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ASSESSING CUSTOMER AWARENESS AND SELECTION CRITERIA OF ISLAMIC AND CONVENTIONAL BANKS IN TURKEY

TÜRKİYE'DE İSLAMİ VE GELENEKSEL BANKALARIN MÜŞTERİ FARKINDALIĞI VE SEÇİM KRİTERLERİNİN DEĞERLENDİRİLMESİ

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ABSTRACT: The purpose of this study is to examine customers'selection criteria, banking products/services and customers' awareness towards Islamic principles offered by CBs and PBs in Turkey. A sample of 1082 respondents from various cities in Turkey is used in the study by the means of questionnaire used to collect the data between the period of 3rd of July – 23rd of September, 2015. Descriptive statistics and chi-square statistics are reported. To our knowledge this study has been carried out based on the most detailed and comprehensive data ever used in terms of comparative analysis of the CBs and the PBs in Turkey.

Keywords: Participating Banking, Islamic Banking, Conventional Banks, Customer Selection, Turkey

JEL Classifications: G21, M31, N24

ÖZ: *Bu çalışmanın amacı Türkiye'de Katılım Bankaları ve Ticari Bankalar tarafından İslami ilkelere yönelik sunulan bankacılık ürünlerini / hizmetlerini, müşteri seçim kriterleri ve müşteri bilincini incelemektir. Çalışmada, Türkiye'nin çeşitli illerinden 1082 katılımcıdan oluşan bir örneklem kullanılarak 3 Temmuz – 23 Eylül 2015 dönemi arasında anket yoluyla veri toplanmıştır. Tanımlayıcı istatistikler ve ki-kare istatistikleri rapor edilmiştir. Tarafımızca bu çalışma, bugüne kadar Türkiye'de Ticari Bankalar ve Katılım Bankalarının karşılaştırmalı analizi açısından kullanılan en detaylı ve kapsamlı verilere dayalı olarak yapılmıştır.*

Anahtar Kelimeler: *Katılım Bankacılığı, İslam Bankacılığı, Ticari Bankacılık, Müşteri Seçimi, Türkiye*

1. Introduction

When it is compared to conventional banking, it is claimed that the risk share based structure of the banking system without positioning interest renders the system stronger and increases its strength against crises. It is also observed that banking without interest was less influenced by negative improvements observed in global markets than the conventional banking one following the Global Finance Crisis (GFC). In the aftermath of the GFC, it is more often claimed that the ongoing global turbulence in the financial systems needs a viable alternative such as Islamic banking / participation banking in the world economies since Islamic banking / participation banking have structural advantages over conventional banking to promote economic growth and it is better-suited to absorb macro-financial shocks.

Islamic banks (IBs) or Participation Banks (PBs) providing interest free banking products/services in Turkey were introduced to the Turkish financial system in the early 1980s. Although Turkey has a developing economy, it has macroeconomic problems and fragile financial markets and faced several economic crises in 1994, 2000, 2001 and 2008 over which the PBs survived. However, the market share of PBs in the Turkish banking sector has only reached to the level of 6 percent since their inception in the early-1980s. It is not wrong to pronounce that interest free banking in Turkey has not reached to the level of those in other Muslim counries such as Malaysia and the GCC and non-Muslim countries yet. It is claimed that particiption banking in Turkey has been influenced by the western way of banking to a great extent in the sense that they simply repackage conventional banking products as Shariah-compliant. In this regard, such products and/or services have never been welcomed by some groups of conservative investors yet (Okumus et.al., 2003:4). More importantly, the collapse of some interest free financial institutions (for example Ihlas Finance and Bank Asya) in the late 1990s and in 2014 respectively, gave negative impact to the culture of participation banking in Turkey.
Although the Turkish banking system is dominated by CBs, PBs feel that they need to increase their share in the dual Turkish banking system in order to maintain their existence. Therefore, they tend to mimic the role from CBs to maintain their customers and to obtain new customers. The pressure felt by the PBs to provide similar products and service profile with CBs to their customers, has severely increased following the entry of state-owned commercial banks into the participating banking sector. As a result, the CBs and the PBs are to be considered as rival banks rather than alternative to each other in the dual banking system of Turkey. By the entrance of the state-owned commercial banks such as Ziraat Bankası and Vakıflar Bankası in the participating banking sector starting from 2014, it is targeted that the market share of the PBs' assets in the whole Turkish banking sector will increase to the level of 15-20% by 2023 with a total assets of 300 million USD.

2. The Turkish Participation Banking Industry

According to The Banker (2015), the current Islamic finance sector worldwide is believed to reach to at least ninety countries in various forms with an asset base on USD 1,273 billion in 2015. However, it is important to note that the total assets for the industry contracted from USD 1,391 billion in 2014 to USD 1,273 billion in 2015. Following the liberalization process carried out by the Turkish economy in the early 1980s, the financial sector was structured through deregulation at the time that also brought innovations to those markets. Correspondingly, interest free banking products/services were introduced to the Turkish financial markets, and the first financial institution operating in compliance with Islamic principles started its operations in 1983 side by side with its conventional counterparts under the name of Special Finance Houses (SFHs). The turning point of Islamic banking in Turkey was receiving the bank status and replacing SFHs' names as PBs with the Banking Law No.5411. Islamic banking products and services in Turkey are currently provided by only the PBs in the Turkish financial system.

