

## DEVELOPMENT OF THE ISLAMIC FINANCE IN TURKEY: A QUESTIONNAIRE STUDY

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### ABSTRACT

Islamic finance applications have started to be active in Turkey since 1984. The Special Finance Houses were the first institutions for the Islamic finance, which have been transformed into the Participation Banks by the new banking law in 2005. Although more than 95% of the population of the Turkey is Muslim, participation banks have only 5% of the total market share of the bank sector. Recent economic development and several regulation changes have started to speed up the Islamic Finance sector growth in Turkey. For example, sovereign sukuk and participation banks' sukukuks have been issued, Islamic private pension and takaful (Islamic insurance) companies have been established and large state-owned banks are about to open their new Islamic banks in 2015. In this research, the experience of Islamic finance in Turkey is briefly explained. Then it focuses on recent changes in Islamic finance implementations in the Turkish market, such as sukuk issues, takaful applications and Islamic private pensions. According to qualitative and quantitative data, it is shown that there are various problems of Islamic finance practices in Turkey, which limit the growth of the Islamic finance market despite its high growth potential. For this reason the existing Islamic finance implementations do not meet the needs of the Turkish market. This study is endeavored to provide various proposals for developing the Islamic finance market and disseminating Islamic finance implementations in Turkey, based on the findings of the qualitative and quantitative research data. In order to make more accurate inferences, a questionnaire is made to Islamic Bank employees and analyzed with statistical methods. It is considered that this study is able to fill up the literature blank of Islamic finance research and implementation within Turkey and that the proposals of this study can be used as a road map for further research in this area.

Keywords: Islamic Finance, Takaful, Sukuk, Participation Bank, Turkey

Jel Classification: G21, G22, G23, Z12, C83

### INTRODUCTION

The term of Islamic Finance began to be used to define modern era Islamic Banking applications which has started with the Mit Ghamr Saving Bank in Egypt in the 1963. Although there was several short-termed Islamic finance applications such as; Muslim Pilgrims Savings Corporation in Malaysia in 1960s and interest free credit loan applications in Pakistan in the late 1950s (Warde, 2000:73), Mith Ghamr Saving Bank accepted as milestone of the Islamic Banking. The conceptual development of the Islamic banks has started to develop in mid-1940s, practical application followed it in the coming period. After 1970s, many Middle Eastern countries started to establish their own Islamic banks after the petrodollar flows (Polat, 2009:84). The Turkish experience of the Islamic banking can be said that started with the State Industry and Laborer Investment Bank (SILIB) in 1975. This bank worked as profit/loss sharing principle, but the board has decided to work with interest based system in 1978 (Polat, 2009:87).

Islamic financial applications started with the basic banking applications and, then it developed with other financial instruments such as sukuk, takaful products, etc. Islamic finance market size has reached around 2 trillion dollars and it has 17% compound annual growth rate (CAGR) between 2009 and 2014. Islamic banking (80%) and sukuk (15%) are the main actors of the market. Malaysia and the GCC countries have the biggest share of the Islamic finance market

(MIFC, 2014:2). At the beginning Muslim countries was the only practitioners of the Islamic banking, after the several financial crisis western economies searched for innovations. Today, even conventional banks trying to open Islamic windows to get a share from the Islamic finance market. Turkey is the one of the fastest growing actor of the Islamic finance market. Also Turkey has the great potential for Islamic finance with a dominant Muslim population, which is above 95 %.

In 1980s, after the Turkey opened itself to the free market economy rapid changes has started. Table 1 summarizes initials of the Islamic finance applications in Turkey. Even though foresaid SILIB application, real examples of the Islamic Financial Institutions (IFI) were Special Finance Houses (SFH). After the SPH enactment was passed several SFHs started to be established one by one. SFHs replaced with the Participation Banks (PB) by new banking law in 2005. The name of the Participation Bank is especially has chosen for Islamic banks. They considered if banks use the name “Islamic” and make any mistake, people may refer these mistakes to Islam. For this reason Participation Banking name has chosen which represent participating to the profit and loss (Özcan & Hazıroğlu 2000:192-195). As it seen from the Table 1 after 2009, innovative acts speeded up. First takaful company Neova was established in 2009 and then Kuveyt Türk PB issued first sukuk then Lease certificate which refers to sukuk, Communique was issued in 2010. Islamic index which called Participation Index, introduced to the market. After first sukuk issued by Treasury, sukuk issues had a benchmark. Recent development is the state-owned participatin banks which will be opened in May 2015.

**Table 1: Initials of the Islamic Finance in Turkey**

| Years | Event   |
|-------|---|
| 1983  | Special Finance House enactment was passed.                         |
| 1984  | First Special Finance House company was established                 |
| 2005  | Special Finance Houses replaced with Participation Banks by law.    |
| 2009  | First takaful company was established.                              |
| 2010  | First sukuk issued.   |
| 2010  | Lease Certificate (Sukuk) Communique was issued.                    |
| 2011  | First Islamic Index (participation index) was introduced to market. |
| 2011  | First Islamic private pension company was established.              |
| 2012  | First sovereign sukuk was issued by Treasury.                       |
| 2015  | Three state-owned participation banks will be established.          |
| 2015  | First takaful cooperative will be established. (announced)          |

This paper investigates Turkish experience of the Islamic financial applications and assesses its performance. Aim of the paper is the pointing opportunities and challenges of the Islamic finance applications in Turkish market and offering several proposals as a solutions to the challenges of the Islamic Finance practices.

