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AAOIFI
الهيئة العامة للإسلامية والمصرفية
المؤسسات المالية الإسلامية
ACCREDITED AND AUTHORIZED ORGANIZATION
FOR ISLAMIC FINANCIAL INSTITUTIONS

Under the Auspices of تحت رعاية
بنك البحرين المركزي
Central Bank of Bahrain

In cooperation with بالتعاون مع
WORLD BANK GROUP

مؤتمر أيوفي - البنك الدولي الثاني عشر
المالية الإسلامية ومرحلة تحقيق النمو النوعي وتوحيد المعايير

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Towards Qualitative growth and standardization of Islamic Finance

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Diplomat Hotel, Manama, Kingdom of Bahrain

الأحد والاثنين 17 - 16 صفر 1439هـ. يوافق 6 - 5 نوفمبر 2017
فندق الدبلوماسية، المنامة، مملكة البحرين

CHALLENGES AND DEVELOPMENTS AT ISLAMIC BANKING AND FINANCE IN TURKEY



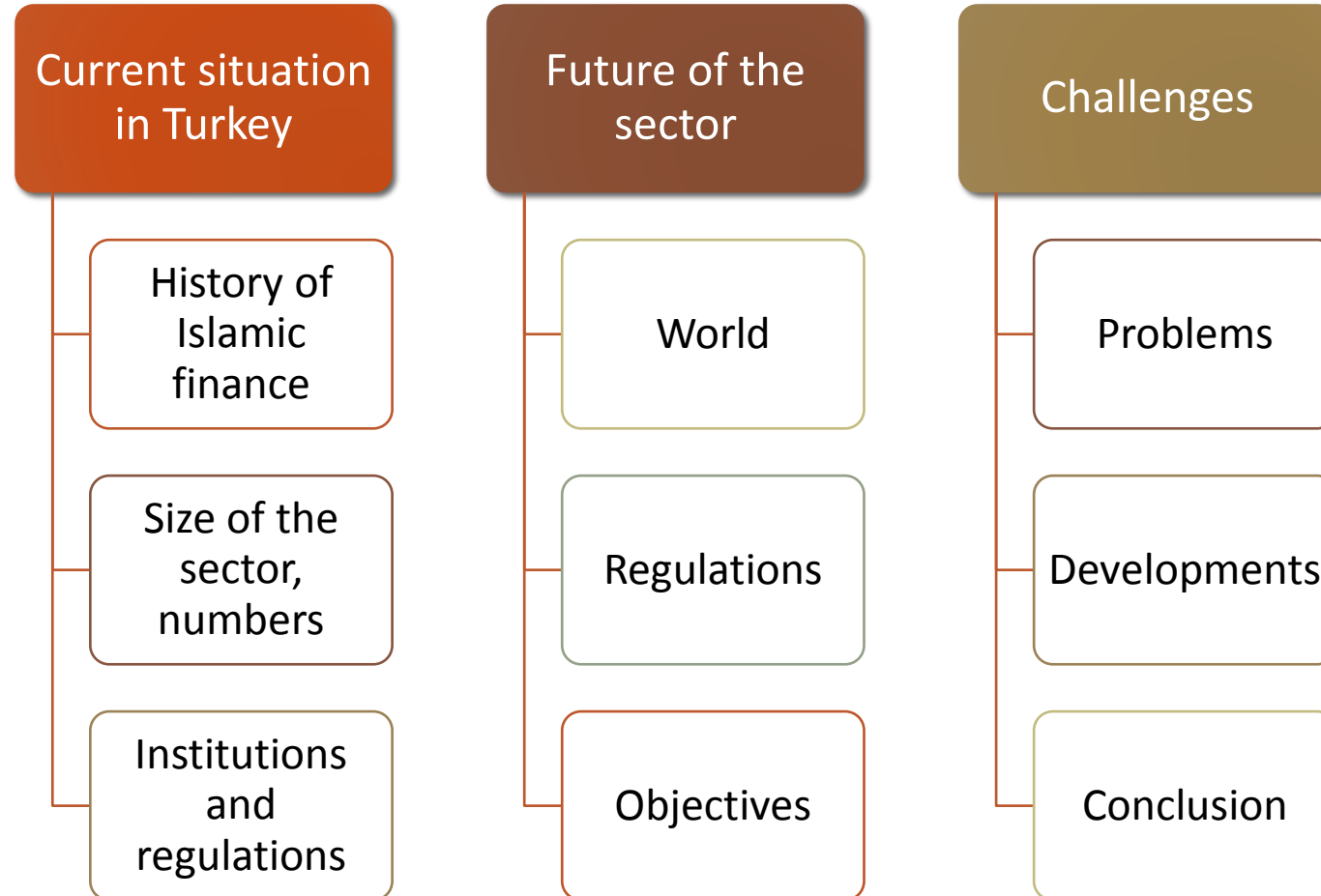
PROF. MEHMET BULUT

PRESIDENT, ISTANBUL SABAHATTIN ZAIM UNIVERSITY

6 NOVEMBER 2017

MANAMA, KINGDOM OF BAHRAIN

Presentation Plan



Natural Heir of Islamic Finance

Ottoman Cash Waqfs (CWs)

- History of CWs
- Permission of the religious authority
- Applications and functioning

Huge gap: Republican era and Vakıfbank (a conventional bank)

1980s-1990s and special finance houses

- 2000s: Participation banks

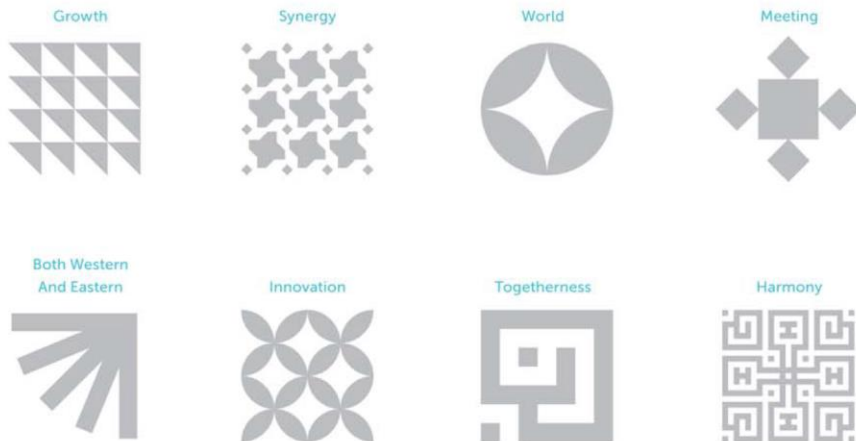
Turkey: Discover the Potential



Discover the potential

Turkey Discover the Potential logo is made up of 8 key traditional motifs. Each motif represents a different value of rising Turkey.

