
Digital Banking Overview and Potential in Turkey

Discussion document

December 2021








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Our Initial View on Digital Banks



Globally, established digital banks are challenging the dominance of traditional banks

Global Emergence of Digital Banks – Non-exhaustive

	United Kingdom	> 4 significant digital banks. Monzo has 5 Mn customers as of 2020 (8% of UK population)
	China	Digital banks dominated by platform centered tech companies, e.g. : i) WeBank (Tencent); ii) MyBank (Alibaba); and iii) aiBank (Baidu)
	Brazil	9 digital banks, Nu bank has 34 Mn customers as of 2020 (the largest fintech in Latin America)
	Hong Kong	8 digital banks with licenses as of 2020
	Germany	7 digital banks, N26 leads with 7 Mn customers in 25 markets as of 2020
	Australia	7 digital banks with 5 licensed, 1 has recently given up its license
	Holland	2 digital banks with licenses, Bunq leads with +1.5 Mn customers

Digital banks are rapidly launching, filling in traditional banking gaps:

- Underserved customer segments
- Poor customer experience
- Poorly priced products & services
- Low trust in banking sector

Digital bank app downloads outstrips conventional bank app downloads

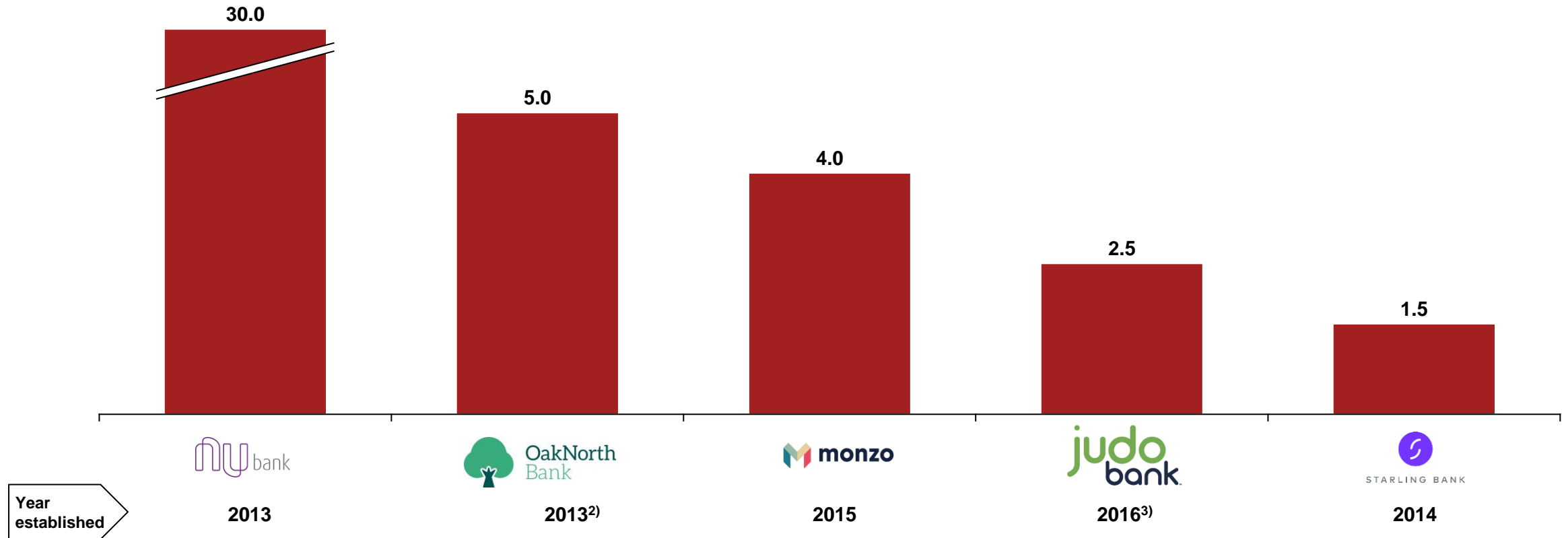
However, digital banks do not tend to become a customers main bank

Market penetration of digital banks is typically capped around 10-15%

Several banks have also failed due to inability to monetize users

Digital banks have reached valuation of billions in less than seven years

Selected digital bank valuations (USD bn, 2021)



1) Using 2021 banking industry loan & asset size

2) Established in 2013, launched in 2015
















3) Established in 2016, launched in 2018

Note: Valuation and customer base values are as of available 2020 data

Source: Corporate sites, Desktop research, Strategy& analysis

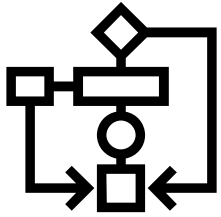
There are three proven business models that Digital Banks have used – product not key to differentiation for each

