

Exploring the strengths and weaknesses of Islamic banking in Türkiye: a multi-generational perspective

Ali Can Yenice

*Department of Islamic Economics and Finance, Sakarya University,
Sakarya, Turkey, and*

Zeyneb Hafsa Orhan

*Department of Islamic Economics and Finance, Istanbul Sabahattin Zaim University,
Istanbul, Turkey*

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Abstract

Purpose – This study aims to perform a SWOT analysis of Islamic banking (IB) in Türkiye, incorporating perspectives from Islamic bankers across different generations. The research seeks to identify the current strengths, weaknesses, opportunities and threats shaping the future of IB in Türkiye, which boasts a history spanning nearly 40 years.

Design/methodology/approach – This study uses a qualitative research method with a case study design. Participants' views were gathered through semi-structured questions to conduct a multi-generational SWOT analysis of IB in Türkiye. A purposive sampling technique was used to identify research participants. Online interviews, lasting between 60 and 120 min, were conducted with bank employees across nearly all levels, including Chief Executive Officers, General Managers/Chief Operating Officers, Chief Financial Officers, department managers, branch managers and employees, directors and analysts.

Findings – In the study, 19 themes and 26 subthemes were identified based on the participants' SWOT analyses. The key strengths of IB in Türkiye include a large Muslim population, strong religious sensitivity, ongoing transformation with governmental support and extensive branch–small- and medium-sized enterprises experience. However, its weaknesses involve regulatory challenges, governance issues, problems related to public Islamic banks, employee transfers, a lack of product diversity and inclusiveness, as well as low levels of Islamic financial literacy. On the other hand, opportunities arise from the rapid growth of the capital market, the emergence of digital banking, Türkiye's strategic geographic location and its strong growth trajectory. Meanwhile, threats include employee migration from conventional banks, an increasing focus on performance metrics, nomenclature challenges and the accelerating pace of digitalization.

Originality/value – To the best of the authors' knowledge, this study is the first in the literature to conduct a SWOT analysis encompassing all generations of Islamic bankers in Türkiye. The participants, ranging from senior executives to entry-level employees, have raised numerous issues being discussed for the first time in the literature, offering groundbreaking insights into ongoing debates.

Keywords Islamic finance, Islamic banking, Participation banking, Türkiye, SWOT analysis

Paper type Research paper



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1. Introduction

Although the history of Islamic banks in the world dates back to the establishment of the Mit Ghamr in 1963, modern Islamic banking (IB) in Türkiye began in 1984. The terminology of these institutions alone is significant, reflecting the political backdrop. What was initially called *special finance houses* (SFHs) are now known as participation banks (PB), highlighting the challenging processes Islamic finance (IF) has undergone in Türkiye. In a sense, it can be described as a political transition from *stepchild to son* (Atar, 2017; Aysan et al., 2017; Orhan, 2018; Özdemir and Aslan, 2017; Varol, 2018; Yanıkkaya and Pabuçcu, 2017).

There are nine PBs in the banking sector, including two digital banks, with total assets exceeding 2.1 trillion TRY (approximately US\$60.6bn). While their share of assets in the sector is 8.37%, their share in fund collection is 9.82% and their share in fund disbursement is 7.45% (BDDK, 2024; TKBB, 2024).

The paper aims to provide a SWOT analysis of the current situation of participation banking in Türkiye through in-depth interviews with 20 practitioners from the sector. Details of the method are explained below.

There are many related studies on participation banking in Türkiye, the general trends of which are presented below. However, our study has a unique place in the literature as the SWOT analysis is based on a multi-generational research group and interviews with practitioners who have worked at different levels.

The structure of the paper is as follows: Section 2 presents the literature review, followed by Section 3, which outlines the methodology and data. Section 4 deals with the quantitative analysis, and finally, Section 5 provides the conclusion along with policy implications.

2. Literature review

2.1 Islamic banking (participation banking) in Türkiye

Although participation banking has a small share in the sector as it was mentioned above, it has attracted political, practical and academic attention due to its rapid growth rates, the government's recent support and goals of making Istanbul an IF center. However, academic studies on IB in Türkiye are quite limited compared to other outstanding countries, such as Malaysia. The existing studies can be classified as follows:

- *Performance Analysis*: These studies generally focus on Islamic banks' growth and asset expansion. They compare Islamic banks with their conventional counterparts and examine asset-based trading and profit and loss sharing (PLS) (Aksak and Asutay, 2011; Çıkıryel et al., 2024; Di et al., 2021; Ergeç and Arslan, 2013; Erol et al., 2014; Eti et al., 2020; Faizulayev et al., 2020; Hakan Ergec and Gülümser Kaytancı, 2014; Ledhem and Mekidiche, 2022; Polat and Yeşilyaprak, 2014; Saraç and Zeren, 2015; Yanıkkaya and Pabuçcu, 2017; Yıldırım, 2016).
- *Customer Services and Inclusiveness*: These studies focus on Islamic banks' services, customer preferences, and lending to small and medium-sized enterprises (SMEs) (Aysan et al., 2013, 2016, 2018; Baran, 2022; Bulut and Celik, 2022; Dinç, 2019; Doruk, 2023; Ergec et al., 2016; Kökalan et al., 2021; Ongena and Şendeniz-Yüncü, 2011; Pala et al., 2024; Pilatin and Dilek, 2022).
- *Governance, Regulation and Policy*: These studies address governance, laws, other regulations and policy tensions related to the theoretical framework (Asutay, 2013; Avsar and Ozdemir, 2022; Aysan et al., 2017; Çıkıryel, 2023; Mansour et al., 2022).
- *Historical and Business Model Perspectives*: These studies cover the practices, business models and services of PB in Türkiye, which operate similarly to Islamic banks around the world (Atar, 2017; Orhan, 2018; Özdemir and Aslan, 2017; Varol, 2018).

