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Participation Banking System: The Case Of Turkey

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Abstract

Turkey's Accession defined as banking but in the world of Islamic banking or today called free banking on the basis of the emergence of alternative financial system of the global economy and recently experienced economic vicious cycle for both religious reason lies. Although the world has begun to hear its name frequently in recent times, the history of Islamic banking dates back to the 1940s and 50s.

The first pioneer of the system, whose foundations were laid in the 1940s, was the Islamic bank, Mit-Ghamr, established in Egypt in 1963. Oil often emerging as Turkey as whet the appetite growing foreign exchange reserves of oil importers all over the country in hand with price increases for owners of capital here because Islamic removed in geography and can not allocate sufficient budget development for the oil supply import countries also have attracted and to produce a variety of alternatives to these resources to attract to ourselves It was studied.

Today, the Islamic economic model attracts great attention not only in Muslim countries but also in the west and has a considerable share in the sector. So much so that Britain has become the most important Islamic Finance Center in the West.

Definition Participation Banking aims of our study of the historical development of the situation in Turkey and in the world is given to the selected sample Banking aims Participation in the light of this information and will be compared with samples in the world.

Keywords: Banking system, conventional banking, Paticipation banking system, İslamic finance system, interest free banking system



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29 – 31 August , 2019 Berlin, Germany

Introduction

Oil is one of the most important sources of wealth in the world and the countries that have this source of wealth are mostly in Islamic geography. In particular the steady rise in the oil price since 1974 until the accumulation of foreign exchange reserves in oil producer countries such as Turkey, while oil importers in the country has led to a decline in development due to channelling of the resources available here. On the one hand, the surplus in the oil-producing countries, on the other hand, the resource deficit in the importing countries pushed the importer countries to produce alternative ways to attract this resource in their countries with foreign exchange reserve surplus and Islamic finance applications started to come up.

In the 1980s, fundamental changes were made to deepen and diversify the Turkish financial system. In particular, efforts to increase the capital adequacy for Islamic financial institutions to provide services to transfer capital into Turkey from Middle Eastern countries are made (Ayriçay et al, 2019).

In this study, the definition of participation banking, history and assessment is made on the situation in Turkey.

1. THE CONCEPT AND HISTORICAL DEVELOPMENT OF PARTICIPATION BANKING

Participation banks are institutions that conduct banking activities in accordance with the orders and prohibitions of the Islamic religion. In participation banking, money acts as an intermediary in order to contribute to the real sector while being removed from interest and transactions involving interest due to the prohibition of Islamic religion and prohibition of interest. In this case, money is not subject to interest and is legitimately integrated into the economy. In addition to financing the goods in participation banking, the Bank also participates in the risks that may arise due to investment. In this process, contracts are made under the name of labor-capital cooperation or profit-loss partnership. In accordance with the agreements, a certain interest cannot be committed and the profit or loss generated or obtained as a result of commercial activity is shared in accordance with the predetermined rates (Canbaz, 2016).

The prohibition of interest in Islam has triggered the emergence of an alternative financial system. At the beginning of the 20th century, Islamic finance was discussed by many circles and the first steps of a new economic system began to be taken. The first example of this work in the world in 1963 in Egypt, Mit-Ghamr in Egypt, and the first Islamic bank was founded by Ahmet En-Naccar. This was followed by the Nasr Social Bank, which was established in 1971 with the support of the Egyptian state, and the Islamic Development Bank (IDB), established in 1975, is considered the most important step in this field. From 1975 to 1990, Islamic banking has made significant progress. Developments in Islamic banking gained momentum and began to spread rapidly to different parts of the world. Pakistan, Iran and Sudan aimed to move the

