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FINTECH FOR GOOD:

Financial Inclusion & Fostering the Ecosystems

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Executive Summary

Fintech For Good: Financial Inclusion & Fostering the Ecosystems aims to provide how fintechs (financial technology companies) are leveraging the latest digital technologies to create more financially inclusive societies. The report intends to promote and foster closer ties between Turkey and the UK, and indicate potential areas for know-how exchange between the countries.

First, the definitions of financial inclusion and fintech (financial technology) will be presented, while underlining the role of fintech in promoting and expanding financial inclusion, along with the trends around the globe, the UK and Turkey.

Once the background information is established, two main fintech verticals will be looked into more deeply: (1) Access to Bank Accounts, Payments & Money Transfers and (2) Financial Literacy and Money Management. Each of these areas will first portray examples from the UK and Turkey, along with insights from the interviews conducted with the key players in the fintech ecosystem in Turkey, encapsulating their story, hurdles, and vision for the Turkish ecosystem.

After forming an overview of pivotal fintech start-ups in the UK and Turkey, the significant roles of employing impact investment and crowdfunding approaches in fostering the fintech ecosystem will be justified. While wrapping up the discussion, the critical factors of the UK's fintech success will be highlighted and provide Turkey a roadmap for galvanizing the fintech ecosystem.

INTRODUCTION:

Fintech & Financial Inclusion

Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses, regardless of their net worth or company size. Financial inclusion strives to remove the barriers that exclude people from participating in financial activities and using these services to improve their lives. It is also called inclusive finance.

As the World Bank notes, **financial inclusion "means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit, and insurance – delivered responsibly and sustainably."** Having access to a *transaction account* is highlighted as the *first step* "toward broader financial inclusion since a transaction account allows people to store money, send and receive payments."

GLOBAL

The Global Findex Database, 2017

UNITED KINGDOM

1.3 MILLION UK ADULTS ARE UNBANKED

GROUPS OF ADULTS MORE LIKELY TO BE UNBANKED INCLUDE 18-24 YEAR OLDS AND THE UNEMPLOYED

HIGHLIGHTED REASONS FOR UNBANKED:

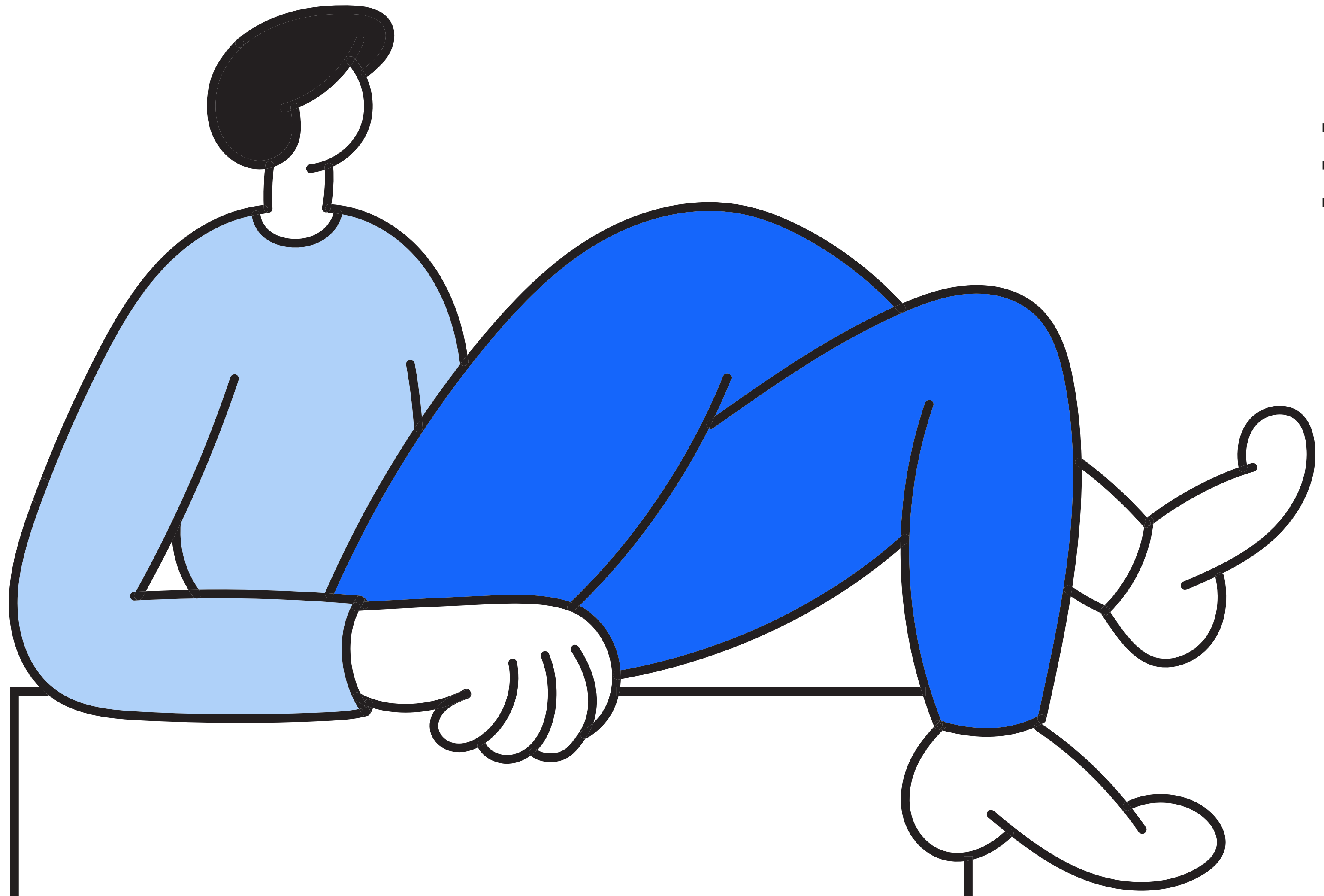
CONSUMERS MAY HAVE DIFFICULTY PROVING THEIR IDENTITY, FOR EXAMPLE, THOSE WITH NO PERMANENT ADDRESS OR WHO MOVE OFTEN, THOSE WHO DO NOT HAVE A PASSPORT OR DRIVING LICENCE OR UK PAPER UTILITY BILLS IN THEIR NAME.

