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THE COMPETITION BETWEEN PARTICIPATION AND CONVENTIONAL BANKS IN TURKEY: A QUANTITATIVE STUDY

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Abstract

Participation banks, which carry out transactions based on an interest-free banking model, form fund pools through current and participation accounts. These funds are made available to the economic decision units that need financing or tend to save by using a profit share approach. The interest-free finance system, which is a risk-sharing model, has a significant function in minimizing possible instability. The essential motivation of this study is to measure the level of competition between participation banks and conventional banks in the presence of households. For this purpose, quantitative research was carried out with the participation of 1145 people in the NUTS-2 region of the Turkey Statistical Regional Units Classification, with an error margin of ± 2.90% and a 95% confidence interval[3]. The results of the research indicate that the savings preferences of the households are in favor of traditional instruments, the search for an interest-free investment tool continues, the interest sensitivity of the households in terms of financial external dependency, and the brand awareness of participation banks is low. It has been determined that the low level of awareness of participation banks is a significant disadvantage in competition with conventional banks.

Keywords: Participation Bank, Conventional Bank, Quantitative Analysis.

Jel Codes: G21, G41.

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TÜRKİYE'DE KATILIM BANKALARI VE KONVANSİYONEL BANKALAR ARASINDAKİ REKABET ÜZERİNE NİCEL ARAŞTRMA

Öz

Faizsiz bankacılık modeline göre işlem yapan katılım bankaları, cari ve katılma hesapları aracılığıyla fon havuzları oluşturmaktadır. Bu fonlar, finansmana ihtiyaç duyan veya tasarruf etme eğiliminde olan ekonomik karar birimlerinin kullanımına kâr payı yaklaşımı ile sunulmaktadır. Bir risk paylaşım modeli olan faizsiz finans sistemi, olası istikrarsızlıkların en aza indirilmesinde önemli bir işleve sahiptir. Bu çalışmanın temel motivasyonu, katılım bankaları ile konvansiyonel bankalar arasındaki rekabet düzeyini hanehalklarının varlığında ölçmektir. Bu amaçla, Türkiye İstatistiki Bölge Birimleri Sınıflandırmasının İBBS-2 bölgesinde yer alan 1145 kişinin katılımıyla ± %2,90 hata payı ve %95 güven aralığı ile nicel araştırma gerçekleştirilmiştir[4]. Araştırma sonuçları, hanehalklarının tasarruf tercihlerinin geleneksel araçlardan yana olduğunu, faizsiz yatırım aracı arayışlarının devam ettiğini, hanehalklarının finansal dışa bağımlılık açısından faiz duyarlılığının ve katılım konusunda marka bilinirliğinin düşük olduğunu göstermektedir. Katılım bankalarının bilinç düzeyinin düşük olmasının konvansiyonel bankalarla rekabette önemli bir dezavantaj olduğu tespit edilmiştir.

Anahtar Kelimeler: Katılım Bankası, Geleneksel Banka, Nicel Analiz.

Jel Kodları: G21, G41.

1. INTRODUCTION

Islamic financial institutions are closely followed by decision-makers and researchers today, when interest rates are signalled to increase, access to finance is difficult, and savers are looking for profitable investment opportunities. Offering an interest-free finance and savings opportunity as an alternative to conventional banks, Islamic finance institutions shed important light on the past and future of the financial sector. The fundamental financial changes experienced in the Turkish economy, especially after the 1980s, form the basis of the strengthening of interest-free financial institutions and their remarkable overall performance. The representatives of interest-free financial institutions, which have an increasingly widespread appearance with their asset sizes, profitability levels, employment creation processes, have managed to attract attention in the Muslim market. Encouraging decision-makers with Islamic sensitivities to participate in economic activities through interest-free financial institutions makes substantial contributions to the country's economy. Despite adhering to Islamic principles, the criticism that it could not compete with conventional banks in the past has left its place in the existence of a competitive system today. Interest-free financial institutions (Islamic Banking System), which are rapidly advancing towards establishing trust in households, have succeeded in offering the services offered by conventional banks within the framework of Islamic principles. The fact that it offers similar

[4] Çalışmanın araştırma sahası sosyal sorumluluk kapsamında Areda Survey tarafından gerçekleştirilmiştir.

services with conventional banks with different terminologies has led to imitation criticism in terms of Islamic banks (El Gamal, 2001; Khan 2010).

The fact that the Covid-19 epidemic has reached a global dimension has contributed to the awareness of the Islamic banking system, which rivals the conventional banking sector. The Islamic banking system has accelerated the process of transferring idle funds to the financial system by offering innovative product differentiation to individuals in need of financing, especially to individual users in search of reliable investment instruments. However, its tendency towards the Islamic banking system continues to be overshadowed by conventional banks. In a global environment dominated by uncertainty, Turkish investors continue to prefer gold and foreign currency. In addition to the impact of the pandemic, geopolitical risks also deeply affected the investment preferences of savers. Especially the increase in the demand for foreign currency and the pricing due to the increase in the exchange rate deepened the pandemic effect on the Turkish economy.

Within the scope of this study, answers to three basic questions are sought. First, what are the investment and financing preferences of Turkish savers? Second, how does the Turkish investor view the competition between conventional and Islamic banks, and which one do they prefer? Third, how did households react to alternative investment instruments that Turkish policymakers offered to investors in the face of exchange rate uncertainty? The answers to these questions are given by quantitative research conducted with the participation of 1145 people at the 95% confidence interval with an error margin of ± 2,90 % in the NUTS-2 region of the Turkey Statistical Regional Units Classification, which represents the whole of Turkey.

2. PRINCIPLES OF PARTICIPATION BANKS

Islamic financial institutions are narrowly defined as interest-free banking. These institutions have based their aims and activities on the principles of the Qur'an. This situation is the most basic feature that distinguishes conventional financial institutions from Islamic financial institutions (Warde, 2000, s. 5). Although there are various debates about what interest is behind the interest-free banking discourse, the general opinion in countries where Islamic rules are valid is that these institutions avoid all forms of interest, simple or compound, with low or high rates.

It is possible to collect the principles of participation banks under six headings (Kettel, 2011, s. 33);

i. All predetermined repayments qualifying as interest are prohibited.

ii. Profit-loss sharing and risk sharing, which are placed at the centre of the Islamic financial system, are valid

iii. The acquisition of money from money is prohibited; All financial transactions must be based on assets.

iv. Speculative acts (gharar) are prohibited.

v. Only contracts that comply with Islamic rules can be enforced.

vi. Contracts are considered sacred.

The most fundamental factor in the formation of the principle of interest is, of course, the verses and hadiths. Rum:39, Bakara:275 and Al-i Imran:130 are some of these verses. However, it is clearly stated in the hadiths that what is prohibited is not only earning interest. Jabir (Radiallahu Anh) said:

“The Messenger of Allah (may peace be upon him) cursed the one who eats interest, the one who gives it, the one who writes about interest and the witnesses of this treatment! and:

He said, 'They are equal in sin!'"

