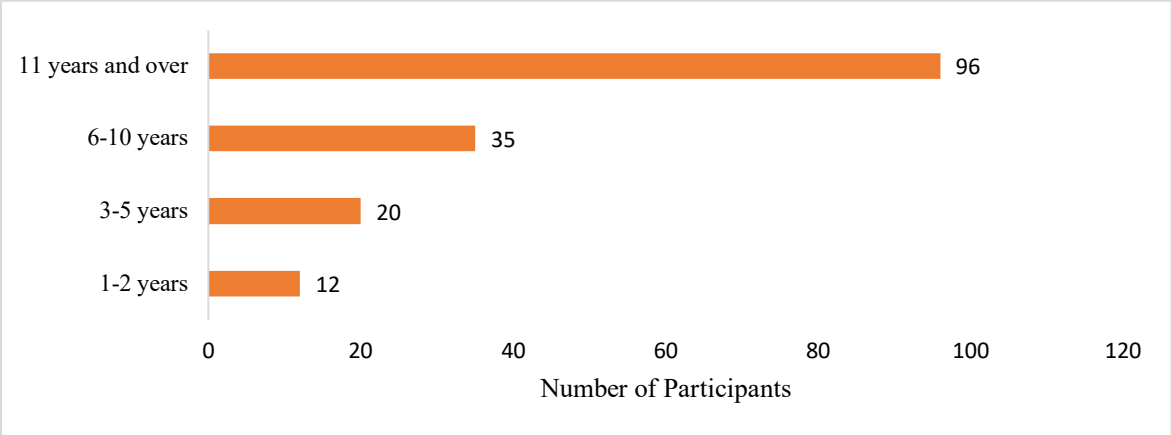
Figure 7: Education of the Participants



According to the obtained results, it is seen that most of the employees are university graduates who are 96. Master graduates come as second place with 54.

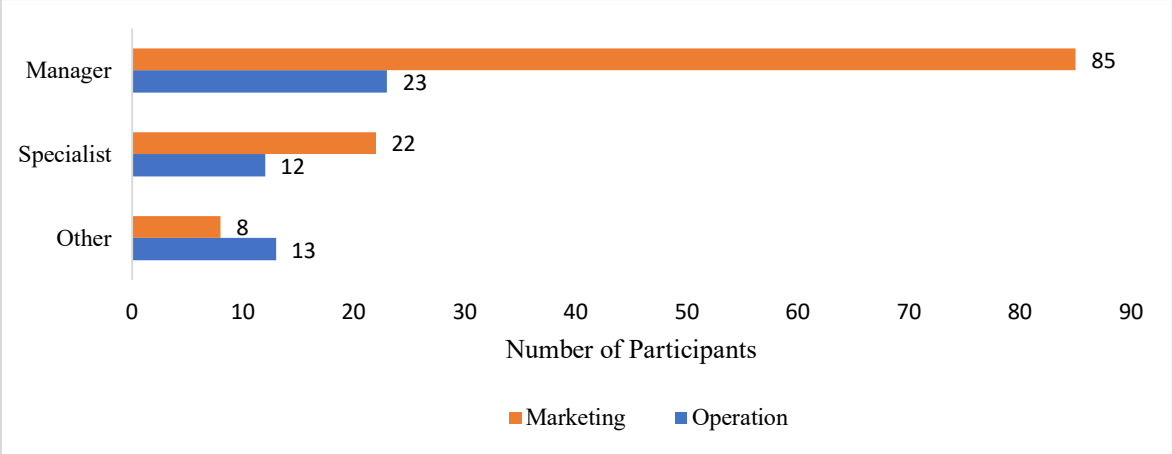
The second demographic question is about the experience of the participants of the survey.

Figure 8: Experience of the Participants



According to the results, most of the employees have 11 years and above experience which is 96. Employees with 6-10 years of experience take second place with 35 participants.

Figure 9: Positions of the Employees



108 of the employees who participated in the survey work as a manager in the bank. 85 of the managers work in the marketing department and 23 of them work in the operation department. While 34 of them work as specialist, the remaining 21 participants work in other positions.

5.3. LEGAL AND REGULATORY FRAMEWORK RESULTS

In the survey, three statements related to the legal and regulatory issues are listed to the participation bank employees and asked to rate between strongly disagree and strongly agree.

In the response categories, SD means strongly disagree, D means disagree, N means neutral, A means agree, and SA means strongly agree. Mean values and the extent of responses are as follow:

Mean Value	Extent of response
1.00-1.50	Strongly Disagree
1.51-2.50	Disagree
2.51-2.75	Neutral
2.76-3.50	Agree
3.51-5.00	Strongly Agree

Table 5: Results of the Legal and Regulatory Framework Statements

Statements	Responses	Response Categories					Mean
		SD	D	N	A	SA	
1) Supervisory and regulatory agencies (such as CBRT, BRSA) do not provide the necessary support to participation banking.	Number	34	27	48	30	24	2,89
	%	20,9	16,6	29,4	18,4	14,7	
2) Theory-practice differences due to deficiencies in legal regulations adversely affect the development of participation banking.	Number	18	29	32	39	45	3,39
	%	11	17,8	19,6	23,9	27,6	
3) Existing legislation is not enough to attract foreign investors to Turkey.	Number	19	21	49	41	33	3,29
	%	11,7	12,9	30,1	25,2	20,2	

Table 5 gives the results of the statements regarding legal and regulatory issues of participation banks in Turkey. The first statement is about the supervisory and regulatory agencies not providing the necessary support to participation banks. While 29,4% of the participants are neutral, 20,9% of them strongly disagree with the statement.

For statement two, 27,6% of the participants strongly agree that theory-practice differences due to deficiencies in legal regulations adversely affect the development of participation banks. While 23,9% of them agree, 19,6% of them are neutral with the statement.

The third statement is that existing legislation is not enough to attract foreign investors in Turkey. 30,1% of the participants are neutral with this statement. 25,2% of the participants agree and 20,2% of them strongly agree with it.

