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POPULATION PERCEPTION AND
DEVELOPMENT CHALLENGES**

Istvan Egresi, *Fatih University*



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ISLAMIC BANKING IN TURKEY: POPULATION PERCEPTION AND DEVELOPMENT CHALLENGES

István EGRESI

Ton Duc Thang University, Department for Management of Science and Technology Development
Ho Chi Minh City, Vietnam, e-mail: istvan.egresi@tdt.edu.vn

Rauf BELGE

Marmara University, Faculty of Arts and Sciences, Department of Geography
Istanbul, Turkey, e-mail: rauf.belge@marmara.edu.tr

Abstract: Islamic banks have, over the last few decades, become very popular in the Gulf countries and in some countries in Southeast Asia with a majority Muslim population. They are on the rise even in some western cities such as London or New York which have witnessed a significant increase in their Muslim population. In this context, it is then surprising to see that in Turkey, a country in which almost 100% of the population is Muslim, the Islamic banking system is still in its incipient stage. This study has investigated the reasons for the underdevelopment of the Islamic banking system in Turkey. We found that, due to the long period of secularism, most Turks separate religion from business and select their bank based on financial advantages, diversity of financial products and quality of service rather than based on the need to adhere to Shari'a principles. Many people also do not trust that these institutions are really Shari'a-compliant and safe. This is partly due to the customers' lack of understanding of how these banks operate and partly due to the numerous cases of bad practices reported by the media and the academic literature. We conclude that, while their assets and share will most probably increase over the next 10 years it seems very unlikely that Islamic banks will really become a sustainable alternative banking system in Turkey. The Islamic banking system will rather remain an additional or complementary banking system.

Key words: Islamic banking, participation banks, Turkey, bank selection criteria, attitudes towards Islamic banks, prospects for development.

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INTRODUCTION

While the world is still dominated by what is known in the literature as “mainstream economics” based on western (mainly Christian) ideologies, many Islamic countries have experienced since the 1970s a so-called “Islamic revival” which has since impacted many areas of the society (as well as the economy and the politics) leading to the emergence of “Islamic economics” (Bassens et al.,

2011). Adoption of Islamic economics was seen as a move away from colonial rule and return to Islam (Kuran, 1995) and has determined major changes in a variety of economic sectors. In countries where ideas of Islamic economics have gained popularity, financial services have also been adapted to adhere to Islamic principles (Bassens et al., 2012). Consequently, new banks have been established in accordance with the Shari'a demands and the world has seen an unprecedented growth of Islamic banking and finance (Khan&Bhatti, 2008a). Islamic Banking, as part of the Islamic economic model, is traditionally associated with interest-free loans and is governed by specific regulations of loss and profit sharing based on the Islamic law (Shari'a). Islamic banks must also avoid transactions that involve excessive risks (such as speculative investments or gambling) or transactions of goods and services that are forbidden in Islam (Hassan&Lewis, 2007; Khan, 2010). For a more detailed discussion on the principles of Islamic banking and on how Islamic banks operate, see Egresi&Belge (2015).

While some attempts to establish Islamic banks pre-date the 1970s, the first international Islamic bank was the Islamic Development Bank founded in Saudi Arabia in 1974 under the auspices of the Organization of the Islamic Conference (OIC). During the following years, other states in the Gulf Region also established their own Islamic commercial banks, such as Dubai Islamic Bank, Bahrain Islamic Bank and Kuwait Finance House (Bassens et al., 2012; Rethel, 2011). Since then, the Islamic banking has been the fastest segment of international financial markets (Warde, 2000) with assets growing at more than 15 percent annually (Benaissa et al., 2005). In 2014 there were already around 400 Islamic banks spread across the world in more than 70 countries with assets upwards of US\$ 1.5 trillion (Warde, 2000; World Bank, 2014). Of the total Islamic banking assets, more than 42 percent are in Iran and more than 34 percent are in the Gulf Cooperation Council (GCC) countries, while 10 percent of the total assets are in Malaysia (KPH, 2013). Other countries in which Islamic banking is an important sector in the structure of the national banking system are Yemen, Sudan, Bangladesh, Mauritania and Pakistan (Egresi&Belge, 2015). However, Islamic banking is a growing presence even in some countries with non-Muslim majorities such as the United Kingdom, the United States of America and Australia (Bassens et al., 2010; Pollard&Samers, 2007).

In this context, it is then surprising to see that in Turkey, a country in which almost 100 percent of the population is Muslim, the Islamic banking system is still in its incipient stage, in spite of the great economic achievements enjoyed by this country over the last decade or so and in spite of being run by a (moderately) Islamic government.

The main purpose of this study is to understand the reasons for the underdevelopment of the Turkish Islamic banking sector and to assess the main factors influencing the adoption (or rejection) of Islamic banking services. By identifying these factors that encourage or inhibit people to use the services of Islamic banks, bank managers could design better and more effective strategies to make Islamic banks more appealing.

Although the number of studies on customer satisfaction and bank selection criteria with regards to Islamic banking has proliferated over the last five years, in Turkey the number of studies conducted on this topic is still low. Most research dealing with Islamic banking in Turkey has focused on the historical evolution of Islamic banking (Asutay, 2013; Egresi&Belge, 2015; Gun,

2012; Hardy, 2012; Iştar, 2009), performance of Islamic banks (Asutay, 2013), especially in comparison with conventional banks (Cevik&Charap, 2011; Saraç&Zeren, 2015), potential for future development of Islamic banking (Asutay, 2007) or on the political economy of Islamic banking (Başkan, 2006). To our knowledge this is one of the first studies to tackle the problem of Islamic banks' appeal to customers and potential customers. Two of the previous studies have looked at firms' criteria for choosing a type of bank, conventional or interest-free (Okumuş, 2005), while only one study has relied on surveying individuals (Özsoy et al., 2013). However, the later study was published in Turkish with only a short English abstract being available to the international scientific community.

The paper will further proceed as follows: After a short discussion on the development of Islamic banking in Turkey we will review the relevant international literature on the factors that influence the decision of use Islamic banking services. Next we will introduce the methods that we used for data acquisition and processing followed by the presentation and discussion of our findings. The paper will end with concluding remarks and suggestions for further research investigations.

ISLAMIC BANKING IN TURKEY

The history of Islamic banking in Turkey started in 1983 when, in order to attract more capital from the Middle East, the government created the legal framework for Islamic banks to operate in the country (Alpay, 2007; Kansoy&Karlıoğlu, 2013). Known initially as "Special Finance Houses", these banks did not enjoy the same status as conventional banks as they were not allowed to invest in government securities and were not covered in Turkey's Central Bank deposit insurance scheme (Hardy, 2012; Kansoy&Karlıoğlu, 2013). This regulatory framework was then improved in 1999 and 2001, and in 2004 the state extended its guarantee on deposits to Special Finance Houses. A year later, the Special Finance Houses were re-named "Participation Banks" (Egresi&Belge, 2015). The effect of these changes in the legislation was that Islamic finance started to develop more rapidly in the country (Ceylan&Gençoğlu, 2011). While in 2005 the share of participation banks was only 2.44 percent, by 2012, it reached 5.13 percent (Participation Banks' Association of Turkey, 2012; cited in Egresi&Belge, 2015).