## 1. RESEARCH METHODOLOGY

Both qualitative and quantitative data is used to analyzing the current conditions of the Islamic finance implementations in Turkey. Prior to survey analysis, related literature and secondary data from reports were analyzed to general condition of the IFIs, and find out strengths and weaknesses, and opportunities and threats of the IFIs in Turkey. After describing aforementioned points of the IFI, questionnaire conducted and sent to the Islamic Bank employees to analyze their perception for recent Islamic finance development in Turkey. First phase of the questionnaire designed to gather information about respondents’ profile which contains demographic, educational and, job positions and experience.

Then, four main multiple-choice questions asked to ascertain respondents' perception for SWOT points of the IFIs in Turkey. Questionnaires distributed via e-mails and 621 respondents completed the survey. Statistical analysis was performed using SPSS software. Firstly normality test made to collected data. Related to result of the normality test, Kruskal-Wallis test was used to measure whether there were any significant difference between means of the each categories; age, gender, title, education level, working experience. Further to that, Chi-square independence test was used to measure relationship among aforementioned categories with the responds of the questionnaire questions.

Findings of the secondary data separated to the sub-themes of the Islamic finance applications. However IFIs individually has the common problems and challenges, it would be better to understand if we analyze each sector of the IFI separately. Asset sizes, market penetrations, CAGRs ([compound annual growth rates](#)) are taken as main quantitative measures. Study focuses on the general issues for this reason performance measure such as profitability and other financial ratios did not being used in the study. Also some report results, recent news about the IF implementations and, related literature studies were used as qualitative data for analysis.

According to qualitative and statistical analysis results, several proposals made for development of Islamic finance practices in Turkey and, for further studies.

## 2. FINDINGS FOR SECONDARY DATA

Due to study comprise qualitative and quantitative analysis, findings of the research separated into two sections. In this section, we analyzed each component of the Islamic Finance applications in Turkey separately. At the end of this section general outlook of the IFIs in Turkey shown and SWOT table conducted.

### 2.1. PARTICIPATION BANKING

Participation banks are the main character of the IFIs of the Turkey. PBs has key role for development of the IF in Turkey. Mainly other IFIs are the subsidiaries of the PBs. Figure 1 shows as total asset growth of the PBs and its share in the total banking sector. [As it seen from the Figure 1 PBs raised its share in the market from 1.9% to 5.2%. Share from the market almost tripled. It is obvious that it has increasing trend during the 2002-2014. Recent problems of the Bank Asya which had regulative problems, caused decrease in consolidated PBs asset size. Another important point is even though global financial crisis which was in 2008, PBs asset size did not effected dramatically from that. In 2014, PBs has reached to the 104 billion TL asset size.](#)

FIGURE 1: TOTAL ASSETS AND SHARE IN TOTAL BANKING SECTOR OF PB'



Source: BRSA, <http://ebulten.bddk.org.tr/ABMVC/>, 20.04.2015

Table 2 shows the detailed number from the banking sector. Turkish banking sector has reached almost 2 billion TL asset size by 2014. 90.5%, 5.2% and 4.2% of the assets are belong to the deposit banks, PBs and Development and investment banks, respectively. When we look at the CAGRs of the banks, deposit banks and development and investment banks has 18%, PBs has 29% and total banking has 19% CAGR during the 2002-2014. It is obvious that PBs has much higher CAGR from the banking sector during the period of 2002-2014.

**TABLE 2: GROWTH OF THE BANKING SECTOR IN TURKEY (MLN. TL)**

| Years                   | Deposit Banks (DB) | Share Of The DB | Participation Banks | Share Of The (PB) | Development & Investment Banks | Share Of The DIB | Total Banking Sector |
|-------------------------|--------------------|-----------------|---------------------|-------------------|--------------------------------|------------------|----------------------|
| 2002                    | 203.243            | 95,6%           | 3.962               | 1,9%              | 9.438                          | 4,4%             | 212.681              |
| 2003                    | 239.423            | 95,9%           | 5.113               | 2,0%              | 10.265                         | 4,1%             | 249.688              |
| 2004                    | 295.112            | 96,3%           | 7.299               | 2,4%              | 11.327                         | 3,7%             | 306.439              |
| 2005                    | 384.097            | 94,4%           | 9.945               | 2,4%              | 12.867                         | 3,2%             | 406.909              |
| 2006                    | 470.635            | 94,2%           | 13.752              | 2,8%              | 15.345                         | 3,1%             | 499.731              |
| 2007                    | 543.272            | 93,4%           | 19.445              | 3,3%              | 18.888                         | 3,2%             | 581.606              |
| 2008                    | 683.823            | 93,4%           | 25.770              | 3,5%              | 22.943                         | 3,1%             | 732.536              |
| 2009                    | 773.357            | 92,7%           | 33.628              | 4,0%              | 27.029                         | 3,2%             | 834.014              |
| 2010                    | 932.371            | 92,6%           | 43.339              | 4,3%              | 30.958                         | 3,1%             | 1.006.667            |
| 2011                    | 1.119.911          | 92,0%           | 56.148              | 4,6%              | 41.636                         | 3,4%             | 1.217.695            |
| 2012                    | 1.247.653          | 91,0%           | 70.279              | 5,1%              | 52.758                         | 3,8%             | 1.370.690            |
| 2013                    | 1.566.190          | 90,4%           | 96.075              | 5,5%              | 70.136                         | 4,0%             | 1.732.401            |
| 2014                    | 1.805.427          | 90,5%           | 104.163             | 5,2%              | 84.571                         | 4,2%             | 1.994.161            |
| <b>CAGR (2002-2014)</b> | <b>18%</b>         |                 | <b>29%</b>          |                   | <b>18%</b>                     |                  | <b>19%</b>           |