THERE ARE CONSUMERS WHO MAY NEED HELP TO OPEN AN ACCOUNT, FOR EXAMPLE THOSE WHO ARE ILLITERATE.

ONE THIRD OF UNBANKED PEOPLE HAVE HAD A BANK ACCOUNT BEFORE AND DO NOT WANT ONE, FOR EXAMPLE, BECAUSE THEY HAVE GOT INTO DIFFICULTY WITH AN OVERDRAFT.

The Financial Lives of Consumers Accross the UK, FCA, 2017

TURKEY



69%

OF POPULATION WITH AN ACCOUNT IN TURKEY - 2017

GAP BETWEEN MEN AND WOMEN FOR UNBANKED IN TR

29%

72 PERCENT OF UNBANKED WOMEN IN TURKEY SAID THAT THEY DO NOT HAVE AN ACCOUNT BECAUSE A FAMILY MEMBER ALREADY HAS ONE. FOR MEN THAT RATIO IS

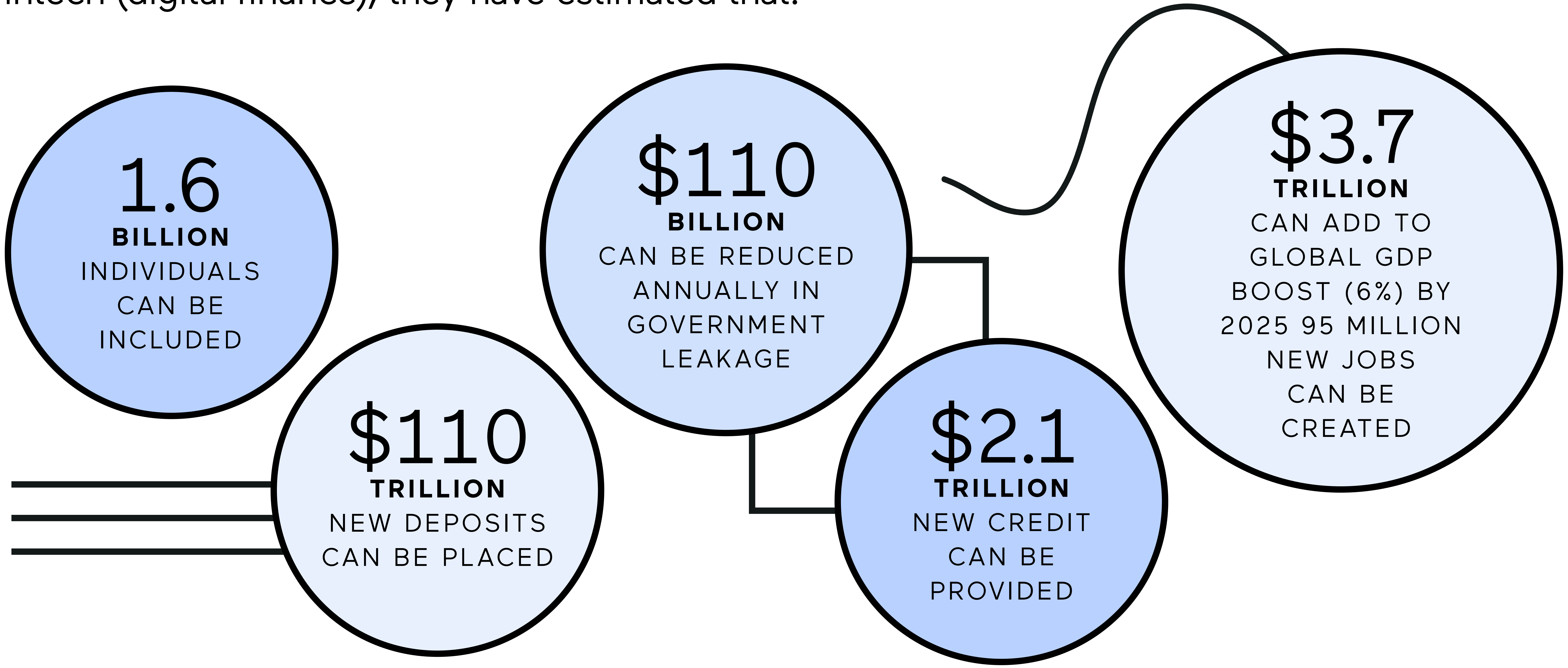
51%

The Global Findex Database, 2017

Cisco's Visual Networking Index (VNI) Forecast[1] highlights that over four billion people will be using the internet by 2020 through mobile phones, tablets, and computers. This unprecedented growth means that millions of new users will be able to access banking, government services, and new markets – all through digital tools. Digital makes it easier than ever to bring these new users into the fold and provide them with easy access to the services.

Financial inclusion is also at the core of **the United Nations Sustainable Development Goals (SDGs)**, which represent the shared aspirations of countries and development actors and go well beyond poverty alleviation. They incorporate the need to promote prosperity and people's well-being, reduce inequality, and protect the environment. While the SDGs do not identify financial inclusion as an independent objective, they acknowledge that it is central to achieving many of them. Financial inclusion is explicitly mentioned in seven of the SDGs[2], and there are four financial inclusion indicators to track progress.

According to a McKinsey Report[3], "two billion individuals and two-hundred million businesses in emerging economies, today, lack access to savings and credit." With the help of fintech (digital finance), they have estimated that:



1 — 12th annual Mobile VNI Forecast, Cisco, 2017-2022

2 — Achieving the Sustainable Development Goals, CGAP, 2016

3 — Digital Finance for All: Powering Inclusive Growth in Emerging Economies, McKinsey Global Institute, 2016

"Financial innovation, propelled by fintech, plays a key role in bolstering financial inclusion and makes simple financial instruments accessible"

A lot of progress has been made toward financial inclusion, and "1.2 billion adults worldwide have gotten access to an account since 2011. Today, 69% of adults have an account." However, close to one-third of adults – 1.7 billion – are still unbanked, according to the latest Findex data. [4]

"Financial innovation, propelled by fintech, plays a key role in bolstering financial inclusion and makes simple financial instruments accessible" states Can Fintech Make the World More Inclusive, published by Wharton School of Business (University of Pennsylvania). In the same perspective, the authors of **FinTech: Harnessing Innovation for Financial Inclusion** [5], Salampasis and Mention, see fintech as a promising vehicle of tackling financial inclusion: "...by closing the gap between unbanked, under-banked and developed societies, opening the door to the global digital economy, bringing a long-term societal transformational change for the financially excluded/underserved, while leading to inclusive economic growth helping move towards a more just and equitable society."

