

# Future Projection of Islamic Banking in Turkey: Dream or Utopia?

## Türkiye’de Katılım Bankacılığının Gelecek Seyri: Hayal mi Ütopya mı?

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### ABSTRACT

This study explores how Turkish Islamic banking professionals project and interpret the future of the Islamic banking sector in Turkey. The study adopted a case study methodology, included field-work in Turkey, and drew on semi-structured in depth-interviews in 2017. Also, it got help from documentary analysis based on documents such as banking legislations, magazines, booklets, and related other documents. Thirty-one Islamic bankers volunteered to participate in the study. Results showed that half of the participants are optimistic about the future of the Islamic banking sector in Turkey. They asserted that the share of Islamic banking in Turkey will increase from 5% to 15% or even more by 2025. Three major themes appeared in this group’s discourses: the Erdogan effect, Islamism, and the emergence of public participation banks. However, the other half was critical of a 15% market share goal. They found the goal of 15% market share by 2025 unrealistic and very difficult to attain under current economic conditions. Prominent discourses revealed in the pessimist group were the geopolitics of Turkey, fatwa-shopping, lack of legislation, and product diversity. Both groups of participants supported their arguments with various rationales.

**Jel Codes:** G21, G23, M10, N35, Z12

**Keywords:** Banking professionals, case study, Islamic banking, organizational design, religion, Turkey

### Öz

Bu çalışma katılım bankacılığı çalışanlarının Türk katılım bankacılığı sektörünün geleceğini nasıl yorumlayıp tahmin ettiklerini incelemektedir. Araştırma, vaka çalışması metodolojisine dayanmaktadır. 2017 yılında Türkiye’de gerçekleştirilen bir saha çalışması kapsamında yarı-yapılandırılmış mülakatlardan faydalanmıştır. Buna ek olarak belge analizinden yardım alınmıştır. Bankacılık kanunları, sektörel dergiler, kurum broşürleri vb. dökümanları içermiştir. Çalışmaya 31 katılım bankası çalışanı gönüllü olarak katılmıştır. Toplanan veri tematik analiz yoluyla incelenmiştir. Sonuçlar, katılımcıların yarısının katılım bankacılığı sektörünün Türkiye’deki geleceği hakkında iyimser olduğunu göstermektedir. 2025 yılına kadar katılım bankacılığı sektörünün yüzde 5’ten yüzde 15’e kadar hatta daha fazla büyüebileceğini tahmin etmişlerdir ve üç ana tema üstünde durmuşlardır. Bunlar; Erdoğan etkisi, İslamcılık ve kamu katılım bankalarının çıkışıdır. Öte yandan, katılımcıların diğer yarısı yüzde 15 hedefi hakkında eleştireldir. Bu grup mevcut ekonomik şartlar altında yüzde 15 hedefini gerçekçi bulmadıklarını beyan etmiştir. Kötümser olarak nitelendirilen bu grupta öne çıkan söylemler; Türkiye’nin jeopolitiği, fetva-ticareti, kanuni yetersizlikler ve ürün çeşitliliğinin azlığıdır. Her iki grup da söylemlerini farklı mantıklarla desteklemiştir.

**Jel Kodları:** G21, G23, M10, N35, Z12

**Anahtar Kelimeler:** Bankacılık çalışanları, İslami Finans, Katılım Bankacılığı, Türkiye, Vaka Çalışması, Din, Örgütsel Tasarım

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### Introduction

In this article, the researcher attempted to shed light on how Islamic banking professionals interpret both Participation Banks Association of Turkey’s (PBAT) and the Turkish government’s strategy plan for the Islamic finance sector, especially the goal of increasing the market share of Islamic banking sector in Turkey from 5 to 15 by 2025. Was that an attainable goal for Islamic bankers or not? Moreover,



how they projected the future of Islamic banking in Turkey? The researcher tried to uncover their arguments and rationales that underlie their discourse about future projections of Islamic banking. Islamic banking professionals' interpretations are explained in the analysis section of this research.

This study has made several contributions to the body of literature on Islamic banking. First, it enhances our understanding of the underdevelopment of Islamic banking in Turkey. It attempts to find rational answers to the limited market share of Islamic banks in Turkey. Second, there have not been many case studies on Islamic banks in Turkey yet. This study aims to update the literature with a qualitative approach. Third, because the bank that was included in the study employed professionals from various backgrounds, it reflected the data quality as a richness. Hence, it gave the researcher the opportunity to examine the Islamic banking phenomenon from their perspectives in detail.

It has been a question that how a bank leaning toward Islamic principles operates in a country that is ruled by secular laws. In Turkey, there has been no specific banking law for Islamic banks. Both conventional and Islamic banks have been operated under the same banking law. Also, the literature mostly intensified around the conventional banking system and neglected the Islamic banking sector. Apart from this, most of the remaining studies were quantitative. With this study, the researcher aimed to fill that gap with a qualitative approach.

## Literature Review

### Islamic Finance

Islamic finance consists of financial transactions that are claimed to be Shariah-compliant. These transactions are passed through the supervision of Islamic scholars who are educated in Islamic law (fiqh) and have expertise in issues, especially business and commerce. Their approval makes economic transactions Islamic or in other names interest-free or halal. "In Islamic finance there are several products and services similar to conventional finance such as; banking, credit cards, stock indexes, mortgages, insurance and microfinance activities" (Kuran, 2018, p. 20). Those services are provided to Islamically sensitive customers through Islamic financial institutions. The major part of these institutions is composed of Islamic banks. Islamic banking leans toward Islamic economics doctrine. This doctrine is proposed by prominent Muslim scholars such as Mawdudi, Qutb, Sadr, and Qaradawi. For them, the final goal of Islam is rejecting man-made economic systems like capitalism and communism by establishing Islamic economic systems all over the world. Their new interpretation of the Islamic worldview gave rise to Islamic financial institutions. For instance, A'la Mawdudi (2013) puts forward the idea that banks are inevitable, but legitimate and beneficial institutions of modern times except for their riba part. For him, financial institutions help to create a reservoir for sectors rather than being repositories of surplus capital. So, banking could in theory become more profitable under the Islamic economic system (A'la Mawdudi, 2013)

