

# Road to Cashless Society



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**October 2015**  
**ANKARA**





## BKM – Common Platform of Banks



- ✓ Established in 1990
- ✓ 10 shareholders, 28 members
- ✓ Payment services provider to all Turkish Issuers & Acquirers



## BKM targets a future with high quality in cashless payments

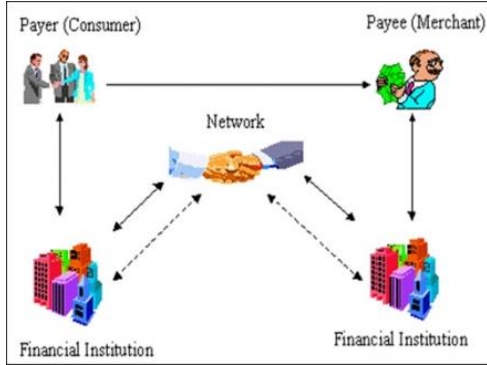


**Our Vision:** Providing the experience of future for cashless payments

**Our Mission:** We add value to Turkey through secure solutions that facilitate payments



# BKM is at the center of Turkish cards market



- Domestic clearing&settlement of card operations
- Operating message switching system
- Brand sharing clearing&settlement

- Industry statistics reporting
- Analytics and data warehouse services



- 3D secure

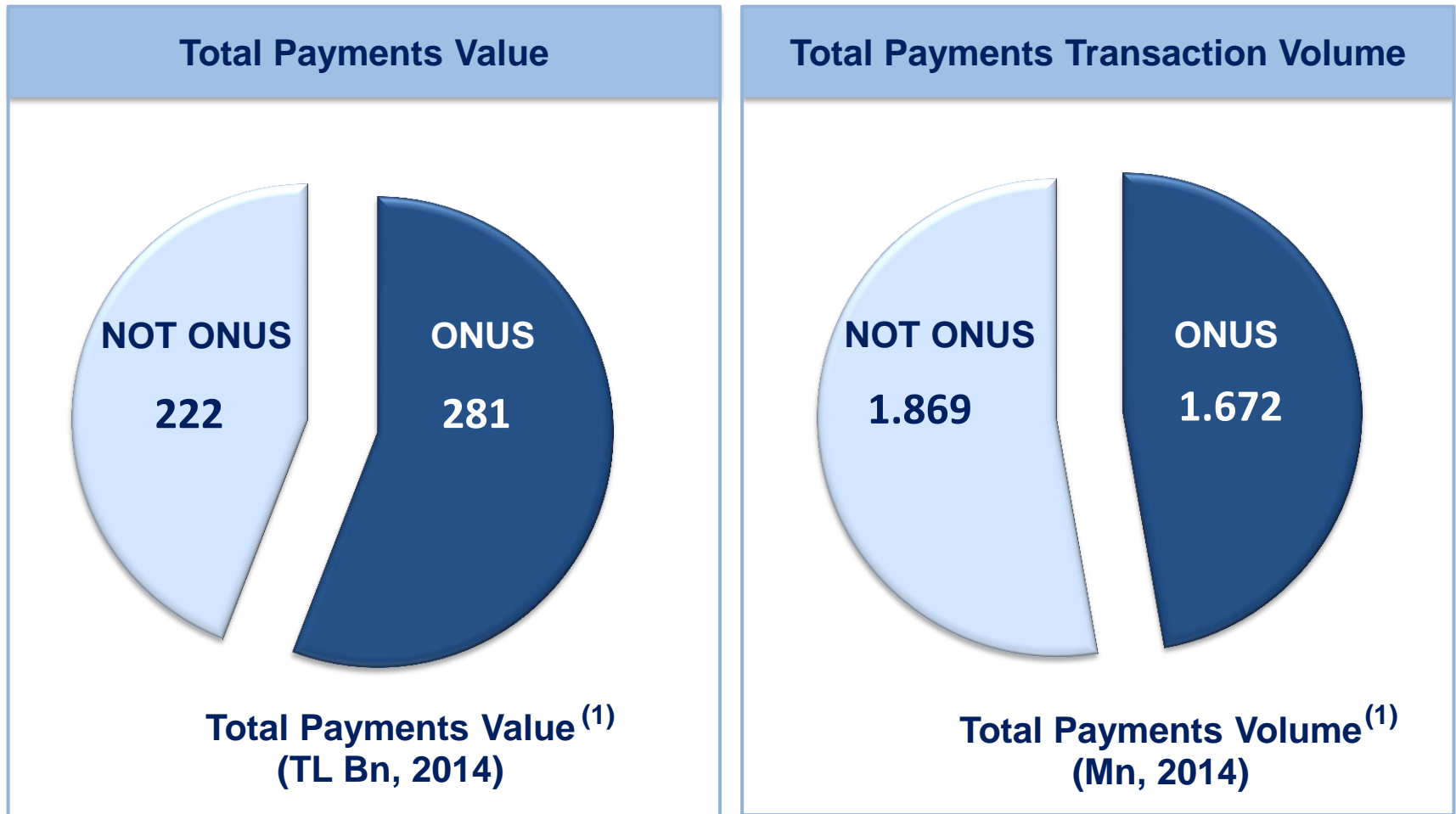
- Foreign transaction gateway for international card schemes (AMEX, VISA, Mastercard, Union Pay)