In Islamic banks, profit-loss sharing has been adopted instead of the interest mechanism. Profit-loss sharing enables the savers to add these savings to the real economy and the entrepreneurs/capital owners to use these savings in exchange for the partnership without interest. Savers get a share of the profits resulting from the partnership instead of interest. Here, it differs from interest, as it consists of the surplus value created by the excess labour and capital acquired by the savers. While the intermediary institution is a partner directly with the fund supplying and demanding fund, the fund supplying and demanding fund are also indirectly partners. From a broad perspective, both profit and loss and risk are shared between these three partners (Karahan & Ersoy, 2016, s. 98).

Making money from money is unacceptable under Islamic law. Money is not seen as capital but as potential capital in Islamic doctrine. In other words, money itself cannot be seen as capital, but money can be capital if it is invested in a production activity or business. However, from an Islamic point of view, money is seen only as a medium of exchange. The use of money in consumption or its inclusion in production activities as an investment is encouraged; Idle money is not tolerated (Kettel, 2011, s. 33).

Speculative behaviour, uncertainty, unexpected gains are generally called gharar. Gharar is defined as deception and illusion. But gharar also encompasses high risk. Although what is meant here is not the prohibition of risk, Islam encourages fair sharing of risk. However, the risk defined within the scope of gharar is the situation of creating an injustice between the parties. The following hadiths make the situation more understandable.

"Don't buy the fish in the water, it is garar."

"Do not sell what you do not have (Ebû Dâvûd, "Büyûʿ", 68; Tirmidhi, "Büyûʿ", 19; Nesâî, Büyûʿ, 60)."

In the context of the hadiths above, it is seen that the concept of garar is very close to the term described as asymmetric information in the mainstream economics literature.

The principles of Islamic banks were established to keep these institutions within the limits of Sharia. The principles make Islamic banks an important and preferable alternative for customers who have this sensitivity in trade, by preventing all other morally problematic behaviors besides interest. They provide their customers with the financing methods and tools they have created following their principles.

3. FINANCIAL INSTRUMENTS OF ISLAMIC BANKS

The Islamic financial system has created its permissible instruments within the scope of Islamic laws. The relationship between the funders (principal) and the participation banks, which are the intermediary institutions (proxy), the instruments expressing the works and contracts and determining the roles are summarized below in a general framework.

3.1. Mudarabah

The term mudarabah, derived from the word darb in the word darb fi'l-arz, meaning "foot it" in the dictionary, refers to a partnership based on profit sharing, established by one party's investment of capital and the other party's undertaking the business (Türkiye Diyanet Foundation, TDF, 2022).

Mudaraba is a particular type of partnership. It is a contract between two parties: a capital owner (called rabbu'l-mal) and an investment manager (called mudarib). Profit is distributed between the two parties according to the rate agreed upon at the time of the contract. The financial loss is borne by the owner of the capital, while the loss of the manager is the opportunity cost of his labour. The responsibility of the investment manager is not to violate the contract and to fulfil its obligations. Apart from this, it does not guarantee to increase the capital given to it or to earn any profit. (Iqbal & Molyneux, 2005, s. 21).

3.2. Musharakah

Musharakah, which is a partnership financing, can also be described as an equity participation agreement. Unlike mudarabah, both loss and profit are shared by the partners in Musharakah. In addition, while an inactive capitalist and an active entrepreneur are participating in mudaraba, both the capitalist and the entrepreneur are in an active position in musharakah. While the profit of the business is shared between the partners at the agreed rates, the loss is shared according to the capital contributions (Takan & Acar, 2018, s. 14). While the profit of the business is shared in the proportions agreed between the partners, the loss is apportioned precisely according to the capital contributions.

3.3. Murabaha

Murabaha is a contract in which the customer who wants to buy equipment or property requests the bank to buy that good and sell it to him with a declared profit margin on cost. Murabaha, which is one of the most common financing instruments of the Islamic banking system, is a financing-sales contract in this sense. The most common use is by the immediate delivery of the goods and the payment by the debtor on a future date. There are two main criticisms of the sale made by adding a profit margin by the financial intermediary (Warde, 2000, s. 133). The first of these is that it is short-term and has a low risk for the financing provider. The predetermined profit margin and the collateral offered by the borrower reduce the risk of the financing provider and contradict the principle of risk-sharing. The other is due to the profit margin mimicking conventional banking. Although they are different in theory, in practice the profit margin follows the interest rates. In addition, there are different types of Murabaha in terms of the differences in the delivery and payment of the goods. The bai' salaf and the Istisna are explained below.

3.3.1. Bai Salaf

The delivery of the goods will be made in the future, while the payment process takes place at the time of the contract in Salaf contracts. Salaf contracts are exempt from two contractual conditions in contracts (Schoon, 2016, s. 58): the existence of the goods at the time of the contract and the seller's ownership of the goods. The type, quality and quantity of the goods should be clearly stated in the contract. Thus, the buyer or seller protects themselves against changes in the value of the goods.

Salaf contracts are especially critical in meeting the financing needs of small-scale farmers who want to expand their businesses. However, the use of salami contracts has generally been limited as a result of the inadequacy of land records, illiteracy and some restrictive government policies (Harrison & Ibrahim, 2016, s. 5).

3.3.2. Istisna

The Istisna is a manufacturing contract with staggered financing. It is also a contract to acquire goods by specification or order, in which the price is paid gradually according to the progress of work. Payments are made as to the construction or manufacture of the object approaches completion (Visser, 2009, s. 62). Unlike Salam contracts, where the entire payment is made at the time of the contract, exception contracts cover each stage of production separately and make payments according to the progress process.

3.4. Ijarah

Ijarah are lease agreements that provide the right to use a property for a fee for a specified period. It is important that the property to be leased has a usufruct right. Accordingly, the prices in the lease contract are wages and benefits. This interest may be the interest of real estate (house), movable property (car), human labor (employee) and a right (taxi). It is essential that the asset subject to the lease agreement is an asset that can be used without being consumed, since the interest of the asset is transferred, not the ownership, in the rental agreement (Abdul-Rahman, 2010, s. 56).

3.5. Qard Hassan

Interest-free consumption means borrowers. It is to lend money or an asset that has a precedent in the market to a person in need of borrowing and not gain any benefit due to this loan transaction. In monetary debts, the creditor becomes the creditor of a difference as well as the inflation that occurs during the indebtedness period (The Participation Banks Association of Türkiye, TKBB, 2022). Some Islamic banks may use Qard Hassan as a way to cover the cost of their problem loans. They use their zakat contributions for their benefit by giving Qard Hassan to their debtors who have financial difficulties due to profit-loss sharing (Warde, 2000, s. 146).

3.6. Sukuk

It is forbidden in the Islamic view as traditional bonds pay interest and are not based on any assets. Although Sukuk is similar to traditional bonds, they are not debt instruments. Unlike bonds, Sukuk is based on tangible or intangible assets and are generally shorter-term. They are investment certificates that offer the opportunity to participate in a commercial transaction following Islamic law and to have a share in the income arising from this commercial transaction. Since the Sukuk holder owns a share of the underlying asset, he is entitled to the incomes arising from the asset. However, the owner of the Sukuk also assumes the property risk and may be exposed to possible losses (Schoon, 2016, s. 64).