2.2 SWOT of Türkiye's Islamic banking

As a strategic management tool, SWOT analysis is widely used in companies, organizations, applications and various other fields. Although it is not extensively used in IB and IF, it remains an important reference for identifying the current situation and setting a strategic road map. However, it is possible to find studies that provide evidence of the importance of SWOT analysis in analyzing the IB sector. Research on the integration of the banking and financial sector (Swastiratu *et al.*, 2019), Dubai's IF project (Massah, 2015), open banking, IB in Indonesia (Aransyah, 2021; Baidhowi, 2018) and SWOT analysis on participation banking in Türkiye highlights the limited scope of the literature (Hassan and Zulfahmi, 2021; Zulfahmi *et al.*, 2021). Moreover, the study of Hassan and Zulfahmi (2021) is limited to participation banking in Türkiye during the pandemic, including a research group of nine people, with insufficient and uncertain information regarding their characteristics, positions, interview times, years of experience and generational backgrounds (Hassan and Zulfahmi, 2021; Zulfahmi *et al.*, 2021).

Nonetheless, our study holds a unique place in the literature by demonstrating the importance and starting point of the subject. Therefore, this SWOT analysis, based on a multi-generational research group and interviews with practitioners who have worked at different levels, will contribute to the strategy development of IB in Türkiye.

3. Research methodology and data

This study uses a qualitative research method with a case study design. The participants' views were collected through semi-structured questions to conduct a multi-generational SWOT analysis of IB in Türkiye.

3.1 SWOT analysis

The term "SWOT" is a concept of unknown origin; however, it is known that SWOT analysis was defined by Learned *et al.* (1969). Learned and his team discovered that the barrier to improving decision-making was the excessive amount of information and developed a SWOT analysis to address complex strategic situations. When the origin of SWOT was investigated, it was found that it was attributed to Stanford University Professor Albert Humphrey, who led a research project on "Fortune 500 companies" in the USA in the 1960s and 1970s, but no academic reference was found to support this claim (Helms and Nixon, 2010). In general terms, SWOT analysis is a two-dimensional analysis that examines both positive and negative internal and external issues affecting a business. SWOT analysis can be conducted at various levels, including individual, corporate, health care, government, nonprofit, multi-company, sector and national/international levels (Helms and Nixon, 2010; Phadernrod *et al.*, 2019). Numerous studies in the literature have conducted sectoral SWOT analyses, including those on the US bioenergy industry (Dwivedi and Alavalapati, 2009), the retail information technology sector (Bielski, 2006), the health-care sector (Stuart-Kregor, 2005), the American Psychological Association's psychological counseling sector (Leong and Leach, 2007) and China's port chemical industry (Xiao, 2013). In this study, a qualitative research method was preferred, with participants from different generations conducting a SWOT analysis of the IB sector in Türkiye. In this research, participants from different generations evaluate IB in Türkiye by reflecting on both the past and present, aligning with the SWOT analysis method. This technique can be applied to organizations, practices or sectors.

3.2 Data and participant

This study used a purposive sampling technique to identify research participants. Individuals from different generations were identified using this technique and one-on-one online

interviews were conducted with them over approximately one year (between June 2023 and January 4, 2024). Online interviews lasting between 60 and 120 min were conducted with bank employees at almost all levels, including Chief Executive Officers (CEOs), General Managers/Chief Operating Officers (COOs), Chief Financial Officers (CFOs), managers from different departments, branch managers and employees, directors and analysts. These interviews were transcribed and recorded, resulting in 271 pages of text and 30 pages of observation notes, which were analyzed using the qualitative analysis software Atlas-ti 8 (Table 1).

The participants in the study were divided into four different generations, considering the year of establishment of IB in Türkiye, 1985:

- founders: those who were part of the first founding team in 1985;
- first generation: employees who worked between 1985 and 1995;
- second generation: those who worked between 1996 and 2006;
- third generation: those who worked between 2006 and 2016; and
- fourth generation: those who started working in 2017 and later.

Thus, four generations of IB employees, including the founding generation, constitute the group for our research. In addition, the categorization of generations presented above is one of the findings of this study, and to the best of our knowledge, it is mentioned in the literature for the first time.

4. Findings

The study identified 19 themes and 26 sub-themes related to them based on the participants' SWOT analyses (see Figure 1).