Source: BRSA, <http://ebulten.bddk.org.tr/ABMVC/>, 20.04.2015

Even though being in the market player for 30 years, PBs has only 5.2% from the market share. There is also another important point which is reason behind customer preferences for choosing the participation banks. What is the main reason for customers to choose participation banks? Is it being sensitive for religion? Unfortunately some studies shows that it is not the primary reason for some customers. According to results of the Özsoy et. al. (2013: 200) study, religious and environmental effects has only 8.867% percent importance for choosing PBs. Other reasons are service/product quality (26.695%), image and trust (21.735%), and quality of the employees (21.097%). It is also mentioned that 44% of the participants are also using conventional banks for their needs (Özsoy et. al., 2013:202). From the aspect of customer satisfaction and customer loyalty there is no difference between conventional an participation banks (Şendoğdu, 2014:103).

## 2.2. LEASE CERTIFICATES (SUKUK)

Lease certificates defined as “a security issued by an asset leasing company in order to finance the assets that are acquired or leased, and which entitles its holders to the revenues attained from such assets in proportion to their shares” in the Lease Certificates Communique(2013). This is Turkish version of the sukuk. First communique issued in 2010 and then sukuk aka. Lease certificates started to be issued. In 2013, Communique defined 5 new type of the lease certificates which caused diversification in the sukuk market. Sukuk market has the second biggest share in the Islamic funds after the Islamic Banks. (MIFC, 2014:2).

Table 3 shows the sukuk issues from 2010 to first half of the 2014. As it seen after the regulation needs covered sukuk issues has started but there was one problem. When the first sovereign sukuk issued in 2012, sukuk issued speeded up. Till first half of the 2014, \$ 8.5 billion sukuk issued by Turkish SPV aka. Asset Leasing Companies (ALC). According to communique only ALCs can issue lease certificates.

**TABLE 3: LEASE CERTIFICATE ISSUES**

| Year         | No. Of Issues | Amount Of Issue (\$ Mn.) |
|--------------|---------------|--------------------------|
| 2010         | 1             | 100                      |
| 2011         | 1             | 350                      |
| 2012         | 2             | 2410                     |
| 2013         | 14            | 4319                     |
| 2014/Q2      | 19            | 1321                     |
| <b>TOTAL</b> | <b>37</b>     | <b>8500</b>              |

Source: IIFM, 2014:124

Table 4 shows us recent sukuk issues which is from second half of the 2014 to first quarter of the 2015. \$5.5 billion sukuk issued foresaid period. End of the first quarter of the 2015, around 14 billion dollars sukuk has issued.

**TABLE 4: RECENT SUKUK ISSUES IN TURKEY**

| 2014/Q2 - 2015/Q1 | No. Of Issues | Amount Of Issue (\$ Mn.) |
|-------------------|---------------|--------------------------|
| <b>Sovereign</b>  | 2             | 1277                     |
| <b>Private</b>    | 10            | 4222                     |
| <b>Total</b>      | <b>12</b>     | <b>5499</b>              |

Source: CMBT, <http://www.spk.gov.tr/indexpage.aspx?pageid=895&submenuheader=3> , 20.04.2015

Global sukuk market reached \$ 668 billion by July 2014. Yearly issues are around 130 billion. There is another problem raises among community which is sharia' convenience for sukuku. There is one scholar says lease certificates which are issued by Treasury are not halal (Bayındır, 2012). Another scholars allows the sukuk issues according aforesaid article. This situation create a problem for public awareness.

## 2.3. TAKAFUL AND (INTEREST-FREE) PRIVATE PENSIONS

Takaful product however it has stated in 2009, it can be said that newest products for Turkish market. In the global IF market Takaful has around 1% share. In Turkey there is only one company which offer non-life insurance products which can be called as general takaful. There is also 2 pension companies which offer Islamic funds for its customers and some life insurance products which may refer to family takaful. Table 5 shows market shares of these aforementioned companies by asset size. In total they have only 1.19% share of market.

