MICROFINANCE CENTRE

THE FINTECH MARKET IN TURKEY

THE FINTECH SECTOR AND ITS POTENTIAL TO CONTRIBUTE TO FINANCIAL INCLUSION AND FINANCIAL HEALTH IN TURKEY

IN COLLABORATION WITH

KPMG

2019

EXECUTIVE SUMMARY

FOR TURKEY'S YOUNG AND TECH-SAVVY POPULATION LIVING IN A TIME OF NATIONAL POLITICAL AND ECONOMIC UNCERTAINTY, INDIVIDUAL FINANCIAL SECURITY HAS NEVER BEEN MORE IMPORTANT. THE QUESTION IS: TO WHAT EXTENT CAN THE FINTECH SECTOR, EVEN IN ITS ADOLESCENCE, HELP TO IMPROVE FINANCIAL INCLUSION AND FINANCIAL HEALTH FOR ALL?

In a country where three in ten people don't have a bank account, but where nearly everyone has a mobile phone, what opportunities are there for alternative financial service providers to fill the void left by the traditional banking sector? Moreover, what do fintechs have to offer the small and medium enterprise sector, which despite accounting for over nine in ten companies, often find the doors of traditional banks closed to them?

This study starts by considering the enabling environment for fintech in Turkey, finding a population that is dynamic, connected, and ready to embrace digital payments. It also considers the vibrant and well-resourced startup landscape, in which nearly two in ten startups are fintechs.

In terms of financial inclusion, fintechs in Turkey offer a range of services, including payments, financing, corporate finance, personal financial management, insurance, crowdfunding, and software and solutions platforms. Fintechs develop new products for those who do not use traditional financial services, with features that address obstacles to financial inclusion. This is either in the form of new products to meet niche needs, or creating products for groups who can't typically access them from traditional providers. Fintechs also offer financial services through user-friendly interfaces, providing not only a better customer experience but also better services in terms of accessibility, speed and price. In doing so, they force traditional banks to improve their services and innovate their existing offering, often with new digital services of their own. As yet, we see no direct impacts of fintechs on financial health, but observe the potential for indirect benefits such as lower transaction costs, improved financial management (leading to fewer costly accounting errors) and increased revenues creating safety nets against uncertainty.

Continued growth in the fintech sector to a certain extent depends on whether they can collaborate successfully with banks. Historically, banks responded to the arrival of fintechs by launching their own digital finance solutions—and not always successfully. Only recently have banks begun to collaborate more willingly with fintechs as partners, rather than view them as competitors. However, challenges remain in terms of working cultures, as well in the lack of a legal framework obliging all players in the financial services landscape to share the transaction and customer profile data. Without this, fintechs will never be able to offer customers a complete picture of their financial lives, and as a result will not be able to help them to maintain and improve their financial health. Finally, we see space within the fintech ecosystem initiatives (ongoing or ad hoc) that stimulate the development of fintechs towards improving financial health and inclusion—as well as room for a network or professional association to lead on this agenda at a national level, both in terms of bringing best practice from abroad, and encouraging fintechs, funders and regulators to focus on the issue.

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FINANCIAL INCLUSION AND HEALTH IN TURKEY

FINANCIAL INCLUSION IS THE ABILITY (OF INDIVIDUALS AND BUSINESSES OF ALL SIZES) TO ACCESS AND USE APPROPRIATE AND AFFORDABLE FINANCIAL SERVICES TO MEET A RANGE OF FINANCIAL NEEDS, INCLUDING CREDIT, SAVINGS, INSURANCE, TRANSFERS, PENSIONS, AND OTHERS.

FINANCIAL HEALTH, ON THE OTHER HAND, MEANS THAT FAMILIES AND BUSINESSES HAVE THE ABILITY TO SPEND, SAVE, BORROW AND PLAN. IT INCLUDES BOTH WORKING TOWARDS LONG-TERM FINANCIAL GOALS AND WEATHERING SHORT-TERM UNEXPECTED EMERGENCIES.

The Turkish banking sector is dynamic; it has a strong capacity to adjust to technological developments and do business globally. Still, a number of key opportunities for growth remain, including: a young, tech-savvy population, the integration of technology into the banking sector, and the relatively large numbers of still-unbanked people.[1,2]

