



Republic of Turkey Undersecretariat of Treasury

Islamic Finance Architecture in Turkey

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Ankara



NOTES

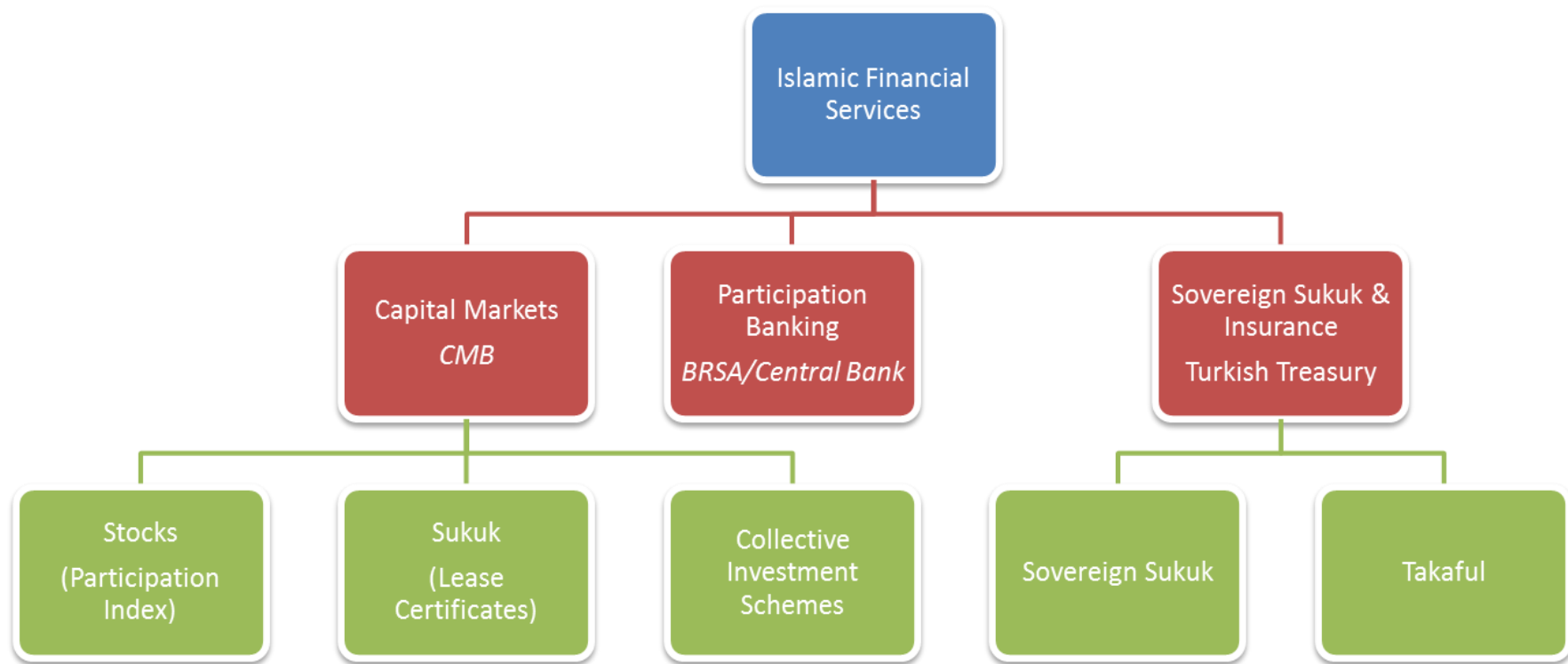
- This presentation exclusively addresses the questions raised by COMCEC Secretariat for `Member Country Presentations` Session



OUTLINE

- ❑ Participation (Islamic) Finance Architecture in Turkey
- ❑ Istanbul International Financial Center Program
- ❑ Interest-Free Finance Coordination Board
- ❑ Case Study: Participation Banking and Deposit Insurance
in Turkey (SDIF)

Participation (Islamic) Finance Architecture at a Glance



Participation Banking Legal Development Timeline

1983

- Cabinet Decree for establishing Special Finance House (SFH).
- Establishment of first SFH in 1985.