Figure 10: Order of the Legal and Regulatory Framework Statements

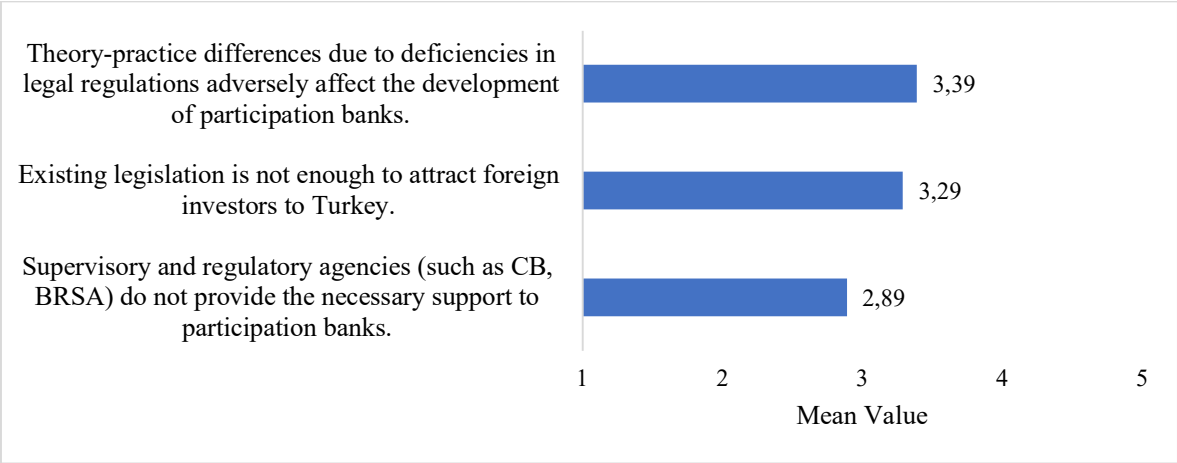


Figure 10 shows the order of the statements presented in the survey within the legal and regulatory framework according to the mean values. The first issue is about the difference between theory-practice due to deficiencies in legal regulations and its mean value is 3,39 which is closer to the value of "agree". The second issue is existing legislation is not enough to attract foreign investors to Turkey. Also, the mean values of the second and the third issues are respectively are 3,29 and 2,89 which are closer to the value of "agree".

5.4. MANAGEMENT ISSUES RESULTS

This section evaluates the survey results which are about the issues within the scope of management. In the survey, seven statements related to management issues are presented to the participation bank employees and asked to rate them between strongly disagree and strongly agree.

Table 6: Results of the Management Issues Statements

Statements	Responses	Response Categories					Mean
		SD	D	N	A	SA	
1)Participation banking has reached its largest share in the banking sector.	Number	102	34	17	5	5	1,63
	%	62,6	20,9	10,4	3,1	3,1	
2)There is a lack of strategy in the management of participation banking.	Number	12	22	48	33	48	3,50
	%	7,4	13,5	29,4	20,2	29,4	

3)Ineffective corporate governance makes development of participation banking difficult.	Number	10	33	40	35	45	3,44
	%	6,1	20,2	24,5	21,5	27,6	
4)Shareholders' profit expectation adversely affects the development of participation banking.	Number	19	38	50	24	32	3,07
	%	11,7	23,3	30,7	14,7	19,6	
5)The cost of files in participation banks is higher than in conventional banks.	Number	60	31	32	22	18	2,42
	%	36,8	19	19,6	13,5	11	
6)Competition with other participation banks in the sector adversely affects the development of participation banking.	Number	45	36	23	32	27	2,75
	%	27,6	22,1	14,1	19,6	16,6	
7)Competition with conventional banks adversely affects the development of participation banking.	Number	37	28	31	22	45	3,06
	%	22,7	17,2	19	13,5	27,6	

As seen in table 6, participants strongly disagree that participation banking has reached the highest share it can reach with 62.6%. Also, 20.9% of the participants disagree with the statement. Thus, the participants stated that participation banking has not yet reached the potential market share it has. For the lack of strategy in the management of participation banking, while 29,4% of the participants neutral, 29,4% of them strongly agree. 20,2% of them agree. The participants approved that there is a lack of strategy at the management of the participation banking in Turkey.

According to the results, 27.6% of the participants strongly agree that ineffective corporate governance makes the development of participation banking difficult. 24.5% of the participants responded as neutral to this statement. For statement four which is about shareholder's profit expectations, 30,7% of the participants are neutral and 23,3% of them disagree with it.

For statement five, 36,8% of the participants strongly disagree that the cost of files in participation banks is higher than the conventional banks. 19.6% of the participants are neutral for this statement. Different results have found in the statements related to the competition. While 27,6% of the participants strongly disagree with that the competition with other participation banks adversely affects the development of participation banking, 27,6% of them strongly agree that the competition with conventional banks adversely affects the development of participation banks.