A subsidiary of Al Baraka, an Islamic bank from Bahrain, was the first Islamic bank to start operations in Turkey in 1985. This was followed the same year by a subsidiary of Faisal Bank (from Saudi Arabia) and by Kuveyt Turk in 1989. Between 1991 and 1996, three banks with domestic capital were added. Following the bankruptcy of Ihlas Finance House in 2001, only four participation banks remained in Turkey¹ to co-exist with 45 conventional banks (for more historical details on the development of Islamic banking in Turkey, see Egresi&Belge, 2015). Between the four banks, in 2015, there were a number of 827 branches, with the majority located in Istanbul (40.5 percent), Ankara (8.7 percent) and Izmir (4.5 percent), Turkey's three most populated cities and provinces (table 1).

¹ Data for this study were collected between 2013 and 2015. In July 2016, Bank Asya was closed by the government following the failed coup, so, in fact there are only three participation banks remaining in Turkey as of April 2017.

Table 1. The number of participation bank branches in Istanbul, Ankara and Izmir
 (Source: based on data collected in 2013 from Participation Banks Association of Turkey (TKBB)
<http://www.tkbb.org.tr>)

Provinces	Albaraka Turk	Kuveyt Turk	Türkiye Finans	Bank Asya	Total	% of total
Istanbul	58	91	88	98	335	40.5
Ankara	14	19	19	20	72	8.7
Izmir	4	12	8	13	37	4.5
Total (Turkey)	136	213	220	258	827	100.0

THE DISTRIBUTION OF PARTICIPATION BANKS

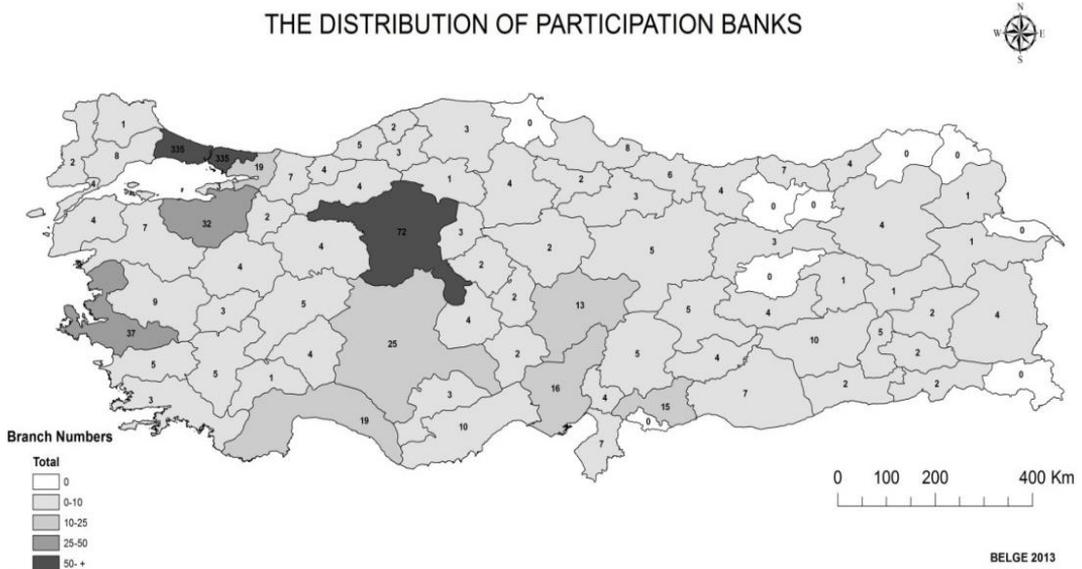


Figure 1. Distribution of participation banks in Turkey
 (Source: Based on 2013 data from Participation Banks Association of Turkey)

LITERATURE REVIEW

The literature on Islamic banking has proliferated over the last few years, covering not only countries with Muslim majorities, such as Tunisia (Kaabachi&Obeid, 2016; Echchabi et al., 2016), Morocco (Echchabi&Aziz, 2012), Yemen (Ayedh et al., 2014), Bangladesh (Uddin et al, 2016), Malaysia (Saiti, 2015; Che-Ha et al., 2016; Muhamad&Alwi, 2015), and Indonesia (Widigdo et al, 2016), but also countries with significant Muslim minorities such as India (Islam&Rahman, 2017; Beg, 2016; Ahmed, 2017), Nigeria (Yahaya et al., 2016; Ringim, 2014), and Macedonia (Abdulahi&Shaharuddin, 2016). Interest in banks based on Islamic principles has been manifest even in some countries in which Muslims represent relatively small percentages of the total population, such as Singapore (Gerrard&Cunningham, 1997), and South Africa (Bodibe et al., 2016; Vahed&Hoque, 2016).

In this study we will review only three bodies of literature (and, as we will see, two are often intertwined):

1. The literature on bank selection criteria
2. The literature on perceptions of and attitudes towards Islamic banks.
3. The literature on the obstacles for the development of the Islamic banking system.

Bank selection criteria

The factors that influence people's decision to select one bank or another have been widely discussed in the literature (Echchabi et al., 2016). Starting with the late 1980s (Erol&El-Bdour, 1989) the discussion also includes Islamic banks. The main question is whether customers choose to do business with an Islamic bank or a conventional bank based on religious or non-religious motivations.

A number of studies conducted in Bahrain (Metawa&Almosawi,1998), Jordan (Naser et al., 1999), Kuwait (Al-Sultan, 1999), and Turkey (Okumus, 2005) found that religious motivations play an important role in the selection of Islamic or conventional banks. However, this view was not shared by Erol&El-Bdour (1989), Erol et al. (1990) and Gerrard&Cunningham (1997) who found that religion was not a major motivator for residents to choose one type of bank or another. Similarly, in a study in Bangladesh, most customers surveyed declared that they preferred Islamic banks over conventional banks for their cheaper transaction costs and better services delivery while the religious factor was not mentioned (Uddin et al., 2016). However, in this case, the customers surveyed were all non-Muslim.

Sudin et al. (1994) surveyed both Muslims and non-Muslims who, at the time, were not customers of an Islamic bank in Malaysia on the relative importance of certain bank selection criteria. They found that for Muslims the most important criteria in selecting a bank were "the provision of a fast and efficient service", then "the speed of transaction" and third "friendliness of bank personnel". Non-Muslims were guided in their bank selection firstly by the "friendliness of bank personnel", secondly by "the provision of a fast and efficient service" and thirdly by "the reputation and image of the bank". This study is relevant in that it shows that there are statistically significant differences in terms of bank selection criteria between Muslims and non-Muslims. However, we have to keep in mind that in this case the respondents were customers of commercial banks. Moreover, they did not have any relationship with an Islamic bank and religious motivation was not included among the criteria.

Kaabachi&Obeid (2016) and Echchabi et al. (2016) investigated the main factors that are influencing the decision to use the services of Islamic banks in Tunisia. Focusing on non-customers of Islamic banks they found that the factors that would influence positively their willingness to patronize them include: bank reputation, relative advantages and compatibility with Islamic beliefs, values and lifestyle. On the other hand, the operational complexity (coupled with a general lack of understanding of how these banks function) and the perceived risks could negatively impact the decision to join these banks.

Indeed, lack of understanding of how these banks operate has been found to be an important factor in the literature to keep Muslims from doing business with them. Islam&Rahman (2017) pointed out that many people do not have an understanding of how Islamic banking works, especially in countries in which Muslims do not constitute the majority of the population, such as India. Their research suggested that many Muslim residents in this country (94% of respondents) would be willing to choose Islamic banks over conventional banks if informed properly. Erol&El-Bdour (1989) also found that those customers who chose to bank with an Islamic bank were highly aware of how these banks operated.