1999

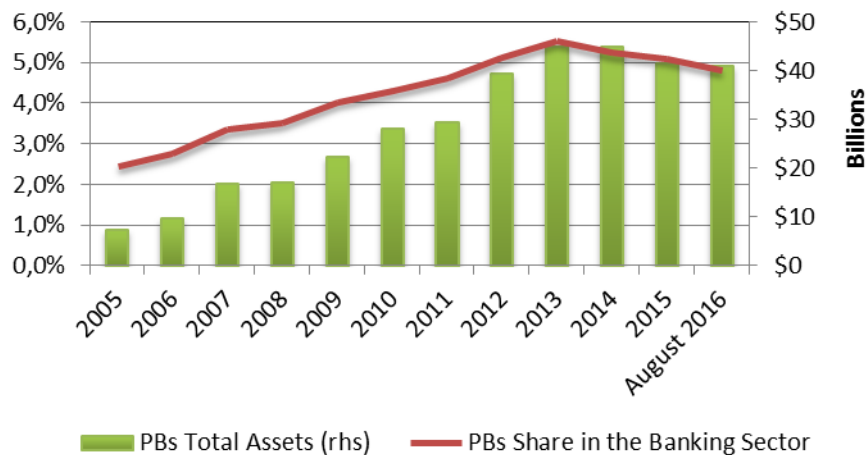
- A significant amendment to the Decree placed SFHs under the scope of the Banking Law.

2005

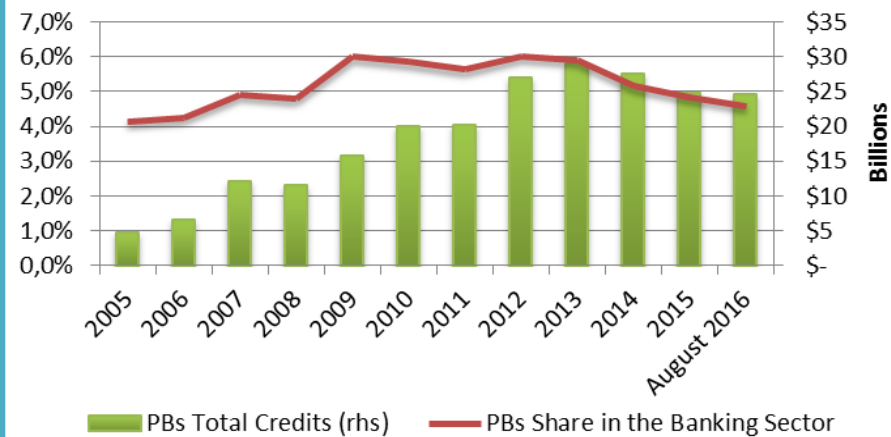
- SFHs were identified as banks in the new Banking Law in 2005 and named as 'Participation Bank'