**TABLE 5: MARKET SHARE OF THE TAKAFUL & PENSION COMPANIES BY ASSET SIZE**

| 2014/IV.Q      | Total Assets         | Market Share |
|----------------|----------------------|--------------|
| Neova          | 367.613.617 ₺        | 0,45%        |
| Asya Pension   | 527.776.763 ₺        | 0,65%        |
| Katilm Pension | 66.971.946 ₺         | 0,08%        |
| <b>TOTAL</b>   | <b>962.362.326 ₺</b> | <b>1,19%</b> |

Source: IAT (Insurance Association of Turkey), <http://www.tsb.org.tr/>

Table 6 shows market share of the takaful and pension companies by its written premiums. In sum, three company have 1.49% share of the market.

**TABLE 6: MARKET SHARE OF THE TAKAFUL & PENSION COMPANIES BY TOTAL WRITTEN PREMIUM**

| 2014/IV.Q      | Total Written Premium | Market Share |
|----------------|-----------------------|--------------|
| Neova          | 380.333.095 ₺         | 1,46%        |
| Asya Pension   | 2.638.074 ₺           | 0,01%        |
| Katilm Pension | 3.388.947 ₺           | 0,01%        |
| <b>Total</b>   | <b>386.360.116 ₺</b>  | <b>1,49%</b> |

Source: IAT, <http://www.tsb.org.tr/>

When market shares taken into consideration it may look very tiny portion as if takaful share in the Islamic finance market. But we need to make deeper analysis to looking into growth in the market share by years. Table 7 shows Neova Insurance companies market share last 5 years. If we evaluate this table with Table 8 it will be more meaningful. 1.67% market share can be said very high and good result if we consider having 3% share of the market means to be top 10 in the insurance sector.

**TABLE 7: NEOVA INSURANCE CO. 2010-2014 MARKET SHARE**

| Years             | 2010 | 2011 | 2012 | 2013 | 2014 |
|-------------------|------|------|------|------|------|
| Market Share (%)* | 0,52 | 0,59 | 0,77 | 1,23 | 1,67 |

Source: \*By Written Premium, IAT, <http://www.tsb.org.tr/>

[Table 8 shows market shares of the first 10, first 20 companies reel growth in the premium. Neova takaful company has highest growth rate from the sector average, first 10 companies average, first 20 and even sector average. This can be accepted as quite important growth.](#)

**TABLE 8: 2010-2014 INSURANCE COMPANIES PREMIUM REEL CHANGE (%)**

|                                 | 2010-2011 | 2011-2012 | 2012-2013 | 2013-2014 |
|---------------------------------|-----------|-----------|-----------|-----------|
| <b>First 10 Company Average</b> | 11,62     | 10,31     | 16,58     | -1,74     |

|                                 |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|
| <b>First 20 Company Average</b> | 10,54 | 12,61 | 13,85 | 0,60  |
| <b>Sector Average</b>           | 9,72  | 11,35 | 13,34 | 0,77  |
| <b>Neova</b>                    | 24,44 | 45,45 | 82,33 | 36,92 |

Source: IAT, <http://www.tsb.org.tr/>

Table 9 shows us from the Okumuş's (2014) book which refers feasibility report of the Neova before it introduced to the market. As it seen Neova mainly outperformed from its expectations.

**TABLE 9: NEOVA INSURANCE CO. PREMIUM PRODUCTION DURING 2009-2013 (MLN TL)**

| Years | Expexted | Expected (Bad) | Realized |
|-------|----------|----------------|----------|
| 2009  | 19,72    | 14,79          | 0,26     |
| 2010  | 59,99    | 45,63          | 61,79    |
| 2011  | 99,99    | 75,99          | 84,93    |
| 2012  | 134,99   | 102,39         | 131,14   |
| 2013  | 179,96   | 136,62         | 256,80   |

Source: Okumuş, 2014:158-167; IAT, <http://www.tsb.org.tr/>

According to this result we can see a promising future for takaful market in Turkey. Also government helping pension plan holders by adding 25% Turkish lira for each 100 Turkish lira contribution. This also expected to robust the pension companies. There is also one cooperative insurance company which claimed that will turn into the takaful company in 2015 Reuters (2015). After all these good news there is a need to mention that regulation need for takaful companies. There is no limitation for takaful applications but also there is no regulation either. Turkey has great potential in takaful market but it has some problems because of the regulations needs (E&Y, 2014: 4).

## 2.4. GENERAL SWOT ANALYSIS

In the previous section, development of the IFIs and its current conditions explained and evaluated. It is obvious that Turkey has great potential for Islamic finance. However, there are some challenges and threats for further applications of Islamic finance. SWOT analysis table created according to qualitative analysis as it is shown Table 10.

There is also a report shows SWOT analysis for Islamic finance in Turkey (Zawya, 2014: 69). SWOT analysis, which shown on the Table 10 is created according literature and surveyed with Islamic bank employees. Survey results shows that Islamic bank employees' perception and opinion based on SWOT analysis table. Some of the proposals written in the SWOT tables reflects the facts according to financial statements and reports such as, growth rate of the PBs, regulation need. Some of the proposals are assumption and would be considered as subjective and open to discussion. Results of the survey analysis are discussed in the next section with details. We assumed that this SWOT table at least shows the general outlook of the Islamic Finance Development in Turkey.