### Islamic Banking

There have been two important steps in the development of Islamic banking. The first one is the interpretation of riba (interest). Interest concepts evolved in Islamic jurisprudence thought with the interpretation of riba by the Hanifi fiqh (Noorzoy, 1982) and lead to the birth of cash waqfs (foundation) in the Ottoman Empire. Those institutions could be regarded as the first form of

Islamic banks. They are devised to meet the credit needs of individuals in the Ottoman Empire, mainly between the 15th and 17th centuries. "The endowed capital of the waqfs was lent as credit to borrowers, generally for a year, and then it was asked that this capital, with an "extra" amount, was reallocated to all kinds of religious and social purposes" (Çizakça, 1995, p. 313). Those institutions are also criticized for being problematic in terms of generating usury income through mudaraba partnerships (Mandaville, 1979). However, Ebussud Efendi's pragmatic fatwas helped the continuation of cash waqfs for a while in the Ottoman Empire (Pamuk, 2004).

The second step was the application of the profit-and-loss sharing system. With the application of the profit-and-loss sharing system in Islamic banking, new models of Islamic banks are introduced in Islamic countries. There have been several trials of Islamic banking models since the 1960s. Inarguably, the first modern Islamic banking trial was Mith Ghamr Saving Bank (Mayer, 1985). Mith Ghamr Bank was established by Dr Al-Najjar in a city named Mith Ghamr in the 1960s. Its lifespan endured short. Because the Egyptian government shut down Mith Ghamr Bank with the allegations of supporting Islamic fundamentalism. Another important trial was Tabung Haji (Pilgrims Fund Corporation) in Malaysia. Tabung Haji was established in 1963 to allow Malaysian Muslims to save money to perform their hajj (pilgrimage). The corporation was investing the collected funds into profit-generating projects or Shariah-compliant instruments. The emergence of Tabung Haji is thought to have given rise to the Bank Islam Malaysia Berhad—which was the first Islamic bank in Malaysia—in 1983. After the formation of Bank Islam, the Islamic financial system progressed gradually in Malaysia (Nasser et al, 2013).

Another trial was the establishment of the Islamic Development Bank in 1974 which was a product of the Jeddah Conference of Finance Ministers of Muslim Countries in 1973 (Ahmed, 1990). But Islamic Development Bank stayed as a coordinator bank in the Gulf region for Islamic countries. Right after Islamic Development Bank, Dubai Islamic Bank is established in 1975. This bank can be regarded as the first full-fledged Islamic commercial bank offering Shariah-compliant products. After its establishment, new private Islamic banks came into the body in the Gulf region. For instance, Al Baraka Finance House, Faisal Finance House, and Kuwaiti Islamic banks began to expand their network with new branches in the Middle East. Now many more Islamic banks give service all over the world including Germany, England, Russia, Pakistan, Sudan, Iran, and Indonesia.

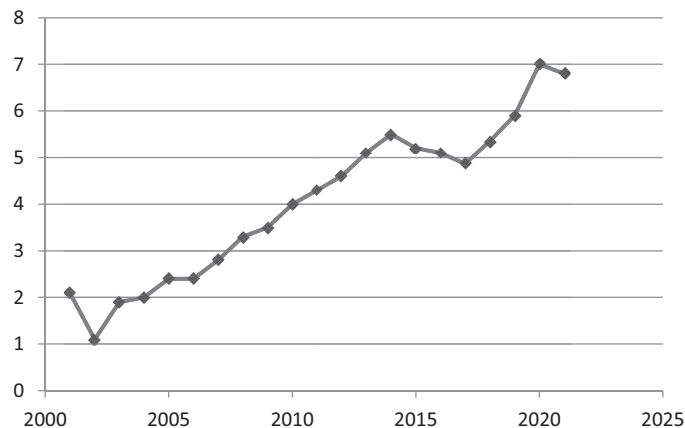
### Islamic Banking in Turkey

Even though its formal structure is arguably Islamic, a bank with the name "Islam" started in Turkey with Adapazari Islamic Commercial Bank (*Adapazari İslam Ticaret Bankası*) in 1913 (Sakarya Chamber of Commerce and Industry, 2023). This bank was established by a group of entrepreneurs in Adapazari and is regarded as the first example of a national private enterprise in banking. Due to the lack of credit supply of Ziraat Bank, high-interest rates of moneylenders, and discrimination against the local people by the foreign banks (Turkish Commercial Bank, 2023) such as Ottoman Bank—which was founded by British capitalists with Queen Victoria's royal charter (Aktemur, 2005, p. 3). Adapazari Islamic Commercial Bank is established as a reaction to operating banks in Turkey. Later, with the collapse of the Ottoman Empire and the establishment of secular Turkey, the bank changed its name from Adapazari Islamic Commercial Bank to Türk Ticaret Bankası (Turkish Commercial Bank, 2023).

Islamic banking started in Turkey with the Ozal administration indeed. His cabinet issued a legislative decree (No. 83/7506) in 1983 for Islamic financial institutions to start their operations in Turkey (Baldwin, 2012, p. 38). Those Islamic banks adopted the term “Special Finance Houses” (*Özel Finans Kurumları*) rather than “Islamic banks” in Turkey. This naming issue could be explained by the 1980 military coup’s post-effects (Canbaz, 2016, p. 173). Newly established Islamic financial institutions did not want to get sensed as a threat to the secular regime of Turkey. Additionally, there was another explanation for the naming issue. According to Asutay (2013, p. 214), Islamic banks deliberately avoided the use of the term “bank” to differentiate themselves from the conventional banks in Turkey. Also, the Islamic part of society has not been satisfied to see the terms “bank” and “Islam” together. After the 2000s, those banks opted for the term of “Participation Bank” (*Katılım Bankası*) instead of “Finance House.” This naming issue has still been a problematic issue for Islamic banks.