Participation Banking Developments

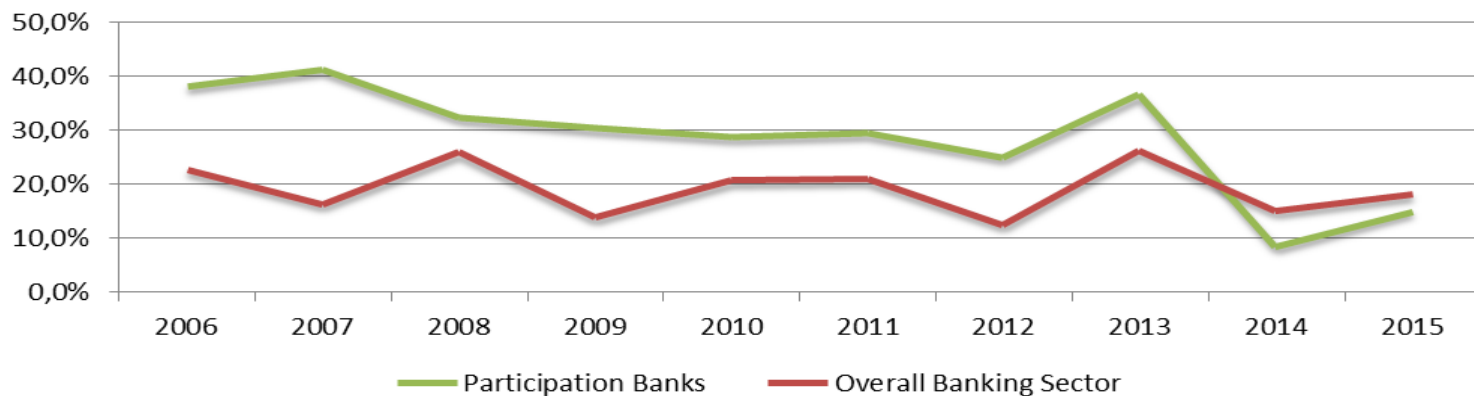
Banking Asset



Total Credits



Asset Growth



Lease Certificates (Sukuk) Legal Development Timeline

2010

First Sukuk (Ijarah Sukuk) Regulation (Communiqué) and Asset Leasing Company (ALC) were introduced

2011

Tax neutrality for Ijarah Sukuk was provided

2012

- Amendment at Law on Regulating Public Finance and Debt Management for sovereign lease certificate issuance
- New Capital Market Law including provisions related ALC and lease certificates enacted

2013

New Sukuk Communiqué introducing new sukuk structures published

2016

Tax neutrality provided for all sukuk structures with a law amendment

Lease Certificates (Sukuk) Developments

- Sovereign Lease Certificates (Sukuk)
 - Since 2012, the Treasury have made 11 issuances in local market and 4 issuances in international market.
 - Total issuances reached to TRY 26.8 billion
 - USD 4.75 billion and TRY 16.5 billion
 - Inflation linked sukuk issuance has been made for the first time in September 2016 in the domestic market.
- Starting from 2011, corporate sukuk issuances has exceeded USD 5.5 billion as of end 2015.



Takaful

- Takaful is a newly emerging niche for Turkey's insurance sector and thus offers a huge potential for the country.
- No obstacles, no special favors.
- No obligation for any specific takaful model such as separate company model or window model.
- Ongoing efforts for legislative issues.

Takaful in Numbers

Takaful Companies (Including Window)	Number of Companies (2014)	Number of Companies (2015)	Market Share (2014)	Market Share (2015)
General Takaful Companies	2	4	2.4%	4.18%
Family Takaful Companies	2	4	0.19%	0.64%
Total Takaful Companies	4	8	2.13%	3.75%

Central Bank Liquidity Facilities

CBRT Liquidity Facilities for PBs

2010	<ul style="list-style-type: none">▪ Establishment of IILM as a founding member and shareholder
2011	<ul style="list-style-type: none">▪ Membership of participation banks to CBRT Liquidity Facilities
2012	<ul style="list-style-type: none">▪ Acceptance of Lease Certificates issued by Treasury as collateral
2013	<ul style="list-style-type: none">▪ Amendments in CBRT OMO Agreement to ensure the compliance with participation banking principles▪ Repo facility at marginal lending rate of the CBRT under Markets Department against Treasury Turkish Lira lease certificates
2014	<ul style="list-style-type: none">▪ Acceptance of IILM Sukuk as collateral
2016	<ul style="list-style-type: none">▪ Late Liquidity Window Repo Facility

Consumer Empowerment

- Turkey's National Financial Inclusion Strategy contains two action plans, covering 2014-2017, to strengthen demand side:
 - Financial Education Action Plan
 - Financial Consumer Protection Action Plan.
- Action plans have 55 specific actions in these areas, and identifies the institutions responsible for each action with specific deadlines.



Consumer Empowerment – Deposit Insurance

SDIF Insurance Scheme for Banks

Membership	Compulsory
Coverage	Non-commercial participation funds (special current accounts and participation accounts) of real persons
Insurance Limit	100.000 TL (33.847 USD)*
Premium System	Risk-based (same as conventional banks) 11-21 basis points collected on a quarterly basis
Premium Collection	Ex-ante
Deposit Insurance Reserve	23.6 billion TL (7.8 billion USD)**
Total Amount of Participation Funds	73 billion TL (24.2 billion USD)**
Insured Amount of Participation Funds	26.2 billion TL (8.7 billion USD)**

* as of end-August 2016

** as of end-July 2016

Istanbul International Financial Center Program

Action Plan (2015-2018)