Table 1. Participants

Code	Specialization	Title	Position	Years of service	Generation
P1	Supervisor	Expert	Branch manager	Since 2011, 13 years	Third
P2	Finance	PhD	CEO	Since 1991, 33 years	First
P3	Finance	Expert	COO	Since 2009, 15 years	Third
P4	Marketing, finance	Expert	COO	Since 1997, 27 years	Second
P5	Engineering, finance	PhD	COO	Since 1988, 36 years	First
P6	Engineering, finance, IT	PhD	COO	Since 1985, 39 years	First, founder
P7	Finance	PhD	Manager	Since 1998, 26 years	Second
P8	Finance	Expert	CFO	Since 2011, 13 years	Third
P9	Engineering, finance	PhD	CFO	Since 2004, 20 years	Third
P10	Finance	Expert	Manager	Since 2011, 13 years	Third
P11	Supervisor	Expert	CEO	Since 1985, 39 years	First, founder
P12	Finance	PhD	Director	Since 2017, 17 years	Third
P13	Finance	Expert	CEO	Since 1985, 39 years	First, founder
P14	Finance	Expert	Associate	Since 2004, 20 years	Second
P15	Finance, HR	Expert	Director	Since 2005, 19 years	Second
P16	Finance	PhD(c)	CEO	Since 2003, 21 years	Third
P17	Finance	Expert	CEO	Since 1997, 27 years	Second
P18	Law	Expert	Director	Since 1994, 30 years	Second
P19	Islamic finance	Expert	Branch analyst	Since 2017, 7 years	Fourth
P20	Finance	Expert	Branch analyst	Since 2015, 9 years	Third

Source(s): Authors' own creation

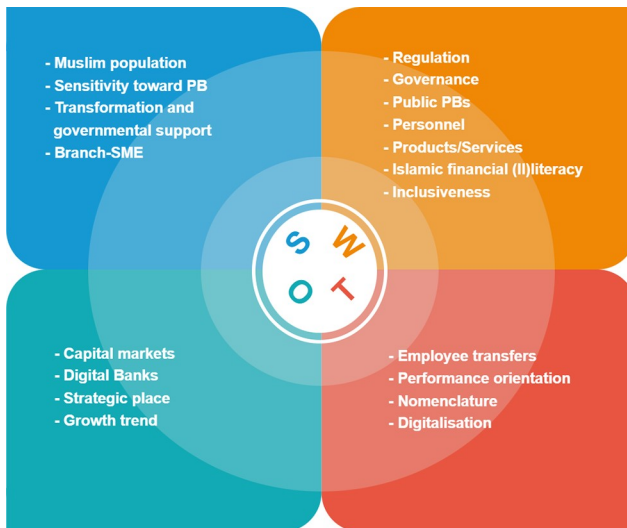


Figure 1. SWOT analysis: identified themes
Source: Authors' own creation

4.1 Strengths

Five themes emerged from in-depth interviews as the most vital points of Turkish PBs: Muslim population, sensitivity toward participation banking, transformation and governmental support since the 2000s and branch-SME experiences.

4.1.1 Muslim population. The large Muslim population – 88% of the 83 million people (KONDA, 2022) – can indicate two things: a high customer potential and a significant number of people who are not prioritizing prices but the type of banking they work with. Regarding the first meaning, P17 thinks that participation banking has an essential basis where the Muslim population is around %90. P2 shares a similar opinion. Regarding the second meaning of having a high Muslim population in Türkiye, P13 summarizes that there is a mass of believers in the system of participation finance. P14 and P18 agree with that idea.

Logically, a high Muslim population means high potential for IF since IF is designed for Muslims before anyone else. In fact, while exploring the potential of IF growth in Sub-Saharan Africa, Gelbard *et al.* (2014) list the expansion of its Muslim population as one of the main reasons for the potential future growth.

4.1.2 Sensitivity. The second theme directly connects to the second aspect of the Muslim population mentioned above, i.e. sensitivity toward participation banking. In this context, P18 states:

“Our people have a sensitivity to strengthen these structures (meaning participation finance structures) or work with these structures”.

P1 and P9 share a similar opinion depending on their customer experiences. P9 also explains some of the main reasons for such sensitivity and loyalty toward PBs in Türkiye: First, people trust these institutions as banks. Second, they trust that these institutions are doing IB. The second point is important to consider while some studies show people's hesitance toward the Islamic character of these institutions in Türkiye. In a wide-spectrum study including 15,000 people from nearly 50 cities of Türkiye, CBFO (Finance Office of the

Presidency of the Republic of Türkiye) (2021) found that 25% of the respondents think there is no difference between interest and profit shares announced by the PBs. In addition, 21% think PBs do not follow Islamic principles.

The relationship between Islamic sensitivity or religiosity and Islamic bank selection concludes mixed results in the literature. In contrast to the findings of [Jamaludin \(2013\)](#) and [Ahmad et al. \(2008\)](#), who found a strong relationship between sensitivity and the selection of Islamic banks in Malaysia, [Mbowe \(2019\)](#) found a weak relationship between sensitivity and Islamic bank selection based-on a survey including 123 customers from Gambia.

4.1.3 Transformation and governmental support since the 2000s. The third theme, transformation after the 2000s, is mostly interpreted positively by the interviewees. P4 attributes the main positive transformation to the integration into systematic regulatory infrastructure, introduced by Basel after 2000, alongside advancements in supervision and risk management.

Another positive aspect of the 2000s for developing Turkish participation banking is the official acceptance of SFHs as banks in 2005. P18 underlines the importance of this change, stating that PB were no longer unidentified, unknown institutions but legal banks, as the other two types of banking – deposit banks, development and investment banks in Türkiye. Such a development helped participation banking to accelerate branching out, as mentioned by P1.

However, P3 and P1 compare the period after 2010 with current conditions and point out a less favorable aspect of today: the “golden acceleration period” is over now, and the sector has reached its peak with the existing capital. Regarding capital, P3 and P4 argue that the participation banking sector seems to have grown to the point where it could grow with existing capital. P16 and P17 underline the lack of capital, whereas P11 notes that the banks should be strengthened by new capital. Thus, the respondents seem to draw a positive relationship between capital and bank growth.