Fintech is a term used to describe new technology that seeks to improve and automate the delivery and use of financial services. It acts as a catalyst to innovate new technological infrastructures, such as sandbox (Open-API), and new products and services for different consumer needs. Fintech includes a variety of verticals from creating unique finance ecosystems to facilitating financial activities, such as digitizing banking functions, raising money for a business start-up, or managing investments, through digital means. Ernst & Young's findings indicate that one-third

4 — The Global Findex Database 2017

5 — Handbook of Blockchain, Digital Finance, and Inclusion, Volume 2, Academic Press, 2018

Ernst & Young's findings indicate that one-third of consumers utilize at least two or more fintech services, and those consumers are also increasingly aware of fintech as a part of their daily lives, published in Fintech Adoption Index.

of consumers utilize at least two or more fintech services, and those consumers are also increasingly aware of fintech as a part of their daily lives, published in Fintech Adoption Index. [6]

According to a FinExtra article, during H1 2019, the global fintech investments have seen a sharp decline of 29% to $22.9 billion, compared to H1 2018's total investment of $31.2 billion. The decline was largely attributed to the lack of giant deals. However, if Alibaba's Ant Financial Services, $14 billion capital raise is taken out of the 2018 data, then fintech investments would have seen a 22% increase indicates FinExtra. Out of $22.9 billion of investments, 28% was attributed to payment start-ups, whereas lending and insurtech raked in 25% and 14%, respectively.

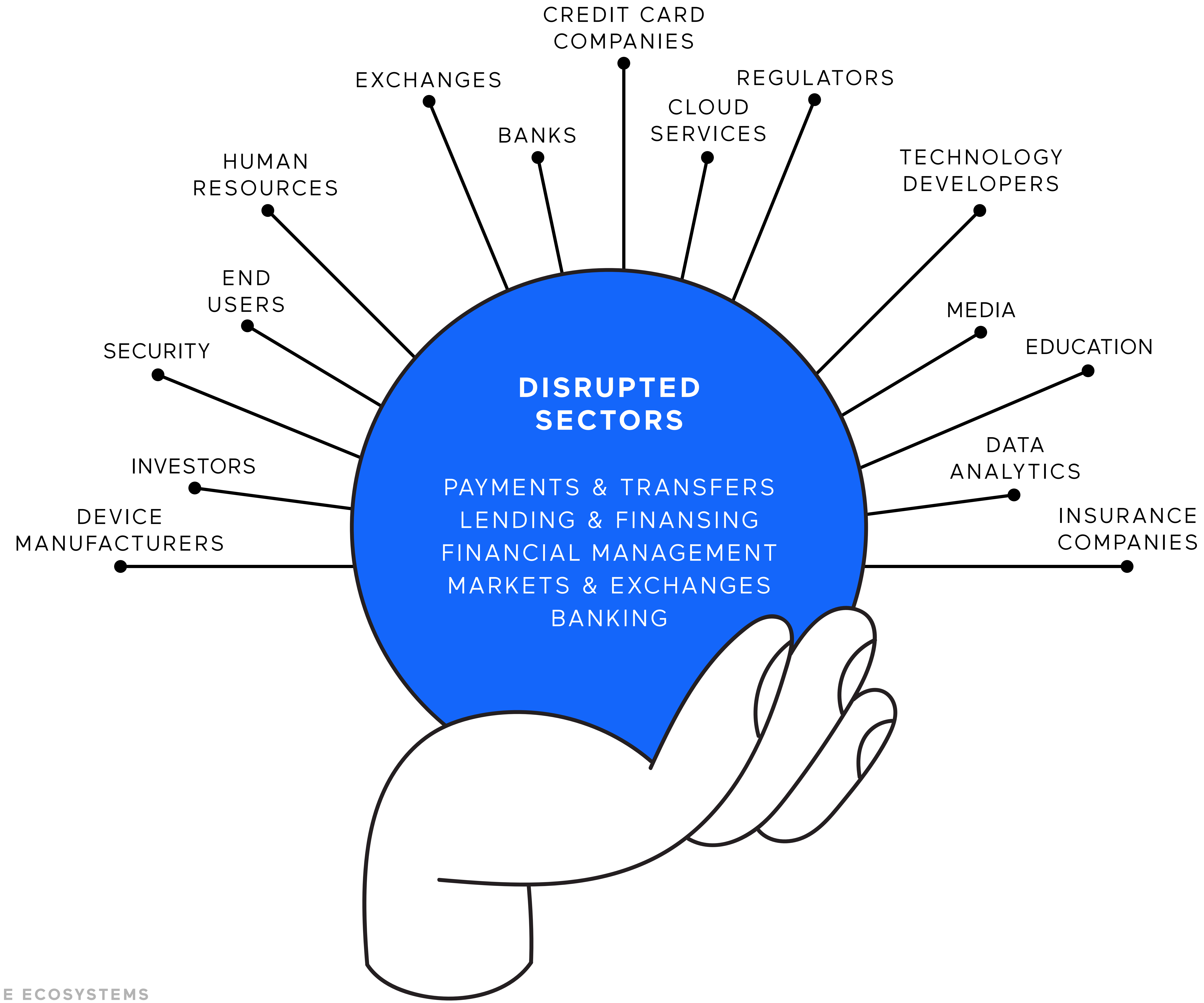
The UK's fintech investments have topped the start-up investment charts at $4.5 billion between 2015-2018, according to TechNation's Report. [7] In the first half of 2019, the UK's fintech investments have doubled to $2.6 billion, compared to the first half of 2018, and the number of deals jumped 25%, to 263. Digital banks and payment companies have drawn most of the investors' interests. For example, this year, leading digital bank platforms Monzo, raised $144 million in June, while Starling Bank, raised $211 million from two separate transactions in February. Money-transfer start-ups TransferWise closed a $292 million deal in May, while WorldRemit raised $175 million in June.