- Training services for members
- Business development for market expansion strategies



## BKM, as national card payment network, processes half of payments



(1)«Total payments» represents debit and credit card purchase and credit card cash withdrawal.  
Source: BKM



# **Turkey Card Payment Market**

## **Card Payment Market at a Glance**

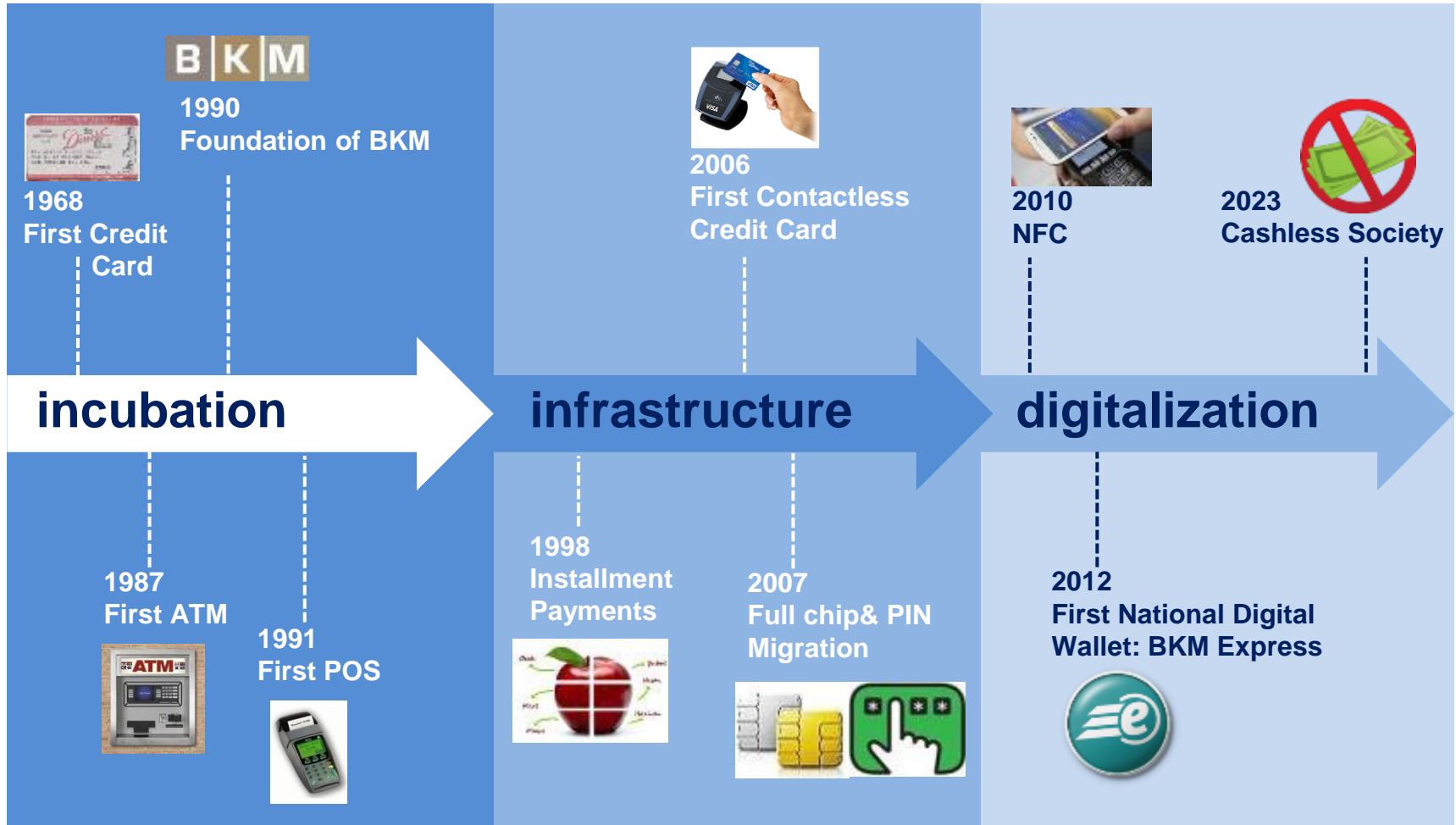