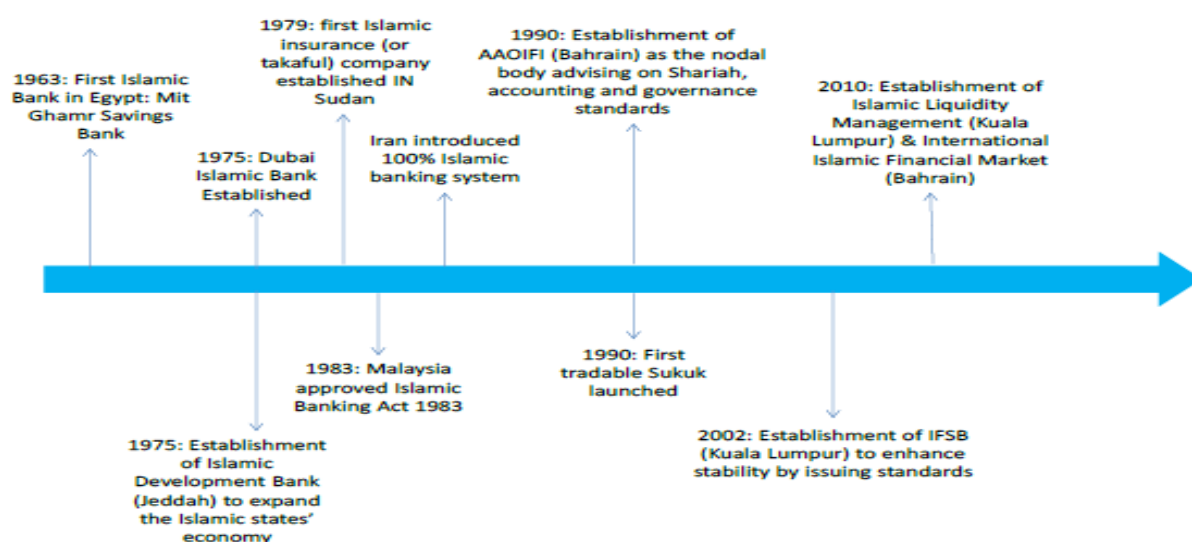


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29 – 31 August , 2019 Berlin, Germany

banking system on the basis of Islamic Principles and to extract interest from all areas of the economy (Göncüoğlu, Karaahmetoğlu, 2014).

Figure 1: Historical Development of Islamic Financial System



Source: A to Z of Islamic Banking 1 March 2018, Citi Research

1.1. BASIC PRINCIPLES IN PARTICIPATION BANKING

The structure of participation banks operating in accordance with Islamic provisions and rules is shaped according to Islamic legal rules. The most important of these provisions and the most important principle in the emergence of Islamic banking is the “INTEREST-FREE” principle (Albaraka Türk, Introduction to Participation Banking, 2012).

In addition to the interest rate ban, which is the basic principle of participation banking, the other basic principles envisaged in financial transactions are as follows:

- In an Islamic understanding, money can only be a medium of exchange, custody value and measure; money cannot be a commercial commodity. Money is an indicator of purchasing power.
- One of the most fundamental principles of Islamic banking is that the trade is based on partnership, the risk is shared among the partners at predetermined rates, ie risk sharing is fundamental.
- There is a ban on artificial intervention in the market.



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29 – 31 August , 2019 Berlin, Germany

- Uncertainty and risky transactions are prohibited.
- It is necessary to obey the rules set out in the conventions prepared under Islamic law rules.
- The terms and information of the contracts should be clear and the obligations should be clearly stated in order to prevent future conflicts.
- The subject of financial transactions should be products and activities in accordance with Islamic law (prohibition of investments in alcohol or gambling).
- Social justice is essential (Albaraka Türk, Introduction to Participation Banking, 2012).

1.2. PARTICIPATION BANKING IN THE WORLD

Participation Banking is concentrated in a limited number of markets. Iran, Kuwait, Malaysia, Saudi Arabia and the United Arab Emirates account for approximately 80% of Islamic banking assets in the world. (A to Z of Islamic Banking, Citi Research, 2018).