**TABLE 10: SWOT ANALYSIS FOR ISLAMIC FINANCE MARKET IN TURKEY**

| STRENGTHS | WEAKNESS |
|-----------|----------|
|-----------|----------|

|  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• PBs are more durable compared to conventional banks in case of financial crisis</li> <li>• High growth performance of the PBs</li> <li>• Turkey will take share from interest on Islamic banks worldwide</li> <li>• The increase in the level of income of the interest sensitive people</li> <li>• Supportive and positive approach of the government for Islamic finance</li> </ul> | <ul style="list-style-type: none"> <li>• Regulation (there is not any regulation dedicated to Islamic finance)</li> <li>• Inadequacy of the qualified human resource</li> <li>• Capital inadequacy</li> <li>• Misconception about the PBs which seems similar with conventional banks</li> <li>• Low product diversity of the PBs</li> <li>• Underdevelopment of the other Islamic financial fields.</li> </ul> |
| <b>OPPORTUNITIES</b>   | <b>THREATS</b>  |
| <ul style="list-style-type: none"> <li>• High potential of the Turkey in IF market</li> <li>• Positive approach of the government</li> <li>• Establishment of state-owned PBs</li> <li>• Istanbul Finance Center Project</li> <li>• Great interest on sukuk, takaful (Islamic insurance) and Islamic pensions</li> </ul>   | <ul style="list-style-type: none"> <li>• Change in political business cycles.</li> <li>• Decrease in Turkish economic growth performance</li> <li>• Probability of the decrease in global liquidity and raise in interest rates</li> <li>• Increase in competition with conventional banks</li> </ul>   |

### 3. FINDINGS OF SURVEY ANALYSIS

In this section survey analysis results evaluated according to statistical analysis test results

**TABLE 11: PROFILE OF THE RESPONDENTS**

| GENDER       |            |              | EDUCATION         |            |              |
|--------------|------------|--------------|-------------------|------------|--------------|
|              | Frequency  | Percent      |                   | Frequency  | Percent      |
| Female       | 53         | 8.5          | High School       | 18         | 2.9          |
| Male         | 568        | 91.5         | Two-Year Degree   | 13         | 2.1          |
| <b>Total</b> | <b>621</b> | <b>100.0</b> | Bachelor          | 436        | 70.2         |
|              |            |              | Master            | 147        | 23.7         |
|              |            |              | Phd               | 7          | 1.1          |
|              |            |              | <b>Total</b>      | <b>621</b> | <b>100.0</b> |
| AGE RANGE    |            |              | JOB TITLE         |            |              |
|              | Frequency  | Percent      |                   | Frequency  | Percent      |
| 20-24        | 31         | 5.0          | Assistant Officer | 77         | 12.4         |
| 25-29        | 218        | 35.1         | Officer           | 87         | 14.0         |

|              |     |       |                      |     |       |
|--------------|-----|-------|----------------------|-----|-------|
| 30-34        | 190 | 30.6  | Assistant Specialist | 103 | 16.6  |
| 35-39        | 103 | 16.6  | Specialist           | 94  | 15.1  |
| 40-44        | 28  | 4.5   | Assistant Manager    | 190 | 30.6  |
| 45-49        | 32  | 5.2   | Manager              | 56  | 9.0   |
| 50-54        | 13  | 2.1   | Assistant Auditor    | 3   | .5    |
| 55 and above | 6   | 1.0   | Auditor              | 6   | 1.0   |
| <b>Total</b> | 621 | 100.0 | Other                | 5   | .8    |
|              |     |       | <b>Total</b>         | 621 | 100.0 |

Questionnaires distributed among the Islamic bank employees randomly. Table 11 shows respondents' profile. There are 621 respondents, among these 91.5% of the man and 8.5% female. This is quite accurate for Turkish PBs if we consider real gender distribution is very close to this numbers. Majority of the employees have bachelor degree or higher level. When we consider this fact, this explains why there is less employees under 25 years old. Majority employees' age are between 25 and 39. This means Turkish PBs quite young working power also its cause of the PBs just being developed recently. Further to that when we look at the Table 12 which shows us majority of the PB employees' have less than 12 years working experience, this can be another proof of the aforesaid sentence, which is IFI recently started to develop and expand their work power. When we asked about whether PBs employees worked in the conventional banks before, a majority of them 78.6 % said no. among these 133 people who experienced in conventional banks, changed their job to Islamic banks especially (98.6 %) cause of the religious sensitivity.