6 — EY FinTech Adoption Index 2017

7 — Tech Nation, UK Tech on the Global State, 2019

INTRODUCTION: ECOSYSTEM APPROACH

Fintech is an ecosystem with many stakeholders that have a vital role in its creation, development, and sustainability. The active participation and support of each player are required to advance fintech and achieve a robust continuity. Fintech Circle identifies the following diagram for the fintech ecosystem:



Turkey has a population of more than 80 million people. According to statistical data, almost 44% of the 15+ age population is unbanked. Over the past few years, the 15+ population growth rate was nearly 5%, whereas the unbanked population growth rate is almost 8%.

As much as the need for fintech visionaries, entrepreneurs, and technology developers, the need for support from investors, regulators, key industry players, and media is undeniable. NGOs, too, are crucial to reach disadvantaged people, excluded from the financial system. Education is also vital in promoting (financial) knowledge to end-users, who then only can utilize the services and products fintech can offer.

FINTECH ECOSYSTEM IN TURKEY

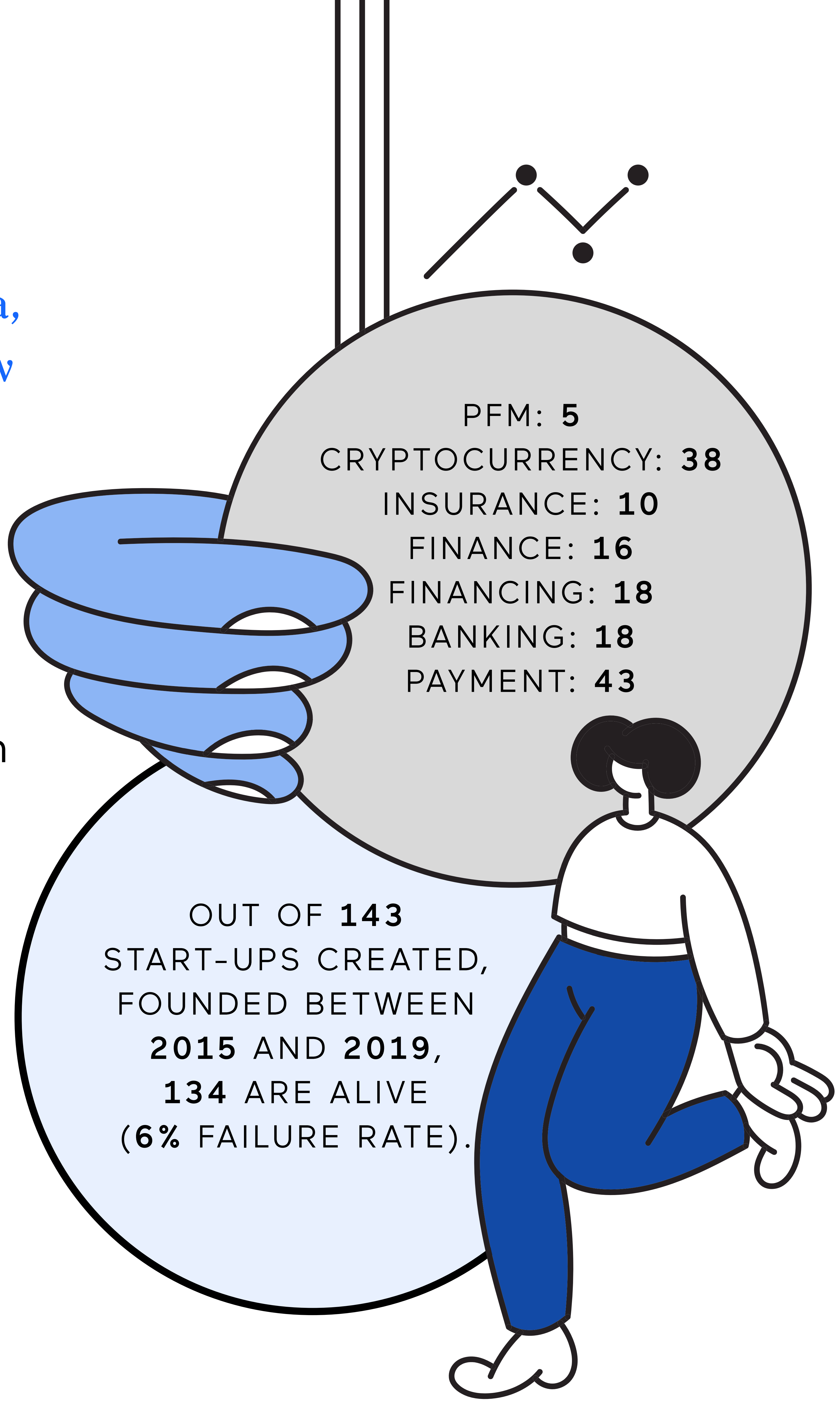
The organization of the fintech ecosystem in Turkey is the same as in every part of the world. It has key players like financial services institutions, infrastructure players, tech companies, start-ups, regulators, investors, users (B2B & B2C), and accelerators. All these stakeholders play an essential role in the existence and development of the ecosystem. As an indicator of the attractiveness of the market, Turkey has a population of more than 80 million people. According to statistical data, almost 44% of the 15+ age population is unbanked. Over the past few years, the 15+ population growth rate was nearly 5%, whereas the unbanked population growth rate is almost 8%. Mobile and digital channels are viral among the younger generation.

Over the past 30 years, banks in Turkey have advanced rapidly, increasing its customer outreach and digital services. Soner Canko, CEO of **BKM (The Interbank Card Center)**, explains, “Efforts to spread financial products have already been kickstarted by banks, with development in using technology and supporting talent. That’s why the fintech play arena might be seen limited in Turkey;

however, that's not the case. Instead of copying global fintech trends, and applying them in Turkey, or vice-versa, the players need to brainstorm on how to innovate and adopt new solutions."