Figure 11: Order of the Management Issues Statements

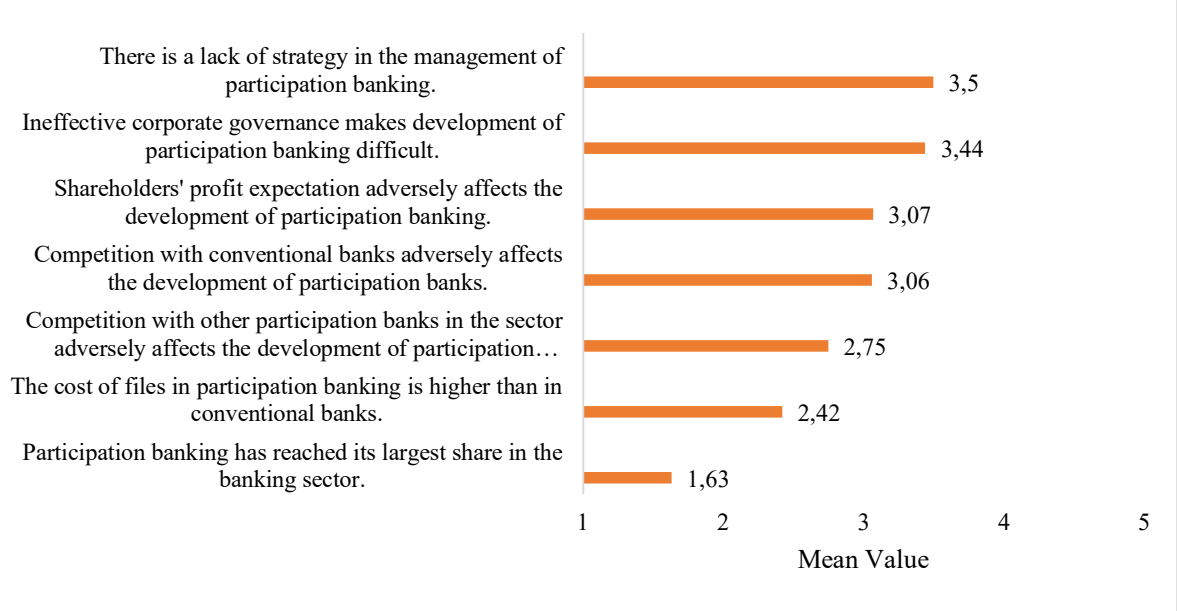


Figure 11 shows the order of the statements presented in the survey within management issues according to the mean values. Thus, for the participants, the first issue is the lack of strategy in the management of participation banking. The mean value of the first issue is 3,5 which means “agree”. The second one is an ineffective corporate governance and the third one is shareholders’ profit expectations. Their mean values are respectively 3,44 and 3,07 which are closer to the value of “agree”. The last issue is about the market share of participation banking and its mean value is 1,63 which is closer to the value of “disagree”.

5.5. SHARIAH GOVERNANCE RESULTS

In the survey, five statements related to Shariah issues were presented to the participation bank employees and asked to rate them between strongly disagree and strongly agree.

Table 7: Results of Shariah Statements

Statements	Responses	Response Categories					Mean
		SD	D	N	A	SA	
1) Contradictory decisions and fatwas of different institutions and advisory boards undermine society's trust.	Number	8	6	20	31	98	4,25
	%	4,9	3,7	12,3	19	60,1	
2) The presence of the same people in more than one Shariah advisory board negatively affects the development of participation banking.	Number	23	25	42	22	51	3,32
	%	14,1	15,3	25,8	13,5	31,3	
3) The lack of central Shariah auditing adversely affects the development of participation banking.	Number	12	16	35	38	62	3,74
	%	7,4	9,8	21,5	23,3	38	
4) The greater use of debt-based financial contracts (murabahah, tawarruq) than asset-based contracts (mudarabah musharakah) reduces the credibility of participation banks.	Number	21	33	39	24	46	3,25
	%	12,9	20,2	23,9	14,7	28,2	
5) Following AAOIFI or IFSB standards will help the development of participation banking.	Number	5	12	56	51	39	3,65
	%	3,1	7,4	34,4	31,3	23,9	

As shown in table 7, the first statement is about contradictory decisions and fatwas of different institutions and advisory boards. 60,1% of the participants strongly agree and 19% of them agree that inconsistency between the decisions and fatwas of different institutions and advisory boards undermine society's trust.

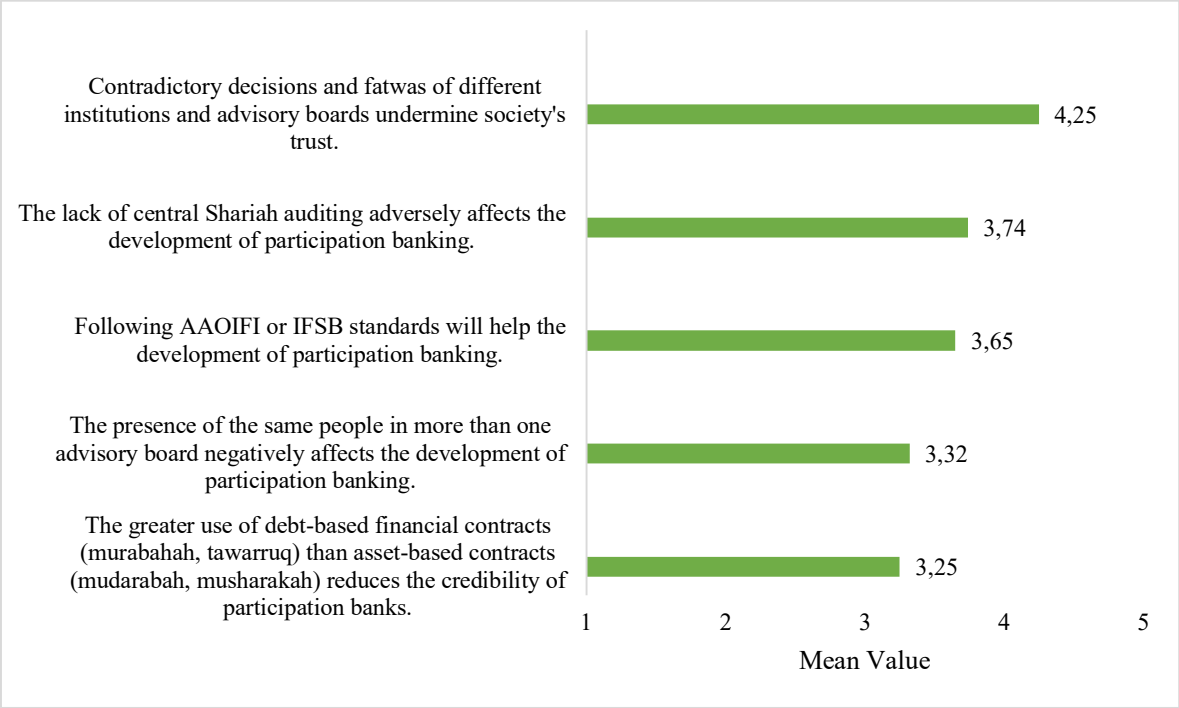
For statement two, 31,3% of the participants strongly agree that the presence of the same people in more than one advisory board negatively affects the development of participation banking. Also, 25,8% of the participants are neutral with it.

According to table 7, while 38% of the participants strongly agree, 23,3% of them agree that the lack of central Shariah auditing adversely affects the development of participation banking. Thus, more than half of the participants stated that the central Shariah auditing mechanism is necessary.

Statement four is about using debt-based and asset-based contracts. 28,2% of the participants strongly agree that the greater use of debt-based financial contracts than asset-based contracts reduces the credibility of participation banks. Also, 23,9% of them are neutral to this statement.