Albaraka Turk Finance House became the first Islamic bank in Turkey. Albaraka Turk opened its first branch in 1985. As of 2023, Albaraka Turk has approximately 225 branches in Turkey. Then, Faysal Finance (1985), Kuveyt Turk (1989), Anadolu Finance (1991), Ihlas Finance (1995), and Asya Finance (1996) joined the Islamic banking sector. The economic crisis which took place in 2001 affected many Islamic and conventional banks negatively. In 2001, Ihlas Finance went into bankruptcy. Its customers rushed to Ihlas Finance to withdraw their money. Since this bank run, still thousands of them—who are called *Ihlaszedeler* (victims of Ihlas)—could not get their money back from Ihlas Finance House. In 2005, Anadolu Finance went merger with Faysal Finance under a *Türkiye Finance* brand (Aysan et al, 2018). With the new legislation after the 2001 crisis, the Turkish banking sector became more resilient to economic shocks. In 2016, the Turkish government took over Bank Asya with its connection to FETÖ (Gülen Community) which was held responsible for the 15 July 2016 coup attempt. Another turning point became the birth of state-owned Islamic banks. Ziraat Participation Bank became the first public Islamic bank in Turkey. Ziraat Participation started its operations in 2015. Then, Vakif Participation was followed by Ziraat Participation in 2016 and Emlak Participation in 2019. With these new three financial institutions, the number of Islamic banks increased to six in Turkey (Table 1).

In 2015, the Erdogan administration set a 10-year economic plan. There were a bunch of financial goals extending from transforming Istanbul into a finance center to increasing the share of Islamic banking to 15% (Presidency of The Republic of Türkiye Finance Office, 2022). In parallel with the Turkish government’s



**Figure 1.** Market Share of Islamic Banking in Turkey (2001–2021). Source: Banking Regulation and Supervision Agency of Turkey (2022).

economic development plan, the PBAT also penned a strategy document indicating how to meet the government’s goals step by step. In this strategy plan, the PBAT set action plans under six themes such as increasing product diversity, the establishment of a supreme Shariah board, standardization of Islamic banking processes, reinforcing human resource of Islamic banks, improving the corporate communication side of Islamic banks to create a better public image, and digitalization of the Islamic banks (Participation Banks Association of Turkey, 2022b). There is no doubt that the most challenging goal is reaching 15% market share for Islamic banks by 2025 because the Islamic banking sector barely reached to 5% limit till 2015. As of 2022, the share of Islamic banking in the total banking sector revolves around 7% level (Figure 1).

## Research Methodology

### Research Questions

The aim of this study is to understand Islamic banking phenomenon in Turkey from the lenses of Islamic banking professionals. For this reason, each question was constructed in an attempt to understand today and the future of the Islamic banking phenomenon. For this aim, the researcher put three questions. These are as follows:

- 1) Why Islamic banking is limited to only 5% in the Turkish banking sector?
- 2) How do Islamic bankers interpret Islamic banking in Turkey?
- 3) How do Islamic bankers project the future of Islamic banking in Turkey?

**Table 1.**

Comparison of Islamic Banks in Turkey—Million TL

Bank Name	Est. Year	Type	Branches	Employees	Assets	Deposits	Credits	Profit
Albaraka Turk	1984	Private	230	3258	83,732,266	66,737,740	48,867,302	51,427
Emlak P.	2019	Public	65	1021	25,511,723	16,453,765	15,156,201	50,945
Kuveyt Turk	1989	Private	442	6087	186,903,445	151,191,037	94,886,325	1,407,781
Türkiye Finance	2005	Private	316	3576	84,891,128	62,284,849	48,366,433	483,480
Vakif P.	2016	Public	125	1803	73,215,553	50,416,438	38,618,455	802,468
Ziraat P.	2015	Public	113	1453	76,435,446	57,432,330	52,558,440	306,007
Total			1291	17,198	530,689,561	404,516,159	298,453,156	3,102,108

Source: Participation Banks Association of Turkey (2022a).

### Research Design and Philosophy

According to Saunders et al (2012a, p. 128), the research philosophy can be considered the researcher's assumptions about the knowledge which shapes his or her research questions. This research held an interpretivist approach. It gave sound to a neglected area of the banking side in Turkey which is called "participation finance" (*katılım finans*) or in another name "Islamic banking or finance." The study aimed to update Islamic banking literature with qualitative insight. In this case, an Islamic bank which operates in Turkey kindly accepted the researcher's request for an academic study. With their grant for admission to the field, the researcher started to conduct semi-structured interviews.

Semi-structured interviews are a kind of interview that occurs from a protocol of a cluster of key questions which is planned in advance about themes that direct each interview (Saunders et al, 2012b, p. 374). The interview protocol ranged from warm-up questions to sector-level questions, organizational-level questions, and closing questions. From time to time, follow-up questions accompanied the interview protocol. Especially sector-level questions helped the researcher to extract the participants' interpretation of the future of Islamic banking.

### Sector-Level Questions

1. What are the constraints you face in the Islamic banking sector?
2. Do you observe any legal, religious, or cultural constraining factors in the sector?
3. Is there any factor that increases your cost compared to other banks?
4. Is there any enabling factor in the sector for Islamic banks?
5. How do you project the next 10 years of the Islamic banking sector? Positive or negative?

Thirty-one Islamic bankers volunteered to participate in the study. Those professionals who agreed to participate in the study ranged from an experienced Islamic banker who witnessed the first days of Islamic banking in Turkey at the beginning of the 1980s to a newly started Islamic banker who started a job in 2017. Interviews were held in five cities in Turkey including Istanbul, İzmir, Bursa, Kayseri, and Konya in 2017. Some interviews were recorded with the permission of the participants. Also, notes were taken during the interviews. After the interviews were completed, all the research material was transcribed into text. For the accuracy of the transcription process, all interviews have listened to twice. The whole body of transcription text was translated from Turkish to English by the researcher.

### Ethical Approval

This study got approval after an application was made to the Research Ethics Committee of the University of Leicester in March 31, 2016, No: 5948. All the participants participated in this research on a volunteer basis. To eliminate possible risks for them and the researcher, I gave a great effort. I informed participants about the confidentiality, privacy, and anonymity of the interviews. For this, I preferred pseudonyms in the texts rather than giving their real names. Also, I did not include the Islamic bank's real name which kindly accepted my request for the study.

