

---

# Potential Impact of Recent Regulatory Developments on Turkish Banking Industry

September 2021



# Recent regulations introduced in the banking industry coupled with COVID-19 is expected to have a significant impact on the industry (1/2)

## Selected Regulations with regards to Digital Banking and Payments

Subject	Description	Published
Secure mobile payment and e-document management system (507)	<ul style="list-style-type: none"> <li>Through <b>VUK507</b> issued by Turkish Revenue Administration (GİB) to regulate payments and define <b>guidelines</b> for secured mobile payment and e-documentation system paving way for <b>acquiring payments</b> by hardware independent mobile devices</li> </ul>	June 2019
Payment services responsibility transfer to CBRT (6493)	<ul style="list-style-type: none"> <li>The most fundamental amendment in <b>revised law no. 6493</b> is authorization of the <b>Central Bank of the Republic of Turkey (“CBRT”)</b> regarding <b>regulation and supervision of payment and electronic money services</b></li> <li>Another amendment is the <b>limitation</b> regarding the limited network exemption and commercial agent exemption <b>for the payment and electronic money institutions</b>. In case the transactions performed within this scope has <b>reached the size and impact area</b> determined by the Central Bank, the services may be <b>considered as a payment service</b></li> <li><b>Merchant service fees</b> charged by banks are <b>to be capped by CBRT</b></li> </ul>	November 2019 <i>(came into effect in January 2020)</i>
Open Banking	<ul style="list-style-type: none"> <li>By way of authorizing CBRT as the <b>supervising authority on data sharing</b> between payment service providers within the scope of the <b>payment initiation and account information services</b>, an important step has been taken in terms of <b>open banking in line with PSD2</b>.</li> </ul>	November 2019
National QR payment system	<ul style="list-style-type: none"> <li>CBRT has introduced the concept of <b>payments with QR codes</b> with the <b>Regulation on Turkish QR Code Payments</b>. It is evaluated as a new area in Turkey in the payment systems environment.</li> <li>Payments with Turkish QR Code is <b>accepted a payment service</b> and it will be possible to use this payment system in <b>each and every business</b></li> </ul>	August 2020
Instant Payment System	<ul style="list-style-type: none"> <li>CBRT introduced the <b>instant payment system</b>, FAST, to be used by the wider public</li> </ul>	January 2021 <sup>1)</sup>

1) Release date for Instant Payment System in Turkey  
Source: Strategy& analysis

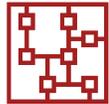
# Recent regulations introduced in the banking industry coupled with COVID-19 is expected to have a significant impact on the industry (2/2)

## Selected Regulations with regards to Digital Banking and Payments

Subject	Description	Published
Cryptocurrency	<ul style="list-style-type: none"> <li>Payments and electronic money institutions are prohibited from <b>acting as intermediaries</b> for <b>fund transfer</b> to platforms that provide trading, storage, transfer services with regards to crypto assets.</li> <li>Making <b>direct or indirect payments</b> with cryptocurrencies is <b>prohibited by CBRT</b>.</li> <li>Payment and electronic money institutions are also prohibited from providing any services related to crypto assets. Such as issuance of e-money based on crypto assets.</li> <li><b>Regulation regarding crypto service providers</b> such as exchanges is expected.</li> <li><b>Taxation of the cryptocurrencies</b> is also expected.</li> </ul>	April 2021
Digital customer onboarding	<ul style="list-style-type: none"> <li>Through amendment introduced for <b>electronic contracts for financial transactions</b>; banks, credit and debit card institutions, payment institutions and financial leasing, factoring and financing companies are now <b>authorized to build relationships with clients without requiring any physical paperwork and wet signature</b></li> </ul>	April 2021 <i>(came into effect in May 2021)</i>
Payment Services Regulation	<ul style="list-style-type: none"> <li>CBRT has shared a <b>Draft Regulation</b> with the stakeholders in December 2020 and updated the draft in March 2021.</li> <li>New draft introduces a notification requirement to CBRT for companies benefiting from the <b>limited network and commercial agent</b> exception, to determine the <b>status of their exception</b>.</li> <li>The definitions of the e-money services is clarified and the scope of the services is expanded in line with the sector requirements. New definitions are introduced such as <b>digital wallet, pre-paid cards</b>.</li> <li><b>Collateral requirements</b> for Payment Institutions is brought.</li> <li>The <b>Draft Communiqué</b> of CBRT shared concurrently with the Draft Regulation, imposes new and comprehensive requirements on <b>information systems, client acceptance</b> procedures, <b>authentication</b> processes.</li> </ul>	<i>Expected to be published soon</i>
Open Banking	<ul style="list-style-type: none"> <li>The Draft Regulation also introduces the rules for providing open banking services. Payment institutions that only provide account information services will be subject to <b>lighter conditions</b> in terms of corporate governance and <b>capital requirements</b>.</li> <li>Bankalararası Kart Merkezi («<b>BKM</b>») will be an important stakeholder for providing open banking services.</li> <li>CBRT is expected to publish the <b>technical standards</b> for open banking operations to launch.</li> </ul>	<i>Expected to be published soon</i>
Digital Bank License	<ul style="list-style-type: none"> <li>Draft Regulation that was published in August 2021 <b>introduced regulations regarding digital / branchless banks and Banking as a Service Model</b>.</li> </ul>	Expected to be published in January 2022