Statement five is that following AAOIFI or IFSB standards will help the development of participation banking. While 34,4% of the participants are neutral to this statement, 31,3% of them agree with it.

Figure 12: Order of the Shariah Governance Statements



In figure 12, the order of the statements presented in the survey within Shariah governance issues based on their mean values. According to the participants, the first issue is the contradictory decisions and fatwas of different institutions and advisory boards. Its

mean value is 4,25 which is closer to the value of "strongly agree". The second issue is about the lack of central Shariah auditing and its mean value is closer to the value of "strongly agree". The last issue is using debt-based financial contracts and its mean value is closer to the value of "agree".

5.6. INDUSTRIAL ISSUES RESULTS

In the survey, seven statements related to industrial issues and challenges were presented to the participation bank employees and asked to rate them between strongly disagree and strongly agree.

Table 8: Results of the Industrial Statements

Statements	Responses	Response Categories					Mean
		SD	D	N	A	SA	
1) The general macroeconomic situation of the country adversely affects the development of participation banking.	Number	26	26	43	37	31	3,12
	%	16	16	26,4	22,7	19	
2) Margin pressure adversely affects the development of participation banking.	Number	14	17	33	48	51	3,64
	%	8,6	10,4	20,2	29,4	31,3	
3) Lack of other supporting non-banking financial institutions (Islamic money market, Takaful, credit rating agencies, etc.) adversely affects the development of the participation banking.	Number	7	15	29	50	62	3,88
	%	4,3	9,2	17,8	30,7	38	
4) Shortage of capital has a negative impact on participation banking.	Number	16	27	23	44	53	3,55
	%	9,8	16,6	14,1	27	32,5	
5) There is a lack of skilled human resources for participation banking.	Number	15	16	23	47	62	3,76
	%	9,2	9,8	14,1	28,8	38	
6) The narrow product range adversely affects the development of participation banking.	Number	15	20	22	40	66	3,74
	%	9,2	12,3	13,5	24,5	40,5	
	Number	10	11	23	45	74	3,99

7) The lack of development / lack of products that are compatible with the essence of participation finance adversely affects the development of participation banking.	%	6,1	6,7	14,1	27,6	45,4	

The first statement is about the relationship between the general macroeconomic situation and participation banks. 26,4% of the participants are neutral to that the general macroeconomic situation of the country adversely affects the development of participation banking. While 22,7% of participants agree, 19% of them strongly disagree with the statement.

According to the results, for the statement two, 31,3% of the participants strongly agree with that margin pressure adversely affects the development of participation banking. Besides, 29,4% of them agree with the statement.

Statement three is about that lack of other supporting non-banking financial institutions undesirably affects the development of the participation banking. While 38% of the participants strongly agree with the statement, 30,7% of them agree with it.

For statement four, 32,5% of the participants strongly agree that the shortage of capital has a negative impact on the participation banking. While 27% of them agree with the statement, 16,6% of them disagree with it.

As shown in table 8, 38% of the participants strongly agree that there is a lack of skilled human resources for participation banking. Then, 28,8% of them agree with the statement.

Statement six is about the product range of participation banks. 40,5% of the participants strongly agree that the narrow product range negatively affects the development of participation banking. Also, 24,5% of them agree with the statement.

Finally, statement seven is about the lack of development/lack of products that are compatible with the essence of participation banking. While 45,4% of the participants

strongly agree that the lack of development/lack of products that are compatible with the essence of participation finance adversely affects the development of participation banking, 27,6% of them agree with the statement.