## **Road to Cashless Society**

## **National Payment Scheme**

## **Regulative Outlook**

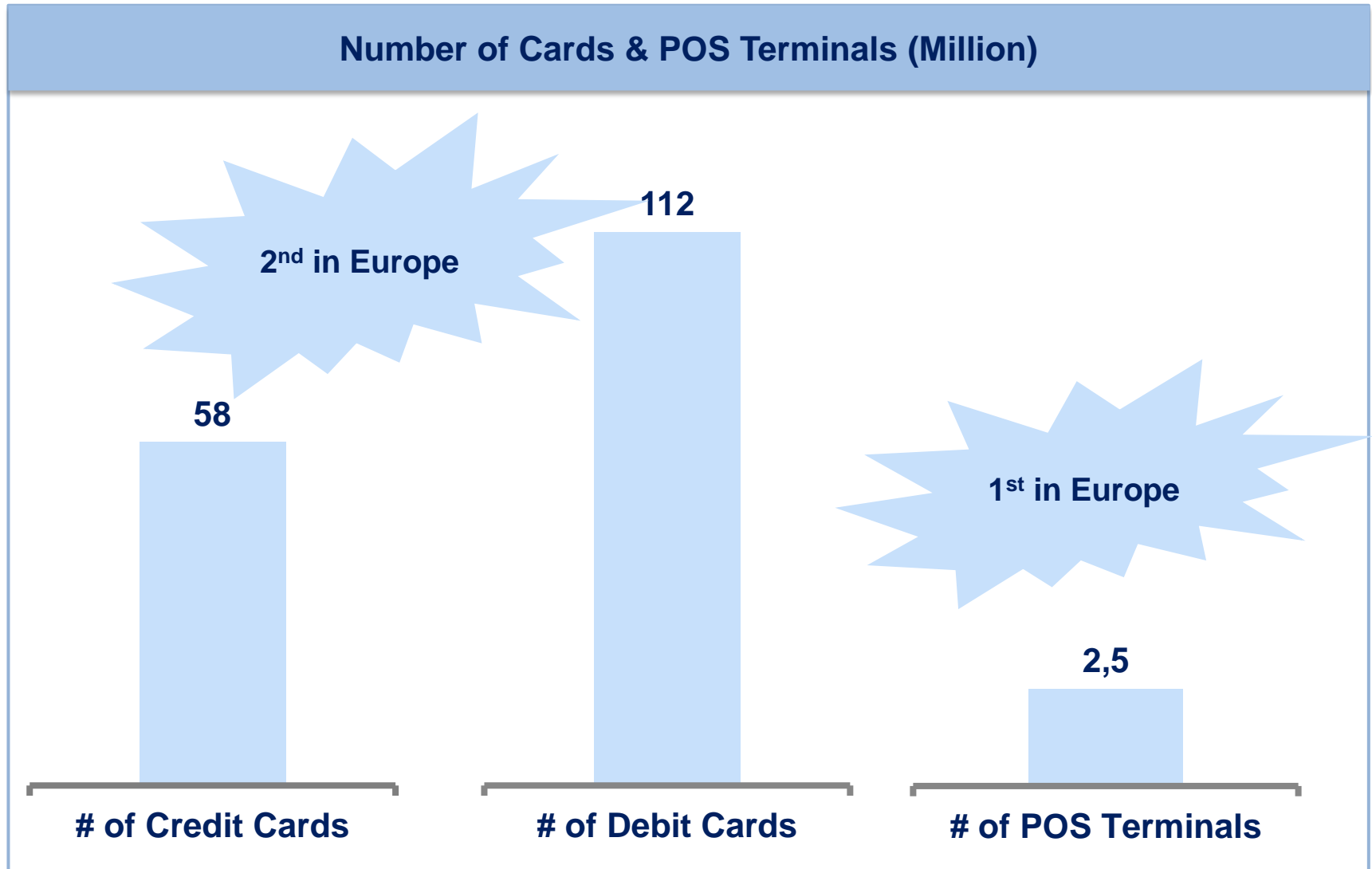


# Card payments mostly evolved after 1990s in Turkey





## ...and Turkey became one of the most sophisticated markets in Europe



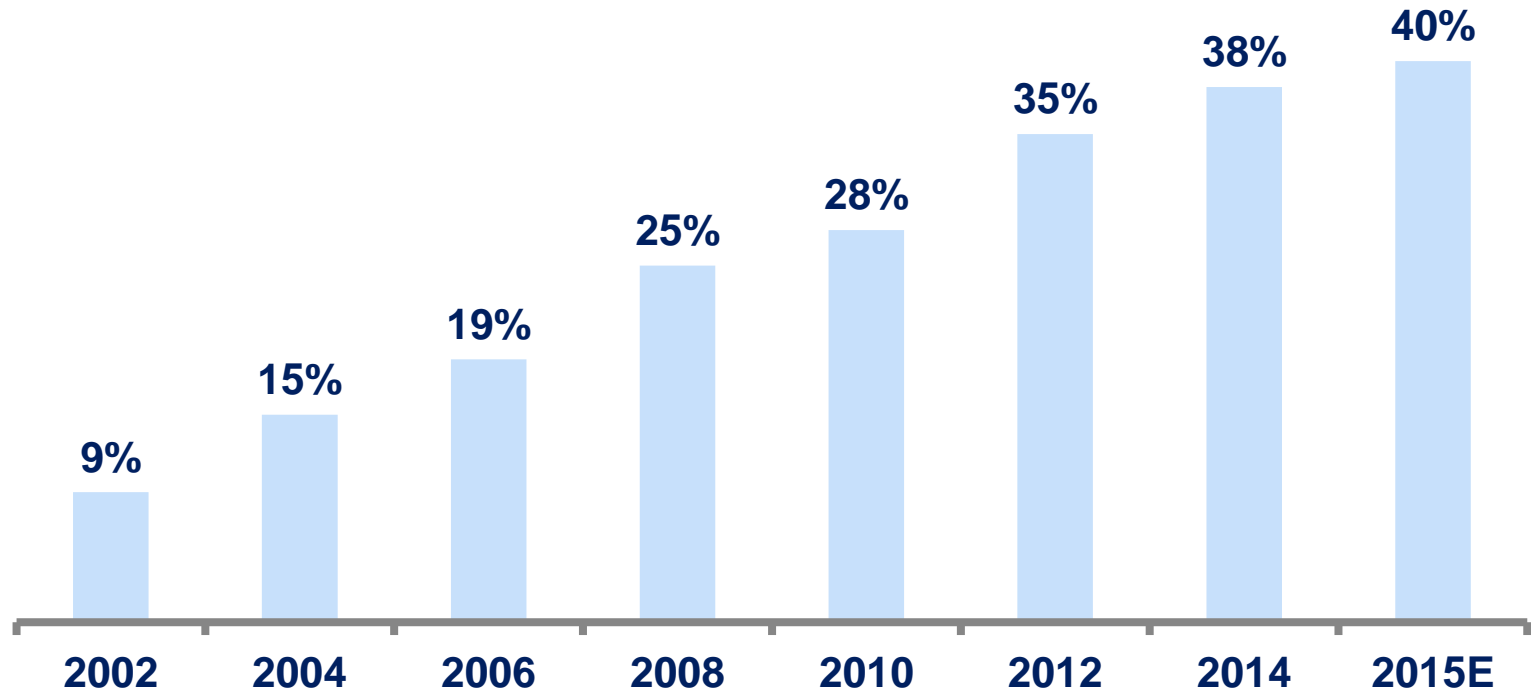
Source: ECB Europe benchmarks are as of 2013,  
BKM as of 8/2015