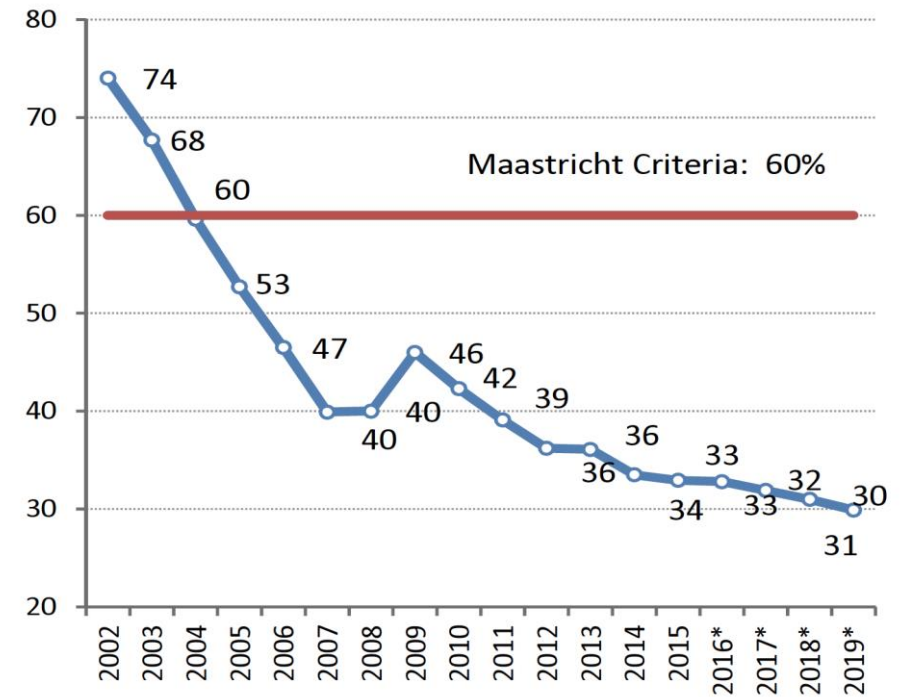
Here are the motifs and their meanings.



- ❖ Geographic location
- ❖ Dynamic population
- ❖ Active diplomacy
- ❖ International organizations

Macroeconomic Outlook of Turkey

- ❖ 17th largest economy in the world, 6th in Europe (including UK) (\$GDP: 857,749 millions)
- ❖ Turkey: a developing country and potential for growth is remarkable
- ❖ Robust economic growth with an annual average real GDP growth of 5.6 percent during 2003-2016
- ❖ A strong structure: geopolitical tensions, coup attempt on 15th July
- ❖ Social policy
- ❖ Sound economic policies with prudent fiscal discipline
- ❖ Strong financial structure that is resilient to global financial crises
- ❖ Institutionalized economy fueled by USD 180 billion of FDI in the past 14 years
- ❖ An energy importer (oil prices)
- ❖ An integrated economy into globalized world



Source: Undersecretariat of Treasury

* 2017-2019 MTP

General Government Gross Debt Stock
(EU Defined, % of GDP)

Financial Outlook of Turkey

- ❖ Quick recovery process after 2001 crisis
- ❖ A new Banking Law was introduced in 2005.
- ❖ Stability
- ❖ Banks dominate the financial services sector in Turkey.
- ❖ Turkey Wealth Fund
- ❖ Secret of success: healthy balance sheet structure, strong shareholder's equity and management experiences
- ❖ An equivalent country
- ❖ International standards

Number of Banks*

	2015	2016
Deposit banks	34	34
State-owned	3	3
Private	9	9
Foreign	21	21
SDIF	1	1
Develop. and invest. Banks	13	13
Participation banks	5	5
Total	52	52

Number of Employees (Thousand)

	2015	2016	Change
Deposit banks	196	191	-4.5
State-owned	58	58	-0.6
Private	75	74	-1.0
Foreign	63	60	-2.8
SDIF	0,2	0,2	0.0
Develop. and invest. banks	5	5	0.0
Participation banks	17	15	-2.0
Total	218	211	-6.4

Banks in Turkey

- ❖ Big banks are too big. (share)
- ❖ Role of state-owned bank
- ❖ The share of assets of deposit banks in banking sector was 90 percent, while the shares of development and investment banks and participation banks were 5 percent each.
- ❖ fully complies with the Basel II and Basel III standards

Market Shares of Groups (Percentage)

	Assets	Loans	Deposits
Deposit banks	90	90	94
State-owned	30	30	31
Private	35	36	38
Foreign	25	24	25
Dev. inv. Participation	5	6	-
	5	4	6
Total	100	100	100

Source: BRSA

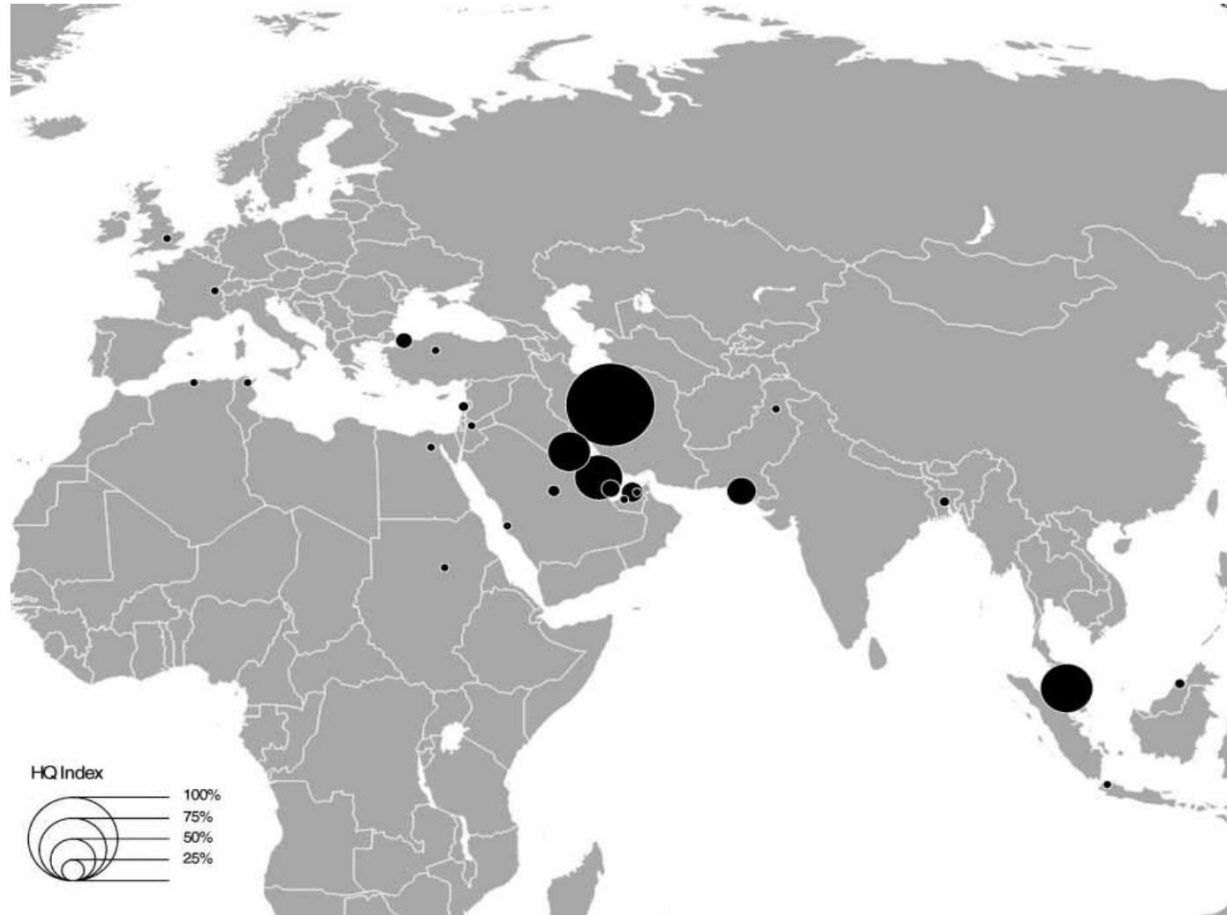
Number of Branches*

	2015	2016	Change
Deposit banks	11,151	10,740	-411
State-owned	3,681	3,702	21
Private	4,299	4,132	-167
Foreign	3,170	2,905	-265
SDIF	1	1	0
Develop. and invest. banks	42	41	-1
Participation banks	1,080	959	-121
Total	12,274	11,741	-533

* Including branches in the Turkish Republic of Northern Cyprus and branches abroad.