### Data Analysis

Thematic analysis is used to analyze research material which consists of interview transcriptions, documents, and observational data. After several readings of the transcriptions and field notes, initial codes started to appear. Then with additional

readings, the final themes are crystallized. Mainly two types of ideas developed. The first group of participants held a pessimist approach. They had provided several justifications for being critical of the 15% goal. The second group of participants had an optimistic approach toward the Erdogan administration's 15% market share goal for the Islamic banks. They had several justifications for their assumptions. In the next section, the researcher will attempt to explain their reflections in detail with quotes from the participants.

## Results

### The First Group: The Optimists

"Islamic banking sector will definitely grow. Because there will be more banks. The government's support will increase. Demand will grow. And its [Islamic banking] value will be understood more." (Zahide)

The first group of participants was very enthusiastic about the 15% share goal. They justified their projections from different angles. Mostly touched themes have been the Erdogan effect, the emergence of state-owned Islamic banks, and Islamism. These three themes have been repeatedly touched themes by the participants.

### Erdogan Effect

"Our president [Recep Tayyip Erdogan] has a goal. I believe that share of participation banking in the total banking sector will surpass fifteen percent in ten years." (Hamza)

The most referred theme was the Erdogan effect. Optimist participants found President Recep Tayyip Erdogan the most propping power for the growth of Islamic banking. Because, only in Erdogan's era, the Turkish government opened public Islamic banks.

"Well, our president [Erdogan] has a goal, which is increasing the sector to fifteen percent. I think that the share of Islamic banks in the total banking sector will exceed fifteen percent in the next ten years." (Ahmet Hamdi)

Since the Ozal administration, the Turkish government gave the biggest support in the Erdogan era to the Islamic finance sector in its history. As participants were glad about this support, some of the participants were positive about this goal. Hamza, Kemal, Ahmet Hamdi, and Celalettin were some of these optimist participants who were hopeful about the future of the sector. Those participants trusted President Erdogan and supported him cordially. Ahmet Hamdi was among those participants who believed that the market share of Islamic banking will surpass 15% in 10 years.

Some participants were dreaming of the top and hoping to reach peak level by challenging England in terms of financially. In the eye of those participants, England was the center of Islamic finance. London Stock Exchange is possibly the top market for Islamic finance. It raised 50 billion USD with the issuance of sukuk (Islamic bonds). It also supplied Shariah-compliant Exchange Trade Funds, and Shariah indexing such as FTSE Shariah Global Indexes, and Russell Islamic Global Indexes (London Stock Exchange, 2022). Kemal was among those participants who desired to challenge England.

"We'll reach the level of England in ten years. If it goes like this, we're going to be the best or the second. Our president declared a fifteen percent growth goal for Islamic banking



sector. God willing it happens. He is the greatest factor in the development of Islamic banking. If president Erdogan hadn't wanted it, Islamic banking was going to stay limited to private banking. Once the state-owned Islamic banks entered the market, monopolistic market structure [of Islamic banking] began to change." (Kemal)

### The Emergence of State-Owned Islamic Banks

"I believe that Islamic banking will grow. Especially after the entry of public Islamic banks into the market. Vakif Katilim started well. Ziraat Katilim announced a profit in two years. It is not that easy for a two-year-old bank to make a profit. But a state-owned bank made it. People encouraged the government to open Islamic banks and they preferred these banks..." (Kemal)

In 2015, the Erdogan administration established Ziraat Participation Bank (*Ziraat Katılım Bankası*). Then, Vakif Participation Bank (*Vakif Katılım Bankası*) followed Ziraat Participation in 2016. These two newly established Islamic banks were among the 10 biggest finance groups in Turkey. Especially Ziraat is the finance giant of Turkey. Ziraat Finance Group has thousands of branches all over Turkey and abroad from Baghdad to London. Ziraat Finance Group also has many subsidiaries such as an Islamic bank, venture capital, real estate investment trust, etc. With the establishment of these two new public Islamic banks, the image of Islamic banking began to change in the eye of Turkish consumers. Because Islamic banks' ownership in Turkey was mostly dominated by private capital influx from the Gulf area like Kuwait, Saudi Arabia, Qatar, and Bahrain. Even though local industrialist from Turkey was the owner of these private-Islamic banks, there were no state-owned Islamic banks in Turkey till 2015. Apart from that, the availability of Islamic banks was restricted in populated cities. With the emergence of public-Islamic banks, it got easier for Turkish customers to reach Shariah-compliant financial products. Some participants drew attention to the importance of state-owned Islamic banks in Turkey. Ziraat Katilim was a 2-year-old bank in 2017. And it declared two million Turkish lira in profit that year. This was appreciated by the participant and brought to the attention.

"Now our President wants us to grow. There are some institutions abroad performing Islamic banking operations like HSBC. Why wouldn't the Muslim capital be here? That is why state-owned Islamic banks like Ziraat Participation and Vakif Participation are established. Market share was up to five percent so far. Islamic banks were not able to keep government institutions' money in their accounts. I believe that the Islamic banking sector would grow in ten years. For this growth, Ziraat Participation and Vakif Participation will be locomotives god willing." (Celalettin)

Vakif Participation Bank was established in 2016 by the Turkish government. After Ziraat Participation Bank, it became the second state-owned participation bank entering the Islamic banking sector in Turkey. Oguz stressed the importance of Vakif Participation Bank's real estate properties. According to the Oguz, those properties passed Vakif Bank through the Ottoman waqifs and its transfer to Vakif Participation Bank will help the development of the sector.

"I think that Islamic banking will grow with Ziraat Participation and especially with Vakif Participation Bank. Because Vakif Bank has real estate properties. These assets are

passed through waqifs (foundations) from the Ottoman Empire times. They are currently in the bank's liabilities. It is considered to transfer these properties to Vakif Participation Bank. I think it will bring a serious income for the bank. But when does that happen? It will take three to five years." (Oğuz)

The takeover of Bank Asya damaged the Islamic banks in Turkey. It lowered the confidence in Islamic banks. This was the second time an Islamic bank was confiscated by the Turkish government after Ihlas Finance House. In order to strengthen the Islamic banking sector, the Turkish government established two new state-owned Islamic banks. Neset was among those participants who emphasized the significance of public Islamic banks for the future of the sector.