Figure 13: Order of the Industrial Issues Statements

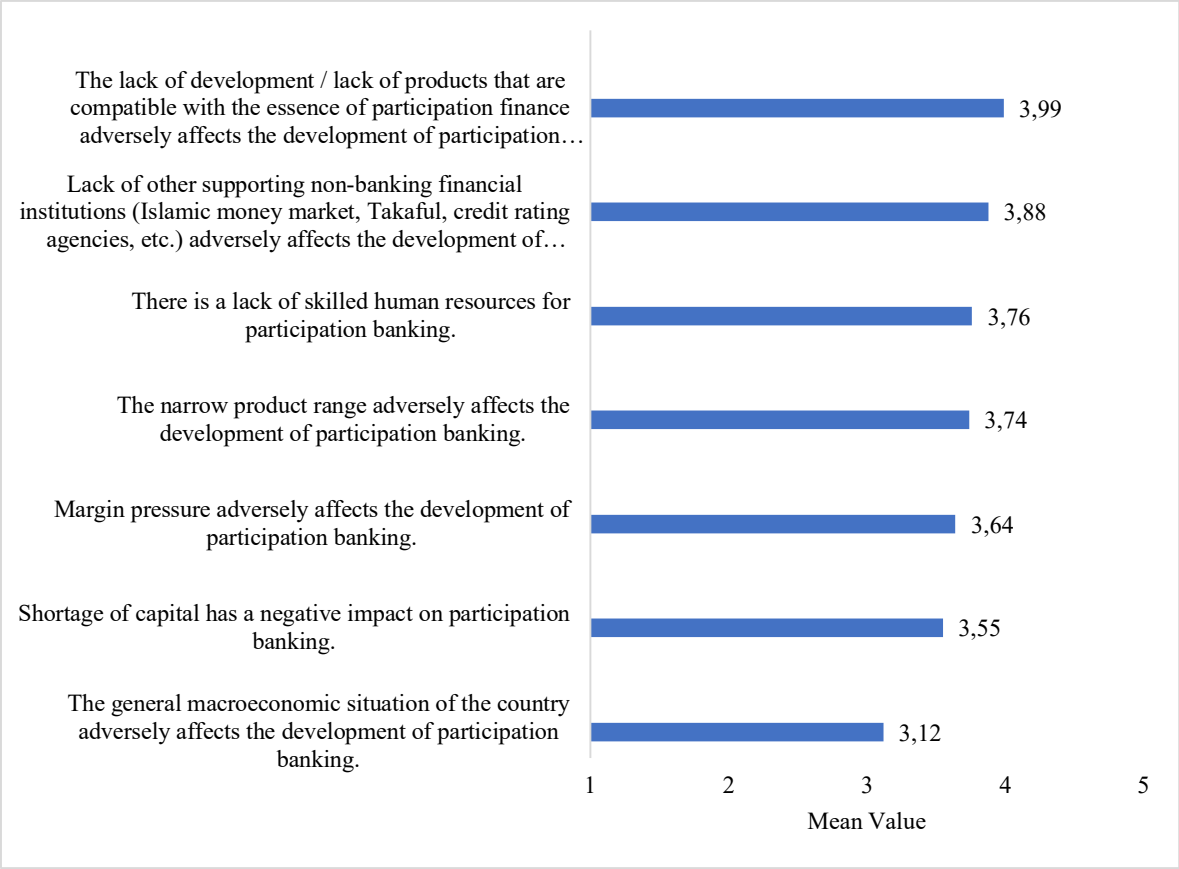


Figure 13 shows the order of the industrial issues within the survey study based on their mean values. According to the participants, the first issue of the participation banking industry is the lack of development and products that are compatible with the essence of participation banking. The second issue is the lack of supporting non-banking financial institutions and the third one is about the lack of skilled human resources. While the mean values of the first six issues are closer to the value of “strongly agree”, only the mean value of the last issue is 3,12 which is closer to the value of “agree”.

5.7. THE PERCEPTION OF SOCIETY RESULTS

In the survey, four statements related to the perception of society were presented to the participation bank employees and asked to rate them between strongly disagree and strongly agree.

Table 9: Results of the Perception of Society Statements

Statements	Responses	Response Categories					Mean
		SD	D	N	A	SA	
1) There is a lack of information and education about participation banking in the society.	Number	4	10	9	33	107	4,40
	%	2,5	6,1	5,5	20,2	65,6	
2) It is difficult to raise awareness in society about the participation banking.	Number	19	36	31	36	41	3,26
	%	11,7	22,1	19	22,1	25,2	
3) The fact that conventional banking and participation banking have similar products and services adversely affects the customers' perspective.	Number	12	19	32	39	61	3,72
	%	7,4	11,7	19,6	23,9	37,4	
4) Past negative experiences (such as İhlas Finans-Bank Asya) adversely affect the reputation of participation banking system.	Number	11	14	26	38	74	3,92
	%	6,7	8,6	16	23,3	45,4	

According to table 9, 65,6% of the participants strongly agree and 20,2% of them agree that there is a lack of information and education about participation banking in society.

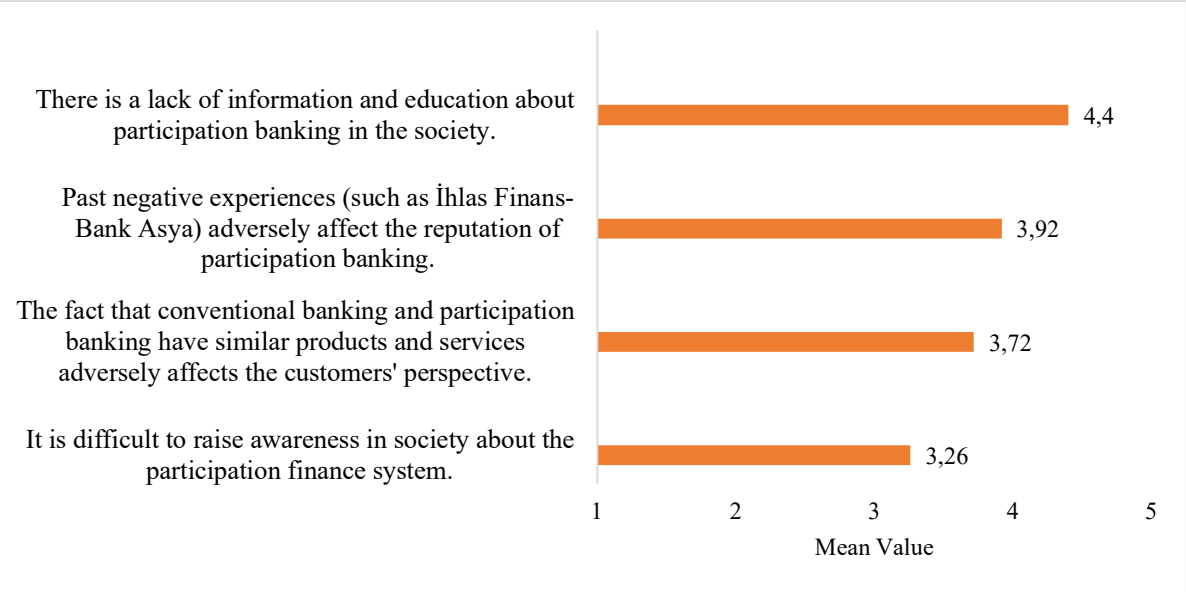
25,2% of the participants strongly agree that it is difficult to raise awareness in the society about the participation banks. However, 22,1% of them agree it and 22,1% of them disagree.

Statement three is about the similarity of products and services of conventional and participation banks. 37,4% of the participants strongly agree and 23,9% of them agree the

fact that conventional banking and participation banking have similar products and services adversely affects the perspective of customers.

According to the result, 45,4% of the participants strongly agree that past negative experiences adversely affect the reputation of participation banks. Also, 23,3% of them agree with the statement.

Figure 14: Order of the Perception of Society Statements



In figure 14, the order of the perception of society issues was presented based on their mean values. According to the results, the first issue is the lack of information and education about participation banking in society. The second issue is past negative experiences of participation banking and the third one is the similarity between participation banks and conventional banks in terms of their products and services. The mean values of the first three issues are closer to the value of “strongly agree”. Only the mean value of last issue is 3,26 which is closer to the value of “agree”.

5.8. RISKS RESULTS

In the survey, 8 types of risks faced by participation banking are listed and the participants were asked to score these risks in the range of 1 which is very low to 5 which is very high in terms of their transactions and business.