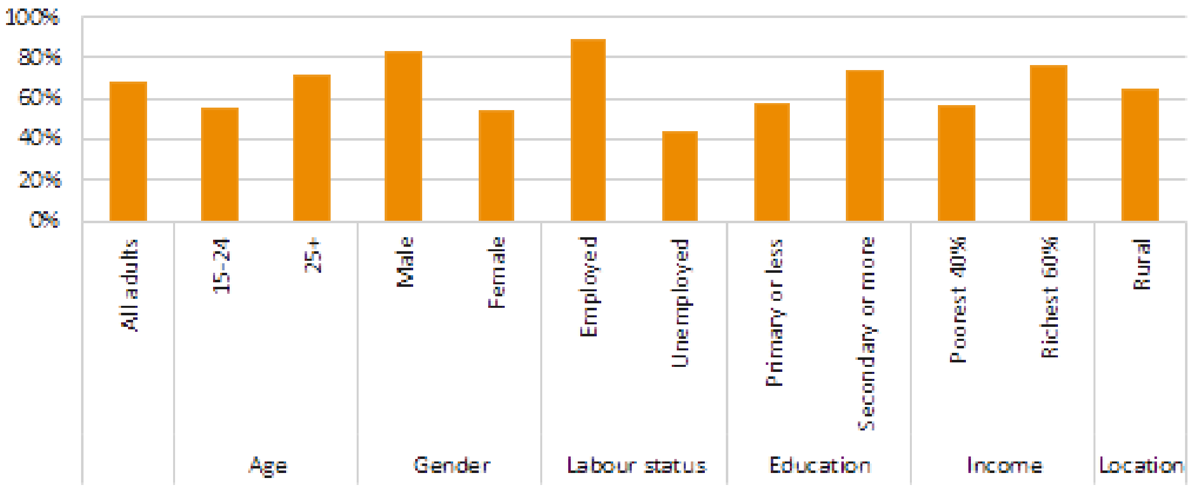
In terms of financial inclusion: while the total number of financially included adults is increasing year on year, Turkey still lags behind its fellow upper middle-income countries, with an average of 68 per cent of adults over the age of 15 years banking at a financial institution, compared to an average of 73 per cent amongst its middle income country peers.

When the data is analysed by segment, Turkey's financial inclusion results fare poorly compared to other upper-middle-income countries in terms of outreach to women, the poorest 40 per cent of the population, the unemployed and in rural areas.[3] According to the Global Findex Report for 2017 (published by the World Bank), the greatest rate of growth in account ownership rates in Turkey is seen among the better-off, with only modest growth rates among poorer groups. Women make up over 60 per cent of Turkey's unbanked, and despite having a very young population overall, the gap in account ownership between age groups mirrors worldwide trends.[4]

When it comes to savings, fewer adults in Turkey on average have savings accounts (39 per cent) compared to upper-middle-income countries (46 per cent), and are comparatively less likely to keep their savings in a financial institution (23 versus 27 per cent). Conversely, borrowing rates are higher in Turkey: 43 per cent of the population borrows from a financial institution or uses a credit card, compared to 22 in other upper-middle-income countries. More broadly, 59 per cent of respondents confirmed that they had borrowed money (formally or informally) in the past, compared to 44 per cent in peer countries.[5]

1. KPMG SEKTÖREL BAKIŞ 2019 – BANKING HTTPS://ASSETS.KPMG/CONTENT/DAM/KPMG/TR/PDF/2019/01/SEKTOREL-BAKIS-2019-BANKACILIK.PDF
2. BANKING REGULATION AND SUPERVISION AGENCY (BDDK)
3. SEE MORE STATISTICS ON FINANCIAL INCLUSION IN ANNEX 1
4. GLOBAL FINDEX REPORT 2017, WORLD BANK
5. LITTLE DATA BOOK ON FINANCIAL INCLUSION 2018

FIGURE 1: FINANCIAL INCLUSION IN TURKEY[6]



According to the 2018 data of the SAFE Survey,[7] access to external financing is the main problem facing 15 per cent of SMEs, an improvement from 2017 when this figure stood at 19 per cent. This is mainly due to the fact that for many SMEs the needs for external financing decreased, so the decreasing availability of external financing affected fewer firms than before.

There is a perception that the availability of bank loans and credit lines decreased in 2018 and will continue decreasing. Interest rates rose, and collateral requirements became more stringent—making price seem the largest obstacle to external financing by 61 per cent of SMEs.

Bank loans and credit lines are two main sources of external financing used by 35 and 32 per cent of SMEs, respectively. While bank loan use decreased from 40 per cent in 2017, credit lines gained in popularity since 2017, when 27 per cent of SMEs used them.

Compared to EU countries, use of bank loans is high in Turkey, despite limited availability (average of 17 per cent in the EU28), and the use of credit lines is on a comparable level (EU28 average of 35 per cent).

Financial inclusion has, following recent elections, fallen off the government's list of policy priorities. As recently as December 2013, Turkey (represented by its Undersecretariat of Treasury) became a member of the Alliance for Financial Inclusion (AFI). A National Financial Inclusion Strategy was launched in June 2014, addressing access to financial services, financial consumer protection and financial education pillars, along with action plans for consumer protection and financial education. However, this strategy was never implemented, and the Undersecretariat of Treasury is no longer represented in the AFI.

6. GLOBAL FINDEX DATABASE 2018
7. SURVEY ON THE ACCESS TO FINANCE OF ENTERPRISES (SAFE). ANALYTICAL REPORT 2018. EUROPEAN COMMISSION, NOVEMBER 2018
8. TURKEY 2018 DIGITAL YEARBOOK
9. TURKISH STATISTICAL INSTITUTE (TUIK)
10. IBID.