Source: BAT, BRSA

Functions of Islamic Finance in Turkey and World



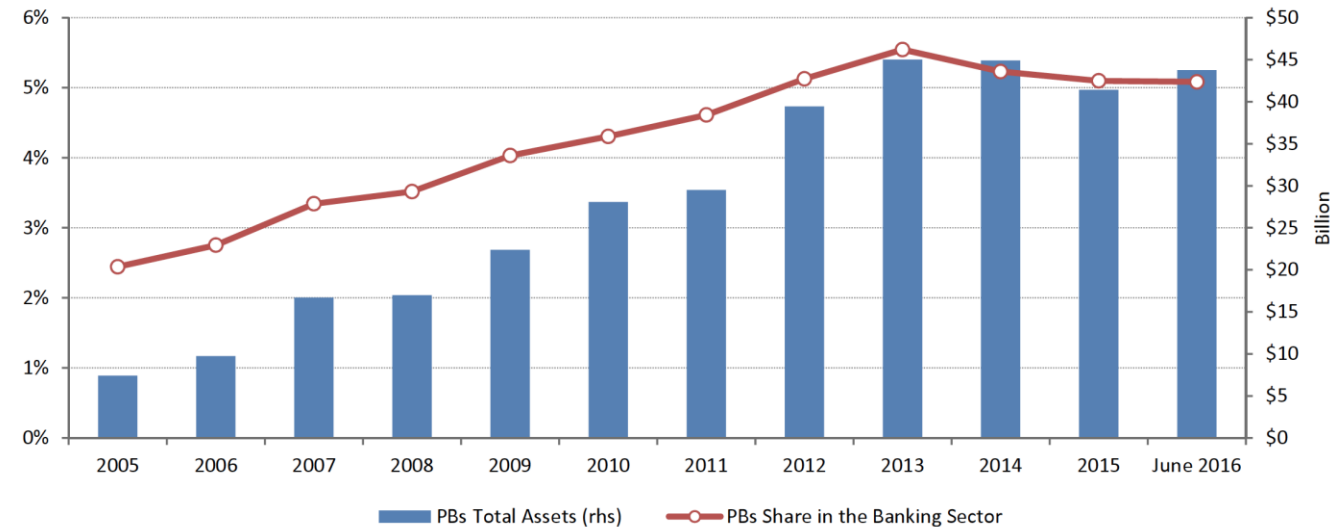
Top Islamic Banking Centers: cities are presented on an HQ index, representing the aggregate of the HQ presence of the top 100 IFS

- ❖ Financial crisis vs Islamic finance
- ❖ Real economy ↔ Financial system
- ❖ UN Sustainable Development Goals
 - ❖ Support from government
- ❖ Istanbul: center for finance and Islamic finance



Regulations vs Religion

- ❖ Islamic finance: a new breath to the world
- ❖ Turkey: Interest-Free Finance Coordination Board
- ❖ An ambitious target to triple the share of Islamic finance in ten years
- ❖ What are done?
- ❖ State-owned participation banks
- ❖ Private pension system
- ❖ Sovereign Wealth Fund
- ❖ There are studies on regulations of Islamic finance sector, but still no current law.

