

## PAPER DETAILS

TITLE: Islamic Banking in Turkey: A Critical Evaluation on Deficiencies, Necessities, and Challenges

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## RESEARCH ARTICLE

## Islamic Banking in Turkey: A Critical Evaluation on Deficiencies, Necessities, and Challenges

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### Abstract

It is important to first identify the deficiencies and challenges which faced participation banking in Turkey to develop further and reach its expected potential. This paper seeks the reasons which Turkey does not show a similar development compared to many Muslim countries, even though its participation banking practices started simultaneously with them. The main purpose of this study is to reveal the deficiencies and challenges of participation banking in Turkey. It presents a descriptive study by making a literature review and trying to interpret the macro-economic data of TKBB about deficiencies of participation banking in Turkey. The main problems are determined in this study are below: Similarity with conventional banking, competition against the interest-bearing financial system, lack of Shariah standards and central control, inadequacy of product diversity, trained human resources in the field, negative reputation arising from recent experiences in the perception of society, and finally the lack of asymmetric information. With this study, it has been revealed that there is a need for new regulations for the development of participation banking.

**Keywords:** Islamic banking, Reforms, Turkey, Prospects for revisions, Murabaha, Shariah board

**JEL Classification:** G21, G32, Z12

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## Öz

Katılım bankacılığının daha da gelişmesi ve beklenen potansiyeline ulaşması için öncelikle Türkiye’de katılım bankacılığının karşılaştığı eksikliklerin ve zorlukların belirlenmesi önemlidir. Bu çalışma, katılım bankacılığı uygulamaları hemen hemen eş zamanlı başlamış olmasına rağmen, Türkiye’nin birçok Müslüman ülkeye kıyasla benzer bir gelişme göstermemesinin nedenlerini araştırmaktadır. Türkiye’de katılım bankacılığının eksiklikleri konusunda Türkiye Katılım Bankaları Birliği (TKBB)’nin makro ekonomik verileri yorumlanarak ve literatür taraması yapılarak nitel bir çalışma sunulmaktadır. Bu çalışmada tespit edilen başlıca sorunlar; konvansiyonel bankacılıkla benzerlik, faizli finansal sistemle rekabet, şeriat standartlarında ve merkezi kontrolde eksiklik, ürün çeşitliliğinin yetersizliği, alanında yetişmiş insan kaynağı, toplum algısında yakın geçmişteki deneyimlerden kaynaklanan olumsuz itibar ve son olarak asimetrik bilgi eksikliği şeklinde sıralanabilir. Bu çalışma ile, katılım bankacılığının gelişmesi için mevcut sorunlara çözüm olabilecek nitelikte yeni düzenlemelere ihtiyaç olduğu ortaya konmuştur.

**Anahtar Kelimeler:** İslami bankacılık, Reformlar, Türkiye, Revizyon, Murabaha, Şeriat kurulu

**JEL Sınıflandırması:** G21, G32, Z12

## 1. Introduction

One of the most important factors necessary for the efficient functioning and continuity of the market economy is capital. Capital plays a crucial role in ensuring production, investment, and ultimately economic growth. The financial sector, to meet this circle in free-market economies, provides fund-collecting and utilization tools through various institutions. Islamic finance is also rising as one of the important parts of this financial sector with its unique fund collection and disbursement methods and the other products presented.

There are many studies in the literature in terms of so different points about Islamic banking in whole the world. But, especially in English literature, studies related to deficiencies, challenges, and issues of Islamic banking in Turkey are limited. However, generally, this topic has been examined only either in terms of the history of Islamic banking in Turkey or its performance analysis or presented a comparative analysis with conventional banking. One of the leading academic studies about the participation banking system in Turkey was the study by Bayındır (2005) but he mostly has handled the issue in terms of fiqh. Şahin (2007), Arabacı (2007), Yılmaz (2010), Fidancı (2011), and Demir (2015) studied the issue of participation banking in Turkey in terms of historically. All these studies generally include the history of Islamic banking and its performance methods of working. These studies present that participation banking is a financial system that has a high development and growth potential, and it is an important part of the Turkish economy. Çürük (2013) examined the development of Islamic finance in Turkey and the existing problems of the system, and she has found these results: (i) the independence on the working methods, (ii) the advisory board, (iii) interdisciplinary collaboration, (iv) transparency and (v) confidence. Özdemir (2014) tries to evaluate the effectiveness, efficiency, and performance

of the Islamic banking sector and the Islamic banking sector in Malaysia, one of the world's leading countries in this field. Egresi and Belge (2017) also, in their study, tried to analyze the perception of the society and especially development obstacles of participation banking in Turkey. According to the findings of the study, customers make choose of bank based on financial advantages, products, and quality of the services presented. Since their work is a report, Hakan and Özdemir (2017) made a more general and superficial study and highlighted the political factors. Besides they found mainly that there is a need for a central Shariah board, and Islamic banks need to become more transparent for the society. Yüksel and Canöz (2017) examined the effects of Islamic banks on industrial development and economic growth in Turkey. It has been determined that there is no causal relationship between Islamic banks and economic growth and industrial production in Turkey. Thus, it has been concluded that the Islamic banking sector in Turkey does not have a factor that contributes to economic and industrial development. The main reason for this situation was stated by the authors as the low percentage of Islamic banks in Turkey compared to traditional banks. Sayar (2020), especially, examined the issue with the perception of employee.