3.7. Islamic Credit Cards

They are modern payment instruments that represent participation banks and enable financial trading and payments to be made between cardholders, banks, workplaces. The purchase of alcohol, gambling, etc. goods and services that do not comply with the Shari'a cannot be made with Islamic credit cards (Visser, 2009, s. 67). In addition, Islamic credit cards cannot be used to purchase monetary assets such as gold, silver and foreign currency. In exchange for assets of the same type, the prices must be in advance. In the case of a futures transaction, interest is incurred.

With the tools they own, Islamic banks ensure that economic activities and banking services are carried out by Islamic methods. It contributes to the development of individuals and the national economy by avoiding speculation in the financial system and enabling the conversion of savings into direct investments (Takan & Acar, 2018, s. 13). It is an alternative to conventional banks for real and legal persons who carry out their economic activities sensitive to Islamic laws. As a matter of fact, in the following section, the differences between the two banks will be evaluated.

4. DIFFERENCES BETWEEN ISLAMIC BANKS AND CONVENTIONAL BANKS

The Islamic banking system operates under the above-mentioned principles. It has been discussed in the literature from various perspectives whether these principles make them more reliable both against conventional banking and against the negativities that occur in economic conditions.

Visser (2009) expressed the pros and cons of Islamic banking against conventional banking as follows;

-Advantages

i. Less risk of bankruptcy

ii. To prevent financial crises from deepening and to be more resilient to crises.

iii. Increasing participation in the financial system

iv. Speculation is prohibited

-Disadvantages

i. Higher risk on behalf of funders

ii. higher costs

iii. principal-agent problem

iv. Insufficient financing of SMEs

v. Limited supply of consumer credit

vi. Shortcomings of insurance service

vii. Insufficient product variety and inability to be protected from risk

In cases where profit-loss sharing is applied diligently, the repayments to the depositors will differ in proportion to the changes in the income of the bank. Although this situation greatly reduces the risk of bankruptcy, it is seen that losses are not always transferred to profit-loss sharing account holders in practice. There is usually a minimum promise of return on deposits to make banks attractive to customers.

It has been experienced that participation banks outperform conventional banks in times of crisis as a result of the profit-loss sharing principle. Thanks to the profit-loss sharing principle, the system becomes more disciplined and the depositors examine the soundness of institutions in more detail to avoid possible negative returns, which will lead participation banks to be more sensitive in their project selection. The situation in the 2000 and 2001 crises in 1997 East Asia and Turkey can be given as an example. While many banks in the region went bankrupt in the 1997 East Asian crisis, the majority of institutions that adopted the interest-free banking principle managed to survive. Similarly, in the 2000 and 2001 crises in Turkey, more than twenty banks went bankrupt, and these banks were transferred to the Savings Deposits Insurance Fund. However, Islamic financial institutions have performed more reliably when compared to conventional banks, although their deposits are not guaranteed in the legal environment and withdrawals occur from deposits over 50% (Alpay and Hassan, 2007, s. 5).

Some of the savers cannot integrate into the financial system due to their beliefs. Participation banks allow people with this sensitivity to be included in the financial system. Otherwise, these resources will be idle for the national economy, and governments may encourage the establishment of Islamic financial institutions. The Islamic Finance Houses in Turkey during the Turgut Özal period can be given as an example.

Participation banks, unlike conventional banks, are driven by trade and production. The reason for this is the act of taking part in trading and investment activities and the duty to take ownership of real assets, rather than lending directly like conventional banks. Thus, credit expansions are restricted and speculations are reduced. The emergence of the 2008 Mortgage crisis as a result of the lack of a response for credit expansion has brought participation banks to the fore in preventing the deepening of financial crises (Venardos, 2010, s. 2).

The disadvantages of participating banks against conventional banks are commonly due to operational risks, insufficient funds and inadequacy of Islamic financial instruments. The profit-and-loss sharing principle can become risky for depositors, depending on the degree of adherence to this rule and the decisions taken by the bank's management.

Murabaha is the most widely used sales contract by participation banks, has the same potential as deposits in conventional banks. However, since Murabaha is carried out in the form of simultaneous purchase and sale of goods, it includes transaction costs, confidence, price and exchange rate risks. Conventional banks do not include these risks as they can provide funds without buying and selling any goods (Akhtar, 2010, s. 236).

The instruments of participation banks are insufficient in small and medium-sized enterprises and consumer loans (Visser, 2009, s. 139). Participation banks, which are effective in financing physical goods and capital, cannot take an active role in terms of revolving fund financing in the context of SMEs and the possibility of using open loans in the context of real persons.

The differences between Islamic banking and conventional banking and their superiority to each other are discussed theoretically. However, it will be useful to see and evaluate this distinction through the studies in the literature.

5. LITERATURE REVIEW

It is possible to divide the studies examining participation banks into three in the literature. The first type of study analyzes participation banks and conventional banks empirically (Alpay & Hassan, 2007; Cihak & Hesse, 2008; Dilber & Hatipoğlu, 2022; Ghassan & Taher, 2012; Musa et al. 2020; Surjaatmadja & Adriansyah, 2016; Alandejani & Asutay, 2017; Sun et al., 2017). The second type of study focused on customer satisfaction in terms of service quality, compliance with Islamic laws and reliability (Amin & Isa, 2008; Ahmed et al. 2017; Ahmed et al. 2021; Khattak & Rehman, 2010; Zouari & Abdelhedi, 2021). The third type of study investigates the efficiency and profitability of participation banks through their internal dynamics (Bashir, 1999; Yudistira, 2004; Hassan, 2006; Sufian et al. 2008; Yumanita, 2008; Rahim et al., 2013; Rehman et al., 2021; Rosman et al. 2014).

Cihak & Hesse (2008); Ghassan & Taher (2012) analyzed participation banks and other commercial banks with panel OLS analysis. Cihak & Hesse (2008) used the data of 77 Islamic banks and 397 other commercial banks from 19 countries for the period 1993-2004. The Z-score obtained from the ROA (Return of Assets) variable indicates that small-volume Islamic banks are more stable than large Islamic banks. Also showed that large-volume commercial banks are again more stable than large-volume Islamic banks. However, when comparing small-volume Islamic and other commercial banks, Islamic banks are steady. Ghassan & Taher (2012) used the data of the banks of Saudi Arabia (2 Islamic Banks and 4 Conventional Banks) for the period 2005-2011. The z-score indicates financial stability. Islamic banks decreased the financial stability index relatively according to the results of the panel data analysis.

Alpay & Hassan (2007) analyzed 49 conventional banks and 3 Islamic financial institutions (DEA) operating in Turkey by using Malmquist Index over 1990-2000. While the average cost efficiency and average revenue efficiency are 75.3% for Islamic financial institutions, it is 26.6% and 42.9% for traditional banks, respectively. Malmquist Index results show that technical and scale efficiency in Islamic financial institutions increase over time; however, it has shown that productivity and technological efficiency have decreased. Musa 2020 examined their activities with the DEA method using data from 217 Islamic banks and 1961 conventional banks operating in 47 European and 34 Central Asian countries over 2013-2017. The findings show that the return on assets and equity capital is higher in Islamic banks, but the cost return rate is lower in Islamic banks.