- Istanbul International Financial Center Program Action Plan (2015-2018) involves **‘Strengthening Interest-free Finance and Participation Banking’**
 - Policy 1: Improving the current perception towards interest-free finance system
 - Policy 2: Improving human resources in the interest-free finance sector and enriching the literature
 - Policy 3: Developing the corporate structure and the legal infrastructure of the interest-free finance system
 - Policy 4: Increasing the diversity of interest-free financial products and services

Interest-Free Finance Coordination Board

- Interest-Free Finance Coordination Board was established by The Prime Ministry Circular.
- The goal of the Board is;
 - to advance sound participation banking and participation insurance as well as interest-free finance system in general and
 - to contribute to Turkey's vision of becoming an international finance center.
- Undersecretariat of Treasury carries on the secretariat services of the Board.

Interest-Free Finance Coordination Board

- The Board is chaired by Minister responsible for Undersecretariat of Treasury and composed of :
 - Undersecretary of Ministry of Development
 - Undersecretary of Ministry of Finance
 - Undersecretary of Treasury
 - Governor of Central Bank of The Republic of Turkey
 - Chairman of Banking Regulatory and Supervision Agency
 - Chairman of Capital Markets Board of Turkey
 - CEO of Borsa İstanbul
 - Chairman of Participation Banks Association of Turkey
 - Chairman of Participation Insurance Association