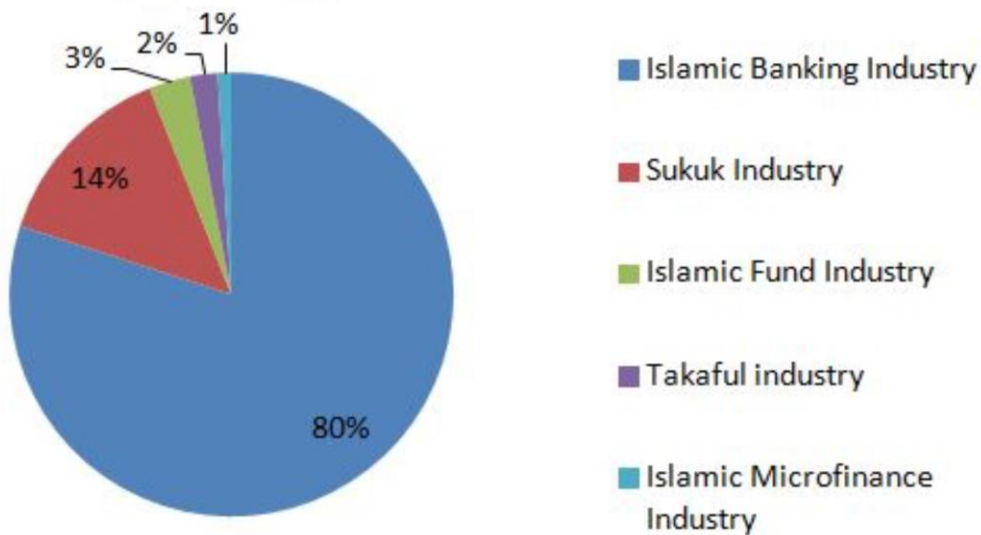


Source: BRSA

Participation Banks' Total Assets and Share

Islamic Finance has Great Potential at both in Turkey and World

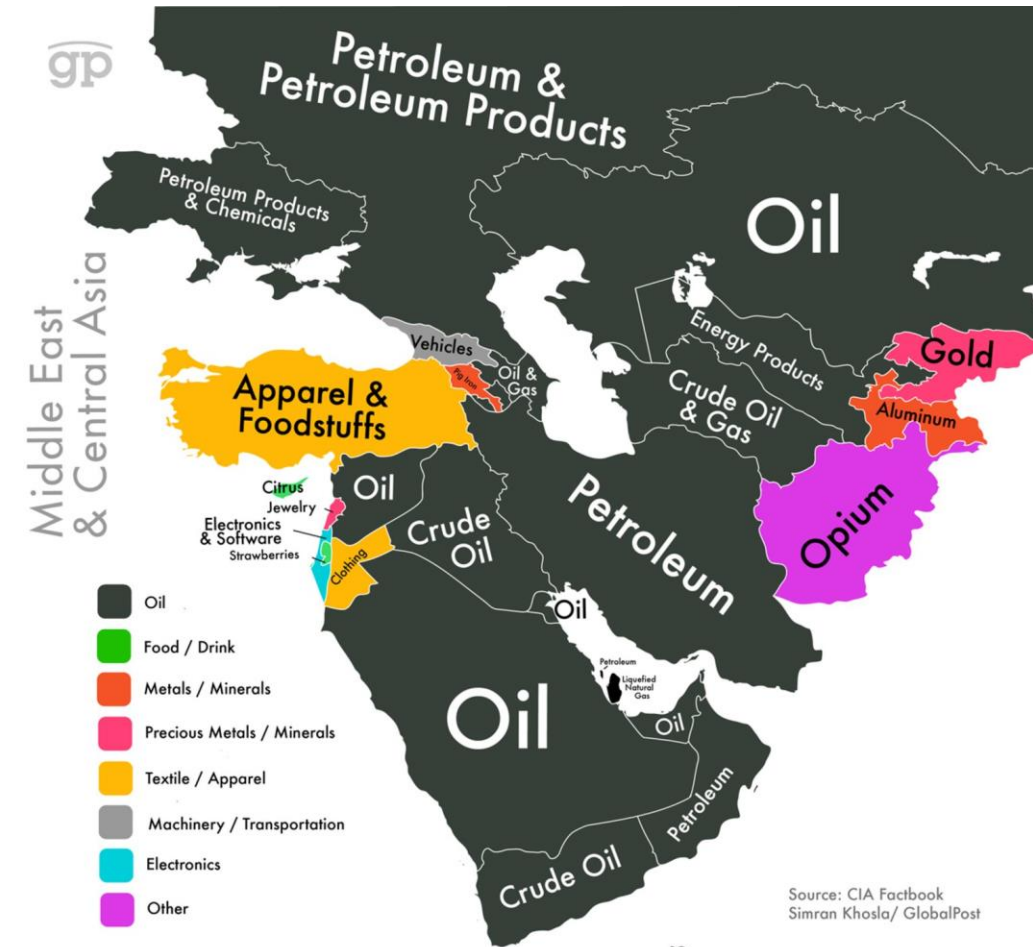
Share of Islamic Finance Market



- ❖ Insurance system
- ❖ Non-banking financial sector (leasing, factoring and consumer financing)
- ❖ Open to growth and developments
- ❖ Strong, determined and continuous support from the government
- ❖ Istanbul and historical experience of Turkey (Ottomans)
- ❖ Emerging economies
- ❖ new methods, a new field and growth appetite

Challenges in the World

- ❖ Lack of quality HR
- ❖ Lack of educational and training Institution
- ❖ Existing regional conflict
- ❖ Lack of coordination between institutions. (necessity of integrity)
- ❖ International barriers to achieving potency



Problems cont.

- ❖ Mentality: desire of competition with conventional banks
- ❖ Strong and widespread network of conventional banking
- ❖ Guaranteed profit basis having Shariah coverage
- ❖ Use of Murabaha rather than Mudaraba and Musharaka
- ❖ Awareness is too low
- ❖ Technology

Islamic Finance Principles



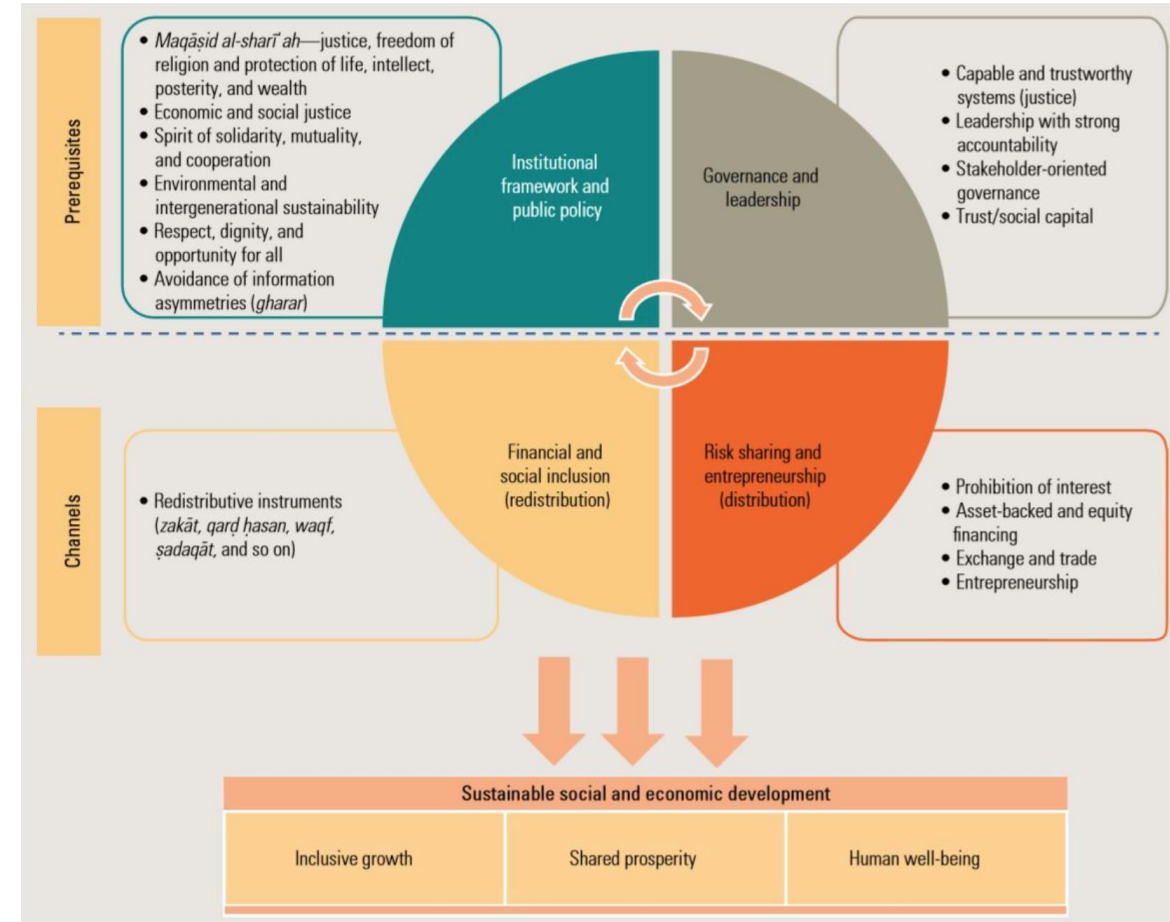
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Sustainable Development Goals



Recent Developments in Turkey

- ❖ Establishment of state-owned participation banks
- ❖ Pension fund ruled under the principles of Islamic finance
- ❖ There is a draft on interest-free finance law. But still a draft.
- ❖ Works on making Istanbul as a center for finance and Islamic finance
- ❖ Developments on instruments: real estate certificates, gold certificates
- ❖ Educational developments
- ❖ Increasing awareness



History of Regulations at Interest-free Finance in Turkey

1983

- Government Decree for SFH

1985

- Albaraka Turk and Faisal Finans established

1989

- Kuveyt Turk established

1991

- Anadolu Finans established

1995

- Ihlas Finans established

1996

- Asya Finans established

1999

- SFH under Banking Law
- BRSA established

2001

- Faisal Finans became Family Finans
- Ihlas Finans left the market
- Association of Special Finance Houses established
- SDIF established

2005

- 5411 Nr. Banking Act passed
- SFHs renamed Participation Banks
- Security Funds transferred to SDIF
- Anadolu Finans and Family Finans merged as Türkiye Finans

