

STANTON CHASE



FINTECH TURKEY: a NEW VISION

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The global economy is swiftly adapting to the technological advancements that we come across every day. The fast pace of technology provides the financial industry with new tools and complex instruments, both in favor of the customers and the companies that have been operating in the finance field. This progression has led the world into a new era, the era of FinTech.

With the rise in number of startups all around the globe, the FinTech industry is booming faster than ever expected. Most of the banks are investing into their technology departments, venture capitals are hunting for potential FinTech startups and, most importantly the finance industry is experiencing a revolution.

With the aim of fulfilling our curiosity regarding where the FinTech sector is going we carried out the "FinTech Turkey: a New Vision" survey and are pleased to share our findings. This survey contains insight and information from many leaders who are playing an influential role in shaping the Turkish FinTechs' future.

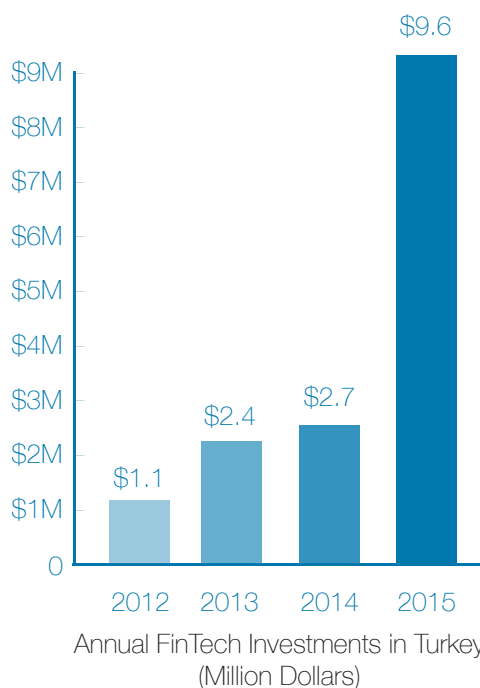
Our aim in presenting this report is to increase knowledge and possibly create a shared vision about the FinTech industry in Turkey by bringing together the perspectives of many top executives. This survey will hopefully provide interested individuals insights about the current status of the sector, where it is now and where it is evolving, what FinTechs need to grow and what the industry is looking for in leaders.

TURKEY AND THE GLOBAL FINTECH GAME

Where does Turkey stand in comparison to the global FinTech industry?