**TABLE 12: EXPERIENCE OF THE RESPONDENTS**

|   |              | Frequency | Percent |       |       |       |       |              |              |
|---|--------------|-----------|---------|-------|-------|-------|-------|--------------|--------------|
| <b>Did work at Conventional banks before?</b> | No           | 488       | 78.66   |       |       |       |       |              |              |
|   | Yes          | 133       | 21.4    |       |       |       |       |              |              |
|   | <b>Total</b> | 621       | 100.0   |       |       |       |       |              |              |
| <b>Experince in Years</b>                     |              |           |         |       |       |       |       |              |              |
|   | 1-3          | 4-6       | 7-9     | 10-12 | 13-15 | 16-18 | 19-21 | 22 and above | <b>TOTAL</b> |
| <b>Frequency</b>                              | 185          | 138       | 139     | 74    | 18    | 24    | 12    | 31           | 621          |
| <b>Percentage</b>                             | 29.8         | 22.2      | 22.4    | 11.9  | 2.9   | 3.9   | 1.9   | 5.0          | 100          |

When analyzing collected data from survey by using statistical methods, normality test needs to be taken into consideration to determine whether parametric or nonparametric tests can be used. Table 13 shows Kolmogorov-Smirnov and Shapiro-Wilk normality test results. Each component of the SWOT analysis tested for normality measures. According this test, hypothesis can be shown as:

$H_0$ : It is normally distributed

$H_1$ : It is not normally distributed

As it is shown on the Table 13 test significance level all are below 0.05 significance level, which means  $H_1$  will be accepted. For this reason non-parametric tests needed to applied for our data. For next phase Kruskal-Wallis test applied to find out whether there is any differences mean of the respondents opinions' among the grouping variables.

**TABLE 13: NORMALITY TEST RESULTS**

| Tests of Normality |                    |     |      |              |     |      |
|--------------------|--------------------|-----|------|--------------|-----|------|
|                    | Kolmogorov-Smirnov |     |      | Shapiro-Wilk |     |      |
|                    | Statistic          | df  | Sig. | Statistic    | df  | Sig. |
| Weakness           | ,207               | 621 | ,000 | ,919         | 621 | ,000 |
| Opportunity        | ,191               | 621 | ,000 | ,866         | 621 | ,000 |
| Threat             | ,304               | 621 | ,000 | ,783         | 621 | ,000 |
| Strenght           | ,255               | 621 | ,000 | ,817         | 621 | ,000 |

Table 14 shows Kruskal-Wallis test results. Gender and age does not have any significant difference for all SWOT measures. Answers for threat has significant difference for education and job title grouping variables. Answers for strength has significant difference for experience and job title.

**TABLE 14: KRUSKAL-WALLIS TEST RESULTS**

| Test Statistics   |             |          |             |        |          |
|-------------------|-------------|----------|-------------|--------|----------|
|                   |             | Weakness | Opportunity | Threat | Strength |
| <b>Gender</b>     | Chi-Square  | ,468     | ,281        | 1,195  | 1,057    |
|                   | df          | 1        | 1           | 1      | 1        |
|                   | Asymp. Sig. | ,494     | ,596        | ,274   | ,304     |
| <b>Education</b>  | Chi-Square  | 1,871    | 2,733       | 9,598  | 5,784    |
|                   | df          | 4        | 4           | 4      | 4        |
|                   | Asymp. Sig. | ,760     | ,603        | ,048   | ,216     |
| <b>Age</b>        | Chi-Square  | 5,364    | 10,915      | 11,081 | 12,211   |
|                   | df          | 7        | 7           | 7      | 7        |
|                   | Asymp. Sig. | ,616     | ,142        | ,135   | ,094     |
| <b>Experience</b> | Chi-Square  | ,974     | 6,760       | 10,289 | 19,248   |
|                   | df          | 7        | 7           | 7      | 7        |
|                   | Asymp. Sig. | ,995     | ,454        | ,173   | ,007     |
| <b>Job Title</b>  | Chi-Square  | 7,837    | 10,698      | 18,196 | 34,906   |
|                   | df          | 8        | 8           | 8      | 8        |
|                   | Asymp. Sig. | ,450     | ,219        | ,020   | ,000     |

This study also aimed to find out that whether is any relationship between grouping variables and the answers to the questionnaire. For this reason chi-square test used to answer this question. Most common chi-square test is the Pearson's test. Hypothesis of this test as follows:

$H_0$ : Variables are statistically independent     $H_1$ : Variables are not statistically independent

If the the probability values is higher than 0.05 that means variables are independent statistically. Gender and Education grouping variables are independent from variables, which is shown on the Table 15. All of the probability values are higher than 0.05 significance level, for this reason we accept  $H_0$  hypothesis.

Age has relation only with “weakness” answers as it is seen it has 0.018 p. value, because  $0.018 < 0.05$ ,  $H_1$  hypothesis accepted. Other variables are not subject to dependency with age variable. All are the p. values are above 0.05 significance level.

Experience has relation with threat and strength variables. As it is shown on the table 15, p values for threat and strength are 0.025 and 0.023, respectively. For other variables dependency is not significant according to chi-square test statistic values.

Job title has relation with weakness and strength. But strength’s p. value is equal to the significance level for this reason some may say this is also independent. However, weakness and job title has relationship, which showed perfect p. value for the test.

In sum, bank employees’ opinions are related to their job title, age and experience for some cases. But their opinions are not related to gender and education level at all. Age has significance in weakness responses, experience has significance in threat and strength, lastly job title has significance in weakness and strength’s answers.