Several studies have highlighted a number of other factors, besides religious beliefs, Muslims consider when choosing to bank with one type of bank or another, such as: convenience (location), peer group influence, reputation of

bank, availability of credit, competitive interest rates, friendliness of bank staff, service charges, and quality of service (Erol&El-Bdour, 1989; Erol et al., 1990; Kaynak et al. 1991; Naser et al., 1999; Dusuki&Abdullah, 2007). In Pakistan, the findings of a study by Awan and Bukhari (2011) suggest that Muslims pay more attention to product features and quality of service when selecting a bank. Similarly, a study in Malaysia found that respondents selected their bank based on a combination of Islamic and financial reputation and quality services offered by the bank (Dusuki&Abdullah, 2007). Even in Kuwait, more than half of the residents prefer to deal with conventional banks for their better services (Al-Sultan, 1999). This does not mean that religious convictions are irrelevant; only that fulfilling religious needs of Muslims is no longer enough for Islamic banks to win over customers. In order to keep their current customers and attract others, Islamic banks need to offer quality services while, at the same time, remaining Shari'ah compliant (Dusuki&Abdullah, 2007). Indeed, a study by Islam&Rahman (2017) found that in India 97% of Muslim residents would likely switch from conventional to Islamic banks if offered the same services and facilities.

Attitudes toward Islamic banks

Many other studies have also examined customers' or potential customers' perceptions of and attitudes towards Islamic banking products and services as a factor for selecting to bank with an Islamic banking institution. The main finding is that people select Islamic banking products based on their personal perception of religious and economic considerations.

Yahaya et al. (2016) found that in Nigeria acceptance of products and services provided by Islamic banks was positively impacted by their compatibility with Islamic values and negatively impacted by their perceived risks.

Erol&El-Bdour (1989) found that, the attitude of respondents towards Islamic banks was influenced by the perception that, in spite of claims, Islamic banks were not offering enough interest-free loans to efficiently contribute to solving community problems. Indeed, Haniffa&Hudaib (2010) confirmed that the initial goal of these Islamic banks to give Muslims access to banking and financial services while, at the same time, allowing them to observe their religious obligations has in time been derailed by the need to interact and to compete with conventional banks. The need to innovate and engineer new financial products has resulted in twisting and distorting the Shari'a in order to fit this purpose.

Other studies claim that attitudes toward Islamic banks may vary based on gender, age, educational background, religion and religiosity (Kaynak et al., 1991). For example, a study by Loo (2010) examined the differences in attitude and perceptions towards Islamic banking between Muslims and non-Muslims in Malaysia. As anticipated, the findings suggest that Muslims were more supportive of Islamic banking while non-Muslims perceived Islamic banks mainly as pertaining to Muslims. Among non-Muslims, respondents belonging to the X-Generation demographic group were found to hold a more favorable perception towards Islamic banks than respondents belonging to the Baby-Boomer demographic group. Segmenting the market of Islamic banks in Malaysia, Muhamad&Alwi (2015) distinguished five groups of customers: religious conviction, religious and economic rationality, economic rationality, ethical observant and economic rationality, and ethical observant. While the first

two groups were made up entirely of Muslims, the third group included both Muslims and non-Muslims while the fourth and the fifth groups included only non-Muslims.

Challenges to the development of Islamic Banks

In a study in South Africa, Bodibe et al. (2016) found that there was a positive relationship between awareness of financial products and services and attitudes towards Islamic banking. Similarly, using a questionnaire, Saiti (2015) has examined the awareness of and attitudes towards Islamic banking of Muslim and non-Muslim customers in Malaysia. The researcher found that, although, as expected, Muslim customers were more knowledgeable of how these banks operate than their non-Muslim counterparts, attitudes of Muslim and non-Muslim customers towards these banks displayed statistically significant differences only for four criteria (mass media advertising, credit on favorable terms, financial counseling and location near place of work) while for 18 other criteria no significant differences were found. In countries in which Muslims represent but a small minority or in which Islamic banking operations have a short history even Muslims may lack knowledge of the existence of Islamic banks or of how these banks operate. For example, a study in Singapore concluded that Muslims were only slightly more aware of the existence of Islamic banks than non-Muslims, and that in general there was very low awareness (Gerrard&Cunningham, 1997).

In India, Beg (2016) identified the following obstacles in the development of Islamic banks: unfavorable legislation, unequal treatment of debt and equity, non-existence of an Islamic insurance system, lack of transparency on how these banks operate, lack of trust (borrowers could easily misreport their profits), non-existence of credit agencies for Islamic banks, and lack or shortage of qualified Shari'a experts.

Khan&Bhatti (2008b) reported on the main causes for the failure of Islamic banking and finance in Pakistan. They found that the project lacked genuine political support and suffered from shortage of well-trained bankers, educated in the particularities of Islamic banking and finance. The system was also riddled with non-performing loans and write-offs and burdened with massive foreign and domestic debt and rampant corruption. Moreover, it turned out that business people were not interested in the products and services offered by Islamic banks while individual customers found deposits to be too risky and the other financial services too expensive compared to those offered by conventional banks. On top of these problems, the legal system proved to be weak and too slow to adapt.

DATA AND METHODOLOGY

For this study we used an array of quantitative and qualitative research methods. First, we interviewed executives in all four participation banks as well as a scholar in Islamic studies to help us understand how secularism and the government of Justice and Development Party (AKP) have influenced the evolution of the Islamic banking system in Turkey. The interviews were semi-structured, conducted face-to-face and lasted between 30 minutes and 90 minutes. Due to the sensitive nature of the information, the interviewees were guaranteed anonymity and the interviews were not recorded electronically. Rather, one of the authors took notes during the interviews which he then expanded after returning to the office.

To understand why a religious population still prefers conventional banks to participation banks we also decided to interview with a sample population in Istanbul. These interviews were carried out between June and September 2014 with the help of five student assistants who were trained on how to select the participants and how to conduct the interviews. They were not told the purpose of the study in order to avoid the situation in which they could lead the answers. When permission was received from the participants the interviews were recorded; otherwise short notes were taken during the interview and further developed after the interview. Recorded interviews were later transcribed and translated. In total, we conducted a number of 294 interviews. The number is consistent with the number of interviews or questionnaires conducted by other studies on similar topics. Our review of the literature on Islamic banking revealed that these studies included between 100 and 1045 interviews or questionnaires, with the majority employing between 200 and 300 (Kaabachi&Obeid, 2016; Islam&Rahman, 2017; Riggall, 1980; Saiti, 2015; Che-Ha et al., 2017; Vahed&Hoque, 2016; Bodibe et al., 2016; Abdulahi&Shaharuddin, 2016; Saqib et al., 2016; Echchabi et al., 2016, Widigdo et al., 2016; Ringim, 2014; Uddin et al., 2016; Özsoy et al., 2013; Savaşan et al., 2013).

