

تحت رعاية
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***Session 1: FUTURE OF ISLAMIC FINANCE IN POST COVID-19
WORLD: CHANGE OF BUSINESS MODEL IN CONSIDERATION
OF SOCIAL AND ECONOMIC DEVELOPMENTS***

***AN OUTLOOK ON PARTICIPATION BANKS IN TURKEY
DURING PANDEMIC PERIOD AND
FINDINGS OF A SURVEY ON EFFECTS OF ECONOMIC
CONTRACTION CAUSED BY PANDEMIC VIRUS***

SHARE OF PARTICIPATION BANKS IN TURKISH BANKING SECTOR
As of October 2020

(Source : Turkish Association of Participation Banks)

%	<u>Dec. 2019</u>	<u>March 2020</u>	<u>May 2020</u>	<u>Oct.2020</u>
1. Funds Collected	8,4	8,8	9,1	9,3
2. Funds Used.....	5,5	5,8	6,0	6,6
3. Total Assets.....	6,3.....	6,5.....	6,8....	7,1
4. Total Equity.....	4,4.....			4,7

Share of participation banks in turkish banking sector **INCREASED**

% Growth in Loan/Funds Used

(Source: CBRT)

04.12.2020

	Weekly	Average 5 W.	(Annual) From Bg.of Year	(Year on Year) FromLast.Y.M.
TOTAL CREDIT VOLUME	0,14	0,21	36,91	40,02
NON FINANCIAL SECTOR	0,10	0,20	37,26	40,36
DEPOSIT BANKS	0,01	0,24	36,56	39,42
PARTICIPATION BANKS	-0,08	0,24	61,85	68,55

Growth in funds provided by participation banks increased from 06 December 2019 to date **in a higher rate** compared to the Banking sector (40,02 %).

Credit to Non-financial sector by banking sector (40,36 %),

Credit provided by deposit banks (39,42 %)

Funds provided by Participation Banks 68,55 %

LOAN/FUNDS USED

billion TRY (Source CBRT)

	<u>04/12/20</u>		<u>27/11/20</u>	<u>27/12/19</u>		<u>06/12/19</u>
TOTAL CREDIT VOLUME	3.512		3.507	2.565		2.508
TO NON FINANCIAL SECTOR	3.406	100	3.403	2.481		2.427 100
DEPOSIT BANKS	2.926		2.925	2.142		2.098
<i>PARTICIPATION BANKS</i>	222	6,5	222	137		131 5,4

***SHARE OF PARTICIPATION BANKS IN TOTAL CREDIT BY BANKING SECTOR
to the Nonfinancial Sector***

INCREASED FROM 5,4 % TO 6,5 %

% Growth in Deposits/Funds Collected

(source CBRT)

	FX		TRY		
04.12.2020	TOTAL DEPOSITS	PARTICIPATION BANKS	DEPOSIT BANKS	PARTICIPATION BANKS	DEPOSIT BANKS
Weekly Growth Rate	- 0,18	0,53	0,78	- 0,01	- 1,44
Previous 5 Week Growth Rate Average	0,22	1,58	0,77	- 1,82	- 0,42
Annual Growth Rate.....	38,71	84,35	52,00	13,38	22,66
Year on Year Growth Rate	44,34	87,99	56,39	23,59	28,93

Participation Banks

are having higher increase in funds collected in FX compared to deposits collected by conventional banks $87,99 > 56,39$

Participation Banks

are having lower increase in funds collected in TRY compared to deposits collected by conventional banks $23,59 < 28,93$

Participation Banks
 are having higher increase in funds collected in FX compared to
 deposits collected by conventional banks YOY : 87,99 %

(Source:BRSA)

However,

**Weight of Forex in FUNDS USED is less than FUNDS
 COLLECTED**

<u>Billion TRY</u>	<u>27-12-2019</u>	<u>13 March 2020</u>	<u>03 July 2020</u>	<u>04-12-2020</u>
<u>Collected:</u>				
<i>Fx/Total.....</i>	0,58	0,62	0,58	0,69
<u>Used :</u>				
<i>Fx / Total.....</i>	0,40	0,40	0,34	0,34

Turkish Participation Banks having Forex Liquidity

Non Performing Loans *(Source:BRSA)*

<u><i>Participation</i></u>	<u>NPL/Total Cash Credit</u>	<u>Provision for NPL/Gross NPL</u>
October 2020	3,44	79,88
Feb.2020	4,74	68,36

<u><i>Conventional</i></u>	<u>NPL/Total Cash Credit</u>	<u>Provision for NPL/Gross NPL</u>
October 2020	4,27	74,52
Feb.2020	5,57	67,38

Average of Banking

<u><i>Sector</i></u>	<u>NPL/Total Cash Credit</u>	<u>Provision for NPL/Gross NPL</u>
October 2020	3,97	74,59

**SURVEY ON EFFECTS OF ECONOMIC
CONTRACTION CAUSED BY PANDEMIC VIRUS**

July 2020

ISTANBUL COMMERCE UNIVERSITY

***Research Center on Islamic Economics and
Economic Systems***

<https://ww4.ticaret.edu.tr/islamekonomisi>

Strengths of Participation Banks in Crisis

- 1. Financing real economic activities: Customers gives priority to murabaha debts to be able to continue their operations.*
- 2. Lower volume of «Consumers' Credit» compared to conventional banks*
- 3. Not dealing with derivative instruments*
- 4. Having comparatively smaller and dynamic organizational structures*
- 5. Having Loyal customers both as fund provider and fund user*
- 6. Do not make aggressive marketing which would lead the customers to take unnecessary risks*
- 7. Since the participation banks do not promise any return on investment accounts takes its advantage in adverse economic conditions which economy contracts*

Weaknesses

- 1. Directly financing the commercial activities which is robust side of participation banks does not help customers to be rescued from crisis. Because can't provide direct cash.***
- 2. Contraction in economic activities cause cash shortage in companies, however participation banks can not help***

Opportunities

- *The pandemic period can be an opportunity for widening distribution channels and increasing the number of customers*
- *Alternative distribution channels will get importance in future, during and after pandemic period*
- *It is an opportunity for those participation banks which already established their digital infrastructure*
- *Crisis management is a good opportunity for enhancing «governance» and team working.*

Threats

- ***Decreases in house and vehicle prices can affect murabaha based sales***
- ***Participation banks have limited number of instruments for «consumers credit»***
- ***In an environment which volume of consumption decline, (Fund Using)customers can prefer cash credit instead of murabaha based consumer credits***

Threats

- *In case of deepening of the crisis, participation banks can be fragile because of having limited financial products and limited income sources*
- *Since the demand for durable goods will decline, participation banks can have some slowness in cash flows from real sector, small and medium size enterprises manufacturing these goods.*

CONCLUSION

- *Growth rates of participation banks in terms of collected funds and used funds are higher than conventional deposit banks. This has been expected by managers in their answers to the questionnaire.*
- *They have expected no decrease in total funds collected but could be change from participation (investment) accounts to current account because of the need to liquidity.*
- *To a question regarding any expectation about worsening in financial conditions of murabaha customers, they have expected some delays because of cash flow difficulties in some sectors*
- *They have admitted that they get restructuring requests from customers especially from individual customers and respond positively to them.*
- *No inconvenience has happened regarding the services given , during this period*

CONCLUSION

- *During pandemic period customers will be familiar to digital channels and will continue to use after pandemic period*
- *Therefore, skills and capabilities regarding digital tools will be a pre condition for employees.*
- *Supermacy in digital technology is became a must for competition*