



# Republic of Turkey Undersecretariat of Treasury

## RISK MANAGEMENT in ISLAMIC FINANCE in TURKEY

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



# OUTLINE

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- Turkey's Perspective on Islamic Finance
- Regulatory and Supervisory Framework
- Challenges in risk management
- Measures
- Ongoing Initiatives
  - Istanbul International Finance Center
  - Financial Inclusion Strategy



# Turkey's Perspective on Islamic Finance

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**Islamic finance  
is an integral part of the  
overall financial system**

# Regulatory and Supervisory Framework

## Banking Sector

- October 1983 – Government Decree on Special Finance Houses (SFH)
  - First Special Finance House was established in 1985
- December 1999 – SFHs were included in the Banking Law
- October 2005 – Banking Law
  - “Special Finance Houses” term was changed to “Participation Banks”
- Currently, there are four participation banks operating in Turkey

# Regulatory and Supervisory Framework

## Banking Sector

- Banking Regulation and Supervision Agency (BRSA) is responsible for regulation and supervision of Turkish banking sector including four participation (Islamic) banks
- Risk Management Department treats Participation Banks as conventional counterparts and implements legislations and guidelines related risk management without differentiation



# Regulatory and Supervisory Framework

## Insurance Sector

- The Undersecretariat of Treasury is the sole responsible authority for the regulation and supervision of the insurance sector in Turkey regardless of the Islamic nature of insurance related operations
- All companies related with insurance sector operating in Turkey are subject to the provisions of the Insurance Law
- Currently two takaful companies are operating in the sector

# Regulatory and Supervisory Framework

## Sukuk

- April 2010: The Capital Markets Board of Turkey issued a Communiqué to allow companies to raise capital by issuing lease certificates
- January 2011: The tax law was amended to facilitate the process whereby Turkish issuers could raise long term Islamic financing
- June 2012: The Public Finance and Debt Management Law was amended to enable the Sovereign to access the Sukuk markets
- June 2013: The Capital Markets Board of Turkey issued a Communiqué to allow five types of Islamic Finance instruments- istisna, murabaha, mudaraba, musharaka and wakala sukuk



# Regulatory and Supervisory Framework

- the Borsa Istanbul (formerly Istanbul Stock Exchange) Participation Index was launched in 2011
- Venture capital and business angels (which is similar to mudaraba) regulations became effective in 2013

# Regulatory and Supervisory Framework

## FINANCIAL STABILITY COMMITTEE

- was established in 2011
- aims to identify and mitigate emerging systemic risk, to coordinate policy actions, and to better integrate micro- and macro-prudential perspectives among institutions
- is chaired by Deputy Prime Minister and comprises - The Undersecretary of Treasury and heads of Central Bank, Banking Regulation and Supervision Agency, Capital Markets Board and Savings Deposit Insurance Fund

# Challenges for Effective Risk Management

Challenges in Turkey are similar to the challenges in general

- Liabilities
  - Assets
- } Balance Sheet's Perspective
- Liquidity Constraints
  - Investment Limitations
  - Unique Features of Participation Banking
  - Islamic Law Non-Compliance Risk

## Measures Can Be Taken

### **What can be done basically for improving risk management mechanism in participation banking?**

- Establishing commodity markets
- Issuing more Sukuks for enhancing risk management practices
- Improving customers' perception and understanding
- Promoting collaboration with other countries' authorities and international Islamic financial organizations
- Increasing diversification of instruments and services
- Establishing independent risk departments

# Istanbul International Finance Center

- The project to transform Istanbul into a leading international financial center is underway.
- Istanbul International Finance Center Program is one of the 25 programs of Development Plan
- To ensure a "level playing field" for Islamic Finance in the form of Islamic banking, takaful, and capital markets following policy areas have been designed under the program:
  - Improving perception of Islamic Finance
  - Developing human resources and literature of Islamic Finance
  - Developing legal and institutional infrastructure of Islamic Finance
  - Diversification of Islamic financial instruments and services

# Financial Inclusion Strategy

- Strategy was prepared by Financial Stability Committee members in coordination and cooperation with stakeholders
- It was signed by Prime Minister and came into force with a Prime Ministry Circular on June 5th, 2014
- 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 identify the institutions responsible for each action with specific deadlines.



# THANK YOU

For further information

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