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EVALUATION OF PARTICIPATION BANKING IN TURKEY OVER PERFORMANCE AND POSITIONING AND SUGGESTIONS FOR GROWTH

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1 Introduction

Although the vast majority of the population in Turkey is Muslim, participation banking has been assuming very low market share among the entire banking market. Due to the inappropriate nature of interest-based banking products at conventional banking and the Islamic beliefs being against the use of these types of banking products, it could be expected that the participation banking sector should have at least as much market share as the conventional banking; however, in Turkey the reality have been just the opposite. It is required to determine the causes of this situation and to develop solutions for making the necessary improvements. To satisfy this requirement, in this study, we used two different methods to detect the problems and propose solutions. First, interviews were conducted with senior executives from the sector and the current situation of the sector was described. Moreover, evaluations on the human capital and positioning of the participation banking were obtained, along with potential innovations and transferrable applications from the other countries.

2 Literature Review

For Islamic banking, what matters most would be working without the factor of interest, and this should be very much absorbed by all the shareholders and stakeholders of Islamic banking activities (ez-Zerqa, en-Neccar, 2009: 26; Nyazee, 2016: 73). While the participation banking is forming and alternate finance system to the conventional banking with interest, it can also actually form an integrated economical system as a whole (Dikkaya and Kutval, 2015: 77; Kuforiji, 2019: 71; Abdul-Rahman, 2010: 13). A very important advantage of Islamic banking practices is the fact that their interest-free working principle provides stability in times of economic crisis, and this phenomenon caused an increase in the interest for participation banking activities (Rasid, Nizam and İsmail, 2014: 59). This phenomenon is evaluated through the comparison of critical ratios for participation banks and conventional banks during the times of economic crisis (Aysan, Dolgun and Turhan, 2013: 100).

Another reason for the rising interest in participation banking is the investment desire in this sector by the Gulf countries through their oil sales (Atar, 2017: 1039). While the investments come from different countries, the participation banking activities also developed in a different way in different countries. According to the statistics obtained in 2017, the countries where participation banking has the highest share in terms of market share are Iran, Sudan, and Brunei. In Iran the market share of participation banking is 100%; thus, all of the



banking activities in Iran and Sudan are within the scope of Islamic banking, whereas in Brunei the market share of Islamic banking is slightly lower than 50% (Atar, 2017: 1041).

3 Findings

In the interview results, it was presented that the participation banking sector in Turkey cannot express the differences between interest-based and their products to their customer base and product range and technological infrastructure has been shown to be insufficient compared to traditional banking practices. Furthermore, the fact that the sector is focused on foreign capital and the problems related to having human resource with the necessary sensitivity towards participation banking are demonstrated. As for the solution proposals, it is necessary: to focus on the training and development activities of human resources on Islamic banking oriented sensitivities; to follow the technological developments; to introduce financial technology oriented innovations; to improve the product range; and to promote these products to the customer masses in a healthy way by focusing on customer relationship management. The need for standardization of participation banking regulations is also indicated. Then, survey was conducted with employees of various companies and institutions and also with households as prospective participation banking customers. Through the survey, semantic differential profile evaluations were made for participation banks and traditional banks. Assessments of differences in scale compared to traditional banks showed that participation banks in Turkey were only able to make a positive difference from the perspective of customer intimacy and sentiment; and in most of the other aspects traditional banks have a better image.

4 Conclusion

Participation banking is a relatively newly emerging field in the world, especially compared to the conventional interest-based banking practices. Due to the fact that the business model of participation banking is interest-free, it is quite resilient at times of economic crisis. However, there are a lot of improvement opportunities for this banking sector. Especially, if the concerns for short-term profitability are evaded, then this type of banking model could be a huge support for entrepreneurs if the profit/loss share principle is applied in its full. Since with this mindset, the entrepreneurs could be trained and their activities could be thoroughly followed up. Therefore, this is a promising sector which has not reached its true potential yet.

Keywords: Participation Bank, interest, market share, penetration and positioning, issues and solutions

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