THE FINTECH SECTOR IN TURKEY

FINTECH UNITES FINANCE AND TECHNOLOGY TO PROVIDE BETTER, FASTER, EASIER AND CHEAPER FINANCIAL SERVICES. A RAPID INCREASE IN INTERNET USE AND AN INCREASING PREVALENCE OF MOBILE APPLICATIONS ARE THE MAIN DRIVERS OF THE RISE OF FINTECH.

INTERNET AND MOBILE DEVICES

Turkey boasts a young population that is enthusiastic about technology, and that shows high rates of internet and smartphone use—ideal conditions for the spread of digital financial solutions at home or on the go. Turkey's telecommunications sector is relatively mature: in line with global trends, contracts for fixed-line telephones are falling, while the penetration of mobile devices and internet contracts is high and rising. In 2018, 99 per cent of adults had mobile phones and 91 had internet. Of mobile phone users, 77 per cent have smartphones.[8]

Household internet access has seen an especially marked increase. In 2007, only 19.7 per cent of households in Turkey had internet access, a figure that reached 83.8 per cent in 2018. The highest level of internet access is seen in Istanbul (90 per cent) and the Mediterranean region (87 per cent) while the lowest rates can be seen in the West Black Sea, Northeast Anatolia (78 per cent) and West Marmara regions (75 per cent).

FIGURE 2: SUBSCRIPTION PERCENTAGES IN TURKEY[9]

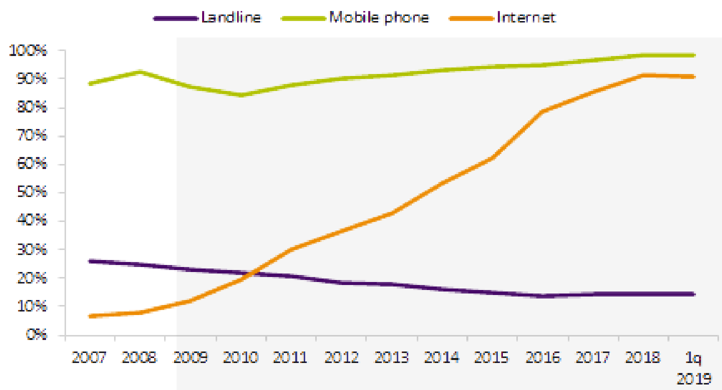
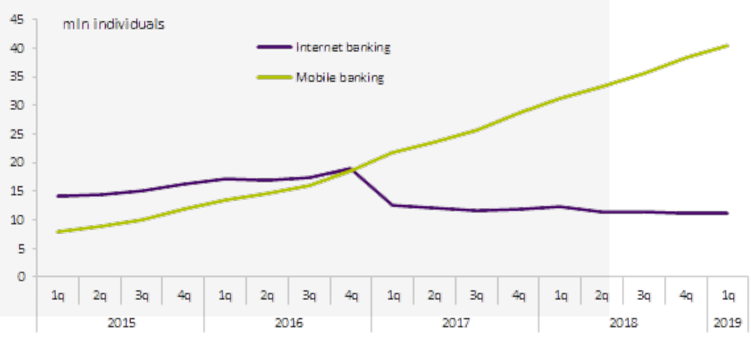


FIGURE 3: INTERNET ACCESS PERCENTAGES IN TURKEY[10]



Mobile broadband is the most common type of connection, with 4G access at 75 per cent (making Turkey a leader in 4G adoption amongst MENA countries). The two biggest operators – Turkcell and Vodafone – have launched 5G development partnerships with major vendors to assess and test 5G network technology in Turkey.

Statistics from the 2018 Digital Yearbook show that average daily internet in Turkey use stands at 7 hours 9 minutes, of which 2 hours 48 minutes is spent on social media and 2 hours 44 minutes is spent on watching videos.[11] Mobile phone users in Turkey spent an average 459 minutes on the phone in the third quarter of 2018 compared to a European average of 250 minutes.

PAYMENT CARDS AND THE CASHLESS ECONOMY

Readiness for digital financial solutions can be viewed as the extent to which a society is no longer reliant on cash to do business. In this respect, Turkey exhibits all the signs of being ready to embrace the benefits that fintech offers.

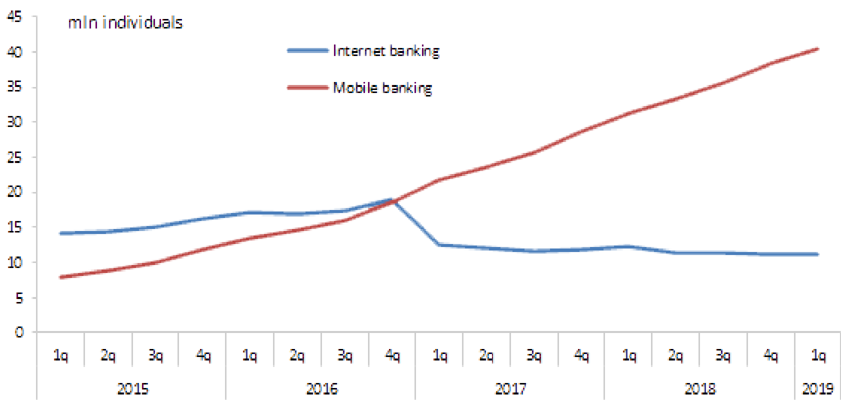
According to the Interbank Card Center (BKM)'s data, in the first quarter of 2019 the number of credit cards reached 66 million and the number of debit cards stood at 151 million (among a 2019 population of 80 million). Furthermore, the number of ATMs per 100,000 adults in Turkey (78) is high compared with both other upper-middle-income countries (50) and the European Union (64), although geographic distribution remains uneven and skewed towards rural areas.[12]

