

**AN INVESTIGATION  
OF THE  
ISLAMIC BANKING CLIENTELE  
IN  
TURKISH BANKING SECTOR**

FOR REFERENCE

NOT TO BE TAKEN FROM THIS ROOM

**AN INVESTIGATION  
OF THE  
ISLAMIC BANKING CLIENTELE  
IN  
TURKISH BANKING SECTOR**

**BY**

**İSMET ANITSAL**

**BS in Petroleum Engineering, İstanbul Technical Univ., 1985**

**Thesis Submitted to the Institute for Graduate Studies in  
Social Sciences in partial fulfillment of  
the requirements for the degree of  
Master of Arts  
in  
Business Administration**

Bogazici University Library



39001100312019

14

**Boğaziçi University  
1987**

**AN INVESTIGATION  
OF THE  
ISLAMIC BANKING CLIENTELE  
IN  
TURKISH BANKING SECTOR**

**Approved By**

*M. Bodur*

**Thesis Advisor**

**Doç. Dr. Muzaffer Bodur**

*Özer Ertuna*

**Committee Member**

**Prof. Dr. Özer Ertuna**

**Committee Member**

*Ahmet N. Koç*  
**Prof. Dr. Ahmet N. Koç**



**To my parents, sister,  
and my dear Meral.**

## ACKNOWLEDGEMENTS

I am indebted very much to Doç.Dr. Muzaffer Bodur for her valuable guidance, constructive criticism and comments throughout the period of my research, and to Prof.Dr. Özer Ertuna for his continuous motivating support in my whole graduate study.

T A B L E O F C O N T E N T S

	page
ACKNOWLEDGEMENTS.....	iv
ABSTRACT.....	ix
OZET.....	xi
LIST OF FIGURES.....	xiii
LIST OF TABLES.....	xiv
LIST OF SYMBOLS.....	xvi
INTRODUCTION.....	1

C H A P T E R I

I. BACKGROUND OF THE STUDY	
1.1. The Islamic Banking Movement.....	4
1.2. By Definition, Islamic Banks Are:.....	9
1.3. Objectives of Islamic Banks.....	12
1.4. Organisation in Islamic Banking.....	14
1.5. How the Islamic Banks Operate.....	17
1.5.1. Deposits.....	17
1.5.1.1. Saving Accounts.....	17
1.5.1.2. Investment Accounts.....	18
1.5.2. Investment Activities.....	19

1.5.2.1. Musharika.....	20
1.5.2.2. Mudaraba.....	21
1.5.2.3. Murabaha.....	22
1.5.2.4. Bai Salam.....	22
1.5.2.5. Qard Hassan.....	23
1.5.2.6. Baj Niujjal.....	23
1.5.2.7. Ijara Wa Iqtina.....	24
1.5.3. Bonds and Securities.....	24
1.5.3.1. Al-Muqardha Bonds.....	24
1.5.3.2. Al-Mudarabah Certificates.....	24
1.5.4. Loans.....	25
1.5.4.1. Loan Certificates.....	25
1.5.4.2. Benevolent Loans.....	25
1.5.4.3. Short-term Loans.....	26
1.5.5. Insurance and Underwriting.....	27
1.6. Islamic Banks Versus Traditional Banks.....	28
1.7. Difficulties Experienced by Islamic Banks.....	37
1.8. Islamic Banking in Turkey.....	41

## C H A P T E R II

### II. THE RESEARCH METHODOLOGY

2.1. Research Design.....	46
2.1.1. Research Objectives.....	46
2.1.2. Type of Research.....	47

2.1.4.	Sampling Procedure.....	48
2.1.5.	Data Collection Procedure and Survey Instrument.....	52
2.1.6.	Data Analysis Methods.....	55
2.2.	Research Findings.....	56
2.2.1.	Depositor Group Differences on Demographic Characteristics.....	56
2.2.2.	Continuity of Savings in Banks/SFIs.....	62
2.2.3.	Annual Income Versus Savings.....	63
2.2.4.	Investment Objectives.....	64
2.2.5.	Attitude Toward Risk Taking Versus Profit.....	67
2.2.6.	Distribution of Savings Among Different Alternatives.....	71
2.2.7.	Choice for an Unexpected Money.....	73
2.2.8.	Factors Influencing Bank/SFI Selection.....	75
2.2.9.	Usefulness of the Information Sources.....	81
2.2.10.	Satisfaction Level With Bank/SFI and the Future Intentions.....	86
2.2.11.	The Performance Criteria For the Evaluation of Bank / SFI.....	90
2.2.12.	Sources of Customers' Funds.....	93
2.2.13.	Depositors' Thoughts About Some Applications of SFIs.....	95
2.2.13.1.	Effects of the Minimum Level of Saving Requirement.....	95
2.2.13.2.	Usefulness of the Correspondent Banks.....	95
2.2.13.3.	Preference Between SFIs.....	97



2.3. Limitations of the Study.....	99
------------------------------------	----

## C H A P T E R    I I I

### III. SUMMARY, CONCLUSIONS AND IMPLICATIONS

3.1. Conclusions of the Survey Findings.....	101
3.1.1. Personal Characteristics.....	101
3.1.2. Investment Objectives.....	102
3.1.3. Distribution of Savings Among Different Alternatives.....	103
3.1.4. Factors Influencing Bank/SFI Selection.....	103
3.1.5. Information Sources.....	105
3.1.6. Satisfaction Level With Bank/SFI.....	106
3.1.7. Conclusions on Other Findings.....	107
3.2. Implications of the Study.....	108
3.2.1. Implications for the Marketer.....	108
3.2.2. Implications for the Researcher.....	110
APPENDIX A.....	113
APPENDIX B.....	123
BIBLIOGRAPHY.....	125
REFERENCES NOT CITED.....	131

## A B S T R A C T

AN INVESTIGATION OF THE ISLAMIC BANKING CLIENTELE IN  
TURKISH BANKING SECTOR

This research aims to explore and describe the characteristics of Special Financial Institution (SFI) depositors, and study the differences between SFI depositors and bank depositors in their demographic characteristics, investment objectives, decision mechanics, market attitudes and rate of return perceptions.

The study included the literature review and a field study which was conducted through a questionnaire. The data was analyzed by SPSS-X and the findings were given together with the implications for the marketers and the researchers.

The findings of the study showed that some significant differences exist in investment processes of the depositors rather than their demographic characteristics.

Although the primary concern was to provide additional income when depositing in banks/SFIs, bank depositors use interest profit share rates and SFI depositors use inflation

rates as primary criterion in evaluating the performance of their institutions. Expected return and safety/guarantee for principal are the factors influencing both bank and SFI selection. Depositors prefer to go and take information directly from bank or SFI. Finally, the most important factor influencing the satisfaction level with bank/SFI is convenience and good dialogue.

Knowledge of these differences might help bank and SFI executives, and researchers to better understand the Islamic banking clientele in Turkey in order to allocate their marketing effort more efficiently.

## O Z E T

TÜRK BANKACILIK SEKTÖRÜNDE, İSLAM BANKACILIĞI MUŞTERİ GRUBU  
ÜZERİNE BİR İNCELEME

Bu tez, bir yandan ÖFK tasarruf mevduati sahiplerinin özelliklerini tanımlamakta, diğer yandan demografik özellikler, yatırım amaçları, karar yöntemleri, piyasa yaklaşımları ve gelir algılamaları açısından ÖFK ile banka tasarruf mevduati sahipleri arasındaki farklılaşmayı incelemektedir.

Bu çalışma yazın taraması ve anket yoluyla yapılmış bir saha araştırmasını kapsamaktadır. Toplanan bilgi SPSS-X programıyla analiz edilmiş ve sonuçlar pazarlamacı ve araştırmacılar için yönlendirici noktalarıyla verilmiştir.

Araştırmanın sonuçları, tasarruf mevduati sahipleri arasında demografik özelliklerden çok yatırım yöntemleri açısından bazı önemli farklılıklar bulunduğunu göstermiştir.

Banka/ÖFK'da tasarruf mevduati hesabı açtırıldığında ek gelir sağlama düşüncesi ilgilenilen ilk nokta olurken,

kurumların performansının değerlendirilmesinde banka tasarrufları faiz oranlarını, ÖFK tasarrufları enflasyon oranlarını birincil kriter olarak kullanmaktadırlar. Beklenen getiri ile güvence/ana para garantisi, banka ve ÖFK seçiminde en önemli faktörler olarak görülmektedir. Tasarruf mevduatı sahiplerinin yatırım konusundaki en önemli bilgi kaynağı banka/ÖFK'dir. Son olarak, tasarrufta bulunan kurumdan memnuniyet derecesi, özellikle kurumla olan uygun ve karşılıklı iyi ilişkilere dayanmaktadır.

Yukarıda sözü edilen farklılaşmaların banka ve ÖFK yetkilileriyle araştırmacılara İslam bankacılığı müşteri grubunu daha iyi değerlendirebilme ve çalışmalarını bu doğrultuda yürütebilme imkanı vereceği beklenmektedir.

## L I S T O F F I G U R E S

	page no -----
FIGURE 1.1. The Healthy Tree of an Islamic Banking System	11
FIGURE 1.2. Rate of Return in Islamic and Un-Islamic Banks	31
FIGURE 1.3. Determination of Interest Rate	33
FIGURE 1.4. Deadweight Loss	33
FIGURE 1.5. Cost Efficiency of Profit Sharing	36

## L I S T O F T A B L E S

	<u>page no</u>
TABLE 2.1. The Calculation of "p" Value	50
TABLE 2.2. Saving Deposits in Banks	51
TABLE 2.3. Total Deposits in Special Financial Institutions	51
TABLE 2.4. Composition of the Sample as to their Banks/SFIs	52
TABLE 2.5. The Results of Chi-square Analyses Concerning Demographic Characteristics	57
TABLE 2.6. Depositor Groups Vs Sex	58
TABLE 2.7. Frequencies of Depositor Sample	59
TABLE 2.8. Continuity of Savings in Banks/SFIs	63
TABLE 2.9. Statistics Concerning Annual Income	64
TABLE 2.10. Primary Investment Objectives	65
TABLE 2.11. Group Differences on the Attitude Toward Risk Taking Versus Profit	67
TABLE 2.12. Depositor Groups Vs Risk Taking Against Profit	70
TABLE 2.13. Risk Taking Against Profit Vs Preference Among SFIs	71
TABLE 2.14. Distribution of Savings Among Different Alternatives	72
TABLE 2.15. T-test Results Concerning the Distribution of Savings	73
TABLE 2.16. T-test Results Concerning the Choice for an Unexpected Money	74
TABLE 2.17. T-test Results Concerning the Factors Influencing Bank Selection	77

TABLE 2.18.	T-test Results Concerning the Factors Influencing SFI Selection	78
TABLE 2.19.	The Results of Factor Analysis Concerning the Bank Selection Criteria	79
TABLE 2.20.	The Results of Factor Analysis Concerning the SFI Selection Criteria	80
TABLE 2.21.	Usefulness of the Information Sources	82
TABLE 2.22.	Usefulness of the Information Sources (Frequency Values)	84
TABLE 2.23.	Communication Level With Public	85
TABLE 2.24.	T-test Results Concerning the Satisfaction Level With Bank/SFI	87
TABLE 2.25.	Frequency Distribution of the Factors Influencing the Satisfaction Level	88
TABLE 2.26.	Future Intentions of the Depositor Groups	90
TABLE 2.27.	Depositor Groups Vs Ratios/Standards Used as Efficiency Criteria	92
TABLE 2.28.	Depositor Groups Vs Sources of Customers' Funds	94
TABLE 2.29.	T-test Results Concerning the Usefulness of Correspondent Banks	96
TABLE 2.30.	Depositor Groups Vs Preference Among SFIs	98



## LIST OF SYMBOLS

Depositor	: Saving Depositor
SFI	: Special Financial Institutions (Special Finance Houses)
OFK	: Ozel Finans Kurumlari
n	: Sample size
p	: % of saving deposits to total deposits
z	: Standard error
E	: Difference between the expected proportion (p) and the universe proportion
$\alpha$	: Significance level
V57	: Profit vs risk
V67	: Efficiency criteria (ratios/standards used)
V68	: Preference among SFIs
V69	: Sources of Customers' funds
V84	: Depositor type (bank or SFI depositor)
SPSS-X	: Statistical Package for Social Sciences

## I N R O D U C T I O N

Banking is an important financial intermediary and vital institution in the economic structure of any country. It mobilizes savings and idle funds in an economy and makes them available to those who can make better and fuller use of them. In this way, banking effects a re-allocation of the capital funds. Besides this main function, the banking system makes possible a most convenient method of making payments through chequing facilities, and renders many other subsidiary services (Uzair, 1976).

The main goal of the commercial, in other words traditional banks is the maximization of profit subject to a reasonable level of liquidity, safety and soundness in performance. Their profits come from interest rates and the various fees and commissions charged by them from customers.

Islamic banking institutions, on the other hand, are based on different philosophic and economic principles. Like other institutions in an Islamic society, Islamic banks ought to derive their guiding principles from Islamic teachings. They should therefore be viewed as a particular type of

banks, operating without interest rate mechanism, and seeking to maximize an objective function which has social benefit, social welfare and profit. In addition to their banking services, Islamic banks could be looked upon basically, as investment institutions, using profit-sharing mechanism rather than interest rate mechanism (Martan, Jabarti, Abdulfattah, Sofrata; 19??).

The objective of this research is to conduct a comparison between traditional banks and Islamic banks in Turkish banking sector with respect to their depositors. The research aims to explore and describe the characteristics of SFI depositors and bank depositors in their demographic characteristics, investment objectives, decision mechanics, market attitudes and rate of return perceptions.

Including this introduction, the thesis has been divided into several sections. The first gives a general overview of the Islamic banking system. The comparison between the two banking system, the difficulties experienced by Islamic banks, and Islamic banking in Turkey are also reviewed within this chapter. The second chapter discusses the research design, methodology, and findings of a field survey conducted among the depositors from traditional banks and Islamic banks in Turkey. The concluding section summarizes

the principal results, indicates some implications to the related parties and suggests needed future research in the area.

# CHAPTER I

α

## C H A P T E R I

## I. BACKGROUND OF THE STUDY

## 1.1. THE ISLAMIC BANKING MOVEMENT

The movement began on such a small scale it went almost entirely unnoticed. In 1963 the first Islamic savings bank was established with the help of the late King Faisal of Saudi Arabia. It was initially concerned with financing a textile factory at Myt Gamt in Egypt. Four years after the establishment of the Myt Gamt Saving Bank, nine branches, with about a million customers, were opened in Egypt (Islamic Finance, 1983; Akin, 1984, 1986). Its prime objective was to stimulate the habit of savings among small savers with a view to accelerating the process of capital accumulation and economic growth. But unfortunately, in 1977, this noble attempt failed to spread around the country mainly due to political reasons. However, the spirit of the concept did not die out altogether (Wahid, 1986).

The Myt Gamt experiment was valuable. It drew the attention of many people to the possibility of achieving healthy profit by the establishment of Islamic institutions in

the field of saving and investment. The movement towards the establishment of Islamic banks gained momentum.

One of the earliest concerns of the "Organisation of the Islamic Conference" was the development of an Islamic banking system.

In March 1970 the Islamic foreign ministers held a conference at Jeddah which ended with an invitation to all Islamic countries to enforce and encourage economic co-operation and give aid in cultural, intellectual, and scientific fields in accordance with Islamic laws. At the next conference of foreign ministers held in Karachi, Egypt and Pakistan suggested the establishment of an international Islamic bank.

In February 1973 a committee consisting of Saudi Arabia, Libya, Jordan, Sudan, Morocco, Yemen, Iran, Afghanistan, Pakistan, Indonesia, Malaysia, Turkey, Senegal and Mali met in Cairo to consider the development of an Islamic economic system, and utilisation of surplus capital within the Islamic world.

The committee declared that the surplus capital of the muslim countries should be employed in achieving social justice in accordance with Islamic spiritual and social teachings. It recommended the establishment of an Islamic

economic system throughout the Muslim world.

Thus the Cairo committee laid down the foundations of the modern Islamic banking system. Its recommendations were enthusiastically supported by King Faisal of Saudi Arabia, who encouraged the expansion of the Islamic banking movement during the 1970s.

Numerous Islamic banks have appeared all over the Islamic world. These included the Nasir Social Bank established in Cairo in 1971. The bank is concerned with providing interest-free credit. The bank has its own banking functions such as the deposit and organisation of investment, the development and spread of the saving system, and organising the payment and distribution of alms.

The Dubai Islamic Bank was established in Dubai in March 1975 with the co-operation of muslim businessmen from all over the Islamic world. This bank is generally considered as the first Islamic bank involved with the financing of industry, agriculture and real estate.