CASE STUDY

Deposit Insurance System in Turkey



TASARRUF
MEVDUATI SİGORTA
FONU

Participation Banks and Deposit Insurance in Turkey

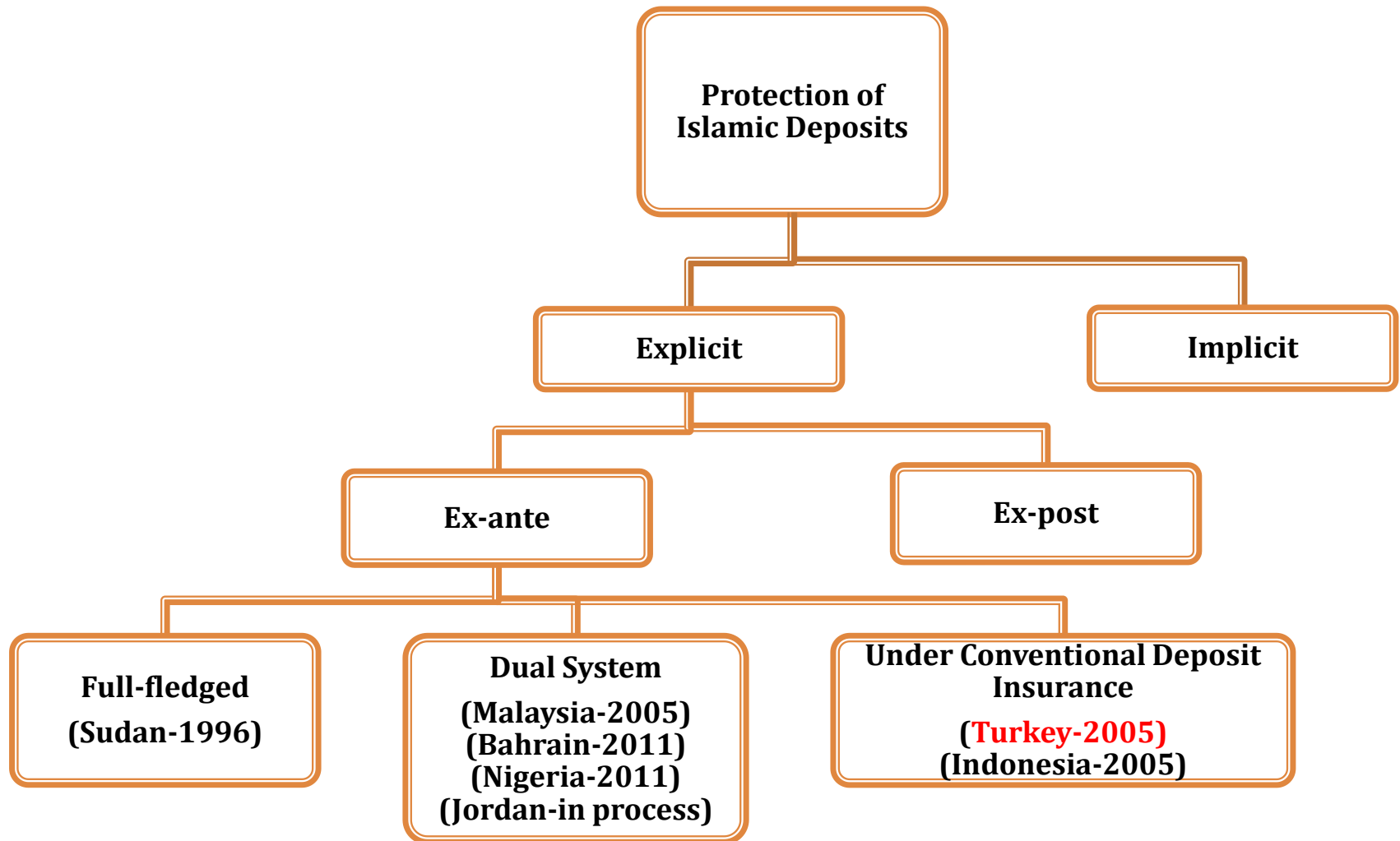
Elif KÖSOĞLU

Fund Expert

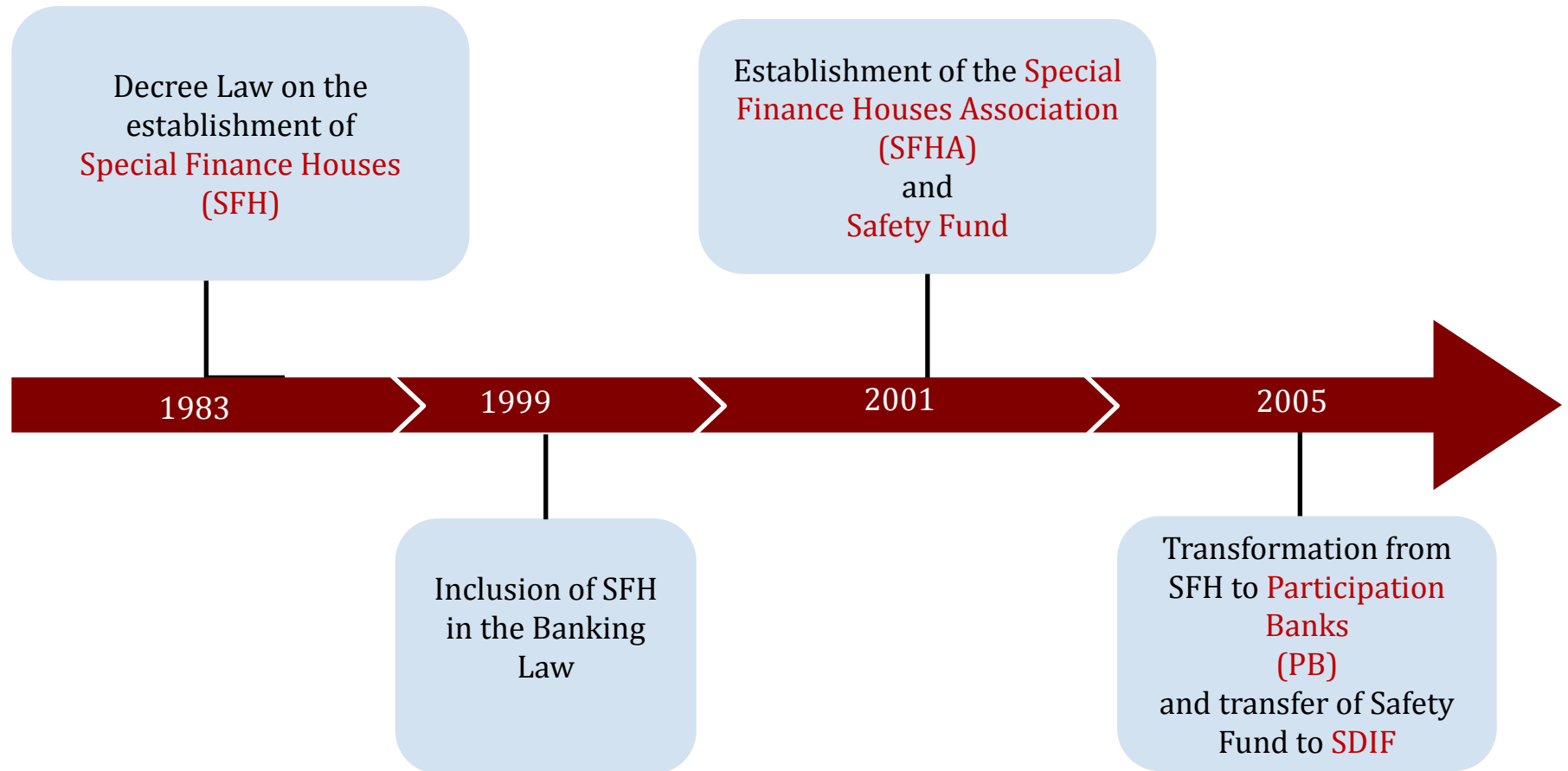
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COMCEC 7th Meeting of the Financial Cooperation Working Group