2008

- Türkiye Finans acquired by National Commerce Bank

2010

- First Corporate Sukuk issued by Kuveyt Turk*

2012

- First Sovereign Sukuk issued by Turkish Treasury

2013

- World Bank Global Islamic Finance Development Center established

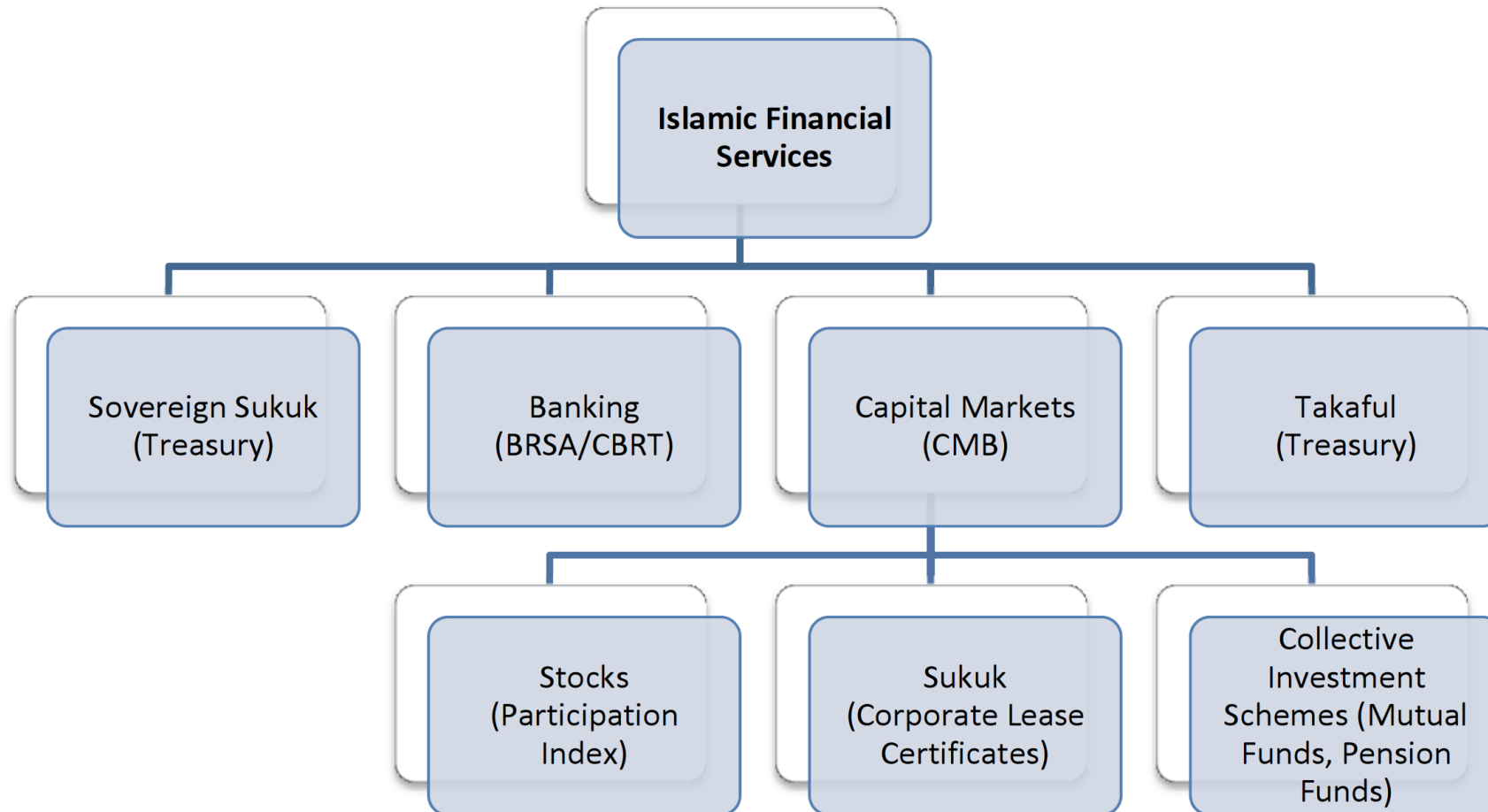
2015

- Istanbul International Financial Center Program Action Plan approved
- Ziraat Katılım established
- Interest-Free Finance Coordination Board established

2016

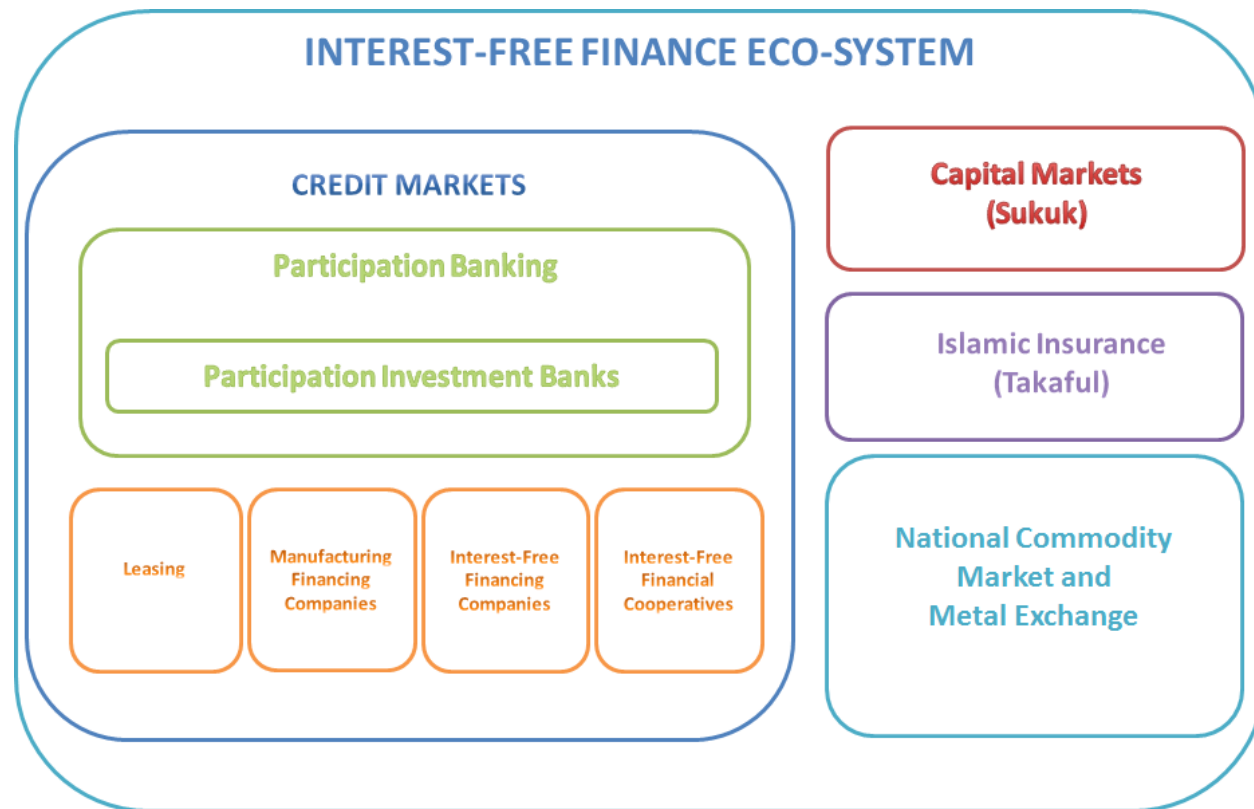
- Vakıf Katılım established

Institutional Setting for Interest-free Finance



Interest-free Finance Ecosystem

- ❖ An inclusive finance system integrates interest-free financial system to better serve the needs of the economy and to promote inclusive growth. To this end, Turkey plans to build a full-fledged interest-free financial ecosystem.
- ❖ Financial Leasing, Factoring and Financing Companies Law (Nr. 6361).
- ❖ Currently, participation banks can also operate financial leasing according to Banking Law (Nr. 5411).