Global Digital Bank Archetypes

Basic Banking Solutions Providers 	Platform Players 	Specialists 
<ul style="list-style-type: none">• Offers simple products for everyday banking• Differentiates by providing a simplified, frictionless experience	<ul style="list-style-type: none">• Leverages brand, channel footprint and customer base of parent's non-bank core businesses to acquire customers	<ul style="list-style-type: none">• Offers breadth of products relevant to a specific group• Leverages familiarity and insights to service targeted segments better
<ul style="list-style-type: none"> Has the best DB brand, customer experience and digital interface High organic acquisition cost of customers through marketing Most fail to make money, those that do have pivoted to lending/ecosystems	<ul style="list-style-type: none"> Successful model commercially ... but hard to replicate (converts very large captive customer base) Offers convenient banking but experience is inferior to Basic Banking Solutions Providers	<ul style="list-style-type: none"> Multiple global reference points for success Targets and builds a deep understanding of specific customer groups Builds share of wallet and repeat clientele by catering to the full needs of target customer
Strategy&	Legend:  Pro  Neutral  Con	December 2021 5

These global players indicate several key differentiators – all relate to seamless and personalized customer experience

Must Have Elements to be a Successful Digital Bank



Frictionless Customer Journey

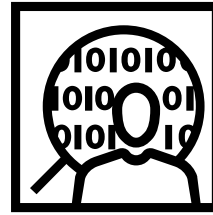
Tablestake – all digital banks are **expected** to deliver a seamless customer journey **relative to incumbent banks**

Customer journey should have

Straight through processing

Intuitive UI / UX

Limited repetitive form filling



Data-Driven Interactions

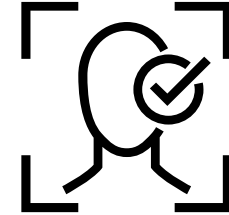
Differentiator – successful **digital banks** **use customer data** to enable data-driven offerings and/or interactions

Product have to be provided at the

Right place

Right time

Right form



Highly Relevant Propositions

Differentiator – successful digital banks **provide targeted and relevant offerings** instead of providing simple generalized products

Product and services should be

Relevant to customer needs

Addresses pain points

Personalized

Data is a crucial element that enables digital banks to differentiate by personalizing various financial offerings

Data Powered Financial Services

Basic Banking Solutions Providers



Personalized financial advice

Customers can link their financial accounts to the app

The app monitors data from linked accounts and leverages AI and ML to provide personalized, real-time budgeting and financial health improvement advice

Platform Players



Quick loan approval for SME's

Maybank's algorithms weigh risk using repayment data from parent company Alibaba's financial services.

This allows MyBank to quickly and cost effectively assess monthly sales of small businesses and their repayment patterns enabling credit decisions made within 3 minutes

Specialists



Leveraging transactional-data in business lending

It's core business, E-POS, provides Square with visibility into a business' sales and cash flows

Square Capital uses this transaction data to automatically approve loan limits for select customers with loans being made accessible through the E-POS dashboard

The '310' model used by the bank offers unsecured loans for the underserved SMEs through a simple and swift process

Maybank's '310' Model



3

minutes for a loan application process

With a few taps on a smartphone, business owners are able to apply for a loan **under 3 minutes**

In contrast, traditional banks typically take 30 days for a loan to be approved

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second for the loan to be approved

Using an algorithm that relies on more than 3,000 variables from Alibaba's financial services. E.g. increase/drop in customer payments at a retailer's store

Swift approval time allows for business owners to obtain loans on demand

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human interaction in the process

