

INTEREST-FREE BANKING IN TURKEY: A STUDY OF CUSTOMER SATISFACTION AND BANK SELECTION CRITERIA

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A secular Muslim country, Turkey made a particular effort in the early 1980s to encourage capital inflow from the MENA (Middle East and North Africa) region. To achieve this, interest-free financial institutions were introduced to the financial markets in 1985 and the Special Finance Houses (SFHs) were established to offer interest-free products and services. Though the introduction of such financial institutions to the Turkish financial markets was considered at the time a political strategy rather than a religious move, they have succeeded in attracting funds from certain groups. Despite the legislative advantages given to conventional banks, the SFHs—only providing financial products and services based on Islamic principles—have since their inception gained on average 2 and 4 per cent market shares in total deposit and loan markets respectively. The interest-free banking offered by the SFHs has not yet become the major or one of the major segments of the Turkish financial system.

This research is a study of the theoretical and practical aspects of interest-free banking in Turkey. In particular, it attempts to assess the degree of customer awareness and satisfaction with this type of banking as well as defining the customer profile of the SFHs. Based on a sample of 161 respondents, the analysis reveals a certain degree of satisfaction with the SFH products and services. The respondents expressed their dissatisfaction with some of the SFH facilities. Despite being aware of a number of specific products and services such as *mudarabah* and *musharaka*, they indicated that they did not deal with them.

1. INTRODUCTION

The Qur'an (Koran), the Muslims' Holy Book, explicitly deals with economic-related matters and how they apply in Islam. The *Sharia*, the

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Islamic law of human conduct, is derived from the Qur'an. The *Sharia* prohibits the so-called “*Riba*” (i.e. payment over and above what has been lent—which causes the payment of interest or usury to be wrong). Because of *Riba*, the banks which have been aiming to operate based on *Sharia* had to develop financial products and services that are not in conflict with the Islamic principles. As such, interest-free banking as a concept was developed as a result of the religious prohibition of the payment or receipt of interest. The experiment of interest-free banking started in the mid-1960s, and proved that Islamic methods of banking were practical and relevant for a banking system, albeit with some refinements. The idea continued to develop theoretically until 1975 when the Islamic Development Bank (IDB) was established as an international financial institution to foster economic cooperation and social progress in its member countries and strengthen economic cooperation among them. This was followed by many banks all over the world, particularly in the Middle East region. Since then, interest-free banking or Islamic banking has become a vibrant alternative to conventional banking in the world. It has grown in size and number both in the Muslim and non-Muslim worlds. In the Republic of Iran, Pakistan and Sudan, all banks and financial institutions have adopted Islamic banking principles since the early 1980s. Other countries such as Malaysia, Indonesia, Bangladesh, Jordan, Egypt and Turkey operate the financial institutions based on interest-free principles alongside conventional banks. Financial institutions originating not only from Islamic countries but also of Western origin offer financial services on interest-free basis on a worldwide scale. Numerous multinational banks have opened separate divisions, commonly known as “*Islamic windows*”.¹ In order to boost the interest-free financial sector worldwide, some Western financial institutions have allocated significant amounts of funds to this kind of financial activity. For instance, Dawnay Day Global Investments UK has allocated USD450 million to the interest-free banking programme (Cox, 2000). It is also important to note that the Dow Jones Islamic Market Index was created for people who wish to invest according to Islamic investment

¹ Among the most active western banks in this market are Citibank, JP Morgan/Chase, Goldman Sachs, American Express, Bank of America, HSBC, Barclays Capital, ANZ Grindlays, ABN Amro, BNP Paribas, Société Générale, Royal Bank of Canada, Germany's Commerzbank and Deutsche Bank, UBS Warburg and Japan's Nomura Securities.

guidelines. Today, the market size of interest-free banking is estimated to be growing at the rate of 15% per annum. Islamic banks currently operate in approximately 75 countries and the industry has reached a market size of USD200-230 billion (Bahrain Monetary Agency (BMA), 2002).

Following the liberalisation process of the Turkish economy in the early 1980s, the financial sector was restructured through a deregulation that also brought in innovations to those markets. In this context, the Special Finance Houses (SFHs), providing financial products and services based on Islamic principles, were introduced to the Turkish financial markets and started their operations in 1985. This constituted a “dual banking” system in Turkey in which interest-based banking and interest-free banking run their operations side by side. Although the introduction of such financial instruments to the Turkish financial markets was considered at the time a political strategy rather than a religious move, they have succeeded in attracting funds from certain groups.

Turkey has a developing economy that can be characterised by ongoing macroeconomic problems and fragile financial markets. It has experienced several financial crises, such as the ones in 1994, November 2000 and February 2001. In such an economic environment, there have been five SFHs operating alongside their 54 conventional partners. Those SFHs are Albaraka Turkish Finance House, Kuwait Turkish Finance House, Asya Finance House, Anadolu Finance House and Family Finance House. They are the only providers of interest-free financial services to the Turkish people. The combined total assets of the SFHs were TL 3.841.937 billion in 2002 which is approximately 1.40 per cent of the total assets of the banking industry. Furthermore, the total deposits of those five SFHs, for the same period, were TL 3.207.714 billion, which represents about 2 per cent of the total deposits of the whole banking industry in Turkey. The share of the SFH invested funds (loans) in relation to that of the conventional banks was about 4 per cent as of December 2002 (Banks Association of Turkey, 2003). Despite Turkey’s Muslim identity and willingness² to play a major role in the

² Turkey was also one of the Muslim countries to sign in 1997 the agreement forming the D-8 whose aim is to promote mutual economic cooperation, build a common market and develop capital markets among Islamic countries.

worldwide interest-free financial system, these figures indicate that interest-free banking has not yet become the major or one the primary segments of the Turkish financial system. More importantly, the practices of such institutions have raised some doubts in religious peoples' minds in relation to whether they are in compliance with Islamic principles.

In this study, an attempt is made to evaluate the degree of awareness and satisfaction with the SFHs in Turkey. Section 2 presents an overview of the historical and operational aspects of interest-free banking in Turkey. Section 3 provides a literature review. Section 4 describes the methodology adopted for the current study as well as the findings. Lastly, Section 5 presents the main conclusions drawn from the study.

2. AN OVERVIEW OF INTEREST-FREE BANKING IN TURKEY

2.1. Historical Background of Interest-free Banking

After 1980, Turkey, which had been employing import substituting economic policies, decided to integrate into the international markets and consequently implement export-oriented policies. In parallel with the restructuring of the Turkish economy in the early 1980s, a liberalisation process was also initiated in the financial sector. The latter was reformed through deregulation. Furthermore, easing entry into the financial sector encouraged competition. Among the financial reform novelties initiated over the period 1980-1989 were the abolition of interest-rate ceilings on time deposits and loans, the introduction of Certificates of Deposit, the implementation of a floating foreign exchange policy, the establishment of the Capital Market Board, the introduction of the "Savings Deposit Insurance Fund", the re-opening of the Istanbul Stock Exchange, the introduction of a new banking law and the implementation of the amendment of rule No. 32 on the "Protection of the Value of the Turkish Currency", whereby all restrictions on foreign exchange trading and capital movements are lifted.