Surjaatmadja & Adriansyah (2016) analyzed 120 Indonesian banks including public banks which are state-owned, private, foreign banks, private-public banks, Islamic Banks, Regional Development Banks, Exchange Banks- Non-Foreign Exchange Bank, and the medium and small banks via Structural Equation Modelling. They concluded that Islamic banks do not have a competitive advantage in terms of innovation, absorptive capacity and organisational culture. However, the only competitive advantage of Islamic banks is capital.

Dilber & Hatipoğlu (2022) investigated the relationship between convenitional bank loans and participation bank loans with the Kalman filter model, using the monthly frequency loans for the period 01/2005-02/2022. They claimed that the Kalman filter model would give a more accurate result as it allows the parameters to change over time. The findings show that the increase in the loans of conventional banks does not exclude the loans of participation banks and that bilateral banking practices do not disrupt the financial system.

Sun et al. (2017) analyzed 69 conventional 39 Islamic banks operating in 15 OIC countries through the GMM (Generalized Method of Moments) data over 1999-2001. According to the GMM results, the net profit margin of Islamic banks, which is the dependent variable, is only positively affected by its lagged period and the Lerner Index. Alandejani & Asutay (2017) similarly preferred GMM. The study covers 51 Islamic and conventional banks in 5 Gulf Cooperation Council countries over 2005-2011. Non-performing loan constitutes the independent variable of the study. The findings show that the sectoral distribution of Islamic finance harms non-performing loans. The sectoral financing growth of Islamic banks increases their exposure to credit risk more than conventional banks.

Amin & Isa (2008) examined the relationship between service quality perception and customer satisfaction in Malaysian Islamic banking using the SEM approach. Five dimensions of SERVQUAL were adapted and modified through a survey of 440 customers. The results show that Malaysian Muslims have a higher awareness of Islamic banking products and services when compared to non-Muslim customers. In addition, the vast majority of bank customers are satisfied with the services provided. Ahmed et al. (2017) analyzed the relationship between service quality and customer satisfaction with a sample of 179 people using the SEM approach. No significant difference couldn't found from the point of service quality, compliance with sharia and customer satisfaction.

Ahmed et al. (2021) investigated Sharia compliance and customer satisfaction with a sample of 334 Islamic bank customers in Bangladesh, 2021. The findings of this study show that Sharia compliance has a positive and significant effect on the quality of Islamic banking services and customer satisfaction. Research findings also show that service quality partially mediates the relationship between Sharia compliance and customer satisfaction of Islamic banking services. Zouari & Abdelhedi (2021) added digitalization and compliance dimensions to an expanded SERVQUAL model and performed factor analysis and regression analysis with the self-survey data of 145 Tunisian Islamic banks' customers for 2018. According to the findings, the strongest contribution to customer satisfaction is provided by compliance, while digitalization ranks fourth.

Khattak & Rehman (2010) examined the relationship between demographic variables, satisfaction and awareness by using the Kruskal-Wallis one-way ANOVA method with a survey sample of 156 people from different cities of Pakistan. The results showed that customers were satisfied with the majority of services provided. In addition, customers have shown that they are aware of different instruments but cannot adapt to them.

Bashir (1999) used the OLS method with the data of two participating banks operating in the Sudanese economy for different periods. In the study, they used different rates of return as dependent variables and considered the bank volume as an independent variable. While a positive and significant relationship was detected between bank volume and profitability; There was a negative relationship between firm size and equity capital ratio. In addition, a negative and statistically significant relationship was found between firm volume and risk index.

Yudistira (2004) analyzed 1997-2000 data for 18 Islamic banks from 12 Gulf Cooperation Commission members with Data Envelopment Analysis (DEA) and OLS, and calculated technical, pure technical and scale efficiency with DEA and found that the average efficiency was only slightly over 10% determined. It has been found that Islamic banks in the Middle East region are less efficient than their competitors outside the region, and market size does not have a significant effect on efficiency.

Hassan (2006) analyzed bank-level data compiled from the income statements and balance sheets of 43 Islamic banks in 21 countries for each year during 1994-2001. Both parametric (cost and profit efficiency) and non-parametric (DEA) techniques have been used to examine the efficiency of banks. The findings show that, on average, the Islamic banking industry is relatively less efficient than its traditional counterparts in other parts of the world.

Sufian et al. (2008), analysed the efficiency of the Islamic banking sectors in selected MENA and Asian countries during 2001-2006 by using DEA. As a result of the analysis, MENA Islamic banks are more efficient than their Asian rivals; It has been determined that Islamic banks are administratively inefficient. Rahim et al. (2013) similarly studied Islamic banks in MENA and Asian countries over 2006-2009 and used the DEA method. Sufian et al. (2008) concluded that Islamic banks in Asia are more efficient. Rosman et al. (2014) examined the activities of 79 Islamic banks in Asian and Middle Eastern countries between 2007 and 2010 using the DEA. Both Middle Eastern and Asian banks are purely technically efficient while scaling inefficient. Sufian et al. (2008) show that Islamic banks are well managed. Yumanita (2008) examined the efficiency of Malaysian and Indonesian Islamic banks using the DEA. According to technical, scale and general efficiency values, Islamic banks in Malaysia were found to be more efficient than their Indonesian counterparts.

Rehman et al. (2022) investigated the intellectual capital efficiency (ICE) and the relationship of its three components (human capital efficiency, structural capital efficiency, and relational capital efficiency) with Islamic banking performance (in terms of return on assets, return on equity, and Tobin's q) in 129 Islamic Banks in 39 Muslim countries. They employ two-step system GMM estimator to analyze the data of 2008-2017 period. The study determined that the performance of Islamic banks is in the right direction with intellectual capital investments, structural capital efficiency and relational capital efficency, and inversely with human capital productivity.

6. METHODOLOGY

The population of the research consists of individuals aged 18 and over living in the NUTS-2 region. In the light of the formula below, it was determined that 1145 participants would be sufficient for the research as a result of the sampling calculated with a 95% confidence level and ± 2.90% margin of error for the NUTS-2 region.

$$n_0 = \frac{t^2 \ .p.q}{d^2}$$

In the formula;

n_0: sample size

t: its value in the t table at a certain significance level

d: acceptable margin of error

p: the probability of occurrence of the investigated event.

q: indicates the probability (q= 1-p= 1-0.5) that the investigated event will not occur.