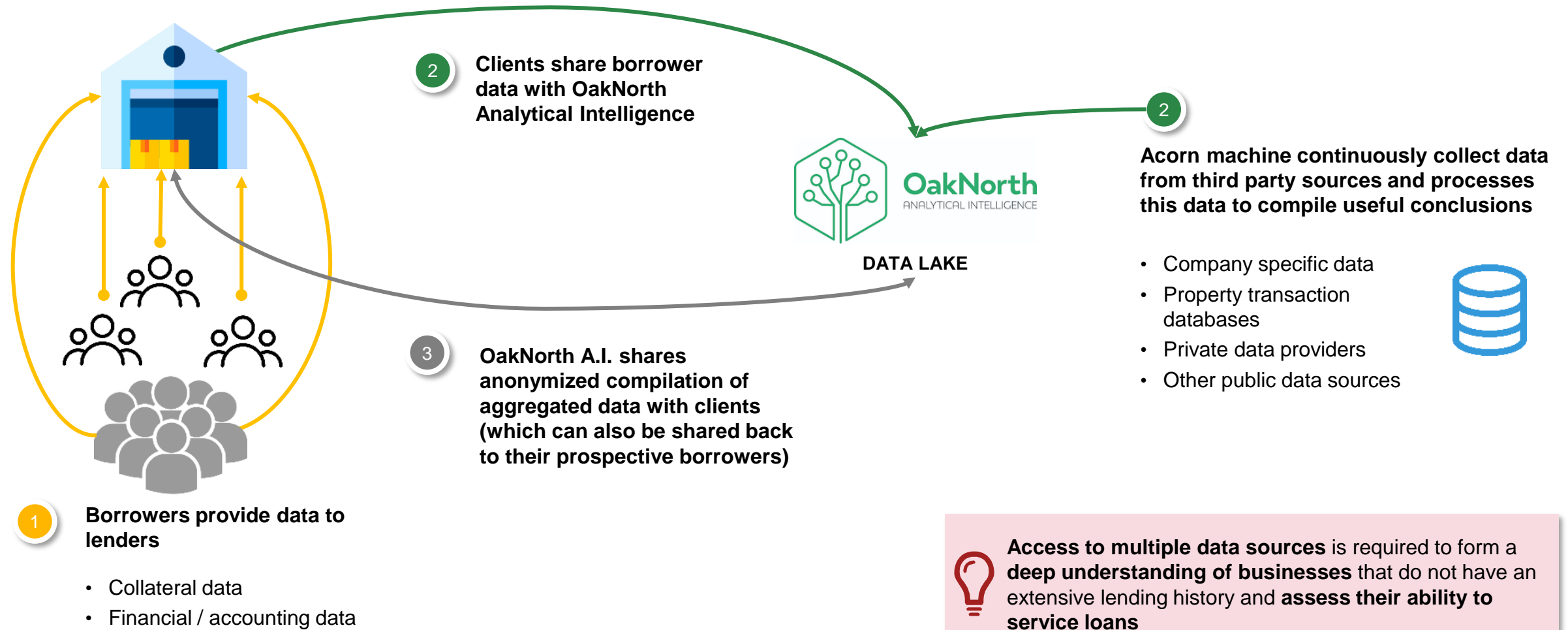
Being a digital bank and relying on an extensive algorithm, **no human interaction is required** in the entire loan application and approval process

As a result, the cost of approving a loan is ~MYR 1.25 (USD 0.3), compared to at least ~MYR 1,250¹ (USD 300) for traditional banks

1) Cost of approval is ~2 yuan for MYBank compared to ~2,000 yuan for traditional banks
Source: MYBank, Strategy& analysis

In evaluating its lenders, OakNorth overcomes data access challenges by accessing data from multiple sources

OakNorth – Data Aggregation



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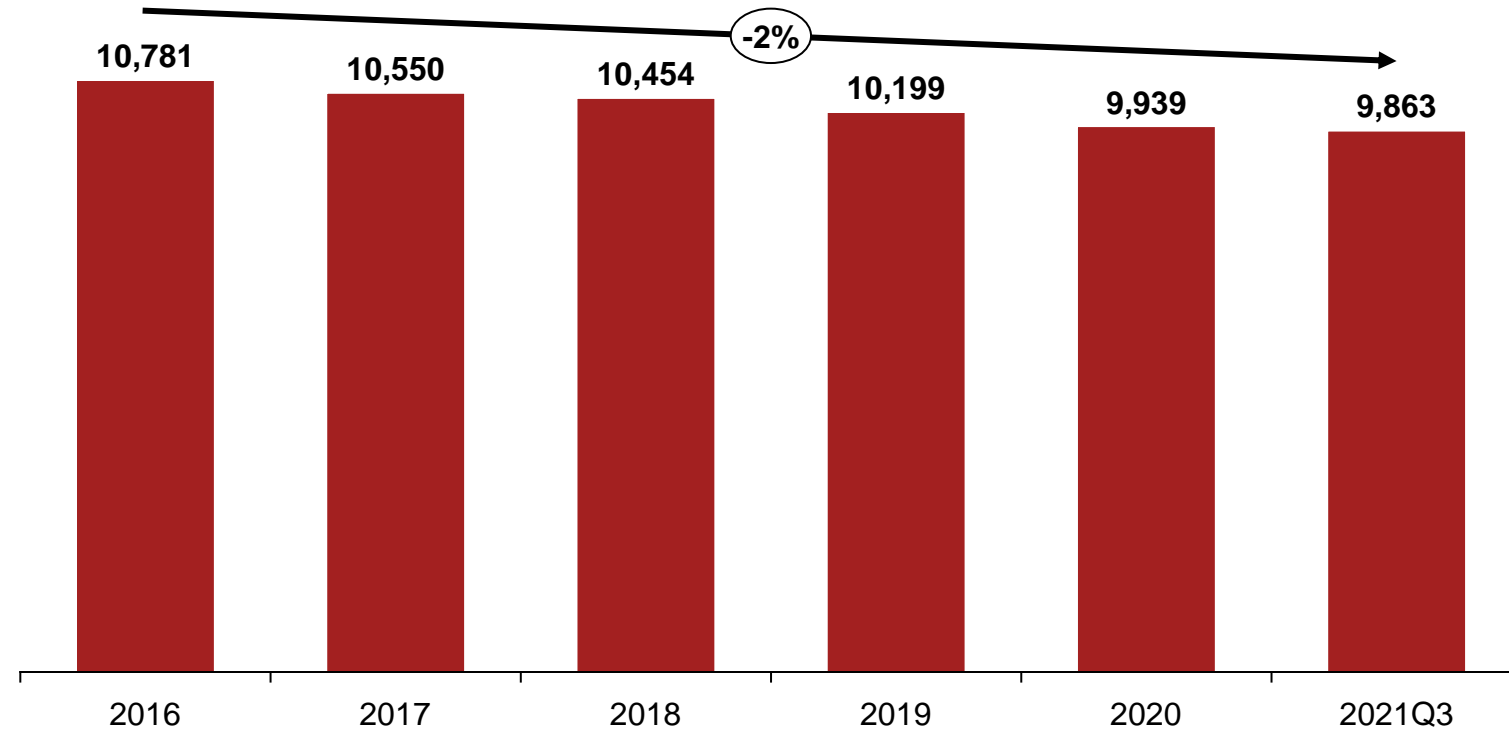
Potential of Digital Banks in Turkey