During the early 1980s, the Turkish government also made particular efforts to encourage capital flow from the East into the Turkish financial markets. At that time, Turkey was already a member of the Islamic

Development Bank that became operational in 1975. It is commonly believed that the gist of this effort was to prove to Europe that Turkey could easily turn her face towards the East if necessary. Some politicians also claimed that this was a form of retaliation against the European Union's (EU) attitude towards Turkey.³

In line with these developments, the Turkish government approved, on both economic and political grounds, the introduction of interest-free financial products and services in 1983. With the very personal efforts of President Turgut Özal, the first Turkish financial institution operating on interest-free basis was established in 1985. The institution known as Al Baraka Turkish Finance House was established with capital contribution from Saudi Arabia (Moore, 1990). It was suggested at that time that the introduction of interest-free financial products and services to the Turkish financial markets was more of a political strategy rather than an economic or religious move (Special Finance Houses, 2003). Established to provide only interest-free financial products and services in Turkey, these financial institutions were given the name "Special Finance Houses". The legal foundation for the SFHs was set by the Council of Ministers' Decree dated December 16, 1983 (No. 831/7506). The Decree exempts the SFHs from the provisions of the banking law that regulates conventional banks operating in Turkey. As such, the SFHs enjoyed competitive advantages over the conventional banks (Al Baraka, 1987). Until they became subject to the Banking Law in 1999, the activities of the SFHs were conducted by the decrees of the Council of Ministers on the one hand and the directives of the Central Bank (March 21, 1984) and the Undersecretariat of Treasury (February 25, 1984) on the other. From December 1999, however, the SFHs became subject to the Banking Law No. 4389. Basically, they were brought under the same body of legislation as the conventional banks. According to the new requirements, the SFHs are required to hold 6 and 11 per cent of reserve ratio for deposits in Turkish Lira (TL) and foreign currency respectively (<http://www.tcmb.gov.tr/yeni/bgm/dim/disponibilite.html>).

³ It is worth noting that the Turkish government presented a plan to revise the terms of the Association Agreement between Turkey and the EU in 1978. However, this was seen by the EU at that time as a step by Turkey to freeze the terms of the said Agreement and hence to decelerate progress towards full membership. This led to a cooling off of Turkish-EU relations over the given period. For more on those issues, see Özal (1991), McGhee (1990), Redmond (1993) and Ludlow (1994).

Nevertheless, conventional banks are required to hold additional percentages of liquidity, namely 4 and 1 per cent for deposits in TL and foreign currency respectively which is over and above the proportions held by the SFHs (<http://www.tcmb.gov.tr/yeni/bgm/dim/disponibilite.html>). These additional percentages are maintained in the form of Treasury bills that are not considered to be compliant with Islamic principles and, therefore, not applicable to deposits held by the SFHs. It is worth noting here that profit and loss participation accounts are classified as capital and, hence, are not defined as deposits in the calculation of reserve requirements for the SFHs. Furthermore, deposits with the SFHs became subject to insurance covered. This is in line with the “Assurance Fund” Decree of May 2001. According to the said Decree, current accounts and profit/loss participation accounts of natural persons are defined as deposits to be insured. The removal of major legislative differences between the conventional banks and the SFHs has theoretically brought them in line with each other, supposedly causing competition between the two types of financial institutions. As such, the competitive advantage enjoyed by the SFHs since their inception in 1985 is slowly diminishing. Despite the fact that they are entirely subject to the requirements of the Banking Law, their interest-free nature remained intact along with their title of special finance house.

2.2. Interest-free Financial Products Offered by the SFHs

As financial institutions, the SFHs act as financial intermediaries not unlike conventional banks. Theoretically, both conventional banks and SFHs collect funds and channel them to the real sector, hence facilitating the development of the economy. Before proceeding to the analysis of the customer awareness and selection criteria of interest-free products and services in Turkey, it is essential first to examine in brief the most important interest-free banking products and services offered by the SFHs in Turkey.

The SFHs collect funds through two accounts, namely “Current Accounts” and “Profit/Loss Participation Accounts” (Articles 18 & 19, Regulation of SFHs). The Islamic principle applied to current accounts is the principle of *Wadiyah*. These deposit accounts may be withdrawn in whole or in part whenever requested by the depositors and are opened in

either Turkish Lira (TL) or foreign currency. Holders of current accounts are not paid interest, profit or any sum of money. A number of banking services such as money transfers, collection of cheque/promissory notes and provision of chequebooks are offered to holders of current accounts. “The Assurance Fund”, mentioned earlier, underwrites current accounts of natural persons with balances up to TL 50 billion.

The *Mudarabah* principle is applied to the profit and loss participation accounts at the SFHs. These accounts are opened with the understanding that investors participate in the profit or loss resulting from the management of their funds by the SFHs instead of receiving a predetermined return on their deposits.

The SFHs collect deposits in TL and foreign currencies (largely USD and Euro). Participation accounts opened in foreign exchange are paid back together with their profit shares in the same currency in which they were opened. The Assurance Fund provides assurance up to TL 50 billion for savings of natural persons holding those accounts at the SFHs (Article 20, Bank Act). It is vital to reiterate that current deposit accounts and profit/loss participation accounts are explicitly guaranteed by the government and that may remove the services offered by the SFHs away from the ideal version of Islamic banking wherein risk is to be shared between investor and investee (Sundararajan and Errico (2002).

Investors can also open a profit and loss participation account through branches of domestic conventional banks and carry out interest-free financial transactions. Moreover, depositors from outside Turkey may open participation accounts through correspondent banks such as Citibank and The Bank of New York. Weekly returns on profit and loss participation accounts are calculated at the end of business each Friday. The rates are announced in the daily newspapers and bank branches at the beginning of each week. In other words, the rate of return obtained in the previous period is announced and can be used as a reference point for future returns.

In conventional banking, a good part of a bank's business is in making loans and earning interest on them. However, instead of making loans in the same way as its conventional partner, an SFH takes an

equity position through the credit it advances. There are several modes of lending offered by the SFHs. These are “Individual Consumer Finance”, “Financial Support for Business”, “Leasing” and “Profit and Loss Participation Investments” (Article 21, Regulation of SFHs).

Under the scheme “Individual Consumer Finance”, SFHs purchase goods in advance and add a certain profit margin before selling them to customers on an instalment basis. These transactions are performed according to the principles of interest-free finance. The assets are considered as collateral until the clearance of the customer’s debt. It can therefore be said that SFHs do not undertake any risk and guarantee themselves against default. In other words, uncertainty is eliminated in this form of financing which may not be regarded as compliant with Islamic principles. This has been argued as another instance of divergence from the ideal version of Islamic Banking (Sundararajan and Errico, 2002).

The SFHs also provide “Financial Support for Businesses” under the principle of *Murabaha*. They once again purchase any goods in advance and resell them to those business customers on an instalment basis. Another facility provided by SFHs is leasing. According to the “Turkish Financial Leasing Law” No. 3226, fixed assets which are subject to depreciation can be leased to investors on the condition that the ownership of the leased items belongs to the lessor. At the end of the leasing period, the leased equipment is transferred to the lessee at a price stipulated in the agreement. *Ijara Wa Iqtina* is the Islamic principle applied by the SFHs for leasing operations in Turkey.

“Profit and Loss Participation Investments” are administrated according to the *Mudarabah* principle. This is a type of financing that is provided for customers who need funds for short-term projects such as importing or domestic purchase of marketable goods. The transaction commences with the signing of a contract between the SFH and the customer, called “Profit and Loss Sharing Investment Agreement”, which includes the feasibility of the project and the agreed rates of profit and loss sharing between the parties. The collateral taken by the SFH is also mentioned in the Agreement. At the end of the project, the generated profit or loss is distributed between the parties as per the Agreement and the project is concluded. The SFHs also finance long-term business investments as capital providers. They act in accordance

with the principle of *Musharaka* and therefore become partners in the given investment. The SFHs and their business partners share profit or loss in accordance with their respective capital contribution. That is indicated in the Profit and Loss Sharing Agreement signed by the investment partners.