However, most of these studies were based on surveying only one or two population segments. For example, Saquib et al. (2016) interviewed customers of Islamic banks while the study by Kaabachi&Obeid (2016) relied on non-customers. The studies by Saiti (2015) and Muhamad and Alwi (2015) compared Muslim and non-Muslim customers. Ringim (2014) examined Muslim customers of conventional banks while Uddin et al. (2016) and Hidayat&Al-Bawardi (2012) looked at non-Muslim customers of Islamic banks. Besides customers, Widigdo et al. (2016) also included the view of bank employees in their analysis, while Vahed&Hoque (2016) surveyed bank tellers in conventional banks. Besides the piece by Riaz et al. (2016), which examined the views of everyday Muslims, Islamic scholars and Islamic bank employees, studies based on broad population are rare. This study is attempting to fill this gap.

We interviewed in a number of municipalities and neighborhoods in Istanbul attempting to follow the demographic, cultural, social and economic characteristics of population in Istanbul. We selected Istanbul as the site of our study because preliminary research has shown that the biggest city in Turkey concentrates more than 40% of participation banks' branches in Turkey (see table 1 and figure 1). We selected our study municipalities and neighborhoods in such a manner to have a balanced and diverse population sample: people from all walks of life, religious and less religious, educated and less educated, rich and poor. In the end, we had a relatively balanced sample of respondents with somewhat more males than females but this is to be expected in more traditional societies. In terms of age, our sample was also well-balanced, with somewhat more among the younger and fewer among the older respondents. From the education standpoint, we also had diversity as more than 43% of our respondents had higher education whereas almost 35% did not finish high school. Our sample included a higher than normal percentage of respondents with higher education but this is not uncommon in the literature (Saiti, 2015). All major social categories were represented. Examining the religiosity of our respondents we found that small numbers were either not religious at all or very religious. The bulk of our respondents declared themselves somewhat religious (table 2).

Table 2. Socio-demographic characteristics of interview sample

Socio-demographic attribute		# interviewees	% of total
Gender	Male	153	52.0
	Female	141	48.0
Age	20-39	174	59.2
	40-59	98	33.3
Education	No education	5	1.7
	Less than high school	97	33.0
	High school	64	21.8
	University or higher	128	43.5
Job	Manager/owner	60	20.4
	Housewife	43	14.6
	Student	38	12.9
	Academic	35	11.9
	Services	35	11.9
	Industrial worker	16	5.4
	Administration	10	3.4
	Economist	9	3.1
	Medical field	8	2.7
	Retired	8	2.7
Other	32	10.8	
Religiosity	Not religious	24	8.2
	Somewhat religious	225	76.5
	Religious	32	10.9
	Missing	13	4.4
Neighborhood	Working class	117	40.3
	Middle class	140	48.3
	Upper class	33	11.4
Total		294	100.0

Since this could be considered a sensitive issue in Turkey, we did not ask our respondents questions about their income or social status. However, we assumed that those subjects who resided in working-class neighborhoods were part of the working class, those residing in middle class neighborhoods were part of the middle class and those residing in upper class neighborhoods were part of the upper middle class and upper class. Based on this criterion, 117 of our interviewees (40.3%) were part of the working class, 140 (48.3%) were part of the middle class and 33 (11.4%) were part of the upper middle class and upper class.

The interviews were conducted in the following municipalities: Beylikdüzü, Bağcılar, Bakırköy, Fatih and Kağıthane. However, a number of respondents, although interviewed in these municipalities were residents of other municipalities. Hence, a number of 18 municipalities are represented, although the majority is from the five study municipalities (table 3).

Besides the quantifiable sections which were analyzed using SPSS software, the interviews included also a number of open-ended questions and respondents were encouraged to express at length their opinion about participation banks in Turkey. To analyze the interviews we used a quantitative content analysis for the first part of the interviews. We also used the independent samples t-test and the one-way ANOVA to test for statistically significant differences among data sets. The answers to the open-ended

questions were analyzed using the qualitative content analysis method described by Hsieh and Shannon (2005) and Zhang and Wildemuth (2009). Both researchers independently read the transcripts highlighting key concepts and variables which were then coded. At the end the two observation sheets were compared and merged. In the process, the number of categories was further refined and reduced.

Table 3. Municipalities included in the study

Municipality	# of respondents	% of total
Avcılar	1	0.3
Bağcılar	54	18.4
Bahçelievler	6	2.0
Bakırköy	22	7.2
Başakşehir	3	1.0
Bayrampasa	4	1.4
Beylikdüzü	50	17.0
Beyoğlu	1	0.3
Esenler	8	2.7
Fatih	24	8.2
Gaziosmanpaşa	1	0.3
Kadıköy	2	0.7
Kağıthane	51	17.3
Kartal	1	0.3
Sarıyer	1	0.3
Sultangazi	1	0.3
Üsküdar	1	0.3
Zeytinburnu	6	2.0
Not specified	3	1.0
Total	294	100.0

FINDINGS

Bank type preference

In spite of the four participation banks expanding, still more than half of our respondents had accounts only in conventional banks and almost 28% had no accounts at all (table 4).

Table 4. Our respondents' types of bank accounts

Type of bank	# of respondents	% of total
Account in participation bank but not in conventional bank	22	7.5
Account in conventional bank but not in participation bank	156	53.1
Accounts in both participation and conventional banks	34	11.6
Account in neither conventional nor participation bank	82	27.9
Total accounts in participation banks	56	19.0
Total accounts in conventional banks	190	64.6

Only 7.5% opted exclusively for an account in participation banks whereas 11.6% had accounts in both participation and conventional banks. This means that only somewhat more than 19% of the respondents had accounts in participation banks. The difference between males and females is shown to be statistically significant ($p=0.001$) mainly because women are less likely to have an account in either participation or conventional banks (table 5).

Table 5. Differences in bank type account based on socio-demographic attributes

Attribute		Part. Banks	Conv. Banks	Both	None	Chi-squared Test (df = 3)		
						Value	Df	Sig.
Gender	Male	13	84	26	30	16.620	3	.001*
	Female	9	72	8	52			
Education	No edu.	0	0	0	5	33.134	5	.000*
	Less than HS	4	50	6	37			
	HS	6	39	4	15			
Religiosity	Univ. and above	12	67	24	25	24.062	5	.020**
	Religious	3	9	5	15			
	Some-what religious	19	115	27	64			
	Not religious	0	20	2	2			
	Not declared	0	9	0	1			
Total		22	153	34	82			

*=significant at 99% confidence level

**= significant at 95% confidence level

We also found that more educated people are more likely to have an account in participation banks (and conventional banks) than less educated people. When analyzing the impact of religiosity we found that a higher percentage of religious residents have accounts in participation banks than “somewhat religious” or not religious. Only 8% of the respondents who declared themselves not religious reported an account in participation banks (but not exclusively). At the same time, the highest percentage of respondents without an account was among religious people, which means that there is great potential for future development of participation banks. The chi-square test showed that the differences observed are statistically significant ($p=0.020$).

Criteria for selecting a type of bank

We found that religion plays a limited role in bank selection in Turkey. When asked whether or not their religious beliefs affected their choice of bank, more than half of our respondents said that it did not (table 6). However, when comparing responses based on religiosity of the participants we found that religious people, as expected, were more likely to select their bank based on their religious beliefs, with the differences shown to be statistically significant, $p=0.015$ (table 7).

Our results are in line with findings of previous studies. For example, a study that surveyed more than 1000 conservative business people in Turkey found that only 25% of them were using Islamic banks while 45% had accounts only in conventional banks because they found them more advantageous economically (Savaşan et al., 2013). Furthermore, Haron et al. (1994) has shown that only 40% of Muslim customers consider religion as an important factor in patronizing banks.