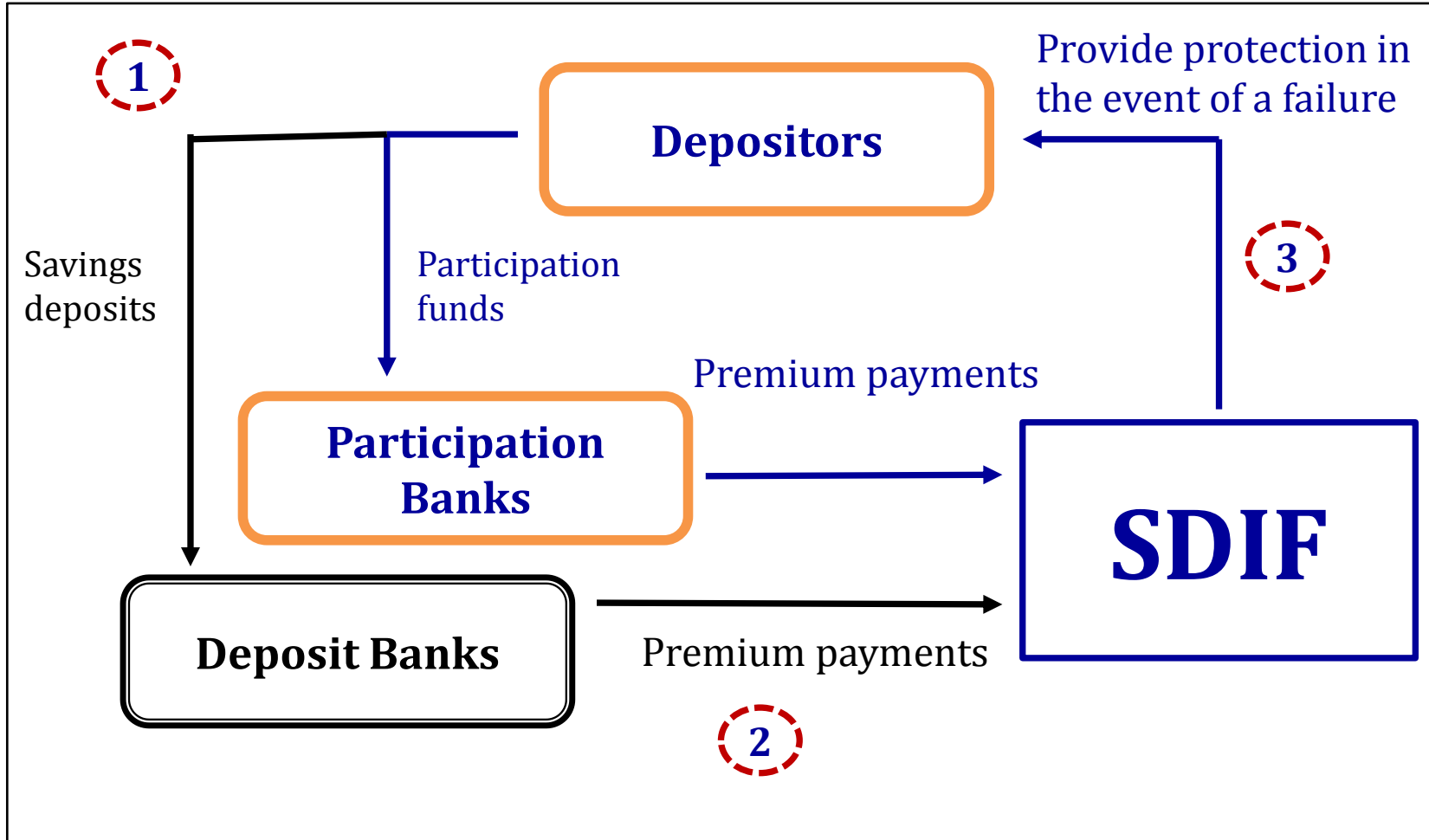
Islamic Deposit Insurance Systems in the World