Use of debit and credit cards is increasing every year.[13] According to European Central Bank statistics: within Europe, Turkey ranks second only to the United Kingdom in terms of credit and debit card use.[14]

Digital access to banking system is also on the rise. The number of customers accessing banking services through digital channels increased by 8.5 per cent to 38 million in the year leading up to June 2017. Internet banking rates have stabilized, while overall mobile banking rates continue to increase. However, there is a gender gap: only 30 per cent of mobile banking users are women.[15]

Use of digital payments in Turkey is increasing, with the percentage of adults making or receiving digital payments rising from 48 to 64 percent between 2014 and 2018 (compared to growth in upper middle-income countries over the same period from 44 to 62 per cent). Use of electronic banking to transfer both private sector wages and government payments in Turkey averages 27 and 22 per cent respectively, compared with 18 and 18 per cent in other upper middle-income countries. Furthermore: 40 per cent of people use digital payments to pay bills, and a third of people pay bills online.[16]

FIGURE 4: NUMBER OF ACTIVE BANKING CUSTOMERS IN TURKEY BY CHANNEL[17]



11. 2018 DIGITAL YEARBOOK
12. INTERNATIONAL MONETARY FUND, FINANCIAL ACCESS SURVEY ACCESSED FROM WWW.DATA.WORLDBANK.ORG/INDICATOR/FB.ATM.TOTL.P5?NAME_DESC=TRUE
13. INTERBANK CARD CENTER (BKM)
14. EUROPE CENTRAL BANK (AMB)
15. OWN CALCULATIONS
16. THE BANKS ASSOCIATION IN TURKEY (TBB)
17. IBID.

THE TURKISH POPULATION IS YOUNG AND TECH-SAVVY, AND THE COUNTRY BOASTS A THRIVING TECH STARTUP CULTURE. THE FINTECH SECTOR IS RELATIVELY YOUNG BUT OFFERS AMPLE OPPORTUNITY FOR GROWTH AND INNOVATION BUILDING ON A STRONG FINANCIAL SECTOR AS A FOUNDATION.

FINTECH SECTOR OVERVIEW

Officials from leading banks recognize the potential of fintechs, and are forming strategic partnerships with fintech companies in order to provide effective solutions to their customers and adjusting to the new digital landscape. They also recognize that as the "traditional players" in the marketplace, they need to coexist and cooperate with fintechs in order to maintain their market share.[18]

According to startups.watch, there are 1,000 active startups in Turkey, including 199 fintechs, 351 Software as a Service (SaaS) providers and 24 marketing tech companies. Similar to other countries, these companies stand out in terms of attracting investors and maturation potential.

According to the *Fintech Ecosystem in Turkey* report,[19] the Turkish fintech market is growing rapidly and investments in this area are expected to increase. Overall fintech investments in Turkey (totalling only $4.6 million as recently as 2012), grew by 175 per cent in 2016 to $29 million. Venture capital and angel investment networks have invested a total of $53.2 million in Turkish fintechs between 2012 and 2016. The estimated overall value of the fintech market in Turkey is $15 billion, and is growing at an annual average of 14 per cent. As recently as 2016, fintechs secured half of all startup investment in Turkey,[20] and today the majority of fintech investment occurs within the payment systems segment.

The key challenges for the Turkish fintech market include ongoing political turmoil and the need for updated legislation. Despite these, fintech in Turkey is "punching above its weight" in terms of transaction value and investment. According to the research of Statista, the transaction value in the Turkish fintech market is growing at a rate of 19 per cent per annum.[21]

A government-backed taskforce called the Financial Technologies Permanent Sub-Committee was launched in 2018 to bring together talent from across the public and private sectors to support startups innovating in financial technology. The taskforce is responsible for setting a national vision for Turkish fintech startups, as well as a strategy and a roadmap for the industry.

State support plays an important role in startup growth in Turkey, with the Scientific and Technological Research Council of Turkey (TUBITAK) and the T.C. Small and Medium Enterprises Development and Support Administration (KOSGEB) providing investment to idea-phase startups.[22,23,24]

While fintech sector in Turkey has shown impressive growth, future growth is partly dependent on successful collaboration with traditional banks to increase outreach. Traditional banks and insurance firms have been in the market for years and have continually strengthened their market share—leaving little room for new entrants. Traditional financial institutions have also had years to get up to speed with complex regulations, have a high capital efficiency ratio, a firm footing in the marketplace and an established relationship of trust with the government and their customers. Combined, these reasons make for high barriers to market entry for alternative players.[25] That said, traditional banks acknowledge the potential role of fintechs and are willing to cooperate to provide efficient and innovative solutions to their customers.[26]