Most of the technological foundations such as AI, Big Data, Blockchain, and API are developed and used by many industries in Turkey. According to Startups.Watch data almost 200 FinTech Startups operating in 13 different verticals, creating solutions to the financial services industry in Turkey.

Despite the number of start-ups, the amount of capital raised is not as much as desired. Total



early-stage funding for start-ups in the past eight years has been $450 million. Fintech took $66 million of that total. [8] There are a couple of success stories which has boosted interest in the fintech ecosystem in Turkey. Iyzico, a payment services provider to +30k e-commerce platforms, was acquired by PayU for $165 million in May 2019. Paraşüt (Parachute), a seamless online pre-accounting solution for +11k Turkish SMEs, was acquired by DST Technology, which also incorporates Mikro Yazilim and Zirve Yazilim. Paraşüt facilitated more than TRY 30 billion worth of trade transactions. Foriba, a leading player in e-invoicing, e-delivery notes, e-receipts and periodic VAT reporting in Turkey, delivering more than 25 different solutions and services to more than 450 companies in +10 countries with regulatory compliance requirements, was acquired by US-based global tax software provider Savos for an undisclosed sum on May 2019. Foriba

8 — startups.watch, The State of Turkish Fintech Ecosystem v0.1, November 2019

creates, signs and stores more than 30 million electronic documents per month. Kredico, acquired by Maher Holding, uses a proprietary algorithm, based on financial and geographical segmentation data, which calculates the credit risk score of individuals and businesses. Kredico facilitates credit-score data enrichment studies for individuals without a financial background.

IYZICO
GOT ACQUIRED BY PAYU FOR **$165 MILLION** AFTER **$27.8 MILLION** OF INVESTMENT, 2019 MAY

PARAŞÜT (PARACHUTE)
GOT ACQUIRED BY DST TECHNOLOGY GROUP AFTER **$4.5 MILLION** OF INVESTMENT, 2019 MAY

FORBIA,
GOT ACQUIRED BY SOVOS AFTER **$9 MILLION** OF INVESTMENT, 2019 MAY

KREDICO
GOT ACQUIRED BY MAHER HOLDING AFTER SEED INVESTMENT OF **$205,000,** 2019 JANUARY

HESAP KURDU
GOT ACQUIRED BY KOALAY AFTER **$5,4 MILLION** OF INVESTMENT, FEBRUARY 2019

As the Turkish fintech expands, both horizontally and vertically, the regulatory framework is shaping itself as well. New regulations are enacted about payment services and electronic money to ease doing business for fintechs; the government support is becoming more robust. Fintech related topics took place in the government's agenda, the 11th Development Plan, where financial inclusion and islamic finance were also covered as well.

One of the more imminent regulations is the **PDS2**, with which, open-banking will be a system-wide option, which partly has been done through banks offering API services. After it's implementation fintech ecosystem will have new areas to grow into, such as savings, money management, credit scores. Selim Yazıcı, co-founder of **Fintech Istanbul**, shared on this report, "From the customer's point of view, open baking will enable the democratization of financial products and services; it'll make the pricing more transparent, heighten the competition which will increase the quality." [9]

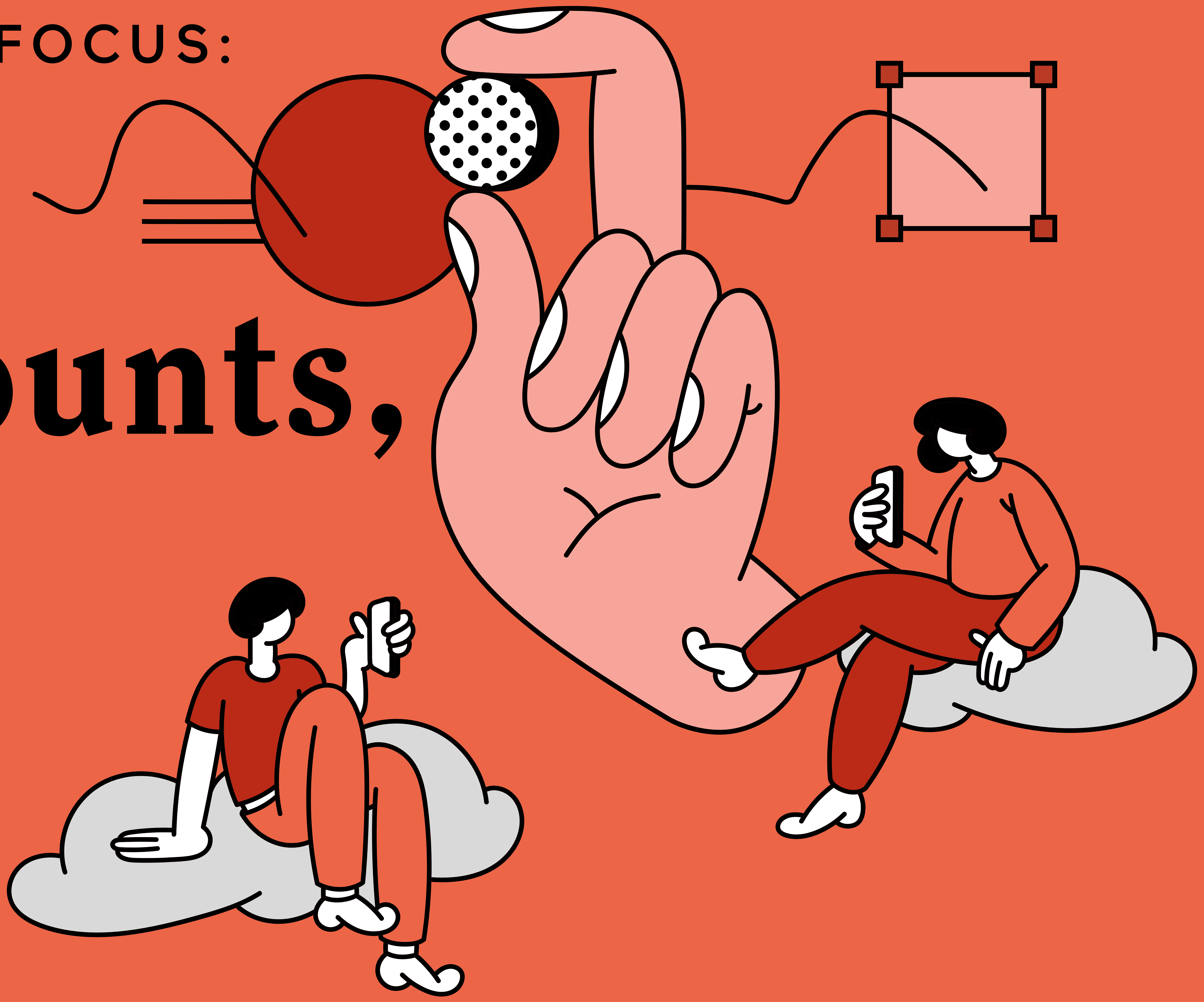
As the fintech is at its dawning stages in Turkey, 31% of the adults, 72% of women (which also includes women who voluntarily opts not to), and 44% of the young population don't have a bank account.