The subject of transformation, especially after the 2000s, is closely connected to governmental support since the AK Party (AKP), which came to power in 2002 and has stayed in the power until today, has a more positive approach toward the PB sector. P11 emphasizes that the governmental support after the 2000s has played a crucial role in helping these institutions address their challenges and supporting them through legislation, preventing them from being treated as stepchildren.

P17 also acknowledges the increase in governmental support after the 2000s compared to the previous periods, drawing on his/her 27 years of experience in the field. Similarly, P2 also compares the current situation with past experience. With 33 years of experience, P2 notes that, for example, in earlier years, even the letters of guarantee from PBs were not accepted by some conventional banks.

However, not everyone seems so positive about the situation that Turkish PB has reached today. P9, for instance, argues that despite the positiveness of the government toward PBs, the support in establishing public PBs might not be the best thing to do due to their possible crowding-out effect. P13 uttered a similar criticism. The issue of public participation banking will be further discussed in the next section as a weakness. However, the importance of governmental support for the sector’s growth cannot be denied. Malaysia is often considered the best example in this regard. [Haron and Ahmad \(2000\)](#) illustrate how Bank Negara Malaysia played a crucial role in fostering the growth of the IB system in the country, particularly by issuing specific standards for IB. Furthermore, it can be argued that such a top-down approach should be supported by a down-top approach, as seen in the Indonesian example, compared to the Malaysian one ([Abdullah, 2017](#)).

4.1.4 Branch–small- and medium-sized enterprises experiences. Positive experiences of SMEs and branches are listed as one of the strong points of Turkish PBs. P4 mentions such a positive structure of relations with SMEs based on his/her 27 years of experience in the field. P17, with also 27 years of experience, states that they have established strong relationships with SMEs, recounting how they witnessed their costumers, once seen as small tradesmen in late 1990s, grow into Anatolian tigers employing hundreds of workers and exporting millions of euros together.

The relationship between IB and SMEs is a topic investigated in the literature. [Aysan et al. \(2016\)](#) showed that Islamic banks in Türkiye are more inclined to finance SMEs than their conventional counterparts, whose reasons can be studied further.

Strong branch relations are also a strength for Turkish PBs. P1 underlines the possibility of having warm relations in the branch atmosphere, especially in Anatolian cities besides Istanbul. The customers' branch experience is related to a broader literature called service quality. There are already a bunch of studies regarding service quality in Islamic banks ([Ahmad et al., 2010](#); [Al-Tamimi and Al-Amiri, 2003](#); [Amin and Isa, 2008](#)).

4.2 Weaknesses

Besides the strengths mentioned above, Turkish PBs have some serious weaknesses that can be learned from insiders, meaning sector workers. As a result of the in-depth interviews with sector workers, the followings were identified as the main weaknesses: regulation, governance (including *shariah* governance, i.e. standards, Islamic audit), public PBs, personnel-related issues such as low level of worker knowledge, decrease in sensitivity and being women in the sector; product-related issues, IF illiteracy in society and lack of inclusiveness.

4.2.1 Regulation. The issue of regulation gained further importance, especially after the 2008 crisis. [Sengul \(2020\)](#) regulation is essential for Islamic and conventional banks as they face risks such as credit, market and liquidity risk. [Mejia et al. \(2014\)](#) concluded that Islamic banks need a legal, corporate and regulatory framework as much as conventional banks, considering their risks ([Mejia et al., 2014](#)). Regarding the issue of what to concentrate on while preparing a regulatory scheme, [Al-Jarhi \(2017\)](#) primarily focuses on the problems of liquidity risk and maturity mismatch.

As far as regulation is concerned, the issue that came up most often was the new attempt to draft a specific law on the subject. P6, P7, P12, P13, P16 and P18 underlined the lack of consultations during preparation. In addition, P6 mainly focused on and criticized the name change of PBs suggested in the law draft. P14 specified that:

“So, unfortunately, banking legislation does not allow you to do whatever you want.”

Thus, it can be argued that although having a law can be accepted as beneficial, there can also be side effects, such as those mentioned by P14. However, this does not mean that a law is unnecessary, but it does show the need to prepare a law that is balanced, i.e. neither too strict nor too loose. P15 discussed the lack of harmony despite Participation Banks Association of Türkiye (TKBB), the umbrella organization for PBs. K8 suggests that Capital Market Board of Türkiye (SPK) should have a separate unit regarding participation banking. Many respondents mentioned the collapse of *Ihlas Finans* as a case regarding what can happen if such institutions do not have a good regulatory scheme.

4.2.2 Governance. Regulation and governance go hand in hand. Despite the classical top-down approach of the concept of “government”, the term “governance” underlines a more balanced, inclusive horizontal relationship among stakeholders.

4.2.2.1 Shariah governance. In terms of *shariah* governance, one of the key issues raised by respondents is having different *fatwas* for even similar subjects by different PBs. P10

mentions that these differences create confusion among customers. P8 notes that even the same *fatwa* provider can issue different *fatwas* for the exact same product, depending on the strictness of the bank's administration. P7 also highlights the influence of administration on the *fatwa* process. P16 confirms that different *fatwas* are given for the same issue by different banks. P15 adds that some employees are considering bringing foreign board members from outside of Türkiye, especially when they cannot easily get a *Shariah* decision as expected. These criticisms relate to a concept called *fatwa shopping* in the literature. [Salisu et al. \(2020\)](#) define *fatwa shopping* as follows:

Fatwa shopping attitude is a process of searching *Shariah* opinions from different *Shariah* scholars for suitable and convenient *Fatwa* to suit the need of bank managers (BMs) even at the minimum level of *Sharia* compliance.