3. LITERATURE REVIEW

Customer satisfaction has increasingly been recognised as an important component of contemporary marketing thought, particularly in the case of service industries (Bejou et. al., 1998). It is generally argued that if customers are satisfied with the product and/or service received after its use, then it is likely that they would engage in a repeat purchase and try line extension. In other words, it is the feeling or attitude of a customer toward a product and/or service after it has been used (Wells and Prensky, 1996). A satisfied customer will also convey positive messages about it to others. A dissatisfied customer, on the other hand, is likely to switch to a substitute product and/or service the next time when he/she feels the same need. The same customer will also engage in a negative word of mouth, causing a serious damaging effect on the business (Naser et. al., 1999; Metawa and Almossawi, 1998). This "market damage" can be subtle but extensive, undermining the best intentions and the strongest marketing campaigns (Bielski, 2004). Therefore, it is vital that companies make sure their customers are satisfied with the products/services they offer. This has led to an increase in the popularity of measuring customer satisfaction in recent years (Gulledge, 1996).

Banking is one of those sectors in which customer satisfaction has drawn a great deal of attention by many researchers over the last decade (Naser et. al., 1999; Metawa and Almossawi, 1998; Boyd et. al., 1994; Levesque and McDougall, 1996; Haron et.al., 1994; Gerrard and Cunningham, 1997; Othman and Owen, 2003; Anderson et.al., 1997; Athanassopoulos and Labroukos, 1999; Kennington and Rakowska, 1996; Yavaş et. al., 1997; Polatoğlu and Ekin, 2001; Jamal and Naser 2002; Gounaris et. al., 2003; Yavaş et. al., 2004; Bielski, 2004). One of the reasons for this is that the banking industry is increasingly experiencing a growing level of competition and some banks consider customer satisfaction as a chief element of their marketing strategies. Consequently, many financial institutions are now focusing on increasing customer satisfaction and customer retention through

improving the quality of their service so that the desired growth can be secured (Jones, 2004). Customer satisfaction contributes to a good customer-organisation relationship, thereby underpinning the latter's development. It is therefore related to the rudiments of the relationship. Parasuraman et. al. (1988) use their service quality (SERVQUAL) instrument to operationalise customer satisfaction with service quality by depicting the said satisfaction as a five-factor structure construct, comprising tangibles, responsiveness, empathy, reliability and assurance. Their instruments have been used to "capture" perceived customer satisfaction with functional and technical quality (Grönroos, 1990).

As in many other service businesses, the intangibility of the services in the banking sector highlights the importance of customer relationship management. Furthermore, the economic benefits associated with customer satisfaction are well-grounded. Thus, it was shown that customers who have been with their banks for five years are much more profitable than those in the first year of the relationship. Therefore, longer customer relationships are more worthy to the bank than new ones: more established customers have higher account balances, relatively lower account costs and are more likely to use other bank products and services (Liang and Wang, 2004)

Despite the advent of technology into the banking sector—with ATMs, call centres and internet banking—most people would still prefer to do their banking face-to-face with a teller at a local branch. According to a survey carried out by Lorien Consumer Focus (LCF), most customers used an average of three channels to communicate with their bank over the preceding six months. These methods are: a) Visiting a cashier (87%), b) Visiting an ATM (83%), c) Call Centre (40%), d) the Internet (26%), e) Post (20%) and f) E-mail (3%). The findings of the survey indicate that of those who visited a cashier at a bank branch, 35 per cent said that this was their preferred communication channel. Bank call centres were the poorest performing communication channel in terms of customer service satisfaction (Management Services, 2003). Rexha et.al. (2003) reveal that the satisfaction of corporate clients with their bank does not directly affect their propensity to use electronic banking. However, satisfaction does have a significant impact on trust and commitment, both of which do affect the likelihood that corporate

clients will use electronic banking. Satisfaction therefore indirectly affects the customer's inclination to use electronic banking. Yavaş et. al. (1997) examined the determinants of customer satisfaction for the Turkish banking sector. The study points out that the relationship between customer and bank employees is the main drive of the Turkish customers' satisfaction. Polatoğlu and Ekin (2001) investigated the Turkish customers' acceptance of internet banking services based on empirical data gathered from a survey conducted among a private bank's customers. The findings of the research disclose the importance of satisfaction in terms of reliability, access and savings.

The above discussion highlights the importance of customer satisfaction that is thought to be the cornerstone in constructing strategies of financial institutions such as those that engage in interest-free finance. The study of Erol and El-Bdour (1989) deals with the attitude of Jordanian people towards interest-free banking. For this aim, the authors designed nine questions and/or statements that were published in the appendix of their article. It appears from the said study that religiosity was not the main determinant of bank selection whereas the level of profitability (return from investments) was one of the main factors in Jordan. In addition, the authors make the following comments: There was a belief that Islamic banks were not offering sufficient interest-free loans which could contribute to solving community problems in a just and efficient manner and that the elimination of pre-determined interest rates on loans would benefit borrowers, especially the needy and the poor. Erol and his co-researchers (1989 and 1990) sought to establish and compare the bank selection criteria of customers of conventional and Islamic banks in Jordan. The survey questionnaire contained twenty items for bank selection criteria. For those who patronised Islamic banks alone, the three most important bank selection criteria were: "the provision of a fast and efficient service", "the bank's reputation and image", and "confidentiality of the bank". Hegazy (1995) investigated bank selection criteria for both Islamic banks and conventional banks located in Egypt. He concluded that the selection attributes for the first are different from those for the latter. For the Islamic banks, it was found that the most important factor was the advice and recommendations made by relatives and friends. Convenience of the location, friendliness of personnel and the bank's vision of serving the community regardless of the expected profitability,

timeliness and efficiency also appeared, among others, to be important drives.

Sudin et. al. (1994) undertook a study to determine the factors considered important by customers in selecting their financial institutions as well as other things. They used a sample of Muslims and non-Muslims living in three medium-sized towns in Malaysia. The three most important criteria in bank selection for Muslims were: “the provision of a fast and efficient service”; “the speed of the transaction”; and “the reputation and image of the bank”. In the study by Metawa and Almossawi (1998), the banking behaviour of Islamic bank customers in Bahrain was investigated with a sample of 300 customers. It reveals that there are two most important bank selection criteria: adherence to the Islamic principles and the rate of return. Naser and et.al. (1999) found out that the most important bank selection criterion for the customers of Islamic banks was “the image of the bank”, followed by compliance to Islamic principles.

4. METHODOLOGY

The gist of this study is to reveal the degree of use and awareness of interest-free products and services provided by the SFHs and the degree of customer satisfaction in a sample of 161 SFH customers. The study focuses in particular on seeking answers to the following questions:

- What are the main drives of customers for choosing to deal with an SFH?
- What are the main drives that make SFH customers choose to deal with a conventional bank as well as an SFH?
- To what extent are SFH customers aware of and use the interest-free products and services provided by the SFHs?
- What is the degree of customer satisfaction with various aspects of the SFHs?

4.1. Data Collection

This study aims to reveal the level of customer awareness, customer use of interest-free products and customer satisfaction with the practices of the SFHs in Turkey. To answer the above questions, a survey questionnaire in Turkish was designed with a set of questions that are mainly derived from the literature, as well as through consulting key officials working in the SFHs. The Turkish version of the questionnaire was then translated into English.