As emphasized by the World Bank, having access to a bank account is the gateway to reach and use other financial products and services such as creating savings, tracking budgets, making digital payments and money transfers to other accounts. Money management is a core competency to reach economic freedom and achieve life goals, such as paying for a house, a car, education, etc. Therefore, for primarily financially excluded population, owning an account becomes a prerequisite to set and achieve financial goals.

9 — Open Banking Globally and in Turkey: Future of Banking, Fintech Istanbul, 2019 (In Turkish)

FINANCIAL INCLUSION FOCUS:

Access to Bank Accounts, Payments, Money Transfers



Financial inclusion encaptures a wide variety of products and services, from providing bank accounts and savings plans to facilitating payments and money management programs. **The first requirement of financial inclusion is having access to a bank account**, as World Bank declares. A bank account facilitates payments by providing a card (physical or digital), enabling online payments for online-shopping activities and bills - this, in return, creates credit scores (needed to apply for credit/loans) - and provides a safe place to secure savings and control capital.

Fintech's challenger banks, as opposed to traditional banks, provide a digital bank account and do not rely on physical branches - providing more customer-centric services. Some solutions sit outside of the definition of challenger banks, such as Pockit (UK) or ininal (TR), and can partially replace the needs of a bank account through providing prepaid cards.

HIGHLIGHTS FROM THE UK

Research from the University of Birmingham shows that the number of unbanked in the UK reached an all-time low in 2017 at 1.23 million. The latest government data show that 7.5 million basic bank accounts opened with the nine largest providers of personal current accounts. [10] Such success can be attributed to the support of the government, key authorities, such as FCA (Financial Conduct Authority) and Economic Secretary, and key industry players in creating sustainable and flexible regulatory frameworks, all in an effort to expand financial inclusion. In addition to the efforts of key authorities, regulators, and key industry players, the rise of challenger banks has significantly contributed to lowering the barriers to getting access to a bank account. Challenger banks have enabled access to bank accounts,

10 — Financial Inclusion Report, 2018 - 2019

without relying on brick and mortar locations, and a service concentrated on specific individual needs.

The UK's neo and challenger banks have been growing exponentially because the stakeholders in the fintech ecosystem collectively collaborate and support each other; innovators and entrepreneurs can access to capital, and flourish in a favorable regulatory framework, supported by the government and key authorities. A Medium article disparates the two as, while neo banks do not have a banking license but rely on a partner bank to operate, a challenger bank has a full banking license to operate the full suite of banking operations. Neo banks tend to focus on a particular customer segment like SMEs, but Challenger banks cover the entire gamut of banking operations.

The highlighted UK-based fintech start-ups globally have been neo/challenger banks (Monzo & Revolut), and for global money transfer, they are TransferWise and TransferGo.

Monzo, first heard through hackathons, initially offered a contactless prepaid Mastercard linked to its mobile-app; and now offers a current account. With a Monzo current account customers can receive their salaries, set-up direct debits, transfer money from other bank accounts or Google Pay and Apple Pay, send money instantly to other Monzo users, receive a monthly spending report to see the segmentation of customers' spendings and apply for a Monzo loan. They are now preparing to launch solutions for businesses. Revolut, while similar to Monzo in receiving monthly spending reports and alerts, allows spending over 150 countries over 29 different currencies. Although Revolut customers don't enjoy the full benefits of having a current account, they can still lend and borrow money via P2P ecosystems, as well as exchange cryptocurrencies for a 1.5% fee. Starling, on the other hand, offers full personal, joint, and business current accounts, allowing to set up direct debits and standing orders. Business and sole trade customers can manage their accounts through web and an app; however personal account customers are not able to enjoy the convenience of the app yet. Similar to Revolut, Starling customers don't pay a fee when they shop overseas. Starling was the first branchless bank to offer interest on current accounts while offering cash deposit and withdrawal from Post Office in the UK. It's noteworthy to mention that Monzo, Revolut, and many other fintech start-ups received investments through crowdfunding platforms. **All three start-ups valuation exceeds $5 billion, displaying an unmatched success story to the rest of the world.**

In the UK, digital banking solutions, in addition to rapid risers like Revolt, Monzo, and N26, have reached to **particular verticals such as SMEs and freelancers.** Anna (representing Absolutely No Nonsense Admin) is a mobile-based business account that provides admin support and tax reminders to SMEs along with a debit card by a partnership with Mastercard and Wire Card Solutions Ltd. Coconut, on the other hand, is a current account that takes care of accounting and taxes for freelancers, self-employed people, and small business owners.

In addition to digital banks, money transfer companies have also been a great success in the UK. TransferWise and TransferGo are two leading companies in this field. They facilitated **borderless money transfers with unmatched low fees and speed**, as an alternative to SWIFT and Western Union like services.

The aforementioned start-ups, although they haven't launched with a sole mission to make an impact, as 'fintech for good' start-ups, the products, and services they offer are touching areas where traditional finance institutions did not before.

In the UK, there are still a lot of people who don't have access to banking services.

"A loan isn't a new product, but nobody has thought about offering it to that group of people. You need different groups of people, more diverse backgrounds to think about what kind of products and services should be offered as a way of including more people into the economy."