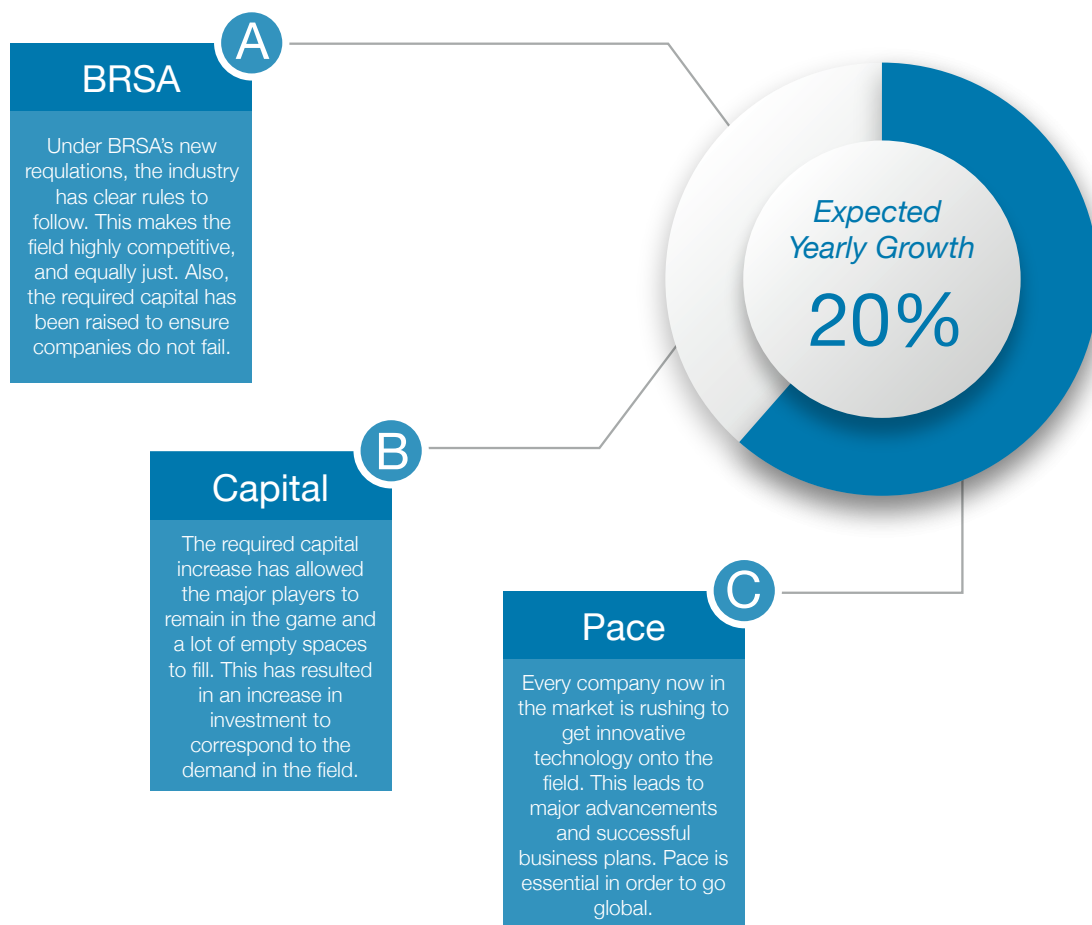
The Turkish industry has great potential and strong infrastructure; however when compared to the major hubs in the world, such as London or San Francisco, it becomes clear that the industry is only at the beginning of a marathon. This is because the FinTechs in Turkey have had a rather late start in the game and thus require time to adapt to the newest tools. Nevertheless, it has provided the industry with fast paced adaptation skills, and given companies advantages in the means of forecasting risks and opportunities.

There are more than 4,000 FinTech initiatives in the United States and England, whereas in Turkey the number is just over 200. After the Banking Regulation and Supervision Agency (BRSA) established regulations in 2014 governing electronic financial services, the sector witnessed the withdrawal of many companies. Nonetheless, most of the FinTech companies are of the same opinion that those adjustments have established trust in the industry and have helped shape the ecosystem in a healthy manner hence leading to sustainable growth whilst attracting new investors and entrepreneurs.



In the optimum circumstances, with the required support from the government and a sustainable, growing ecosystem, the Turkish FinTech industry is projected to compete with leading global markets. The significant increase of activity in the e-commerce sector and the rising numbers of internet users are important indications that this potential could

become a reality and will highly benefit the FinTech industry. Following the introduction of the regulations, new investors, entrepreneurs and companies seeking to profit in the field have also joined the game, thus projections of annual growth for the industry seems to be approximately 20% in Turkey.



One of the downsides of the 2014 regulations has been the change in the investor profile. A majority of the investors tend to favor sectors where data is available and the risks are rather predictable. The premature position of the

FinTech sector makes investors keep their distance from new startups. This leaves high potential initiatives in a compelling position if they are not structured for sustainability due to the high cost of capital requirements.

Payment Agencies

Minimum of 2.000.000 Turkish Liras capital required

Electronic Money

Minimum of 5.000.000 Turkish Liras capital required

E-Bill Payment

Minimum of 1.000.000 Turkish Liras capital required

Paid-in capital requirements of different types of FinTechs

To obtain a better understanding on where Turkey stands relative to the competition, FinTech initiatives could be split into three steps and compared accordingly:

Generating Ideas: The Turkish FinTech scene proves its worth through its new advancements and ideas every day. There is a fast-paced ecosystem which collaborates to create new ideas that could be built to compete globally. This indicates that the Turkish industry is having no problems in creativity and is ahead of the game in innovation.