The problem here regarding the governance issue is the discrepancy between the objectives of *Shariah* board members and bank managers, which causes a specific principal-agent problem for IF. In addition, the lack of strength of the *fatwa* board is also mentioned by P2, who argues that:

"They just come, give *fatwa*, and go".

P2 adds that many *fatwas* depend on the necessity [*d(h)aruriyya*] argument, which is criticized in the literature. [Abozaid \(2016\)](#) criticizes the loose application of the concept of *darurah* to legitimize non-*Sharia*-compliant products, challenging the claim that such products are "indispensable for the survival of Islamic banks". He argues that if *darurah* were to hypothetically exist, it would instead pave the way for legitimizing direct relationships with conventional banks.

Another *shariah* governance issue is the position of the central *shariah* board established under TKBB. P8 explains that it was the wisest decision to set it up under TKBB, but P4 says that unfortunately it is not yet inclusive.

Shariah standards are another important issue related to *shariah* governance. P4 informs that developing national standards came as a good solution. However, as P5 says, Türkiye was late in establishing its standards. As known, the Islamic financial industry has two important institutions for standard setting: Accounting and Auditing Institution for Islamic Finance Institutions (AAOIFI) and Islamic Financial Services Board (IFSB). AAOIFI was established in 1991 in Bahrain, whereas IFSB was established in 2005 in Malaysia. Türkiye might have been a third standard-setting hub after those East Asian and Gulf-based ones if it started its standard-setting activities earlier.

Islamic audits are another weakness related to *shariah* governance. First, P4 informs that the *fiqh* audit will continue by existing regulatory and supervisory agencies. However, P8 and P2 underline the necessity of a separate Islamic audit. P2 explains that there is no Islamic audit report and that it is difficult to check whether an Islamic financial institution functions as Islamic.

4.2.3 Public participant banks. Three new PBs have been established in Türkiye in the past decade: Ziraat Participation Bank, Vakıf Participation Bank and Türkiye Emlak Participation Bank. These banks were set up as PBs alongside their conventional counterparts. For instance, while Ziraat Bank operates as a conventional bank, it also has a separate entity, Ziraat Participation Bank, with a completely different corporate structure and assets. P17 shares his/her opinion that he/she does not find establishing public PBs useful. P9 shares a similar idea due to the crowding-out effect. P15 asks one of the most critical questions about public PBs:

Q1. Do they increase the pie or just decrease the share of the existing PB?

Such a question requires a detailed empirical investigation. Even though some studies in the literature compare the efficiency of the public versus private PB in Türkiye (Karcioğlu *et al.*, 2018), the total impact of the public PB since their establishment necessitates a further analysis.

P15 argues that maybe the pie increased slightly, but not as much as it used to or expected to be. In addition, P15 mentions another negative aspect of public PBs: they increase the circulation of the existing participation banking personnel instead of increasing the number. Therefore, P12 asks whether there are enough new personnel or human resources to establish these institutions. P13 and P16 suggest that these public banks can be meaningful if they function in a specific area, such as agriculture or microcredit. Finally, P2 questions the future of public PBs if the government changes later. The concern of P2 is not void entirely since the political impact on the Turkish economy is an essential issue in general (Orhan, 2020).

4.2.4 Personnel. Personnel-related issues (qualification, sensitivity and the position of women) are mentioned as another weak point of Turkish PBs. The adequacy of the personnel in the sector was already mentioned above in the context of establishing public PBs. Another important aspect of the personnel is its qualification. P3 underlines the lack of trained personnel in the field. P16 also mentions the lack of qualified workers. What “trained” and “qualified” mean is the lack of specific knowledge regarding the job. P8 tells an interesting anecdote in that regard:

A friend (worker) came from conventional banking. I explained the product and said that if you add this to the structure, the *shariah* scholars will not approve it. He said, “Then let’s get permission to tell about this part of the contract, not the other part.” Then, I tore up the document and threw it away.

Decreased sensitivity is another aspect of personnel-related issues. P10 affirms that he/she observed such a change during his/her 13 years of experience. P14 especially underlines the lesser amount of loyalty by new generations. New generations seem more “professional” by focusing initially and mainly on salary. In addition, P12 clarifies that the level of engagement with a value-oriented approach has decreased. In connection with that, P15 focuses on the heterogeneous character of the current workers compared to earlier years. However, the more heterogeneous character of the workers is not seen as a negative development by everyone. P9 sees such a change as mainly positive.

P15 and P8 share some solid examples regarding the general decrease in the sector’s sensitivity. The first example concerns a newly established digital PB as some of its experiences do not comply with IF principles during the establishment process. Another example is the use of funds by some existing PBs. Regarding this second example, P2 argues that the sensitivity does not continue similarly regarding instruments and applications. P2 explains such a phenomenon by “secularization”.

Balkanlı (2019) surveyed 300 participation banking workers to check their sensitivity to IF principles. In general, it was found that the workers selected their work willingly and knowingly. Still, they have issues practicing IF principles, especially using credit cards. In addition, some workers seem skeptical about the peculiarities of PB compared to conventional counterparts. Further studies can be conducted in the subject.