Protection of Participation Funds in Turkey - Milestones



Mechanism



Sources of Funds	<ul style="list-style-type: none">■ Differential premiums■ Fines (Legal and administrative fines)■ Fees from transfer of bank shares■ Dormant Accounts■ Investment income
Fund	<ul style="list-style-type: none">■ Deposit Insurance Fund
Uses of Funds	<ul style="list-style-type: none">■ Investment■ Expenditures■ Resolution of bank failures
Back-up Funding	<ul style="list-style-type: none">■ Borrowing from the Treasury and market■ Advance payments from the Banks in the amount of up to the total insurance premium paid by them in the previous year■ In emergency cases, advances from the Central Bank

Risk-based Premium System

Risk Criteria	Threshold Values	Score
1 Capital Adequacy		25
Capital Adequacy Rate		20
-Consolidated	% 10-16	1st Group 20
-Solo	% 10-16	2nd Group 13
-Principal capital	% 8-14	3rd Group 0
Equity Multiplier	10-15	5-3-0
2 Asset Quality		20
Group Loans Ratio	% 8-15	5-3-0
Non-Performing Loan Rate	% 1-3	5-3-0
Cash Loan Density Ratio	% 20-30	5-3-0
Growth Ratio	% 15-25	5-3-0
3 Profitability		10
Profitability Ratio	% 4-2	5-3-0
Efficiency Rate	% 50-75	5-3-0
4 Liquidity		10
Deposit/Participation Fund's Average Maturity (Day)	70-50	5-3-0
Insured Deposit Ratio	% 27-17	5-3-0
5 Other Risk Factors		35
BRSA's Rating Score	1-2-3-4-5-6-7-8-9-10	30-27-24-20-16-12-8-5-1-0
Other Information		5-3-0
TOTAL		100

1. Participation banks and deposit banks are subject to the same risk based premium system. However differences in the assets and liabilities structure and in the sensitivities to risk require to identify differentiated risk factors.
2. Participation banks have a small share in the banking industry and a high correlation of default risk and that increases the total risk of the insurer.
3. Currently, insurance premiums collected from participation banks could not be managed under a different pool. Insurance funds for participation banks and deposit banks are managed in the same pool.
4. Limited number of non-interest investment tools. Almost all our investments are now in SUKUK papers issued by the government. This seems as if we are putting all our eggs in one basket.

- Participation banking constitutes a small portion of the Turkish Banking Industry, but has been growing.
- Turkey can be regarded as an “experienced” country with more than 25 years of experience in interest free banking.
- Turkey is a promising market for global growth in participation banking, but much of the potential of the sector remains to be exploited.
- Growth potential of Turkish economy will be instrumental in development of the participation banking.
- Turkey aims at becoming a key destination for participation banking in the world. To this end, **‘strengthening interest-free finance and participation banking’** has been set as one of the priority areas and included in the Government’s 10th Development Plan as a component of Istanbul International Financial Center Program Action Plan (2015-2018).
- Establishment of an IDIS in Turkey is one of the priority issues of the SDIF going forward and in-depth studies regarding the selection of a suitable system are in progress.
- As a member of International Association of Deposit Insurers (IADI), SDIF actively participates in works of Islamic Deposit Insurance Group which is aimed to promote development of effective islamic deposit insurance systems across the world.
- SDIF contributes to IADI’s efforts to adapt “Core Principles for Effective Deposit Insurance Systems” document to islamic deposit insurance systems.



THANK YOU

For further information

<http://www.treasury.gov.tr>

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