"Now the government has entered this business, you know. Ziraat Participation entered. Vakif Participation as well. Halk Participation will enter. Even more, the government has the policy to make grow this sector. It will be better. In my opinion, the market share will increase. It fell after that Bank Asya incident, but I think it will increase from now on." (Neset)

"I honestly believe that the sector's share of the cake in the banking sector will increase in the next ten years. We're at about five percent right now. I honestly believe that our share in the sector can reach fifteen percent together with Ziraat Participation and Vakif Participation Banks. They have recently joined the sector with their fast and aggressive policies." (Aziz)

For some Islamic banking professionals, the entrance of public Islamic banks into the sector changed the structure of the market. Because there have been only three Islamic banks operating in Turkey till 2015. The market share of Islamic banking was limited to just 5%. Due to the market structure and their number, they were eligible to make agreements on the prices. However, it is not that easy to come up with this claim. One of the participants highlighted this issue. For him, religious people were limiting themselves to Islamic banks because of their Islamic beliefs. And Islamic banks were abusing this position. However, after the entrance of public Islamic banks, the market structure began to change as it is not acceptable to make secret agreements with state-owned banks for private Islamic banks.

"These banks [private-Islamic banks] say that this man is a haji (pilgrim), he won't go to conventional banks. So, he will go to one of these banks. And they agreed among themselves. Now the main player has arrived. What happened? We can't come to terms with this man now. Why? Because it is a public institution. There is no conflict with the state. (Devletle düzen olmaz). They will certainly be subject to it. So instead of giving direction, private-Islamic banks had to be subordinate." (Kemal)

Another participant referred to the visibility of Islamic banks. Because Islamic banks generally preferred to give advertisements to the conservative TV and radio channels before, they were not in the prime-time programs. But with the entrance of Ziraat Participation Bank and Vakif Participation Bank, public Islamic banks started to give more advertisements to frequently watched TV programs and soccer matches. Zahide pointed up from sponsorship of these TV programs especially on aired during Ramadan.

"Until now, for example, participation banking ads were not circulating much. But now, with the intervention of the

government, this has expanded even more. We see them in the subway, on the ferry, etc. Pay attention to those advertisements during football matches. All of them have Ziraat Participation. For example, some TV programs during Ramadan are sponsored by Vakif Participation. They sponsor many things. In this way, Islamic banking is to be heard more and more.” (Zahide)

Many participants like Sait underlined the importance of the government’s step in establishing new Islamic banks apart from Ziraat and Vakif Participation. They mainly focused on Halk Bank. As Halk Bank is the third biggest—state-owned—bank in Turkey, banking professionals wished for the entrance of a new public Islamic bank named Halk Participation Bank. Sait stressed on the value of state-owned Islamic banks for the sector and compared them to private Islamic banks.

“I think Islamic banking will grow. Now there are rumors that Halk Bank will open an Islamic bank. In other words, the Islamic banking sector will grow even more with the involvement of state-owned Islamic banks. It will gain momentum with the government’s involvement in this business. I mean, it will do what Kuvveyt Turk, Albaraka Turk, and Turkiye Finance couldn’t do in the past, through these public Islamic banks in a very short time.” (Sait)

Some other participants like Yusuf mentioned the project of Emlak Participation Bank in 2017. The government established Emlak Participation Bank in 2019. A previously confiscated bank named Emlak Bank transformed into an Islamic bank in 2019. However, still, there isn’t any clue about Halk Participation Bank yet.

“I see the future of Islamic banking bright. Here are the new Islamic banks like Vakif Participation and Ziraat Participation. You know, there will be Ada Bank too. Emlak Participation Bank will also participate soon. I believe that the share of Islamic banking will go up to fifteen percent. The sector is still untouched and the potential for development is very high.” (Yusuf)

Some participants were pleased with the government’s steps. But at the same time, they found these steps insufficient. For some participants, the government stayed late in involving the Islamic banking sector. Oğuz was among those participants who appreciated the government’s support but found it inadequate. Besides, the economic situation in Turkey deteriorated in 2013, some macroeconomic indexes including gross domestic product, exchange rates, and inflation rates got worse since 2013. The Erdogan government expelled a coup attempt in 2016 and overcame from Gezi protests in 2013. With this in mind, Oğuz referred to 2016 as an unproductive year.

“The government entered the Islamic banking sector late. In fact, it was in the sector during a barren period. If the government had entered five years ago, believe me, the sector would have gone further.” (Oğuz)

### Islamism

Some participants ideologically approached the Islamic banking issue. They were considering Islamic banking as a *jihad* (holy war). As it is known, *jihad* is warfare given against the *küfür* (blasphemy, infidelity) and *cehalet* (ignorance), which means any struggle against the non-Islamic systems. In this case, *jihad* is every religious endeavor given to the Islamic economic system including

support of Islamic banking. It is also every step taken against *riba* (interest) and *ribawi* or *faizli* (interest-based) economic system including conventional banks. From their Islamic perspective, sooner or later Islam was going to be victorious over other religions. This message was signaled in the holy book of Islam. According to the Quran, Allah (God) was going to realize his promise sooner or later. Hamza was among those religious Muslim participants who believed in that promise. In his interview, Hamza referred to a verse from the Koran and said:

“I believe that in the next ten years, by Allah’s leave, the share of the sector will rise above thirty percent. God will perfect His light as long as we are sincere and hardworking. If we embrace it, we will increase the share of this sector to over thirty percent.”

In the surah of As-Saff (The Ranks, *الصف*), it is stated that: “يُرِيدُونَ لِيطْفِئُوا نُورَ اللَّهِ بِأَفْوَاهِهِمْ وَاللَّهُ مُتِمُّ نُورِهِ وَلَوْ كَرِهَ الْكَافِرُونَ” “They seek to extinguish the light of God with their mouths; but God will perfect His light, much as the unbelievers may dislike it” (Dawood, 1990). This verse is commonly used by Islamic preachers to motivate Muslims to endure their fight against the enemies of Islam. Hamza also used this Koranic verse in his discourse. For pious participants like Hamza, working in the Islamic banking sector was a kind of worship. Moreover, improving the product diversity of Islamic finance is deemed a religious activity appreciated by God in which they will get its response both in this world and the next world.