The questionnaire is designed in six sections: Section 1 includes demographic information on the customers of the SFHs such as gender, age, level of education, type of employee and job, years in the job, monthly income and information on type of financial institution in which respondents hold their accounts. In the following section, the main reasons behind not dealing solely with an SFH are assessed in ten items. Section 3 comprises information on financial products and services (e.g. current accounts, P/L participation accounts, time deposit accounts, loans, etc.) utilised by the SFH customers when they chose to deal with an SFH and a conventional bank (if that is the case). In Section 4, ten items were selected to determine the SFH customers' awareness and their use of interest-free products and services provided by the SFHs. Section 5 engages in the reasons behind dealing with an SFH in order to detect the selection criteria of the SFH customers by using nineteen selection criteria. Section 6 evaluates the SFHs in eighteen items in order to determine the main drives of the SFH customers' satisfaction. The survey questionnaire uses the customer satisfaction criteria and applies them to the SFHs operating in compliance with interest-free finance principles in Turkey.

In total, 94 items were selected to achieve the goal of the study. All items, except for those in Section 4, were measures on a five-point Likert scale from 1 (Strongly agree/Very satisfied) to 5 (Strongly disagree/Not satisfied at all). In Section 4, respondents are invited to express their level of awareness and use of different products/services on the basis of "Not aware of it", "Aware and do not use it" and "Aware and use it".

The questionnaire was pre-tested to check the validity and logic of the questions included in it. After assessing the feedback from the pilot

study (n=15), several changes were made before the questionnaire was distributed.

The questionnaire in Turkish was randomly hand-distributed to the account holders in the branches of five Special Finance Houses. These are Albaraka Turkish Finance House, Asya Finance House, Anadolu Finance House, Kuwait Turkish Finance House and Family Finance House. The branches were selected in the areas where certain groups of religious people and hence the branches of the SFHs are located in Istanbul. As the five SFHs have branches in those areas, the questionnaire was distributed in almost all the branches located in them to seek a wider representation of customers. This process of data collection continued for two months from May 2004 through June 2004. Respondents were selected from SFH customers visiting the sampling branches during the chosen time intervals in order to eliminate the sampling frame errors and ensure the representation of the population under study in the sample unit. Although 200 questionnaires were distributed, the actual sample size (i.e. usable returned and completed questionnaires) was 161 customers with a response rate of 81 per cent.

4.2. Findings

4.2.1. *Respondents' Profile*

In order to carry out the data analysis, descriptive statistics were employed. The questionnaire included a section on customers' profile to be able to define the features of those who use interest-free products and services in Turkey. In addition, since various demographic factors were likely to influence the use of interest-free products and services and customer awareness of and degree of satisfaction with the products and services offered by the SFHs, it is necessary to reveal the SFH customer profile (Table 1).

The figures in Table 1 reveal that more than 65 per cent of the respondents are between 20 and 39 years of age. Almost 80 per cent of the respondents are males whereas females account for only approximately 20 per cent. More than 75 per cent of the respondents consider themselves as partly fulfilling the requirements of Islam. The table also reveals that more than 40 per cent of the respondents hold a bachelor's degree and 42 per cent have at least a high school diploma.

Table 1: Personal Background of the Respondents

			Valid	Cumulative
	Frequency	%	%	%
Age				
20-39 years old	106	65.8	65.8	65.8
40-60 years old	55	34.2	34.2	100.0
Gender				
Male	127	78.9	78.9	78.9
Female	34	21.1	21.1	100.0
Religion				
Muslim	155	96.3	96.3	96.3
Non-Muslim	6	3.7	3.7	100.0
Practicing Religion				
Absolutely	34	21.1	21.1	21.1
Partly	121	75.2	75.2	96.3
None	6	3.7	3.7	100.0
Level of Education				
Literate only	5	3.1	3.1	3.1
Primary & Secondary School	23	14.3	14.3	17.4
High School	68	42.2	42.2	59.6
Bachelor's degree and +	65	40.4	40.4	100.0
Type of Employers				
Private	84	52.2	52.2	52.2
State	14	8.7	8.7	60.9
Self-employed	47	29.2	29.2	90.1
Retired	7	4.3	4.3	94.4
Student	9	5.6	5.6	100.0
Type of Business/ Job				
Manufacturing	20	12.4	12.4	12.4
Trade	53	32.9	32.9	45.3
Agriculture	7	4.3	4.3	49.7
Services	36	22.4	22.4	72.0
Food & Beverage	11	6.8	6.8	78.9
Construction	7	4.3	4.3	83.2
Education	16	9.9	9.9	93.2
Textile	11	6.8	6.8	100.0
Years in Business/ Job				
Less than 5 years	40	24.8	26.0	26.0
5 - 9 years	50	31.1	32.5	58.4
10 - 14 years	26	16.1	16.9	75.3
15 - 20 years	17	10.6	11.0	86.4
More than 20 years	21	13.0	13.6	100.0
Missing value	7	4.3	100.0	
Monthly Net Income				
Minimum Government Salary (MGS)	14	8.7	8.9	8.9
MGS - 1 billion TL	64	39.8	40.5	49.4
1,000,000,001- TL - 2 billion TL	45	28.0	28.5	77.8
2,000,000,001 billion TL - 3 billion TL	16	9.9	10.1	88.0
More than 3 billion TL	19	11.8	12.0	100.0
Missing value	3	1.9	100.0	

More than 81 per cent of the respondents are either self-employed or working at privately owned firms, mostly engaged in trade and services sectors. More than 55 per cent of the respondents have a working experience of less than 10 years and more than 67 per cent earn between the minimum government salary and TL 2 billion per month.

4.2.2. Type and Duration of Banking

It was important to explore where the respondents held their accounts and what type of SFH interest-free services they utilised. For example, banking with an SFH as well as a conventional bank enables customers to make useful comparisons while evaluating service quality. Though gathering information on whether the respondents held accounts in SFHs and conventional banks was useful, it was also important to explore the types and durations of accounts and services held by the respondents with SFHs as well as conventional banks. Details of the respondents' accounts and the services they utilise are reported in Tables II and V.

Table 2: Type of Financial Institution in which Respondents Hold Their Accounts and Utilised Services

Value Labelled	Frequency	%
SFHs only	74	46.0
Conventional banks & SFHs	87	54.0

According to Table 2, 46 per cent of the respondents hold accounts and/or utilise the services offered by the SFHs. However, 54 per cent indicate that they bank in a conventional bank as well as an SFH. At this point, it was indicative to explore the main factors why the SFH customers also choose to bank with a conventional bank operating in accordance with interest-based principles.