As a parenthesis, the decrease in sensitivity does not apply only to workers but also to customers since some customers consider return rates before anything else, as mentioned by P9. P11 generalizes that sensitivity toward interest rates has decreased among customers. P7 agrees P11 in that regard. Low level of sensitivity toward interest rates by participation banking customers causes “rate of return risk” and “displaced commercial risk” as defined in the literature.

Being a woman in the sector is also a personnel-related issue. P20 says it is much easier for women to advance in the sector today compared to two to three years earlier. However, being a woman with a scarf is still difficult as a customer might behave more negatively just because of that. P8 thinks the marketing department is still problematic for women due to mobbing, especially by customers. P15 says that conventional banks' human resource management teams mainly comprise women, whereas the situation was different in PBs for a long time. The banking sector, especially human resources teams, was unfamiliar with women workers with *hijab*.

4.2.5 Product. Product-related issues (lack of available product, low return and specific concerns with certain products like *murabaha*) are also mentioned as weaknesses. A notable problem is the limited range of products, as confirmed by P7, P9 and P13. P9 adds that banks should not use Arabic terms for their products. P17 argues that the banks could grow three times more if they could develop more advanced products than the current ones. P10 reminds us of the necessity of developing innovative products. P5 focuses on the lack of products, especially on the liability side of the banks.

Return is another aspect of product-related issues for Turkish PBs. P3, P6, P13, P16, P5 and P2 all talk about the impact of inflation, which makes returns stay lower than inflation.

Murabahah (cost-plus sale) is one of the most used products on the asset side of Islamic banks worldwide, including Türkiye. However, it is criticized in the literature depending on some aspects. [Cebeci \(2010\)](#) discusses the problems with *murabaha* due to the following aspects of it: the binding force of promise (*waad*), its hybrid structure, collection power (*qabz*), the issue of agency (*wakalah*) and the issue of risk ([Cebeci, 2010](#)).

In the Turkish example of *murabaha* application, P6 and P12 focus on the double invoice issue that came into the scene with the latest banking law draft because such an application caused serious problems for bankers before, in 2000s.

Like *murabaha*, *tawarruq* is a trendy product of Islamic banks worldwide. Although the [TKBB \(2021\)](#) places some restrictions on the use of *tawarruq*, P2 mentions possible negative effects, such as that PB should not be dependent on *tawarruq*.

Instead of the widely used *murabaha* and *tawarruq*, PLS was initially designed to be the basis of Islamic banks. However, it could not be applied enough, especially on the asset side, for different reasons, such as agency problems and risk ([Dar and Presley, 2000](#)), transparency issues ([Febianto and Kasri, 2007](#)) and risk ([Åström, 2012](#)). P11 explains that the banks cannot apply PLS due to informality in accounting applications and high inflation. P13 adds bad experiences that ended with loss regarding PLS. P16 mentions another important difficulty of PLS: risk compared to debt-based products. P2 suggests developing PLS where management could allocate nearly 15% of their funds in certain years to instruments such as *mudarabah*, angel investment and crowdfunding. However, trying to develop the use of PLS by force without solving the underlying causes is questionable.

Regarding other products, P5 underlines the importance of developing social finance products. P5 argues that with strong governance, social finance institutions such as zakat, micro-credit and *qard al hasan* could use PBs instruments in conducting their activities.

The lack of social aspects in Islamic banks is critical in the literature. [Meskovic et al. \(2024\)](#) emphasize that Islamic banks show inadequate environmental awareness, whereas [Asutay \(2012\)](#) argues that PBs fall short of fulfilling their foundational objectives by using debt-based contracts. However, it is not easy to find a balanced approach between the profitability target of the banks and social impacts. Further studies are needed in this regard.

4.2.6 Islamic financial (II) literacy. IF illiteracy in society is another weak point mentioned by the respondents. The main issue is that they do not see any difference between PBs and the other banks. P19, P12, P10 and P7 confirm that the customers accuse PBs of

being similar to the other banks. Such accusations mainly depend on no concrete evidence or knowledge. The lack of correct knowledge by society depends on many reasons, one of which can be attributed to difficulties experienced by PBs until recent times due to different reasons. Due to such difficulties, the banks could not reflect themselves entirely. P3 summarizes that the period until 2005 can be explained as a survival period. P4 explains one of the reasons for the difficulties in earlier times: the collapse of Ihlas Finans. P1, P16, P7 and P6 also mentioned the negative impact of Ihlas Finans, which caused a bad image among people. P1 says February 28 event, the 1998 Asian crisis, and the 2001 crisis all affected the PBs negatively. P11 focuses on another negative impact and argues that the academicians did not initially become interested in the subject. However, such a problem does not exist anymore. P8, P12 and P4 share the bad experience with the invoice system and the issue of VAT – especially regarding the *murabaha* product, as mentioned above – about which many high-ranking banking workers were judged in 2000s.

Financial illiteracy is also related to another important weak point: media and public relations (PR). P14 and P19 mention a general lack of publicity. P20, P10 and P7 underline the lack of effective commercials for PBs. P1 says people especially want to see from whom PBs get their *fatwa*.

Education is generally mentioned as one of the main remedies for the lack of literacy regarding PBs among people (Worthington and Marzuki, 2021). However, the aspects mentioned above, such as bad examples and PR, should also be considered while targeting the improvement of Islamic financial literacy in Türkiye.