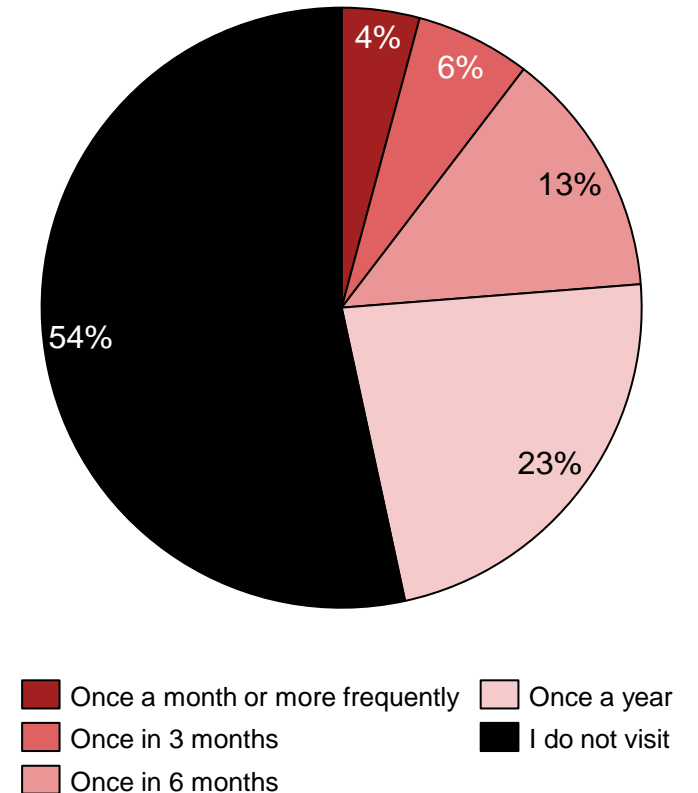
Number of branches in Turkey are decreasing constantly and ~55% of consumers are not visiting the branch at all

Evolution of number of branches and consumers' branch use frequency

Number of Branches in Turkey, 2016-2021YTD (#)