Lastly, in this work, it is aimed to reveal the emergence of Islamic banks in Turkey, the development process, and the effects of political and social factors, and - regardless of its relationship to other factors or institutions- only to understand the current situation by handling the difficulties and deficiencies they face through three prominent concerns in recent years.

It is known that Islamic banking in Turkey has appeared in the 1970s. Initially, it couldn't improve enough due to political and social problems, but it has begun to rapidly rise since 2002. However, different deficiencies and issues related to renewing the legislation, informing the society, and the legitimacy of the products of Islamic financial institutions have emerged in that process. This paper aims to reveal the main deficiencies, necessities, and challenges of Islamic banking in Turkey and to propose some recommendations. Since revealing the reasons which prevent the development of participation banks might be enabled for further improvement and reach to its real potential level.

The research questions of the study are as follows:

1. Why did Turkey not show a similar development even though participation banking practices started simultaneously with many Muslim countries?
2. What are the main issues and challenges of participation banking in Turkey?
3. What are the solutions and suggestions to overcome these problems and difficulties of the participation banks and to increase their demand by customers?

In this context, firstly, the paper discusses the emergence of Islamic banking, the development process, and the products of Islamic banks in Turkey. Secondly, it is examined the basic problems and essential revisions of the Islamic banking sector. Besides, it is elaborated on the revision of Islamic banking legislation, informing Turkish society about Islamic Banking and the nature of the products of Islamic financial institutions. The article emphasizes that society should cooperate more with Islamic banks and demand reform from 'political will' to eliminate the deficiencies of Islamic Banking.

## 2. Emergence and Development Process of Islamic Banks in Turkey

There are two main reasons for the establishment of Islamic banks in Turkey. While the primary reason is to evaluate the accumulations of individuals who have Islamic sensibilities and for this reason stay away from classical banks, the secondary reason is to ensure the flow of foreign resources from the oil-rich Gulf and Middle Eastern countries (Orhan et al., 2017; Asutay, 2013). On the other side, according to Asutay (2013), Islamic banking in Turkey has been begun as part of the liberalization program maintained by Turgut Özal's period. In Turkey, the modern interest-free banks have emerged as Special Finance Houses firstly in the early 1980s (Asutay, 2013; Bayındır, 2011; Özdemir and Aslan, 2017). Besides that, in some studies, it was stated that 'DESIYAB' (State Industrial and Labor Investment Bank), 'Adapazarı İslam Ticaret Bankası' (Adapazarı Islamic Commercial Bank) and 'Kar-Zarar Ortaklığı Bonosu (KZOB)' (Profit-Loss Share Bills) or profit-loss-sharing certificates can be accepted as the first examples of Islamic finance because these initiatives have existed with some Islamic sensibilities (Asutay, 2013; Özdemir and Aslan, 2017).

They were called "Special Finance Houses" because they needed not to create any perception that it was established with Islamic sensibilities due to the laicist political culture of the related period (Asutay, 2013). It is a well-known fact that 'Special Finance Houses' (SFHs) were not in an equal position with conventional banks in the related periods because they were not allowed to invest in government securities and were not included in Turkey's Central Bank deposit insurance plan (Egresi and Belge 2017). Although all institutions like SFHs were regulated in a collective and single law, SFHs were not regulated by law, but just decree and communique (Özdemir and Aslan 2017). Government officials of the period legalized them by decree 83/7503 (16 December 1983) paving the way for SFHs (Asutay, 2013).