The Islamic Development Bank was established in Jeddah in October 1975. It is an intergovernmental development bank. It supports the economic development programmes of its member countries in accordance with Islamic teachings (Islamic Finance, 1983).



The Faisal Islamic Banks were founded through the cooperation three ministries in the late seventees; the first of this group is the Faisal Islamic Bank of Egypt (1977). Today Prince Muhammed al-Faisal heads a banking system which includes about thirty associates all over the Arab world and in Africa, Asia, Cyprus and Luxembourg. Some national Islamic banks such as the Faisal Islamic Banks of Sudan have ten branches scattered throughout the country (Islamic Finance, 1983; Al-Saoud, Al-Faisal Mohammed, 1984; Middle East Business & Banking, 1984).

The Kuwait Finance house was established in Kuwait in 1977 by the Ministry of Endowment and Islamic affairs, the Ministry of Justice and Ministry of Finance. It works in accordance with the Islamic legislative system and a special law issued to guarantee its Islamic character.

Other Islamic banks established during the last few years include the Bahrain Islamic Bank, The Bank of Islam, Malaysia, Faisal Islamic Banks of Senegal and Guinea, the International Islamic Bank of Development and Investment and the Qatar Islamic Bank (Middle East Business & Banking, 1984; Islamic Finance, 1983).

Islamic banks are growing both on the thought and on its applications. Activity for transferring the classical

banking system to a banking system based on Islamic principles was begun in Pakistan in 1979 and in Sudan in 1982. Nowadays, Islamic banks are being established in African muslim countries and the South-East Asian countries(Merki, 1986 ; Anitsal, 1986).

1.2. BY DEFINITION, ISLAMIC BANKS ARE :

By definition, Islamic banks are:

- Multifunction banks, offering all the services rendered by commercial, merchant, investment and development banks, but on an interest-free basis.

- They are international banks and they work and co-operate with the rest of the international banking community.

- They have social obligations towards the community they serve. Each has a zakat fund which offers financial aid and assistance to the poor and the needy(El-Fouad, 1984).

The Islamic financial system employs the concept of participation in the enterprise, utilising the funds at risk on a profit-and-loss basis. This by no means implies that investments with financial institutions are necessarily speculative. This can be excluded by careful investment policy, diversification of risk and prudent management methods by Islamic financial institutions(Al-Saoud, Al-Faisal Mohammed; 1984).

The Islamic banking system emerges out the broad guideline of faith. It develops a harmonious relationship among the depositors(savers), bank(equityholders) and the

borrowers(investors). This must be a healthy relationship of mutual co-operation, co-ordination and understanding.

An Islamic banking system ensures a proportionate growth of all three partners of the business. This is essential for a healthy and balanced development of the whole system. Figure 1 shows the healthy tree of an Islamic banking system(Wahid, 1986).

Capital accumulation is a vital factor for the economic growth and development of a nation. A major source of capital is savings, generated by banks from savers. Therefore, an enthusiastic and dynamic group of savers is very important for a growing nation. This enthusiasm depends on the return the savers receive on their deposit of savings. Under a conventional fixed-interest banking system, the interest on deposits(i.e. the return on savings) is almost negligible and stable. But the story is completely different in an Islamic banking system; here every single saver is treated as an owner of the business and, thus, gets his just share of profit or loss on some mutually agreed principle(Wahid, 1986).

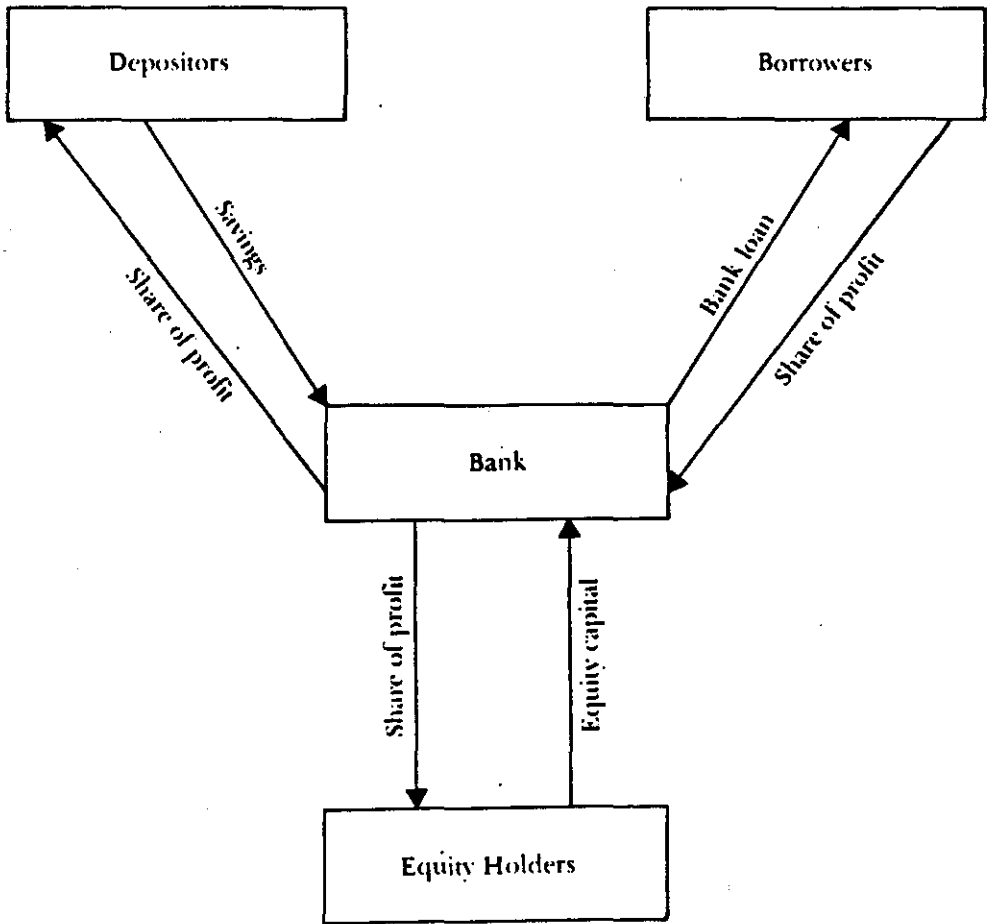


FIGURE11.- The Healthy Tree of an Islamic Banking System

Source: Wahid, A.N.M.(1986), "A Theoretical Justification of Islamic Banks", The Islamic Quarterly, Vol.XXX (Number 3)

### 2.3. OBJECTIVES OF ISLAMIC BANKS

The objective of the Islamic Banks, in general, is to promote, foster and develop the application of Islamic principles, law and tradition to the transaction of financial, banking and related business affairs and to promote investment companies, enterprises and concerns which shall themselves be engaged in business activities as are acceptable and consistent with Islamic principles, laws and traditions. Islamic banks never engage in the alcoholic beverage trade, the receipt of interest forbidden by Islam, the gambling industry or the pork meat or in any other un-Islamic activity(Khan, 1983).

The Islamic banking system is based on the following fundamental principles (Islamic Finance, 1983) :

- Human life depends on material resources and God provides man with the means of living. Men have to seek means of living. Those who misuse material resources should be deprived from it.

- Islam emphasises investment and prohibits monopoly or hoarding.

- Investment should be allocated in such a way as to ensure the fulfilment of legitimate needs. Thus, there should be balance in the development of economic life covering all

aspects of life.

- Interest is strictly prohibited in Islam. Allah has made buying and selling lawful and usury unlawful.

- Zakat is an essential part of the Islamic economic system. Zakat contributes towards a just distribution of wealth. It is a refuge which protects the poor from the dangers of inflation and high prices.

- The Islamic economic system depends on strict objective moral standards which are grounded within the Islamic social system in accordance with what is prohibited and condemned.

The Islamic banking movement embodies these principles. It has attempted to put theory into practice and been successful in the world of banking (Islamic Finance, 1983).

#### 1.4. ORGANISATION IN ISLAMIC BANKING<sup>+</sup>

Whatever form an Islamic bank takes, whether public or a private company or a government institution, or any other form, it must have certain traditional organs. These organs comprise a general assembly, in which the powers of ownership are vested. In this respect, an Islamic bank is not very different from traditional banks. In addition, an Islamic bank must have other organisational characteristics as discussed by Mudawi (1984).

##### . The Shari'a Supervisory Board :

An Islamic bank has to have not only a board of directors and a body in which ownership rights are vested, but also a shari'a advisory board. This is the most important where Islamic banks operate in a society which does not fully apply the Shari'a in all its dealings.

Taking into consideration the primary objective of the Shari'a Supervisory Board, which is mainly to authenticate the legitimacy of the operations of Islamic banks from the Shari'a point of view, the Shari'a Supervisory Board must

---

+ This section was summarized from "Organization in Islamic Banking" , (Mudawi, 1984).



enjoy a high degree of independence from the bank management.

. The Social Department :

The Islamic bank lays special emphasis on the welfare of the society in which it operates. Its primary goal is to raise the standard of living of the people. Its operations should not widen the differences in income and wealth between the members of this society. They should be oriented towards alleviating poverty. In order to achieve this objective, it has to finance various projects that serve this goal. This is best supported by having a department concerned with raising and distributing zakat and donations to the needy persons. Zakat is due annually on the bank's capital as well as on its annual profits. It is also obligatory on able individuals of the society.

. The Investment Department :

Since an Islamic bank finances on the basis of participation, which means sharing the risk of loss as well as the benefits or profits, it should have some involvement in the projects it finances. This is to help it avoid losses and to see that its financial help is utilised efficiently in the proper projects and for the proper purpose. To serve this end, the investment department of an Islamic bank is expected

to be manned with competent staff qualified in the areas of analysis and appraisal of projects.

. The Follow-Up Department :

The Islamic bank has to follow up the projects to which its finance is given to see that it has been spent in the proper way and that the project is well managed. This introduces the need for a very strong follow-up department.

. The Recruitment and Training Department :

Since there is a shortage of personnel who can understand Islamic banks, they have to rely initially largely on staff who were trained in traditional commercial banking. On joining the Islamic bank, they are given intensive courses explaining the philosophy of Islamic banking and the methods of handling operations, and are shown the contrast between an Islamic bank and a traditional commercial bank. Herein lies the importance of training.

## 1.5. HOW THE ISLAMIC BANKS OPERATE

Where the normal banking practices do not match with the Islamic principles, the Islamic banks have adopted the current banking tools and procedures. Where any clash arises, the Islamic banks have devised their own tools and procedures to accomplish their banking activities. Such tools and procedures that have been devised so far are enumerated below :

### 1.5.1. DEPOSITS

Islamic Banks receive two types of deposits :

(a) deposits not committed for investment which take the form of current accounts or savings accounts, and

(b) deposits committed for investment which are called Investment Accounts.

Whereas Current Account is operated in the same way as it is operated in the conventional banking system, the Savings Accounts and Investment Accounts are operated differently as discussed below :

#### 1.5.1.1. SAVINGS ACCOUNTS

This is an account where the customers can deposit their savings. Though these depositors allow the banks to use their

money, they get a guarantee of getting their full amount from the bank. In this case, the Bank guarantees their savings but is not obliged to pay any rewards to the savers. However, most of the banks are still paying either a cash reward from their profits at the end of their financial year or are giving some privileges to the holders of these accounts, e.g. providing financial support for small projects, sale of consumer durables or producers goods by installments, distributing gifts etc. These rewards are discretionary and not obligatory and are paid only in case the bank is earning substantial profits. These accounts, however, were found to be attracting relatively very little deposits but some of the Islamic Banks were giving a significant profit (ranging between 5 to 6 per cent) on these accounts. On accounts that have no risks, this much profit is not understandable. So, they should not share in the profit without facing any risk of loss (Khan, M.Fahim; 1983).

#### 1.5.1.2. INVESTMENT ACCOUNTS

The Investment Accounts can be of two types :

- (a) Accounts with authorisation, and
- (b) Accounts without authorisation.

In the accounts with authorisation, the account holder authorises the bank to invest this money in any one of its

projects. After the expiry of a specified period, the account holder will get the profit. In case of investment accounts without authorisation, the account holder may choose any particular project for investment of his deposited money (The account holder, may or may not specify the period of deposit). The bank will give share to the account holder from the profit of that particular project which has been chosen by him according to agreed percentage. If the investment accounts are opened for a fixed period, the customer is not allowed to withdraw his money before the lapse of the specified period. If he does so, the customer either is not entitled to the share in profit at all or may be entitled to receive some discounted profit depending upon the duration of the deposit with the bank. These deposit schemes of Islamic banks have been able to attract a substantial number of depositors(Khan, M.Fahim ; 1983).

#### 1.5.2. INVESTMENT ACTIVITIES

As the bank can not earn interest by lending the money, the Islamic banks have to undertake investment to earn profit not only for the bank itself but also for the depositors in the investment account. The investment procedures based on the Islamic principles are given below :

### 1.5.2.1. MUSHARIKA

The technique of musharika is meant to provide working capital for trade and industry and is, in fact, a temporary partnership in which both the customer and the bank contribute financially on the basis of sharing the profit or loss in conformity with the Shari'a.

A certain proportion of the profit of a venture is paid to the client as a management fee. The remaining profit is distributed between the bank and the client on the basis of their respective share in the total funds employed in the venture, calculated on a daily product basis. In case there is a loss, it is borne by the bank and the client strictly in the ratio of their respective funds employed in the venture (Khan, Ghulam Ishaq ; 1984).

This procedure is also being applied to a few activities other than the investment project. Some of these activities are :

(i) LETTER OF CREDIT. If the importer fails to pay the full amount of the letter of credit at the time of the delivery of goods, the the bank will not charge him any interest on postponing the payment and will instead, share in the profits of the importer at a ratio agreed upon in advance. Some of the Islamic banks, however, charge nothing

if the amount is paid in full at the time of the delivery.

(ii) PURCHASE OF PROPERTY OR REAL ESTATE. The bank may provide loans for such purchases on the basis of musharika. The bank will assess the rent or annual income from the property or real estate and will share it according to the extent to which he is financing and according to the terms agreed in advance. As the client pays up the installments of the loan, the bank's share in the income will be reduced till the whole property is transferred to the client (Khan, M.Fahim ; 1983).

#### 1.5.2.2. MUDARABA

Mudaraba is a concept of Islamic finance in which funds are obtained from one or more subscribers for a business to be carried on by another individual, who participates in with his skill and effort. The profits earned on investments out of the mudaraba funds are distributed among the mudaraba managers and the various subscribers. As such, it is a form of contract through which a single investor or group of investors agree to participate in a joint venture with others who have managerial skills in some trade, business or industry (Khan, Ghulam Ishaq ; 1984).

### 1.5.2.3. MURABAHA

The bank supplies clients with their tangible requirements (equipment, means of transportation, raw materials, commodity requirement, etc.) considering the following aspects :

i) The bank buys, owns, and then sells goods to its client.

ii) The Shari'a allows the client to decline; thus the bank in its capacity of buyer is undertaking the full risk of the purchased goods.

iii) The goods once sold at a higher price (purchase price plus profit margin as proposed by the client and accepted by the bank) under terms of payment mutually agreed upon with the client, the bank can not calculate any further increase due to the delay in repayment of installments on maturity dates (El-Fouad, 1984).

### 1.5.2.4. BAI SALAM (POST DELIVERY SALE)

The bank buys certain goods on post delivery and pays the cost immediately or sells certain goods on post delivery and receives its cost immediately. In this sale, cost of goods is fixed and paid in advance but the delivery of the sold item is postponed or delayed up to a certain period.



Similarly, the place of delivery, its expenses and quantities of the sold goods should also be fixed and defined as they are conditions for such a sale (Khan, M.Fahim ; 1983).

#### 1.5.2.5. QARD HASSAN

The nationalised commercial banks have launched a scheme of qard hassan to assist deserving students. Students studying the subjects of engineering, electronics, oil technology, agriculture, medicine, physics, chemistry, biology, mathematics and other natural sciences are eligible to avail themselves of financial assistance under the scheme. No changes of any kind are levied on such loans. Only the principal amount is required to be repaid when the borrower has acquired the means to repay (Khan, Ghulam Ishaq ; 1984).

#### 1.5.2.6. BAJ NIUAJJAL (LEASING)

Banks provide finance to their industrial customers for the acquisition of fixed productive assets by leasing out such assets for a fixed period.

These assets remain technically under the ownership of the bank, but are under the custody and use of the customer who pays a fixed annual rent for their use. At the expiry of the predetermined period, the asset is sold to the customer at its residual value. Leasing is thus a substitute for bank

loans for purchase of equipment (Khan, Ghulam Ishaq ; 1984).