Launching Ideas: The industry again shows strong initiative when it comes to launching. Even with a decrease in investors, new startups can be seen going into the market. The drive and hype in the sector pushes entrepreneurs to come up with innovations and drive them into the market.

Execution: The problems in the industry are especially seen in the execution. With such a high number of startups and new ideas, the Turkish industry should have advanced by a high margin by now. Hence, even with bright ideas and great initiatives, startups seem to fail or hold their ground. Ideas that could benefit the global industry seem to fade away with the lack of proper execution and strategic planning. There are organizations that are trying to connect investors with startups and address this problem. Hopefully, the industry will overcome this problem to enable Turkey to become a global hub in the field of FinTech.

THE FINTECH ROADBLOCKS AND EXPECTATIONS

What are the obstacles in the way of FinTechs and what do they need in order to advance more quickly and effectively?

Most of the executives in the field have emphasized the need for a common ecosystem. Turkey has a strong technological infrastructure, but for an evolving industry, it is never enough and the investments in technological advancements must continue. Successful examples of FinTech incubations in developed markets and accelerations can be useful benchmarks to make the necessary investments/preparations.

As mentioned before, investors are investing into already structured sectors and thus a hype and fast paced industry is not getting enough capital and progression. At this point, the government, banks, associations, and the press are expected to aid and support the sector to their best. A valuable example to that could be Innovate Finance* in London.

The Chairman of Innovate Finance is an advisor to David Cameron, which is an indicator that the government is highly involved in the FinTech industry. Similarly, Israel, Singapore and India all have government funds to aid the FinTech

industry, and the advantages of this situation can easily be seen when the FinTech industries of these countries are considered.

“Innovate Finance is an independent membership-based industry organization that aims to advance the UK’s standing as a leader in financial technology (FinTech) innovation both domestically and abroad. Founded in 2014, Innovate Finance has attracted more than 250 members ranging from seed startups to major global financial institutions. As the industry body for the FinTech community, Innovate Finance serves as a single access point to the full financial services and technology ecosystem and – through our curated innovation programmes and partnerships with other organizations we seek to address some of the key issues affecting the growth of the sector.” (Source: <http://innovatefinance.com/>)

Another key point in the advancement of FinTech are banks. Turkey is perceived as one of the capitals of digital banking in the world. From our analysis it could be seen that most banks see FinTech companies as competitors. One of the main reasons why FinTech has been so popular is because a single product of FinTech may blend many functions of a bank. Even though there are certain banks that are in strategic partnerships with FinTechs, the industry has created the perception as an alternative to standard

banking, which make it seem like a big threat to traditional banks.

Banks are not projected to enter the FinTech industry in the short term but will remain in the evaluating and observation period for a while. The digital banking infrastructure in Turkey is already ahead of many other countries around the world but they still have to restructure their vision so that they can adapt to the world on FinTech innovation and benefit from the current advancements.

QUALITIES THAT PUT FINTECHS IN THE SPOTLIGHT

Which qualities are going to distinguish FinTechs in competition?

Innovation, life easing solutions, value creation and integrating technology into exceptional customer experience are the qualities that will distinguish certain companies from others. It is perceived as burdensome to enter the industry without innovation. After all, every company is using similar technologies, thus the separating factor will be the innovation where the merchant and consumer interactions are expeditious and the value is forefront. Consumers are in the need of

practical and simple solutions, technology is steadily replacing the need of cash money in everyday life. This simplifies both the consumers and the banking perspective of everyone involved in the industry. The capital requirement is just a benchmark for a company to startup and run their business. Excluding capital perspectives, the industry requires a great amount of innovative ideas, customer experience and know-how to succeed.