18. KPMG GLOBAL FINTECH RESEARCH 2018
19. 'TÜRKIYE FINTECH EKOSISTEMI', DELOITTE, APRIL 2017
20. BKM TURKISH FINTECH ECOSYSTEM PROGRESS REPORT 2016
21. HTTPS://WWW.TECHBULLION.COM/TOP-10-FINTECH-COMPANIES-TURKEY/
22. TURKISH START-UP ECOSYSTEM YEAR IN REVIEW 2018, STARTUPS.WATCH
23. SCIENTIFIC AND TECHNOLOGICAL RESEARCH COUNCIL OF TURKEY (TUBITAK)
24. THE T.C. SMALL AND MEDIUM ENTERPRISES DEVELOPMENT AND SUPPORT ADMINISTRATION (KOSGEB)
25. FINANSAL TEKNOLOJILERIN TÜRKIYE EKONOMISINE ETKILERI, IYZICO
26. KPMG KÜRESEL FINTECH ARAŞTIRMASI 2018

TYPES OF INSTITUTIONS, EXAMPLES OF SERVICES

While most fintech investments in Turkey occur within the payments and corporate finance segments, all domains of the financial services market include fintechs, including:[27]

Payments: Fintechs offering alternative payment methods and solutions are both popular and prevalent in Turkey. These are typically payment service providers, prepaid and discount cards, and instore payment/mobile point of sale (POS), working both B2B (business to business) and B2C (business to customer). Some examples are İyzico, EnPara, Param, and Yoroca.

Financing: Large numbers of fintechs offer financing in Turkey. They primarily operate in such domains as credit scoring, credit comparison/consolidation and alternative lending/financing. Their purposes include offering store-branded credit cards to unbanked segments, credit scoring, providing alternative technology solutions such as blockchain, big data and artificial intelligence, and offering financial management platforms including easy credit scoring and e-wallet platforms to individuals and SMEs (working both B2B and B2C). Some examples are Ininal/Colendi, Kredico, Tarfin, HangiKredi, HesapKurdu, SerbestVade, E Analiz and BayiDostu.

Corporate finance: Fintechs offering corporate finance mainly work with SMEs in Turkey. Their focus is typically on bookkeeping, accounting, risk management, and budget and cost management. Their objective is to provide software, tools, solutions and platforms, automating traditional processes. Some examples are Paraşüt, Defter, ekohesap, FinansFix, Luca, Finans Müdürü and Masraff.

Personal financial management: Some fintechs aim to improve an individual's financial management skills without them having to become a finance expert. Their services include budget management by sharing incomes and expenses, managing bank bids, or providing robo-advisory programs for financial management (automated investment solutions by algorithm and gamification). Examples include: FamilyUp, artipara and manibux.

Insurance: Fintechs focusing on insurance cluster in areas such as price comparison websites, risk management tools, agent tools, and policy and claim management. Their purposes vary from bridging the gap between insurers and customers, helping customers compare insurance offers, and risk/policy/claim management in general. Some examples are Bi'Sigortacı and Sigortam.net.

Crowdfunding: Crowdfunding fintechs typically offer reward-based, donation-based, equity-based or lending-based platforms focusing on specific issues such as social benefit or technological projects, etc. Although the regulations restrict crowdfunding in Turkey to a certain extent, there are examples such as Arı Kovanı, Fonbulucu, Fongogo and Ideanest.

Software and solutions platform: Fintechs providing software and solution platforms mainly operate with technology solutions and operation/network/task management. Their services may reach SMEs or traditional financial institutions. Some examples are Intertech, SFS and Softtech.

27. STARTUPS.WATCH DATABASE

As part of our research, we interviewed fintechs representing a range of business models and segments. We analysed each interview individually and aggregated responses to analyse different aspects of the market. The following insights should be understood as a synthesis of all our conversations, and should not be interpreted as the official point of view of any of the individual participants. The institutions we interviewed were:

- **İyzico:** Provides a virtual POS and payment platform to individuals and SMEs
- **Ininal:** Offers prepaid card services and an e-wallet platform, provides application programming interfaces (APIs) and financial products to unbanked customers
- **Masraff:** Offers cost management systems for SME employees as a financial management automation tool
- **Paraşüt:** Provides financial management software for SMEs in Turkey
- **Zek.ai:** Offers robo-advisory wealth management solutions, targeting banks and private pension firms
- **Enpara.com:** Provides a digital-only banking platform and offers payment methods to individuals
- **Colendi:** Provides decentralized credibility and microcredit platform with blockchain technology to underserved individuals and businesses
- **Tarfin:** Provides a digital-only banking platform and offers payment methods to individual customers
- **Fonbulucu.com:** Offers a crowdfunding platform for vulnerable groups and SMEs
- **Arıkovanı:** Provides reward-based crowdfunding platform for entrepreneurs.