As of the end of 2015, the Turkish banking sector comprises 50 banks with 32 deposit banks, 13 non-deposit banks and 4 PBs. Prior to 2005, PBs could not show any development in terms of asset size in the whole banking sector (Banking Regulation and Supervision Agency, 2016). It can be seen from Figure 1 in the Appendix that the total assets has been increasing stedily for PBs and the entire

banking sector. While the total assets of the entire banking sector increased by 477%, the assets of PBs rised by a mega 1.104% from about TL10 million in 2005 to about TL120 million in 2015. However, it is worth mentioning that PBs still represent a tiny fraction of the banking sector. Participation banks only constitute about 2.4% and 5.1% of the total assets of the banking sector in 2005 and 2015 respectively (see; Figure 2 in Appendix). Eventhough their percentage share of the total assets of the banking sector increased steadily within the period, it still remains a very small proportion. Furthermore, Figure 3 in Appendix shows that although there is a great volatility in % growth in total funds' collected for the entire banking sector, PBs'% growth in total funds' collected has increased steadily from 2005 (3.2%) throughout up to 2014 (6.7%). This represented an increase of over 100%, which is quite promising for participation banking sector. It however declined by 0.7% from 6.7% in 2014 to 6.0% in 2015. As observed in the case of % growth in total funds' collected, the banking sector has experienced a great volatility in the % growth in total funds' used within the period under review. However, contrary to what is observed for PBs in terms of % growth in total funds' collected (a steady increase), their % growth in total funds' used has shown some volatility though not close to being as severe as that of the entire banking sector (see Figure 4 in Appendix). It is also relevant to highlight the fact that the % growth in total funds' used for PBs has been declining since 2013 to date. This problem needs to be addressed as quickly as possible because the profitability of any bank largely depends on the total funds used. In Figure 5 in the Appendix it can be seen that there has been a sharp increase in the number of branches for both PBs (290 – 1064 about 267% increase) and CBs (6225 to 11151 about 79% increase) within the period. Also the number of branches has continuously risen for both types of banks from 2005 through to 2014 when the conventional banking sector experienced a slight decline of about 0.3% in 2015. However, it can be observed from Figure 6 that even though the number of branches of both banks has continuously increased over the years; these increases have not been steady. It is also observed from the Figure 6 that the % growth rate for participation banking sector has been higher than that of their conventional couterparts throughout the period with the exception of 2014 when the two were equal. This may be the reason for the continuous increase in PBs' share of the total assets of the banking sector observed in the Figure 1 to continue increasing their market share, PBs need to open more branches and thus gain more competitive advantage over their conventional counterparts and concentrate on interest free banking. As expected, Figure 7 in Appendix shows that the number of personnel has increased sharply for both CBs and PBs at a rate of 53% and 189% respectively from 2005 to 2015 and continuously rised throughout the period under review for both banks. This may be partly due to the continuous increase the number of branches for both banks within the period observed in the previous two graphs. Another expected result is observed in Figure 8 in Appendix.

3. Literature Review

Over the last dacade, researchers have conducted several researches about the comparisons between conventional and Islamic banking. Most of the studies focused on the customer profiles of the two types of banks, customer selection criteria, customer awareness and the use of banking products/services. Mokni & Rachdi (2014) studied a sample of 15 conventional and 15 Islamic banks for the period between 2002-2009. They exploited an up-to-date econometric technique (the GMM system estimator) which takes into consideration the issue of endogeneity of regressors to

evaluate the comparative profitability of IBs and CBs in the MENA region. The results of their study showed that the determinants of profitability significantly vary between Islamic and conventional banks. However, several researches were conducted concerning perceptional issues. One such research was done by Ringim (2014) in his paper set out to determine the level of perception of a Muslim account holder in a conventional bank towards Islamic banking products and the relationship between the level of perception of Nigerian account holders and their decisions to patronize Islamic banking. The results revealed that perception was positively associated with a Muslim account holder's decision to patronize Islamic banking products. A similar study was conducted by Hanif (2011) who attempted to address perceptional issues by identifying the similarities and differences between Islamic and conventional banking. Evidences from his study suggest that Islamic banking is very much practiced like modern conventional banking with certain restrictions imposed by *Shariah*. He went on further to pointed out that Islamic banking addresses a large number of business requirements successfully, hence perceiving Islamic banking as totally foreign to the business world is not correct. The results from another study on customer perception by Hossain & Leo (2009) but this time however, on service quality in the Qatar retail banking industry indicate that customers' perception is highest in the tangibles and is lowest in the competence area. In addition, the study suggests that customer service is an important part in terms of achieving the highest service quality and bank managers should be rethinking how to improve customer satisfaction with respect to service quality.

While the previously mentioned studies focused on customer perception, a more comprehensive study was done by Gaith & Worthington (2008) who extensively surveyed the attitudes, perceptions and knowledge of Islamic financial products and services in comparison with those of CBs. Based on the empirical analysis they found out that while religious conviction was a key factor in the use of Islamic products/services. In addition, consumers also identified bank reputation, service quality and pricing as being relevant. A couple of researches were also found in the litereature on the subject of Islamic and conventional banking regarding Pakistan. One of them was done by Ahmad, Rehman & Saif (2010). They examined the relationship between service quality and customer satisfaction in relation to Islamic and CBs in Pakistan. By using the data collected from a sample of 720 banks, this study claims that there is a positive relationship between service quality and customer satisfaction for both Bs and CBs. However, they stressed that the positive relationship between service quality and customer satisfaction is stronger for IBs than for CBs. In the same year Farooq, Ahmad & Jamil (2010) also conducted a research with the aimed of describing the attributes and profiles of Islamic banking subscribers by statistically testing a sample of 942 subscribers and users of Islamic banks in Pakistan and they empirically suggested that the regulators of Islamic banking should concentrate on the socio-demographic factors when it comes to establishment of a new branch. They therefore emphasised that the aspiration and preferences of the educated class shall be taken into consideration and products and services should be designed in such a way to cater for the needs of the subscribers. Three years later, Ali, Ali & Khwaja (2013) studied the comparison of Islamic and conventional banking in Pakistan on the basis of riba and services. Their research focused mainly on people who currently use both conventional and Islamic banks and they concluded base on the emperical findings that Islamic banking is the best option of investment for the people of Pakistan.