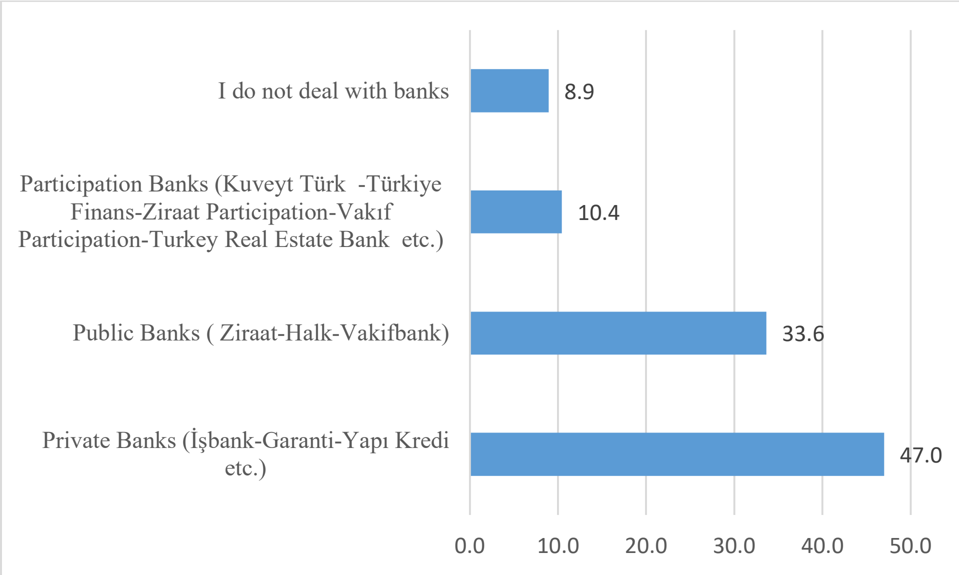
The data collection phase of the research was carried out with Computer Assisted Web Interviewing (CAWI), one of the quantitative research methods. This method provides an advantage in terms of collecting data faster with less cost. The method, which provides the opportunity to follow the research process instantly, allows the participant to complete the research without errors. Although it can provide access without geographical restrictions, it also has a fundamental disadvantage for regions without internet access. Considering the financial and time costs of accessing individuals living in the NUTS-2 region, the CAWI method provided an important opportunity to conduct the research. IBM SPSS 26.0 program was used to analyze the answers to the 14-question survey form directed to the participants.

7. FINDINGS

Within the scope of the research, in the first part, it was investigated which transactions the individuals who use the banking sector do the most. In the case of need of individuals, the first and last sources of application for financing examined, attention was drawn to individuals' savings methods and the factors that were effective in making savings decisions investigated.

It is seen that nearly half of the participants do their banking transactions with private banks. The variety of financial instruments offered by private banks, higher interest income, the possibility of customers having salary banks and behavioural experiences of banking customers show the interest in private banks in Turkey. In the Turkish economy, both the established objectives and the economic policies implemented by the policymakers have made public banks financial institutions that provide low financing in the eyes of individuals. In addition to low financing, the tendency of public institutions to work with public banks also affected the preference of individuals to work with public banks. Therefore, low-interest financing models, differentiated savings instruments and behavioural motives have made public banks the second preferred banks with 33.6%. In addition to the increase in Islamic sensitivities in the financial markets in Turkey, the existence of individuals avoiding interest earnings has reinforced the participation of participation banks in the financial system. 10.4% of the participants stated that they carry out their economic activities through participation banks. The remaining 8.9% stated that they do not make transactions with banks.

Figure 1. Which Types of Banks Do You Do Transactions with (Withdrawal, Deposit, Earning, Etc.) the Most? (%)

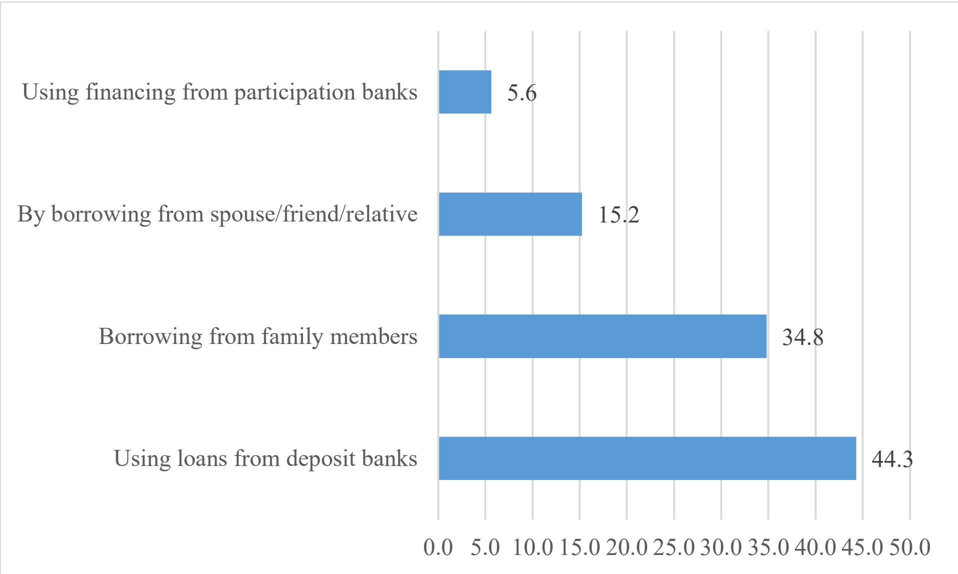


[5]When both group shares and sector shares are taken into account, the weight of public deposit banks is seen among conventional banks. In terms of group shares, the share of state-owned banks in total assets is 41,3%, their share in total loans is 42,9%, and their share in total deposits is 42,8%. Within the same group shares, the share of private banks in total assets is 34,2%, their share in total loans is 32,8% and their share in total deposits is 32,9%. In terms of group shares, the share of foreign banks in total assets is 24,3%, their share in total loans is 24.3% and their share in total deposits is 24,2%. In terms of sector shares, the weight of state-owned banks is similarly high compared to private and foreign capital banks. Republic of Turkey Ziraat Bankası A.Ş., which was established in 1863 among state-owned banks, has total assets (1,756,344 million TL), total loans (1,032,362 million TL), total deposits (1,225, 230 million TL), branches (1,752) and employees (24.579). In terms of employees, it ranks first among the conventional banking sector. Türkiye İş Bankası A.Ş. was established in 1924 as one of the privately-owned banks. It ranks first in terms of total assets (1,145,808 million TL), total loans (652,138 million TL), total deposits (737,169 million TL), branches (1,153) and several employees (22.757). Türkiye Garanti Bankası A.Ş., which was established in 1946 among foreign banks, ranks first in terms of total assets (981, 659 million TL), total loans (553, 048 million TL), total deposits (658, 684 million TL) branches (857), and several employees (18,689).

[5] As of 30.06.2022.

In the same period, the state-owned bank with the highest net profit for the period, Türkiye Cumhuriyet Ziraat Bankası A.Ş. (16,179 million TL), the highest private capital bank Türkiye İş Bankası A.Ş (22,972 million TL), and the highest foreign capital bank, Türkiye Garanti Bankası A.Ş. (21,096 million TL). It would not be misleading to say that such a strong conventional banking system has an important place in financing the expenditures, investments and needs of individuals.