#### 1.5.2.7. IJARA WA IQTINA (HIRE-PURCHASE)

The bank may finance the purchase of equipment and let it be used by the client on the basis of a contractual agreement under which the former receives, in addition to payment of the cost of the equipment, a share in the net rental value of the item in proportion to its outstanding share in the total investment (Ahmed, Ziauddin ; 1984).

#### 1.5.3. BONDS AND SECURITIES

##### 1.5.3.1. AL-MUQARDHA BONDS

This tool is utilized when a large amount is needed for a big project. The bonds carry shares in the profits of the project. An amount of the bond may be decreased in the same way as the participation is reduced in the case of Musharika or renting.

##### 1.5.3.2. AL-MUDARABAH CERTIFICATES (ISLAMIC SECURITIES)

This is similar to the Islamic Bonds in nature and have the same basis as illustrated above. The Islamic securities, however, are not issued for any specified project. Instead a Mudarabah (participation) company is established. This company issues a certificate which is a receipt for the money

received and a guarantee by the Mudarabah Company to reimburse the proceeds of the company, if any, to the bearer of the certificate at the date of maturity and according to the amount with which he participated. These certificates, of course, bear the element of risk of losses, if any (Khan, M.Fahim ; 1983).

#### 1.5.4. LOANS

##### 1.5.4.1. LOAN CERTIFICATES

These are the certificates through which a Mudarabah Company receives Islamic loans whose maturity is defined but which do not entail, in any way, share in the profits or losses. The Certificate is meant for such Muslims who do not want to take risk of investment but are willing to allow the use of their money for the benefit of and investment in the Islamic Community. Here the Muslim lender is shunning riba and is positively participating in a collective Islamic task aiming at spreading Islamic economy and above all the spreading of Allah's words.

##### 1.5.4.2. BENEVOLENT LOANS

These loans are provided by banks and the objective of these loans is to produce benefits either for the general public or for the charity. There is no interest or return on

these loans. Though there is, a provision for a service charge to cover the cost of providing the loan, yet no bank is applying this charge except the Islamic Development Bank in Jeddah. All the commercial banks provide loans free of any charge if they have any provision of such loans.

So far, the Islamic Banks are not inclined to provide these loans. Only the Islamic Development Banks are providing such loans for the social and infra-structural projects.

#### 1.5.4.3. SHORT-TERM LOANS

To meet the short-term loan/credit requirement of the enterprises, the banks do have the provision to provide such loans without interest or any other charge. However, this too has not been very much in practice. The criterion for advancing such loans theoretically, is :

- Specific credit needs of the firm
- Social priority attaching to the enterprise
- Nature of the security against loan
- Whether the credit seeker has also obtained term advances from the bank for the same enterprise.

- Annual, monthly or weekly average of the applicant's balance in current account with the same bank.

Generally, the banks do not encourage the customers to

overdraw. In special cases, this may be allowed with the fixation of the maximum date to adjust the said drawn amount. No interest or expenses are charged on such loans.

#### 1.5.5. INSURANCE AND UNDERWRITING

Some of the banks are undertaking insurance as a subsidiary business of their organisation. This insurance is a sort of cooperative insurance. The principle is that all the losses have to be borne by the participants on cooperative basis. The participants will, however, share the profit arising out of the investment of the premium. This principle is being applied to life insurance too. The procedure is that all the participants (policy holders) at the maturity of their policy get all the amount that he paid as premium plus the share in profit. If a policy holder dies before the maturity of his policy, he gets all the amount that he paid as premium plus the share in profits plus the remaining amount of the policy to be contributed by all the other participants. The participants contribute not only as part of their social obligation but also because they will get the same treatment (Khan, M.Fahim ; 1983).

## 1.6. ISLAMIC VERSUS TRADITIONAL BANKS

Commercial banks have become a vital part of the contemporary economic life of most societies. Their main function is the mobilization of the society's savings in order to channel them to economic and social uses. Through extending credits to worthy borrowers, commercial banks act to increase production, expand capital investments, and presumably achieve a higher standard of living. Other services include the convenient method of making payment through cheques and credit cards, the supply of foreign currencies and purchase and sale of securities. However, their main goal is the maximization of profit subject to a reasonable level of liquidity, safety, and soundness in performance. Their profits come from interest rates and the various fees and commissions charged by them from customers.

Islamic banking institutions, on the other hand, are based on different philosophic and economic principles. Because Islam is a complete code of life, banking and financial institutions, like other institutions in an Islamic society, ought to derive their guiding principles from Islamic teachings. Islamic banks should therefore be viewed as a particular type of banks, operating without interest rate mechanism, and seeking to maximize an objective function

which has social benefit, social welfare and profit. In addition to their banking services, Islamic banks could be looked upon basically, as investment institutions, using profit-sharing mechanism rather than interest rate mechanism(Martan, Jabarti, Abdul-Fattah, Softrata, 19??).

Once we are clear in our minds about the position of man in relation to money, we can discuss how best to use money for our maximum benefit.

There are two ways of using money to make it serve us. One is to lend it or advance it to businesses, banks, trades, industries, etc., and to allow it to generate more money by fixing a rate of interest on the amount lent or advanced. The other is to employ this money in the above sectors and to trade with it to generate more funds without fixing any rates of interest or riba. This latter way is the Islamic way of employing money to generate more money.

In both cases, the objective is to generate more money by employing money, but the one system gives the edge to the employer to exploit the borrower while the other encourages the employer and the borrower to utilise the funds for their mutual benefit as well as for the benefit of society. In Islam the benefit of society is as important as private benefit(Haque, 1986 ; Al-Naggar, 1984).

An Islamic bank not only sets financial targets to be met within a certain time but must match these financial targets with appropriate projects which meet its investment criteria. The lack of projects appropriate from financial, economic, social and Islamic points of view may hamper the execution of the bank's programme.

Traditional banks, on the other hand, can set financial targets which they may easily achieve, since they do not have to worry very much about following up the projects. The built-in system of liens makes their worries about disbursing their finance, as well as recovering it, less intense than it is with Islamic banks(Mudawi, 1984).

#### Rate of Return in Islamic and non-Islamic Banks :

Figure 2 shows the determination of the rate of remuneration for savers. The supply of savings is positively related to rate of return on savings. But the demand of savings by the banks is represented by the vertical line because it is derived from the demand for bank loans which is in turn determined by exterior factors such as political stability and future expectations about business etc. Assuming a booming business situation, increased demand for bank loans will cause a rightward shift in the demand



R

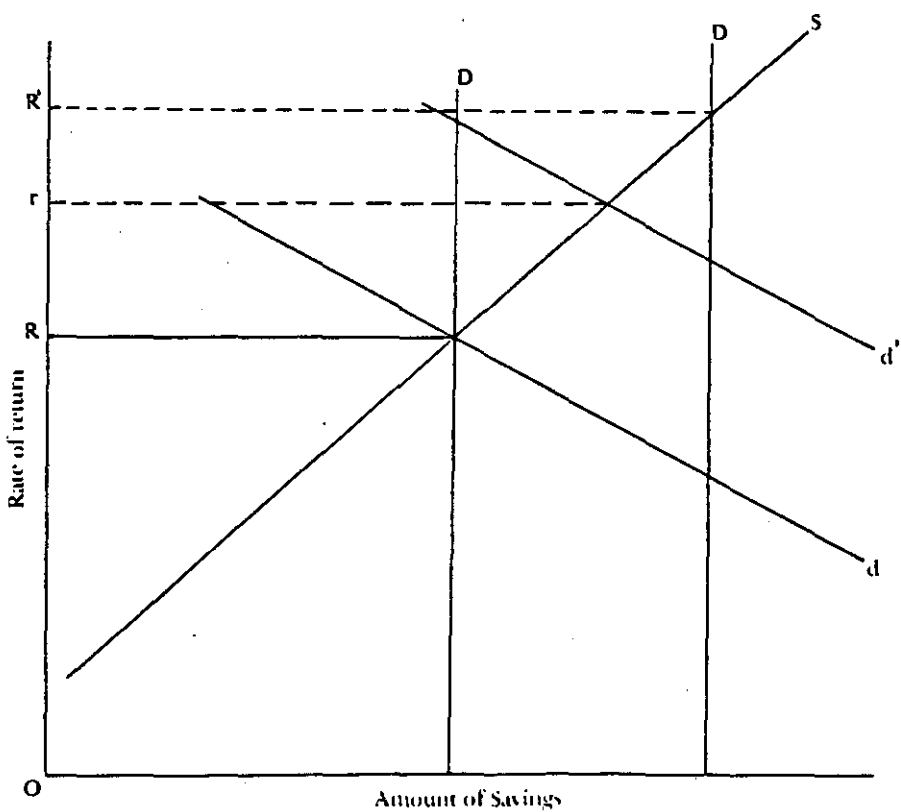


FIGURE12.- Rate of Return in Islamic and Un-Islamic Banks

Source: Wahid, A.N.M.(1986), "A Theoretical Justification of Islamic Banks", The Islamic Quarterly, Vol.XXX (number 3)

function for savings from  $D$  to  $D'$ . This obviously raises the equilibrium rate of return on savings from  $R$  to  $R'$  in an Islamic setting. However, if we consider the interest based banking system the same degree of business boom will cause the demand for savings to shift from  $d$  to  $d'$  resulting in an increase of return from  $R$  to  $r$ . The distance  $RR'$  is clearly larger than  $Rr$ . Thus an Islamic banking system gives a larger incentive to savers than that of the interest based one (Wahid, 1986).

#### The Deadweight Loss due to a Fixed Interest Rate :

In the pre-determined fixed-interest rate under the conventional banking system gives rise to a deadweight loss in the banking business. An Islamic banking system, through the practice of profit sharing, can successfully avoid this. The process can be explained with the help of Figures 3 and 4. Figure 3 shows the determination of equilibrium rate of interest according to the neoclassical theory of interest. Suppose it is determined at  $i$  by the interacting forces of demand for a supply of loanable funds. The deadweight loss arises once this interest rate is agreed by the entrepreneur(borrower) to pay regardless of the outcome of his business venture(i.e. profit or loss). As in Figure 4, even if the entrepreneur(borrower) is assumed to have zero

2

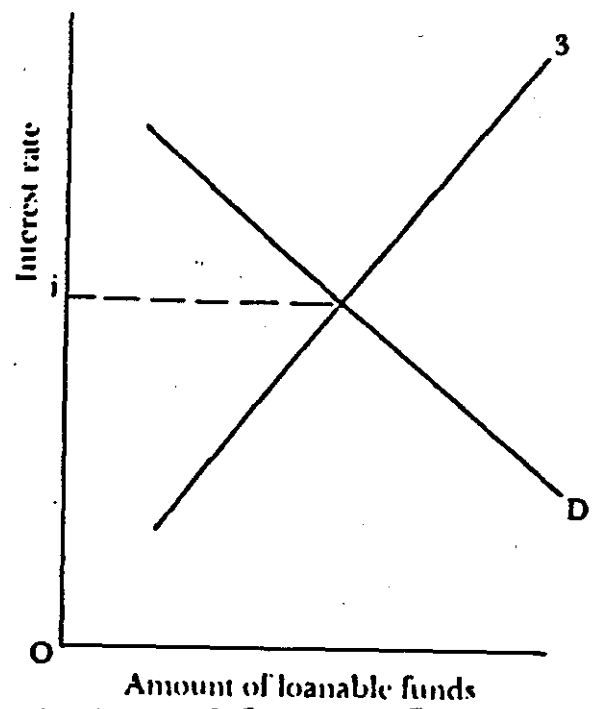


FIGURE13.- Determination of Interest Rate

Source: Wahid, A.N.M.(1986), "A Theoretical Justification of Islamic Banks", The Islamic Quarterly, Vol.XXX (Number 3)

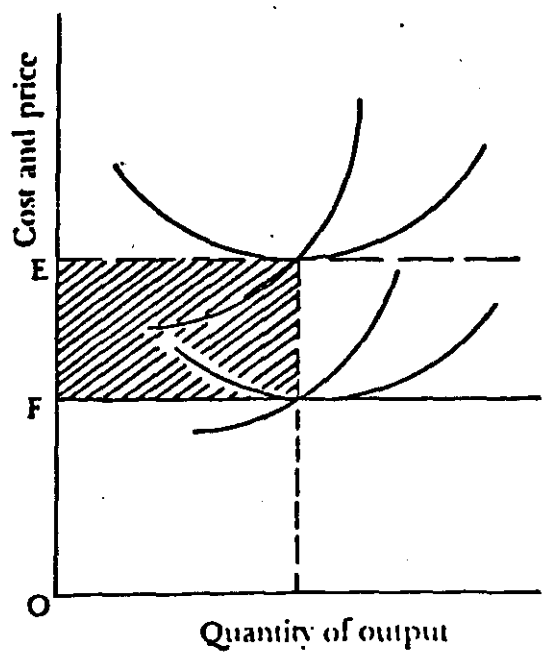


FIGURE14.- Deadweight Loss

Source: Wahid, A.N.M.(1986), "A Theoretical Justification of Islamic Banks", The Islamic Quarterly, Vol.XXX (Number 3)

opportunity cost of his time and effort, under an interest-rate system he can not produce at a price below  $E$  which is equal to  $i$ . But under the system of profit and loss sharing, since there is no pre-determined opportunity cost of capital, the entrepreneur can theoretically produce at some price below  $E$  if it just covers his explicit cost (out of pocket costs), represented by  $F$  in this case. Then the shaded area is the deadweight loss due to the pre-determined fixed rate of interest. An Islamic banking system can get around this potential deadweight loss and hence it is more efficient than the traditional banking system of the West (Wahid, 1986).

#### Cost Efficiency of Profit Sharing :

In Islamic banking, since banks receive a portion earned by the borrowers, their responsibility does not end in the mere granting of loans to borrowers; rather, it begins with this. From this point, according to the mutually agreed pre-conditions of loans, banks provide logistic services to the borrowers so that they can operate at their maximum efficiency.

After a loan has been granted, Islamic banks deploy experienced personnel to provide both generalised and specialised supervisory services so that the project can be

completed within the stipulated period of time. While doing so, the supervisor takes into account cost escalation and/or labour problems which may take place in the course of the project.

These services have a cost efficiency impact on production. This can be shown with the help of Figure 5. The positive services of Islamic banks and the profit incentives increase the cost efficiency of the borrowers, causing the average and marginal cost curves to shift downward and rightward respectively. Figure 5 indicates that when the average cost curve moves from AC1 to AC2 and the marginal cost curve moves from MC1 to MC2, same amount of output  $q$  can be produced at a lower cost and sold at a price  $P_2$ , lower than that of  $P_1$ .

Under a conventional banking system, firms(borrowers) pay little attention to their returns because it is not a determinant of the supply of loanable funds to them. But, under a profit sharing system, firms with higher returns receive a greater supply of funds. This is an incentive for them to perform well in business(Wahid, 1986).

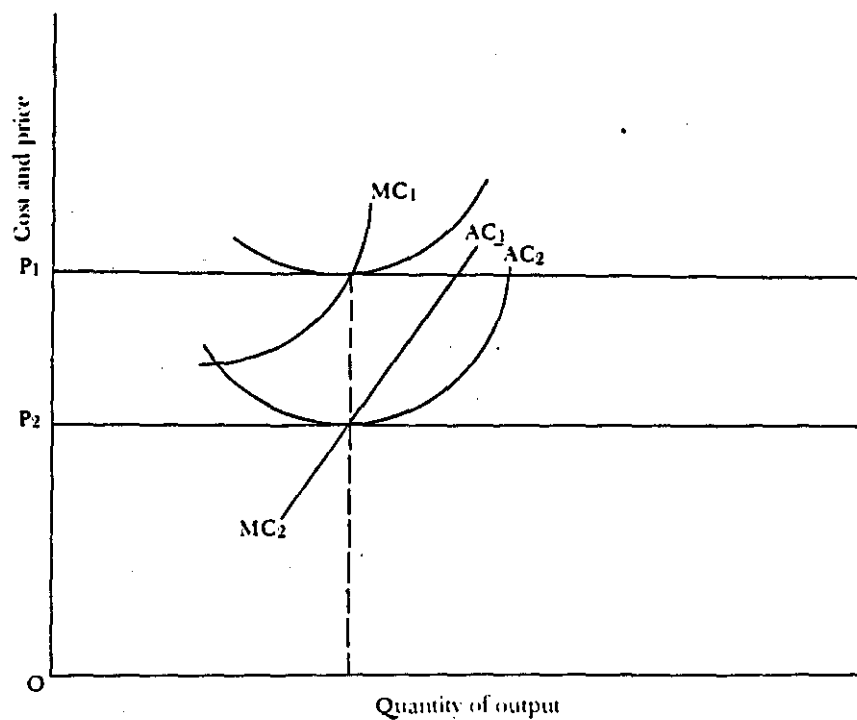


FIGURE15.- Cost Efficiency of Profit Sharing

Source: Wahid, A.N.M. (1986), "A Theoretical Justification of Islamic Banks", The Islamic Quarterly, Vol.XXX (Number 3)

### 1.7. DIFFICULTIES EXPERIENCED BY ISLAMIC BANKS

The first difficulty that the Islamic Banks face is that in most of their working locations they still perform their duties in economic, administrative, legal, cultural and social situations where non-Muslim features prevail in one form or another.