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## Turkey is heading to cashless society with a significantly high pace, but still there is room for improvement

Evolution of card usage in household consumption

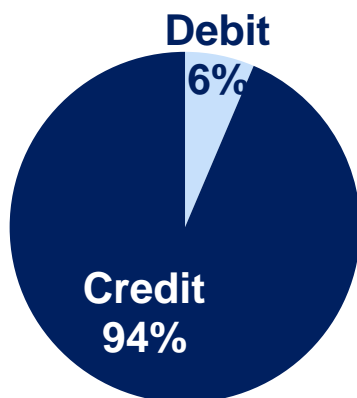




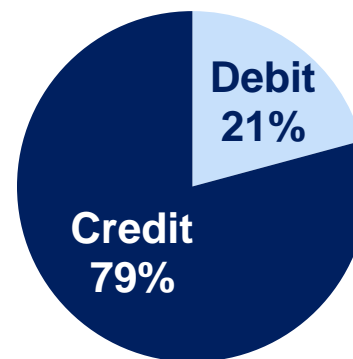
# Turkish market differs from Europe as it is a credit card heavy one

## Turkish Cards Market Fact Sheet

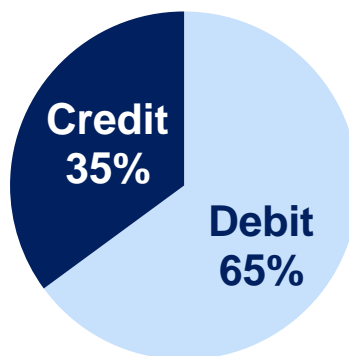
Total Card Payments: \$210 Bn



Total Card Payments: 3.5 Bn



Total # of Cards: 163 Mn

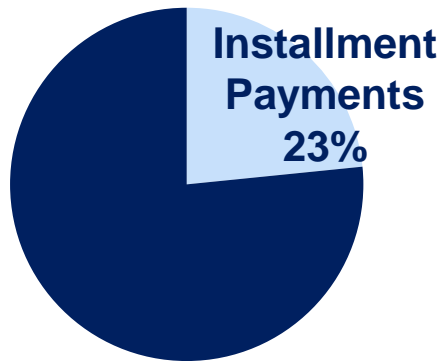




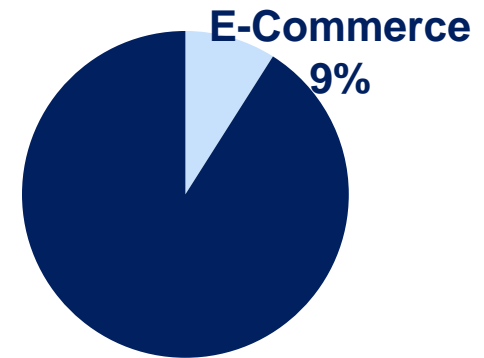
### 3 unique competitive edge of the market: free installments, digitalization & high contactless penetration