4.2.3. Main Drives Behind Dealing with Conventional Banks as well as SFHs

As mentioned above, an attempt was made to investigate the main drives for the respondents' choice to bank with a conventional bank as well as an SFH, and the related findings are reported in Table 3. In order to specify these primary reasons, the respondents who bank with both types

Table 3: The Main Drives of the Respondents' Choice to Deal with Conventional Banks as well as SFHs

(n=87)	Strongly agree		Agree		Disagree		Strongly disagree		No view		Rank
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Some products not available at SFHs	9	10.3	30	34.5	26	29.9	12	13.8	10	11.5	2
Many products not available at SFHs	6	6.9	24	27.6	38	43.7	8	9.2	11	12.6	3
Insufficient branch network	12	13.8	33	37.9	28	32.2	6	6.9	8	9.2	1
Lack of efficient & effective IT	1	1.1	15	17.2	40	46.0	20	23.0	11	12.6	5
Lack of financial counselling provided by employees	3	3.4	11	12.6	43	49.4	20	23.0	10	11.5	6
Lack of short-term investment opportunities	3	3.4	27	31.0	26	29.9	11	12.6	20	23.0	3
Lack of available credits with favourable terms	6	6.9	15	17.2	38	42.5	8	9.2	21	24.1	4
Lack of fixed-income investment opportunities	8	9.2	22	25.3	13	14.9	5	5.7	39	44.8	3
Higher commission and fee on transactions	4	4.6	12	13.8	40	46.0	10	11.5	21	24.1	5
Lack of credit cards with favourable terms	4	4.6	17	19.5	22	25.3	20	23.0	24	27.6	4

of financial institutions were invited to express their views on some issues. It appears from the figures in Table 3 that the respondents (more than 51 per cent of them) choose to bank with a conventional bank as well as SFHs since the latter do have not a widespread branch network, and *some* financial products and/or services offered by the conventional banks are not available through the SFHs. The respondents pointed out that they choose to deal with a conventional bank since the SFHs are lacking, in particular, short-term and fixed-income investment opportunities. It is also worth indicating here that more than 44 per cent of the respondents have not expressed any views on fixed-income investment opportunities such as *sukuk* (equivalent to government fixed-income securities in the interest-based financial system). However, SFH customers made positive comments on *the financial counselling provided by the SFH staff* and *the effective and efficient IT*, being a degree of more than 72 per cent and 69 per cent respectively. This simply implies that the main reason for dealing with a conventional bank as well as an SFH is mainly product-related.

4.2.4. *Customers' Selection Criteria*

The participants were invited to express the extent of their agreement with a set of reasons that may explain their dealing with the SFHs. A summary of their answers is given in Table 4.

According to Table 4, 77 per cent of the customers *agreed* or *strongly agreed* that *religious reasons only* were a key factor in their choice of an SFH while 67 per cent *agreed* or *strongly agreed* that they banked with an SFH since *SFHs offered the facilities which are similar to those offered by conventional banks, but they operate in accordance with interest-free principles*. This was followed by almost 64 per cent of those who agreed and strongly agreed that they chose dealing with an SFH because of *staff friendliness*. Factors like *high return on investments* (almost 25 per cent), *religious and profitability reasons for banking with an SFH* (almost 32 per cent), *advice from relatives and friends* (almost 34 per cent) and *resistance to economic crises* (almost 35 per cent) did not appear to play a major role in the banking choice of customers who used an SFH. It is worth noting that *high return on investment* criteria ranked last out of 19 selection criteria.

Table 4: Customers' Selection Criteria for Dealing with SFHs

(n=161)	Strongly agree		Agree		Disagree		Strongly disagree		No view		Rank(*)
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Religious reasons only	34	21.1	90	55.9	25	15.5	3	1.9	9	5.6	1
High return on investments	13	8.1	26	16.1	68	42.2	11	6.8	43	26.7	19
Staff friendliness	21	13.0	82	50.9	27	16.8	6	3.7	25	15.5	3
Religious and profitability reasons	12	7.5	39	24.2	66	41.0	8	5.0	36	22.4	18
Advice from relatives & friends	10	6.2	44	27.3	59	36.6	7	4.3	41	25.5	17
Resistance to economic crises	14	8.7	42	26.1	56	34.8	4	2.5	45	28.0	16
Advertising and image of SFHs	16	9.9	54	33.5	42	26.1	1	0.6	48	29.8	12
Efficiency and speed in completing a transaction	15	9.3	81	50.3	28	17.4	1	0.6	36	22.4	4
Low service charges	10	6.2	63	39.1	35	21.7	4	2.5	49	30.4	11
FC transactions with favourable terms	11	6.8	47	29.2	36	22.4	4	2.5	63	39.1	15
Location of branch	9	5.6	72	44.7	34	21.1	2	1.2	44	27.3	8
The interior design of the SFH	10	6.2	57	35.4	41	25.5	5	3.1	48	29.8	13
Availability of loans with favourable terms	10	6.2	57	35.4	31	19.3	2	1.2	61	37.9	14
Customer confidentiality	11	6.8	70	43.5	28	17.4	1	0.6	51	31.7	9
The wide range of the facilities offered	14	8.7	71	44.1	31	19.3	-	-	45	27.9	7
Efficiency and speed in inter-branch transactions	10	6.2	76	47.2	25	15.5	3	1.9	47	30.0	6
Financial counselling provided	12	7.5	81	50.3	21	13.0	2	1.2	45	27.9	5
SFHs offer the same facilities as offered by a conventional bank but SFHs also operate in compliance with Islamic Principles	16	9.9	92	57.1	17	10.6	2	1.2	34	20.9	2
The availability of the Assurance Fund	14	8.7	65	40.4	25	15.5	3	1.9	53	33.5	10

Note: (*) The highest number of respondents who either *strongly agreed* or *agreed* is ranked number 1.

Table 5: Duration of the Account(s) and the Services Utilised

(n=161)		Do not have or not applicable		Less than 1 year		1-3 years		3-5 years		More than 5 years	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Value label											
<i>Islamic</i>											
Current (TL)	Wadiyah	22	13.7	29	18.0	46	28.6	36	22.4	28	17.4
Current (FC)	Wadiyah	82	50.9	13	8.1	24	14.9	26	16.1	16	9.9
P/L Participation (TL)	Mudarabah	116	72.0	18	11.2	12	7.5	8	5.0	7	4.3
P/L Participation (FC)	Mudarabah	127	78.9	7	4.3	12	7.5	8	5.0	7	4.3
Consumer Credit (TL)	Murabaha	132	82.0	8	5.0	10	6.2	7	4.3	4	2.5
Consumer Credit (FC)	Murabaha	143	88.8	2	1.2	6	3.7	5	3.1	5	3.1
Vehicle Credit (TL)	Murabaha	116	72.0	12	7.5	18	11.2	12	7.5	3	1.9
Vehicle Credit (FC)	Murabaha	150	93.2	1	0.6	5	3.1	3	1.9	2	1.2
Financial Support for Business (TL)	Murabaha	140	87.0	3	1.9	9	5.6	5	3.1	4	2.5
Financial Support for Business (FC)	Murabaha	143	88.8	2	1.2	10	6.2	2	1.2	4	2.5
Leasing	Ijara	152	94.4	2	1.2	4	2.5	1	0.6	2	1.2
P/L Participation Investment (TL)	Mudarabah	151	93.8	3	1.9	4	2.5	1	0.6	2	1.2
P/L Participation Investment (FC)	Mudarabah	150	93.2	4	2.5	1	0.6	2	1.2	4	2.3
Credit Card	n.a.	74	46.0	12	7.5	37	23.0	23	14.3	15	9.3
International Foreign Business	n.a.	143	88.8	4	2.5	6	3.7	5	3.1	3	1.9
Others	n.a.	139	86.3	7	4.3	9	5.6	3	1.9	3	1.9
<i>Conventional</i>											
Current (TL)		97	50.9	15	9.3	23	14.3	10	6.2	31	19.3
Current (FC)		128	79.5	5	3.1	9	5.6	3	1.9	16	9.9
Time Deposit (TL)		143	88.8	3	1.9	7	4.3	3	1.9	5	3.1
Time Deposit (FC)		152	94.4	1	0.6	3	1.9	-	-	5	3.1
Consumer Credit (TL)		148	91.9	1	0.6	6	3.7	3	1.9	3	1.9
Consumer Credit (FC)		156	96.9	3	1.9	1	0.6	-	-	1	0.6

Table 5: Duration of the Account(s) and the Services Utilised (Continued)