“In such a properly regulated market, price is not a competition proponent, associations are saturated and the quality of service gets the spotlight.”

The outstanding qualities of the top executives in the field

The FinTech calls for the most exceptional and innovative talent in the world. Diverse experiences which are driven by both successes and failures in company startups are highly valuable in adding to the depth of the know-how of the sector. It is essential that they know how to evaluate, back-up and generate ideas when the time comes. Failure should not be seen as defeat, but rather considered as valuable experience. It is important to know that FinTech is a new game, not a conventional one. This could be analyzed in two different perspectives:

The startup perspective: Rather than individuals with prior banking experience, people with exceptional business development skills and a bold character will be the ones to get startups on their feet. Innovation and flexibility are very important during this stage and are essential for a startup to advance. It is conceived that executives with long term banking backgrounds are considered to

be more conservative towards certain initiatives and thus are having adaptation difficulties in the means of running a startup.

The corporate perspective: When a FinTech startup reaches a certain scale, it has to be treated similarly as a bank. Innovative perception, entrepreneur spirit and good sense of risk and finance management come into play. Banking and finance backgrounds will be useful and reinforcing for the future of companies.

All things combined, leaders with a global vision and those who are open minded about experiencing digital resources in their everyday lives will dominate the field. It is important that the executives follow current trends and know-how to use new advancements to their benefit. With the proper human resources, Turkey is believed to become a benchmark country and a globalized hub.



NEW POSITIONS REQUIRED BY THE BRSA:

Internal Auditor, Risk Management and Customer Management

PAYPAL AND THE NEW REGULATIONS

Views on PayPal's exit

PayPal has recently suspended its operations in Turkey and as a natural consequence, there have been comments on the topic including the criticizing of regulations, concern about the reputation of the Turkish market or interpreting it as a company strategy. The real reason is with the regulations; PayPal had to do an infrastructure investment of the same scale as its headquarters in the U.S. and it did not want to do that when it can operate without that heavy investment in several other countries of the world.

Our research shows that the players in the Turkish FinTech ecosystem perceive PayPal's exit as a strategic move. Undoubtedly the withdrawal of a company with a global presence that does its job with full potential is bad press for the Turkish market. Nevertheless, this should be a clear indication that the regulations that have been put in place are fair and clear. This is commonly considered an opportunity as it creates an opening for other companies to fill the inherent gap that has occurred by PayPal's exit.

THE FUTURE OF CRYPTOCURRENCY IN THE TURKISH MARKET

Speculations about the future of Bitcoin and Blockchain in Turkey

Authorities such as the Banking Regulation and Supervision Agency (BRSA) have engraved the perception of "risky" onto Bitcoin and crypto currency; its contrasting logic to the current banking sector and regulations, and the unpredictable rate fluctuations make it seem as Bitcoin will not be seen in the Turkish economy for a while.

In our current state of the world, technology and finance are interlinked. Both trigger each other in the means of advancement. Hence, Turkey has the potential to create technology and achieve global goals if the correct pace can be adjusted. When innovation and quality are brought together, this stimulates global brands, thus investors are advised to think big and start taking risks. Consequently, there might be a global brand created in Turkey. It is crucial to create a constructively competitive ecosystem and keep investing in it with the goal of going global.

Turkey is in a very valuable geolocation and home to many talented leaders in the field. A strategically placed headquarters in the Turkish FinTech industry would be a great chance to open services to the emerging MENA region, as well as Europe and Asia.

At Stanton Chase, we believe Turkey has great potential in becoming a globalized hub for Financial Technology and thus we are eager to accompany this process to the best of our abilities. With well placed regulations, a fair competition and constructive solutions to precise needs' analysis, there is no doubt that there will be global brands rising from within Turkey.

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Valikonağı Cad. No:21 Kat:3 Daire:4 34367 Nişantaşı - Istanbul / Turkey
Phone: +90 212 224 64 24 Fax: +90 212 224 39 84 Email: istanbul@stantonchase.com