Table 6. Effect of religious beliefs on bank choice

Have your religious beliefs affected your bank choice?	# of respondents	% respondents
Yes	116	39.5
No	164	55.8
No response	14	4.8
Total	294	100.0

Table 7. Effect of religiosity on bank choice

Religiosity	Have your religious beliefs affected your bank choice?						Value	Sig.
	Yes		No		Total			
	N	%	N	%	N	%		
Religious	17	53.1	15	46.9	32	100.0	18.885	.015**
Somewhat religious	92	43.2	121	56.8	213	100.0		
Not religious	1	4.4	22	95.6	23	100.0		
Total	110	41.0	158	59.0	268	100.0		

**= Significant at 95% confidence level

Table 8. Excerpts from interviews supporting the claim that service quality and economic advantages were important criteria for bank selection than the fulfillment of religious principles

Quote 1	“I have an account in a conventional bank because they give easy and cheap credits. Also when you buy something in a shop you can pay it over in time, over many installments which suits me better. Due to my religious beliefs I am normally against interest. But participation banks charge interest too under the name of profit-sharing. Had they not done this I would have chosen them.”	Man, 20-39, university degree, teacher, somewhat religious, working-class neighborhood
Quote 2	“If you want a savings account participation banks are the worst because they don’t make you money. You actually end up losing money in participation banks.”	Man, 40-59, university degree, public servant, somewhat religious, working-class neighborhood
Quote 3	“Religion has not affected my choice of bank because I am one of those people who choose whichever bank is more advantageous economically.”	Woman, 20-39, university degree, student, not religious, working-class neighborhood
Quote 4	“I think that participation banks do not advertise themselves properly; they also have a problem understanding what people really want from a bank. I would like to use a bank which works in accordance with my religious beliefs but I also want quality and diversity in service.”	Man, 20-39, high school, self-employed, somewhat religious, middle-class neighborhood
Quote 5	“Conventional banks are more flexible than participation banks and participation banks can be more expensive than conventional banks.”	Woman, 40-59, university degree, teacher, degree of religiosity not specified, working-class neighborhood
Quote 6	“I started a bank account in a conventional bank long time ago and continued with the same bank. Besides, I worked abroad for a long time and it is easier to transfer money through conventional banks. Religion has not affected my choice so much as for me the quality of service is more important.”	Man, 60+, less than high school, retired, somewhat religious, middle class neighborhood
Quote 7	“I have accounts in both conventional and participation banks because of the advantages each type of bank is providing to me. One of them does not charge me an account fee and the other one has better internet service. The participation banks serve my needs because I can save and withdraw money as much as I want. My religious beliefs do not affect my choice of bank because there is no place for religion in banking; they are separated.”	Man, 40-59, less than high school, businessman, somewhat religious, working class neighborhood

On the other hand, not all Islamic banks' customers are religious people. Of all Bank Asya's customers, for example, only 25% selected this bank because of religious reasons while the others were just looking for a bank in the neighborhood with appropriate service (Gazete Vatan, 2012). Many customers who do not consider themselves religious selected the bank because they perceived it to be safer during times of economic crisis (van Greuning&Iqbal, 2008).

All these prove that participation banks in Turkey do not work on account of an ideological incentive (see also Kalayci, 2013). Quality of service, staff quality, image and advantageous costs seem to be more important even for religious people than following the religious principles (table 8; see also Özsoy et al., 2013; Awan&Bukhari, 2011; Savaşan et al., 2013). For example, many of our survey participants claimed to have chosen to use conventional banks for their better internet banking service and, in general, better customer service.

Attitudes towards participation banks

The general attitude of our participants towards participation banks can be described as characterized by lack of trust. Lack of trust is manifested in two ways:

1. *Lack of trust that these banks really operate according to Shari'a principles.* A great number of our survey participants expressed doubts that participation banks are really interest-free. As a matter of fact, many respondents referred to them as "so-called Islamic banks":

"I don't believe participation banks are interest-free. They say they are but they are charging the same amount for their services as interest-based banks". (Middle-aged woman residing in a middle-class neighborhood. She has a university degree, works as a teacher and labels herself as religious).

This lack of trust may originate from individual observations revealing some striking similarities in the operation of the two types of banks:

"They say they use profit-sharing. But there is something very interesting: the profit-share rates in participation banks and the interest-rates in conventional banks are about the same. Therefore, I don't believe that participation banks are really interest-free." (Middle-aged, religious man with less than high-school education and residing in a high-class neighborhood).

Populations' lack of trust in the Islamic character of participation banks was evidenced also in other studies. For example, Savaşan et al. (2013) found that 35% of conservative business people in Turkey do not believe that participation banks in Turkey really operate according to the Shari'a principles which may have affected their choice of bank (Hürriyet, 2013). The media and the scientific literature have also often reported on some bad practices by Islamic banks. For example, in Egypt, Mouawad (2009: 82) reported that funds collected by Islamic banks locally are then deposited in conventional banks which pay interest on deposits raising the question of how Shari'a compliant the practices of these banks really are. Similarly, Chong&Liu (2009) found that only a negligible portion of Islamic bank financing is based on profit-loss sharing (PLS) while most Islamic deposits are not interest-free but are closely pegged to conventional deposits. Furthermore, Khan (2010) argued that most of the Islamic banking remains indistinguishable from conventional banking. These authors also assert that Islamic banking operations represent nothing more than

“appropriate terminology for de facto conventional banking” (Khan, 2010: 805) and conclude that *“the key reason for the rapid growth in Islamic banking worldwide during the past decades is unlikely to be associated with the attributes of the Islamic PLS banking paradigm. Instead, its rapid growth is most likely spurred by the worldwide Islamic resurgence since the late 1960s, which leads to a heightened demand by Muslims for financial products and services that conform to their religion”* (Chang&Liu, 2009: 127).

In Turkey, Saraç&Zeren (2015) found that there was a very clear relationship between participation bank rates and conventional banks’ interest rates demonstrating a strong level of co-integration. Mansour et al. (2015) argue that trading the same instruments of conventional banks is not ethical because it miss-represents Islam. It is, then, understandable why informed Muslims are reluctant to do business with participation banks:

“I had an account with a participation bank before I learned the reality with the participation banks and returned to conventional banks. At least it is clearer to me how conventional banks operate.” (Elderly, retired woman with less than high-school education residing in a middle-class neighborhood. She is somewhat religious).

2. Lack of trust that these banks are really safe. Participation banking is a newer phenomenon and many people are still very cautious especially after Ihlas Finance House went bankrupt during the financial crisis in 2001. Although conventional banks suffered even more and 20 of these banks failed together with Ihlas Finance House, the bankruptcy of Ihlas Finance House considerably damaged the trust in Islamic banks in Turkey because many people lost all their savings as these were not protected by the Central Bank’s guarantee fund. The fall of the biggest finance house also affected the reputation of Islamic banks for being safer during times of financial crisis. Although since 2004 participation banks are also covered by Central Bank’s guarantee fund, many are unaware of the change and do not trust participation banks, as is illustrated by the following quote from our interviews: *“I chose a conventional bank because of state guarantees. I don’t think that participation banks are trustable.”* (Young, somewhat religious, businessman with less than high-school education living in a middle class neighborhood).