# Rise of fintechs in payments, emergence of neobanks and ecosystems are expected changes in the market

## Impact of Recent Developments on Banking Industry



### Regulatory Arbitrage

Banks and fintechs **take advantage** of **regulatory arbitrage** opportunities (e.g. exemption from MSC cap for PSPs, ability for banks to send money to cryptocurrency exchanges as opposed to fintechs)



### Fintechs in payments

Fintechs are **increasing penetration** both on issuing (e.g. digital wallets, prepaid) and acquiring (e.g. PSPs) in payments



### Intensifying competition

Competition in the industry is continuing to **intensify** as **importance of branches decrease**



### Emergence of neobanks

Introduction of a **digital bank license**, **remote onboarding** and **COVID-19** will increase **feasibility** for **neobank** business models



### Emergence of ecosystems

**VUK-507**, **Open Banking** and changing **consumer behaviors** are supporting the **emergence of ecosystems** (e.g. superapp)

Landscape is changing as fintechs, non-bank players are unbundling financial services

# Fintechs are expected to further threaten revenue pools of traditional banks both on issuing as well as acquiring

## Potential Impact of Recent Developments on Payments

Timeline to Start Observing Impact<sup>1)</sup>

### Payments

#### Issuing

- **Transaction value growth of debit cards** is expected to **slow down** due to **macroeconomic factors** (e.g. higher inflation). Hence, people are expected to **increase their spending with credit cards** **Short**
- **Issuing** is expected to remain as a banking business where fintechs will **challenge banks** through their **pre-paid offerings** **Medium**
- **NFC and QR Code payments** are expected to **slow down plastic card usage** and further increase usage of **digital wallets**. This will also enable **account-to-account transfers** which has the potential to **replace** part of **debit card transactions** (e.g. as in Singapore, Thailand) **Medium**
- **Increasing penetration of digital wallets** is expected to threaten **traditional banks' ownership** of customer relationships **Medium**
- **Payment Initiation Service (PIS)** as a part of Open Banking (and Instant Payments) has the **potential to impact** the industry and start **replacing card-based payments** in the more medium-to-longer term in Turkey (e.g. since launch of Open Banking in UK in 2017, PIS has not gained significant market share) **Long**

#### Acquiring

- **Non-bank PSPs** play a **strong role** in the growing e-commerce segment (NSP/ISOs<sup>2)</sup> such as Öde-al are replicating the online model in the offline channel). Role of PSPs are expected to increase in Turkey **parallel** with **global trends** – NSP/ISOs will gain share in the offline channel, however more slowly compared to PSPs **Short**
- VUK 507 provides banks the opportunity to provide a **lower cost alternative** to standard POS devices. Banks should **develop segment** and **industry-specific product value propositions** (including ecosystems) specifically for the SoftPOS product **Short**
- **Acquiring** is a business that **requires scale** and **specialization**. Recent regulations (6493) capping MSC put pressure on banks' acquiring P&L that may **lead** some **smaller banks** to **carve-out** and **sell** their acquiring businesses **Medium**

1) Short means in 2021-2022, Medium is in 3-5 years and Long is in 5+ years  
Source: Desktop research, Strategy& analysis

# Intensifying competition, emergence of neobanks and ecosystems are expected impact of recent developments on Retail Banking