“I see an increase in diversity of interest-free banking instruments as worship; I see it as a pious deed (*salih amel*). Its reward gets deposited into our bank accounts in this world as a salary. I also believe that I’m going to get its reward hereafter. If we code ourselves with this mentality we’d succeed. Hence, we should have been training our Islamic banking associates with this mentality.” (Hamza)

### The Second Group: The Pessimists

“It is foreseen that the share of Islamic banking will be 15 percent by 2025. I think it will reach 11 percent at most.” (Selcuk)

Apart from optimists, there was another group of banking professionals who are categorized as pessimists. Those Turkish Islamic bankers were critical of the future of Islamic banking. They did not have the idea the Islamic banking sector would reach 15% market share by 2025. Those participants approached the Islamic banking phenomenon from different angles. And their interpretations are coded under themes such as geopolitics of Turkey, fatwa-shopping, and lack of legislation and product diversity.

### Geopolitics of Turkey

Turkey is located between Europe and Asia. It is often seen as similar to a bridge between two continents. Istanbul, for instance, located on both of these continents. Its position brings Turkey advantages and disadvantages as well. Some of the participants believed that some actors (*dünya konjonktürü*) were not allowing Turkey to grow. When I asked them who those actors were, I got various answers such as masons, the Jewish lobby, Christian club, London, the United States, and all enemies of Islam including local collaborationists. This “foreign actors” (*dış güçler*) discourse circulated many times during participants’ interviews.

“I do not think that the world conjuncture (*dünya konjonktürü*) will allow Islamic banking to go further in Turkey. Because if you get a share from the pie, they will start to trouble with you after a while.” (Nazim)

**Table 2.**  
*Branch Number of Islamic Banks Versus Ziraat Bank*

Bank Name	Branch Number (2017)	Branch Number (2022)
Albaraka Turk Participation Bank	213	230
Kuveyt Turk Participation Bank	389	442
Turkiye Finance Participation Bank	287	316
Vakif Participation Bank	43	125
Ziraat Participation Bank	56	113
Emlak Participation Bank	0	65
Total (Islamic Banks)	988	1291
Ziraat Bank (Conventional)	1781	1752

Source: Participation Banks Association of Turkey (2021), Banking Regulation and Supervision Agency of Turkey (2022), and Ziraat Bank (2022).

Some of the participants believed that Turkey is in a troublesome geographic location. The crises around the country have been negatively affecting Turkey. Also, inner politics such as protests, coup attempts, terrorist attacks, and frequent shuffles of Ministers and Central Bank governors affected the finance sector adversely. One of the participants stated that banks stayed in hope of passing these kinds of turbulent waves with minimum damage.

“But we live in very difficult geography. Due to the geography we live in, it is not possible to predict which way we will be thrown or which way we will evolve. So for the last 3–4 years, we have been saying ‘It will pass, it will get better.’ Hopefully this crisis will pass. We’re going to get through this too. But we are at idle, with blood loss.” (Cengiz)

Sabahattin specified the size of Islamic banks in Turkey. He shared an example from Turkey’s biggest financial institution, Ziraat Bank. He compared all Islamic banks operating in Turkey with Ziraat Bank. Based on his analysis, just Ziraat Bank had double times many branches than the total of all Islamic banks in Turkey (Table 2). Hence, it has not seemed that easy for Islamic banks to compete with only a single conventional bank and triple their market share from 5% to 15% in 10 years. Apart from Ziraat, there were remaining more than 40 conventional banks in Turkey.

“In my opinion, the market share of Islamic banks will increase to seven percent when it is six percent. But 15–20 percent shares, as our President [Erdogan] declared, are very serious goals. It is not easily attainable. There is the Ziraat Bank. I do not count the other 48 banks. Just Ziraat Bank has two thousand branches. All participation banks do not have that many branches.” (Sabahattin)

Nazim was an experienced banker who worked both in the conventional and Islamic banking sides. He gave rich insight into the banks. In his future projection, the Turkish banking sector was not an easy market, especially for foreign banks such as HSBC, Citi Bank, Deutsche Bank, and Standard Charts. In Nazim’s future scenario, Islamic banking was going to grow up to a point whilst competition among the Islamic banks was increasing. First, foreign banks were going to exit the market. Then, Islamic banks

were going to downsizing. Finally, Islamic banks were going to mergers and acquisitions to survive in 10 years.

“It’ll grow. There’s a little more to go. After that, conflicts will begin. Costs will come into play. Participation banking inevitably falls back as soon as costs are involved in meetings. Because it’s hard. After a while, we will start talking about surviving. There is no need for a branch in Nişantaşı<sup>1</sup> while we can open it in Mecidiyeköy...It will be okay after a while. That’s why downsizing happens. For example, HSBC was a huge power. It disappeared. City Bank is like a giant in the world. It didn’t succeed in Turkey, like it, Standards Charts closed its office. Deutsche Bank has been one of the first banks operating in Turkey for years. It is even preferred to convert its branch into an office in Turkey. Doing business in Turkey is not that easy. After a while, the big ones swallow the littles. Participation banks should either merge. In a few years, we will see 3–4 more participation banks coming. In the next 10 years, we will see mergers.” (Nazim)

### Lack of Legislation and Product Diversity

“If better steps are taken in this regard such as legislations and regulations, no one can prevent or stop Islamic banking. But if nothing is done then Islamic banking disappears in the system after a few years of shining. It goes back to the old rates of 3–4–5%.” (Mihriban)

Some participants presumed that the Islamic banking sector could reach a maximum of 10% level. But more than this number was utopic for them. Because there have been many things missing in the sector including legal amendments. Moreover, there is still no specific banking law for Islamic banks in Turkey. All conventional and Islamic banks operate under the same banking law no. 5411.