Factors for the underdevelopment of participation banks and future challenges

1. The effect of the long period of secularism. Although almost 100% of Turkey’s population is Muslim, since the foundation of the Republic, the country has been governed by a secular system. Secularism required the separation of state and religious affairs. Until quite recently politicians consistently and routinely resisted to any Islamic influence on the business and financial sectors (Kansoy&Karlıoğlu, 2013). This explains why Islamic finance and banking had a very slow start in Turkey. Islamic revivalism, an important factor for the establishment of Islamic banks in the Middle East and in Southeast Asia (Montgomery, 2010) was also a much later (and incomplete) phenomenon in Turkey

Islamic banks have grown especially since the rise in power of the AKP in 2002, a moderately Islamic party set to promote greater religious influence in the country (Hardy, 2012). Yet the influence of the long period of secularism is still very strong. Many Turks do not live a lifestyle that follows all the religious

principles. A survey conducted by KONDA Research and Consultancy Group revealed that only 52.8% of Turks define themselves as religious, meaning that they strive to fulfill all their religious obligations (KONDA, 2007).

2. *Lack of awareness.* Of the 294 people interviewed, only 137 (47%) knew what participation banks were and could offer us a short definition, while more than half (53%) admitted that they had no idea (table 9). In their definition, most respondents alluded to the interest-free and profit-sharing character of the participation banks while some defined participation banks in broader terms as following the Shari'a principles.

Table 9. Responses to the question: "Do you know what Islamic banks are?"

Response	No.	% of total
Yes	137	46.6
No	156	53.1
No response	1	0.3
Total	294	100.0

Table 10. Awareness of participation banks based on socio-demographic attributes

Attribute		Do you know what Islamic/Participation banks are?						Value	Df	Sig.
		Yes		No		Total				
		N	%	N	%	N	%			
Age	20-39	90	52.0	83	48.0	173	100.0	10.183	4	.037**
	40-59	43	43.9	55	56.1	98	100.0			
	60+	4	18.2	18	81.8	22	100.0			
	Total	137	46.8	156	53.2	293	100.0			
Education	No education	0	0.0	5	100.0	5	100.0	37.436	5	.000*
	Primary and Middle School	26	26.8	71	73.2	97	100.0			
	High School	29	45.3	35	54.7	64	100.0			
	University and higher	82	64.6	45	35.4	127	100.0			
	Total	137	46.8	156	53.2	293	100.0			
Class	Lower class	37	31.6	80	68.4	117	100.0	19.266	4	.001*
	Middle class	78	55.7	62	44.3	140	100.0			
	Upper class	20	60.6	13	39.4	33	100.0			
	Total	135	46.8	155	53.2	290	100.0			

*=significant at 99% confidence level

**= significant at 95% confidence level

We found that younger and more educated respondents from the upper class neighborhoods were more likely to know what participation banks are (table 10). After participants were told the definition of participation banks, 151 of them were able to give at least one example of participation bank (more than 51%). Only 15 (5.1%) were able to mention all four participation banks in Turkey (table 11).

Kuveyt Turk and Bank Asya were the best known participation banks in Istanbul, the first being mentioned by 41.5% of our respondents and the second by 37.4% (table 12).

Our study found that men are more aware of participation banks than women ($p=0.038$). Also younger ($p=0.002$), more educated ($p=0.000$), somewhat religious ($p=0.046$) and middle class ($p=0.015$) respondents were more likely to know examples of participation banks (table 13).

Table 11. Number of respondents that could give examples of participation banks

Examples of participation banks	No.	% of those who could give examples	% total respondents
One example	38	24.4	12.7
Two examples	69	44.2	23.5
Three examples	29	18.6	9.9
All four banks	15	9.6	5.1
Total respondents giving correct examples	151	96.8	51.4
Wrong examples	5	3.2	1.7
Total respondents giving examples	156	100.0	53.1
No examples	138		46.9
Total respondents	294		100.0

Table 12. Number of respondents that could mention the name of participation banks

Participation Bank	Number of respondents that mentioned this bank	% of those that were able to give examples	% total number of respondents
Albaraka Turk	58	38.4	19.7
Bank Asya	110	72.8	37.4
Kuveyt Turk	122	80.8	41.5
Turkiye Finans	54	35.8	18.4
Total	151	100.0	51.4

Table 13. Knowledge of participation banks in Turkey based on socio-demographic attributes

Attri-bute		Do you know examples of participation banks in Turkey?						Value	Df	Sig.
		Yes		No		Total				
		N	%	N	%	N	%			
Gender	Male	100	65.8	52	34.2	152	100.0	4.310	3	.038**
	Female	76	53.9	65	46.1	141	100.0			
	Total	176	60.1	117	39.9	293	100.0			
Age	20-39	116	67.1	57	32.9	173	100.0	12.302	4	.002*
	40-59	53	54.1	45	45.9	98	100.0			
	60+	7	31.8	15	68.2	22	100.0			
	Total	176	60.1	117	39.9	293	100.0			
Education	No education	0	0.0	5	100.0	5	100.0	32.771	5	.000*
	Primary and Middle School	41	42.7	55	57.3	96	100.0			
	High School	38	59.4	26	40.6	64	100.0			
	University and higher	97	75.8	31	24.2	128	100.0			
	Total	176	60.1	117	39.9	293	100.0			
Class	Lower class	59	50.0	59	50.0	118	100.0	8.467	4	.015**
	Middle class	94	67.6	45	32.4	139	100.0			
	Upper class	21	63.6	12	36.4	33	100.0			
	Total	174	60.0	116	40.0	290	100.0			
Religiosity	Religious	18	56.3	14	43.7	32	100.0	7.989	4	.046**
	Some-what religious	140	62.5	84	37.5	224	100.0			
	Not religious	8	33.3	16	66.7	24	100.0			
	Total	166	59.3	114	40.7	280	100.0			

*=significant at 99% confidence level

**= significant at 95% confidence level

These findings are very important because a number of respondents admitted to using conventional banks because they were not aware of the existence of participation banks:

“In terms of religion the bank choice is important. When you are aware that your money is used in making loans with interest it makes you unhappy, it affects your self-esteem. But I was not aware that interest-free banks existed, that’s why I have an account in an interest-based bank.” (Young man residing in a working class neighborhood. He has less than high-school education, works in construction and is somewhat religious).

Many of those who are aware of the existence of participation banks in Turkey are not doing business with them because they lack information on the types of financial products offered by these banks (Okumuş, 2005). Moreover, a study by Vizcaino (2013) revealed that 39% of Islamic banks’ customers understand little of how the industry works and better education about Islamic finance was needed in the country.

3. Lack of Islamic finance education. This has been identified in the literature as one of the major problems for further development of Islamic banks in the world (Waemustafa, 2013). According to our informants, lack of proper Islamic finance education for staff is one of the major obstacles Islamic banks face in Turkey in their attempt to expand. Shortage of staff with knowledge of Islamic economics is not only a problem of Turkey. Islamic banks in other countries which are still in the process of building their regulatory systems are in the same position and are forced to recruit their management and staff from those who work in conventional banks (Garas, 2007; Anonymous, 2006). On the other hand, in the Gulf Cooperation Council (GCC) countries and Malaysia, with more developed Islamic finance systems, there are extensive education programs. For example, in Bahrain, there are 51 courses in Islamic finance at different levels, from vocational schools to universities to prepare staff in Islamic banks (Islamic Banking Turkey Report, 2014). In Malaysia, Islamic banking is studied at the International Islamic University Malaysia (IIUM) and at a number of training and research institutes (Abdul-Rahman, 2010).