The position of the Islamic banks in all the countries is still that of a minority.

One of the most complex difficulties facing the Islamic banks, being a minority, is that they follow a system, a philosophy and a practice that do not meet with nor run parallel to the system, philosophy and practice of the hundreds of non-Islamic banks neighbouring them and living with them in the same community.

In the opinion of the laws of the countries where Islamic banks operate, banking should not be subject to any risks. Thus these laws stipulate certain restrictions in this respect.

Another difficulty facing the Islamic banks is a theological one, where opinions diverge and unonimity is difficult to attain. Coordination among Islamic banks, in this respect, faces various problems.

Still another difficulty facing the Islamic banks is to obtain the fast investment of liquid cash when available and the prompt arrangement therefore when needed, as the Islamic banks work is based on investment through partnership(musharaka) and requires a certain period of time for the study of the project to be financed.

The next difficulty facing the Islamic banks is a psychological one. The usury mentality still prevails among the masses. The depositor expects a return equal to the usury interest, if not more, and the "financed" expects to pay a return equal to the usury interest, if no less.

Another well-known difficulty facing the Islamic banks is the ethical one of being approached by adventurers to whom the usury banks do not, in principle, agree to make loans except against strong securities which the former are not prepared to offer. Some of these adventurers find in the Islamic banks a willingness, in principle, to take the risk of loss(Al-Naggar, 1984).

One of the problems faced by the Islamic banking movement has been the shortage of the personnel having an understanding of the concepts and principles of Islamic economics and the working of Islamic banks. This has had an adverse effect on the face of development and expansion of



Islamic banking. At the root of the problem was, of course, the fact that until recently there was no institution to educate and train personnel to meet the specific needs of the Islamic banks. So, the establishment of the International Islamic Institute of Banking and Economics in the Turkish Republic of Northern Cyprus for the training of personnel for the Islamic banks is a result of this kind of need (Mukarram, 1984 ; Muazzam, 1984).

The Islamic banks so far have done an extensive and intensive research in devising non-usurious procedures to utilize their funds. Very little research has been done in devising the tools to attract deposits. This may be so because they have not yet faced the shortage of deposits. But if they do not pay attention to devise the non-usurious tools to compete with the interest-bearing tools of raising deposits, then these banks are likely to face problem in their growth particularly when they are working side by side with the traditional banks.

Another factor that puts the Islamic banks at a disadvantageous position is that the Islamic banks have to supervise and in some cases manage the operation of the project that they are financing. This problem is serious in developing countries where the business enterprises,

generally, do not maintain proper accounts or keep different sets of account for different purposes. The presence of such malpractices will raise the cost of Islamic banking. Unless such fool-proof devices are developed that do not entail these extra costs for Islamic bankers, the growth of Islamic banking activities are likely to be constrained considerably.

Another important issue that the Islamic banking, in general, has so far ignored is the use of media. Even the Muslims are not very much aware of the fact that the Islamic banking is being practised in the world. The banks have not ever used an effective media to publicise their activities. Some reports did appear in American newspapers about Islamic banking but they are not enough for a proper publicity of the Islamic system in this sphere(Khan, M.Fahim ; 1983).

## 1.8. ISLAMIC BANKING IN TURKEY

In view of attracting overseas investors to invest in Turkey, legal regulations and implementations of the Turkish economy were restructured. These implementations were not directed to the assessment of Turkey from the point of view of foreign capital only within the framework of accustomed methods, but the introduction of new institutions has also been foreseen.

These institutions that have been introduced into Turkish Law under the title of "Special Financial Institutions (or Special Finance Houses)" represent a new implementation not only for Turkish economy, but also for persons who intend to realize investments in Turkey and to provide financing possibilities (Anitsal, 1987).

The first examples of Special Finance Houses, established within the framework of this regulation are those realized in partnership with Saudi Arabian capital. Al-Baraka Turkish Finance House and Faisal Finance Institution Inc. are the very first two examples (Karakoyunlu, 1984).

Special Finance Houses which were improved from the Islamic banking system according to the Turkish regulations are completely based on secular concepts from the

establishment, activity, profit sharing and liquidation's point of view. They are established as joint stock companies with a minimum of 100 shareholders; five of which having the status of founders; total paid up capital are not less than TL. 5 billion (T.C. Resmi Gazete, 1984).

#### PATTERNS OF MOBILISING AND UTILISING FUNDS

(A) In conformity with the regulations governing the Special Finance Houses, funds can be collected under two main forms:

(1) SPECIAL CURRENT ACCOUNTS. These accounts can be opened either in Turkish Lira or in Foreign Currency. The depositor receives the absolute obligation of SFI (Special Financial Institution) to return the deposited sum whenever claimed.

Naturally, the depositor receives no profit or any other form of revenue with respect to such guaranteed balances.

Special Current Account holders have the right to draw cheques on their accounts, as they wish.

(2) PROFIT AND LOSS SHARING ACCOUNTS. These accounts can be opened either in Turkish Lira or in Foreign Currency. Principally, the account holders, individuals or companies, participate in the profits and losses that will result from

utilization of the funds by SFI.

The accumulated funds are canalized to those reliable and profitable projects which contribute in the national economy of the country, through a brand new system.

(B) The main methods of utilising the funds SFI accumulated are :

(1) PRODUCTION SUPPORT (PURCHASE SALE). In this form, SFI provide its clients with capital goods, raw materials, machinery and equipment.

Under the contract terms, SFI purchases goods from a third party, at request of its client, and sells the goods to such client on deferred payment basis, by adding a reasonable profit margin on the purchase price, as mutually agreed upon.

(2) PROFIT AND LOSS PARTNERSHIP. Profit and Loss Sharing may be implemented for all the losses and profits to arise from the operations of the one who is utilising SFI's funds, as well as in the loss or profit that will result from a certain single operation, or the purchase of a certain consignment of goods. The ratio of profit and loss to be shared can be determined freely between the two parties.

To have individuals and companies utilize funds by means of profit and loss sharing system, a "Profit and Loss Sharing

Investment Contract" must be signed by these persons.

(3) LEASING. In conformity with the Financial Leasing Law Nr. 3226, the equipment, premises and similar facilities that are demanded by a client are provided and leased to the client with a rental agreed upon by both parties. The merchandise subject to the financial leasing may either be returned to the Institution, at termination of the leasing contract, or its ownership may pass to the leasee. These matters are determined freely in the contract to be signed between parties as mutually agreed upon (Faisal Finance Institution Inc./ Annual Report, 1985).

#### IMPACT OF ISLAMIC BANKING ON TURKISH ECONOMY

Such a system can support the economy from different aspects with its huge capital and different alternatives.

In industry sector, SFI can accelerate the use of expensive technological developments with a number of alternative ways, especially with leasing. By choosing the profit and loss participation method, cost of capital can be decreased while it allows to optimum use of capacity increasing production and stabilizing prices (Akin, 1984).

In construction sector, SFI can support the construction constructors working in international markets, especially in

Middle East region. Problems of construction firms related to the letter of credits can be solved, too.

In agricultural sector, these institutions can provide cheap import inputs and increase potential export possibilities, especially to the Middle East markets by financing agricultural industry. They can also mobilize the sources of some people who do not invest their money in the banks under interest system because they believe that the interest is forbidden by religion (Akin, 1984).

These institutions can bring capital from the oil-rich Islamic countries. When the lack of capital versus abundance of labor in Turkey is taken into consideration, it is understood that how beneficial will be to bring this capital to our country (Merki, 1986).

As a result of all the items supported by SFI, balance of payment is improved.

# CHAPTER II



## C H A P T E R I I

### II. THE RESEARCH METHODOLOGY

In the first part of this chapter, objectives of this study will be summarized. Then the type of research and investigated relationships will be presented. Next, sampling procedure will be discussed. After explaining the data collection procedure and survey instrument, the methods of analyses performed will be presented.

#### 2.1. RESEARCH DESIGN

##### 2.1.1. RESEARCH OBJECTIVES

The Islamic banking clientele in Turkish banking sector with appropriate comparisons of traditional bank depositors will be searched in the direction of the following questions:

1- What are the bank/SFI depositor group differences on the demographic characteristics?

2- Why do depositors save their money in banks and/or SFIs?

3- What is the attitude toward risk taking versus profit?

4- How are the savings distributed among different alternatives?

- 5- How do they use their unexpected money?
- 6- What are the factors influencing bank/SFI selection?
- 7- What are the information sources?
- 8- What are the current satisfaction level with bank/SFI, and future intentions?
- 9- What are the performance criteria for the evaluation of bank/SFIs' performance?
- 10- What are the sources of customers' funds?
- 11- What are the depositors' thoughts about some applications of SFIs?

#### 2.1.2. TYPE OF RESEARCH

This study was designed as a descriptive type of research which was undertaken in order to ascertain and to be able to describe the characteristics of the special financial institutions operating in the form of Islamic banks in Turkey.

Data were collected from bank and SFI depositors in July of 1987 to investigate the research questions. Data with respect to this research, which is a cross-sectional study have not been collected before from these institutions.

### 2.1.3. SAMPLING PROCEDURE

In this research, a predetermined proportion of people were sampled from different depositor groups, but on a convenience basis. So, quota sampling (a non-random form of proportionate stratified sampling) was the procedure used.

Saving depositors' demographic and socio-economic characteristics, market attitudes and perceptions, and investment decision process have been investigated among the clientele of two commercial banks -T.C. Ziraat Bankasi and Is Bankasi- and two Special Finance Houses - Al-Baraka Turk and Faisal Finance Institution Inc.- .

The sample size is determined by using the following formula which takes into account the required precision and confidence necessary to answer the research problem :

$$n = p ( 1 - p ) ( z / E ) ^ 2 \quad \dots(*)$$

where

n = sample size

p = % of saving deposits to total deposits.

The value of p is calculated as 54.81 % (Table 1)

---

(\*) Source : Turkes, Derya (1986); "An Investigation of the Individual Investors in Turkish Securities Market", M.B.A. Thesis, Bogazici University, p.34

$z$  = standard error for 90 % confidence

$E$  = difference between the expected proportion ( $p$ ) and the universe proportion; 10 % was chosen.

$$n = 0.5481 ( 1 - 0.5481 ) ( 1.64 / 0.10 )^2$$

$$n = 66.62$$

$$n = 67$$

The sample size is found 67, approximately.

They were planned to be drawn from the clientele of the banks representing the traditional banking sector and the special finance houses representing the Islamic banking sector in Turkey, proportional to their total saving deposits (Table 2.2. and Table2.3.).

TABLE 2.1. The Calculation of "p" value

End Of Year	% of saving deposits to total deposits		
	Turkish Banks		Foreign Banks
	State B.	Private B.	
1981	50.52	57.28	38.97
1982	56.39	57.52	54.61
1983	55.34	58.56	51.84
1984	58.06	62.97	51.87
1985	54.50	63.33	50.42
Mean	54.95	59.93	49.54
Grand Mean	: 54.81 %		

Source : Turkiye Bankalar Birligi

TABLE 2.2. Saving Deposits in Banks

Banks (End of year '85)	Saving Deposits (million TL)	Percentage in overall banking sector
T.C. Ziraat Bankasi	1,282,119	25.04
STATE BANKS	2,034,848	39.74
Is Bankasi	1,279,395	24.99
PRIVATE BANKS	2,992,189	58.44
FOREIGN BANKS	93,066	1.82
TOTAL	2,561,514	50.03
	5,120,103	100.00

Source : Turkiye Bankalar Birliđi, 1986

TABLE 2.3. Total Deposits in Special Financial Institutions

Special Financial Institutions	Total Deposits			
	1985		1986	
	(TL.000)	%	(TL.000)	%
Al-Baraka Turk	12,571,803	47.48	30,237,804	39.80
Faisal Finans	13,906,282	52.52	45,735,319	60.20
TOTAL	26,478,085	100.00	75,973,123	100.00

Source : Annual Reports '85 & '86 of Al-Baraka Turk and Faisal Finance Institution Inc.

The composition of the total sample as to their banks/SFIs is shown below :

TABLE 2.4. Composition of the Sample as to their Banks/SFIs

Bank/SFI	Frequency	Per cent	
<b>BANKS</b>			
T.C. Ziraat Bankasi	18	25.4	49.3
Is Bankasi	17	23.9	
<b>SPECIAL FINANCIAL INSTITUTIONS</b>			
Al-Baraka Turk	15	21.1	50.7
Faisal Finans	21	29.6	
<b>TOTAL</b>	<b>71</b>	<b>100.00</b>	

#### 2.1.4. DATA COLLECTION PROCEDURE AND SURVEY INSTRUMENT

The necessary data for this study were collected from primary sources by a structured and undisguised questionnaire, which is presented in Appendix A.

Face-to-face personal interviewing method of data collection was chosen, since it possesses the general

advantages of versality, flexibility and accuracy over mail and telephone surveys (Churchill,1983). According to Churchill, "With regard to length of questionnaire or amount of information to be collected, the general rule of thumb is that long questionnaires can be handled best by personal interview and least well by telephone interview." (1983, p.195).

Personal interviewing may remove the respondents' unwillingness and reluctance for cooperation to provide the information desired. Additionally, the problem of nonresponse due to refusals to participate is also typically lower with personal interviews than with either telephone interviews or mail administered questionnaires (Churchill, 1983).

The questionnaires were handed personally. The respondents' names were not solicited and they were assured of anonymity in the survey.

Seventy-three questionnaires were administered in the main branches of special financial institutions and branches of the two banks; namely Is Bankasi and Ziraat Bankasi, in Besiktas, regarding the missing ones, but luckily out of 73, 71 questionnaires were completed properly which is a little over the estimated sample size of 67 within 90 per cent confidence and 10 per cent error levels.



The survey instrument consisted of two main parts. The first part, which includes the questions one to twentytwo, covered the following elements:

- (1) Investment objectives
- (2) Attitude toward risk taking
- (3) Factors influencing bank/SFI selection
- (4) Information sources, and sources of customers' funds
- (5) Performance criteria for the evaluation of bank/SFI, and satisfaction level with these institutions
- (6) Other questions concerning specifically SFIs

Second part of the questionnaire included six demographic attributes as descriptors of depositor characteristics: sex, age, marital status, family's monthly income, occupation, and education attainment.

Required responses included the checking of multiple-choice categories, frequency, ranking and scaled rating evaluations, and the insertion of numbers and percentages. Ordinal and interval scales were utilized in addition to nominal and ratio scales. Interval scales were of four-points, removing the mid-point to reduce the indecisive responses.

#### 2.1.5. DATA ANALYSING METHODS

After gathering and coding the data, SPSS-X (Statistical Package for Social Sciences) program was utilized to perform the analyses needed. First of all, frequency analysis was conducted for all variables. Then, for the relevant variables chi-square/contingency analysis was utilized.

To examine whether or not there is a significant difference in the means of some variables for two groups, with regard to a quantitative (or continuous) dependent variable, t-test was used (Sekeran, 1984). In addition, factor analysis was applied in order to find a way of summarizing the information contained in a number of variables into a smaller set of new composite factors with a minimum loss of information (Hair, Anderson, Tatham, Grabloowsky, 1984).

## 2.2. RESEARCH FINDINGS

### 2.2.1. DEPOSITOR GROUP DIFFERENCES ON DEMOGRAPHIC CHARACTERISTICS

The questionnaire asked the depositors to specify the respective percentages of their portfolio which consists of only deposits in banks/SFIs. These percentages, asked in question number 7 (Appx. A), were used to identify the two main depositor groups which the analyses focused on: (1) Bank depositors, and (2) SFI depositors. In the case that the percentage of deposits invested in banks (or SFIs) exceeded 50 per cent of depositor's total portfolio, the respondent was regarded as a depositor in a bank (or SFI).

Chi-square test was used to test for the independence of the demographic characteristics with respect to depositor groups, and data from two groups of depositors namely bank and SFI depositors were cross tabulated. Table 2.5 summarizes the results of chi-square tests concerning the bank and SFI depositors.