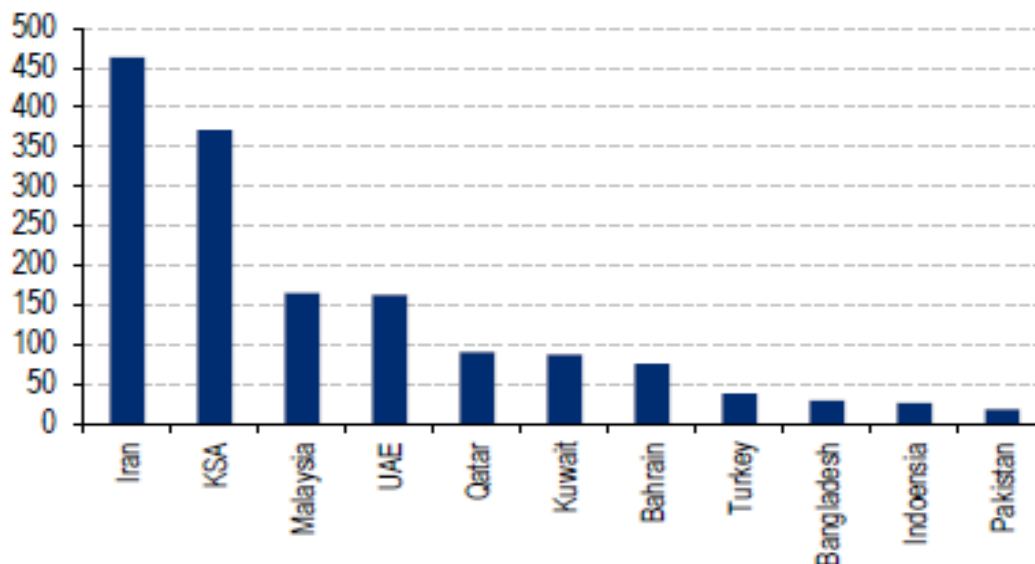
According to 2016 data, the share of banking assets in the world by countries is shown in the chart. When we examine the graph, Iran has the largest share with approximately \$ 460 billion in Islamic assets. Turkey is located in the ranking 8th next.

Figure2: Bankacılık Islamic Banking Share in Total Banking Assets (2016)



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29 – 31 August , 2019 Berlin, Germany



Source: Thomson Reuters Islamic Finance Development Report, Dec 2017, Citi Research

The entire banking sector in Iran provides interest-free banking and is one of the largest centers of Islamic Finance. Bank Melli Iran, Bank Mellat and Bank Sederat Iran, 7 of the 10 largest Islamic banks in the world, operate in this country (Serpam Research Notes, 2013)

Al - Rajhi Bank, the largest Islamic bank in the world, is the largest investment bank in Saudi Arabia (Göncüoğlu, Karaahmetoğlu, 2014)

Interest is not used in Saudi Arabia and there are 3 very strong interest-free banks in the country. These are the banks of the Dar Al Mal Al Islamic Group, Dallah Al Baraka and Al Rajhi. These banks are international in nature and do interest-free banking in many countries (DOĞAN, M.Sc. Thesis, 2008).

Malaysia has the highest share in Islamic finance when compared to other Islamic countries, where participation banking and traditional banking are developing in parallel. With over 20 years of experience in interest-free banking, interest-free banking is encouraged. In Malaysia, interest-free banks are subject to a separate regulation and law (BİLGE, M.Sc. Project, 2015).

According to the 1999 Wilson research, London has gained the status of the most important Islamic financial center in the West (Göncüoğlu, Karaahmetoğlu, 2014). There are 5 pure Islamic Banks in the UK, as well as 20 banks offering Islamic financial products (A to Z of Islamic Banking, Citi Research, 2018).

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29 – 31 August , 2019 Berlin, Germany

2. DEVELOPMENT OF PARTICIPATION BANKING IN TURKEY

Commenting on the rapid spread of Islamic banking in the world these issues in Turkey often have started to come up, but the existing law, Islamic is not sufficient infrastructure for the establishment of the Banking aims have tried to prepare an appropriate basis for the formation and first with a Decree enacted in 1983. Private Finance Corporation under the name an organization was made. The legal status of SFH completed on February 25, 1985, and as Turkey's first private financial institution was established in 1985, Albaraka Turk and Faisal Finance. Subsequently, Kuveyt Türk Finance Institution was established in 1989, Anadolu Finance Institution in 1991, İhlas Finance Institution in 1995 and Asya Finans Institution in 1996. The activities of the ÖFK, which was regulated with the Decree Law until 1999, were included in the Banking Law numbered 4489 with the Law no (Albaraka Türk, Introduction to Participation Banking, 2012).