A subsidiary of Al Baraka (an Islamic bank originating in Bahrain) was founded as the first of SFHs in 1985. After that, a subsidiary of Faisal Bank (an Islamic bank originating in Arabia) started to process in the same year. These SFHs were followed by Kuveyt Türk in 1989. Then, respectively, Anadolu Finans (1991), İhlas Finans (1995), and Asya Finans (1996) were started to operate. While Albaraka Türk, Faisal Finans, and Kuveyt Türk were established with a large proportion of foreign capital, on the other side Anadolu Finans, İhlas Finans, and Asya Finans were established with domestic capital (Asutay, 2013; Egresi and Belge, 2017; Özdemir and Aslan 2017). Economic crises had been experienced in 1994 and 2001 in Turkey, and SFHs were also negatively affected as such as the conventional banking sector from the crisis periods. Especially the 2001 crisis has revealed a critical period for SFHs, and İhlas Finans was closed because it has failed due to fulfilling its financial responsibilities (Asutay, 2013; Özdemir and Aslan 2017). The failure of İhlas Finans, which was the best institution in the sector, caused great distrust by the public against special finance houses. Fund owners have intensely requested to withdraw their money and almost half of the total funds collected in special financial houses have been withdrawn in a short time (Özdemir and Aslan, 2017). However, all the results of this critical process were not negative. According to Asutay (2013), such unsuccessful attempts have been resulted in new regulations to strengthen the financial system in the past and, in the related process, SFHs have been collected under the roof of the banking sector. As a result, the 2001 crisis have been led to a revision of Turkey's financial system, and the government passed a new banking law in

response (law no.4389). In addition to improving banking regulation, by law no. 4389, established the “Union of Special Finance Houses” to handle common issues among actors and provide a standard of state control for the sector.

By law no. 4389, in addition to improving banking regulation, has been established the “Union of Special Finance Houses” to handle common issues among actors and provide a standard of state control for the sector (Asutay, 2013; Hardy, 2012). In 2006, banking law no. 5411 officially have been replaced the term “special finance” for these institutions with the name “participation banking,” also the Union of Private Finance Houses has been becoming the “Participation Banks Association of Turkey (TKBB)”. The statement of “participation banking” was first used by Temel Hazıroğlu and Mehmet Emin Özcan. They claim with this term that Islamic banks work with the principle of participation in profit and loss (Özcan and Hazıroğlu, 2000). It has occurred a “Savings Deposit Insurance Fund” for participation banks which granted much-needed security for depositors, with the new law (Hardy, 2012). Undoubtedly, these changes which are necessary to be done much earlier, have been important for the better service of Islamic banks to the public and satisfaction of the needs.

### 2.1. Working Methods of the Islamic Bank in Turkey

The basic feature of Islamic banks is that they have adopted the principles of being interest-free. At the same time, they don't finance any transactions that Islam does not accept their validity (for example, selling of drinks and cigarettes, gambling, and games of chance). Avoiding transactions that include any uncertainty (gharar) is also an important principle for Islamic banks. In principle, Islamic banks do not do businesses that violate public morality and are harmful to society. In addition, both mobilization and investment of funds should be realized in line with the principles of Islamic law -which are the prohibition of interest or usury, ethical standards, moral and social values, liability, and business risk.

Islamic banks have specific fund collection and utilization methods. Islamic banks are collecting funds (as the TL, foreign currency, precious metal) with two types of accounts as current and participation accounts. These funds are used in different ways in accordance with Islamic sensitivities. These fund utilization methods are Corporate Finance Support, Profit-Loss Partnership, Financial Leasing, Financing of Vesaik for goods, FX-Indexed Financial Supports, Reference Letters, Guarantees, Letters of Credit, Types of Letters, Letters of Guarantee / External Guarantees, Acceptance / Aval Financing Techniques, Housing Finance and Vehicle Finance (Arabacı, 2015; Ustaoglu, 2015; Sayim, 2014). In Islamic banks in Turkey, interest-free products such as attendance index, takaful, murabaha, and sukuk are also used. The objectives of Islamic banks were to do business with profit-loss partnerships and investments. But today, the most widely used method by Islamic banks in Turkey is the murabaha (Arabacı, 2015).