Branch Use Frequency (%)¹⁾

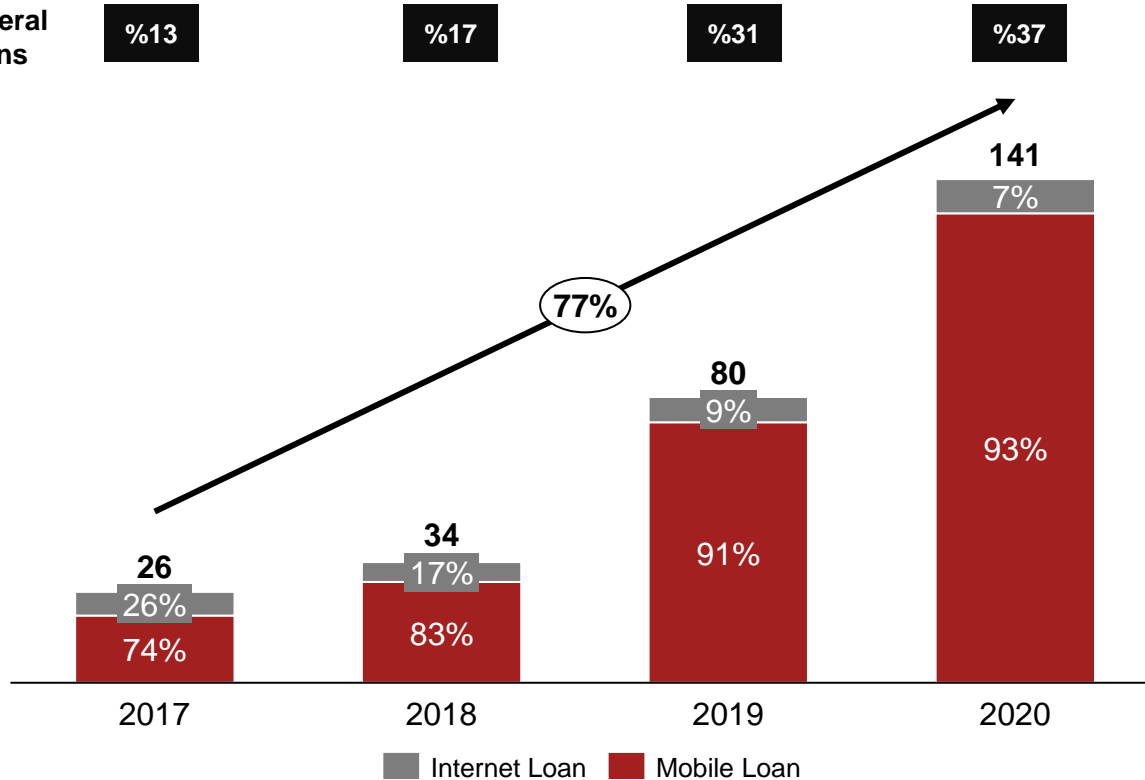


Additionally, ~40% of General Purpose Loans were already disbursed digitally in 2020 – figure is 70-80% at selected banks

Evolution of digital lending volume in retail segment

Retail Digital Lending Volume (TRY bn)

Share in General Purpose Loans (%)



Comments

- Digital lending has experienced a significant growth, reaching to TRY 141 bn in 2020, constituting %37 of general purpose loans
- Share of mobile loans among digital lending has increased from 74% to 93% between 2017-2020; driven by increasing share of mobile customers among digital customers
- It is estimated that, leading Tier 1 banks perform 70-80% (# of loans – approximately %60 by value) of their transactions through digital channels²

1) Active users are those who have conducted at least one transaction in the last 3 months. No data available for 2016

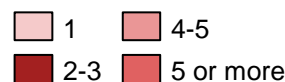
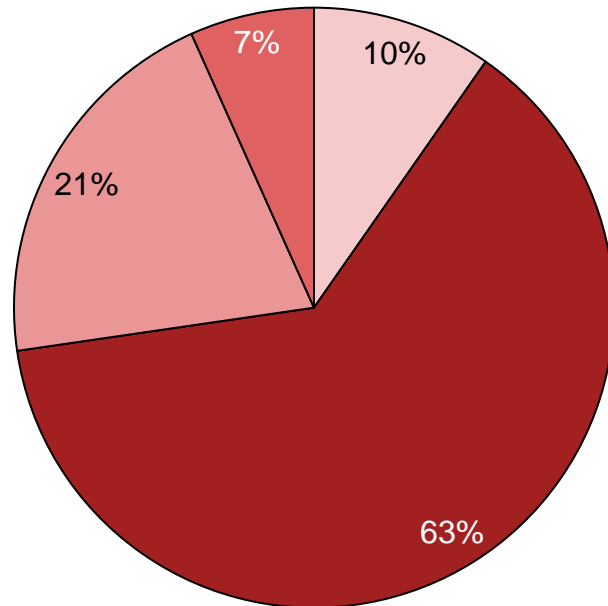
2) Industry expert input

Source: TBA, Strategy& analysis

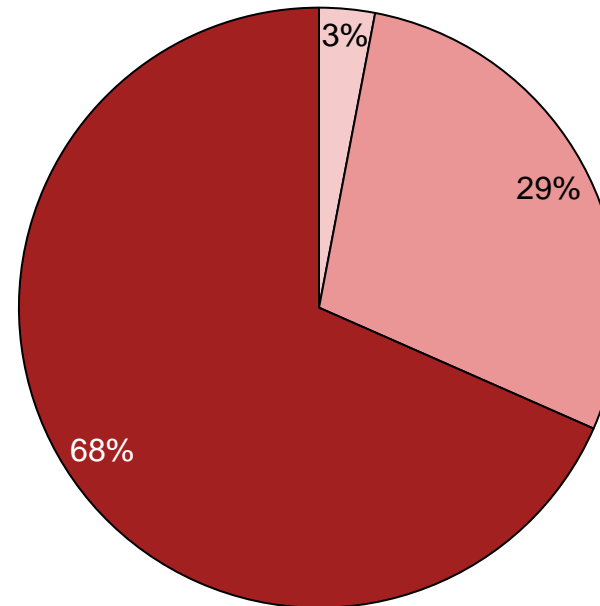
~90% of consumers are using more than one bank and ~70% are willing to work with a new digital bank with a strong VP

Turkish consumers' number of banks used and willingness to work with a new digital bank¹⁾

Number of Banks Used(%)



Willingness to work with a new digital bank (%)