Turkey in the bank now operates 6 units of participation (TKBB). These:

1. Albaraka Türk Participation Bank Joint Stock Company
2. Participation Bank, Turkey Real Estate Joint Stock Company
3. Kuveyt Türk Participation Bank Joint Stock Company
4. Turkey Finans Participation Bank Inc.
5. Vakıf Participation Bank Joint Stock Company
6. Ziraat Participation Bank Inc.

2.1. FON COLLECTION METHODS OF PARTICIPATION BANKS IN TURKEY

2.1.1. Special Current Accounts:

Current accounts are the accounts that can be opened in participation banks, where some or all of them can be withdrawn at any time and no return is paid to the account holder in return. These accounts can be opened in Turkish Lira or any foreign currency and even in precious metals such as gold, platinum silver (AlbarakaTürk, Introduction to Participation Banking, 2012).

2.1.2. Participation Accounts:



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29 – 31 August , 2019 Berlin, Germany

Participation accounts are the primary funding sources of participation banks and form the basis of participation banking. In these accounts, a predetermined return to the account holder is not paid and the money deposited is not guaranteed to be repaid in the same way. The savings deposited here are operated by the bank and the owner of the savings becomes a partner to the profit or loss that will arise (AlbarakaTürk, Introduction to Participation Banking, 2012).

3. Pool (Fund) System:

Account groups are formed by bringing together more than one account according to their operation and structure in participation banks, these account groups are called as pool or fund. Funds deposited by the fund holders are managed together and in this way, the accounts remain idle, some accounts make high profits while others are prevented from being damaged. Some kind of risk is distributed. Profit or loss is reflected to the fund owner according to the weight of the fund in the pool (AlbarakaTürk, Introduction to Participation Banking, 2012).

2.2. FON UTILIZATION METHODS OF PARTICIPATION BANKS IN TURKEY

2.2.1. Murabaha:

Murabaha is the most common form of financing used in Islamic finance, which means "selling goods with profit". It is mostly referred to as cash purchase and sale. The aim of Murabaha is to ensure that a good or service is sold to its buyer without interest. (AlbarakaTürk, Introduction to Participation Banking, 2012).

2.2.2. Mudarebe:

In Mudarebe, one of the parties reveals its capital and the other demonstrates its labor and experience and in this way a profit partnership is established. What is essential in Mudarebe is that the profit to be shared is determined as a ratio rather than an amount. This situation is determined in absolute terms during the contract (Güven, 1995).

2.2.3. Musareke:

Musareke is a kind of partnership in the Islamic economy. The difference between the parties is that the parties put both capital and labor. In this partnership, there is no rule that shareholders with equal capital will receive equal capital when the profit is distributed. The rate of profit to be paid by the partners is specified in the agreement signed between the parties before the commencement of the work. Here the parties are common to profit and loss (Özbay, Proje, 2014).

2.2.4. İcare:



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29 – 31 August , 2019 Berlin, Germany

It is a long-term financing method called Leasing. Icare, which has gained importance in recent times, is made within the framework of an agreement made by the lessor and lessor. The amount and duration of the lease is determined by the parties in the agreement. The tenant benefits from the property and pays a rent in return. The rental period can be between 5 and 15 years. Although it is very similar to leasing, the leased property is required to be used and unlike leasing, it is required to leave the leasing (Arabaci, 2015).

2.2.5. Sale:

In terms of the legal content of a sales contract in the nature of the sale of goods sold does not need to be available and at this point is separated from the sales contract (YAZMAN, 1964: 281). In general, sale is a contract that includes the delivery of the goods at a predetermined date in the future by paying the Buyer's required price for a good on a date before the delivery. (Atia, 1995).

2.2.6. Exceptional:

Under an agreement between the buyer (customer) and the financial institution, the financial institution orders the seller and pays the goods. The financial institution ensures the delivery of the produced goods to the buyer and pays the debts arising from the said transaction to the financial institution in the term determined by the buyer (AlbarakaTürk, Introduction to Participation Banking, 2012)

2.2.7. Sukuk:

It is a plural of the word “sak” in Arabic. Sukuk is an investment instrument based on an asset or service and giving rise to ownership rights (Aslan, 2012).