Several other previous researches also dealt with Islamic banking in comparison with conventional banking from a different perspective. One of them was done by Hegazy (1995) this study is one of the pioneering studies that investigated bank selection criteria for both IBs and CBs. He concluded that the selection attributes for IBs are different from those for CBs in Egypt. For the selection of IBs, it was found that the most important factor was the advice and recommendations made by relatives and friends. Convenience of location, friendliness of personnel, timeliness, efficiency and the bank's vision of serving the community regardless of the expected profitability also appeared to be important drivers among others. Other studies on the same subject but conducted in different countries were found in the literature by Metawa & Almossawi (1998); Naser, Ahmad & Al Khatip (1999); Dusiki & Abdullah (2007) and the studies presented different results. The first study was conducted in Bahrain and in this study the banking behaviour of Islamic banking customers in Bahrain was investigated with a sample of 300 customers. The study revealed that there were two most important bank selection criteria - the adherence to the Islamic principles and rate of return. The second study was conducted in Jordan and the results from this study revealed that the most important bank selection criteria for the customers of Islamic banks in Jordan was "the image of bank", followed by the compliance with the Islamic principles. 206 respondents took part in this study, revealing that there was a certain degree of satisfaction of many Islamic banking facilities as well as dissatisfaction with some of them. The third study was conducted in Malaysia and it investigated the main factors that motivate customers to deal with IBs in Malaysia. Being the first nationwide study, the study revealed that the selection of IBs appeared to be predominantly a combination of Islamic and financial reputation and quality of services offered by the banks. The data used in the study was collected through self-administrated questionnaires from a sample of 750 respondents. Turkey also have its own fair share of litereature on this topic. There is an increase in the number of studies in recent years that aim to examine CBs and PBs operating in Turkey from various perspectives. One of the contemparory studies was carried by Erol et al (2014). This study attempted to compare the performance of PBs against CBs in Turkey for the period of 2001-2009. The results of the study signify that PBs operating in Turkey perform better in terms profitability and asset management measured by ratios compared to their conventional counterparts. These findings might mainly be ascribed to the fact that these banks allow lower provisional losses compared to CBs and have some tax advantages.

Another contemporary but more comprehensive study was conducted by Ernst & Young (2014). They reported the competitiveness of participation banking for six core markets. In this survey study, more than 2.25 million feedback were tracked and analysed on social media across QISMUT countries by Ernst & Young. According to the Ernst & Young's Report, the common theme across key markets was that PBs need to seriously strengthen customer experience on offer. Results show that for many PBs, customer satisfaction is, at best, mediocre. With regard to Turkish participation banking, 905.000 sentiments in Turkey between January 2010 and August 2014 which includes the period when speculations had been made about a participation bank, namely Bank Asya, were monitored. It is reported that the PBs in Turkey like any other financial institutions dealing with interest free financial activities across QISMUT should be paying more attention and develop business strategies to trade finance, mobile payment solutions and regulatory compliance so that they would narrow the performance gap that currently exists between PBs and CBs. Asutay and Ergec (2013) aimed to study the casual relationship between bank

money creation and monetary supply in a comparative manner in IBs and CBs for Turkey and Malaysia. By using monthly data for the period from January 2007 to May 2013, the study applied the Granger causality test as a method of analysis. The results show that the direction of the causality between loans and deposits is the same in both Malaysia and Turkey. Therefore, it appears that the direction of the causal relations is the same in Turkish CBs and PBs. Savasan et al. (2013) investigated the perception of Islamic finance in Turkey by utilising an extensive questionnaire sent to 1045 businessmen who are the members of conservative business associations in Turkey. The findings of the study indicate that most of the respondents (60%) prefer banking with CBs, the rest prefers with PBs. Okumus (2005) and Okumus and Genc (2013) examined the determinants of customer satisfaction and selection criteria for the PBs' customers only. Okumus (2005) studied the customer satisfaction and bank selection criteria regarding participation banking operating in Turkey. To answer the research questions, a survey questionnaire was designed and administered to selected 161 respondents from PBs' (formerly named as Special Finance Houses) customers visiting the sampling branches (Albaraka Turkish Finance House, Asya Finance House, Anadolu Finance House, Kuwait Turkish Finance House and Family Finance House) for two months from May 2004 through June 2004. A similar study was conducted by Okumus and Genc (2013) and they investigate satisfaction level of customers as well as customer awareness and bank selection criteria regarding products/services offered by the PBs in Turkey. In order to run the analysis, a structured survey questionnaire was developed and primary data was collected from 281 PBs' customers by using stratified random sampling from January 2009 - March 2009. There was evidence in the literature that religious factor was one of the criteria of the PBs customers' selection. In addition the empirical findings of both studies revealed that there was a low level of customer satisfaction on *the limited number of branches*, *the availability of a wide range of credits with favourable terms* and *high service commission and fees*. The respondents also expressed their dissatisfaction with some of the SFH facilities and despite being aware of a number of specific products and services such as *mudarabah* and *musharaka*, they indicated that they did not deal with them. However, both studies pointed out that the relationship between customers and bank staff was the main driver of the PBs' customers' satisfaction and bank selection in Turkey. Both studies also reveal that the reason for dealing with a PB not a CB is religiosity rather that profitability that a rational investor is supposed to seek for in his investments.

4. Data and Methodology

This study is close to Okumus (2005) and Okumus and Genc (2013) studies in terms of methodology adapted. Previously, studies were conducted on the Turkish participation banking, however, they are limited in scope when it comes to sample selection in the sense that they considered only customers dealing with the PBs at their Istanbul branches. It is worth noting that this study is not limited in scope as the data was collected at large without restricting neither to the PBs nor to the location, Istanbul. The purpose of this study is to analyse bank selection criteria, banking products/services, customers' awareness towards Islamic principles as well as the customer satisfaction with the products/services offered by CBs and PBs. The study focuses on the customers that bank either with CBs or both CBs and PBs simultaniously and excludes those who deal with only PBs. The profile of customers includes individuals and corporates. A sample of 1082 respondents from various

cities in Turkey is used in the study. To ensure the speed of data collection, control of the sample, good flexibilty and reasonable cost, the data was collected through telephone interviews between the period of 3rd of July – 23rd of September, 2015.

5. Empirical Findings

In accordance with the objectives of the study, the sample was distributed into two; 410 respondents indicated dealing with only CBs (33%), while the remaining 836 respondents (77%) indicated dealing with PBs as well as CBs. When we consider the profile of the respondents, it appears that while 86% of the participating respondents were households, the rest were corporate ones.

