

THE ALTERNATIVE PAYMENTS LANDSCAPE IN TURKEY



by **docomo** digital

Turkey's young, smartphone-centric population drives e-wallet adoption

Located at the crossroads of Asia and Europe, Turkey is a country with a unique landscape for digital wallet providers and technologically-forward when it comes to its financial sector.

Players in the financial industry have been driving the economy towards a cashless future by introducing a number of innovations into the market, and there are clear signs that Turks are responding. According to a survey by ING, more than half the Turkish population have used a mobile payment app at some point, a stark contrast to their peers in the more-developed French (25%) and German (23%) markets.¹

Turkey has a number of advantages: the country is very young (nearly half of all Turks are below the age of 30),² and card payments are a major part of daily life. What's more, Turkey's digital payments segment is looking to be highly lucrative, with some projecting its total value to reach \$53 billion in 2021, and \$98 billion by 2025.³

¹ Finance Digest. Innovation in digital payments sees Turkey set to become cashless. Available online at: <https://www.financedigest.com/innovation-in-digital-payments-sees-turkey-set-to-become-cashless.html>

² Ibid.

³ Statista. Digital Payments: Turkey. Available online at: <https://www.statista.com/outlook/296/113/digital-payments/turkey>

BKM looms large

By far, credit cards outpace every other payment method in the country: Turkey is "Europe's largest card payment market" with more than 213 million cards in circulation,⁴ which account for 69% of all transactions.⁵ Cards' strong reputation among Turkish shoppers has been an integral stepping stone for the adoption of digital wallets (which currently account for only 7% of all transactions), many of which require card connections to function in the first place.⁶

However, market watchers expect the adoption of digital wallets to rise thanks to Turks' high smartphone and mobile broadband penetration rates.⁷

A handful of digital wallets are present in the country, but the undeniable market leader is BKM Express (BEX), which maintains 21% market share of non-cash payments and is supported by 19 banks and 1.6 million users as of January 2019.⁸ The Interbank Card Center of Turkey (BKM), a legal entity established to govern the use of credit and debit cards, launched BEX as Turkey's first domestic digital wallet in 2012 in an effort to drive the use of digital payments in the country. BEX got an additional boost when fintech giant PayPal abruptly exited the country over banking license issues, leaving BEX to claim the lion's share of the market.⁹ What initially started as a digital wallet eventually expanded into a mobile service with P2P and e-commerce features which have been key for driving adoption by consumers and merchants. Thanks to its relationship to BKM, BEX

⁴ Troy. Turkish Card Payment Market Report: 2018 Yearly Assessment. Available online at: https://image.troyodeme.com/File/turkish-card-payment-market-report_issue-3_final-k6Z5Tfz2.pdf

⁵ J.P.Morgan. Turkey rises in prominence as a fast-growing e-commerce market. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/turkey-2020>

⁶ Ibid.

⁷ DataReportal. Digital 2020: Turkey. Available online at: <https://datareportal.com/reports/digital-2020-turkey>

⁸ Wonder. E-Wallet Market in Turkey. Available online at: <https://askwonder.com/research/market-size-e-wallet-turkey-w5a0xvfx6>

⁹ Techcrunch. PayPal to halt operations in Turkey after losing license, impacts 'hundreds of thousands'. Available online at: <https://techcrunch.com/2016/05/31/paypal-to-halt-operations-in-turkey-after-losing-license-impacts-hundreds-of-thousands/>

is not only widely integrated with all of Turkey's major banks¹⁰ but is also credited with establishing wallets' as a viable payment option among merchants, especially those in the transportation industry.¹¹

Digital wallet payments have been hugely important in the area of public transportation. Unlike other countries, most Turkish metropolises accept e-payments for public transport through infrastructure developed in partnership with BKM. Even ride hailing app Uber faces tough competition in Turkey from local ride-hailing company BiTaksi since it tied-up with BEX, and another local wallet Ininal, to enable digital payments. BEX even partnered with oil and gas firm Total to enable fuel payments through an app.¹²

Aside from BEX, a number of other domestic digital wallets are quite popular among Turkish users, including iPara, iyzi, Papara and GPay. Papara, a challenger bank with 5.5 million users as of November 2020, is gaining particular attention for its Venmo-like model that is focused on supporting Turkey's large unbanked population with services such as bill payments and P2P transfers. According to Papara CEO Ahmed Karli, the unbanked and youth are largely underserved by legacy institutions, whose digital offerings tend to lag behind those by fintech startups. Over 60% of Papara's users are below 34 years.¹³

¹⁰ Bankalararasi Kart Merkezi. Cashless Turkey by 2023. Available online at: <https://bkm.com.tr/wp-content/uploads/2017/05/cashless-2023.pdf>

¹¹ BKM Interbank Card Center. Turkey - Advance Payments Report. Available online at: <https://fintechistanbul.org/wp-content/uploads/2019/04/Turkey-Advance-Payments-Report1.pdf>

¹² Ibid.

¹³ Fintech Futures. One of Turkey's largest fintechs Papara gears up for expansion. Available online at: <https://www.fintechfutures.com/2020/11/one-of-turkeys-largest-fintechs-papara-gears-up-for-expansion/>



Smartphones driving wallets

Smartphones are a major part of everyday Turkish life. Not everyone has a bank account, but just about everyone has a mobile phone (74% in 2019), and ready access to 3G and 4G connections.¹⁴ Though e-commerce sales represent only a small percentage of the overall Turkish retail market, many market watchers are suggesting that long-term, online shopping is here to stay. Mobile transactions are set to account for 49% of e-commerce transactions by 2021,¹⁵ suggesting an upward trajectory for mobile and wallet-based payments.