**TABLE 15: INDEPENDENCY TEST RESULTS**

|                   |             | Pearson Chi-Square Test Statistics |             |              |              |
|-------------------|-------------|------------------------------------|-------------|--------------|--------------|
|                   |             | Weakness                           | Opportunity | Threat       | Strength     |
| <b>Gender</b>     | Chi-Square  | 8.307                              | 2.134       | 4.287        | 7.084        |
|                   | df          | 6                                  | 5           | 4            | 5            |
|                   | Asymp. Sig. | 0.216                              | 0.830       | 0.369        | 0.214        |
| <b>Education</b>  | Chi-Square  | 20.402                             | 11.482      | 18.451       | 17.846       |
|                   | df          | 24                                 | 20          | 16           | 20           |
|                   | Asymp. Sig. | 0.674                              | 0.933       | 0.298        | 0.598        |
| <b>Age</b>        | Chi-Square  | 63.314                             | 29.276      | 41.111       | 42.165       |
|                   | df          | 42                                 | 35          | 28           | 35           |
|                   | Asymp. Sig. | <b>0.018</b>                       | 0.740       | 0.052        | 0.189        |
| <b>Experience</b> | Chi-Square  | 51.521                             | 23.797      | 44.545       | 53.561       |
|                   | df          | 42                                 | 35          | 28           | 35           |
|                   | Asymp. Sig. | 0.149                              | 0.924       | <b>0.025</b> | <b>0.023</b> |
| <b>Job Title</b>  | Chi-Square  | 92.910                             | 48.554      | 42.540       | 66.386       |
|                   | df          | 48                                 | 40          | 32           | 40           |
|                   | Asymp. Sig. | <b>0.000</b>                       | 0.166       | 0.101        | <b>0.05</b>  |

Table 16 shows frequency distribution of the answers. If number of the Islamic bank employees’ considered, which is around 17000, sample size (621 respondents) able to represent the PBs opinions and perceptions about Islamic finance development in Turkey. Firstly, when we look at the Table 16, the most important threat for the PBs as well as Islamic finance implementation in Turkey is change in political business cycles. (305 people) 49.1 % of the respondents’ answered for that, which means almost half of them think in this way. After that competition with conventional banks comes as second place as threat with 21.3 %. The most weak point of the PBs is misconception about PBs applications in Turkey. This misconception causes PBs to look similar with conventional banks. 38.2% of the respondents think in this way. Turkish people think that, PBs same as conventional banks. Most of them does not have adequate information about PBs applications. Turkey does not have any regulation dedicated to Islamic finance, this comes in the 3<sup>th</sup> place as threat for Islamic finance development in Turkey. 13.4 % of the respondents think in this way also capital inadequacy has similar importance with 13.2%. Also, PBs need to develop their product to provide diversity to Turkish public. According to answers 15% of the respondents think that diversity in IFIs products does not adequate. In the continuous

part of the table shows positive facts about IF development in Turkey, which are opportunities and strength. Establishment of the state-owned PBs perceived as opportunity from the aspect of PB employees. 30 % of the respondents think as it is. 29.6 % of the respondents think that Turkey has great potential for future IF implementations. It is assumed that Turkey will get higher share of the IF market. Positive approach of the government also considered as opportunity by 22.1 % of the respondents. Government provides supportive and positive approach to Islamic finance. This is most strength point of the PBs in Turkey. From the respondents 40.4 % of them think in this way. In the 2<sup>nd</sup> place durability of the PBs against the financial crisis comes as strength. 24.5 % of the respondents think in this way. These statements need to be taken into consideration for future planning and decision making for Islamic finance implementations in Turkey. In short, Table 16 shows general outlook of the Islamic finance from the perceptions and assumptions of the PBs employees.

**TABLE 16: FREQUENCIES OF THE ANSWER DISTRIBUTION**

| <b>Threat</b>   |                  |                |
|---|------------------|----------------|
|   | <b>Frequency</b> | <b>Percent</b> |
| <b>Change in political business cycles</b>                                      | <b>305</b>       | <b>49.1</b>    |
| Decrease in Turkish economic growth performance                                 | 73               | 11.8           |
| Probability of the decrease in global liquidity and raise in interest rates     | 85               | 13.7           |
| Increase in competition with conventional banks                                 | 132              | 21.3           |
| Other   | 26               | 4.2            |
| <b>Total</b>  | <b>621</b>       | <b>100.0</b>   |
| <b>Weakness</b>   |                  |                |
|   | <b>Frequency</b> | <b>Percent</b> |
| Regulation (There is not any Regulation dedicated to Islamic Finance)           | 83               | 13.4           |
| Inadequacy of the qualified human resource                                      | 45               | 7.2            |
| Capital Inadequacy  | 82               | 13.2           |
| <b>Misconception about the PBs which seems similar with conventional banks</b>  | <b>237</b>       | <b>38.2</b>    |
| Low product diversity of the PBs  | 93               | 15.0           |
| Underdevelopment of the other Islamic financial fields                          | 31               | 5.0            |
| Other   | 50               | 8.1            |
| <b>Total</b>  | <b>621</b>       | <b>100.0</b>   |
| <b>Opportunity</b>  |                  |                |
|   | <b>Frequency</b> | <b>Percent</b> |
| <b>High potential of the Turkey IF market</b>                                   | <b>184</b>       | <b>29.6</b>    |
| Positive approach of the government   | 137              | 22.1           |
| <b>Establishment of state-owned PBs</b>   | <b>186</b>       | <b>30.0</b>    |
| Istanbul Finance Center project   | 36               | 5.8            |
| Great interest on sukuk, takaful (Islamic insurance) and Islamic pensions       | 47               | 7.6            |
| Other   | 31               | 5.0            |
| <b>Total</b>  | <b>621</b>       | <b>100.0</b>   |
| <b>Strength</b>   |                  |                |
|   | <b>Frequency</b> | <b>Percent</b> |
| PBs are more durable compared to conventional banks in case of financial crisis | 152              | 24.5           |
| High growth performance of the PBs  | 60               | 9.7            |
| Turkey will take share from interest on Islamic Banks worldwide                 | 71               | 11.4           |
| The increase in the level of income of the interest sensitive people            | 71               | 11.4           |