#### Turkish Cards Market in-debt analysis

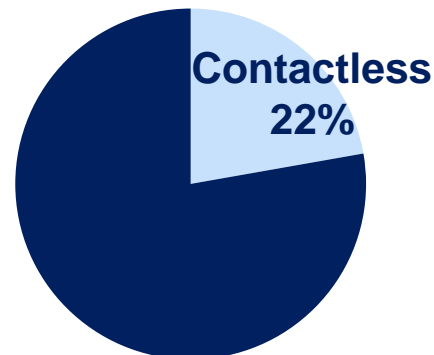
Total Card Payments: \$210 Bn



Total Card Payments: \$210 Bn



Total # of Credit Cards: 57 Mn





# **Turkey Card Payment Market**

## **Card Payment Market at a Glance**

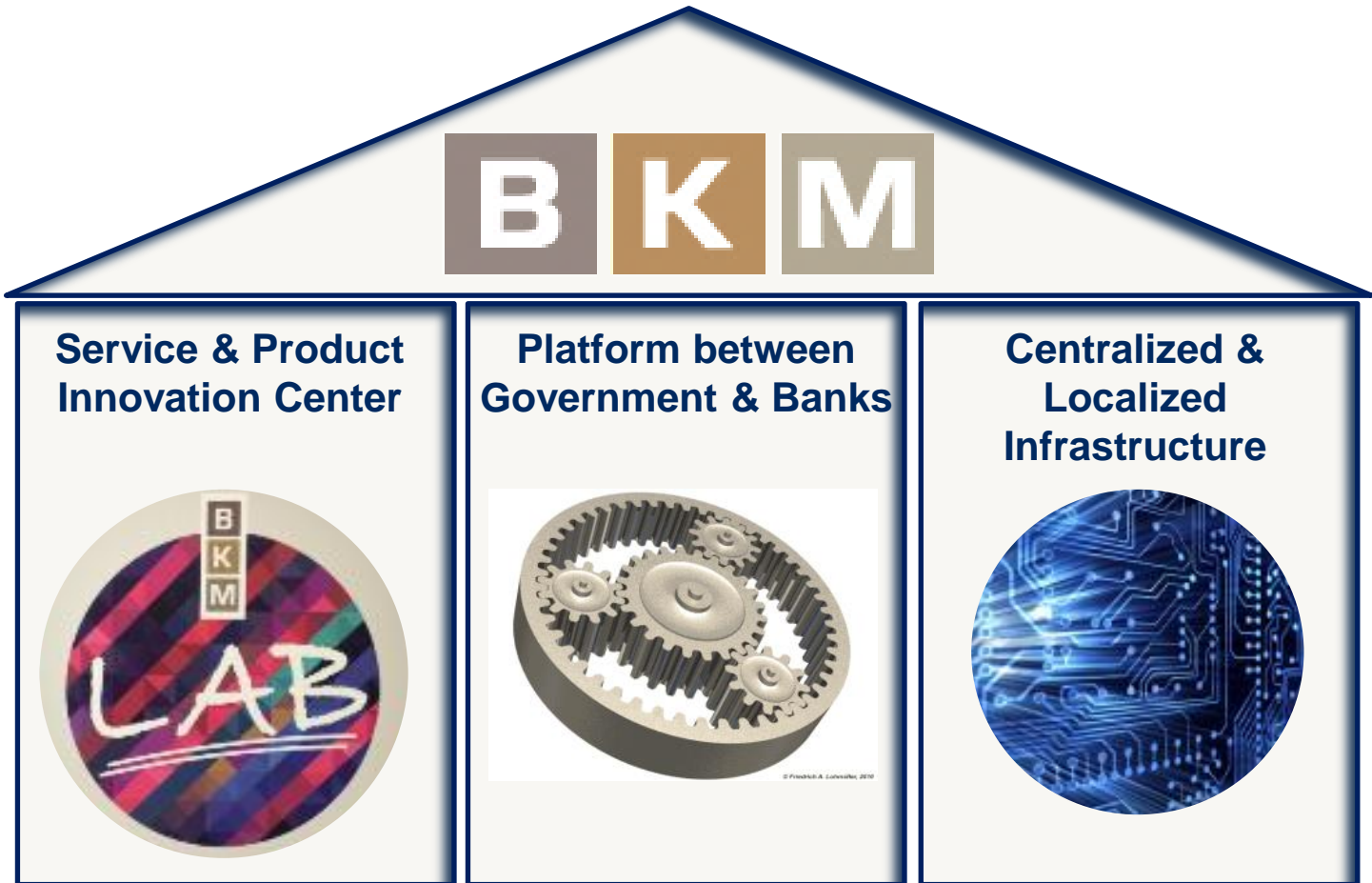
## **Road to Cashless Society**

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## **Regulative Outlook**



**BKM is the pioneer for innovative projects in Turkish cards market**






# First National Digital Wallet: BKM Express

## Convenient, fast and secure way to pay with its new features

 **17** BANKS  
Penetration in the market **%99**

 **950** e-merchants  
Penetration in the market **%48**

**1.000.000** members  


 **70+**  
Campaigns since launch

 **1.100.000**  
Payments

**300.000**   
Mobile Downloads



**BKM is working on projects to expand the acceptance of cards and to increase card payments volume**



**Contactless Payments  
Adoption**



**E-Government**



**Transportation**

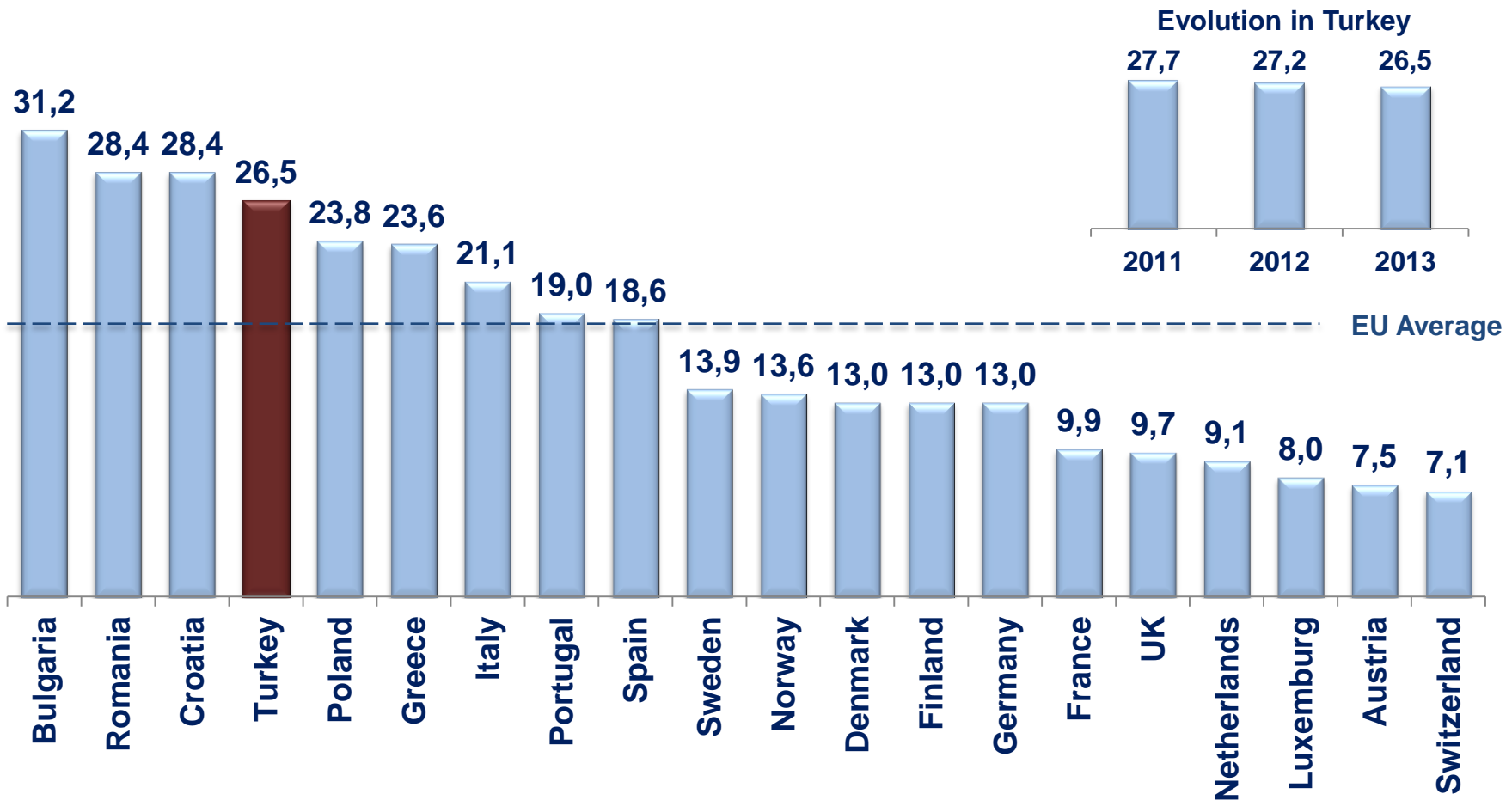


**POS-Cash Register  
Integration**



# Card payments is seen an important tool to diminish shadow economy in Turkey

## Shadow Economy / GDP in Turkey and European Countries - 2013 - %





# Government, banks and BKM are working for promoting debit card usage against shadow economy

## Communication

- Since 2005, BKM launched different communication campaign to promote debit card for purchase transactions
- In 2009, all ATMs are merged on common platform for debit card money withdrawal and balance inquiry



## Incentives

- Banks are already promoting debit card usage with loyalty programs
- Possible incentive programs are being analyzed by regulators, for both merchant and card user, in debit card purchase

## Regulations

- Regulations are offered to regulators such as:
  - ✓ Enforcement of card acceptance for merchants or transportation
  - ✓ Decreasing cash payment limit
  - ✓ Loading social aids to debit cards
  - ✓ Increasing card acceptance on government payments