(n=161)		Do not have or not applicable		Less than 1 year		1-3 years		3-5 years		More than 5 years	
		Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Value label											
Vehicle Credit (TL)		146	90.6	2	1.2	7	4.3	2	1.2	4	2.5
Vehicle Credit (FC)		155	96.2	2	1.2	2	1.2	1	0.6	1	0.6
Commercial Loan (TL)		147	91.3	5	3.1	4	2.5	-	-	5	3.1
Commercial Loan (FC)		157	97.54	1	0.6	2	1.2	-	-	1	0.6
Government Bonds & Mutual Funds		150	93.1	3	1.9	2	1.2	2	1.2	4	2.5
Credit Card		110	68.3	2	1.2	21	13.0	11	6.8	17	10.6
International Foreign Business		150	93.1	1	0.6	4	2.5	-	-	6	3.7
Others		154	95.6	2	1.2	1	0.6	1	0.6	3	1.9

4.2.5. Customer Awareness and the Use of Interest-free Products and Services Offered by the SFHs

Table 5 reports findings in connection with the types of accounts held by the respondents and the duration for which they hold their accounts and utilise the services offered. It indicates that more than 68 per cent of the respondents (in the case of SFHs) held current accounts (TL) with an SFH for more than one year. However, only approximately 40 per cent of those kept up their relationship with an SFH for more than three years. This might imply a low level of customer loyalty towards SFHs. It appears that more than half of the respondents preferred holding a current account denominated in foreign currencies at an SFH. More than 54 per cent of the respondents held credit cards provided by the SFHs. Likewise, more than 31 per cent of the respondents had credit cards provided by the conventional banks for the same period and almost 50 per cent of them held current accounts with conventional banks. Less than approximately 20 per cent of the respondents utilise the individual finance products of the SFHs that are in the form of vehicle credits that operate in compliance with the principle of *murabaha*. Furthermore, more than 10 per cent of the respondents hold time deposit accounts with conventional banks that basically gain interest.

The figures in Table 5 also reveal that more than 70 per cent of the respondents do not have a participation account with an SFH in the form of profit and loss participation. In other words, a significant majority of the respondents who bank with an SFH do not show a demand for specific interest-free accounts like *mudarabah* and *musharaka*. Likewise, only approximately 7 per cent of the respondents borrowed from the SFHs in the form of profit and loss participation. This outcome needs to be assessed in connection with the following analysis of the degree of awareness among the respondents of the interest-free products and services offered by the SFHs in Turkey.

It was expected that the Turkish customers were aware of the basic financial terms of interest-free banking in such a country as Turkey where almost 97 per cent of the population are Muslim. This study also attempts to reveal the extent to which those products and services were actually used by the SFH customers. Therefore, the respondents were required to express the degree of their awareness of the products and services offered by the SFHs. Table 6 reports findings regarding the

customer awareness and the use of interest-free products and/or services provided by the SFHs.

Table 6 clearly indicates that a high proportion of the respondents are aware of and use *current accounts* based on the *wadiyah* principle and *credit cards* provided by the SFHs with a level of 78 per cent and 65 per cent respectively. It is also clear, however, that a significant number of the respondents mention that they are not aware of the specific Islamic terms of *mudarabah*, *murabaha*, *musharaha* and *ijara*. In addition, almost half of the respondents are aware of the *profit and loss participation accounts* and *financial support for business* based on the interest-free principles of *mudarabah* and *murabaha* respectively, but do not use them. Other products operating in accordance with the principle of *murabaha* are known by the customer at a high level but are not

Table 6: Customer Awareness and Use of Products and/or Services Provided by the SFHs in Turkey

(n=161)	Not aware of it		Aware and do not use it		Aware and use it	
	Frequency	%	Frequency	%	Frequency	%
Current Account (Wadiyah)	8	5.0	27	16.8	126	78.3
P/L Participation Account (Mudarabah)	30	18.6	72	44.7	59	36.6
Financial Support for Business (Murabaha)	53	32.9	83	51.6	25	15.5
Housing Loan (Murabaha)	18	11.2	130	80.7	13	8.1
Individual Finance (Murabaha)	20	12.4	111	68.9	30	18.6
Vehicle Loan (Murabaha)	11	6.8	107	66.5	43	26.7
Credit Card	13	8.1	44	27.3	104	64.6
Leasing (Ijara)	64	39.8	86	53.4	11	6.8
Joint Venture (Musharaka)	77	47.8	72	44.7	12	7.5
	Aware of it		Not aware of it			
Coverage of the Accounts held with SFHs by the Assurance Fund	88	54.3	73	45.3		

regarded as a preferable investment opportunity. Furthermore, more than 47 per cent of the respondents are totally ignorant of *musharaka*. Thus, the findings illustrated in Table 6 may indicate the fact that though the respondents have a considerable level of awareness of few of the SFH products and services, a very limited number of them deal with them. It is important to note that only 54 per cent of the respondents have knowledge of the Assurance Fund whereas the rest is totally unaware of its existence.

Table 7: Degree of SFH Customer Satisfaction

(n=161)	Very satisfied		Satisfied		Not satisfied		Not satisfied at all		No view		Rank(*)
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	
Efficiency and speed of completing a transaction	46	28.6	99	61.5	11	6.8	1	0.6	4	2.5	1
Quality of advice offered by the SFH personnel	36	22.4	92	57.1	10	6.2	1	0.6	22	13.6	2
Location of branch	23	14.3	83	51.6	19	11.8	5	3.1	31	19.4	6
The interior design of the SFH	19	11.8	79	49.1	23	14.3	2	1.2	38	23.6	11
Parking facilities provided to customer	11	6.8	24	14.9	53	32.9	18	1.2	55	34.1	15
Staff sociability and friendliness	38	23.6	86	53.4	9	5.6	1	0.6	27	16.7	3
The SFHs' name and image	29	18.0	95	59.0	7	4.3	1	0.6	29	18.0	4
Availability of loans with favourable terms	15	9.3	72	44.7	8	5.0	1	0.6	65	40.4	12
Customer confidentiality	23	14.3	77	47.8	10	6.2	-	-	51	31.7	7
Working Hours	28	17.4	91	56.5	5	3.1	1	0.6	36	22.1	5
Internet facilities provided by the SFH	28	17.4	51	31.7	11	6.8	3	1.9	68	42.0	13
The wide range of the facilities offered	25	15.5	75	46.6	11	6.8	2	1.2	48	29.8	8
Efficiency and speed in inter-branch transactions	25	15.5	75	46.6	15	9.3	-	-	46	28.6	9
Financial counselling provided	26	16.1	73	45.3	12	7.5	2	1.2	48	29.8	10
Advertising and informing of new products & services	23	14.3	46	28.6	26	16.1	5	3.1	61	37.9	14

Note: (*) The ranking which appears in this table is based on the level of agreement expressed by the respondents. For example, the reason that received the highest degree of agreement (the highest number of respondents who either strongly agree or agree) is ranked number 1.

4.2.6. *Customer Satisfaction with the Services and Products Offered by the SFHs*

Various aspects of customer satisfaction with the SFHs in Turkey are explored in this study. The customers of the SFHs in the sample were asked to express their degree of satisfaction with various aspects of the products and services provided by the SFHs. The outcomes of this part of the study are reported in Table 7.