## Potential Impact of Recent Developments on Retail Banking

### Retail Banking

- Individuals that would like to **transact with cryptocurrency exchanges** will be able perform these transactions through banks providing **regulation arbitrage opportunities** for banks
- Ability for banks to digitally on-board customers coupled with the lasting impact of COVID-19 will further **decrease importance of branches** – this will present **opportunities** for **smaller banks** and **fintechs**, further **intensifying competition** in the industry and potentially putting additional pressure on margins
- Regulatory developments such as introduction of digital banking license, remote on-boarding is expected to further **increase feasibility** of neobank business model (*e.g. Nubank in Brazil has 34mn retail customers, Monzo, Revolut, Starling Bank are successful examples from UK*). Launch of neobanks by fintechs (e.g. digital wallets), non-banks as well as entry by international neobanks could be expected
- This will also present **opportunities** for existing banks as they will be able to **acquire new retail banking customers** with additional ease. The larger opportunity, product-wise, lies primarily with **deposits** and then with **consumer loans** (e.g. General Purpose Loans)
- As customers become more inclined to transact online, **partnering with e-commerce sites** (e.g. n11, hepsiburada) and 3<sup>rd</sup> party aggregators (e.g. Compay) will present opportunities on **consumer loan** front
- Banks are expected to **partner with brands** that are used daily (e.g. Spotify, Starbucks) in order to **further integrate themselves in customers' daily lives**
- **Financial marketplaces** and **comparison sites** is expected to have more opportunity to capture the customer relationship from traditional banks by adding Open Banking account aggregation functionality to their value proposition (*e.g. Fintonic in Spain*). **Traditional banks** could also consider launching a **financial marketplace** (*e.g. Starling Bank in UK*)

Timeline to Start Observing Impact<sup>1)</sup>

Short

Short

Short

Short

Short

Medium

Medium

1) Short means in 2021-2022, Medium is in 3-5 years and Long is in 5+ years  
Source: Desktop research, Statista, Strategy& analysis

# SME Banking and Corporate & Commercial Banking are also expected to present opportunities albeit in a longer timeframe

## Potential Impact of Recent Developments on SME and Corporate Banking

Timeline to Start Observing Impact<sup>1)</sup>

### SME Banking

- Introduction of **digital banking license** coupled with **lasting impact** of COVID-19 is increasing feasibility of SME-focused as well. These neobanks generally target the underserved sub-segments within SME Banking (e.g. *Oak North in UK, Judo Bank in Australia*). Despite this development, **rise** of this **business model** is expected to be **slower** compared to **retail focused neobanks** parallel to **global trends**
- This development is expected to place additional pressure on traditional banks to **uplift their capabilities** (e.g. increase underwriting speed, design personalized offers / experiences) through a variety of levers (e.g. better use of data, increased automation)
- **Banking products, documentation management, cheque management and financial calendar management** is expected to be the key elements of a digital value proposition in Turkey. This will be further supported by Open Banking
- Furthermore, banks will need to **develop ecosystems** (with non-banking services) i) to **compete with BigTechs and Fintechs** that will try to own the customer relationship ii) to **develop competitive advantages** against other banks (e.g. *collaboration between banks and Enterprise Application Software providers*)
- **Selected marketplaces** are expected to **grant loans** to their **merchants** (e.g. *Amazon Lending*) through **partnerships** with **existing banks**
- **Fintechs** might launch **comparison sites** to support SMEs in their loan search (e.g. *Lendico in Germany*)

Short

Short

Short

Short

Medium

Medium

### Corporate / Commercial Banking

- We see a **tendency** of more **digital platform offerings** emerging in the corporate market. This includes **offerings for different products** (e.g. lending, supply chain finance, Schuldschein etc.) as well as for **different client segments/ asset classes** (e.g. SMEs, Midcorps, large caps, public sector etc.). The current COVID-19 crisis **accelerated the usage**, and the **platform-offerings** provide more transparency and access to a broader variety of clients and investors

Medium

1) Short means in 2021-2022, Medium is in 3-5 years and Long is in 5+ years  
Source: Desktop research, Strategy& analysis

# Thank you

---

**[strategyand.pwc.com](https://strategyand.pwc.com)**

© 2021 PwC Turkey. All rights reserved.

PwC refers to the Turkey member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](https://www.pwc.com/structure) for further details.