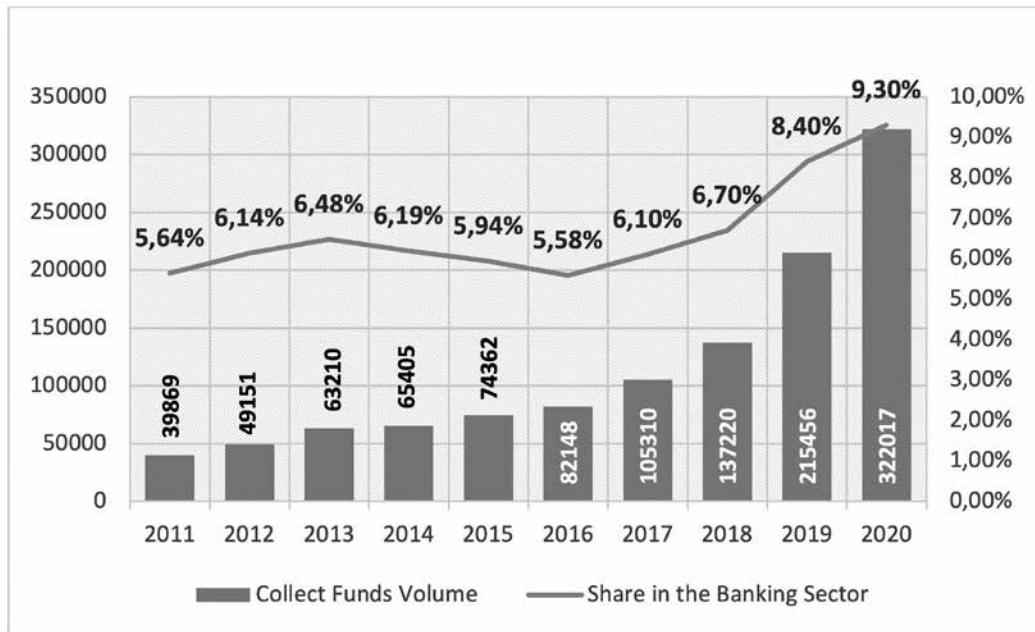
According to this article, it is fact that Islamic banks use more murabaha methods and do not use a wide variety of products in other Islamic countries is one of the reasons why the Islamic banking sector cannot progress. Because, for increasing the rates of Islamic banking, there is a need to use different methods that are more functional and attract small entrepreneurs.



## 2.2. Islamic Banking in Turkey in the Recent Period

With the arrival of a conservative political will, a revival in the Islamic banking sector has occurred. Islamic banks have experienced stable growth because of more regulatory and legislative protection by the AK Party's period (Aslan and Özdemir, 2017; Hardy, 2012). When compared to the 1990s, it is possible to say that significant progress has been made especially in the field of Islamic banking in the 2000s. It was aimed to establish public participation banks after the AK Party has started to see Islamic Finance as a strategic area since 2013. As a result, Ziraat Katılım (Participation) was opened in 2015, and then in 2016 Vakıf Katılım (Participation) has started its activities.

Both political opportunities, as well as the awareness of decision-makers and opinion leaders, have made important contributions to the development of Islamic banking in Turkey.