Figure 2. How Do You Finance Your Expenses/Investments/Needs When You Need Them? (%)

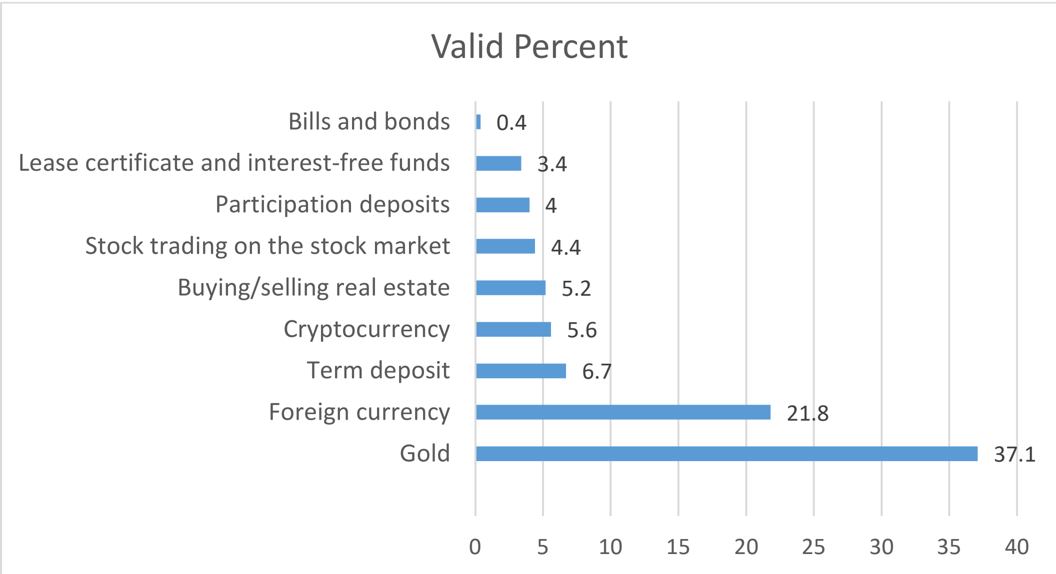


Individuals may need financing for many economic activities, especially consumption expenditures, vehicle and housing purchases. At the beginning of the sources of obtaining the financing needed by individuals, relatives of the family with 34.8% and spouses/friends/relatives with 15.2% come first. It is possible to see this financing model in Turkish society, especially in which small financing amounts are borrowed, the repayment term is flexible, and there is an interest exception. Individuals can finance their debts and investments with a financing model other than the financial system. After this traditional financing application authority, the most commonly used one is the deposit banks with 44.3%. Participation banks with different financing models and processes are in the last place with 5.6%.

According to June 2022 data, Kuveyt Türk Participation Bank stands out with 34,46%, the plan bank with the highest share in total assets in the participation banking sector. In the second place is Vakıf Katılım Bankası with 14,88 %, and in the third place is Türkiye Finans Katılım Bankası A.Ş. with 14.83 %. In the participation banking sector's net profit ranking, the participation bank with the highest profit share is Kuveyt Türk with 42,85% (5,821,586 million TL). Vakıf Participation Bank is in second place with 18,25 % (2,478,845 million TL) and Ziraat Partipication A.Ş. is in third place with 15.54% (2,111,581 million TL). The first three participation banks with the highest number of personnel are Kuveyt Türk Participation Bank (6092 employees), Türkiye Finans Katılım Bankası (3527 emp.) and Albaraka Türk Katılım Bankası A.Ş. (2645 emp.). In terms of the number of branches, it is seen that Kuveyt Türk Katılım Bankası A.Ş., Türkiye Finans Katılım Bankası A.Ş., Albaraka Türk Katılım Bankası A.Ş. have 449, 316 and 226 branches, respectively.

The low level of awareness of Participation banks, which are not widely used, the fact that the profit share rates they apply in financing models are higher than those of public banks, and the bureaucratic processes in the financing processes make this result inevitable.

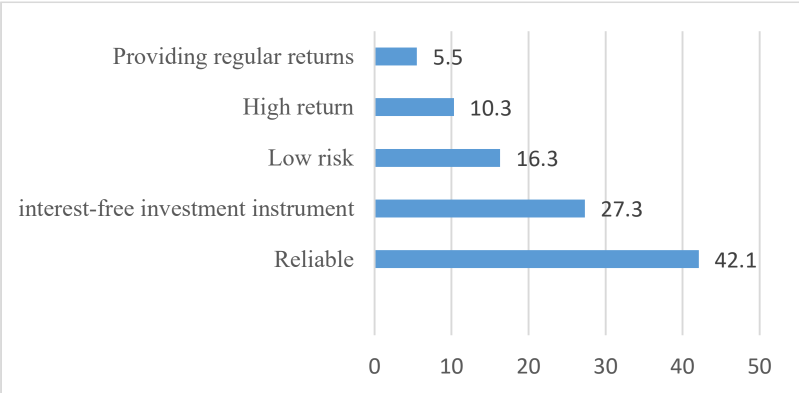
Figure 3. How Do You Save Your Money? (Answer of the One Who Can Save)



It is seen that the participants prefer Gold, which is the traditional savings tool for Turkish society, with 37.1%. The efforts of policymakers to transfer gold to the financial system and as pillow-top savings, to the financial system continue. In this context, it is aimed to bring the gold stock, which is estimated to be five thousand tons under the pillow, to the Turkish economy. With the gold savings ecosystem, banks, jewellers and platforms represent physical gold delivery points. It is desired to integrate the gold under the pillow into the financial system through the banks' gold deposit accounts, quarter accounts, TL deposit accounts with gold conversion, TL participation account with gold conversion, trading transactions. The tendency of individuals to foreign currency, which provides marginal gain against Turkish Lira, ranks second with 21.8%. Individuals tend to deposit interest-bearing time deposits with

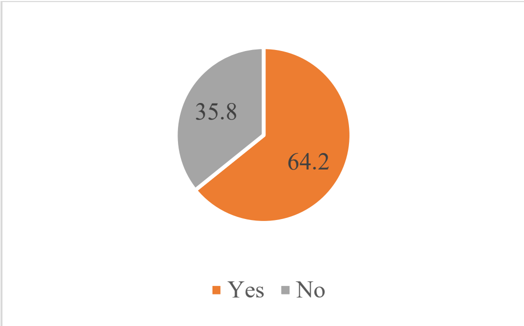
6.7%, and cryptocurrencies as new generation money with 5.6%. The upward trend of prices in the housing market also ensures that real estate continues to be a short and long-term investment tool. Participants realize their savings by buying/selling real estate with 5.2%. Particularly during the pandemic period, the share transaction in the Stock Exchange, which brings profit to its investors, which has become the focus of attention, has the feature of being a means of savings for individuals with a rate of 4.4%. Participation deposits, which are among the most important savings tools of participation banks, with a profit share income of 4.0%, while the level of lease certificates and interest-free mutual funds is 3.4%, maintaining their feature of being an individual's savings tool. Finally, it is seen that bills and bonds are in the last place with 0.4%. Individuals with Turkish savings prefer popular and well-known investment instruments, and their desire to save in the short term is reflected in their savings preferences.