Turkey: Participation Banks vs Financial Environment

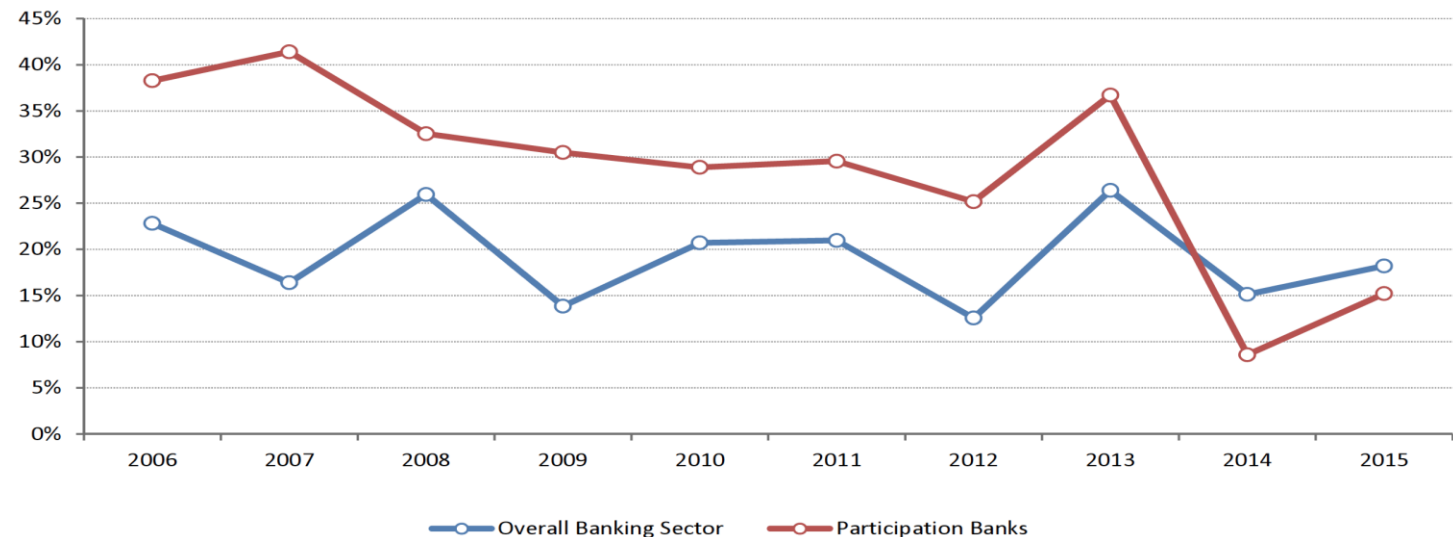
❖ Forcing to race in the same lap with conventional banking because of not having own rules/law

Participation banks of Turkey - Key indicators (2016)*

Funds collected TL 81,505 billion	Funds allocated TL 84,880 billion
Total assets TL 132,776 billion	Shareholders' equity TL 11,495 billion
Number of personnel 14,465	Number of branches 959

Participation Banks of Turkey – Key Indicators (2015)		
Funds Collected TL 74.4 billion	Funds Allocated TL 79.2 billion	Total Assets TL 120.3 billion
Shareholders' Equity TL 10.6 billion	Number of personnel 16,554	Number of branches 1,080

Source: BRSA



Source: BRSA

Annual Banking Assets' Growth Rate

Power of the Participation Banks in Turkey and Objectives

- ❖ Increased financial deepening in the participation banking sector
- ❖ Developments in Sukuk market of Turkey
- ❖ The participation banking sector is committed to a strong future with its dynamic structure and working principles.
- ❖ Participation banks are expected to post much stronger financing growth than traditional banks for 2016-2019 period.

Participation Banks in Turkey: Total Assets and Share in the Banking Sector (TL million, 2012-2016)

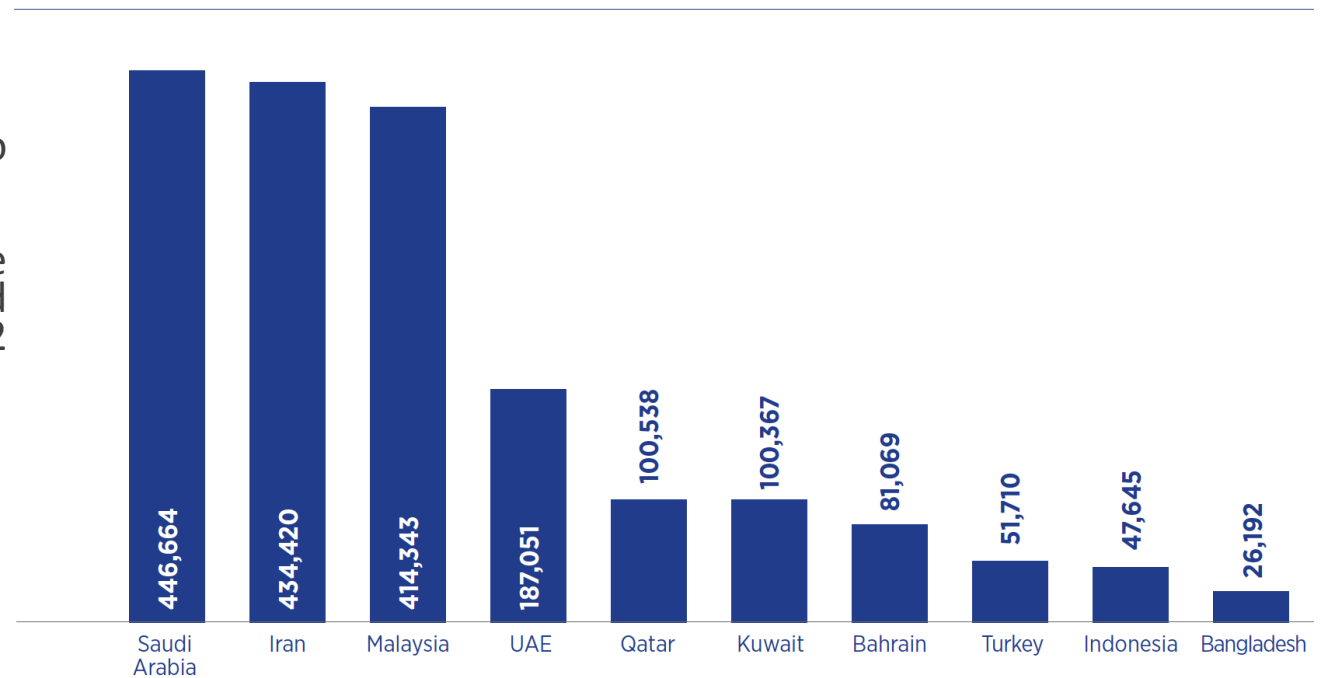
	Total Assets	Change %	Share %
2012	70,245	25.3	5.1
2013	96,022	36.7	5.5
2014	104,073	8.4	5.2
2015	120,252	15.27	5.1
2016	132,874	10.5	4.9