Statistically significant relationship was found between the depositor type and sex (chi-square=4.961, d.f.=1, 10.003). As indicated by the contingency coefficient value,

TABLE 2.5. The Results of Chi-square Analyses Concerning Demographic Characteristics

Variables Type of depositor With :	d.f.	Chi-square	Either/Or Cramer's V Contingency Coefficient*	Lambda	Significance
Sex	1	4.961	0.293	0.226	0.0259
Age	2	2.467	0.193	0.097	0.2913
Marital Status	2	3.849	0.241	0.161	0.1459
Monthly Income	2	0.439	0.082	0.032	0.8029
Occupation	4	4.968	0.274	0.194	0.2906
Education	2	2.367	0.189	0.129	0.3062

strength of the relationship is moderate. A more detailed presentation of the significant finding appears in cross-classification Table 6.

TABLE 2.6. Depositor Groups vs Sex

Depositor Groups	Sex		
	Male	Female	
Bank	51.4	48.6	100%(35)
SFI	80.6	19.4	100%(31)

Chi-square=4.961 d.f.=1 Cont.Coeff.=0.293  $\alpha < 0.03$

Among the bank depositors, 51.4 per cent were male. Conversely, 80.6 per cent of the SFI depositors were male, and only 19.4 per cent of them were female.

Table 2.7 represents frequencies of demographic variables that "failed" to significantly differentiate the bank and SFI depositors. Though they were found insignificant, they might help to portray the customers of the banking sector, and depositor group profiles.

An overview of Table 2.7 reveals that there is no significant difference between bank and SFI depositors in

TABLE 2.7. Frequencies of Depositor Sample

Variable	Total Sample	Bank Depositor	SFI Depositor	Chi-square	Significance
SEX				4.961	0.026
Male	65.2%	51.4%	80.6%		
Female	34.8%	48.6%	19.4%		
AGE				2.467	0.291
Under 35	42.4%	42.9%	41.9%		
35-64	50.0%	54.3%	45.2%		
Over 64	7.6%	2.9%	12.9%		
MARITAL STATUS				3.849	0.146
Married	59.1%	48.6%	71.0%		
Single	33.3%	40.0%	25.8%		
Widowed/Divorced	7.6%	11.4%	3.2%		
MONTHLY INCOME				0.439	0.803
Under TL.200,000	40.9%	37.1%	45.2%		
TL.200,000-800,000	48.5%	51.4%	45.2%		
Over TL. 800,000	10.6%	11.4%	9.7%		

TABLE 2.7. (cont'd.)

Variable	Total Sample	Bank Depositors	SFI Depositors	Chi-square	Significance
OCCUPATION				4.968	0.291
Professional	19.7%	14.3%	25.8%		
Housewife/Retired	39.4%	42.9%	35.5%		
Small Business	15.2%	17.1%	12.9%		
Officer/Worker	16.7%	11.4%	22.6%		
University Student	9.1%	14.3%	3.2%		
EDUCATION				2.367	0.306
Up to lycee	33.3%	28.6%	38.7%		
Lycee	45.5%	54.3%	35.5%		
BA/BS/Master/PhD	21.2%	17.1%	25.8%		

cases of age, marital status, monthly income, occupation and education. 42.4 per cent of depositors are under 35 years old. Though the majority (50 per cent) of the depositors are middle aged people, 12.9 per cent of the SFI depositors are found to be older and above 64 years old. 59.1 per cent of them are married, the divorced/widowed group is only 7.6 per cent. 40.9 per cent of depositors earn less than TL. 200,000 in a month, and only 10.6 per cent of them earn more than TL. 800,000 in a month.

Approximately 20 per cent of the depositors are professionals including mostly university graduates working in private sector and quite large business owners. While housewife/retired people have a percentage value of 39.4, 16.7 per cent of depositors are officer/worker. The percentage of professionals and officer/workers who prefer SFIs, is greater than those who are bank depositors. In case of university students, the number of bank depositors exceeds four times the SFI depositors.

Among the bank depositors, 54.3 per cent hold at least a high-school degree and 17.1 per cent get their BA/BS, masters or PhD. Conversely, 38.7 per cent of the SFI depositors graduated from secondary school, and 25.8 per cent of them hold their BA/BS, masters or PhD.



The findings show that the majority of SFI depositors are male, middle-aged and married. In addition, they are either housewives or retired people. Most of them hold a secondary school/lycee diploma and one-fourth graduated from university. Their monthly earnings vary in a quite large range, up to TL. 800,000. On the other hand, bank depositors have similar characteristics with SFI depositors. The only exception is that they include both male and female people, equally distributed.

#### 2.2.2. CONTINUITY OF SAVINGS IN BANKS/SFIS

In order to find out the continuity of the savings in banks/SFIs, people were asked how many years they have been depositing in these institutions.

Table 2.8 summarizes the results of the frequency analyses indicating the mean values and standard deviations for each bank and SFI in which the questionnaires were utilized. Percentage of depositors who deposit in banks more than 5 years and in SFIs for 2 years was found to be a good tool in evaluating the continuity of savings.

TABLE 2.8. Continuity of Savings in Banks/SFIs

Banks/SFI	Mean	Standard Dev.	% of depositors <sup>+</sup>
Ziraat Bankasi	10.130	8.761	52.2
Is Bankasi	9.545	7.564	59.0
Al-Baraka Turk	1.500	0.516	50.0 <sup>++</sup>
Faisal Finans	1.579	0.507	57.8 <sup>++</sup>

+ percentage of depositors who deposit in banks more than 5 years.

++ percentage of depositors who deposit in SFIs for 2 years.

### 2.2.3. ANNUAL INCOME VERSUS SAVINGS

The respondents were asked how much of their annual income they can save, and the percentage saved in banks/SFIs within the last one year.

In Table 2.9, the results can be seen. People can save approximately one fifth of their annual income, and 80 per cent of the savings are deposited in banks/SFIs.

TABLE 2.9. Statistics Concerning Annual Income

	Mean	Standard Deviation
% of annual income saved	21.343	13.612
% of annual income saved in banks, within last one year	17.691	15.471

#### 2.2.4. INVESTMENT OBJECTIVES

Investment objectives are considered as important factors determining the choice of a depositor where to deposit in -bank or SFI. The questionnaire made the respondents rank, from one to four where one is denoted as primary goal. Protecting money against inflation, additional income, short-term capital gain and long-term capital appreciation are the mentioned deposit objectives.

Differences on investment objectives for the two groups were tabulated as frequencies (percentages) on Table 2.10, expecting that they might provide some additional information on group differences.

TABLE 2.10. Primary Investment Objectives

Variable	Total Sample	Depositors Bank	SFI	T Value	$\alpha$ Level
Protecting money against inflation				3.50	0.001
Very Important	20.7%	12.5%	30.8%		
Important	51.7%	43.8%	61.5%		
Somewhat Important	19.0%	28.1%	7.7%		
Unimportant	6.9%	12.5%	0.0%		
Very Unimportant	1.7%	3.1%	0.0%		
Mean	2.25	2.50	1.77		
Provide additional income				1.56	0.125
Very Important	50.0%	42.4%	59.3%		
Important	25.0%	24.2%	25.9%		
Somewhat Important	10.0%	15.2%	3.7%		
Unimportant	13.3%	15.2%	11.1%		
Very Unimportant	1.7%	3.0%	0.0%		
Mean	1.94	2.12	1.67		
Capital appreciation in Short-term				-0.03	0.972
Very Important	19.3%	25.8%	11.5%		
Important	12.3%	12.9%	11.5%		
Somewhat Important	52.6%	32.3%	76.9%		
Unimportant	15.8%	29.0%	0.0%		
Mean	2.65	2.65	2.65		
Capital appreciation in Long-term				-2.09	0.042
Very Important	8.8%	12.9%	3.8%		
Important	8.8%	16.1%	0.0%		
Somewhat Important	15.8%	19.4%	11.5%		
Unimportant	59.6%	38.7%	84.6%		
Very Unimportant	7.0%	12.9%	0.0%		
Mean	3.42	3.23	3.77		

Scale values for means :

Very Important	= 1	Unimportant	= 4
Important	= 2	Very Unimportant	= 5
Somewhat Important	= 3		

According to the both groups, capital appreciation in short-term appeared to be somewhat important. The mean values for bank and SFI depositors are found to be exactly same. But, on the other hand, only 32.3 per cent of bank depositors indicated it as "somewhat important" compared to 76.9 per cent of SFI depositors.

The differences between the means of the mentioned investment objectives of the depositor groups were tested by t-statistics. Table 2.10 also presents the results of two-tailed t-tests of the group means on each objective.

The differences between the two depositor groups in their reported investment goals did not appear statistically significant except for the objectives "protecting money against inflation" and "capital appreciation in long-term". It was found that a statistically significant (at the 0.001 and 0.042 levels, respectively) difference exists in the mean rankings of "protecting money against inflation" and "capital appreciation in long-term" objectives for the two groups.

While protecting money against inflation seemed to be

more important as a goal for the SFI depositors than that for the bank depositors, capital appreciation in long-term was more important for the bank depositors in contrast to the SFI depositors.

Although there is no statistically significant difference, while 67 per cent of the bank depositors are primarily concerned with additional income when depositing in banks/SFI, 85 per cent of the SFI depositors deposited for the same reason.

#### 2.2.5. ATTITUDE TOWARD RISK TAKING VERSUS PROFIT

The tenth question of the questionnaire(Appx. A), which asked what the respondents think about the means of investment of deposits. The question actually aimed to reveal the attitude toward risk taking of the depositors. It was measured on a scale of one to three : (1) no risk, no guarantee for profit (2) more risk, more profit possibilities (3) no risk, certain profit.

The highest percentage, 49.3 per cent answered the question by saying "more risk, more profit possibilities" and 40.8 per cent declared that they want to obtain certain profit without getting any risk.

Thus, 59.2 per cent (sum of (1) and (2) scaled

TABLE 2.11. Group Differences on the Attitude Toward Risk Taking Versus Profit

Dependent & Independent Variables	d.f.	Chi-square	Either/Or Cramer's V Contingency Coefficient*	Lambda	Significance
V84 V57	1	11.018	0.402	0.387	0.0009
V57 V67	3	4.666	0.256	0.069	0.1979
V57 V68	2	13.910	0.443	0.310	0.0010
V57 V69	3	0.102	0.039	0.000	0.9916

V57 : Profit vs risk

V69 : Sources of customers' funds

V67 : Efficiency criteria

V84 : Depositor type (bank/SFI)

V68 : Preference among SFIs

responses) of the depositors expect profit through Islamic thoughts/norms and other 40.8 per cent through non-Islamic ways.

Chi-square analysis was used to test for the independence of the related groups. As can be seen from the following Table 2.11., four different combinations were tried and only two of them were supported.

Statistically significant relationships were found between the depositor type and the preference among SFIs versus his(her) attitude toward risk taking, respectively (chi-square= 11.018, d.f.=1, 10.001 and chi-square=13.910, d.f.= 2, 10.001). As indicated by the contingency coefficient and Cramer's V values, strength of the relationships were moderate. A more detailed presentation of the significant findings appear in cross-classification tables; Table 2.13. and Table 2.14.

Among the SFI depositors, 80.6 per cent had an Islamic attitude toward profit, and only 19.4 per cent had an non-Islamic attitude, while this percentage reached 62.9 per cent among bank depositors.

The fifteenth question in the questionnaire (Appx. A) asks the respondents if they had an unexpected money from somewhere, in where they would save this money on a 3-itemed



nominal scale i.e. (1) Al-Baraka Turk, (2) Faisal Finans, (3) none of them. Faisal Finans was preferred by 50 per cent of the depositors who have Islamic attitude and only 13.8 per cent of the depositors who have non-Islamic attitude. There was no such a big difference between the numbers of the respondents having Islamic and non-Islamic attitude in the case of Al-Baraka choice. As can be expected, two thirds of the respondents would choose neither Al-Baraka Turk nor Faisal Finans due to their non-Islamic attitude toward risk taking in obtaining profit. On the other hand, 23.8 per cent of the depositors having Islamic attitude would not like to choose either Faisal Finans or Al-Baraka Turk.

TABLE 2.12. Depositor Groups vs Risk Taking Against Profit

Depositor Groups	Risk Taking Against Profit		
	Islamic	Non-Islamic	
Bank Depositors	31.7%	62.9%	100% (35)
SFI Depositors	80.6%	19.4%	100% (31)

Chi-square = 11.018, d.f. = 1, Cont.Coef. = 0.402,  $\alpha < 0.001$

TABLE 2.13. Risk Taking Against Profit vs Preference  
Among SFIs

Risk Taking Against Profit	Preference Among SFIs			
	Al-Baraka Turk	Faisal Finans	None	
Islamic	26.2%	50.0%	23.8%	100% (42)
Non-Islamic	20.7%	13.8%	65.5%	100% (29)

Chi-square = 13.910, d.f. = 2, Cramer's V = 0.443,  $\alpha < 0.001$

#### 2.2.6. DISTRIBUTION OF SAVINGS AMONG DIFFERENT ALTERNATIVES

The fifth question of the questionnaire (Appx.A) was constructed to see the distribution of savings in different alternatives consisting of gold, real estate, bank, SFI, security and foreign currency with respect to bank and SFI depositors.

On the one hand, the mean values and standard deviations; and on the other hand, the percentage values for each of these alternatives having a portion greater than 50 per cent in total savings of each depositor are presented in Table 2.14.

TABLE 2.14. Distribution of Savings Among Different Alternatives

	Mean % of Savings	Standard Dev.	+ % ...
Gold	37.67	26.12	44.4
Real Estate	39.67	30.44	40.0
Bank	52.23	36.19	59.1
SFI	68.58	34.64	75.8
Security	31.43	27.94	28.6
Foreign Currency	32.60	18.90	20.0

+ percentage values of the alternatives having a portion greater than 50 per cent in total savings of each depositor.

As seen from Table 2.14., SFI has the highest and security has the lowest mean percentage value in a portfolio including different investment alternatives. As a matter of fact, the highest mean percentage value and relatively lowest standard deviation were also found out in the alternative of SFI.

T-test analysis applied on each of the six investment alternatives did not result in statistically significant differences between the depositor groups, except in the case of bank. When we look at the significance of the bank alternative; we see that the mean values for each depositor

group are significantly different ( $p = 0.000$ ). 64.26 per cent of the bank depositors have viewed the banks as a good investment alternative; however, only 12.00 per cent of the SFI depositors have done so. On the other hand, when the other investment alternatives are considered, it will be seen that SFI depositors mostly prefer saving their money on real estate and foreign currency, while bank depositors on gold.

TABLE 2.15. T-test Results Concerning the Distribution of Savings

Distribution of Savings to Different Alternatives	Mean Values			$\alpha$ Level
	Bank Depositors	SFI Depositors	T Value	
Gold	44.62	22.00	1.79	0.122
Real Estate	28.13	50.00	-1.40	0.187
Bank	64.26	12.00	4.16	0.000
Foreign Currency	27.00	36.33	-0.49	0.660

Scale values for means : % amount of savings

#### 2.2.7. CHOICE FOR AN UNEXPECTED MONEY

The sixth question of the questionnaire (Appx. A) asks the depositors if they had an unexpected money from any source, which type of financial institution they would invest. The scale consisted of 5 equal interval terms where "1" indicated best and "5" indicated worst institution.

The differences between the bank and SFI depositors on each institution were sought by applying t-test (Table 2.16). The results of the t-test showed that only in two of the institutions, the responses of SFI depositors differed from that of bank depositors.

TABLE 2.16. T-test Results Concerning the Choice for an Unexpected Money

Choice for an unexpected money	Mean Values		T Value	$\alpha$ Level
	Bank Depositors	SFI Depositors		
State Banks	2.34	3.35	-2.38	0.021
Private Banks	2.55	2.86	-0.90	0.374
Bankers	3.97	4.35	-0.98	0.532
Special Fin. Ins.	3.00	1.14	8.01	0.000
Istanbul Stock Exch.	3.11	3.35	-0.56	0.580

Scale values for means : Best =1 through Worst =5

These results reveal that the bank depositors perceived themselves as more close to state banks when compared with SFI depositors. However, as far as the SFIs were concerned, the bank depositors were not as willing as the SFI depositors.

#### 2.2.8. FACTORS INFLUENCING BANK/SFI SELECTION

The 8th and 9th questions of the questionnaire (Appx.A) states the perceived importance of various factors used in selecting bank and/or SFI.

Tables 2.17. and 2.18. present the findings obtained in the t-test analyses of group differences. As seen from these tables, bank depositors were more sensitive to all the factors influencing the selection, in contrast to SFI depositors. The findings show that the rate of return and safety/guarantee for principal are the main influencers in making bank/SFI selection for both depositor groups.