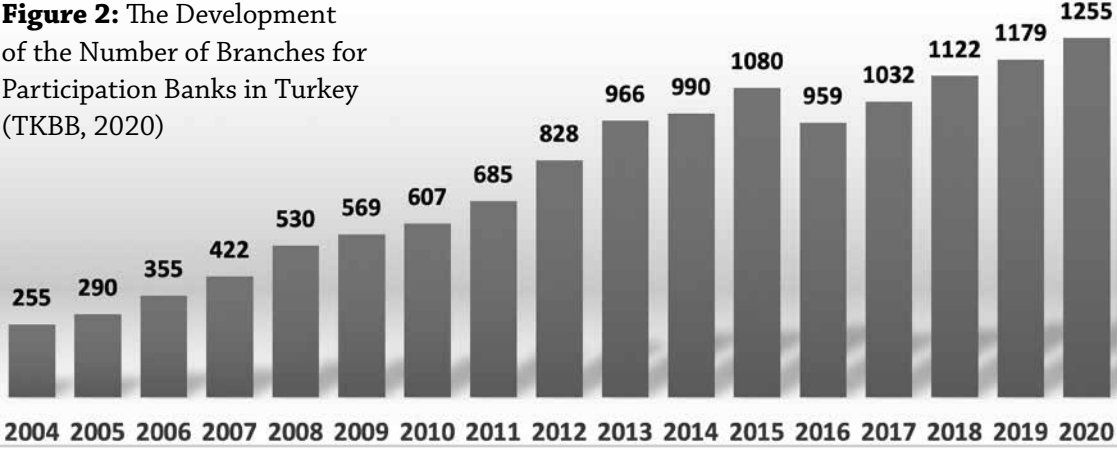


**Figure 1:** Development of Funds Collected of Participation Banks (TKBB, 2020)

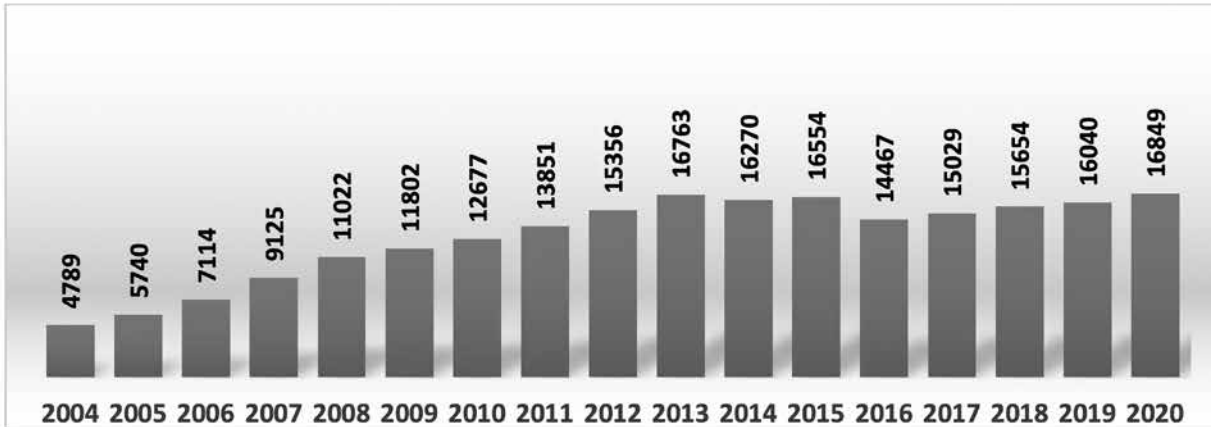
For example, when we look at figure 1, it can be analyzed that there has been significant growth in the development of funds collected participation banking in Turkey. Besides, according to TKBB data, while the collected funds are about 39 billion in Turkey in 2011, it also increased to 322 billion TL in 2020. The data shows that progress has been made more than 3 times in almost 9 years (TKBB, 2020).

According to Hardy's comment "While the country responded quickly to the downturn and has maintained high GDP growth rates in 2010 and 2011, the participation banks are gaining market share." (Hardy, 2012) In addition, the world economic crisis that occurred in 2008 was also partly negatively influenced the participation banking in Turkey. The reason why the 2008 world economic crisis in Turkey did not deeply collapse the banking sector in Turkey, is the structural arrangements introduced into the Turkish banking system in 2001, as mentioned above.

**Figure 2:** The Development of the Number of Branches for Participation Banks in Turkey (TKBB, 2020)



Other factors that this article can observe the growth of Islamic banking in Turkey also are the branches of the Islamic banks and the number of staff. While there were only 255 participation bank branches in 2004, this figure increased to 1255 in 2020. This data shows us that the number of branches has increased fourfold in about 10 years. In addition, while Islamic banks employed 4789 personnel in 2004, the number of Islamic banking officers increased to 16849 in 2020. It is observed that the number of personnel of the Islamic bank has also increased by 3 times in sixteen years.



**Figure 3:** The Development of the Number of Personnel for Participation Banks in Turkey (TKBB, 2020)



<b>Funds Collected</b> 322 billion TL	<b>Number of Personnel</b> 16.849	<b>Funds Disbursed</b> 240.1 billion TL
<b>Number of Branches</b> 1.255	<b>Total Asset</b> 437,1 billion TL	<b>Total Equity</b> 27.6 billion TL

**Figure 4:** Participation Banks in Turkey, Key Indicators for 2020 (TKBB, 2020)

When evaluated in the context of current data, as seen in figure 4, it is possible to say that participation banks have increased their collected funds by 18.6% from 2015 to 2016. Moreover, the increase continued in 2017 and the funds collected the previous year increased by 19% (TKBB, 2020).

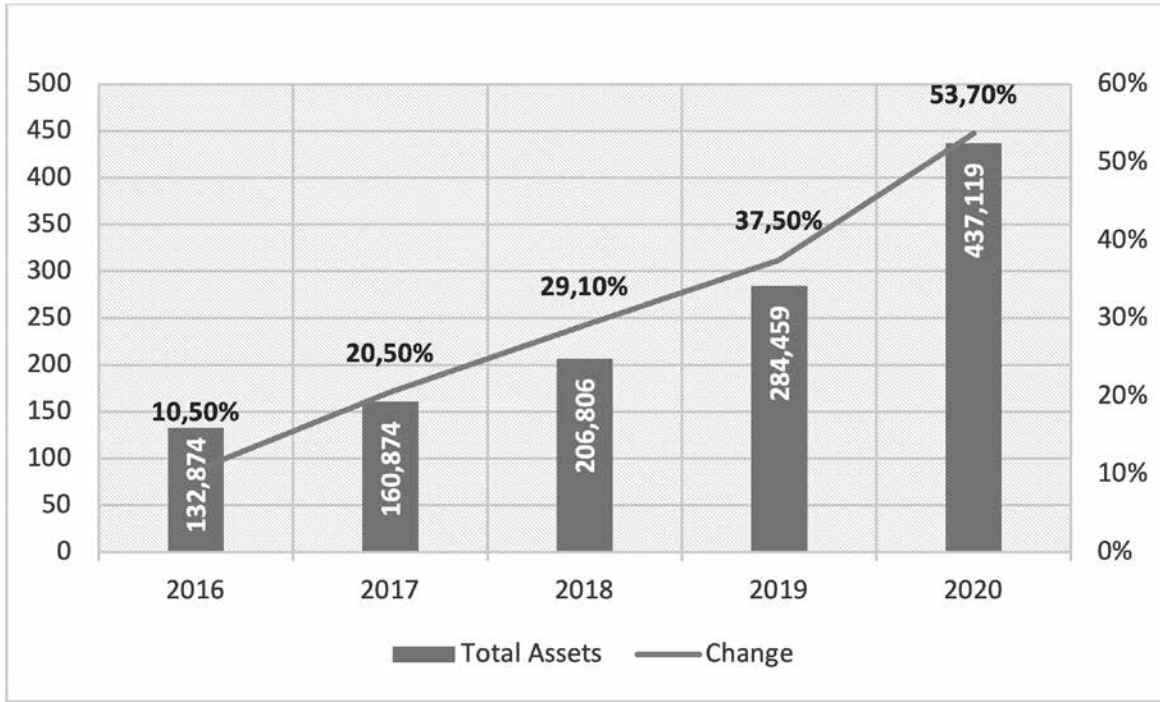
As a result, despite the significant growth in participation banking, especially since the 2000s, participation banking still has a very small percentage of 5% in the Turkish banking system. This is a matter that needs to be addressed immediately by policymakers and leading actors of participation banks. It is necessary to analyze the reasons well and to produce effective solutions to these problems. Hence, this article emphasizes that society does not have enough awareness of the collaboration of Islamic banking.