Paul Miller, CEO & Managing Partner at Bethnal Green Ventures explains, "... this is still a huge challenge and an area for just basic financial inclusion. Historically, the traditional financial institutions designed their products and services around the needs of quite a small group of the population." However, today, the old traditions are fading away. Catapillr, one of their portfolio start-ups, is providing loans to young parents to help with childcare. "A loan isn't a new product, but nobody has thought about offering it to that group of people. You need different groups of people, more diverse backgrounds to think about what kind of products and services should be offered as a way of including more people into the economy."

The breadth and the depth of the UK's start-ups mentioned above play a vital role in cultivating financial inclusion. Their focus in not only consumers, i.e., the underbanked, freelancers, expats, and international travelers, they also serve businesses to make their day-to-day admin functions much more straightforward. The shift towards a more financially inclusive community starts with realizing and acting upon the needs and desires of specific groups in our society, which were previously neglected, or did not exist before.

HIGHLIGHTS FROM TURKEY

ininal

ininal was established in 2012 when e-commerce was emerging very rapidly in Turkey. Bülent Tekmen, the founder of ininal, realized that people who did not have credit cards were not able to participate in this ecosystem. ininal was established to solve the needs of these people, and become a digital bank for 25 million people over the age of 15 without a bank account in Turkey.

When they first came up with the idea, Öner Suner, CEO, says they faced a significant challenge: regulation. He explains, “We had to gather up players like Mastercard, ING Bank, PayCore, and to release our product in a period of no regulation. BRSA (Banking Regulation and Supervision Agency, BDDK in Turkish) started regulating this field with the law numbered 6493 after we became operational.” Underlining the importance of such strategic partnerships, they were able to spread adoption of this new category of fintech; and ininal became the first fintech to launch prepaid cards and mobile wallets on the user side.

ininal has evolved since its launch; it has been offering transactional banking functions to its customers for seven years. The services range from opening an account to owning a prepaid card, money transfers, and bill payments. Currently, the company has 1 million monthly active users aged between 14-24 years old, with an 80-20 male-female ratio.

ininal envisions of becoming a challenger bank with the adaptation of PSD2 to Turkey and paving the way for regulation. In 2020 they intend to start enabling international money transfers and providing credit scores to the underbanked. Suner believes that if they succeed in their vision, it can quickly turn into a global case study for other countries.

"We had difficulty explaining ourselves to our customers and players in the sector due to a lack of knowledge/understanding about e-money license"

Accelerating the growth of the fintech ecosystem in Turkey, according to Suner, depends on paving the way for fintechs with regulations; and the banks and fintechs should cooperate. ininal's API has been used by other initiatives, such as Manibux, for four years.

Birleşik Ödeme

Birleşik Ödeme was established in 2010 to provide seamless payment services through smart technologies. Their first service was the introduction of Gazmatik (Gasmatic) and Sumatik (Watermatic) self-kiosks, via 24/7 self-serving kiosks paying gas and water bills were made seamless; they became the mainstream utility bill collection system across a handful of cities. Additionally, Birleşik Ödeme is functioning as a Fintech-as-a-Service platform for its corporate customers - planning on providing this platform to all corporations and ERP (Enterprise Resource Planning) systems. They envision to become the financial transformation gateway for all players in the ecosystem, both in Turkey and globally.

Birleşik Ödeme also runs TransferWise's operations in Turkey. They enable cheaper cross-border transfers among family members that live abroad, and foreign companies such as Airbnb; transfers take place mainly to and from Germany, Belgium, England, and the US, totaling $6 billion monthly remittances. Birleşik Ödeme also established Nöbetçi Transfer (On-duty Transfer) allowing transfers after-hours, between different banks, which otherwise was not possible in Turkey.

"We had difficulty explaining ourselves to our customers and players in the sector due to a lack of knowledge/understanding about e-money license" explains İlker Sözdinler, CEO of Birleşik Ödeme. According to him, one of the biggest bottlenecks has been the insufficient technical support they received from the banks.

"For the growth of fintech in Turkey, a healthy ecosystem is a must" emphasizes Sözdinler. He underlines that access to funding, network, and favorable regulations are three key areas that indicate the robustness of the ecosystem. More specifically, increasing the number of money-licenses in different verticals, mediating regulations to enable the European partner-bank system, and allowing the growth of challenger banks are essential to galvanize the ecosystem, believes Sözdinler.