Figure 4. What Do You Pay Attention to When Choosing the Tool to Save Your Money? (Multi-Choice Answer)



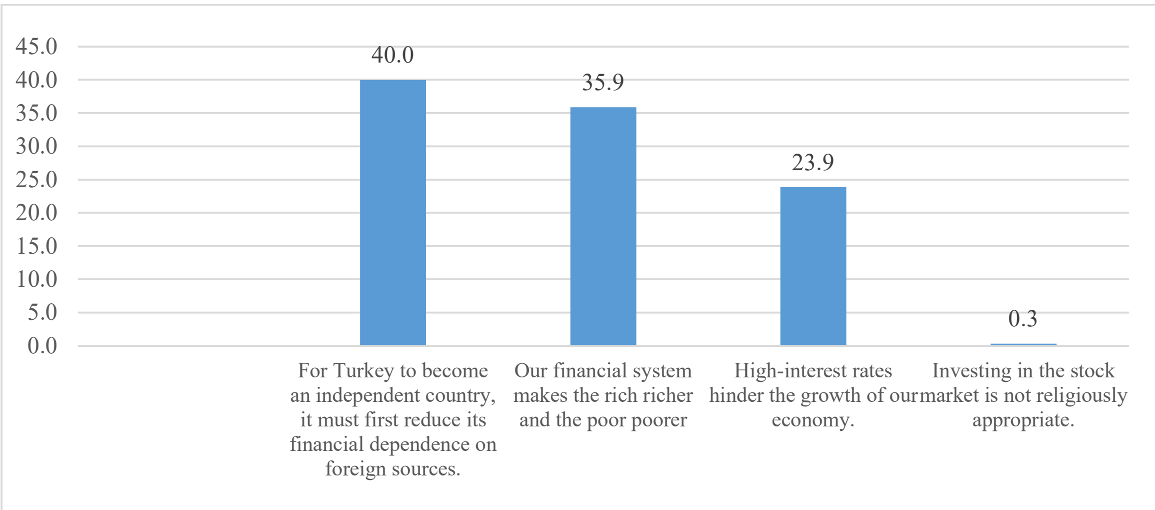
The most substantial factor that the participants pay attention to when choosing the instruments they will save is the reliability with 42.1%. The second factor is an interest-free investment tool with a remarkable 27.3%. The data in question not only points to the existence of potential customers of participation banks but also winks at the need for product differentiation. Another factor that the participants paid attention to is the low risk with 16.3%. The high return on savings instruments, on the other hand, is in the fourth priority with 10.3%. Providing regular returns is in the last place with 5.5%. These results indicate that there is a certain interest-sensitive audience and that savings owners prioritize confidence and low risk.

Figure 5. Are You Against Interest?



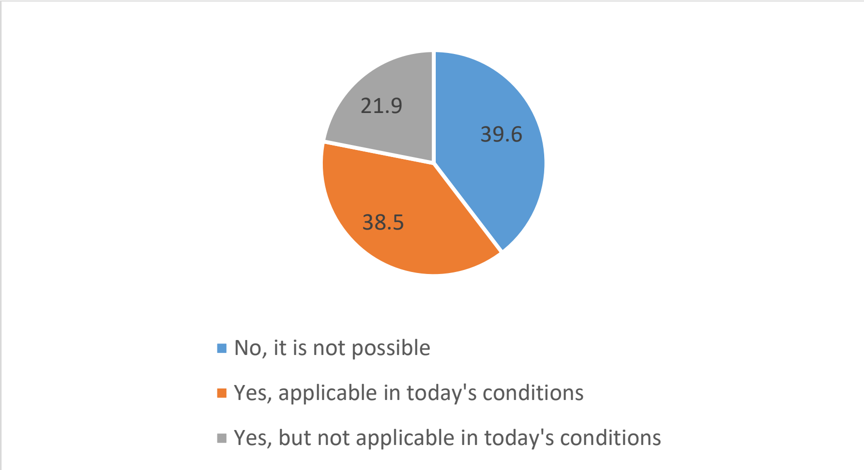
40% of the participants state that the way for Turkey to have economic freedom is through financial independence. 35.9% of the state that the current financial system makes the rich richer and the poor poorer. Individuals asked whether they disagree with some judgments in the face of this interest sensitivity and the current financial structure. The rate of those who think that high-interest rates or the existence of interest rates negatively affect the dynamics of the economy and hinder the growth of the economy is 23.9%. The perception towards trading in the Stock Exchange fell behind these three value judgments (0.3%). In other words, the participants gave priority to financial independence, drew attention to the lack of the current financial system, and did not ignore the interest issue. It is seen that Turkish participants prioritize the resolution of the independence issue and the attainment of a fair structure in the financial system.

Figure 6. Which of the Following Statements Would You Agree?



So, is an interest-free financial system possible? While 39.6% of the participants state that this is not possible, they argue that interest is a part of the financial structure. It draws attention that a population of approximately 38.5% expresses that an interest-free financial system is feasible in today's conditions. In addition, 21.9% of them see an interest-free financial system as possible and state that it is not applicable in today's conditions. While the results show the belief that an interest-free financial structure can exist, they also show the existence of doubts about this belief.

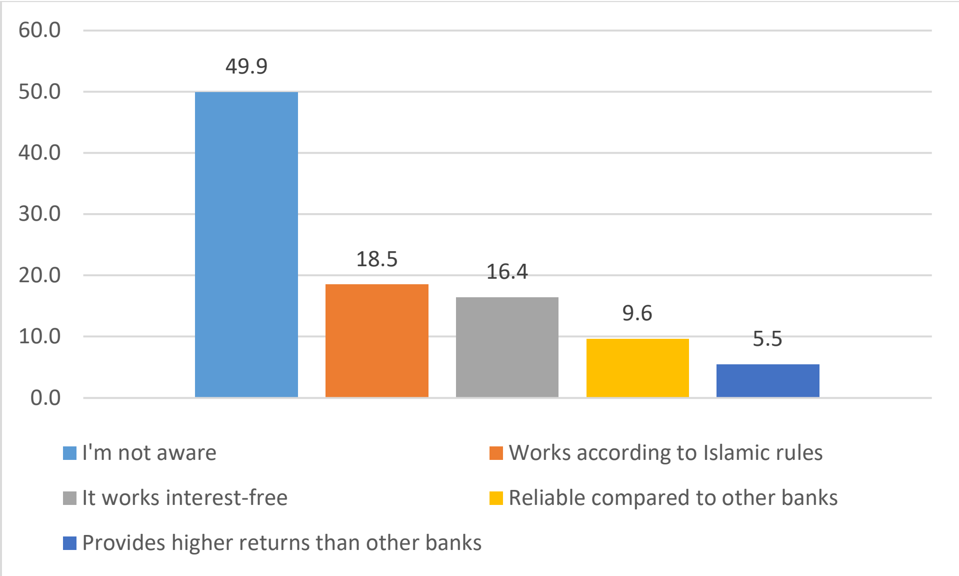
Figure 7. Do You Think an Interest-Free Financial System is Possible?



In the third stage of the study, how the participants define participation banks operating in the light of Islamic principles, and their behaviour towards the returns that participation banks offer and will offer were questioned. Participation banks are the most important actors of the interest-free financial system in Turkey. Participation banks want to encourage their customers, especially individuals with Islamic sensitivity, to save and invest in line with the determined principles, with their financial instruments.

