Chapter 5
The Path to FinTech Development Research on Islamic Finance in Turkey

Musa Gün
https://orcid.org/0000-0002-5020-9342
Recep Tayyip Erdogan University, Turkey

ABSTRACT

The concept of FinTech, which is the combination of finance and technology, aims to facilitate many services offered by financial institutions. This chapter examines the development of FinTech practices in terms of Islamic finance in Turkey. The chapter assesses the viewpoints of the sector participants, including participation banks, corporate customers, and FinTech companies operating in Turkey, about Islamic finance and FinTech. In this regard, the ultimate goal of the study is to present a projection to the market actors and decision makers in order to be able to enhance the share of Islamic finance in the sector. The interview findings of the study indicate that (1) new technological products and services will dominate the banking sector and these will change the way of doing business in the near future; (2) perception, knowledge, infrastructure, service network, and campaign factors affect the Islamic banking preferences of the customers; and (3) the challenges of legal acts, confidence, competition, and human resources primarily influence the development of the financial ecosystem.

DOI: 10.4018/978-1-7998-0039-2.ch005
INTRODUCTION

Nowadays, rapid developments in the field of technology have brought about great changes in every aspect of life. The financial technology called FinTech is seen as a compelling technology that will enable companies to compete effectively in the current century. The Financial Stability Board defines FinTech as “technologically enabled innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services”.

The financial sector is undergoing a major transformation thanks to “FinTech”, which means innovative financial technologies. FinTech, which takes its name from the combination of finance and technology, aims to facilitate many services such as payment, deposit storage, the financial consultancy offered by financial institutions, and makes them faster, accessible, cost-effective and secure at the same time. In other words, even when FinTech is thought of as only financial technologies, FinTech actually refers to companies that combine technology with innovative business models that make the financial services sector more accessible and easier. This means, in a sense, the toppling the banks from the throne, which is the most important actor of the financial system, and reminds Bill Gates’ famous saying that “Banking is necessary, banks are not” in 1994. Financial technology companies, which emerged with this idea, have made great progress with the advancement of technology after the 2008 global financial crisis. The newly established technology companies have carried out the birth of FinTech with the efforts to change the banking system radically. In addition to offering new opportunities to customers, FinTechs, which pioneered the development of banks, continue to significantly change their traditional banking and personal finance approaches.

Banks in Turkey follow the technology closely and offer innovative products and solutions to the customers in many different areas of technology for years. This also allows Turkey to be a significant position in the banking sector in the world. Turkey using technology intensively has begun to generate awareness in this area together with the spread of technology. For example, ING Survey (2015)’s research results on the use of mobile banking show that the use of mobile banking in Turkey is at an advanced level compared to many European countries. While the mobile banking usage rate is 53% in Europe, this ration is determined as 65% in Turkey. Furthermore, due to Turkey’s young and dynamic population, the use and appeal of technological products with the effect of internet penetration are increasing every day. With the interest of this attraction, the banking sector consumes intense energy to differentiate itself by offering products that will make life easier for the young and dynamic audience. In the same way, this young and dynamic group clearly shows that their interest in new products and services and their enthusiasm for using new technologies are in this direction.

In developing countries, and especially in Turkey banks have an important share in the financial ecosystem. Banks constitute approximately 80% of the financial markets in Turkey. In addition to the commercial banks carrying out traditional banking activities, participation banks aiming to increase their market share in recent years have started to take part in this ecosystem. On the other hand, although participation banks, which are operating in accordance with Islamic principles, grow faster than the commercial banks, their share in the sector is around 6 percent. However, in both Islamic countries and other countries around the world, Islamic banking is becoming widespread and these banks are adding new financial instruments in order to increase their share in the sector.