|  |   |            |             |
|--|---|------------|-------------|
|  | <b>Supportive and positive approach of the government for Islamic Finance</b> | <b>251</b> | <b>40.4</b> |
|  | Other   | 16         | 2.6         |
|  | Total   | 621        | 100.0       |

There is also other section in each category which could be analyzed in qualitative methods. This can be made for further versions in this paper.

#### 4. CONCLUDING REMARKS

Islamic finance even though its roots has great and long historical background, modern Islamic finance has around 50-60 years history. IF became more popular after the financial crisis effect the western economies. Today Islamic finance funds reached almost \$ 2 trillion. Turkey is the one of the fastest promising country among the Islamic financial market. Turkish market has great potential and steady growth rate as it is seen in the findings section. SWOT analysis summarize pros and cons of the IF implementations in Turkish market. Even though great potential for IF implementation, Turkey cannot use it all. There are several changes needs to be done to empower IFI's more growth chance. There is some proposals for Turkish market to develop Islamic finance as follows:

- Firstly there must be cenral Sharia' Board (Advisory) to end the duality problems in the fatwa's. Also this will effect public awareness and public trust positively. Also this main center needs to have power for auditing the advisory boards. There is no audit mechanism for advisory boards. The central Sharia Board can solve another related problems.
- There is big gap of understanding of Islamic Finance, which weakens IF development in Turkey. There are still people cannot differentiate PBs applications and conventional banks applications. There must be some publicity and information (BRSA, 2014:64) for takaful product which is the least known product of the Islamic finance. For this purpose some workshops and seminar can be done all around the Turkey. Except the big cities such as Istanbul and Ankara, small cities cannot reach efficient information about IFIs. IFI and Universities need to collaborate for this purpose. IFIs and Universities can provide education programmes for students. Also Particiation Banks Association of Turkey (PBAT) needs to provide better informational advertisements for public.
- There is need for reform and regulation for takaful market. Takaful totally differs from the conventional insurance but it doesn't have its own regulations. This can causes several problems. Also takaful practitioner companies cannot named themselves as takaful companies because of the regulations.
- There is a need for retakaful companies. Turkish government needs to establish Retakaful Company.
- Another main problem is participation banks start to look like conventional banks. For example: sukuk is a financing product but it always compared with the bonds. This causes misconception. Also murabaha financing has the similar problem. For this reason IFI needs to have own regulations and concepts. Commodity financing and debt financing must be differentiated. This can be provided by having own concepts and regulations for Islamic banks. IFIs needs to their own terminology, for example; debt financing and product financing must not have the same name like credit loan.
- Participation banks using murabaha financing 90% among its transactions. This criticized by customers, scholars and public. PBs needs to use more risk sharing projects such as mudaraba and murabaha financing. For example PBs can be mediator between angel investors and project owners (entrepreneur). PBs can offer a kind of roadshow with its own angel investors who are seeking for Islamic investing. Entrepreneurs can attend this road shows to demonstrate their projects. Another way is the using investors' contributions who are seeking for profit sharing, to the projects such as construction sector. In this way PB can finance house constructions and it will be more risk sharing for its asset.
- Political issues also plays important role in the IFIs development in Turkey. Change in the current business cycle threats IFIs. Government's approach and policy is supportive and positive in Islamic finance, for this reason IF has developed faster in recent decade. If any change in this situation can cause decrease in development of Islamic finance in Turkey.
- Turkey assumed one of the high potential for future Islamic finance market. This situation need to be taken into consideration. PBAT and government plays impotant role to benefit from this potential. All stakeholders from the

IFIs need to develop projects about informational advertisements for foreign investors who interested in Islamic finance and Turkey.

- Government, PBAT, universities and other stakeholders also need to focus to develop Islamic financial literacy as well as conventional finance.

In short, Turkey has a great potential for Islamic Finance productions but some challenges effects it to be more effective. Further development requires more innovative actions in the market. This study attempted to assess Turkish market from the Islamic Finance perspective and measures SWOT points of the IF development in Turkey from the PBs employees' aspect. According to qualitative and quantitative analysis results several proposals provided for development of the more innovative Islamic Finance environment in Turkey. Further studies can focus on the problems that mentioned in the previous phases, to provide solutions and proposals.

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