In Table 1, descriptive statistics for 1082 households' participants is presented. It is pointed out that the age of the customers of both CBs and PBs are between 25 and 44. While 84.5% of the PBs' customers are male, almost 83% of the CBs' customers are male. Also, almost 58% of the PBs' customers stated that they are religious practitioner and this rate decreases to 47.5% for CBs' customers. Approximately 72% of both groups of customers are high school and undergraduate educated. When the years in business are examined in customer profiles, 24% of the PB customers work less than 5 years whereas 28% of them work more than 15 years. However, it is stated that this situation is nearly same for CBs. It is also stated that most of the PBs and CBs customers work in service sector. When the socio-demographic incomes of the PBs and CBs customers are examined, it is observed that most of them abstain from answering this question and there is a group in the respondents whose incomes are between TL 2.000 to TL 4.000.

Table 1. Socio-Demographic Background of the Respondents (Households)

%	PBs	CBs		PBs	CBs
Age			***Years in Business / Job***		
15-24 years old	5.8	10.5	Unemployed	1.4	3.9
25-34 years old	16.4	14.4	Less than 5 years	23.8	23.4
35-44 years old	11.1	14.7	5-9 years	21.5	16.7
45-54 years old	4.7	5.9	10-14 years	13.9	11.3
55-64 years old	2.1	2.5	15-20 years	11.8	8.5
More than 65 years old	0.5	1.1	More than 20 years	16.2	20.3
Missing Value	59.4	50.9	Missing Value	88.6	15.8
Gender			***Type of Business Sector***		
Male	84.5	82.8	Manufacture	7.4	4.8
Female	15.5	17.2	Trade	17.7	15.8
Practicing Religion			Agriculture	0.7	1.1
Absolutely	57.6	47.5	Finance and Tourism	6.7	3.7
Partly	33.4	39.2	Construction	8.1	7.1
None	6.6	10.2	Education	6.9	3.4
Missing Value	2.4	3.1	Services	25.7	35.6
Level of Education			Missing Value	26.8	28.5
Non-Literated	0.1	0	***Type of Employers***		
Literate only	0.1	0.5	State employee	2.8	4.8
Primary School	11.1	19.5	State officer	7.6	5.4
Secondary School	12	13.6	Private employee	33.4	42
High School	38.9	39	Private officer	10	6.2

Table 1. Continue

Community College	7	7.1	Self-employed	8.8	4.2
Bachelor's degree	26.8	19.7	Specialized professions	6.6	3.4
Master	3.6	0.6	Craft	19.3	16.6
Doctorate	0.3	0	Retired	2.2	4.5
Missing Value	0.1	0	Housewife	2.3	4.2
Monthly Net Income			Student	5.6	4.5
0- 1999TL	4.4	9.9	Missing Value	1.4	4.2
2000TL - 3999TL	23.6	25.9			
4000TL - 5999TL	7.8	6.2			
8000TL - More than	0	0.3			
Missing Value	64.3	57.7			

The supplementary statistics for 109 corporates that are using PBs and for 55 corporates that are using CBs are presented in Table 2 While 37.6% of the respondents active for less than 10 years, 51% of the corporates that use CBs are active for less than 10 years. 40% of the corporates that works with PBs are private companies whereas 70% of the corporates that work with CBs are private companies. It is determined that almost 46% of the respondents who work with both PBs and CBs are in retail business sector. When the endorsements of the respondents in each group which work with PBs and CBs, are examined, approximately 44% of them have less than $300.000 in terms of financial turnover.

Table 2. Socio-Demographic Background of the Respondents (Corporates)

Age of Company	PBs	CBs	***Fin. Turnover of Company*** PBs		CBs
under 5 year	20.2	25.5	0 - 199.000$	33.9	43.6
5 - 9 year	17.4	25.5	200.000$ - 299.000$	5.5	3.6
10 - 14 year	22.0	12.6	300.000$ - 499.000$	3.7	10.9
15 - 19 year	10.1	7.3	500.000$ - 749.000$	2.8	7.3
more than 20 year	30.3	29.1	750.000$ - 999.000$	1.8	
Type of Company			1.000.000$ - 1.499.000$	10.1	3.6
One Partner	39.4	69.1	1.500.000$ - 1.999.000$	3.7	1.8
Family Company	45.0	25.4	2.000.000$ - 2.999.000$	3.7	
Non-Family Partnership	7.3	5.5	3.000.000$ - 4.999.000$	7.3	1.8
Company of Public Ownership	8.3		15.000.000$ - 19.999.000$	1.8	72.6
Number of Employees			More than 100.000.000$	0.9	
1 - 5 person	52.3	85.5	Missing Value	24.8	
6 - 11 person	24.8	7.3	***Title of Company***		
12 - 17 person	11.0	3.6	Limited Company	41.3	30.9
18 - 23 person	3.7	1.8	Stock Company	14.7	1.8
24 - 29 person	0.9	1.8	Unlimited Company	41.3	67.3
more than 30 year	7.3		Collectiv Company	1.8	
Type of Business Sector			Public	0.9	
Manufacture	18.3	16.4	Missing Value		
Wholesale	22.9	10.9			
Retail	38.5	52.7			
Services	20.3	20.0			

When Table 3 is examined, the most important reason why respondents have not chosen PBs is the "lack of financial counseling provided by employees" and it is seen that about 71% of household respondents' and about 48% of corporate respondents agree with them. The second highest selection reason of the household respondents for PBs is "lack of efficient & effective IT" for 65% of them whereas, 47% of the corporate respondents stated the "higher commission and fee on transactions". Other reasons for household respondents not choosing PBs include "same products are available for PBs" approximaly 58% and "higher commission and fee on transactions" (50.4%). They lack short-term investment opportunities (40.3%) and the same products are available for PBs (38.6%) for corporate respondents.