The public should be informed accurately, and completely about Islamic banks and their functioning must be explained simply. People's attitudes towards Islamic banks should be investigated and false perceptions should be tried to eliminate. People's perceptions about Islamic banks, their expectations from these banks should be learned and some changes should be made in line with their expectations. For this purpose, surveys can be conducted with people from the public about Islamic banks.

<b>Deposit Banks</b>	<b>34</b>
-Public Banks	<b>3</b>
-Private Banks	<b>9</b>
-Foreign Banks	<b>21</b>
-Banks Transferred to Savings Deposit Insurance Fund	<b>1</b>
<b>Development and Investment Banks</b>	<b>14</b>
<b>Participation Banks</b>	<b>6</b>
<b>Total</b>	<b>54</b>

**Figure 5:** Turkish Banking Sector, December 2020 (TKBB, 2020)

A large part of the banking sector in Turkey constitutes conventional banks. The basic reason for the effectiveness of conventional banks is that Turkey is a secular-based free-market economy. In addition, it is necessary to state that the government decision adopted on 24 January 1980 follows a Western-based economic policy that is integrated into globalization. At this point, the modernization of Turkey was not only political and social but also economic. That means the westernization has been effective in the banking sector, especially on the dominance of conventional banks rather than participation banks in Turkey. Therefore, this situation is directly reflected in society's habits in the banking sector. Today, there are 54 different banks in Turkey. Thirty-three of the fifty-one banks are deposit banks in Turkey. However, only five of these banks are the participation banks. If it is compared with conventional banks, it is possible to say that the number of participation banks in Turkey is extremely low.



**Figure 6:** Assets Development of Participation Banks (TKBB, 2020)

In addition, it should be underlined that even if the support to participation banks is extremely low in Turkey, interest in participation banks is increasing. With the gradual increase of the assets of participation banks in Turkey, this argument is easily defensible. Because the assets of the participation banks have almost doubled in the last five years as is seen in figure 6.



**Figure 7:** Sector Share of Participation Banking (TKBB, 2020)

However, there are also several deficiencies of participation banks in Turkey. Concerns about mu-rabaha method, concerns about Islamic Advisory Boards, and lack of consciousness of society and insufficiency of political will are some of them in Turkey.

### 3. Necessary Reforms for Islamic Banking in Turkey

With the widespread sense of global Islamic financial institutions, the Islamic economy began to develop in Turkey at the end of the 1970s. The development of the Islamic economy in Turkey has remained relatively behind many countries due to political and social reasons. Since 2002, when the AK Party came to power, various steps have been taken to develop Islamic finance, to pave the way for it, and to put it on firm ground. However, but the desired point has not yet been achieved. Unfortunately, today, the share of participation banks which is around 5% in Turkey, is an indication of the failure. At this point, the political actors in Turkey must also take an active role to remedy the deficiencies of progress and Islamic banking.

In this context, it is necessary to express the first “sukuk” exports in 2012 are notable for Turkey. This is very important because, for the first time, an instrument used in the field of international Islamic finance was preferred by the state. there are also various shortcomings seen in the field of Islamic finance. At this point, it should be noted that since 2014, Islamic finance has been seen as a strategic sector by the government (Özdemir, Aslan, 2017). However, there are also various shortcomings in the field of Islamic finance in Turkey.