Table 10: Results of the Risk Statements

Risk Type	Responses	Response Categories					Mean
		VL	L	N	H	VH	
1) Credit risk in debt-based financial products	Number	13	15	71	34	30	3,32
	%	8	9,2	43,6	20,9	18,4	
2) Liquidity risk	Number	12	26	65	41	19	3,17
	%	7,4	16	39,9	25,2	11,7	
3) Technology and IT risk	Number	33	43	53	25	9	2,59
	%	20,2	26,4	32,5	15,3	5,5	
4) Reputational risk	Number	20	23	54	43	23	3,15
	%	12,3	14,1	33,1	26,4	14,1	
5) Rate of return risk	Number	8	28	47	52	28	3,39
	%	4,9	17,2	28,8	31,9	17,2	
6)Operational Risk	Number	15	40	38	49	21	3,12
	%	9,2	24,5	23,3	30,1	12,9	
7) Foreign exchange risk	Number	20	37	65	28	13	2,85
	%	12,3	22,7	39,9	17,2	8	
8) Collateral risk	Number	22	44	61	27	9	2,73
	%	13,5	27	37,4	16,6	5,5	

According to the results, the participants remained neutral for credit risk in debt-based financial products with 43,6%, liquidity risk with 39,9%, technology and IT risk with 32,5%, reputational risk with 33,1%, foreign exchange risk with 39,9%, collateral risk with 37,4%,. On the other side, 31,9% of the participants score the rate of return risk as high and 30,1% of them score the operational risk as high.

In the Islamic Bankers Survey Report prepared annually by CIBAFI, among the nineteen risk types, technology, and IT risk ranked first, and credit risk ranked second, and liquidity risk ranked third by Islamic financial institutions around the world as they concern

(CIBAFI, 2020, p. 106). However, according to the survey results conducted in this study, operational risk, and rate of return risk catch the attention.

Figure 15:Order of the Risks

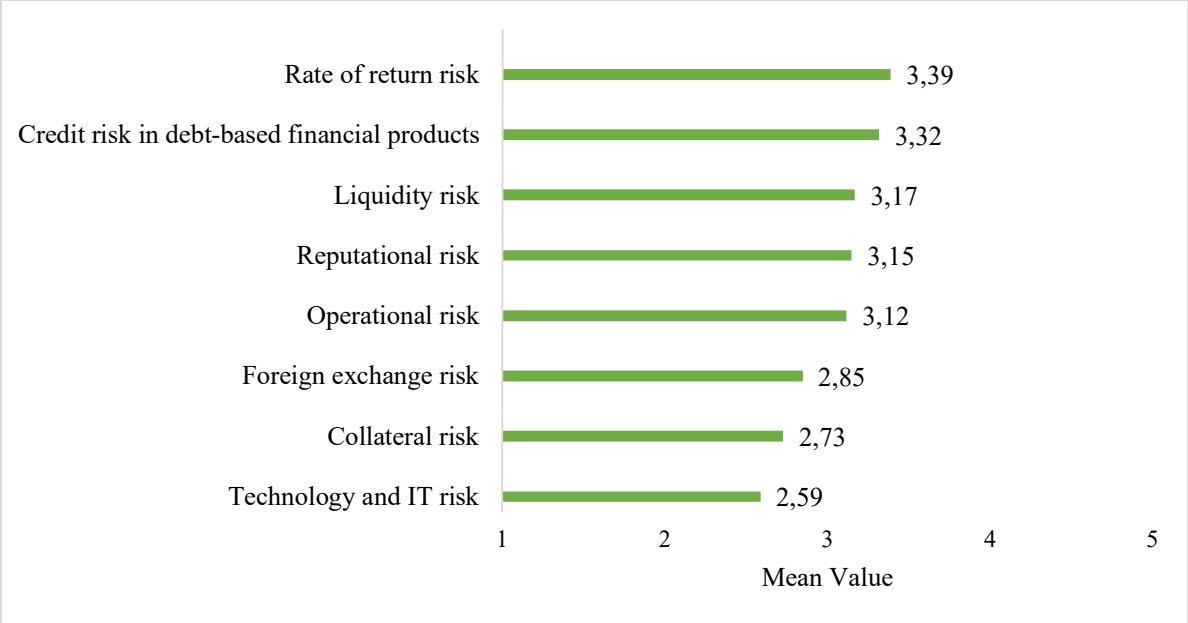


Figure 15 shows the order of risks presented in the survey based on their mean values. Thus, the first one is the rate of return risk, the second one is credit risk in debt-based financial products, and the third one liquidity risk. While the mean values of the first six issues are closer to the value of "agree", only the mean value of the last two issues are closer to the "neutral".

CONCLUSION

Nearly 40 years ago the implementation of participation banking in modern sense has started in Turkey. During this period, its market share in terms of assets did not exceed 7%, thus the participation banking system has not reached its expected potential in Turkey.

Given the increasing importance of the participation banking in Turkey, this study is expected to help evaluate the identification of issues and challenges of the participation banking. With the survey in the study, these issues and challenges were evaluated from the perspective of the participation bank employees.

Within the study, under the legal and regulatory framework, the infrastructure of participation banking is evaluated. Although the growth in participation banking has gained momentum with the increasing government support in recent years, there are regulations that takes into consideration of the different working systematic of participation banks and conventional banks needed for infrastructure. An effective and decent regulation system is as necessary in participation banks as it is in conventional banks. According to the survey results, the elimination of the differences between theory and practice with the necessary legal regulations will be effective for the development of participation banking.

Within the context of management, competition and similarity with the conventional banking are discussed. Turkey has a great potential for participation banking, but it has not reached the desired level yet. Most of the participants of the survey also stated that participation banking does not have the highest market share yet. Competition between participation banks and conventional banks which have a dominant majority in the banking sector, is another obstacle for the development of participation banking. Although the processes and procedures of participation bank products are different, the similarity between the existing products of participation banks and the products of conventional banks is another factor that slows down the desired development of the participation banking system. Developing products that emphasize the characteristics of participation banking such as risk sharing, and social morality will reduce this similarity. Also, lack of strategy in the management of participation banks and ineffective corporate governance needs to be

eliminated and participation banks should make more efforts to overcome these management deficiencies.

Serious steps have been taken in recent years towards the Shariah governance. Establishing the central advisory board is at the top of these. Independent and effective operation of this newly established board is vital for the development of participation banking. On the other hand, the contradiction of the fatwas and decisions coming from the advisory boards within the institutions shakes the trust of society. It is essential to establish Shariah standards to cover all participation banks in Turkey. Auditing these standards with a central external audit mechanism is particularly crucial for the sophistication of participation bank's products and services and sustainable growth of participation banking system.