Table 3. The Main Reasons that the Respondent(s) has/have not chosen to deal with PBs

	Strongly Agree		**Agree**		**Disagree**		**Strongly Disagree**		**No view**	
n=727 (Households) n=109 (Corporates)(%)	**H.**	**C.**	**H.**	**C.**	**H.**	**C.**	**H.**	**C.**	**H.**	**C.**
Same products are available for PBs	12.8	14.7	45.1	23.9	15.4	28.4	6.1	10.1	18.3	11.9
Insufficient branch network	10.5	11	33.6	22	26.3	29.4	9.8	17.4	18.8	16.5
Lack of efficient & effective IT	20.6	13.8	44.3	23.9	12.1	27.5	4	10.1	17.7	19.3
Lack of fin. provided by employees	22.8	15.6	47.9	32.1	10.3	17.4	2.6	11.9	13.3	16.5
Lack of short-term invest. opportunities	12.7	11.9	35.8	28.4	12.4	12.8	5.2	7.3	23.2	29.4
Lack of available credits with fav. terms	12.9	12.8	29	18.3	17.2	18.3	8.7	14.7	16.1	22
Lack of fixed-income inv. opportunities	12.2	6.4	25.2	15.6	11.4	21.1	4	9.2	17.1	17.4
Higher commission & fee on transactions	20.4	20.2	30	26.6	16.9	22	7.6	10.1	16	15.6
Lack of credit cards with favourable terms	14.9	13.8	29.6	20.2	20.2	22.9	7.8	16.5	18.3	19.3
H:Households, C:Corporates										

The figures from Table 4 also reveal that more than 64% of the households and approximately 62% of corporate respondents do not have an investment account with a PB in the form of Profit and Losses (PLs) arrangements. When the banking instruments that are used by the household respondents are examined, 77.8% of the PBs' customers use mostly current account and other instruments such as credit card (61.5%) and participation account (34.5%). This situation differs with CBs' customers. While credit card gets the first rank with 89%, current account is in second rank with 82.7% and the consumer credit third with 46.3%. When the same examination is done for corporates, current account gets the first ranks in PBs user corporate with 89% and other instruments are credit card with 73.3%, POS with almost 70%. Although this situation is similar in CB user corporate, the classification is different. The credit cards are in the first rank with 89% and currents account is second with approximately 87% and the third one is POS with almost 80%.

Table 4. PBs versus CBs Length of the Accounts Held and the Services Utilised

	Do not have or not applicable		**Used for Short Period**		**Less than 1 year**		**1-3 year**		**3-5 year**		**More than 5 years**	
n=727 (PBs Households) n=355 (CBs Households)(%)	PBs	CBs	PBs	CBs	PBs	CBs	PBs	CBs	PBs	CBs	PBs	CBs
Current Accounts	21.9	17.2	6.3	5.1	13.3	11.3	22.7	15.5	13.5	15.5	22	35.3
Part. Acc./Time Dep. Acc.	64	72.6	4	3.1	7.6	2.3	10	3.7	4.7	3.7	8.3	5.1
Consumer Credit	78	44.4	3.7	2.8	4.8	5.4	6.7	14.7	4.7	9.3	1.8	14.1
Foreign Currency	73	78.2	2.5	2.5	5.4	2	7.3	2.8	5.6	2.5	5.8	2.5
Individual Pension	77.6	73.2	3.2	0.8	4.5	4.5	7.3	4.5	4.4	3.7	2.2	3.7
Int. For. Tra. Goods/Services	97.3	87.9	0.8	1.1	0.6	0.3	3.2	0.8	1.1	0.3	0.6	0.3
Credit Card	38.5	14.1	2.3	3.7	6.5	7.1	18.2	18.1	15.8	14.7	18.7	42.1
Cheque	87.6	82.5	0.8	1.4	2.6	1.4	2.5	1.4	1.9	0.6	4.3	3.4
Gold	76.1	82.8	1.2	1.4	3.2	0.8	6.9	2.3	7.4	2	5	1.4
Investment Services	81.2	80.2	2.1	1.7	3.3	1.7	7.4	2.5	4	1.1	1.5	3.4
Sukuk/Bonds & Tre. Bills	96.4	88.1	1.5	0	0.7	0.8	0.6	0.6	0.4	0.6	0.1	0.6
	Do not have or not applicable		**Used for Short Period**		**Less than 1 year**		**1-3 year**		**3-5 year**		**More than 5 years**	
n=109 (PBs Corporates) n=55 (CBs Corporates) (%)	PBs	CBs	PBs	CBs	PBs	CBs	PBs	CBs	PBs	CBs	PBs	CBs
Current Accounts	10.1	12.7	6.4	1.8	14.7	5.5	16.5	7.3	16.5	16.4	34.9	56.4
Part. Acc./Time Dep. Acc.	62.4	73.5	4.6	4.1	5.5	4.1	10.1	6.1	3.7	2	10.1	10.2
Commercial Credit	51.4	32.7	5.5	22.4	6.4	4.1	21.1	10.2	8.3	14.3	3.7	16.3
Foreign Currency	60.6	81.3	10.1	4.2	1.8	2.1	13.8	2.1	2.8	2.1	5.5	8.3
Factoring	83.5	98	3.7		0.9				2.8	2	0.9	
Int. For. Tra. Goods/Services	89.9	100	1.8		1.8		0.9		0.9		0.9	
Credit Card	24.8	10.9	0.9	3.6	11	7.3	16.5	12.7	16.5	10.9	28.4	54.5
Cheque	56	52.1	6.4	4.2	5.5	4.2	5.5	8.3	5.5	6.3	18.3	25
Gold	77.1		4.6		1.8		10.1		2.8		1.8	
POS	27.5	20.4	2.8	6.1	13.8	4.1	19.3	24.5	9.2	8.2	24.8	36.7
Derivative Products	78.9	93.2	0.9		0.9		0.9	2.3	3.7		4.6	4.5
Investment Services	75.2	89.8	5.5	2	2.8		7.3		4.6		0.9	8.2
Sukuk/Bonds & Tre. Bills	88.1	95.9	0.9				1.8		3.7		1.8	4.1

Based on Table 5, 81% of the households and corporate respondents of PBs' are aware of interest free prenciples in Turkey. It differs from the households and corporate respondents who deal with CBs. While 81% of the households are aware, only 51% of the corporates are aware of this case. Also, 55% of PBs respondents (both households and corporate) are aware of *Musharakah* while 63% of households and 31% of corporate are aware of *Musaharakah.* For *Mudarabah*, 45% of PBs respondents (again both households and corporate) are aware while 37% of household respondents and 22% of corporate respondents of CBs are aware. Surprisingly, 63% of the household respondents of PBs are not aware and more than half of the corporate respondents are also not aware of *Assurance Fund* availability to the household holding accounts at PBs.

