

## Chapter 22

# The Concentration From the Competition Perspective in the Turkish Banking Sector: An Examination for the Period of 1999–2018

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### **ABSTRACT**

*With the globalization, the world has been becoming a much smaller place. New types of business have been emerging. Depending on this situation, new corporations are founded in current and emerging sectors. This causes an increase in competition. On the other hand, a variety of sectors are regulated intensively which result in a high concentration. Banking sectors is one of these sectors at where regulations are much and entry barriers are high. It is aimed at examining concentration from competition perspectives Turkish Banking Sector (TBS). It is concluded that TBS generally has a non-concentrated industry structure in terms of total assets, total credits, total deposits, total equities, and total net profits. Exceptions are seen in total net profits and in total deposits. Concentration level generally has decreased from 1999 (1,172 on average) to 2018 (899 on average calculated by Herfindahl-Hirschman Index (HHI)). It is recommended that necessary precautions should be taken by regulatory bodies in order to decrease concentration and increase competition in TBS.*

### **INTRODUCTION**

Depending on the increasing globalization and digitalization, the business environment has been in rapid change and it has been much more complex. Sectors' structures have also been changing. This cause exits from/new entries to the sectors. So, giving a quick response to changes is crucially important.

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With the changes in the business environment, countries should provide respond quickly in order to maintain economic growth, financial stability, and competitive power. With increasing globalization, everything has been becoming much more global than it has ever been. This means that there are international issues, which should be considered, besides national issues to be taken into consideration. This structure causes increases in competition for almost every sector including financial sectors.

When examining the structure of financial sectors in different countries, it can be seen that banks are generally the most important financial player in the sector (Çam & Özer, 2018). That is why banks have a bridge role between investors and deposit holders (Demirhan, 2013; Djalilove & Piesse, 2016). Similar to most of the countries, Turkey has also a financial system in which banks have the highest share and important financial intermediary role providing monetary and credit services (Coşkun et al., 2012; Çetin & Kartal, 2019). Development in financial systems and efficient working of the sector has importance in terms of economy as a whole (Kar et al., 2008).

Similar to most of the countries, TBS is also highly regulated sector because of its high importance for the economy and country. Besides Banking Law (BL), Banking Regulation and Supervision Agency (BRSA) also made lots of secondary regulations about a variety of issues which are accepted as important for the TBS. With the intensive regulations, specifically made after the banking crisis in 2000 and 2001, some banks have gotten out of the business while new banks have entered the sector. Depending on this condition, concentration in TBS has also changed over years.

Concentration means how much players operate in the sector and each player has how much industry shares. Concentration is important because of the fact that firms could get high revenues and profits if there is high concentration and they have an opportunity using monopoly power (Hazar et al., 2017). Also, the concentration may cause some problems such as adverse selection, moral hazard, and high-interest rates which could result in negative effects on the economies. It is important that banking sector, specifically TBS in this study, should have a market structure to be efficient and effective in order to be able to make a positive contribution to the economy (Coşkun et al., 2012). Banks can make a positive contribution to the economy by providing sources to economic parties. The most possible way for providing a contribution to economies is to be a competitive sector. That is the main reason why concentration and competition have been gaining importance (Ural, 2014).

This paper is prepared to make an evaluation upon concentration from the perspectives of competition in Turkey. Development trend of concentration is examined upon TBS, because Turkey has a bank-based financial system (Depren et al., 2018). Also, HHI is preferred for simplicity in the study.

The study consists of four parts. Literature related to the topic is reviewed in the second part. The concentration situation in TBS for the period of 1999-2018 is examined in the third part. Finally, an evaluation is made in the fourth part with determining solutions, proposing some recommendations and stating future research directions.

## **LITERATURE REVIEW**

There are various studies about concentration and competition in both Turkey and other countries. Some of the selected studies in Turkey are included in Table 1.

Besides studies in Turkey, there are also a variety of studies about concentration and competition in other countries. Same of the selected studies are included in Table 2.

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