### 3.1. Concerns about Murabaha Method in Turkey

Murabaha is an agreement of sale of products at a pre-determined profit mark-up on the price (Ainley, Mashayekh, 2008). Murabaha differs from “musavama” (where the purchase price is not known at the time of sale) since the previous purchase price of the sold goods is notified to the customer (Cebeci, 2021). Murabaha is suitable for corporate, agriculture, consumer, financier, and the other sectors where the consumer needs finance to purchase products (Ainley, Mashayekhi, 2008). It is the most widely used Islamic financial contract in Islamic banks in Turkey. However, modern murabaha practices applied in Islamic banks today are different from the classical murabaha practice (Cebeci, 2021). As the most used financing of participation banks in Turkey, the modern murabaha method’s problems continue in the context of fiqh. This problem constitutes the perception that Islamic banks are using the same method as conventional banks. The main fiqh issues in the context of modern murabaha are as follows. The issue of whether the promise is binding on the parties:

- The inconvenience of making two contracts in one contract
- At the end of the sale of Murabaha, the uncertainty of the issue of the right to receive the goods (by whom and in what way the goods are held)
- Since modern murabaha is tripartite and multi-process, the appointment of a proxy in some transactions is a controversial issue.
- The criticism that modern murabaha is approached interest by making it risk-free, the uncertainty of risk
- Uncertainty in the procedures to be applied in the payments of the Murabaha transaction, such as giving the debt before time or not paying it on time (Cebeci, 2021).

There is a need for special legislation not only for participation banks but also for other Islamic Finance Institutions in Turkey. While doing this, the opinions of all stakeholders should be taken into consideration and international practices should be utilized. In addition to this, the community should be informed that the problematic practices realized due to the legislative limitations have been resolved. At this point, it is important to inform the stakeholders about legal changes on participation banks.

The Central Bank of the Republic of Turkey (TCMB) has made interest payments to the banks because of the compulsory attendance laws in 2010. Then, this problem has been corrected later, but this has led to a bad perception on stakeholders as “Participation banks receive interest from the central bank.” (Kazancı, 2019). However, because there has been no successful information given to the society about this problem, the “interest” perception continued as if the Central Bank in Turkey still paid interest.

Unfortunately, the issue was fully resolved, but in 2014, interest rates were paid by the Central Bank to the participation banks again. Due to the Central Bank having started to apply interest on requi-

red reserves, new legislation and issues that are not appropriate for Islamic banking should be eliminated and effective information should be provided. With the new legislation, it will be ensured that not only these institutions will be provided with strong legal ground and ensure their continuity, but also their credibility with the society.

According to Özdemir and Aslan (2017), in Malaysia, the government carries out the necessary arrangements for the Islamic financial sector quickly and supports the Islamic financial sector. For this reason, Malaysia has almost the largest share of the Islamic financial sector in the world, although its total population is low and an important part of it is not Muslim. In this context, the legislation is needed to be regulated quickly for Turkey to take a significant share of the financial markets all over the world. At this point, it is necessary to express that Turkey has great potential as a Muslim country.

### **3.2. Concerns about Islamic Shariah Advisory Boards**

Shariah Advisory Board is a non-profit, self-regulatory, voluntary body engaged in the promotion of Islamic Finance to provide authoritative Sharia-compliant advice, awareness, research, and mediation solutions for all stakeholders in the financial services industry (COMCEC, 2020).

The spread of Bank Islam Malaysia, the first Islamic bank in Malaysia, with 80 branches and 1200 personnel in 10 years, has proven that Islamic banking is a convenient system. In the following process, the establishment of the Islamic Money Market and Islamic Capital Market also played an important role in the development of Islamic banking in Malaysia. Later, the establishment of supervisory institutions such as the Securities Commission and the Islamic Advisory Council in 1996 and the strengthening of the draft law and tax incentives are also effective developments in this direction (Özdemir, 2014).

In addition to Malaysia, which is a leading country in Islamic finance, UAE, Bahrain, Indonesia, Bangladesh, and Pakistan, there is also a central advisory board apart from the Islamic Finance Institutions' own advisory boards. It is extremely important to prevent any doubts that may arise about Islamic financial institutions with the presence of a central advisory board and to control the activities of these institutions in terms of Islamic conformity. However, unfortunately, there is not a central advisory board in Saudi Arabia, Iran, Qatar, Kuwait, and Turkey. The articles claim that a central advisory board will positively affect the progress of the sector in these countries (Sayar, 2020).

AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) has set new standards in this regard. According to AAOIFI "the purpose of this Governance Standard for Islamic Financial Institutions (GSIFI) is to provide guidance on the definition, the scope of work, responsibilities, appointment, composition, independence, terms of reference of a central Shari'ah Board (CSB) and other relevant issues." Thus, its aim is to provide a framework on governance for central Shari'ah boards worldwide. Central Shari'ah Board also presents, a country-level approach for regulating the Islamic finance industry within borders, including products, practices, and operations (Central Shari'ah Board, 2020). Besides, the standard recommends and encourages the formation of central Shari'ah boards to achieve a greater level of harmony in the practices of Islamic banking and finance as a reference point (Central Shari'ah Board, 2020). In this context, the article expects that the standards



of a central advisory board will resolve the public confusion.

### 3.3. *Lack of Consciousness of Society and Insufficiency of Political Will*

The Republic of Turkey is a state where the majority is Muslim. Therefore, it is expected that the Turkish community will show interest in the participation banks. However, the total volume of participation banks in the banking sector in Turkey is only 7% (TKBB, 2020). The trading volume of participation banks in Turkey is extremely low for a country that is predominantly Muslim. This situation shows us that Turkish society does not have an awareness of the economic order which is being managed by the interest rate. Besides, the indifference of Turkish society to the Islamic banks shows us the false conviction that an Islamic model of the economy is not possible. It is possible to say that Turkey had an important way of Islamic banking between 1999-2013. Turkey's Muslim population shows that there is great potential for participation banking in Turkey. However, the growth rate of Islamic banks in Turkey shows us especially after 2013 cannot be a significant growth rate floor.

## 4. Conclusion

The emergence of Islamic banks in Turkey, almost, has been realized at the same time as the emergence of Islamic banks in Malaysia. On the other hand, slightly more than half of Malaysia's population is while Muslim, Turkey is a country with a 90 percent Muslim population. Despite so much progress of Malaysia in Islamic banking under the mentioned conditions, Turkey has been unable to achieve a similar success during that time. Certainly, in this case, Turkey has a huge impact on the social and political conditions of that period. However, it is also an important factor that Islamic banks have not adequately informed the public about their functioning and have not prevented false perceptions in the public sector.

It is known that each Islamic banks in Turkey have a separate advisory board and there are also different authorities in these advisory boards. The utilization of different products by the Islamic banks and having different advisory committees can cause people to get confused. Therefore, people may be approaching prejudice against Islamic banks. Thus, as a solution, if Islamic banks have a central advisory board, they can prevent both confusions in the public and defeat debates on the legitimacy of products. Another issue with the advisory boards is that board members should have sufficient knowledge in fields both of economics, finance, and sharia law. Because to give the right provisions regarding the validity of the products or transactions used in Islamic banking, it is necessary to know all aspects of the mentioned issues.

There is a common perception about murabaha that Islamic banks are using the same method as conventional banks. The definition and function of murabaha should be clearly identified and explained to the customers of Islamic banks. The differences between murabaha and the instruments quasi murabaha used by conventional banks should be clearly revealed.

Comprehensive legislation should be developed for the investors of both domestic and foreign to eliminate the question or debates on the conformity of the activities in Islamic banking. In the process



of creating new legislation for Islamic banking, it can be utilized practices and legislation from other Islamic countries.

“Are Islamic banks only institutions that perform banking activities?” or “Should Islamic banks serve as financial institutions with their banking activities?”. These questions should be answered clearly. Because most people do not know the content of Islamic banking, the purposes of these banks, and what services they provide. Elimination of this uncertainty is important in terms of determining expectations from Islamic banks.

New products should be developed to increase the assets of Islamic banks. Thus, the ratio of Islamic banks within the Turkish banking system can be increased to higher rates. On the other hand, they can finance entrepreneurs on a middle scale that will contribute to regional development by achieving higher rates and increasing their assets.

Islamic banks, particularly in the last decade, have opened quite several branches and, as a result, many employees have been hired for these branches. But at that time, it is known that the number of officials who are well-informed about Islamic banking is not yet sufficient in Turkey. The individuals who want to work in Islamic banks should have basic Sharia rules and knowledge of Islamic economics. This issue can be determined as a condition for candidates working in Islamic banks.

Finally, the basis of all these deficiencies and challenges experienced by Islamic banks is the efforts to integrate them into the existing system. However, the realities of the current system do not allow structures and tools built with Islamic principles. This cannot go beyond a situation such as continuous patching of a defective fabric. As researchers in the field of Islamic economics, our duty is to urgently build a new and unique system on a ground that is in line with the principles of Islam and the morality of Muslims. In other words, we urgently need to build a financial system and institutions that can fulfill the function of banks in today's sense, but whose rules, tools and products are unique and compatible with Islamic principles.

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