Source: PBAT, BRSA

Future of Islamic Finance

- ❖ A total of 1,329 companies operate in the global interest free finance system
 - ❖ 480 participation banks
 - ❖ 322 Takaful companies
 - ❖ 527 are other financial institutions.
- ❖ The interest free finance system is also accelerating its development beyond core markets.
- ❖ Sukuk issuances increased by 26% in the core markets. For Malaysia, Indonesia, Pakistan and Turkey rose to USD 40 billion in 2016 from USD 32 billion in 2015.
- ❖ Sukuk: fastest growing asset type
- ❖ Boost the rate of growth
- ❖ Significant opportunities
- ❖ Providing legal infrastructure
- ❖ Istanbul Finance Centre (IFC) project

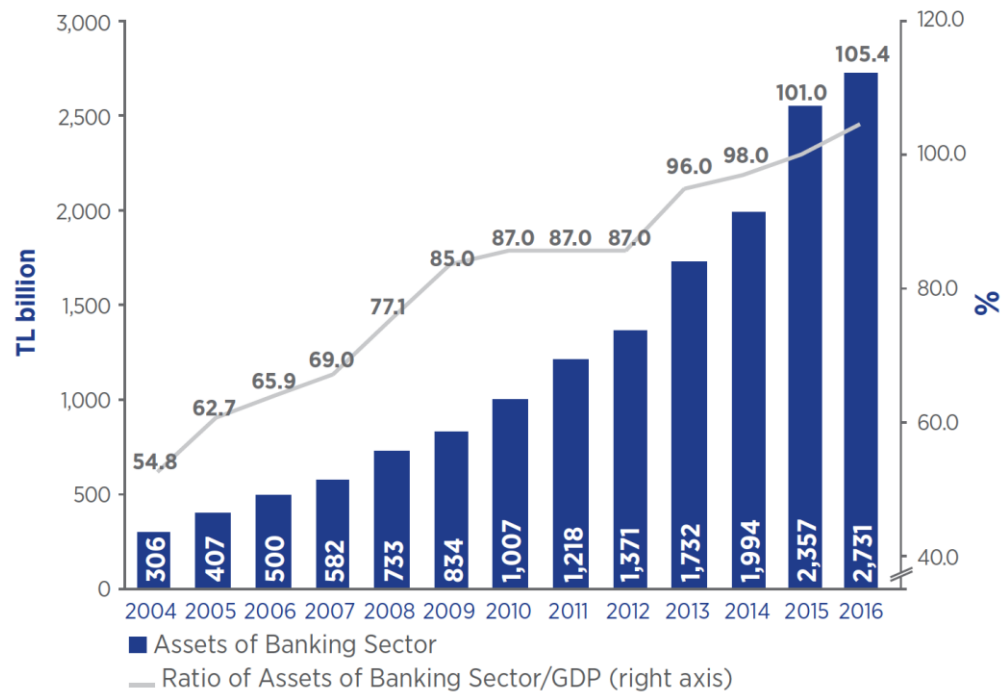
Top 10 Countries as per the Assets of Interest Free Finance (USD million)