Table 5. Customers' Awareness and Use of Products/Services

	Well aware		**Aware of**		**Adequate Aware**		**Low Aware**		**Not aware of**	
n=727 PBs Households n=355 CBs Households (%)	**PBs**	**CBs**	**PBs**	**CBs**	**PBs**	**CBs**	**PBs**	**CBs**	**PBs**	**CBs**
Interest free principles	10.7	8.5	21.2	11.9	32.9	39	16.1	11.3	19.1	65
Mudarabah	7	2.5	11.6	7.3	12.1	14	14.4	13.3	54.9	72.9
Musharakah	8.3	5.6	14	7.1	18	39	15	11.3	44.7	65
Assurance Fund			36.9	24					63.1	76
n=109 PBs Corporates n=55 CBs Corporates (%)	**PBs**	**CBs**	**PBs**	**CBs**	**PBs**	**CBs**	**PBs**	**CBs**	**PBs**	**CBs**
Interest free principles	9.2	3.6	19.3	9.1	35.8	21.8	16.5	16.4	18.3	38.2
Mudarabah	8.3	3.6	6.4	5.5	14.7	12.7	15.6		55	65.5
Musharakah	12.8	9.1	12.8	1.8	15.6	14.5	13.8	5.5	45	54.5
Assurance Fund			48.6	34.5					51.4	54.5

Table 6. Socio-Demographic Factors: PBs versus CBs

Household Respondents PBs & CBs			
	X^2	Sign.	
Gender	0.502	0.478	
Age Group	8.932	0.177	
Practising Religion	10.752	0.005	***
Level of Education	28.634	0.000	***
Type of Employers	41.209	0.000	***
Type of Business	20.956	0.002	***
Years of Business	15.657	0.008	***
Monthly Income	16.474	0.002	***

Corporates Respondents PBs & CBs		
	X^2	Sign.
Age of Company	20.681	0.191
Type of Company	3.852	0.697
Type of Company	56.304	0.956
Type of Business Sector	12.413	0.190
Financial Turnover of Company	59.002	0.133
Title of Company	1.769	0.778

Notes: (***), (**) and (*) denote the significance level of 1 per cent, 5 per cent and 10 per cent, respectively

When the demographic differences of the PBs and CBs in Table 6 above, are examined, there is a significant difference between households respondents who work with PBs and CBs with regard to "Practicing Religion", "Level of Education", "Type of Employers", Type of Business", "Years of Business" and "Monthly Income". However for the corporate respondents of PBs and CBs it appears that there is no statistical difference between PBs and CBs' customers' demographic factors. In terms of demographic factors except for gender and age group we could not observe any difference between the customers' profile of PBs and CBs. However, we could not observe the same outcome regarding the profile of corporates dealing with PBs and CBs.

In Table 7, it was examined whether there is a significant difference between Islamic banking producs/services and those of conventional banking or not in terms of length of the accounts held and services utilized. Based on the emprical results in Table 7 no statistically significant difference was observed between PBs and CBs' customers. For the banking services of "Participation Account/Time Deposit Account" and "International Foreign Trade Goods/Services", we could propose that the users of "Participation Account/Time Deposit Account" and "International

Foreign Trade Goods/Services" do not differentiate these products regardless of type of the banks they deal with.

Table 7. Length of the Accounts Held and the Services Utilised: PBs vs CBs

	X^2	Sign.	
Current Accounts	19.693	0.763	
Participation Acc./Time Deposit Acc.	57.561	0.010	***
Consumer Credit	37.957	0.336	
Foreign Currency	22.299	0.843	
Individual Pension	37.957	0.336	
Int. Foreign Trade Goods/Services	107.404	0.000	***
Credit Card	22.16	0.848	
Cheque	25.679	0.691	
Gold	19.008	0.940	
Investment Services	40.965	0.225	
Sukuk/Bonds & Treasury Bills	11.866	0.294	

Notes: (***), (**) and (*) denote the significance level of 1 per cent, 5 per cent and 10 per cent, respectively

Table 8. Customers' Awareness and Use of Products/Services: PBs versus CBs

	X^2	Sign.	
Participation banking principles	31.316	0.051	*
Mudarabah	29.031	0.087	*
Musharakah	34.041	0.026	**
Assurance Fund	16.396	0.037	**

Notes: (***), (**) and (*) denote the significance level of 1 per cent, 5 per cent and 10 per cent, respectively

The awareness towards Islamic banking principles are also illustrated in Table 8 above. In addition to participation banking principles of "Mudarabah" and "Musharakah", the avability of the "Assurance Fund" was also questioned to the respondents. Based on the results seen in Table 8, it is statistically determined that there is a significant difference between the awareness of the PBs' and CBs' customers. As a result, we can asume that the awareness towards Islamic banking principles among the customers of PBs is higher than those of CBs.

6. Conclusions

Participating banking industry has gained an average of 6 % market share in total loans market with an average growth rate of over 35 % in the last decade. Prior to 2005 when the PBs were subjected to the Turkish Banking Law, they have not seen any development in terms of asset size in the Turkish banking system. However, with the enterance of state-owned CBs into the participation banking market, the PBs feel more pressure that they need to increase their share in the dual Turkish banking system in order to maintain their existence.