Turkey’s Central Bank is working with INCEIF since mid 2012 to build the country’s Islamic finance education infrastructure (Islamic Banking Turkey Report, 2014). However, according to our informants, in Turkey, there are a few Master’s programs offering courses in Islamic finance to interested students (see also Saraç, 2014) but, as of today, there is no program at bachelor’s degree level specializing in Islamic economics or finance. Since most join the labor force after graduating from their undergraduate degree, participation banks face major difficulties in hiring qualified personnel.

Much of the confusion regarding participation banks that we discussed earlier, may originate from the fact that, very often, bank staff cannot provide credible information about how certain financial services are in compliance with the Shari’a (Awan&Bukhari, 2011: 23). Hence, it is not surprising that many potential customers are ignorant of how these banks operate which then creates a lack of trust.

“I think conventional banks have a clearer operating system than participation banks. I don’t think participation banks are honest in how they operate their business.” (Elderly, retired man with a high-school degree living in a middle-class neighborhood. According to his own assessment, he is somewhat religious).

Participation banks are not required by law to have a Shari'a board. Nonetheless all four participation banks in Turkey have one (Islamic Banking Turkey Report, 2014). The boards are not officially recognized by politicians because this may call into question the role of the Banking Regulation and Supervisory Agency (BDDK) which is recognized as the only official authority in Turkey to supervise the banking system (Gun, 2012). Lacking a central authority to oversee the transactions of the four participation banks and the development of new financial products runs the "risk of disqualification" (Dabadie, 2010) where a participation bank, at the advice of its Shari'a board develops a financial product which is repudiated by the boards of other banks (Gun, 2012). This may create distrust among Muslim customers; hence the need to harmonize the legal framework of participation banks (Gun, 2012).

In Turkey, three participation banks share the same advisory board. The fourth bank, Kuveyt Turk has an advisory board from the GCC. The two boards may rule in different ways on the same issue. For example, the three participation banks that use the same Shari'a board decided they cannot use murabaha sukuk whereas Kuveyt Turk is allowed to use it because they take advice from the Gulf (Islamic Banking Turkey Report, 2014, quoting an official from the Banking Regulation and Supervision Agency of Turkey).

Similarly in the UK, Riaz et al. (2016) reported on the widespread discontent of the local Muslim communities with the current state of Islamic banking in this majority non-Muslim country. Many have criticized the shortage of Shari'a experts on Islamic banking and their inability to provide meaningful advice on how to operate Islamic banks in a Western society.

This kind of confusion that could damage the credibility of Islamic banks can be avoided by establishing Shari'a advisory councils at national level, as is the case in Malaysia and Pakistan (Rethel, 2011). The Central Bank of Malaysia has its own Shari'a Board that issues fatwa on new financial products and services which are then followed by all Islamic banks in the country (Abdul-Rahman, 2010). Standardization of Islamic financial instruments and supervision of the Central Banks adds credibility to and trust in Islamic banking operations.

4. Islamic banks are not very common in Turkey. Even though participation banks have grown faster than conventional banks over the last decade, there are still a lot more conventional banks (45) than participation banks (4). Also conventional banks are more widespread, with a lot more branches than participation banks (table 14). This makes conventional banks more visible and more convenient to use.

Although more recently participation banks have expanded rapidly to have hundreds of branches in Istanbul, many people opened an account in conventional banks years ago when participation banks were still in an incipient stage of development and remained with the conventional bank out of inertia. This is how one participant explained how he decided to use a conventional bank over a participation bank:

"I chose my bank based on distance. This conventional bank has branches closer to my home and work. More recently some participation banks opened branches close to me but I decided to stay with my old bank." (Middle-aged man with less than high-school living in middle-class neighborhood. He is the owner of a cake shop and is somewhat religious).

However, Erol&El-Bdour (1989) have shown that mere opening of new branches was not enough in convincing more people to open accounts in Islamic banks. Moreover, in many situations salaries, pensions or scholarships are deposited in conventional or participation banks so the customers had no possibility to select the bank of their choice:

“I opened a bank account in a conventional bank only for business reasons but I have a savings account in a participation bank because participation banks meet my needs better than conventional banks. If I did not have to work with conventional banks due to my job I would have chosen to use participation banks for all my needs.” (Young, somewhat religious, woman. She has a university degree, works as a teacher and resides in a middle-class neighborhood).

Table 14. List of 20 largest banks in Turkey based on the number of branches in 2013
(Source: www.bddk.org.tr)

Rank	Bank	# of branches
1.	Ziraat Bank	1510
2.	Türkiye İş Bank	1234
3.	Akbank	963
4.	Garanti Bank	928
5.	Yapı ve Kredi Bank	922
6.	Halk Bank	807
7.	Vakıf Bank	741
8.	Deniz Bank	600
9.	Finans Bank	530
10.	Türk Ekonomi Bank	510
11.	HSBC	331
12.	ING	320
13.	Şeker Bank	272
14.	Bank Asya	256
15.	Türkiye Finans	220
16.	Küveyt Türk	213
17.	Albaraka Türk	136
18.	Anadolu Bank	88
19.	Alternatif Bank	63
20.	Eurobank Tekfen	60

5. Shortage of capital. Turkey is not a petroleum producer country and its population's saving capacity is traditionally limited. Conventional banks have better opportunities to tap into international capital. A great portion of participation banks' capital is expected to come from the petroleum-rich countries in the Middle East but, so far, this has been below expectations.

CONCLUSIONS

The Islamic banking could be an alternative to interest-based conventional banking (Islam, 2015). Over the last four decades Islamic finance has become very popular in the Gulf countries and in some countries in Southeast Asia with a majority Muslim population (mainly Malaysia). Islamic banks are on the rise even in some western cities such as London or New York which have witnessed a significant increase in their Muslim population. In this context, it is then surprising to see that in Turkey, a country in which almost 100% of the population is Muslim, the Islamic Banking System is still in its incipient stage,

in spite of the great economic achievements enjoyed by this country over the last decade or so and in spite of being run by a (moderately) Islamic government. Our study concluded that one of the main reasons for the underdevelopment of the Turkish Islamic banking sector has derived from the country's long history of secularism. Islamic revival started much later here than in other Muslim countries and is less comprehensive. Most people, even many religious ones, still separate religion from business. We found that religion played an important role only in the decision of very religious Muslims to choose Islamic banks (similar to findings of other studies, such as Metwally, 1996; and Okumuş, 2005). However, for most others, religiosity did not play an important role (similar to Erol et al., 1990; Erol&El-Bdour, 1989; Abdullah&Dusuki, 2007; Savaşan et al., 2013) or was just one of the factors (Ahmad&Haron, 2002, Naser et al., 1999, Gerrard&Cunningham, 1997).