4.2.7 Inclusiveness. Inclusiveness is another weak point mentioned by the respondents. Inclusiveness means attracting as many customers as possible from different groups via different channels. It has a close connection to the infrastructure of Islamic banks.

P4 informs that the banks have weak distribution channels. Thus, they require more digital channels especially. For example, the biggest PB has only 453 branches. P4 adds that, besides the lack of branches, the lack of ATMs, especially in small cities, is a problem. The role of digitalization – which will be mentioned below – is important here to improve the channels for inclusiveness. In fact, the World Bank (2020) prepared a report to underline the importance of leveraging Islamic fintech to improve financial inclusion.

P15 says that while conventional banks started to inform the young generation in high school, PBs did not do something similar. P9 agrees with the observation of P15 about the young generation's inclusiveness and adds that today, we should even be talking about educating children about banking. That issue is also connected to financial literacy and the relationship between education and financial literacy.

4.3 Opportunities

The points mentioned as opportunities by the respondents are as follows: capital markets, digital banks, strategic place and growth trend.

4.3.1 Capital markets. IF is theoretically mentioned together with the real sector which is mainly characterized by capital markets. P3 emphasizes that innovative new practices and products coming from the capital markets are in line with Islamic principle, which is important for PB in Türkiye. In particular, stocks, private pension funds and other capital market products that comply with Islamic principles are becoming increasingly widespread. Recently, PBs have also intensified their initiatives in this field. While some PBs have established dedicated units for capital market products, others have increased their investments through Islamic portfolio management companies (P3, P13 and P20).

P13 explains that the capital market is growing, especially regarding funds and *sukuk* applications [See: COMCEC (2018)]

4.3.2 *Digital banks.* Concerns about newly established digital PBs were mentioned above. However, digital PBs are also mentioned as an opportunity. P16 states that it is an opportunity. P20 agrees that PBs can now reach more customers. P5 thinks that it will increase competition within the PB sector. In summary, the position of digital PBs can be seen as a double-edged sword.

Another aspect that comes to the fore with digital PBs is technology in general. P15 agrees that there is less need to focus on branch growth as it is possible to reach customers through digital channels. P4 thinks that Türkiye is not lagging behind in terms of technology. P2 agrees that PBs are not far behind their competitors in terms of technology. P5 states that:

“Today, going digital and being able to deliver your products and processes to your customers through digital channels gives us a greater advantage than conventional banks”.

P5 also mentions two important aspects of technology and digitalization as opportunities: fintech and branchless banking.

Indeed, digitalization and fintech are two key developments that are often mentioned for the future of banking in general and IB in particular. However, as mentioned above, it is a double-edged sword (Alam *et al.*, 2019). For the opportunities and disruptions of fintech and digitalization.

4.3.3 *Strategic place.* Thanks to its rich historical background, Türkiye has a unique geographical and cultural location. Such a unique location prompts the government to plan for Türkiye to become a future financial power. Therefore, Türkiye as a financial center is also an opportunity for PBs. P1 claims that Türkiye’s aspiration to become a regional power in the future can be realized, and potentially even exceed expectations, if it is supported economically. He/she emphasizes that this potential is rooted in the country’s rich historical heritage, accumulated knowledge and its emotional and intellectual capacity.

P4 agrees with P1 that Türkiye can become a regional financial center. The Istanbul Financial Centre project is part of Türkiye becoming a regional financial center. P11 states that one of the main objectives of the Istanbul Financial Centre is to make Istanbul the center of interest-free finance. The idea of a financial center in Istanbul is linked to having a unique school in terms of IF. P1 clarifies that there are three schools in IF worldwide: Malaysian, Hijaz and Turkish. P6 lists four schools instead: Malaysian, Gulf, London and Turkish. However, it is debatable whether there is a Turkish school in almost every aspect of IF. For example, P5 confirms that it is good that Türkiye has an IF school, but it is also a bit late for that.

4.3.4 *Growth trend.* P12, P16 and P7 confirm that the PB sector in Türkiye has grown efficiently, especially since the 2000s. P12 believes that this growth will continue. Specifically, P5 argues that the ratio of funds collected by PBs to those collected by the banking sector in Türkiye has great potential. P10 reminds us of the importance of new ways of collecting funds, such as project-focused special fund pools.

4.4 Threats

The study identified four areas of threat based on the participants’ views: The first two, employee transfer and performance orientation, threaten PBs by potentially moving them away from value-based business models. The last two, nomenclature and digitalization, threaten PB’s competitiveness and could lead to a possible loss of customers.

4.4.1 *Employee transfers.* Staff transfers refer to the movement of employees and managers from conventional banks to PBs. This can result in individuals who may not fully understand the importance of IF principles and compliance becoming part of this ecosystem. While participants P2, P4, P8, P12 and P20 stated that this issue was a serious threat, some of them highlighted the threat they faced as follows:

I explained the product and mentioned that if we added a certain element, it would not be approved by the scholars. The person replied: “Then don't explain that part, focus on the other aspects and we'll get the approval”. (P8).