“In the strategy document, Participation Banks Association of Turkey predicted that Islamic banking will reach fifteen percent in 2025. All the managers of the participation banks have signed it. My prediction is they can’t reach 15 percent. Legislative and legal facilitations must be finished, the economy must go well, the real economy must function, and interest rates should fall. If the real sector works, I think that it can reach 10 percent very comfortably. And 10 percent is a huge number.” (Orhan)

In some cases, customers prefer more costly products owing to their religious beliefs or ideology. Several institutions such as religion, race, culture, and ethics can play role in customers’ attitudes. One of the participants drew my attention to their core customers. From his perspective, Islamic banks were not going to grow more than double size in the demand size. For him, those were their core customers who were opting for Islamic banks even though Shariah-compliant financial products were more expensive than conventional banking products. In addition to the costliness of Shariah-compliant products, those products were requiring more effort to use in terms of necessitating guarantors. As Wagner-Tsukamoto (2008) pointed out in his paper, sticking with religious values brings an extra burden for the company and its customers as in Quaker firms Rowntree and Cadbury.

“I think Islamic banks are not ready for this growth. We just said that people have sensitivities. They are really sensitive to interest but they are also sensitive to losing their

<sup>1</sup> Nişantaşı (Nisantasi): A quarter of Istanbul. A popular neighborhood which is famous for its exclusive shops and lavishly expensive real estates.



investments. In that sense, they have sensitivity. It's a fact that demand must come from the below. This is something that develops voluntarily. When I started to work for participation banks first, for example, when the loan rate was 1 percent in normal banks, some people came here and used loans from 2 percent also with guarantors. It was just because customers preferred participation banks. These people are our core customers." (Omer)

Islamic banks typically offer no more than five financial products. Those are *mudarabah*, *murabaha*, *musharaka*, *sukuk*, and *qardul hassan*. However, the last one is not preferred because of its high risk and low return. The Islamic banking sector has been suffering from a lack of product diversity and has not been able to invent new Shariah-compliant financial products and services so far. Semsettin touched on this problem in his interview. He emphasized the importance of product diversity and stayed pessimist about the future of the sector. From my personal view, he is not unfair in his judgment. Islamic banks need to increase their product diversity to grow more and fulfill their 15% share goal by 2025.

"Fifteen percent share envisaged by the President (Reisicumhur), as well as by those who are the mentors (*mihmandarlar*) of participation banking. If it continues like this, we will hardly be able to address 15 percent. In other words, we cannot see 15 or 20 percent market share in ten years, with only *mudarabah* and *murabaha*." (Semsettin)

### Fatwa-Shopping

"If they [banks with Islamic windows] don't trivialize the Islamic banking sector, I think it will grow a lot in the next 10 years. But if they make light of it, even the government may exit from the Islamic banking market." (Veysel)

Another controversial issue in Islamic finance sector is *fatwa-shopping*. Getting *fatwas* easily in unethical ways creates inconsistencies among *fatwas*; breaks the harmony among banks, supervision agencies, and customers; and finally leads to lose of faith in the sector (Malik et al., 2011). Some conventional banks prefer to enter the Islamic banking sector by opening Islamic windows. In order to open Islamic windows, conventional banks have to get *fatwas* from Islamic scholars. Veysel—who was one of the most experienced banking professionals among the participants—was critical about the future of the sector. He approached the Islamic banking market from a different angle which was conventional banks with Islamic windows. He contacted a delicate issue which was *fatwa-shopping*. For him, some conventional banks were finding a sheikh and getting *fatwa* (approval) easily from these "Islamic scholars." *Fatwa-shopping* is a controversial issue in the literature for Islamic banks as it undermines the sector and damages trust over Islamic banks.

"Why would they [conventional banks] juice up? Now Yapı Kredi Bank, Akbank, and Citi Bank are issuing *sukuk* (Islamic bond). They got a *fatwa* for this transaction. They found a sheikh. I don't know who Sheikh Ahmet is. In the *fatwa* article, it's written that: We examined the transaction that the bank's *murabaha* is religiously permissible. Although we suggest one or two minor changes, we have concluded that the transaction complies with the principles of interest-free banking. And Sheikh Ahmet Mustafa signed it. Those banks' branches also visit companies which have Islamic banking sensitivities just because they hold a *fatwa*. This is diluting."

Veysel also mentioned from conventional banks with Islamic windows offer lucrative products like *sukuk*. To the participant, conventional banks offer better investment opportunities compared to the Islamic banks. This makes conventional banks with Islamic windows much more compatible compared to Islamic banks in Turkey. Hence, Islamic banks fall back on conventional banks. To overcome this issue, Islamic banks need to offer better prices for their customers. Easily got *fatwas* damage the legitimacy of the Islamic banking sector and lead to the "What is your difference?" question (Durmuş, 2021).

"With the *fatwa* letter they [conventional banks] received, these banks say in its branch that I got permission to issue an interest-free instrument. Interest-free! And they sell it. Currently, when I offer *sukuk* from 11 percent ratio but they offer from 14 percent return. They promise more. They are both *sukuk*, right? Don't they?!" (Veysel)

### Discussion

Half of the participants were pessimists about the goal. They found the 15% market share goal unrealistic. The participants categorized into the pessimist group put forward various arguments. Some of them mentioned from lack of legislation and product diversity. They recommended agile legislation about Islamic banks. Indeed, without a specific Islamic banking law, it would be very difficult development of Islamic banking sector. Rules of the games should be set clearly for Islamic banks. Otherwise, Islamic banks would have difficulties thriving in the market. Forcing Islamic banks to follow a law designed for conventional banking would result in a lacking behind conventional banks. Some pessimist participants blamed "foreign actors" for the cause of underdevelopment of Islamic finance in Turkey. They worried future of Islamic banking. For those participants, there was always an enemy outside. Sooner or later they were ready to attack. This group of participants was on the conspiracy side of the interpretations. These religious participants brought verses from the Quran to encourage Islamic economics doctrine. Another group of participants touched on delicate ethical issues which are *fatwa-shopping* and cartels. They wanted to see Islamic moral principles in the business area. Moral decision-making processes are important in this meaning both for Islamic and conventional banks. Unethical decisions damage the trust in the sector and undermine its legitimacy.