There were statistically significant differences in cases of safety, expected return, interest payment date, reputation, "sirdas hesap" and guarantee for principal as factors influencing bank selection with respect to the depositor types. In the bank selection, bank depositors expressed that safety, guarantee for principal and expected return were the main criteria from the most important one to the least important, respectively. Although safety and guarantee for principal were the two most important factors influencing bank selection for the SFI depositors, respectively; statistically significant differences were

sought in the mean values with respect to the bank depositors.

When the SFI selection criteria were thought, it was found that there were significant differences in cases of safety, expected profit, sound, success and guarantee for principal from one depositor group to another. The most important factors for the bank depositors were same in bank and SFI selection. But, it is particularly noteworthy that the mean values of these factors are higher in SFI selection than in bank selection. This situation is also valid for the SFI depositors, too.

Factor analysis has also been applied to the four scales of the selection criteria for the banks and SFIs, respectively. As can be seen from Table 2.19. and Table 2.20., the three-factors explain 67.8 and 77.0 per cents of the variance of the original eight and six sources, respectively.

In the case of bank selection, it was clear that safety, expected return, interest payment date and maturity as a criterion loaded on the first factor; and reputation and success on the second factor; and "sirdas hesap" and

TABLE 2.17. T-test Results Concerning the Factors Influencing Bank Selection

Factors Influencing Bank Selection	Mean Values		T Value	$\alpha$ Level
	Bank Depositors	SFI Depositors		
Safety	3.66	3.19	2.24	0.029
Expected Return	3.26	2.42	3.44	0.001
Interest Payment Date	2.77	1.93	3.43	0.001
Maturity	2.46	2.19	1.04	0.303
Reputation	2.63	2.00	2.23	0.029
Success	3.11	2.67	1.60	0.116
"Sirdas Hesap"	1.94	1.32	2.59	0.012
Guarantee for Principal	3.51	2.87	2.53	0.014

Scale Values for Means :

Very Important = 1  
Unimportant = 2

Important = 3  
Very Important = 4



TABLE 2.18. T-test Results Concerning the Factors Influencing SFI Selection

Factors Influencing SFI Selection	Mean Values		T Value	$\alpha$ Level
	Bank Depositors	SFI Depositors		
Safety	3.79	3.30	2.59	0.012
Expected Profit	3.82	2.94	4.58	0.000
Maturity	2.71	2.35	1.49	0.142
Reputation	3.15	2.39	2.70	0.009
Success	3.29	2.71	2.34	0.023
Guarantee for Principal	3.79	2.87	3.98	0.000

Scale Values for Means :

Very Unimportant	= 1	Important	= 3
Unimportant	= 2	Very Important	= 4

TABLE 2.19. The Results of Factor Analysis Concerning the Bank Selection Criteria

Variables	F A C T O R S			Communality
	F1	F2	F3	
Safety	0.57977			0.48151
Expected Return	0.67395			0.61968
Interest Payment Date	0.87155			0.77973
Maturity	0.81005			0.67078
Reputation		0.72807		0.59598
Success		0.88516		0.78607
"Sirdas Hesap"			0.86164	0.81693
Guarantee for Principal			-0.51900	0.66988
Eigen Value	3.00430	1.29145	1.12482	
Percentage of Var.	37.6	16.1	14.1	
Cumulative Pct.	37.6	53.7	67.8	

TABLE 2.20. The Results of Factor Analysis Concerning the SFI Selection Criteria

	F A C T O R S			Communality
	F1	F2	F3	
Safety	0.82917			0.71906
Expected Profit			0.71547	0.73479
Maturity			0.91691	0.85814
Reputation		0.83291		0.74079
Success		0.87597		0.77449
Guarantee for Principal	0.87954			0.79183
Eigen Value	2.33946	1.16904	1.11060	
Pct. of Var.	39.0	19.5	18.5	
Cumulative Pct.	39.0	58.5	77.0	

guarantee for principal on the third factor; after the varimax rotation.

On the other hand, in the case of SFI selection, it was found that safety and guarantee for principal as a criterion loaded on the first factor; and sound and success on the second factor; and expected profit and maturity on the third factor; after the rotation.

#### 2.2.9. USEFULNESS OF THE INFORMATION SOURCES

The eleventh question of the questionnaire (Appx. A) was designed in order to find out whether there was any difference from one depositor group (bank depositors) to another (SFI depositors) with respect to the usefulness of information sources in selecting a bank/SFI to deposit in.

The depositors were asked to rate the value of the various information sources (on a scale one to four) according to their usefulness. Banks/SFIs, professional investment counselor, financial papers/periodicals, annual reports of banks/SFIs, TV/newspaper advertisements, and recommendations of friends and relatives were considered as the information sources used in investment decisions.

Table 2.21. represents the mean values and standard

deviations of each information source. Besides, the percentage values of the "generally useful" and "always useful" responses with respect to the bank and SFI depositors were also shown in that table.

TABLE 2.21. Usefulness of the Information Sources

Information Source	Mean	Stand.Dev.	% of ... <sup>+</sup>
Bank/SFI	3.042	1.034	78.8
Investment Counselor	2.662	1.055	65.1
Financial Papers/ Periodicals	2.465	1.040	54.5
Annual Reports of Banks/SFIs	2.493	1.094	59.1
TV/Newspaper Advertisements	2.056	1.068	34.8
Recommendations of Friends and Relatives	2.563	1.079	57.6

+ percentage of "generally useful" and "always useful" responses

Scale for mean values:

Not Useful	= 1	Generally Useful	= 3
Occasionally Useful	= 2	Always Useful	= 4

As seen from Table 2.21., the highest mean value and also

the lowest standard deviation were found to be the choice of bank/SFI as an information source. On the contrary, the lowest mean value and one of the most highest standard deviations appeared to be TV/newspaper advertisements.

It is also noteworthy that, with regard to the usefulness of the information gathered, majority of the both groups (approximately 80 and 65 per cents, respectively) appeared to consider the most and the least valuable information they get from banks/SFIs and TV/newspaper advertisements, respectively. As seen from Table 2.22., the recommendations of friends and relatives were regarded as generally/always useful by 74.1 per cent of the SFI depositors, in contrast to 42.8 per cent of the bank depositors.

The results of the utilized t-tests in testing the depositor group differences indicated that only the recommendations of friends and relatives have a stronger effect on the SFI depositors when compared to the bank depositors, as shown in Table 2.23.

TABLE 2.22. Usefulness of the Information Sources

Variable	Total Sample	Depositors Bank	SFI	T Value	$\alpha$ Level
Banks/SFI				1.08	0.286
Not Useful	12.1%	11.4%	12.9%		
Occasionally Useful	9.1%	11.4%	6.5%		
Generally Useful	37.9%	22.9%	54.8%		
Always Useful	40.9%	54.3%	25.8%		
Mean	3.04	3.20	2.94		
Investment Counselor				-1.16	0.252
Not Useful	19.7%	25.7%	12.9%		
Occasionally Useful	15.2%	14.3%	16.1%		
Generally Useful	42.4%	40.0%	45.2%		
Always Useful	22.7%	20.0%	25.8%		
Mean	2.66	2.54	2.84		
Financial Papers/Periodicals				-1.27	0.209
Not Useful	27.3%	34.3%	19.4%		
Occasionally Useful	18.2%	20.0%	16.1%		
Generally Useful	40.9%	31.4%	51.6%		
Always Useful	13.6%	14.3%	12.9%		
Mean	2.47	2.26	2.58		
Annual Reports of Banks/SFIs				0.24	0.814
Not Useful	27.3%	22.9%	32.3%		
Occasionally Useful	13.6%	14.3%	12.9%		
Generally Useful	42.4%	51.4%	32.3%		
Always Useful	16.7%	11.4%	22.6%		
Mean	2.49	2.51	2.45		
TV/Newspaper Advertisements				-1.63	0.108
Not Useful	43.9%	54.3%	32.3%		
Occasionally Useful	21.2%	17.1%	25.8%		
Generally Useful	22.7%	20.0%	25.8%		
Always Useful	12.1%	8.6%	16.1%		
Mean	2.06	1.83	2.26		
Recommendations of Friends and Relatives				-3.18	0.002
Not Useful	24.2%	37.1%	9.7%		
Occasionally Useful	18.2%	20.0%	16.1%		
Generally Useful	36.4%	31.4%	41.9%		
Always Useful	21.2%	11.4%	32.3%		
Mean	2.56	2.17	2.97		

## Scale Values for Means:

Not Useful	= 1	Generally Useful	= 3
Occasionally Useful	= 2	Always Useful	= 4

Where should people go when they want to open any kind of account in one of the SFIs? (Appx.A, Question 18). This was the question asked to the depositors in order to determine whether they knew correctly what to do and where to go.

The findings are as indicated in Table 2.23., below :

TABLE 2.23. Communication Level with Public

Institution	Number of Respondents	Percentage of Respondents
Is Bankasi/Vakiflar Bankasi	33	47.8
Any Branches of Banks	10	14.5
PTT	9	13.0
Don't Know	9	13.0
Akbank/Ziraat B./Pamukbank	8	11.6
TOTAL	69	100.0

According to Table 2.23., an interesting finding that can be pointed out is that out of the respondents, who



indicate they know what to do, when they want to open an account in one of the SFIs, 45 per cent does not really know what to do, and the majority (65 per cent) knows the right choice, which is the branches of Is Bankasi and Vakiflar Bankasi. Regardless of the fact that 47.8 per cent of the respondents gave the right answer, they could not know the last change in the banks, in which the existing Islamic banks entered into correspondent relationship with not only Vakiflar Bankasi, but also Turk Ticaret Bankasi instead of Is Bankasi.

#### 2.2.10. SATISFACTION LEVEL WITH BANK/SFI AND FUTURE INTENTIONS

Level of satisfaction was measured by utilizing question 13 (Appx. A) "How satisfied are you with your bank/SFI in which most of your deposits invested in?". Four-point scale which was composed of (1) very satisfied, (2) quite satisfied, (3) not much satisfied, (4) not satisfied at all, was utilized.

The highest percentage, 35.7 per cent answered the question by saying "very satisfied", and 52.9 per cent mentioned that they are quite satisfied with their bank/SFI. None of the depositors emphasized that they are not satisfied at all. The mean value for the satisfaction level was 1.76

with a standard deviation of 0.65 .

Table 2.24. presents the results of two-tailed t-test of the group means on the satisfaction level with bank/SFI. A statistically significant difference was not found in the mean rankings of satisfaction level for the two depositor groups, namely bank and SFI depositors.

TABLE 2.24. T-test Results Concerning the Satisfaction Level with Bank/SFI

	Mean Value		T Value	$\alpha$ Level
	Bank Depositors	SFI Depositors		
Satisfaction Level with Bank/SFI	1.86	1.63	1.42	0.160

Scale Values for Means :

Very Satisfied	= 1	Not Much Satisfied	= 3
Quite Satisfied	= 2	Not Satisfied At All	= 4

Factors influencing the satisfaction level was found to be low/high returns, convenience/good dialogue, inadequate service, interest-free basis and safety. Frequency distributions of these items are as follows :

TABLE 2.25. Frequency Distribution of the Factors Influencing the Satisfaction Level

	Frequency	Per cent
Convenience/Good Dialogue	21	34.4
Safety	16	26.2
Interest-free Basis	14	23.0
High Return	4	6.6
Low Return	3	4.9
Inadequate Service	3	4.9
TOTAL	61	100.0

As seen from Table 2.25., convenience/good dialogue and safety have the highest percentage values, 34.4 and 26.2 per cents, respectively. Moreover, interest-free basis having a 23.0 per cent value is quite important, especially from the SFI depositors' point of view.

Future intentions related to deposit decisions were asked by questions 20 and 21 "Are you planning to change your bank and/or SFI in future?" and if the answer is "yes", "How?" (Appx. A). 77.5 per cent of the respondents pointed out that they have no intention to change their banks/SFIs. Out of 22.5 per cent "yes" answers, Al-Baraka Turk/Faisal

Finans and Is Bankasi have a portion of 38 and 12 per cent, respectively. Other 50 per cent stated that their decisions will heavily depend on the prospective rate of return.

Chi-square test was used to analyze the independence of the future intentions of the depositor groups, namely bank and SFI depositors. Table 2.26. summarizes the results.

Statistically, significant relationship was found between the depositor type and their future intentions (chi-square = 4.022, d.f.= 1, cont. coeff. = 0.275,  $\alpha < 0.05$ ). As indicated by the contingency coefficient value, strength of the relationship is quite moderate.

According to SFI depositors, their intentions in future is almost not to change their institutions where they have already deposited in (93.5 per cent of SFI depositors). Furthermore 28.6 per cent of bank depositors which is 4.4 times of SFI depositors, want to change their banks/SFIs.

Out of the depositors who have a tendency to change their bank/SFI, 44.4 per cent indicated that one of the banks will be the new choice in the future. Remaining, namely 55.6 per cent will consider to choose one of the SFIs. In addition, almost all of the respondents mentioned only one bank/SFI name as an alternative for their future choices.

TABLE 2.26. Future Intentions of the Depositor Groups

Depositor Groups	Possible Changes		
	yes	no	
Bank Depositor	28.6%	71.4%	100% (35)
SFI Depositor	6.5%	93.5%	100% (31)

Chi-square = 4.022, d.f. =1, cont.coef. = 0.275,  $\alpha < 0.05$

Question 15 (Appx. A) was asked to the respondents in order to understand the preference between the two SFIs, namely Al-Baraka Turk and Faisal Finance Institution. An overview of the results reveals that the depositors prefer either Al-Baraka Turk or Faisal Finans with 23.9 and 35.2 percentage values, respectively. Furthermore, 40.8 per cent of depositors chose neither of them.

#### 2.2.11. THE PERFORMANCE CRITERIA FOR THE EVALUATION OF BANK/SFI

The respondents were asked to indicate the primary standard against which they compare their bank/SFI performance (Appx. A, Question 14), and chi-square analysis was utilized to determine the degree of the association between the depositor type and primary performance criterion used in assessing the investment success.

As shown in Table 2.27., the relationship between the variables are significant below 0.09 level. The value of Cramer's V suggests that there is moderate association between the "bank/SFI performance criterion" and depositor groupings based on their deposit composition.

In short, the two depositor groups have different criterion to judge their investment performance results.

When asked about the performance criterion used in the evaluation of the bank/SFI, some 39 per cent of the SFI depositors indicated that they employed inflation rates as benchmark, while this per cent decreased to 14.3 per cent in case of the bank depositors. 41.4 per cent of the bank depositors, on the other hand, selected their personal insight in evaluating these institutions when compared to 12.9 per cent of the SFI depositors. Nearly 15 per cent of the both groups stated "gold prices" as their primary standard against which to compare their institutions' performance. "Interest rates/profit share rates" was chosen by 40.0 per cent of the bank depositors, in contrast to 32.3 per cent of the SFI depositors.

Bank depositors considered interest/profit share rates as having primary importance and inflation rates as secondary. For the SFI depositors, the reverse case was

TABLE 2.28. Depositor Groups vs Ratios/Standards Used As Efficiency Criteria

Depositor Groups	Efficiency Criteria				
	Interest/Profit Share Rates	Inflation Rates	Gold Prices	Personal Standards	
Bank Depositors	40.0%	14.3%	14.3%	31.4%	100 (35)
SFI Depositors	32.3%	38.7%	16.1%	12.9%	100 (31)

Chi-Square = 6.598      d.f. = 3      Cramer's V = 0.316       $\alpha < 0.09$

valid.

#### 2.2.12. SOURCES OF CUSTOMERS' FUNDS

The sources of funds available to be deposited in one of the SFIs were asked in 16th question (Appx.A). It was measured on a scale of one to four : (1) bank, (2) gold, (3) idle money, and (4) current income.

The depositors were asked what they would do, if they were willing to deposit in SFIs. According to given answers, 9.9 per cent of depositors would give up to invest their money on gold and prefer to cooperate with SFIs. 7 per cent of depositors would use their current income; whereas, 18.3 per cent of them would prefer to close their bank accounts and suprisingly 62 per cent of them would transfer their idle money to SFIs.

The differences between the two depositor groups in their declared sources which may be deposited in SFIs, appeared statistically significant as indicated in Table 2.28.

As seen from Table 2.28., the bank depositors, who mentioned that they would prefer to close their bank accounts, have a percentage value of 34.3, in contrast, only 3.4 per cent of the SFI depositors would do so. Current



TABLE 2.29. Depositor Groups vs Sources of Customers' Funds

Depositor Groups	Sources of Customers' Funds				
	Bank	Gold	Idle Money	Current Income	
Bank Depositor	34.3%	8.6%	54.3%	2.9%	100% (35)
SFI Depositors	3.4%	10.3%	72.4%	13.8%	100% (29)

Chi-Square = 10.740    d.f. = 3    Cramer's V = 0.410     $\alpha < 0.01$

income of 13.8 per cent of SFI depositors and 2.9 per cent of bank depositors would be invested in SFIs.