Bearing these factors in mind, OEM-based wallets are curiously absent from the market. Apple Pay, Google Pay and Samsung Pay have not revealed plans to launch in Turkey despite the significant potential posed by Turks' embrace of smartphone technology.

Social media, in contrast, has proven to be a strong force driving the adoption of alternative digital payments solutions. Turks are among the most active users of platforms like Facebook, Twitter, Instagram and Whatsapp, while local banks are actively exploring the innovative potential of social media-leveraged banking. Take for instance, DenizBank, which launched the world's first Facebook banking app in 2012, through which customers can send money and apply for debit and credit accounts.¹⁶

Turkey's relatively mature telecommunications market has also helped drive the growth of the telco industry's strides into the digital finance industry. According to the Micro Finance Centre, internet contracts are on the rise among smartphone users, while those for fixed-line telephones are falling. The average mobile phone user in Turkey spent an average of 459 minutes per day on their phone in 2018, compared with the 250 minutes by their European counterparts.¹⁷ These factors could have a positive impact on the potential of direct carrier billing (DCB) options for Turks, especially those without access to banking infrastructure in the country's rural areas.

All three of the country's telcos, Turkcell, Vodafone and Turk Telekom, have taken advantage of these conditions to launch their own mobile payment options. Turkcell, for instance, runs their Paycell service through which customers can bundle payments into their monthly phone bills, and add their bankcards to the app's digital wallet function. Similarly, Türk Telekom's Mobil Ödeme enables customers to make payments through their phone bills, and has embarked on a recent collaboration with DOCOMO Digital to allow purchases through the Huawei Application Gallery.

Foreign entrants hit the regulatory wall

In 2013, Turkey's Electronic Payment Law went into effect. The law was designed to introduce much-needed regulation for non-bank payment and electronic money services that had largely gone unattended to, and realign Turkish regulations with those required by the European Union.

In many ways, the new regulations could force legacy banks to innovate by providing legitimacy to digital wallet operators and other fintechs seeking to chip away at incumbents' market shares. However, there still remains the high cost of applying for a bank licensing, which could impede the entry and expansion of newer domestic challengers, as explained by Papara CEO, Mr Karšli:¹⁸

Despite the largely positive intentions of the regulator, the law has, in effect, created a somewhat burdensome regulatory environment that has allowed domestic companies to thrive at the expense of international ones. With the law's passage, international firms will have to house all "data, documents and records pertaining to electronic money" within Turkish borders for at least 10 years. This requirement presented an onerous task for international firms, whose records and IT systems are scattered across various geographies, and has resulted in at least one company—fintech giant PayPal—exiting the country.¹⁹

A sampling of popular e-wallets across markets and their fees

Papara charges a fixed fee of 3.4% on any transactions of more than TRY5,000 (\$714) from five different users or if money is received from 10 different users, regardless of the amount.²⁰

Top e-wallets: BKM Express, GPay, Mobilexpress, Papara and Paycell.²¹

¹⁴ BKM Interbank Card Center. Turkey - Advance Payments Report. Available online at: <https://fintechistanbul.org/wp-content/uploads/2019/04/Turkey-Advance-Payments-Report1.pdf>

¹⁵ d-local. Turkey eCommerce Market. Available online at: <https://dlocal.com/online-payment-processors-in-asia/turkey-payment-methods-processors-ecommerce-market/>

¹⁶ BKM Interbank Card Center. Turkey - Advance Payments Report. Available online at: <https://fintechistanbul.org/wp-content/uploads/2019/04/Turkey-Advance-Payments-Report1.pdf>

¹⁷ Microfinance Centre. The Fintech market in Turkey. Available online at: https://mfc.org.pl/wp-content/uploads/2020/03/TURKEY_FINTECH-CASE-STUDY_FEB2020.pdf

¹⁸ Fintech Futures. One of Turkey's largest fintechs Papara gears up for expansion. Available online at: <https://www.fintechfutures.com/2020/11/one-of-turkeys-largest-fintechs-papara-gears-up-for-expansion/>

¹⁹ d-local. Turkey: e-commerce payments overview. Available online at: https://dlocal.com/wp-content/uploads/2018/08/country_overview_turkey.pdf

²⁰ Papara. Fees. Available online at: <https://www.papara.com/en/#!/fees-and-limits>

²¹ Wonder. E-Wallet Market in Turkey. Available online at: <https://askwonder.com/research/market-size-e-wallet-turkey-w5a0xvfx6>

ABOUT US

DOCOMO Digital is the international payments business of NTT DOCOMO. We partner with carriers, merchants, OTT services, app stores and payment providers in both developed and emerging markets around the world. We solve for the challenges of customer acquisition and retention, regulation, and complexity for our partners with alternative payment methods such as direct carrier billing and digital wallets. With teams based in 15 countries, we enable our partners to grow their digital services revenues while enhancing the customer experience for their users. Our robust managed services platform and coverage across carriers and the most locally relevant payment methods enable faster time-to-market, especially for streaming, gaming, e-commerce, and productivity application providers.

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