

Comments of
Sofyan S Harahap
on
An Evaluation of Special Finance House:
A Case Study on Turkey
by Savas Alpay

The Objective

The object of the paper is to discuss the history, position, characteristic, function, performance of the Special Finance House (SFH) as a free based interest financial institution operating in a dual banking system like in Turkey.

2. Special Financial house:

The name of the bank operating in Islamic system is Special Finance House (SFH). The player of banking industry in Turkey are:

1. Commercial bank (CB)
2. Investment Bank
3. Special Finance House (Islamic bank)

First SFH has been established in 1984. In 2005 the number of SFHs are:

1. Albaraka Turk (1984)
2. Fisal Finance House (1984)
3. Kuveyt-Turk Finance House
4. Anadolu Finance House (1991)
5. Family Finance House

Products and Services that provided by SFH are:

1. Corporate Services (Ijarah, Murabahah, Mudharabah, musharakah, letter of guarantee, avalization, remittance, L/C, X/M services)
2. Retail Services (murabaha-consumption)

3. The Advantages of SFH

1. SFH has generated earnings
2. SFH experiences and operates in a cost efficient
3. More efficient in hiring practices
4. So far there is no experience in a bankruptcy case
5. Immune to exchange rate risk
6. Survive in 1977's economic crisis

4. Performance (compared to commercial banks)

1. During the period of 2002-2004: the performance of the SFH was better than Commercial bank:
2. Growth of Credit, Asset, Deposits, Equity, Earning are higher
3. Financial ratio: CAR increase CAR 12% for the SFH and 14% for CB, LDR 70% better than commercial bank (30-40%). Asset Quality: Loan Quality due to economic crisis the NPL/TL was 12% quite similar to that of commercial bank. Earning of SFHs increase but commercial banks decrease

5. Contribution

1. SFH has increase the size of banking sector
2. SFH has contributed to motivate savings and increase financial intermediations
3. SFH has contributed to the financing of real sector
4. SFH has contributed to the Economic development

6. Problems Faced by SFH

However, even there are some advantages of SFH some problems faced by this institution are:

1. Legal infrastructure
2. Less capitalized
3. Warranty problem
4. Short term asset scheme/facility is not existence – liquidity risk

7. Need more discussion

A case study should provide a better understanding of the background of the topic. In my opinion to understand more deeply the SFH 's position in Turkey's economy and banking industry, the paper may add some more issues, eg:

1. Map of financial sector in Turkey, eg. capital market, investment banks, insurance. What is the position of SFH among them
2. The map of Banking industry, what is the share of SFH among the total banking industry,
3. The role of Middle East or Muslim investors in developing Islamic financial institution in Turkey
4. Perception of people on interest
5. Ulema Stand
6. Government policy and commitment to develop Islamic banking industry. What is the effect and the role (positive or negative) of EU in developing of Islamic bank.

Conclusion

The paper has given us an understanding of the role of SFH in Turkey. The SFH has proven that Islamic bank can give a positive contribution to economic growth and the ummah. Some financial indicators show that Islamic banks perform better than that of commercial banks. It means that this phenomena confirm our believe that Islam is a true value and syariah is good for our life (Muslim and non-Muslim) here and here after.

The case of Islamic bank in Turkey also has a relative similar with the performance of Islamic banks in Malaysia, Indonesia and in other countries. The future research may focus on comparability of the development of Islamic bank to other countries.