FIGURE 5: CLASSIFICATION OF INTERVIEWED COMPANIES BY TYPE OF PRODUCT/SERVICE

Payment Services	iyzico	ininal	
Financial Management and Services	masraff	PARAŞÜT	zek.ai
Financing	enpara.com	COLENDI	TARFİN
Crowdfunding	fonbulucu.com	arıkovanı	

ROLE OF FINTECHS IN FINANCIAL INCLUSION AND FINANCIAL HEALTH IN TURKEY

FINTECHS AND FINANCIAL INCLUSION

Fintech contributes to financial inclusion in several important ways; these are detailed below:

REACHING EXCLUDED GROUPS

Fintechs develop new products for those who do not use traditional financial services, with features that address obstacles to financial inclusion. This is either in the form of new products to meet niche needs, or creating products for groups who can't typically access them from traditional providers. For example:

Ininal offers prepaid debit cards to the unbanked so they can participate in cashless economy. At the moment, it offers cards with online/offline transaction capabilities. The cards can be loaded with up to $150 and used at all locations that accept payments from MasterCard. Ininal's ambition is to become the "bank of the unbanked", and it plans to introduce new products with additional services such as bill pay and money transfer.

Other fintechs design technologies that enable excluded people to use services of traditional providers. Alternative credit scoring tools assess a potential borrower's creditworthiness even when they don't have a credit history. Colendi developed an app which creates a Financial Passport for individuals and SMEs wanting to make purchases using short-term credit. The app utilizes user-owned data (smartphone and social media data) and tertiary data sourced from data partners (banks, telecoms, e-commerce operators) to create a score. Data is evaluated continually to provide a real-time credibility score.

The financial passport can be used for instalment shopping—the customer scans the QR code of the purchase to calculate their eligibility for a loan. If the Colendi Score of the borrower meets the requirements of the lender, they are prompted to proceed with the application for finance and the purchase is completed. The borrower can repay the lender through the Colendi app. The loan can be financed either by the merchant selling the product, the financial institution, or a peer-to-peer lender.

Tarfin, similar to Colendi, uses machine learning technology to assess the creditworthiness of potential clients using alternative data. İn this way, Tarfin serves farmers who previously had no access to credit to purchase agricultural inputs. Lıkewise, the Tarfin platform enables agricultural input sellers to extend credit financed by local banks and factoring firms. While previously, agricultural input sellers could only offer trade credit to a limited number of customers due to capital constraints, the Tarfin platform allows them to reach new markets and untie the capital of rural traders for business expansion.

New technology can also link customers to alternative credit sources. Fonbulucu and arikovani are crowdfunding platforms through which individuals and SMEs can obtain project financing. In addition to reward-based crowdfunding, the platform facilitates equity investments in SMEs.

FINTECH CAN DEVELOP PRODUCTS THAT ADDRESS BARRIERS TO FINANCIAL INCLUSION, AND PROVIDE BETTER SERVICES IN TERMS OF SPEED, PRICE AND EASE OF USE.

IMPROVED QUALITY OF ACCESS

Fintechs offer financial services through user-friendly interfaces, providing not only a better customer experience but also better services in terms of accessibility, speed and price.

Because fintechs provide digital services, they can reach customers in distant locations, including sparsely populated areas where it is difficult and prohibitively expensive for financial service providers to offer traditional face-to-face services using bricks-and-mortar infrastructure. Many fintechs also offer products and services that are available 24/7, long beyond the opening hours of financial institutions.

In terms of payment services, iyzico provides payment infrastructure for e-commerce, enabling consumers to make fast payments for online purchases. The transaction is processed instantly, allowing delivery logistics to start immediately after payment without waiting for a bank to complete the transfer. This fast payment processing also allows merchants to receive payments instantly. Sensitive buyer information, including credit card details, is not disclosed to the merchant, contributing to security and fraud protection.

In the traditional banking sector, we see a few examples of banks developing fintech solutions to improve their customer experience.

QNB Finansbank developed Enpara.com, a digital banking platform that allows it to provide digital-only financial services. Online services are more favourable for clients in terms of costs and financial gains (no fees on money transfers and credit cards, favourable interest rates on loans, higher interest deposits). They can be obtained remotely (rather than by visiting a branch) through an online platform or mobile app.

Enpara is the first fintech developed by a bank in Turkey. Its emergence caused a sudden change in the Turkish banking system, prompting several other banks to follow suit. While traditional players have typically invested far less in R&D than technology companies, this has been changing since the establishment of their fintechs in 2012.[28]

FINTECH CAN HELP PEOPLE WITH MANAGING INCOME AND EXPENSES, WEATHERING FINANCIAL UPS AND DOWNS, AND IMPROVING LONG-TERM OUTLOOK.

DEVELOPMENT OF THE FINANCIAL MARKET

Fintechs are new and disruptive market players offering services that compete with those offered by traditional financial service providers—with services that are cheaper, easier to access, easier to understand, easier to use, and more transparent. This forces incumbents to improve their services and innovate their existing offering, often with new digital services of their own. An increasing number of banks are investing in new products and delivery channels as a result. Moreover, fintechs facilitate the market entry of new players such as peer-to-peer lenders and e-commerce providers and merchants, thus contributing to market diversity.