It is clear from Table 7 that the vast majority of respondents expressed a considerably high level of satisfaction with various aspects of the SFH products and services. More than 90 per cent of them were either *satisfied* or *very satisfied* with *efficiency and speed in completing a transaction at the SFHs' branch* they deal with. This was followed by almost 80 per cent of respondents who expressed that they were *satisfied* or *very satisfied* with the quality of advice offered by the SFH personnel. Staff sociability and friendliness also ranked third with a 77 per cent degree of customer satisfaction. As far as the performance of bank personnel was concerned, the majority of the respondents were satisfied with most aspects of customer-client interaction. However, financial counselling provided by the SFHs did not get a better response from customers. Only 61 per cent of the respondents indicated that they were *very satisfied* and *satisfied* with the SFHs in terms of the financial advice they give.

Only 22 per cent of the respondents expressed their satisfaction with *parking facilities* offered by the SFHs whereas 34 per cent were dissatisfied with the given criteria. Furthermore, 19 per cent of the respondents pointed out that they were not satisfied with their SFHs in terms of *informing customers about new products and services* as well as the developments regarding interest-free banking in Turkey. The respondents also showed a degree of dissatisfaction with *location of branch* (almost 15 per cent) and *interior design of branch* (almost 16 per cent). Table 7 also highlights that many respondents did not comment on several issues. For example, more than 40 per cent of the respondents chose not to give their view on *availability of loans with favourable terms*.

4.2.7. *The Relationship between the SFH Customer Selection Criteria and Socio-demographic Factors*

It is likely that the relative importance of the selection criteria was influenced by the variation in some socio-demographic factors such as

Table 8: Relationship Between Reasons Behind Dealing with a SFH and Demographic Factors

N=161	Gender		Age Group		Practising Religion		Level of Education		Type of Employers		Type of Business		Years on Business		Monthly Income	
	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.
Religious reasons only	2.047	0.727	3.226	0.521	5.631	0.048**	8.446	0.749	12.736	0.692	34.533	0.184	20.449	0.201	10.601	0.833
High return on investments	5.525	0.238	1.387	0.846	5.212	0.735	12.697	0.391	23.146	0.110	40.975	0.054*	12.734	0.692	15.088	0.518
Not being a bank (interest-free institution) only	0.863	0.930	5.411	0.248	14.115	0.079*	19.060	0.087*	17.870	0.332	33.807	0.207	13.029	0.671	16.642	0.409
Religious and profitability reasons	9.505	0.050**	7.445	0.114	6.687	0.571	11.182	0.513	12.188	0.731	31.573	0.292	12.041	0.741	13.786	0.615
Advice from relatives&friends	7.482	0.112	0.844	0.932	5.193	0.737	18.411	0.104	27.762	0.034**	55.660	0.001***	18.399	0.301	14.157	0.587
Resistance against economic crisis	5.770	0.217	9.803	0.044**	7.760	0.457	5.465	0.941	9.886	0.873	36.848	0.122	12.412	0.715	20.429	0.202
Advertising and image of SFHs	9.821	0.044**	6.588	0.162	8.228	0.412	12.199	0.430	13.427	0.641	68.393	0.000***	15.292	0.503	17.243	0.370
Efficiency and speed in completing a transaction	11.012	0.026**	6.766	0.159	4.623	0.797	12.372	0.416	14.274	0.578	33.859	0.206	16.796	0.399	37.170	0.002***
Low service charges	6.419	0.170	3.269	0.149	15.032	0.059*	10.207	0.598	13.774	0.618	36.877	0.122	16.680	0.407	15.257	0.506
FC transactions with favourable terms	9.732	0.045**	2.835	0.514	4.615	0.798	7.456	0.826	27.391	0.037**	45.197	0.021**	16.146	0.443	23.869	0.092*
Location of Branch	3.795	0.434	2.778	0.586	13.170	0.106	10.547	0.568	18.573	0.291	50.123	0.006***	11.895	0.751	17.149	0.376
The interior design of the SFH	11.994	0.017**	0.503	0.596	3.988	0.858	12.220	0.428	15.086	0.518	28.905	0.417	23.102	0.111	20.780	0.187
Availability of loans with favourable terms	4.796	0.309	3.995	0.973	3.968	0.860	9.951	0.620	20.080	0.217	29.576	0.384	7.885	0.952	30.115	0.017**
Customer confidentiality	5.259	0.262	0.861	0.407	6.591	0.581	8.753	0.724	6.865	0.976	45.433	0.02**	10.820	0.820	11.818	0.756
The wide range of the facilities offered	4.594	0.204	5.089	0.835	6.182	0.403	6.700	0.668	11.126	0.518	34.611	0.031**	7.446	0.827	14.385	0.277
Efficiency and speed in Inter-branch transaction	13.650	0.008***	2.911	0.278	9.781	0.281	7.073	0.853	19.289	0.254	37.242	0.114	15.192	0.515	14.820	0.538
Financial counselling provided	12.614	0.013**	3.411	0.573	13.217	0.105	9.578	0.653	19.128	0.262	49.041	0.008***	16.146	0.443	14.420	0.567
SFHs offer the same facilities as offered by a convention	6.668	0.154	1.422	0.492	6.105	0.635	8.867	0.714	15.123	0.516	36.303	0.135	12.788	0.688	24.652	0.076*
The availability of the Assurance Fund	11.853	0.018**	3.684	0.840	3.162	0.924	12.159	0.433	10.320	0.849	56.494	0.001***	21.007	0.178	20.214	0.211

Notes:(*), (**) and (****) denote the significance level of 10 per cent, 5 per cent and 1 per cent respectively.

Sign.: Significance.

age, gender, level of education etc. In order to examine the relationship between those factors and the SFH customer selection criteria, a number of chi-square tests (χ^2) were conducted and the related figures are illustrated in Table 8. According to the reported χ^2 figures, there is a statistically significant relation between the variable of *gender* and *efficiency and speed in inter-branch facilities*. When the answers given to this question by the respondents are examined in detail, it appears that 52 per cent of the males and 11 per cent of the females expressed that the given factor was the most important reason for dealing with an SFH. Consequently, it can be said that among the other factors, the *efficiency and speed in inter-branch transactions* factor had priority for males relative to females in choosing to deal with an SFH.

The reported χ^2 figures indicate that there is a statistically significant relation between the variable of *type of business* and *advice from friends & relatives, location of branch, financial counselling* provided by the SFHs and *the availability of the Assurance Fund*. Furthermore, the variable of *monthly income* and the answers of the respondents in terms of *efficiency and speed in completing a transaction* appeared to be related. *The advice given by relatives and friends* were considered more important for those who engage in trade business than those in the service sector in the SFH selection criteria. It appears that *advertising and image of SFHs* was considered as an unimportant selection criterion for those who are in trade business at a rate of 28 per cent. In addition, 17 per cent of the respondents expressed and/or strongly expressed that the availability of the Assurance Fund was not one of the reasons for which they deal with an SFH.