In case of gold, the percentages of the two groups are almost equal to each other. The depositors who would use their idle money, is surprisingly very high, over 50 per cent for both groups, indicating respondent do not want to forego their present financial sources to deposit in SFIs. The SFIs' percentage is 72.4 and the bank depositors' percentage is 54.3 .

### 2.2.13. DEPOSITORS' THOUGHTS ABOUT SOME APPLICATIONS OF SFIS

#### 2.2.13.1. EFFECTS OF THE MINIMUM LEVEL OF SAVING REQUIREMENT

It is possible to open an account in SFIs with at least TL 100,000 . The effect of this application was searched. As a result, according to depositors this did not cause serious difficulties. 77.5 per cent of the depositors answered the related question as "no problem". On the other hand, a small percentage of them, 22.5 per cent, viewed it as an obstacle.

#### 2.2.13.2. THE USEFULNESS OF THE CORRESPONDENT BANKS

As mentioned in question 18 (Appx.A), savings can be transferred to SFIs from the correspondent banks as a result of special agreements. The correspondent banks are Vakiflar

Bankasi which is working with Al-Baraka Turk, and Turk Ticaret Bankasi and Vakiflar Bankasi which are working with Faisal Finance Institution.

This application was found to be "very useful" by 15.7 per cent of all depositors, "useful" by 60 per cent of them and finally 24.3 per cent found it either "useless" or very useless.

Besides the frequency analysis applied to the statement concerning the usefulness of correspondent banks, the differences between bank and SFI depositors on this statement were sought by applying t-test. The result in Table 2.29. reveals that there is no significant difference from one depositor group to another.

TABLE 2.29. T-Test Results Concerning the Usefulness of Correspondent Banks

	Mean Value		T Value	$\alpha$ Level
	Bank Depositors	SFI Depositors		
Usefulness of Correspondent Banks	2.71	2.93	-1.09	0.279

Scale Values for Means :

Very Useless	= 1	Useful	= 3
Useless	= 2	Very Useful	= 4

### 2.2.13.3. PREFERENCE BETWEEN SFIS

The preference between SFIs was analyzed in section 2.2.5. with respect to Islamic/non-Islamic attitudes. Here, the same analysis was performed for the depositor types.

The results can be found in Table 2.30.

There is a significant relationship between the depositor type and their preferences between SFIs (chi-square = 31.367, d.f. = 2, Cramer's V = 0.689,  $\alpha$  = 0.000). As indicated by Cramer's V, strength of the relationship is very strong.

Bank depositors would not like to select any of the SFIs (74.3 per cent). Among the ones willing to deposit in SFIs, 14.3 per cent would select Faisal Finans and 11.4 per cent would select Al-Baraka Turk. On the contrary, 64.5 per cent of the SFI depositors would like to deposit in Faisal Finans, 29.0 per cent of them would like to deposit in Al-Baraka Turk. Only 6.5 per cent of them wanted neither of the SFIs.

TABLE 2.31. Depositor Groups vs Preference Among SFI's

Depositor Type	Preference Among SFI's				
	Al-Baraka Turk	Faisal Finans	None		
Bank Depositors	11.4%	14.3%	74.3%	100%	(35)
SFI Depositors	29.0%	64.5%	6.5%	100%	(31)

Chi-Square = 31.367    d.f. = 2    Cramer's V = 0.689     $\alpha=0.000$

### 2.3. LIMITATIONS OF THE STUDY

This study has certain limitations that should be taken into consideration when read.

Interpretation of the results must be subject to the following limitations, regarding the sample :

The sample was taken from one point in time, and quite small in size for that kind of field research in banking sector. Further, it was not scientifically distributed among the branches of banks and SFIs.

Since the conclusions drawn from the results reflected the attitudes and opinions of a certain group of people, the generalizations of these conclusions may not be relevant to all depositors of the Turkish banking sector.

The lack of literature regarding the similar type of research in banking sector was another limitation of the study, which could have been helpful to the writer with this study.

# CHAPTER III

## C H A P T E R    I I I

## I I I . S U M M A R Y , C O N C L U S I O N S A N D I M P L I C A T I O N S

This research aims to explore and describe the characteristics of SFI depositors, and study the differences between SFI depositors and bank depositors in their demographic characteristics, investment objectives, decision mechanics, market attitudes and rate of return perceptions.

The study included 36 SFI depositors and 35 bank depositors, which added up to a total of 71 respondents.

The study conducted is a descriptive research. The necessary data for this study was collected from the clientele of the two SFIs and two banks; namely Ziraat Bankasi, Is Bankasi, Al-Baraka Turk and Faisal Finance Institution, by structured and undisguised questionnaire.

After gathering and coding the data, SPSS-X program was utilized and various analysis methods were used to perform the analysis needed.

The conclusions and implications of this study will be discussed in the following two sections :



### 3.1. CONCLUSIONS OF THE SURVEY FINDINGS

#### 3.1.1. PERSONAL CHARACTERISTICS

One of the significant insights revealed by the study is that frequently used demographic variables are of little value in discriminating between two depositor groups, which are bank and SFI depositors.

The findings show that the majority of depositors are male, relatively young and married. In addition to, they are either housewives or retired people. Most of them hold a lycee diploma and earn less than TL. 200,000 in a month.

The dominant discriminating demographic variable is "gender"; that overriding "marital status" as a personal characteristics which make a relatively modest contribution to the explanation of difference between the two depositor groups.

While most of the SFI depositors are male, only half of the bank depositors are male. Two-thirds of the SFI depositors are married; in contrast, half of the bank depositors are married. The number of widowed or divorced people is too low in case of SFI depositors with respect to bank depositors.

### 3.1.2. INVESTMENT OBJECTIVES

As an investment objective, the primary concern of the both depositor groups is "to provide additional income". SFI depositors, who also seek for the prevention of their money from inflation, give relatively more emphasis on this goal.

Preventing money from inflation appears to be the second important investment goal for the SFI depositors and discriminates the two depositor groups in statistically significant manner.

Another statistically significant result is that; capital appreciation in long term is more important for the bank depositors in contrast to the SFI depositors even though, in general, it is not so much important.

Although their primary concern was "to provide additional income" when depositing in banks/SFIs, bank depositors use interest/profit share rates as primary criteria and personal standards as secondary in evaluating their banks. Similarly SFI depositors use inflation rates as primary and interest/profit share rates as secondary criteria in their performance evaluations.

### 3.1.3. DISTRIBUTION OF SAVINGS AMONG DIFFERENT ALTERNATIVES

Findings clearly show that the bank depositors mostly prefer to deposit in banks, on the contrary SFI depositors usually prefer one of the SFIs. Furthermore, bank depositors perceive themselves as more close to the state banks when compared with SFI depositors. All depositors were asked to give a value out of hundred to different saving alternatives, SFIs are found to be the first one. This result arises due to the SFI depositors who deposit a quite high percentage of their income to SFIs.

As far as other investment alternatives; such as private banks, bankers and Istanbul Stock Exchange are considered, it is clear that bank and SFI depositors do not differ from each other in endoming their money among these alternatives.

### 3.1.4. FACTORS INFLUENCING BANK / SFI SELECTION

All depositors were asked to list their bank selection criteria, and according to their answers, the results are as follows :

Bank Selection Criteria :

- 1-2 Safety and guarantee for principal
- 3 Expected return
- 4 Interest payment date
- 5 Reputation
- 6 Sirdas hesap

A similar list for SFI selection criteria is also found to be as follows :

SFI Selection Criteria :

- 1 Expected profit
- 2-3 Safety and guarantee for principal
- 4 Success
- 5 Reputation

Both bank and SFI depositors consider "safety" as the most important selection criterion. Bank depositors expect guarantee for their principals from their banks, after safety. Next, expected return comes as another selection criterion. The reverse case is valid for SFI depositors, i.e. expected profit is more important than guarantee for principal.

To summarize: bank depositors seem to be more consistent with their selections, evaluate different factors more carefully and decide accordingly.

### 3.1.5. INFORMATION SOURCES

Depositors prefer to go and take information directly from the institution (namely, bank or SFI), in which they are thinking to deposit.

Investment counselors are the next important source. It is also important to point out that the recommendations of friends and relatives influence the depositors' selections significantly. As the results of the study reveal; suprisingly, TV and newspaper advertisements have a very little impact as an information source on depositors.

When bank depositors are analyzed as a group, they use banks as first and investment counselors as second information source. Annual reports of banks appear to be the next important source. In the case of SFI depositors, recommendations of friends and relatives are the worthiest information sources, followed by SFIs and investment counselors. The research indicates that only half of the SFI depositors know which institutions they can cooperate with in order to open any kind of account in one of the SFIs. This shows that they can not gather healthy information from their most important source, namely the recommendations of friends and relatives.

### 3.1.6. SATISFACTION LEVEL WITH BANK/SFI

Both bank and SFI depositors are quite satisfied with their banks/SFIs. The most important factor influencing the satisfaction level is convenience and good dialogue. The research has also clarified that safety and interest-free basis are the other two important factors which make depositors feel themselves satisfied or not.

It is also noteworthy that the rate of return has not so much effect on satisfaction level even though it is one of the key factors affecting the bank/SFI selection.

Although there is no statistically significant difference between the two depositor groups with respect to satisfaction level, SFI depositors are more persistent on keeping their current institutions than bank depositors.

Findings clearly show that two-thirds of depositors have no tendency to change their banks/SFIs, while the others consider one of the SFIs as a new alternative to be deposited in.

If the depositors are made prefer one of the SFIs, three-fourths of the bank depositors, and two-thirds of the depositors, who have un-Islamic attitude, reject to choose any, whereas the rest of them mostly prefer Faisal Finans and

Al-Baraka Turk, respectively. Furthermore, depositors who have Islamic attitude prefer Faisal Finans rather than Al-Baraka Turk.

### 3.1.7. CONSLUSIONS ON OTHER FINDINGS

#### Sources of Customers' Funds:

It is suprisingly found out that idle money is the main source of funds deposited in bank/SFI for both the depositor groups. Furthermore, in case of a new investment alternative, bank depositors call their money in banks, while SFI depositors use their current income, and then gold.

#### Some Applications of SFIs:

The study on usefulness of the applications revealed by SFIs show that minimum level of saving requirement (TL.100,000) is not a real obstacle for the depositors and the correspondent banks working with the SFIs in gathering depositors' funds are mostly being evaluated as a good breakthrough by the depositors.

#### Other Characteristics of Depositors:

Respondents who are equally distributed to the traditional and Islamic banks, save one-fifth of their annual income, whereas most of these savings are deposited in banks/SFIs.

### 3.2. IMPLICATIONS OF THE STUDY

#### 3.2.1. IMPLICATIONS FOR THE MARKETERS

Executives of banks and special financial institutions are interested in improving the efficiency of their marketing activities and need a great deal of information about their clientele and the general nature of the market.

Since both depositor groups strongly emphasized the importance of having an additional income over the current inflation rate by saving their money with the banks and/or SFIs, the executives should focus on this aspect and direct their marketing efforts accordingly.

One of the most important attributes of both bank and SFI depositors for bank/SFI selection is safety of their deposits and guarantee for the principal. External auditing system, when fully established, will increase the reliability of documents published by the institutions, and by the way, improve their credibility and will assist every party involved. Another essential finding among the factors influencing bank/SFI selection is the fact that banks should give more attention to their clients' expected rate of returns besides other factors mentioned above, with respect to SFIs.



It is a fact that in Turkey, there is a lack of information sources concerning the financial institutions and instruments. The data showed that depositors seek such sources but can not find much, especially in the case of SFIs. For instance, half of the respondents do not know even where to apply to open an account rather than SFIs. This gap could be closed by more intensive presentation of their activities, and initiating informative publications reachable by clients. On the other hand, especially SFIs should be aware of that their clients are very sensitive to the recommendations of the friends and relatives, and try to avoid any negative impact on their current clientele. As far as the findings are concerned, TV and newspaper advertisements do have very little impact on depositors. It may be logical to be cautious or even quit using newspaper for current and near future ads, and continue TV ads having different contents focusing on how the institution really differ from other ones.

The satisfaction level of clients is strongly related to the convenience and good dialogue with their institutions, so banks and SFIs should be conscious about this fact and try to keep relationships with their clientele at a satisfactory level. Even though most of the SFI depositors are more conservative in case of their institutions than bank

depositors and have an Islamic attitude, SFIs should take care of not to endanger the trust of their clients, and try to keep their Islamic behavior.

The findings show that most of the standard demographic attributes are not important discriminators between the two groups. Thus, there may be little competitive advantage to be gained by an institution by appealing directly to these attributes.

### 3.2.2. IMPLICATIONS FOR THE RESEARCHERS

In spite of its limitations this research, being the first study on the issue, may provide a useful point of departure for studying the Islamic banking clientele in Turkish banking sector.

It is suggested to study a large and representative sample<sup>\*</sup> of depositors which will be more helpful to the marketer in decision making, even though the sample in this study was not so limited. Furthermore, it would be very useful to distribute the sample between the two banking groups (traditional and Islamic) equally, but also including the branches in different locations, and considering some other banks being representatives of foreign banks and minor

traditional banks.

In this study, only saving depositors were incorporated into the analysis, while studies including other respondent groups, such as commercial depositors and borrowers would also be very useful when investigating the different depositor groups for market segmentation purposes.

Useful information may also be found if other various data analysis methods, not performed in this study, were used with respect to discriminating demographic characteristics.

Analyzing the differences between bank depositors and SFI depositors with respect to their demographic characteristics would also be very useful to better understand the individuals in the banking sector.

Regardless of how well it looks in the abstract, the pretest provides the real test of questionnaire and the mode of administration. Actually, at least two pretests should be conducted. The first should use personal interviews, and after all the troublesome spots have been smoothed over, a

---

\* The recommended sample size with 95 per cent of confidence level and 5 per cent of E value is equal to 381 respondents instead of 67 respondents in case of 90 per cent of confidence level and 10 per cent of E value.

second pretest using the normal mode of administration should be conducted. The data collected in the pretest should then be subjected to the analyses planned for the full data set, as this will reveal serious omissions or other shortcomings while it is still possible to correct these deficiencies (Churchill, 1983).

It was found that the clients having Islamic attitude prefer Faisal Finans, and on the contrary, clients having un-Islamic attitude prefer Al-Baraka Turk. The reasons behind this conclusion may provide useful information to the researchers and also marketers.

This study has two main contributions, one to literature the other to the marketer.

It contributes to literature as this study differentiates two main (saving) depositor groups, and as it is most likely the first research done about the Islamic banking clientele in Turkish banking sector.

It contributes to the marketer, by helping them to understand and get to know their market in order to take right decisions and effectively allocate marketing effort.

# **APPENDICES**

## A N K E T

Boğaziçi Üniversitesi İşletme Bölümünde Özel Finans Kurumları konusunda hazırlamakta olduğum Master Tezi'nin önemli bir bölümünü oluşturacak bu anketi özenle yanıtlamanızı rica eder, ayırdığınız kıymetli zaman ve işbirliğiniz için teşekkürlerimi sunarım.

Ankette yer alan "Özel Finans Kurumları" terimi, halen ülkemizde faaliyetlerini sürdüren Al-Baraka Türk ve Faisal Finans Kurumlarını temsil etmektedir.

Ankete verdiğiniz yanıtların gizliliğini sağlamak amacıyla kesinlikle kimlik belirtmeniz gerekmeyecektir.

Asagidaki sorulari lutfen en uygun kutuyu isaretleyerek ya da bosluklara yazarak isaretleyiniz.

- 1- Tasarruflarinizi yaklasik kac yildir asagida belirtilen bankalarda ve/veya Ozel Finans Kurumlarinda degerlendiriyorsunuz?

Ziraat Bankasi	.....	yil
Is Bankasi	.....	yil
Akbank	.....	yil
Pamukbank	.....	yil
Yapi ve Kredi Bankasi	.....	yil
Al-Baraka Turk	.....	yil
Faisal Finans	.....	yil
Diger : .....	.....	yil
(belirtiniz)		

- 2- Paranizi neden bankaya yatirirsiniz?

Asagidaki secenekleri, en onemli amaciniza 1 vermek suretiyle 1'den 5'e kadar siralayiniz.

Paranizi enflasyondan korumak
Aile butcenize ek gelir saglamak
Kisa donemde sermaye kazanci elde etmek
Uzun donemde sermaye kazanci elde etmek
Diger : .....
(belirtiniz)

- 3- Toplam yillik gelirinizin yaklasik yuzde kacini tasarruf edebiliyorsunuz?