# **Turkey Card Payment Market**

## **Card Payment Market at a Glance**

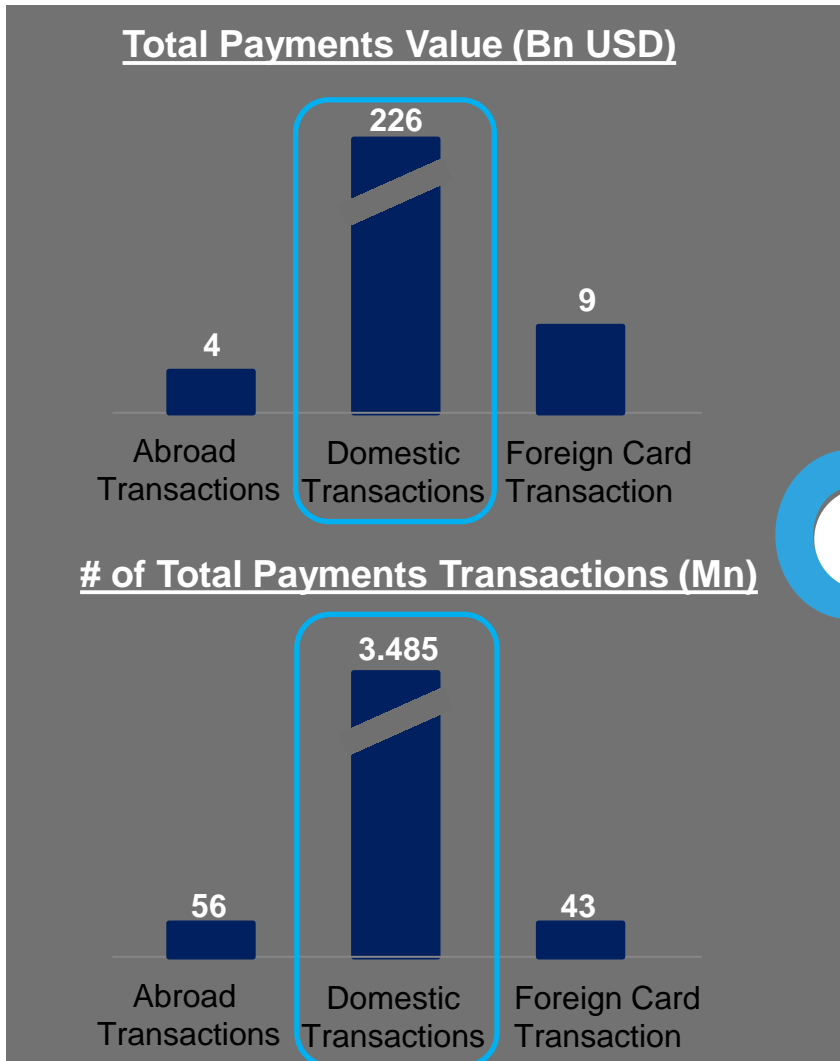
## **Road to Cashless Society**

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## National Payment Scheme idea is developed within BKM, «the hub of Turkish card payments»



97% of transactions are domestic

Potential growth capacity in the sector is mainly rooted from the growing population and rising disposable income.



# Establishing TROY – Turkish Payment Scheme is born as a strategic initiative

**Sustainable economic growth**

**Tier 1 Market size in EU**

**Heavy loaded domestic transactions**

**Market with only ICS**





## This initiative will bring various advantages to market players

**Economic Benefit  
for Stakeholders**

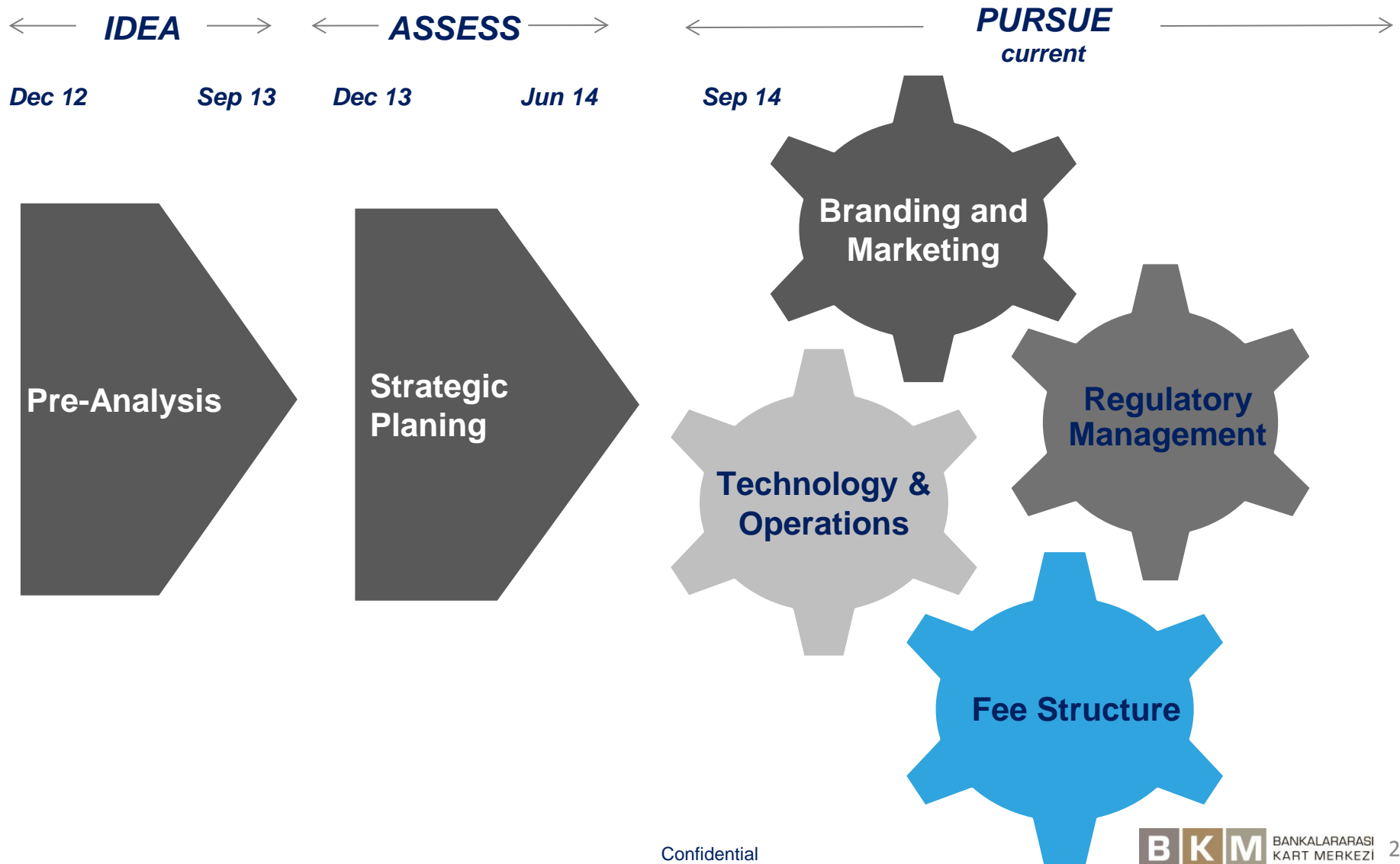
**Enlarge the freedom of  
capabilities**