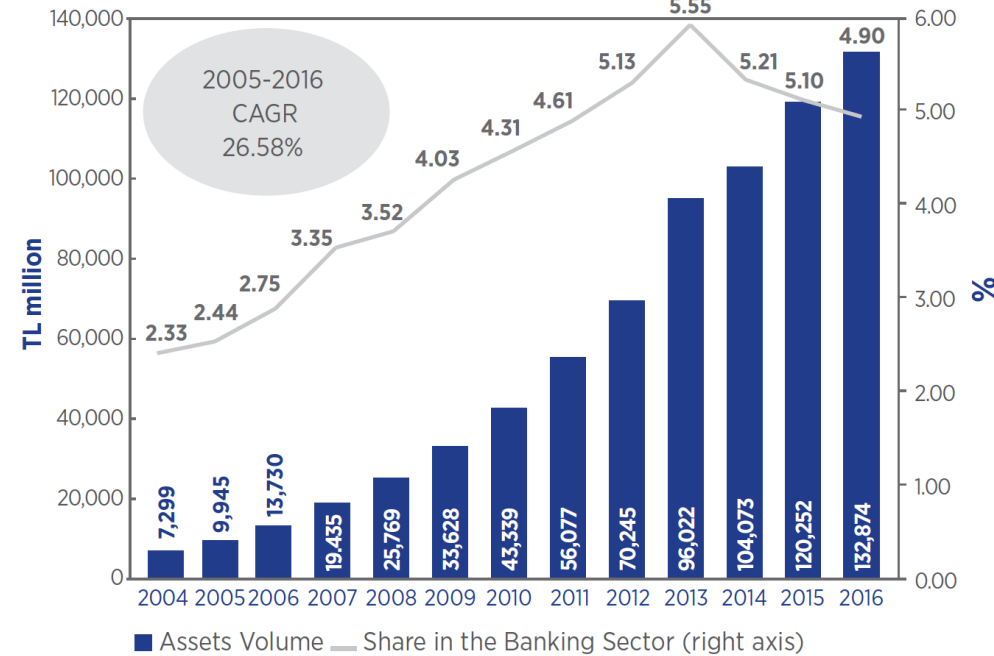
Source: ICD Thomson Reuters

Numbers at Participation Banking in Turkey

Turkish Banking Sector and Ratio to GDP



Development of Assets of Participation Banks and Shares in the Sector

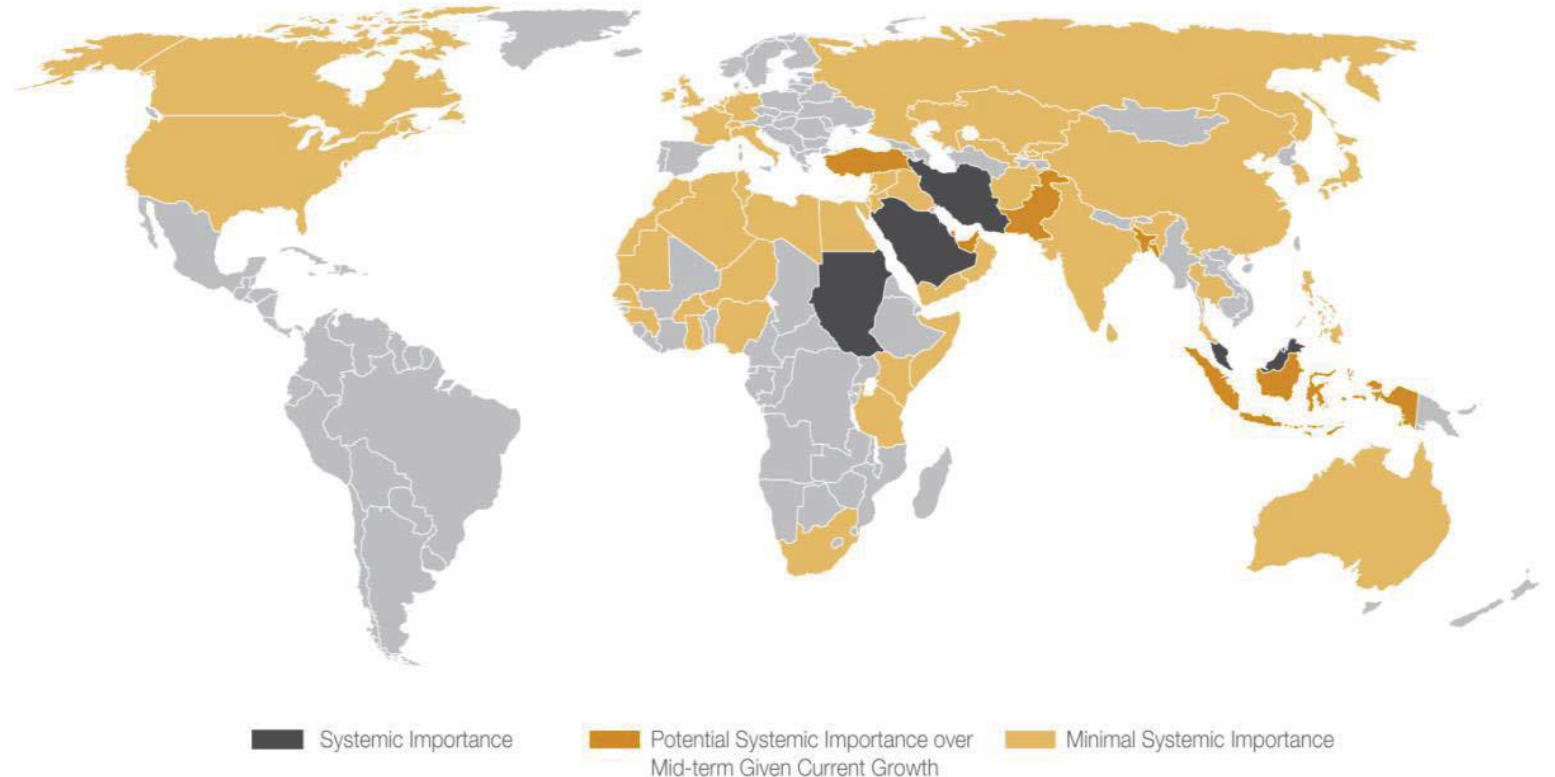


The participation banks' total asset size reached TL 123,776 million in 2016.

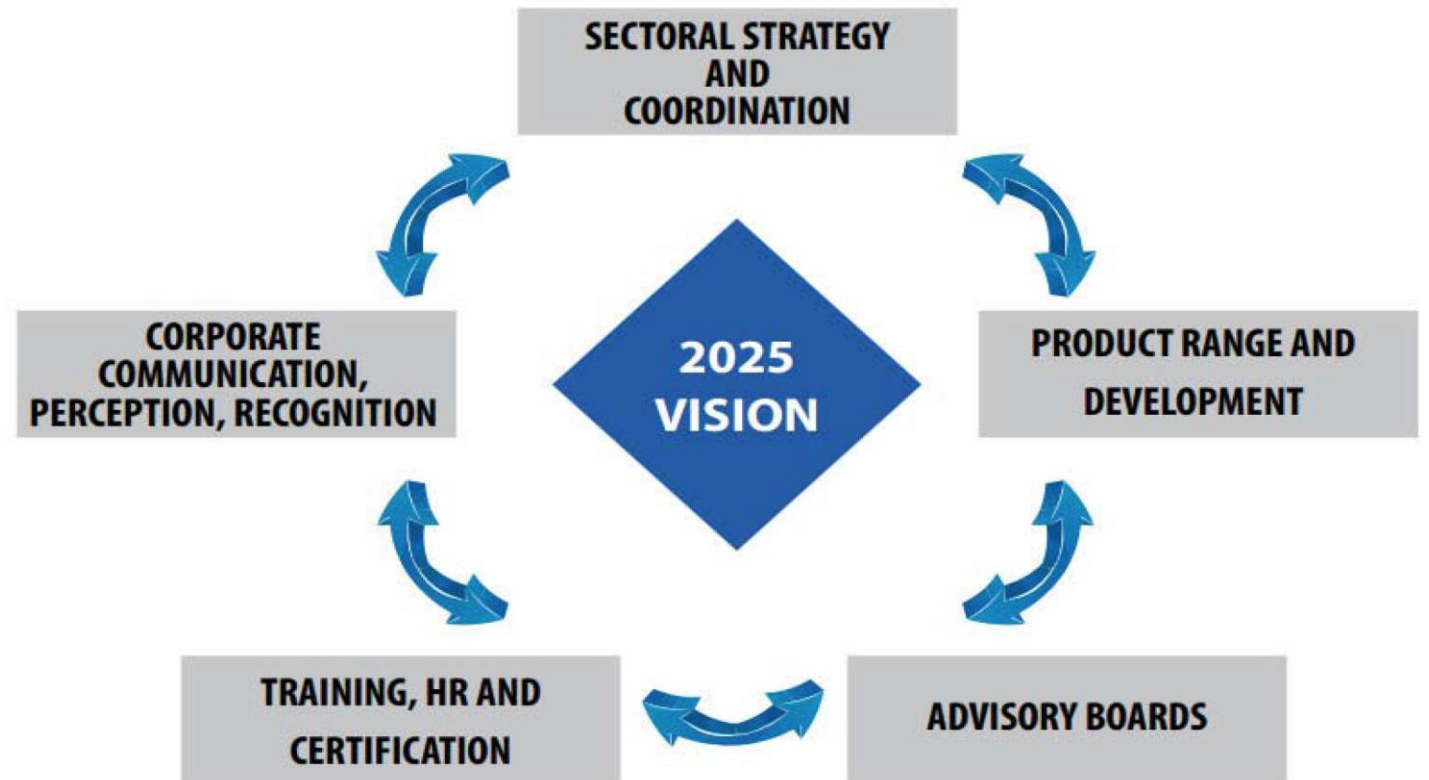
The funds collected by participation banks in the period of 2000-2016 showed an average yearly growth of 23% while funds allocated in the period of 2005-2016 recorded an average yearly growth of 25%.

Turkey as an Islamic Finance Center

- ❖ Global and Regional Position
- ❖ Turkey's strong, historical and increasingly important economic ties with the Middle East
- ❖ Strong relationship with global institutions
- ❖ Istanbul International Finance Center Program Action Plan
- ❖ Educational curriculum (undergraduate and graduate programs)



Turkish Participation Banking Sector Strategy: Vision and Mission



Conclusion

- ❖ Turkey: Discover the potential
 - ❖ Increasing awareness
 - ❖ Increasing education opportunities
 - ❖ determination of government
- ❖ Lack of human resources
- ❖ Lack of regulations
- ❖ High competition
- ❖ Liquidity needs
- ❖ Weak branch network – cause of customer loss

Thank you.

For contributions and suggestions;

*Prof. Mehmet Bulut
President, Istanbul S. Zaim University*

mehmet.bulut@izu.edu.tr