In most situations, non-religious factors such as the cost of financing (or profitability of deposits), diversity of financial products or the quality of the service were deemed to be more important (this echoes other studies, such as the ones by Özsoy et al. (2013) and Savaşan et al. (2013) in Turkey and Awan&Bukhari (2011) in Pakistan). For this reason, in order to attract new customers or to keep the existing ones, participation banks were forced to closely mimic conventional banks by offering very similar products and services. This move has had two important implications:

1. Reinforced the idea that there is no difference between the two types of banks. Rather than providing a real alternative to conventional banking, Islamic banking has provided an Islamic terminology for, otherwise, conventional financial transactions, thus making them more "palatable" to Islamic customers (Kuran, 2004; Roy, 1991). Financial operations that are forbidden by the Shari'a are often circumvented in innovative ways (Caeiro, 2004: 351-352). Some have criticized these financial operations for distorting the very identity of the Muslims: "*Either Muslims keep the authenticity of their religion [by insisting on the prohibition of interest] or they deform it like the Jews and Christians*" (Caeiro, 2004: 351; quoting from a personal interview with the director of a Muslim school in Paris). As such, many religious customers lost trust that participation banks really operate according to Shari'a law.
2. Because entrepreneurs can opt between Islamic and conventional banks to finance their operations, many will not consider the religious or ethical aspect but rather the financial aspect choosing the financing that will bring their business the highest return. Accordingly, when business owners are very confident in the profitability of their business idea they will turn to conventional banks for financing as in this case paying interest is cheaper than sharing profits (which are expected to be high). Vice versa, when entrepreneurs have doubts about the profitability of their venture they will turn to Islamic banks because in case of a loss they are not expected to still pay the bank. This way, Islamic banks may end up financing less promising ventures, therefore, increasing their risk (Pollard&Samers, 2007).

Another reason why participation banks are still not very popular in Turkey is that many people do not know that they exist or do not understand how they operate (this problem was also echoed in studies by Hamid&Nordin, 2000; Bley&Kuehn, 2004; and Rammal&Zurbruegg, 2007). Moreover, the

majority of the staff in these banks was educated in conventional banking and is not able to convincingly explain to customers why and how the financial products offered by their bank are Shari'a compliant. A study on conventional bank tellers in South Africa revealed that these tellers lacked knowledge and understanding on how exactly Islamic banks operate (Vahed&Hoque, 2016). Another study in Macedonia, however, found high levels of knowledge on Islamic banking principles and instruments among various banks' stakeholders (Abdulahi&Shaharuddin, 2016). Two things need to happen if participation banks are to significantly increase their market share:

1. The Participation Banks Association of Turkey (TKBB) should organize more conferences and workshops in order to raise Islamic finance awareness (Islamic Banking Turkey Report, 2014). They should particularly explain to the populace how participation banks could provide similar products and services to conventional banks, while, at the same time, follow the Shari'a principles. People should also learn that participation banks are as safe as conventional banks being covered by the same banking legislation and the state guarantee fund.
2. Following Malaysia's model, create an Islamic economics education system (Saraç, 2014). This has already started as some Islamic finance-related courses have been introduced by a number of private universities and education centers. For example, since 2012, Fatih Sultan Mehmet Vakıf University (FSMVU), a private university established in 2010, in cooperation with the Islamic Banking and Finance Centre – UK (IBFC-UK), a member organization of the UK Islamic Finance Secretariat (UKIFS) is offering short courses in Islamic finance. A research and study center for Islamic economics and finance was also inaugurated at Sabahattin Zaim University in Istanbul (Islamic Banking Turkey Report, 2014).

Finally, it is difficult to believe that participation banks could maintain this high growth rate without a more considerable financial contribution from the Gulf countries which have an excess of capital and are religiously conservative (Hardy, 2012; Özsoy&Yabanlı, 2010).

There are more optimistic analysts who believe that Islamic banking could become an alternative banking system in Turkey. They estimate that Turkish participation banks could triple their assets and double or even triple their market share over the next ten years (Küçük, 2012; Reuters, 2013). Indeed, so far, participation banks have had higher growth rates than conventional banks and even higher growth rates than Islamic banks in most other Muslim countries. For instance, in 2008 the growth of Islamic finance in Turkey was 42% while this was 33% in the world (Gun, 2012). The Turkish Participation Banks Association (TKBB) estimated that the participation banks' assets had grown by 740%, whereas loans have grown 800% between 2000 and 2008 as an integral part of the Turkish banking system (Bank Asya, 2008).

The moderate Islamist AK Party (Justice and Development Party), has also been instrumental for the growth of participation banks in Turkey. Besides enacting new banking laws that put them on equal foot with conventional banks, the AK Party government has also kept interest rates at low levels which allowed the participation banks to compete with the mainstream banks. Furthermore, the government has encouraged the development of a sukuk (Islamic bond) market in Turkey which has drawn interest not only from countries in the

Middle East but also from countries in Southeast Asia such as Malaysia and Brunei (Anadolu News Agency, 2013).

There are plans to make Istanbul a global financial center (Dizkırıncı, 2012), especially for Islamic finance (Ece, 2011). In this sense, the World Bank opened a Global Islamic Finance Improvement Center in Istanbul in 2013 under the auspices of the Istanbul Stock Exchange (Anadolu Agency, 2013). The main purpose of the center is to share information about Islamic finance, attract more capital from Islamic countries and, ultimately, transform Istanbul into an Islamic financial center.

In the near future, the government is also planning to offer Shari'a-compliant financial products at two-state owned banks, Ziraat Bank and Halkbank. These are two of the biggest Turkish banks, with branches virtually everywhere in Turkey. This step, if realized, will make Islamic finance a better known concept to Turkish people and will considerably increase the sector's market share. On the other hand, this will also create additional competition among participation banks in Turkey. In future, Turkish Islamic banks may also want to invest abroad especially in Central Asia, Caucasus Region and in the Balkans, in countries with Muslim majority or significant minority, such as Albania, Kosovo, Bosnia Herzegovina, Bulgaria (Egresi&Kara, 2015a), or in countries with significant Turkish investments, such as Romania (Egresi&Kara, 2015b). However, such move may carry significant political risk (Hurduzeu et al., 2014).

For many other analysts, Islamic banking will continue to grow in the future, and will, perhaps, even increase market share but for the foreseeable future will probably remain a small part of the total financial system in Turkey (Hardy, 2012). With only four participation banks against 45 conventional banks it is difficult to believe that they will be able to challenge the domination of conventional banks. *"We have 50 banks, but the first 10 banks hold 82% to 83% of the whole banking system. Only four are state-owned and of these Ziraat Bank and İşbank hold approximately 15% market-share each. So it is not very easy to say that participation banks will begin to compete with conventional banks because conventional banks dominate the Turkish banking system and of the ten dominant banks, none are participation banks. We cannot say that in the short run the participation banks will be major banks in Turkey. It is not that easy."* (Banking Regulation and Supervisory Agency quoted in Islamic Banking Report Turkey, 2014). This trend would be in line with the most recent global developments. In a recent work, Filonik (2017) opined that Islamic banking has reached the end of a period of rapid expansion and is entering a new era in which expansion will be much slower and the main goal will be to consolidate. With such a strong conventional banking market, Islamic banking will most likely remain a complementary market (Islamic Banking Report Turkey, 2014).

Also, because, in order to maintain competitiveness, Islamic banking products and services are mimicking those of conventional banks and because, as our study has illustrated, people do not choose between Islamic and conventional banks but rather prefer to maintain accounts in both, following Pollard&Samers (2007) and Fuller&Jonas (2003) we argue that Islamic banking in Turkey is not an alternative banking system, but rather an additional banking system, or, according to Siddique&Iqbal (2016), a system that is integrated into the conventional banking system.

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