**Independence and innovation**

- Reducing fees paid to ICS via a cost based model
- Direct and indirect advantages for ecosystem members
- Enabling the development of products and service aligned with the needs of Turkish market
- Faster time to market
- Strategic independence from the ICS
- Blue ocean to implement and execute new solutions



# Launching TROY was a long road with several important milestones





**First succesful transaction is expected to be completed within 6 months after licencing the EMV solution and operating regulations**



**1**

**Working with 2 banks  
on Issuing and Acquiring**

**2**

**First EMV transaction  
in the January 2016**



# Lessons learned

1

Acquiring is the most critical part for going the market

2

Being an IIN block holder is a long process

- Getting local IINs: The process was not defined in Turkey as this is first National Payment Scheme
- Getting International IINs: Barriers for ISO, 1 IIN for 1 issuer

3

A strategic communication plan for the eco-system players is important

4

How to be a Certification Authority and / or Certification Body



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# Regulator involvement in payment system increases every year

Regulator Body	Major Role on Payment Systems	Current Interest on Payment System
<b>TCMB</b> <b>Turkish Republic</b> <b>Central Bank</b>	<ul style="list-style-type: none"> <li>Defines <b>monetary policy</b> of Turkish economy, regulates banking system aligned with the policy they define</li> <li>Published «<b>Payment System Law</b>» to <b>regulate and audit clearing and settlement systems</b></li> </ul>	<b>Strong</b>
<b>BDDK</b> <b>Banking Regulation</b> <b>and Supervision</b> <b>Agency</b>	<ul style="list-style-type: none"> <li>Has <b>full authority</b> on regulation of <b>banking system</b></li> <li>Gives <b>licenses to payment and e-money companies</b> that fall under «Payment System Law»</li> </ul>	<b>Strong</b>
<b>RK</b> <b>Competition Authority</b>	<ul style="list-style-type: none"> <li>Has authority to punish anticompetitive actions or to give immunity to those actions if affects general interest</li> <li><b>Gives immunity to BKM</b> for domestic <b>interchange</b> of credit, debit cards, and other products</li> </ul>	<b>Fair</b>



# Payment system is under close follow-up by regulators from different perspectives

Regulation	Description
Single Card Limit	<ul style="list-style-type: none"> <li>A credit card user can get <b>overall limit up to 4 times of income</b></li> <li>Affects foreign investment to retail banking negatively</li> </ul>
Increasing Min Dues	<ul style="list-style-type: none"> <li><b>Min dues</b> are regulated <b>between 30% - 40%</b> based on the limit of card</li> <li>Causes an increase in NPL</li> </ul>
«Protection of Consumer» Law	<ul style="list-style-type: none"> <li>Regulates banking fees and commissions, defines thresholds</li> </ul>
Increasing Provisions and CAR Risk Ratios	<ul style="list-style-type: none"> <li>Cost of credit card balance increased because of increasing provisions</li> <li>Risk weight of capital required for executing card business increased</li> </ul>
Cap on Commercial Credit Card Interest Rate	<ul style="list-style-type: none"> <li><b>Pricing of personal and commercial cards</b> are forced to <b>same</b> interest cap</li> </ul>
Installment Limits	<ul style="list-style-type: none"> <li><b>Installment feature</b> on credit card is limited with <b>9 months</b></li> <li><b>No installment</b> on telecommunication, food and gas</li> </ul>
Payment System Law	<ul style="list-style-type: none"> <li>Regulates all clearing/settlement systems, payment companies, e-money providers</li> </ul>

  Impacts industry ROI negatively

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# THANK YOU QUESTIONS??



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