4.2.8. Relationship between Customer Satisfaction and Socio-demographic Factors

Table 9 represents the figures regarding χ^2 computed in order to reveal the relation between customer satisfaction and other factors such as gender, age, level of education etc. It can be seen in Table 9 that the respondents, regardless of their age, gender, practising religion, level of education, type of employers and business, expressed a certain degree of satisfaction with most aspects of the SFHs. It is also clear that factors such as years in business and monthly income did not make up any statistically significant relations in the degree of customer satisfaction with the SFHs as reflected by the reported χ^2 . The table reveals,

Table 9: Relationship between Customer Satisfaction and Demographic Factors

N=161	Gender		Age Group		Practising Religion		Level of Education		Type of Employers		Type of Business		Years on Business		Monthly Income	
	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.	χ^2	Sign.
Efficiency and speed in completing a transaction	4.841	0.304	6.349	0.45	12.726	0.122	9.634	0.648	19.651	0.236	26.097	0.568	9.924	0.871	16.459	0.421
Quality of advice offered by SFHs' personnel	6.975	0.137	5.971	0.175	40.983	0.000***	11.257	0.507	37.717	0.002***	46.026	0.017**	14.582	0.555	14.637	0.551
Location of branch	5.838	0.212	5.081	0.201	23.047	0.003***	7.177	0.846	16.768	0.401	35.901	0.145	11.166	0.799	7.536	0.961
The interior design of the SFH	1.786	0.775	3.311	0.285	8.775	0.362	14.956	0.244	16.094	0.446	27.515	0.49	16.960	0.406	14.511	0.561
Parking facilities provided to customer	6.386	0.172	16.750	0.507	6.873	0.550	7.722	0.806	19.504	0.243	24.946	0.631	16.489	0.419	14.924	0.530
Staff sociability and friendliness	4.757	0.313	7.463	0.002***	15.363	0.052*	28.025	0.005***	15.719	0.473	42.630	0.038**	16.205	0.439	22.961	0.115
SFH's name and image	3.424	0.490	4.903	0.113	22.048	0.005***	14.320	0.281	34.013	0.005***	45.188	0.021**	12.083	0.439	15.856	0.464
Availability of loans with favourable terms	6.152	0.188	1.466	0.297	6.690	0.570	11.734	0.467	10.314	0.850	32.515	0.254	21.783	0.150	19.995	0.22
Customer confidentiality	5.689	0.128	4.452	0.690	17.638	0.007***	5.010	0.833	14.229	0.286	26.973	0.172	10.029	0.613	15.123	0.235
Working Hours	3.173	0.529	1.176	0.348	36.063	0.000***	10.744	0.551	39.666	0.001***	59.441	0.000***	13.295	0.651	20.209	0.311
Internet facilities provided by SFH	1.706	0.790	4.476	0.882	14.387	0.072*	12.150	0.434	9.377	0.897	34.568	0.183	15.893	0.460	13.414	0.642
The wide range of the facilities offered	5.417	0.247	6.905	0.345	19.186	0.014**	7.908	0.792	21.395	0.164	31.856	0.280	14.213	0.583	14.374	0.571
Efficiency and speed in Inter-branch transactions	5.747	0.125	8.543	0.075*	3.595	0.731	6.327	0.707	18.390	0.104	34.490	0.032**	9.135	0.691	13.987	0.302
Financial counselling provided	4.237	0.375	3.194	0.074*	12.612	0.126	5.271	0.948	26.125	0.052*	36.785	0.124	13.978	0.600	17.051	0.382
Advertising and informing new products&services	9.371	0.052*	4.121	0.526	14.892	0.061*	9.756	0.637	23.835	0.093*	23.725	0.696	8.201	0.943	19.535	0.242

Notes: (*), (**) and (***) denote the significance level of 10 per cent, 5 per cent and 1 per cent respectively.

Sign.: Significance.

however, that there is a significant relation between the variables of the age of the respondents and the level of education and the degree of satisfaction with staff sociability and friendliness. The type of employer variable also indicates a significant level of differences between the respondents on the degree of satisfaction with the quality of advice offered by the SFH staff, name, image and working hours. In addition, the reported χ^2 indicates a significant relation between type of business and working hours. Furthermore, the practising religion variable registers significant differences as regards the quality of advice provided by SFHs' personnel, location of branch, SFHs name and image, customer confidentiality and working hours of the SFHs.

The respondents in the 20-39 age group expressed that they were satisfied with the *friendliness of the SFHs' personnel* with a degree of 69 per cent. The relevant rate for the respondents as a whole was 77 per cent. It appears, however, that only 50 per cent of those who are *literate* expressed their favourable view on staff friendliness whereas more than 70 per cent of those who have had a university degree and high school diploma were satisfied with the attitude of the personnel. As such, the higher the level of education of SFH customers, the higher becomes the degree of satisfaction with *staff friendliness*. In comparison with the respondents who are in the service business, those who are in the trade business expressed that they were very satisfied and/or satisfied with the *operating hours of the SFHs*.

In order to test the reliability of the answers given by the respondents to the questions in Sections 2, 4, 5 and 6, Cronbach-alpha coefficients were computed. The computed Cronbach-alpha for Section 2 was more than 60 per cent, being the lowest, and the given coefficients for Section 5 were more than 91 per cent, the highest. The alphas for Sections 4 and 6 also represented a high degree of reliability, being 70 per cent and 90 per cent respectively. Therefore, it can be indicated that the answers of the respondents to the questions in the given sections are consistent.

5. CONCLUSION

This study is designed to investigate the use and awareness of customers of interest-free products and services provided by the SFHs and

customer satisfaction with the practices of such financial institutions in Turkey.

Our findings indicate that the majority of the customers are highly well-educated, with more than 40 per cent holding a bachelor's degree and above, and another 42 per cent holding a high school diploma. In addition, the results also show that about 65 per cent of the SFH customers fall between 20 and 39 years, engaging in businesses of trade and service. According to the results of the survey, a vast majority of the SFH customers have a low or middle income.

It appears from the figures that almost 55 per cent of the SFH customers also deal with a conventional bank as well as an SFH. This appears to stem mainly from the fact that the SFHs do not have a nationwide branch network and are not able to provide some of the products and services available through conventional banks such as fixed-income and short-term investment opportunities.

The study results indicate that customer awareness and usage rates are high for some of the products and services of the SFHs. Approximately 70 per cent of the customers hold only *current accounts* (*wadiyah*), only 40 per cent of which have maintained a relationship with their SFHs for more than three years. Almost half of the customers also use the *credit cards* provided by their SFHs. However, the findings of the study points out that more than 70 per cent of the SFH customers do not hold an investment account in the form of *profit and loss participation account*. Furthermore, more than 47 per cent of those customers are totally ignorant of the *musharaka* equivalent of equity partnership in interest-based finance system.

The results reported in the study indicate that SFH selection criteria by the customers are predominantly *religious-based decisions*”. These are followed by “*staff friendliness*”. The factor of “*efficiency and speed in completing a transaction*” comes third. “*High rate of return*” received no support from the respondents and ranks last.

It also appears that the factor of “*completing a transaction*” received the highest satisfaction score by the SFH customers, followed by “*quality of advice offered by the employees of the SFH*”s and then “*staff friendliness*”. In the light of our findings, it may be suggested that

customers of the SFHs are not more likely to remain with the same SFH as the relationship established between an SFH and its customers heavily relies on the efforts of the staff.

Our findings do highlight, however, some concerns for the SFHs in Turkey. Since religion is the main factor in attracting customers, the SFHs should recognise that customers do not view them just like any other conventional bank operating in Turkey. Hence, the quality of service and the products and services offered must be compatible with the principles of interest-free finance as well as with the facilities of the conventional banks. The opening of new branches seems to be an important factor in increasing the utilisation of the financial products and services provided by the SFHs.

It is quite possible that all Muslims living in an Islamic country are unlikely to invest in every type of interest-free products only because they know that the latter exist. However, it is not understandable that the vast majority of SFH customers are totally ignorant of specific interest-free products to a great extent. It is worth noting that convincing the customers to use their specific interest-free services using affordable proportions is unlikely to facilitate the popularity growth of the SFH interest-free financing facilities. Furthermore, the results of the customer profile analysis revealed that the SFH customers are quite young and have a low or middle income. These findings can be used as a basis for savings and financing schemes that suit the socio-demographics of the customers.

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