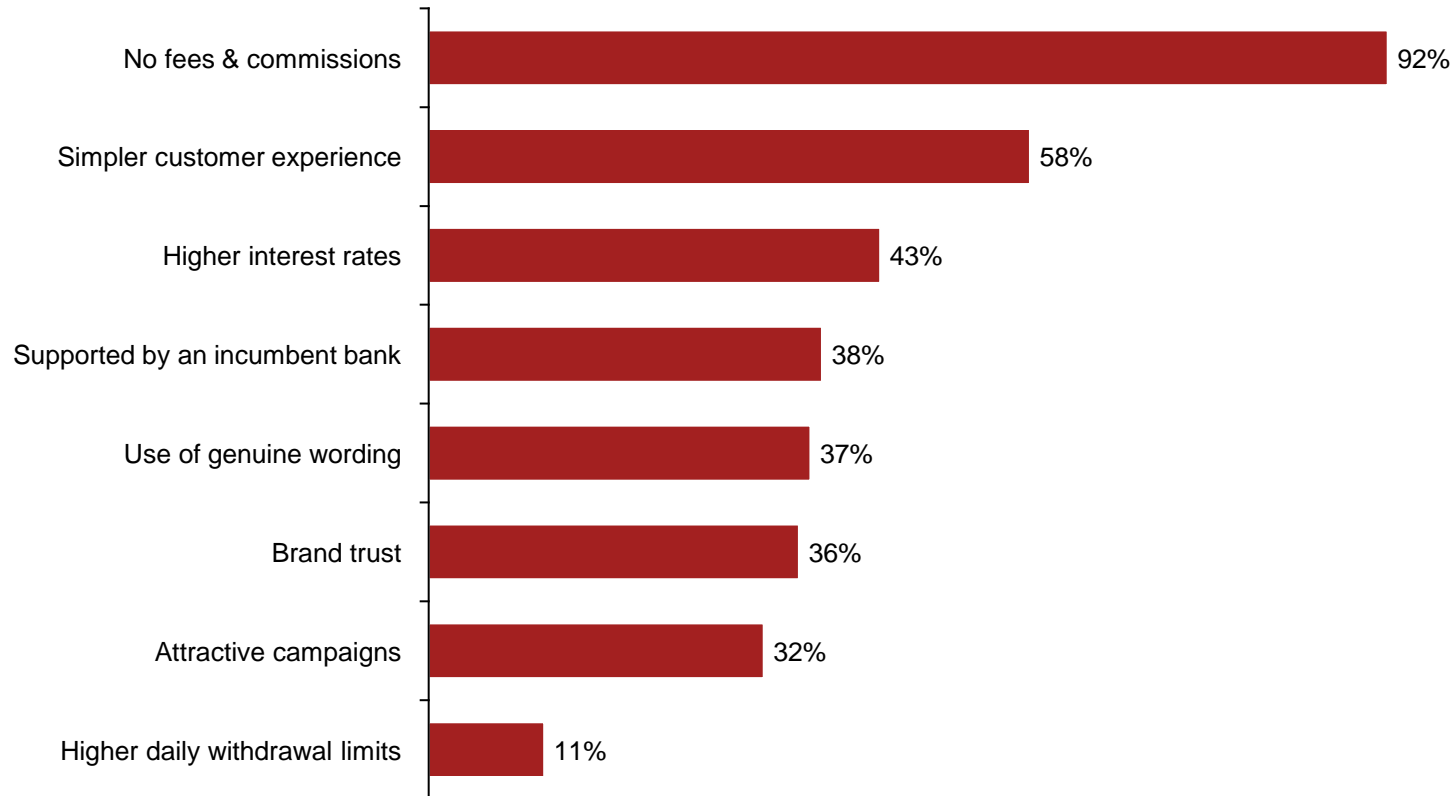
Comments

- ~90% of consumers transact with more than 1 bank in Turkey as is the case in many parts of the world. Hence people would be open to transacting with a new bank if the value proposition is strong enough
- In Strategy& Turkey Digital Banking consumer survey, ~70% of the customers stated that they would work with a new digital bank if the value proposition were stronger
- Importance of different value proposition elements (e.g. pricing, campaigns, customer experience) might vary across segments, a segment-based value proposition design needs to be conducted for success

Consumers quoted «no fees&commissions» and «simpler customer experience» as top reasons to work with a Digital Bank

Consumers' reasons to work with a digital bank

Reasons to work with a digital bank (%)