The second group of participants was the optimists. They found 15 share market goals for Islamic banks attainable. They had different arguments for their projections. Some religious participants were optimists because they believed in Allah (God) and referred to verses from the Koran. For those participants, sooner or later Allah was going to realize his promise and Islam was going to be the dominant religion in the world. So, Islamic banking was part of this ideal and was believed to reach every success. For the second part of the participants, the president of Turkey, Recep Tayyip Erdogan, was the major force in the development of the Islamic banking sector. He was found the most support-giving president for the Islamic banking sector by participants. Even though former Prime ministers Turgut Ozal and Necmettin Erbakan supported the establishment of Islamic banks, President Erdogan gave noteworthy support to the Islamic sector. In this sense, public participation banks are remarkable steps for the Islamic banking sector. With the establishment of Ziraat Participation Bank, Vakıf Participation Bank,



and Emlak Participation Bank, the sector's share increased from five to seven. However, it can be profit shares of private Islamic banks don't have enough potential to meet the 15 share market goal.

## Conclusion and Recommendations

The researcher undertook this study to get a deep insight into the Islamic banking sector in Turkey. From the Islamic banking professionals' perspective, the researcher attempted to understand the sector. In this meaning, participants' interpretations were very valuable. They shed light on the future of Islamic finance. There was a tough goal set by the government which was to increase the Islamic banking sector's market share from 5% to 15% by 2025. In 2017, this share was around 5%. Tripling this number in 10 years wasn't an easily attainable goal. So, as a researcher, I tried to uncover their projections and discover underlying factors that shape their predictions. Those participants varied from expert-qualified bankers to inexperienced bankers. From my perspective, this is a difficult goal for Islamic banks to attain a 15% share. To meet this goal, many sub-goals should be met as they are indicated in the strategy document of the PBAT. But this is not enough. Islamic banks should be able to offer better rates for consumers with their newly invented rich product diversity. Maybe, this may lead to increasing demand for Islamic banking products in society.

### Study Limitations

There are some limitations in this study. First, this study was undertaken by the researcher in 2017. There was a state of emergency in Turkey from July 2016 to July 2018. This was proclaimed aftermath of the 15 July 2016 coup attempt in Turkey. Hence, participants may have abstained from claiming their sincere opinions regarding Islamic banking. Second, this research is a single case study methodology. Because only one Islamic bank was included in the study, it may result in representing only one Islamic bank's employees' interpretations.

### Future Studies

This research focused on Islamic banking professionals. However, it would be interesting to get the perspectives of other stakeholders in the Islamic banking sector such as Islamic finance scholars, Islamic banking customers, or Islamic banking sharers. Apart from this, it would be intriguing to do research on Islamic housing companies, Islamic insurance companies, Islamic pension companies, Islamic auditing institutions, Islamic regulatory bodies, and Islamic finance associations. Finally, this study adopted a single case study. It may be more interesting to learn about multiple cases including both conventional and Islamic banks.

**Ethics Committee Approval:** Ethics committee approval was received for this study from the ethics committee of Leicester University (Date: March 31, 2016, Number: 5948).

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**Hakem Değerlendirmesi:** Dış bağımsız.

**Çıkar Çatışması:** Yazar çıkar çatışması bildirmemiştir.

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## Genişletilmiş Özet

**Amaç:** Bu çalışma, katılım bankacılığı sektörünü konu edinmiş olup İslami finansın Türkiye'deki geleceğini bir organizasyon üzerinden anlamaya dönüktür. 2015'te konulmuş ekonomik hedeflerin İslami finansla dair olanlarının –mesela katılım bankacılığı sektörünü % 5'ten % 15'e çıkarma- ne derece yakalanıp yakalanamayacağını soruşturmakta; bunu yaparken de katılım bankacılığı çalışanlarının bakış açısıyla sektörün geleceğini yorumlayıp ne gibi gerekçelerle argümanlarını temellendirdiklerini araştırmaktadır. Projeksiyonları, altında yatan söylemler ve bunların ilişkilendirildiği kurumsal mantıklar soruşturulmaktadır. Makale, finans sektörüne ve organizasyon araştırmalarına nitel bir çalışmayla katkıda bulunmayı hedeflemiştir.

**Yöntem:** Araştırma, yorumsamacı (*interpretivist*) felsefeye dayanmakta olduğundan, vaka çalışması metodolojisi kullanılmıştır. Saha çalışması kapsamında; Türkiye'de faaliyet gösteren bir katılım bankasında 2017 yılında yarı-yapılandırılmış derin görüşmeler yapılmıştır. Çalışmaya 31 katılım bankası çalışanı gönüllü olarak dâhil olmuştur. Mülakat tekniği yanında bilgi-belge analizinden ve gözlem metodundan yardım alınmış; bankacılık kanunları, dergiler, broşürler vb. dökümanlar derlenmiş haricen de gözlem ve saha notları tutulmuştur.

**Bulgular:** Sonuçlar göstermiştir ki katılımcıların yarısı Türkiye'de katılım bankacılığı sektörünün geleceği hakkında iyimserdir. 2025 yılına kadar katılım bankacılığı sektörünün yüzde 5'ten yüzde 15'e kadar artacağını hatta daha fazla büyüme sağlayacağını öngörmüşlerdir. Bu gruptaki katılımcılar üç ana tema üstünde durmuştur. Bunlar; Erdoğan etkisi, İslamcılık akımı ve kamu katılım bankalarının çıkışıdır. Öte yandan, katılımcıların diğer yarısı yüzde 15 hedefi hakkında eleştireldir. Bu gruptaki katılımcılar mevcut ekonomik şartlar altında 2025 yılına değin yüzde 15 hedefine ulaşmanın gerçekçi olmadığı kanaatinde. Kötümser olarak isimlendirilen bu temadaki grupta öne çıkan söylemler; Türkiye'nin jeopolitiği, fetva-ticareti, kanuni yetersizlikler ve ürün çeşitliliğinin azlığıdır. Her iki grup da söylemlerini farklı mantıklarla desteklemiştir. Öngürülerini farklı argümanlarla temellendirmeleri bu anlamda dikkate değerdir.