One of the important stakeholders of participation banking is the customer segment. Under the perception of society title, negative reputation and lack of knowledge are discussed. The result of the survey showed that negative examples which were experienced in the past affect the reputation of participation banking negatively. On the other hand, the level of awareness of the society about participation banking is key for the development of the system. There is a lack of information and education about participation banking in the society. Increasing the awareness about participation banking system is an imperative step for further growth and development.

Within the industrial problems section, the sectoral issues faced by participation banking are examined. The first issue of the participation banking is lack of instruments, marketing, and skilled human resources. The lack of products that are compatible with the essence of participation banking and narrow product range adversely affects the development of participation banking. The second issue is the lack of institutions that complement participation banking. Participation banks need money markets, capital markets, foreign exchange markets and derivatives, which work on the Islamic law of contract principles to evaluate their funds.

Risk management has critical position in conventional banks as well as in participation banks. Participation banks face risks specific to their own structure along with

the risks faced by conventional banks. According to the results of the survey, the rate of return risk comes forward. In addition, credit risk in debt-based financial products, liquidity risk and reputation risk are among the important risks for the development of participation banking.

Policy Recommendations

Suggestions and recommendations for the issues and challenges revealed by the study can be listed as follows:

Table 11: Policy Recommendations

Authority	Issues and Challenges	Recommendations
Government	Legal and Regulatory Framework	• Taking into consideration of the working principles of participation banking and preparing a law suitable for its structure • Continuing government support, providing more opportunities for participation banking in long-term economic and financial planning,
	Industrial Issues	• Establishing institutions and organizations that complement participation banking
	Shariah Governance	• To ensure that the established central advisory board works independently and effectively, • To determine the standards covering all participation banks and to establish a central external audit mechanism in line with these standards
Participation Banks	Management Issues	• To serve with products that comply with the Islamic law of contract principles of participation banking, • To conduct studies to highlight its difference from conventional banks
	Industrial Issues	• Expanding the product range, generating an advertising strategy, and training human resources with knowledge of participation banking
	Customer Perception	• Increasing the awareness of participation banking in the society, explaining its difference from conventional banks more understandably and clearly
	Risks	• Transparency should be enhanced to reduce the risks faced by participation banks such as reputation risk. • With the effective risk management, the stability of participation banking should be emphasized

In conclusion, participation banking is not just a system focus on prohibitions of interest, uncertainty, and gambling. But it is a system that takes care of the benefit of the society, focuses on production, attaches importance to risk sharing, and works based on profit and loss partnership. The main aims of this system are to achieve social justice and economic development. Besides, the values and benefits of the participation banking are not just for Muslims. Thus, the participation banking system is an important alternative for the current problematic conventional banking system.

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APPENDIX

ETHIC APPROVAL DOCUMENT

SURVEY SAMPLES

ISSUES AND CHALLENGES OF PARTICIPATION BANKING SURVEY – 2020 - English

My name is Fatma Sayar. I am a master student at the Department of Islamic Economics and Finance, Ankara Social Sciences University (ASBU). This survey aims to identify issues and challenges related to the development of participation banking and put forward them from the perspective of participation banking employees in Turkey.

Your answers will be used in the master thesis and they are important both for finding solutions to the problems of participation banking and for future studies.

The study is conducted under the control of ASBU Ethics Committee and participation in the survey is voluntary. Answers will not be shared with third parties. For your comments, suggestions and criticisms, you can send an e-mail to fatma.sayar@student.asbu.edu.tr. Thank you for taking the time to contribute.

Descriptive Information				
Education	PHD	Master	University	High School
Experience	1-2	3-5	6-10	11-over
Position		Manager	Specialist	Other
	Operation			
	Marketing			

Please rate the following statements about the participation banking in Turkey.

SD: Strongly Disagree, D: Disagree, N: Neutral, A: Agree, SA: Strongly Agree

Statement Number	**LEGAL AND REGULATORY FRAMEWORK**	SD	D	N	A	SA
1	Supervisory and regulatory agencies (such as CBRT, BRSA) do not provide the necessary support to participation banking.					
2	Theory-practice differences (tax exemption, inability to buy and sell goods, interest income from the CBRT, etc.) due to deficiencies in legal regulations adversely affect the development of participation banking.					
3	Existing legislation is not enough to attract foreign investors to Turkey.					
MANAGEMENT ISSUES						
4	Participation banking has reached its largest share in the banking sector.					
5	There is a lack of strategy in the management of participation banking.					
6	Ineffective corporate governance makes development of participation banking difficult.					
7	Shareholders' profit expectation adversely affects the development of participation banking.					

8	The cost of files in participation banks is higher than in conventional banks.					
9	Competition with other participation banks in the sector adversely affects the development of participation banking.					
10	Competition with conventional banks adversely affects the development of participation banking.					
SHARIAH GOVERNANCE						
11	Contradictory decisions and fatwas of different institutions and advisory boards undermine society's trust.					
12	The presence of the same people in more than one Shariah advisory board negatively affects the development of participation banking.					
13	The lack of central Shariah auditing adversely affects the development of participation banking.					
14	The greater use of debt-based financial contracts (murabahah, tawarruq) than asset-based contracts (mudarabah, musharakah) reduces the credibility of participation banks.					
15	Following AAOIFI, IFSB standards will help the development of participation banking.					
INDUSTRIAL ISSUES						
16	The general macroeconomic situation of the country adversely affects the development of participation banking.					
17	Margin pressure adversely affects the development of participation banking.					
18	Lack of other supporting non-banking financial institutions (Islamic money market, capital market, takaful etc.) adversely affects the development of the participation banking.					
19	Shortage of capital has a negative impact on participation banking.					
20	There is a lack of skilled human resources for participation banking.					
21	The narrow product range adversely affects the development of participation banking.					
22	The lack of development / lack of products that are compatible with the essence of participation finance adversely affects the development of participation banking.					
THE PERCEPTION OF SOCIETY						
23	There is a lack of information and education about participation banking in the society.					
24	It is difficult to raise awareness in society about the participation banking.					