Based on the descriptive statistics, we can conclude that we do not observe any significant difference between the household customers of PBs and CBs in terms of demographic factors. However, we are lacking of confirming the same outcome for the corporate respondents in accordance with the statistical test results. Moreover, PBs and CBs' customers seem not to be significantly different in terms of preference of products/services. While most of the PBs' customers mostly use either current

accounts or credit cards, most of the CBs' customers mostly use consumer credits offered by the CBs as well as current accounts and credit cards. Thus, this result is consistent with the fact of low savings rate among households in the Turkish economy. The empirical findings confirm that there are no significant differences between corporate customers of PBs and CBs in terms of use of "participation account/time deposit account" and "international foreign trade goods and services". In other words, businessmen in Turkey act rational regardless of whether it is a CB or a PB as long as banking products and services offered by the given banks meet their business needs. Based on the empirical results, it is also clear that there is a high level of awareness in public towards Islamic principles that are supposedly adopted by the PBs in their banking operations. However, having said that, the level of awareness among the corporate customers of CBs in comparison with those of households is low. This basically indicates a niche market to be discovered for PBs in Turkey. The empirical results also indicate that the most important reasons why respondents have not chosen to deal with PBs include: lack of financial counseling provided by employees; lack of efficient & effective IT; higher commission and fee on transactions; same products are available for PBs; and they lack short-term investment opportunities. They instead choose to deal with CBs.

To this end, there are some intitiatives that need to be taken by the PBs in Turkey: PBs in Turkey is in a need to gear up to target a wider customer base in direct competition with conventional peers and is evolving toward technology-based, service-driven value propositions. In this matter, the PBs in Turkey should be concentrating on providing a wider variety of consumer credits to their existing customers with a low cost, that would also attract the new comers of customers to the participation banking market. PBs should realise that todays customers are no longer only Sharia-sensitive customers, but also the value seekers. In a dual Turkish banking system, PBs should be positioning themselves as social responsible in the sense of creating difference in a banking sector genetically dominated by rational values. This revelunationary approach would be appreciated by potential customers of PBs, leading to an inrease in the numbers of customers.

In addition to that, the PBs devote their resources to the ongoing shift from a cash to digital payment economy for the greater share of wallet. Especially by the contribution of state-owned PBs, existing opportunities for expanding the range of products and capturing a greater share of transactions, as well as improving the customer experience to drive adoption, usage and retention, will be realised in the Turkish participation banking sector.

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8. Appendix

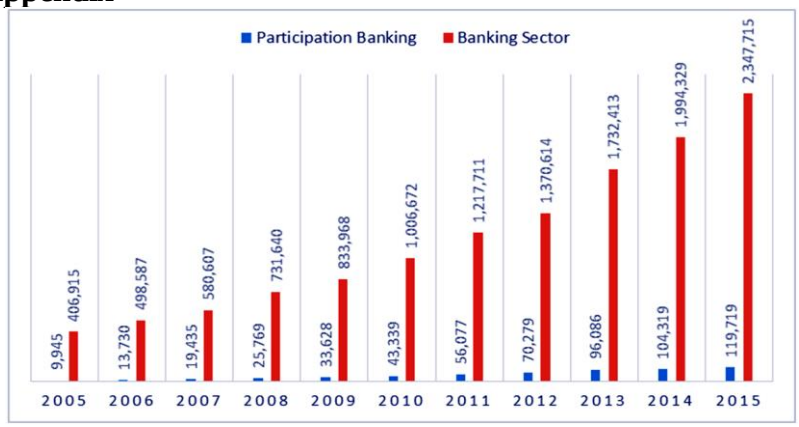


Figure 1. Total Assets (Mio TRY)
(Participation Banks Association of Turkey, 2016)

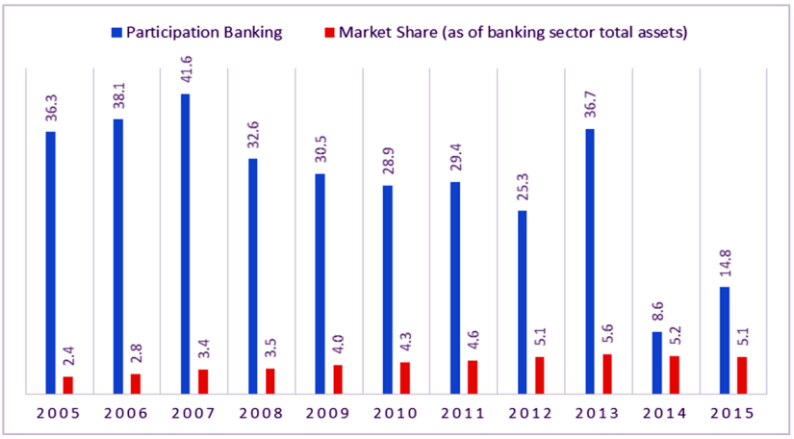


Figure 2. % Growth in Market Share (Total assets)
(Participation Banks Association of Turkey, 2016)

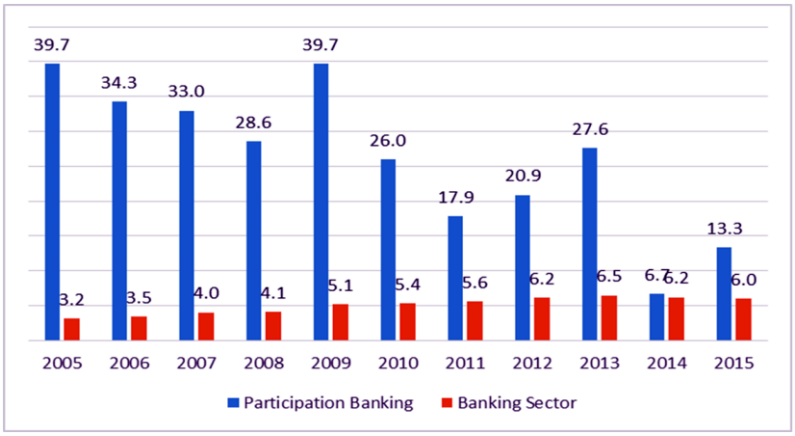


Figure 3. % Growth in total Funds' Collected (PBs vs CBs)
(Participation Banks Association of Turkey, 2016)