FINTECHS AND FINANCIAL HEALTH

Financial health is defined as an individual's (or company's) ability to have a day-to-day financial management system that helps them be resilient and pursue opportunities. This includes the ability to spend, save, borrow, and plan.[29] When we talk about the role of fintech in helping users to maintain or improve their financial health, we're looking at services that help with: managing income and expenses, weathering financial ups and downs, and improving long-term outlook.

Given that the Turkish fintech sector is relatively young, it is presently more focused on improving financial inclusion than improving financial health, with only few examples of the products for the latter on the market—and as such is a key growth area for future. However, even at the present time we see a number of

28. HTTPS://FINTECHISTANBUL.ORG/2017/03/30/BANKACILIGIN-BIR-SONRAKI-ADIMI-GORUNMEZ-BANKACILIK
29. WWW.FINANCIALHEALTHNETWORK.ORG

indirect effects on the financial health of fintech customers (individual and businesses), including:

FINANCIAL MANAGEMENT OF THE BUSINESS

For the smallest and youngest SMEs, it's common to find staff time and talent directed towards getting products and services to market rather than on the nuts and bolts of running a business (financial management, project management, marketing). That's why fintech solutions that help SMEs manage their day-to-day finances in a cost-effective and easy to understand way are important—it frees up time for focusing on profit-making and helps avoid costly management mistakes.

Parasut gives SMEs access to a cloud-based platform with invoicing, current account management, online revenue and expenditure tracking tools. The system has additional features such as e-invoice creation, payment collection via credit cards, features that enable digital sales and payment collection. It also offers wire transfers, but only to Akbank, a Parasut partner bank.

Masraff offers a platform to enter staff expense data into the SME's accounting system. Information from receipts and invoices provided by the employees is processed into the expense report. With customized approval mechanisms (spending limits, special approval rules) in place, expenses can be quickly processed and integrated in the accounting system. In this way, the entrepreneur has more control of employee spending and can process expense claims more efficiently.

Fintech solutions for individuals are rare in Turkey apart from Zek.ai. This technology allows banks and private pension firms to offer advisory services in wealth management. The financial institution can better adjust its offer to the needs and abilities of the customer. Although the current target customers are higher net worth segments of the population, it highlights the potential of robo-advice to optimize the use of financial services among underbanked groups.

LOWER EXPENSES

Because fintechs offer services at more favourable prices, they strengthen customer financial health. This happens when individuals spend less (or nothing) on financial transactions with digital payments and with lower interest rates on credit.

For example, loans for agricultural input purchase that are facilitated by Tarfin have lower interest rates compared to trade credit previously offered by the merchant. Enpara.com offers banking services with lower fees than its parent company QNB Finansbank, whose services are delivered through its branch network.

INCREASED REVENUES

Fintechs offer entrepreneurs the opportunity to increase customer outreach through e-commerce and by linking customers with credit.

For example, Iyzico offers a virtual POS the entrepreneur can use to accept e-commerce payments, enabling them to increase the number of customers and sales volumes. Tarfin facilitates access to credit (from financial institutions and factoring companies) for farmers. Using Tarfin, an agricultural input merchant can reach more customers who can buy products on credit extended by the merchant himself, a financial institution or a factoring company.

OPPORTUNITIES FOR IMPROVING FINANCIAL INCLUSION AND HEALTH IN TURKEY

Turkey has a young, tech-savvy population and a mature financial sector with room to grow—at the intersection of these two things is the potential future fintech growth.

At the outset, the first priority for fintechs is to achieve scale and profitability—not only to secure their place in the market, but to meet the return expectations of investors. While fintechs target unbanked and underserved customers and microbusinesses, they currently focus on larger groups whose needs and preferences are easier to understand—rather than targeting niche segments such as immigrants, elderly, and poorly educated customers. As a result, there is a great deal of overlap in the target customers of banks and fintechs.

On the other hand, fintechs' customer-oriented solutions compare favourably to the profit-oriented approach of traditional financial players. Compared with the relative clumsiness and slowness of traditional financial systems, fintechs aim to make people's lives easier and bring more people into the financial system. Thus, we would expect to see a great deal of client poaching as the fintech sector becomes more established.

When it comes to financial inclusion, the question remains whether fintechs will limit their aspirations to more-educated segments of the market, or whether they can reach unbanked, uneducated and underserved individuals who do not participate in the traditional financial system due to its complexity, their distrust, and their inability to understand the fees associated with traditional services. For this to occur, fintechs need support to understand their role in improving financial health and inclusion. They also need the capability to conduct market analysis and improve their customer targeting.

As yet, there have been few initiatives supporting fintechs focused on financial inclusion and health. Among these is the financial health forum—a 2018 initiative hosted by Village Capital in partnership with MetLife Foundation, in which startups were invited to compete for a $20k fund. Similarly, the EFSE (European Fund for Southeast Europe) and the SANAD Fund for MSME, both managed by Finance in Motion, collaborated with Village Capital and the Luxembourg House of Financial

Technology (LHoFT) in the Fincluders Bootcamp 2017, an investment-readiness program for entrepreneurs offering inclusive financial products. There is certainly space within the fintech ecosystem for more of these types of initiatives that stimulate the development of fintechs towards improving financial health and inclusion—as well as room for a network or professional association to lead on this agenda at a national level, both in terms of bringing best practice from abroad, and encouraging fintechs, funders and regulators to focus on the issue (potentially, Fintech Istanbul can play this role).