A general manager came in, and the staff profile changed a lot. The founding team was let go. The vibe in the participation bank changed, and it started to look more like a conventional bank. (P12)

“From what I've seen so far, participation banking doesn't seem that important to them, which I think is a bit concerning”. (P20)

Numerous studies support the view that Islamic bank employees with conventional banking backgrounds may affect the functioning of IB (Ali *et al.*, 2022; Dewa and Zakaria, 2012), distract from its core values (Ali *et al.*, 2018; Soma *et al.*, 2017), create ethical issues (Alwi *et al.*, 2021) and lead to a lack of employee commitment (Sekaran, 1989).

4.4.2 Performance orientation. With a business model based on PLS, Islamic banks seek to generate profit by using the deposits collected from their customers in commercial activities and sharing the profit with them. Naturally, like every commercial enterprise, Islamic banks are profit-oriented and aim to increase their profits by setting various targets for their staff. However, *shariah* principles can sometimes pose an obstacle to maximizing profit. Unfortunately, this dilemma reveals that Islamic banks may compromise on principles while striving for performance. Some participants emphasized that PB compromise their principles due to performance orientation and growth ambitions (P2, P7, P10, P13, P16, P19). As P16 noted, *the profit motive overrides Islamic concerns*, and as a result, according to P7, *they can somehow enter into businesses that they absolutely should not enter, such as factoring*. Some studies in the literature point to this situation. Ullah *et al.* (2018) emphasize that while Islamic banks' management is profit-oriented, *Shariah* boards are principle-oriented. With a business model based on PLS, Islamic banks seek to generate profits. Of course, like any commercial enterprise, Islamic banks are profit-driven and seek to increase their profits by setting various targets for their employees. However, *Shariah* principles can sometimes be an obstacle to profit maximization. Unfortunately, this dilemma shows that Islamic banks may compromise their principles in the pursuit of performance. Some participants emphasized that PBs compromise their principles due to performance orientation and growth ambitions (P2, P7, P10, P13, P16, P19). Some studies in the literature point to this situation. Ullah *et al.* (2018) emphasize that the management of Islamic banks is profit-oriented, whereas the *Shariah* board is principle-oriented.

Ahmed *et al.* (2017) highlight that the profit orientation of management affects the *Shariah* governance process, leading to the proliferation of *Shariah*-compliant products rather than *Shariah*-based products. Asutay supports the findings of this study by emphasizing that Islamic banks, due to their performance-based activities, deviate from their founding objectives and fail to fulfil their social responsibilities (Asutay, 2012).

4.4.3 Nomenclature. The issue of nomenclature highlights historical, social and political factors. Due to the political conditions in the country, the term “Islamic” was initially avoided, leading to the use of terms such as “special finance houses” and later “participation banks”. There is a political debate about removing the word “bank” from their names, as it is perceived by the public as an interest-based institution. The majority of respondents are against this change, fearing that it could lead to a loss of reputation and complicate international banking transactions (P4, P5, P6, P7, P9, P11, P16, P17 and P18).

4.4.4 Digitalization. It has already been mentioned that technology is a double-edged sword. It is a threat because traditional banks, with their greater capital, can gain various competitive advantages. P9 mentioned that, in the future, a single bank or application may be used for all financial affairs, which poses a significant threat to PBs.

There are notable studies that consider digitalization as a potential development or disruption that is often overlooked (Alam *et al.*, 2019).

Concerned that the proliferation of open banking and fintechs could pose risks to Islamic banks, participants suggested that these banks should invest in digitalization and introduce features such as hyper-personalization (P9, P14) and wealth management (P9) to attract customers.

5. Conclusion and policy recommendations

5.1 Conclusion

This study analyzes the 40-year experience of IB in Türkiye through a multi-generational SWOT analysis approach. The SWOT analysis, conducted across five generations of participants – from the founding generation to the latest – addresses the current state of IB in Türkiye and provides a projection for its future. The present state is assessed in terms of strengths and weaknesses, whereas the future outlook is considered through opportunities and threats. Accordingly, there are notable strengths likely to advance IB in Türkiye and support its growth potential, including the Muslim population, cultural sensitivity, governmental support and branch-SME experience. However, seven significant weaknesses – such as regulation, governance and Islamic financial illiteracy – hinder it from fully reaching this potential. Looking ahead, IB in Türkiye shows promise in areas like capital markets, digital banking, strategic positioning and growth trends, but it also faces threats, including employee transfers, performance orientation, nomenclature issues and digitalization.

5.2 Policy recommendations

To support the development of IB in Türkiye, a roadmap with short-, medium- and long-term strategic targets should be established. This study contributes to such a roadmap in several ways:

- Short-, medium- and long-term solutions should be developed to address strengths, weaknesses, opportunities and threats. To achieve these medium and long-term goals, an independent IF law should be drafted in consultation with all relevant stakeholders.
- Working groups focused on specific sub-specialties (such as Islamic financial illiteracy) should be formed through collaboration between academia and industry and a comprehensive roadmap should be created. As part of this roadmap, projects should be developed to enhance society's Islamic financial literacy in the medium and long term.
- Collaboration among policymakers, industry representatives and academia is crucial for Türkiye to become a hub for IF. The weaknesses in regulation and governance highlighted in this study exemplify the need for such collaboration. Particularly in advancing IB and finance in Türkiye, these issues should be prioritized, with solutions identified promptly. Governance and regulatory issues should be thoroughly identified and Türkiye's IF architecture should be reevaluated. In addition, establishing a central advisory board to enhance the Shariah governance mechanism will further strengthen this framework.

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Corresponding author

Ali Can Yenice can be contacted at: ayenice@sakarya.edu.tr