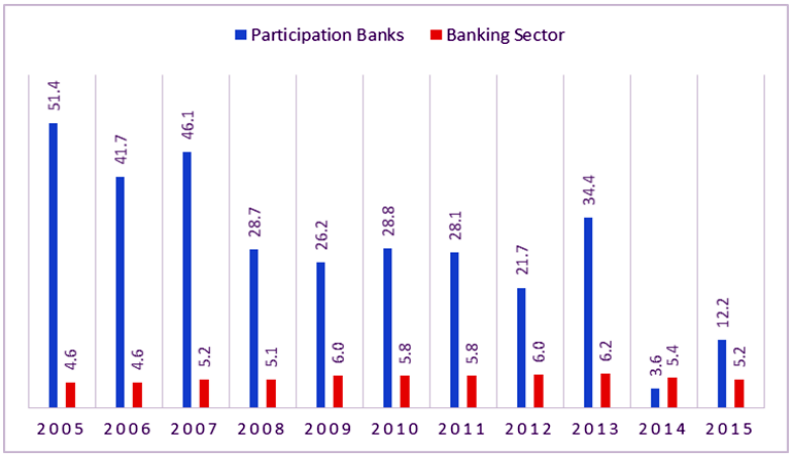


Figure 4. % Growth in total Funds' Used (PBs vs CBs)
(Participation Banks Association of Turkey, 2016)

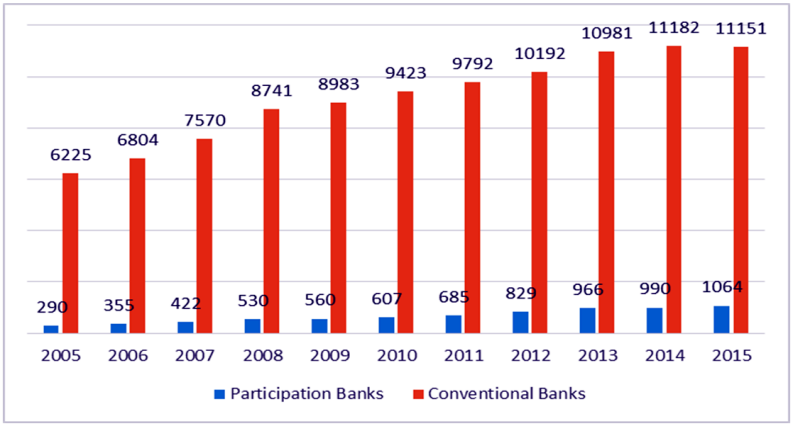


Figure 5. Number of Branches (PBs vs CBs)
(Participation Banks Association of Turkey, 2016)

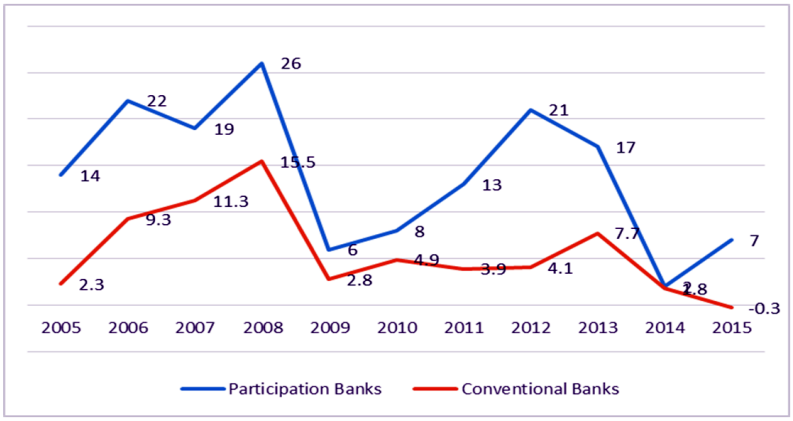


Figure 6. %Growth of Branches (PBs vs CBs)
(Participation Banks Association of Turkey, 2016)

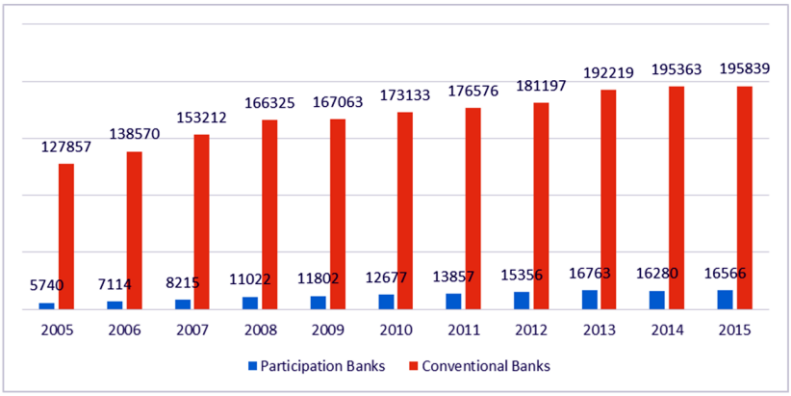


Figure 7. Number of Personnel (PBs vs CBs)
(Participation Banks Association of Turkey, 2016)

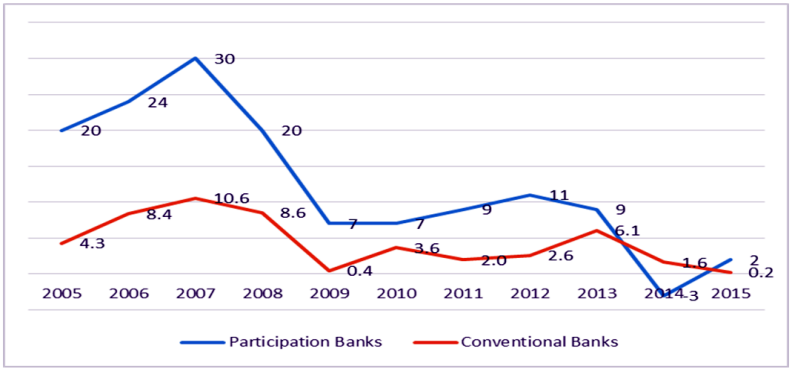


Figure 8. %Growth of Personnel (PBs vs CBs)
(Participation Banks Association of Turkey, 2016)