Regulation is another key part of the financial inclusion and health picture in Turkey, especially when it comes to data-sharing. If fintechs are to play a role in helping users to manage their money and weather financial storms, fintechs need to offer complete information about the user's financial life. Without regulation that obliges banks to share transactional data with approved fintechs, banks are unlikely to volunteer this information. It's not just fintechs that stand to benefit from increased transparency: both traditional and alternative credit scoring models will be more powerful when more data is available and shared.

Another route to market for fintechs is through collaboration with traditional banks. Yet banks and fintechs have a complicated relationship in the current Turkish financial market. Interaction between traditional institutions and fintechs has been limited and primarily driven by fintechs. By and large, traditional financial institutions have preferred to develop their own solutions to customers. However, in the view of the fintechs interviewed here, these traditional players have had limited success implementing their own digital solutions. More recently, traditional players have started to acknowledge that they need to coexist and cooperate with fintechs and startups to maintain their market share.

Yet collaboration isn't always straightforward: fintechs typically have small, young, flexible and dynamic teams, while banks have static and formalized operational procedures. This difference in cultures is both a limitation to cooperation and an opportunity to create a new value through innovation. To harness this opportunity to improve financial inclusion and health, a market facilitator is needed.

There is currently no umbrella institution in Turkey working towards improving financial inclusion and health that could bring together local financial sector players and fintechs on the issue. Given that Turkey has a regulation-driven ecosystem, the regulator could potentially play the role of market facilitator.

ANNEX 1: FIGURES ON FINANCIAL INCLUSION IN TURKEY

Turkey			
Figures on Financial Inclusion			
Population, age 15+ (millions)			
	Country data	Europe & Central Asia	Upper middle income
Account (% age 15+)			
All adults	68.6	65.3	73.1
All adults, 2014	56.7	57.8	71.6
All adults, 2011	57.6	44.8	57.0
Financial institution account (% age 15+)			
All adults	67.7	65.1	72.8
All adults, 2014	56.5	57.8	71.5
All adults, 2011	57.6	44.8	57.0
Mobile money account (% age 15+)			
All adults	16.4	3.2	3.2
All adults, 2014	0.8	0.2	0.8
Account, by individual characteristics (% age 15+)			
Women	54.3	62.5	69.3
Adults belonging to poorest 40%	56.4	56.3	62.4
Adults out of the labor force	43.9	52.8	61.6
Adults living in rural areas	65.4	61.7	72.9
Digital payments in the past year (% age 15+)			
Made or received digital payments	63.8	60.4	62.3
Made or received digitla payments, 2014	48.4	46.1	44.4
Used an account to pay utility bills	26.3	23.0	22.6
Used an account to receive private sector wages	26.9	21.2	17.8
Used an account to receive government payments	22.1	28.8	17.9
Used the internet to pay bills or to buy something online	36.2	30.6	37.5
Used a mobile phone or the internet to access an account	28.0	23.1	30.6
Used a debit or credit card to make a purchase	47.6	38.5	38.1
Inactive account in the past year (% age 15+)			
No deposit and no withdrawal from an account	8.3	6.6	10.8
No deposit and no withdrawal from a financial institution account	8.8	6.7	11.0
Domestic remittances in the past year (% age 15+)			
Sent or received domestic remittances through an account	16.6	12.8	14.5
Sent or received domestic remittances through an OTC service	5.1	7.0	6.4
Sent or received domestic remittances through cash only	6.6	8.0	5.3
Saving in the past year (% age 15+)			
Saved at a financial institution	22.9	14.4	26.9
Saved at a financial institution, 2014	9.1	11.0	31.5
Saved using a savings club or person outside the family	10.9	5.0	5.9
Saved any money	39.1	37.0	46.4
Saved for old age	20.0	15.0	19.1
Credit in the past year (% age 15+)			
Borrowed from a financial institution or used a credit card	42.8	24.2	22.4
Borrowed from a financial institution or used a credit card, 2014	35.9	22.3	22.1
Borrowed from family or friends	28.4	24.5	26.1
Borrowed and money	59.2	44.0	44.4
Outstanding housing loan	11.0	11.6	11.1
The Little Data Book on Financial Inclusion, 2018			

MICROFINANCE CENTRE

MetLife Foundation

THE MICROFINANCE CENTRE IS A SOCIAL FINANCE NETWORK THAT PROMOTES FAIRNESS, INCLUSION, EQUALITY AND RESPONSIBLE SERVICE.

We unite 113 organisations (including 77 microfinance institutions) across 36 countries of Europe, Central Asia and beyond, who together deliver responsible microfinance services to almost 2,000,000 low-income clients.

Our mission is to empower individuals and sustain communities through innovative social finance and microfinance.

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