% .....

- 4- Son bir yilda, toplam yillik gelirinizin yaklasik yuzde kacini bankalara yatirdiniz?

% .....

5- Asagidaki seceneklerden herbiri tasarruflarinizin yuzde kacini teskil ediyor?

Altin	%	.....
Emlak, Arsa	%	.....
Banka	%	.....
Ozel Finans Kurumlari	%	.....
Menkul Kiyetler	%	.....

6- Farzedelim ki elinize toplu bir para gecti. Asagidakilerden hangilerini tercih edersiniz? Tercihlerinizi en uygun olanina 1 vermek suretiyle, 1'den 6'ya kadar siralayiniz.

Devlet Bankalari  
 Ozel Bankalar  
 Bankerlik Kuruluslari  
 Ozel Finans Kurumlari  
 Istanbul Menkul Kiyetler Borsasi  
 Diger : .....  
 (belirtiniz)

7- Eger tasarrufunuzu birden fazla sayida banka ve/veya Ozel Finans Kurumunda degerlendiriyorsanız, bunun yuzde olarak dagilimini belirtiniz.

Ziraat Bankasi	%	.....
Is Bankasi	%	.....
Akbank	%	.....
Pamukbank	%	.....
Yapi ve Kredi Bankasi	%	.....
Al-Baraka Turk	%	.....
Faisal Finans	%	.....
Diger : .....	%	.....

(belirtiniz)



8- Banka seciminde asagida siralanan faktorler sizin icin ne derecede onemlidir?

	HIC ONEMLI DEGIL	OLDUKCA ONEMSIZ	OLDUKCA ONEMLI	COK ONEMLI
-Guvence	1	2	3	4
-Beklenen Getiri	1	2	3	4
-Faizin Odenme Zamani	1	2	3	4
-Vade	1	2	3	4
-Tasarrufta bulunulan bankanin unu	1	2	3	4
-Tasarrufta bulunulan bankanin gecmisteki basarisi	1	2	3	4
-Sirdas Hesabin Mevcudiyeti	1	2	3	4
-Ana Para Garantisi	1	2	3	4
-Diger : ..... (belirtiniz)	1	2	3	4

9- Özel Finans Kurumu seciminde asagida siralanan faktorler sizin icin ne derecede onemlidir?

	HIC ONEMLI DEGIL	OLDUKCA ONEMSIZ	OLDUKCA ONEMLI	COK ONEMLI
-Guvence	1	2	3	4
-Kar Payi Beklentisi	1	2	3	4
-Vade	1	2	3	4
-Tasarrufta bulunulan OFK'nun unu	1	2	3	4
-Tasarrufta bulunulan OFK'nun gecmisteki basarisi	1	2	3	4
-Ana Para Garantisi	1	2	3	4
-Diger : ..... (belirtiniz)	1	2	3	4

10- Tasarruf sizce nasil degerlendirilmelidir?  
(Yalniz bir sikki isaretleyin.)

Tasarruf, herhangi bir kazanc garantisi  
olmaksizin risksiz degerlendirilmelidir.

Tasarruf, gerektiginde riski kabul ederek  
en iyi sekilde degerlendirilmelidir.

Tasarruf, herhangi bir riski kabul etmeksizin  
degerlendirilerek kazanc saglanmalidir.

11- Tasarruf sahiplerinin banka ve/veya Özel Finans Kurumlari seciminde basvurduklari bazi genel bilgi kaynaklari asagida verilmiştir.

Lutfen herbirini, size kararlarinizda sagladigi yarar acisindan degerlendirerek, uygun buldugunuz rakami daire icine almak suretiyle isaretleyiniz.

	HIC FAYDALI DEGIL	OLDUKCA FAYDASIZ	OLDUKCA FAYDALI	COK FAYDALI
-Bankalar/Ozel Finans Kurumlari	1	2	3	4
-Yatirim Danismanlari	1	2	3	4
-Ekonomi Dergi/ Gazeteleri	1	2	3	4
-Banka/Ozel Finans Kurumu Faaliyet Raporlari	1	2	3	4
-TV/Gazete Reklamlari	1	2	3	4
-Arkadas/Akraba Tavsiyeleri	1	2	3	4
-Diger : ..... (belirtiniz)	1	2	3	4

12- Onemli kararlar alirken tereddut eder misiniz?

Hic tereddut etmem  
Nadiren tereddut ederim  
Sik sik tereddut ederim  
Daima tereddut ederim

13- En fazla tasarrufunuzun bulunduđu banka ve/veya Özel Finans Kurumundan ne derecede memnunsunuz?

Cok memnunum  
Oldukca memnunum  
Pek memnun degilim  
Hic memnun degilim

Neden? : .....

14- Banka ve/veya Özel Finans Kurumunuzun verimlilikini deđerlendirmek için cesitli karsilastirmalar yaparken asagidakilerden hangisini kendinize temel kistas olarak alirsiniz?

Tasarruf mevduatlarına uygulanan faiz oranları ve/veya kar payı yuzdeleri  
Enflasyon Oranı  
Altın Fiyatları  
Kendi belirlediginiz oran ya da standartlar  
Diđer : .....  
(belirtiniz)

15- Elinize gecen önemli bir miktardaki parayı deđerlendirmede asagidaki Özel Finans Kurumlarından hangisini tercih edersiniz?

Al-Baraka Turk  
Faisal Finans  
Hicbiri

16- Eđer Özel Finans Kurumlarına para yatirmaya karar verirseniz, bu parayı hangi yoldan temin edersiniz?

Bankadan cekeirim  
Altın Bozdururum  
Bosta duran parami kullanirim  
Cari gelirim kullanirim  
Diđer : .....  
(belirtiniz)

17- Ozel Finans Kurumlarinda en az 100,000 TL. ile hesap actirilabilmektedir. Bu durum, tasarrufunuzu Ozel Finans Kurumlarinda degerlendirmenizi hangi yonde etkiliyor?

Istedigim halde Ozel Finans Kurumlarinda hesap actiramiyorum

Farketmiyor

18- Tasarrufunuzu Ozel Finans Kurumlarinda hesap actirarak degerlendirmeye karar verdiginiz taktirde, ilgili Ozel Finans Kurumunun merkez ve irtibat burolari disinda, ayni amacla hangi kurumlara basvurabileceginizi biliyor musunuz?

Is Bankasi, Vakiflar Bankasi subelerine  
Akbank, Ziraat Bankasi, Pamukbank subelerine  
Herhangi bir banka subesine  
PTT'ye  
Diger : .....  
(belirtiniz)

19- Ozel Finans Kurumlarinda belli bankalar araciligiyla hesap actirilabilmesi olayini nasil karsiliyorsunuz?

Hic faydali degil  
Oldukca faydasiz  
Oldukca faydali  
Cok faydali

20- Gelecekte bankanizi ve/veya Ozel Finans Kurumunuzu degistirmeyi dusunuyor musunuz?

Evet  
Hayir

21- Yanitiniz "evet" ise hangi banka ve/veya Ozel Finans Kurumunu secmeyi dusunuyorsunuz?

.....

22- Tasarruf kararlarında ailede en etkin rolü kim oynar?

Esim  
Kendim  
Esimle birlikte  
Arkadaşlar/Dostlar  
Diğer : .....  
(belirtiniz)

Yanıtlarınızı daha iyi anlayıp değerlendirebilmek için şahsınızla ilgili son birkaç soru sormak istiyoruz. Yine belirtelim ki anketten edinilen bilgiler hiç bir şekilde şahsınızla bağdaştırılmayacaktır.

23- Cinsiyetiniz?

Erkek  
Kadın

24- Yaşınız?

34 ve altı  
35 - 44  
45 - 54  
55 - 64  
65 ve üzeri

25- Medeni durumunuz?

Evli  
Bekar  
Dul/Bosanmış

26- Ailenizin net aylık geliri yaklaşık ne kadardır?

200,000 TL. ve altı  
201,000 - 400,000 TL.  
401,000 - 600,000 TL.  
601,000 - 800,000 TL.  
801,000 TL. ve üzeri

27- Mesleğiniz?

-----

28- Eğitim durumunuz?

Okur/Yazar  
İlkokul  
Ortaokul  
Lise  
Üniversite  
Master/Doktora

## GLOSSARY OF ISLAMIC BANKING TERMS

- Bai Salam : Post delivery sale
- Baj Niuajjal : Leasing, permits the financing by the Islamic institution of equipment, buildings and other facilities, as requested by a client, against an agreed rental
- Ijara Wa Iqtina : Hire purchase; contract, the Islamic institution finances equipment, building, or an entire project for the client against an agreed rental on an undertaking from the client to make payment into an Islamic investment account which will eventually permit the purchase by the client of the equipment or project. The profits accumulating in the investment account are for the benefit of the client.
- Musharika : Profit-sharing, a temporary partnership in which both the customer and the bank contribute financially on the basis of sharing the profit or loss in conformity with the Shari'a.
- Mudaraba : Trust-financing, a contract in which all the capital of a partnership is provided by the Islamic institution and the business expertise and management effort is the responsibility of the client.
- Murabaha : Cost-plus financing, a contract in which a client wishing to purchase equipment or goods requests the Islamic institutions to purchase these items for him at cost plus a reasonable profit.
- Qard Hassan : Non-interest loans made to customers, Funds are advanced for humanitarian and



welfare purposes. Repayments are made over a period agreed by both parties with no profit accruing to the financing institution.

- Riba : The giving or taking of fixed interest
- Shari'a : Islamic laws
- Zakat : An annual tax (2.5%) that all muslims not classified as poor, must pay

# **BIBLIOGRAPHY**

## B I B L I O G R A P H Y

Akin, Cihangir(1984), "Kalkinmada Bir Arac Olarak Faizsiz Bankacilik", Istanbul Universitesi, Doktora Tezi

Akin, Cihangir(1986), "Faizsiz Bankacilik ve Kalkinma", Kayihan Yayinlari, Istanbul

Al-Naggar, Ahmed(1984), "Islamic Banks, Achievements and Problems", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

Al-Saoud, Al-Faisal Mohammed(1984), "Keynote Address: Islam's Economic System", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

Anitsal, Ismet(1987), "What Do Depositors Think About The Special Finance Houses", Bogazici University, Unpublished Paper, Istanbul

Anitsal, Ismet(1986), "Banking Based on Islamic Principles", Bogazici University, Unpublished Paper, Istanbul

"Annual Reports of '85 and '86" , Al-Baraka Turkish Finance House and Faisal Finance Institution Inc.

" Bankalarimizin 1985 sonu Bilanco Kar ve Zarar Hesaplari Teskilat, Mevduat ve Kredileri Hakkinda Bilgiler" (1986), Turkiye Bankalar Birligi Yayinlari, No.137, Olgac Matbaasi, Ankara

" Bankalarimizin 1984 sonu Bilanco Kar ve Zarar Hesaplari Teskilat, Mevduat ve Kredileri Hakkinda Bilgiler" (1985), Turkiye Bankalar Birligi Yayinlari, No.134, Olgac Matbaasi, Ankara

" Bankalarimizin 1983 sonu Bilanco Kar ve Zarar Hesaplari Teskilat, Mevduat ve Kredileri Hakkinda Bilgiler" (1984), Turkiye Bankalar Birligi Yayinlari, No.132, Olgac Matbaasi, Ankara

" Bankalarimizin 1982 sonu Bilanco Kar ve Zarar Hesaplari Teskilat, Mevduat ve Kredileri Hakkinda Bilgiler" (1983), Turkiye Bankalar Birligi Yayinlari, No.125, Olgac Matbaasi, Ankara

"Bankalarimizin 1981 sonu Bilanco Kar ve Zarar Hesaplari Teskilat, Mevduat ve Kredileri Hakkinda Bilgiler" (1982), Turkiye Bankalar Birligi Yayinlari, No.121, Olgac Matbaasi, Ankara

Churchill, G.A.Jr.(1983), "Marketing Research: Methodological Foundations", Third Edition, The Dryden Press, Holt-Saunders, Japan

"Communique on Special Finance Houses"(1984), Official Gazette, No: 18323

El-Darwish, S.A.(1984), "Islamic Banking and the Muslim World", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

El-Fouad, Ahmed Amin(1984), "Meeting the Economic Needs of Society", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

Hair, Anderson, Tatham, Grabloowsky(1984), "Multivariate Data Analysis With Readings", Macmillan Publishing Co., New York

Haque, M. Atiqul(1986), "An Outline of Islamic Banking: Its History and its Contrasts with Western Banking", The Islamic Quarterly, Vol.XXX (Number 1), First Quarter, London, England

"Islamic Banking: Progress and Obstacles" (1983), Islamic Finance, July, p.31-35

"Islamic Banking and Turkey's Special Financial Institutions" (1984), Middle East Business & Banking, October, Cihan Matbaacilik A.S., Istanbul, p.15-17

Karakoyunlu, Y.(1984), "Special Financial Institutions", Financial Services Co. Ltd.

Khan, M.Fahim(1983), "Islamic Banking as Practised Now in the World", Money and Banking in Islam edited by Ziauddin Ahmed, Munawar Iqbal, M.Fahim Khan, Institute of Policy Studies, Islamabad, Pakistan

Khan, Ghulam Ishaq(1984), "An Alternative Financial System", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

Martan S.S., Jabarti A.A.H., Abdul-Fattah A.F., Softrata H. (19??), "Islamic Vis-a-vis Traditional Banking - A 'Fuzzy Set' Approach", Journal of Research in Islamic Economics

Merki, Ayfer(1986), "Özel Finans Kurumlari", Turkiye Is Bankasi A.S., Iktisadi Arastirmalar Mudurlugu, Ankara

Mudawi, Al Bagkir Yousef(1984), "Organisation In Islamic Banking", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

Mukarram, Ali(1984), "Training and Orientation for Islamic Banking", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

Turkes, Derya(1986), "An Investigation of the Individual Investors in the Turkish Securities Market", Unpublished M.B.A. Thesis, Bogazici University

Uzair, Muhammed(1976), "Some Conceptual and Practical Aspects of Interest-Free Banking", This paper was presented to The First International Conference on Islamic Economics held at Makka under the auspices of King Abdul Aziz University, Jeddah, February 21-26

Wahid, Abu N.M.(1986), "A Theoretical Justification of Islamic Banks", The Islamic Quarterly, Vol.XXX (Number 3), Third Quarter, London, England

Ziauddin, Ahmed(1984), "Framework of Islamic Banking", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks



## REFERENCES NOT CITED IN THE TEXT

Aysan, A.Mustafa(1987), "Ozel Finans Kurumlari Finansal Pazarlarimizi Carpiklastiriyor", Dünya, sayi: 10572-1962, 7 Mayıs

Cooper, Roger(1983), "Islamic Banking: Foolowing the Historic Route", Financial Times, October 3

Calika, M.G.(1985), "Ozel Finans Kurumlari Kimlere Rakip?", Para ve Sermaye Piyasasi, Nisan, s. 20

En Naccar, Ahmed Abdul Aziz(1978), "İslam Bankalari Hakkinda 100 Soru 100 Cevap", Hilal Cilt ve Matbbaacilik

Faruqi, Jalees Ahmad(1984), "The Mechanics of Profit Sharing", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March 1984 and organised by the International Association of Islamic Banks

"Islamic Banking System to Attract More Savings and Investment" (1984), State Bank News Fortnightly, Vol.XXIII, No.23, Regd. No.2544, 7 Rabi-ul-Awal 1405, Saturday, 1st December, Karachi, Pakistan

"Islam Bankaciligi Nedir?", (1982), Rapor, 18 Agustos

"Islam Bankaciligi Nedir?", (1982), Rapor, 19 Agustos

Karafakioglu, Mehmet(1980), "Sermaye Piyasasinda Arastirma Neden ve Nasil Yapilmalidir?", Pazarlama Dergisi, Yil 5, Sayi 3, Eylul, s.23-30

Moroglu, Erdogan(1986), "Ozel Finans Kurumlari", Banka ve Ekonomik Yorumlar, Mayis, Met/Er Matbaasi, Istanbul, s.29-33

Oner, Yalcin(1985), "Bereketli Bir Finans Kurumu", Para ve Sermaye Piyasasi, S.23-24

Tuncer, Selahattin(1985), "Türkiye'de Sermaye Piyasasi", Okan Yayıncılık, Istanbul

Tuncer, Selahattin(1984), "Special Financial Institutions: Banking Based on Islamic Principles", Middle East Business & Banking, October, Cihan Matbaacilik A.S., Istanbul, p.12-14

Zaidi, Nawazish Ali(1984), "Instruments of Islamic Banking", This paper was presented to the first International Seminar on Islamic Banking held in Pakistan on 24th and 26th March

1984 and organised by the International Association of  
Islamic Banks