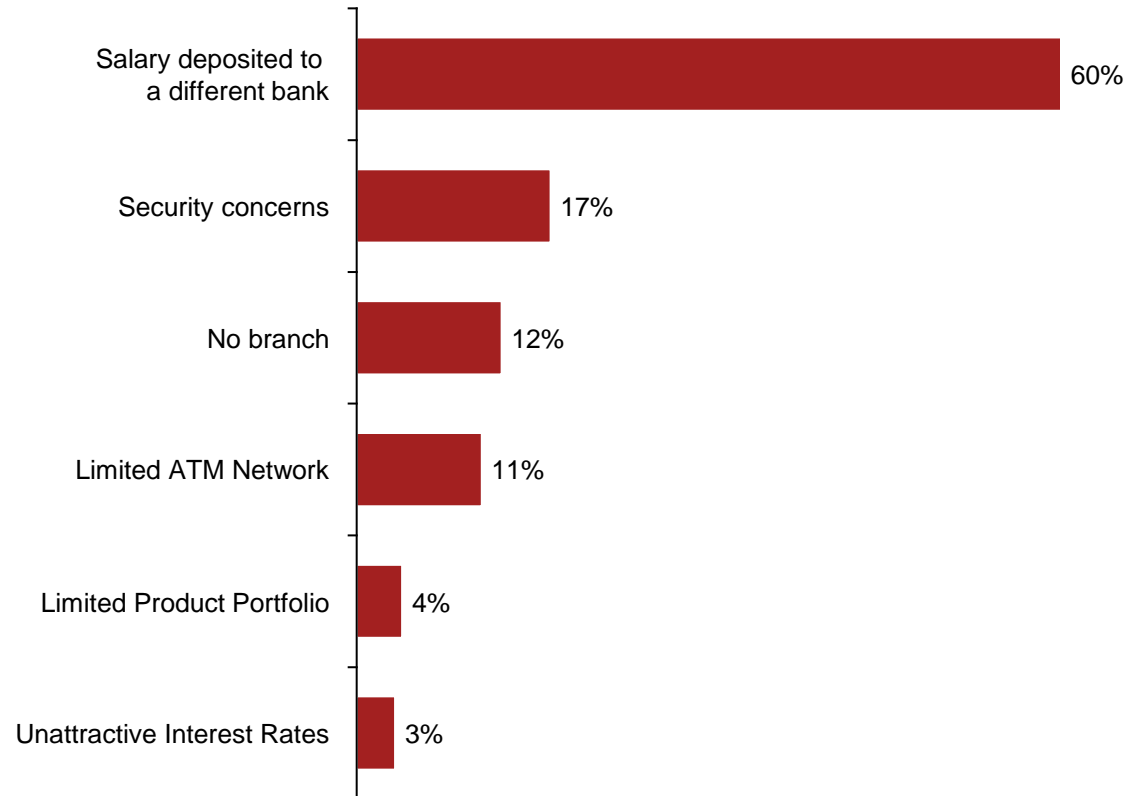
Comments

- Some of the leading digital banks' **branchless model** allows them to **promise no fees&commissions** to its customers which is seen as the most important reason to work with a digital bank.
- **Even though higher interest rates** are more beneficial to customers financially, they still rate «no fees&commissions» as the top reason to transact with a digital bank
- **38% of the customers** indicated that they use a digital bank because it is «**Supported by an incumbent bank**». If non-banks were to launch a bank, some of these people might choose not to transact with the new bank. **Marketing spending** would be key to instill trust in this segment and build the brand further

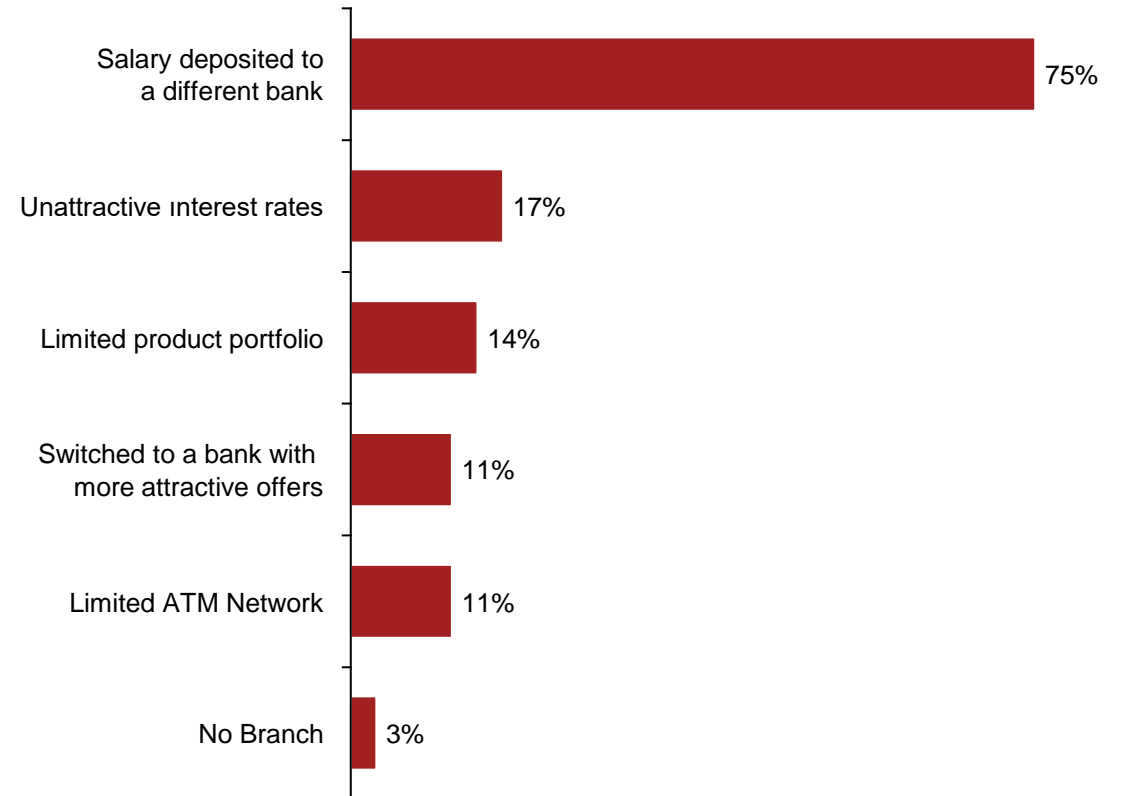
Salary being deposited to a different bank is the main reason for customers not to use a digital bank at all or not actively