2.3. STATUS OF PARTICIPATING BANKING IN TURKEY

Five pieces participation bank in Turkey in 2018 was active with a total of 1122 branches. In 2019, with the participation of Emlak Katılım Bank and newly opened branches, a total of 1139 branches were reached. This figure constitutes 9.9% of the total number of branches of the banking sector in Turkey. As of the end of 2018, the number of employment increased from 15,654 to 15,789 in June 2019.

Net profit of participation banks in Turkey, while 1,197 million TL in 2018 increased to 1,249 million TL based on June 2019 data.

When the figures in the table are analyzed, the developments provided by the participation banks affect the banking sector and are reflected in the sector figures.

In recent years, the establishment of public participation banks in Turkey, the interest-free non-bank financial institutions to become operational, concrete steps, such as increasing public and private sectors have been taken sukuk issuance.



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29 – 31 August , 2019 Berlin, Germany

Table1: participation banks and banking sector main financial sizes (mio tl - june 2019)

FINANCIAL TITLES		PARTICIPATION BANKS			BANKING SECTOR		
		June .19	Dec.18	2019/June-2018 (change %)	June.19	Dec.18	2019/Jun e-2018 (change %)
COLLECTED FUNDS **	TL	64.590	60.626	6,5%	1.054.444	1.054.572	0,0%
	FM-CURRENCY	97.800	67.790	44,3%	1.179.567	954.893	23,5%
	FM-MINE	11.020	8.804	25,2%	53.859	41.701	29,2%
	TOTAL	173.410	137.220	26,4%	2.287.870	2.051.166	11,5%
FUNDS USED ***		138.765	124.562	11,4%	2.624.301	2.465.582	6,4%
NON-FOLLOWING RECEIVABLES (GROSS)		6.440	5.050	27,5%	116.227	96.611	20,3%
TOTAL ACTIVE		239.584	206.806	15,8%	4.233.955	3.867.135	9,5%
TOTAL ACTIVE		19.626	16.780	17,0%	449.428	421.185	6,7%
NET PROFIT ****		1.249	1.154	8,2%	24.776	29.018	-14,6%
PERSONAL NUMBER		15.789	15.654	0,9%	206.032	207.716	-0,8%
NUMBER OF BRANCHES	DOMESTIC	1.136	1.120	1,4%	11.422	11.493	-0,6%
	ABROAD	3	2	50,0%	73	72	1,4%
	TOTAL	1.139	1.122	1,5%	11.495	11.565	-0,6%

* Prepared according to BDDK reports.

** Funds collected from banks are excluded. Accruals are included.

*** Non-performing loans are excluded. Accruals are included.

**** Net profit was compared to the same month of the previous year.

Source: <http://www.tkbb.org.tr/mukayeseli-tablolar>



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29 – 31 August , 2019 Berlin, Germany

3. Conclusion

In this research, the fundamentals of participation banking are discussed and its definition and historical development are examined. According to the findings of the study, participation banking in the world has been analyzed and its activities not only in Islamic countries but also in other non-Islamic countries in Europe have been examined. According to the results of the analysis, it can be said that participation banking has been developing and developing rapidly in the world, and that many countries that do not have an Islamic philosophy suggest confidence in the markets and that the loans extended are rapidly spreading and preferred in the real market. When the performance of participation banks in financial crises to date has been examined, it is seen that it is a reliable financial product.

Participation banking in Turkey for the first time established in 1985 has been raised by private financial institutions. Participation banking started to grow rapidly especially in 2005. The biggest reasons are the arrangements made in banking law in Turkey in 2005. With the regulation made in 2005, the Special Finance Houses gained bank status.

These days the average participation banking in Turkey has a share of 5% in all sectors. This situation is actually below the sector potential. When the potential in the sector is evaluated, participation banking is thought to be promising for the future.



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29 – 31 August , 2019 Berlin, Germany

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29 – 31 August , 2019 Berlin, Germany

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