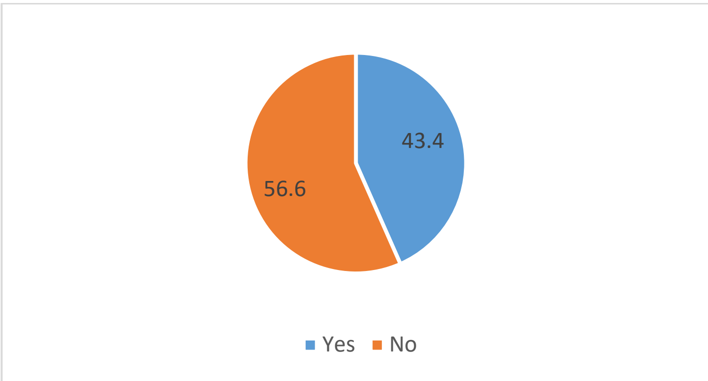
The low level of awareness of participation banks in the Turkish financial system is the most important disadvantage of participation banks against conventional banks within the financial system. All participants were asked to define their participation banks. It is seen that 49.9% of the participants do not have enough knowledge to define participation banks and they are not aware of the existence of these banks. The existence of public banks and participation banks with the same names may have resulted in individuals not being able to make this distinction. For example, the fact that Vakıf Bank and Vakıf Katılım Bank are the same in the eyes of the society, even though they are separate corporate personalities, may lead to the conclusion that the level of unawareness increases to high levels. Individuals who are aware of the fact that participation banks work according to Islamic rules (18.5%) are interest-free (16.4%), have a reliable structure compared to other banks (9.6%), and provide higher returns compared to other banks (5,5%) defined as banks.

Figure 8. How would you define participation banks?



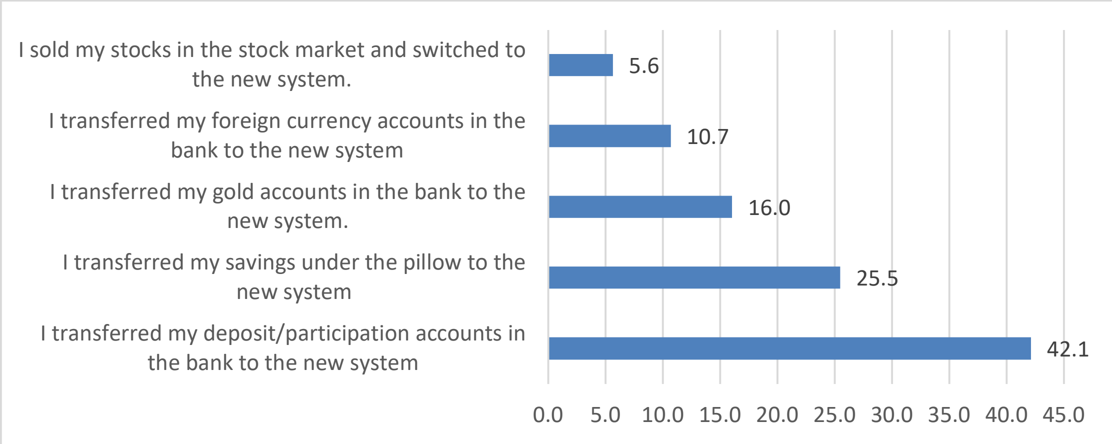
It is seen that 43.4% of the participating banks can invest their money in participation banks if they offer instruments that provide higher returns than conventional banks. Not being aware of participation banks, not being able to position participation banks, past experiences regarding the return of participation banks, and political and sociological factors result in individuals not investing their money, even though participation banks provide higher returns.

Figure 9. If the participation banks' money-saving tools/methods provide higher returns than other banks, would you invest your money in participation banks?



In the last stage of the research, the tendency towards Currency and Gold Protected Deposit accounts, which are offered to investors to prevent the instability in the exchange rate in the Turkish economy and the inflationary process caused by this instability, has been examined.

Table 10. How did you save money after the exchange rate guaranteed TL account application?



It is seen that individuals who have the opportunity to save tend to have Currency Protected accounts, especially they show the action of relocating their savings in the financial system, and they transfer some of their savings under the pillow to the new system. With the Currency Protected TL Time Deposit Account, the way for domestic resident real and legal persons to be included in the system has been paved. If money is withdrawn before maturity from accounts that can be opened for up to 12 months with quarterly maturities, the accounts turn into current accounts. One of the basic features of the account is that there is no restriction on entering and exiting the system and no withholding tax is applied to the product without any deductions from the deposits. The interest to be accrued on the TL time deposit accounts of the savers will be compared with the exchange rate on the account opening and maturity dates, and the account will be profited over a high rate. Participation banks are also included in the said system, and interest/profit share rates differ between banks. It has been decided that the interest/profit share rate cannot be below the one-week maturity repo rate determined by the CBRT and that the maximum interest rate and the minimum interest rate will not be more than 300 basis points. Currency Protected TL time deposit accounts with an approximate value of 300 billion TL have alleviated the pressure of the dollar exchange rate on the Turkish lira. In addition to Currency Protected TL Time Deposit accounts, it is prevented that citizens residing abroad can be included in the system through the "Residential Citizens Deposit and Participation System (YUVAM)" accounts. In addition, the YUVAM account has the opportunity to provide additional returns in different maturities of up to two per cent.

8. CONCLUSION

The widespread visibility of conventional banks in the banking sector and their historical service network are reflected in their transaction volumes. The fact that participation banks are preferred after private and public conventional banks is a result of this common behaviour. Conventional banks, where access to financing is relatively easy, make good use of this advantage in meeting the demands of individuals in need of financing. So; using loans from conventional banks is seen as the first application authority. For participation banks to compete with conventional banks in providing financing, they should offer more information to users about their financing tools and methods.

The opportunity to become a safe institution for Turkish savers who use the traditional savings method is increasing day by day. It is an important advantage for participation banks that savers are looking for an interest-free investment tool after a reliable investment tool. However, the fact that conventional banks similarly offer interest-free mutual funds can significantly affect the relocation of savers. The sensitivity of society towards interest becomes even more evident after certain social events. The fact that almost two out of three people are in search of alternatives to interest indicates this situation. The concept of interest is a sensitive phenomenon, especially at the point of having an independent country's economy and reducing financial dependence on foreign sources. Despite this interest-rate sensitivity, the society's opinion that an interest-free financial system will not be possible or that it is not applicable in today's conditions, considering the current financial conditions and operation, also prevents the search for interest-free savings. The fact that one of the two people is almost unaware of participation banks reinforces these perceptions. So; The low brand awareness of participation banks, the low perception of their working principles, the inability to reach the desired widespread access network significantly reduce the preference of participation banks despite their access to finance and diversity of funds.

Participation banks, which have an important potential for capital to provide financing for production, have an important role in transferring idle funds to the real economy. For financial stability to be more sustainable in the face of external shocks, participation banks, which are complementary elements, need to increase communication and interaction to be a fundamental element. Participation banking will be able to increase its widespread use as long as it can keep up with the development of the banking sector. Efficient and fast service processes, attractive and convincing return on funds for savers will create a good alternative to conventional banks.

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