Consumers' reasons not to be a digital bank customer and not to use a digital bank actively¹⁾

Reasons to not use digital bank actively (%)



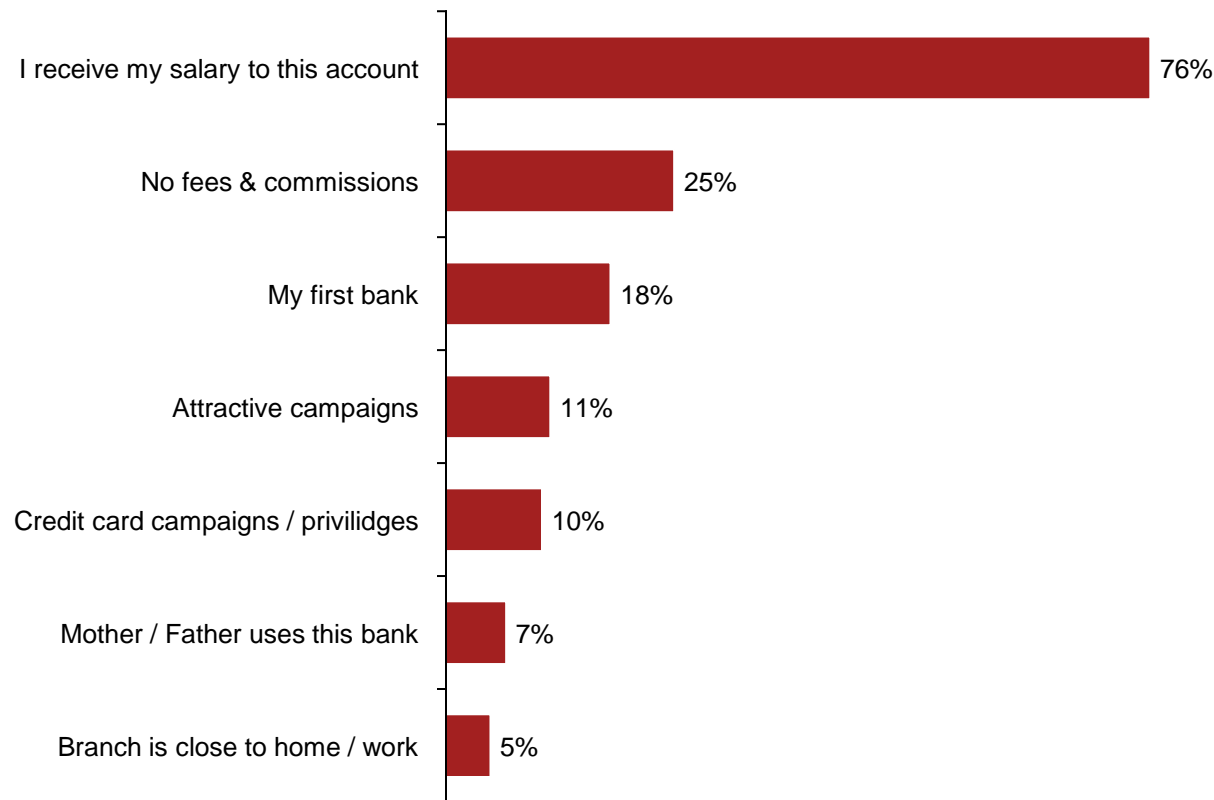
Reasons to not be an digital bank customer (%)



Becoming the main bank is an important source of profitability and receiving salary to the account is an important reason

Reasons to use bank as a main bank¹⁾

Reasons to use bank as a main bank (%)



Comments

- Digital banks globally have a challenge to become the main bank for their customers hence their customer profitability tends to be lower compared to traditional banks – this is also the case for Digital Bank
- Based on our survey, customers rate «I receive my salary to this account» as the top reasons to use a bank as their main bank.
- Signing up companies as «salary customers» is certainly an option for digital banks as well, however there are selected digital bank examples globally that manage to become main bank without any salary agreements
- Tinkoff, the leading Russian digital bank, is such an example. Customers in Russia generally receive their salaries to Sberbank or VTB and some transfer their salaries to Tinkoff as soon as they receive it
- Tinkoff owes this success to their superior customer experience, wide variety of banking and non-banking services offered among other value proposition elements

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Thank you

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