25	The fact that conventional banking and participation banking have similar products and services adversely affects the customers' perspective.					
26	Past negative experiences (such as İhlas Finans-Bank Asya) adversely affect the reputation of participation banking system.					
RISKS						
27	Credit risk in debt-based financial products					
28	Liquidity risk					
29	Technology and IT risk					
30	Reputational risk					
31	Rate of return risk					
32	Operational risk					
33	Foreign exchange risk					
34	Collateral risk					

KATILIM BANKACILIĞININ KARŞILAŞTIĞI PROBLEMLER ANKETİ – 2020 – Türkçe

Merhaba, ismim Fatma Sayar. Ankara Sosyal Bilimler Üniversitesi (ASBÜ), İslami Araştırmalar Enstitüsü İslam Ekonomisi ve Finansı Anabilim dalı yüksek lisans öğrencisiyim. Bu anket çalışması, Türkiye'deki Katılım Finansı kurumlarına ilişkin sorunları ve gelişimlerinin önündeki engelleri katılım bankacılarının bakış açısıyla ortaya koymayı amaçlamaktadır.

Vereceğiniz cevaplar yüksek lisans tezinde kullanılacak olup katılım bankacılığının problemlerine çözüm üretme konusunda katkı açısından önem taşımaktadır.

Çalışma ASBÜ Etik Kurulu'nun kontrolünde yapılmaktadır. Cevaplar üçüncü taraflarla paylaşılmayacaktır. Görüş, öneri ve tenkitleriniz için fatma.sayar@student.asbu.edu.tr adresine mail atabilirsiniz. Katkılarınız için teşekkür ederim.

Tanımlayıcı Bilgiler				
Eğitim	Doktora	Yüksek Lİsans	Üniversite	Lise
Tecrübe	1-2	3-5	6-10	11-over
Pozisyon		Yönetici	Uzman	Diğer
	Operasyon			
	Pazarlama			

Lütfen Türkiye'deki katılım bankacılığı ile ilgili aşağıdaki ifadeleri değerlendirin.

1: kesinlikle katılmıyorum, 2: katılmıyorum, 3: tarafsızım, 4: katılıyorum, 5: kesinlikle katılıyorum.

İfade Numaraları	**YASAL VE DÜZENLEYİCİ PROBLEMLER**	1	2	3	4	5
1	Denetleyici ve düzenleyici kurumlar (Merkez Bankası (MB), Bankacılık Düzenleme ve Denetleme Kurumu (BDDK) vs.) katılım bankalarına gereken desteği sağlamamaktadır.					
2	Yasal düzenlemelerdeki eksikliklerden dolayı meydana gelen teori-uygulama farklılıkları (vergi muafiyeti, mal alıp satamama, MB'den gelen faiz geliri vs.) katılım bankalarının gelişimini olumsuz etkilemektedir.					
3	Mevcut yasal düzenlemeler yabancı yatırımcıları Türkiy'ye çekmek için yeterli değildir.					
İDARİ PROBLEMLER						
4	Katılım bankacılığı, bankacılık sektöründe ulaşabileceği en büyük paya ulaşmıştır.					
5	Katılım bankacılığı yönetiminde strateji eksikliği vardır.					
6	Etkin olmayan kurumsal yönetim katılım bankacılığının gelişmesini zorlaştırmaktadır.					
7	Hissedarların kâr beklentisi katılım bankacılığının gelişimini olumsuz etkilemektedir.					
8	Katılım bankacılığında dosya maliyeti konvansiyonel bankalarda olduğundan daha fazladır.					
9	Sektördeki diğer katılım bankaları ile rekabet katılım bankacılığının gelişimini olumsuz etkilemektedir.					
10	Konvansiyonel bankalarla rekabet katılım bankalarının gelişimini olumsuz etkilemektedir.					
DİNİ/FIKHİ PROBLEMLER						
11	Farklı kurum ve danışma kurullarının çelişkili karar ve fetvaları toplumun güvenini sarsmaktadır.					
12	Aynı kişilerin birden fazla danışma kurulunda bulunması katılım bankacılığının gelişimini olumsuz etkilemektedir.					
13	Merkezi şeri denetim noksanlığı katılım bankacılığının gelişimi olumsuz etkiler.					
14	Borca dayalı finansal sözleşmelerin (murabaha, teverruk, vs.) varlığa dayalı sözleşmelerden (mudaraba, müşareke vs.) daha fazla kullanılması katılım bankalarının güvenilirliğini azaltmaktadır.					
15	AAOIFI, IFSB standartlarını takip etmek katılım bankacılığının gelişmesine yardımcı olacaktır.					
SEKTÖREL PROBLEMLER						

16	Ülkenin genel makroekonomik durumu katılım bankacılığının gelişimini olumsuz etkilemektedir.					
17	Kâr kaygısı katılım bankacılığının gelişimini olumsuz etkilemektedir.					
18	Diğer destekleyici bankacılık dışı finans kurumlarının (İslami para piyasası, sermaye piyasası, İslami sigorta vb.) yeterince gelişmemesi, Türkiye'de katılım bankacılığının gelişimini olumsuz etkilemektedir.					
19	Sermaye yetersizliği katılım bankacılığını olumsuz etkilemektedir.					
20	Katılım bankacılığı için yetiştirilmiş insan kaynağı eksiği vardır.					
21	Dar ürün yelpazesi katılım bankacılığının gelişimini olumsuz etkilemektedir.					
22	Katılım finansının özüne uygun ürünlerin geliştirilememesi/eksikliği katılım bankacılığının gelişimini olumsuz etkilemektedir.					
TOPLUM ALGISI						
23	Türkiye'de katılım finansı konusunda toplumda bilgi eksikliği vardır.					
24	Toplumda, katılım finansı sistemi hakkında farkındalığı artırmak zordur.					
25	Konvansiyonel bankacılık ve katılım bankacılığının benzer ürün ve hizmetlere sahip olması, müşterilerin bakış açısını olumsuz etkilemektedir.					
26	Geçmiş olumsuz deneyimler (İhlas Finans-Bank Asya gibi) katılım bankacılığının itibarını olumsuz etkilemektedir.					
RİSKLER						
27	Borç temelli finansal ürünlerde kredi riski					
28	Likidite riski					
29	Teknoloji güvenliği riski					
30	İtibar riski					
31	Getiri oranı riski					
32	Operasyonel risk					
33	Döviz kuru riski					
34	Teminat riski					