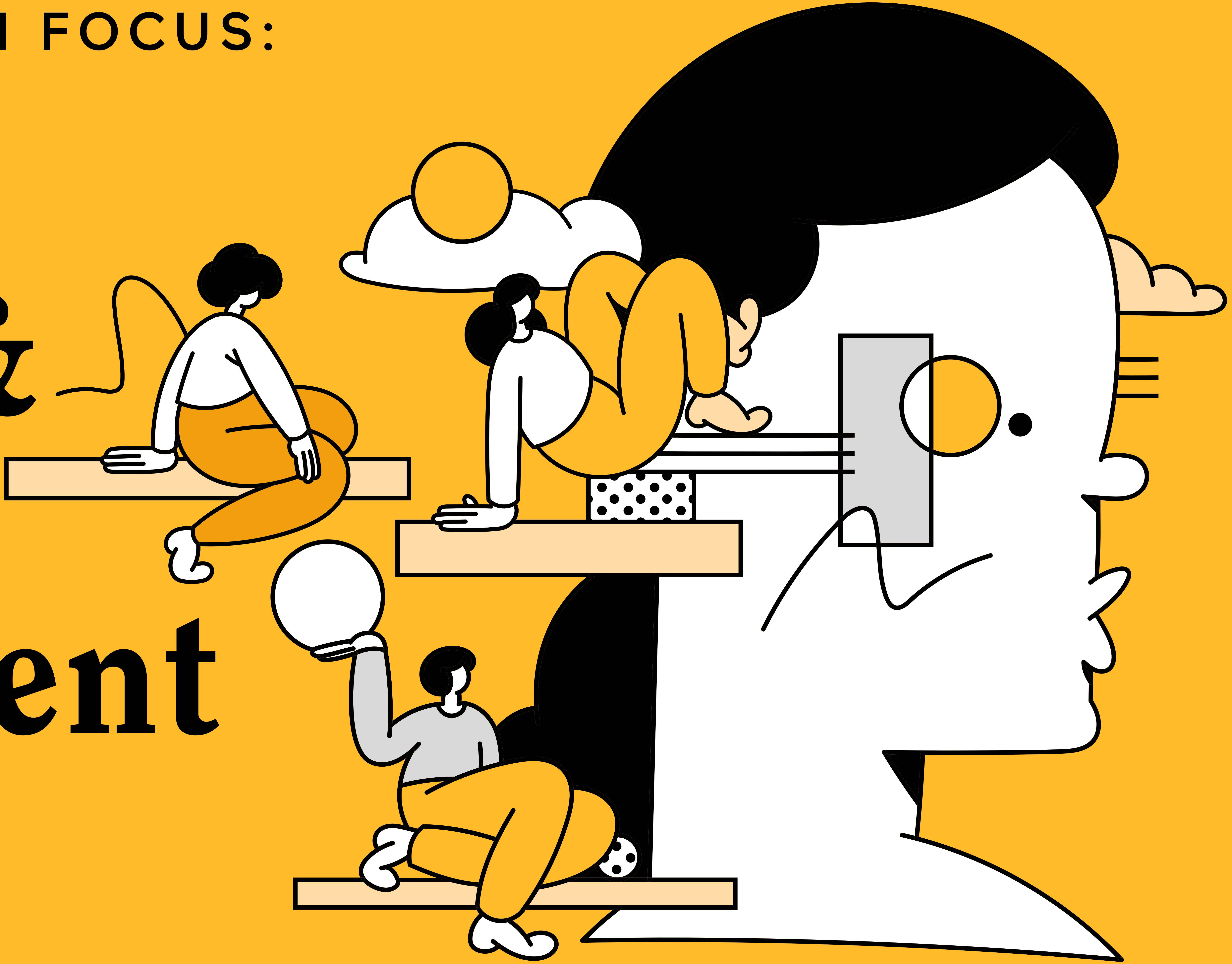
The banks played a pivotal role in accelerating Turkey's shift towards digital payments. Turkish banks have been agile in advancing their technologies, which rapidly reflected on their consumer-facing products, such as introducing payments with a PIN, and contactless payments. A prominent advocate of such transition, BKM had a significant role with its "Bye-Bye Cash" initiative. Soner Canko, the CEO of BKM (Interbank Card Center), believes that a cashless system benefits not only to consumers but also the government, by cutting a lot of operational costs, while providing speed and security with transactions. BKM has also worked on micro-payments - paying for newspapers, magazines, simit, and bazaar shopping - which are now possible with cards. To increase cashless penetration, Canko suggests that "If it was made mandatory to pay for public transactions, such as applying for a drivers license, passport, or a national ID, with a card, then a magical transformation can happen. A new regulation on this end could take Turkey to new heights. Our goal is to increase card usage to 80% of all total consumer transactions." These efforts expand the digital payment industry, paving the way for fintechs to operate and grow.

Turkey has a few promising start-ups situated within payments and money transfers, namely, PaPara, Tosla, Colendi, Arf & Dijital Zekat. PaPara, similar to ininal, is an electronic money and payment solution in Turkey. With its prepaid card, its users can withdraw from ATMs world-wide, and pay for online and in-store purchases. It was recently listed in KPMG's 2019 Fintech 100. Tosla (Toss it) is a social P2P money transfer platform, which allows Tosla users to share expenses and send money to each other 24-7, even if they don't have a bank account. With Tosla card, users can also make payments and utilize awards and promotions from selected brands in Turkey. Colendi is a blockchain-based platform that performs decentralized credit scoring - via using smartphone data, shopping, transactions, telco billings, social media, and many more - and eventually, provide a global Colendi Financial Passport to its users. The passport is aimed to facilitate P2P financing, as well as microcredits to SMEs, with the backing of "true" creditworthiness. Arf is an international money transfer platform, believing that sending money abroad should always be fast, easy, and free for everyone. Arf's proprietary technology allows its users to send money abroad below $350 per month for free, with zero commission. Dijital Zakat, an islamic finance company, through which individuals can manage and pay their zakat smoothly. Zakat is the islamic definition of donation, facilitating money transfer from the wealthy to the underserved population, aiming to decrease the inequality in humanity.

Overall, access to bank accounts,the ability to make payments, and enabling cross-border payments are vital to captivate a broader audience, formerly excluded from the financial system, due to stringent requirements and hefty expenses charged by the traditional financial institutions. Start-ups mentioned above are leveraging technology to break these barriers. Next, financial literacy and money management will be discussed, which are a crucial part of financial inclusion - without which the financial inclusion cannot be widespread.

FINANCIAL INCLUSION FOCUS:

Financial Literacy & Money Management



Financial inclusion demands the availability of digital financial services, as well as the knowledge and skills to use such financial products and services. Therefore, creating an effective financially-inclusive ecosystem calls for the promotion of financial literacy. [11] As fintech frees opportunities from traditional financial institutions, thus liberating the individual from complexities, it also places the burden of core knowledge on the individual rather than the institution, thus requiring a higher intellectual bar for successful engagement with fintech products. [12]

Financial literacy is a necessity across all groups of people, regardless of their wealth and income. According to CB Insights, "Millennials will inherit the largest amount of personal wealth of any generation — and personal finance apps are emerging to seize on this opportunity." It is estimated that 92 million millennials will soon be in what Goldman Sachs calls their "prime spending years." In aggregate, they command $1.3 trillion in annual spending. They have a deep antipathy to traditional financial institutions. Promoting financial literacy within this group is also significant to prevent the mismanagement of such sized wealth.

Not only the wealth-inheriting young population but also other groups, who lack the necessary financial knowledge or skills, are looking for solutions to have better control over their finances and achieve their desired life goals.

Money management fintech companies are designed to improve users' financial literacy, helping them understand their income, expenses and allow them to track their spending in a simple way. Often confusing, understanding the basics of managing budgets, and making informed spending, and saving decisions are crucial before setting realistic goals.

11 — Financial Literacy is key to financial inclusion

12 — The Importance of Financial Literacy in the Age of E-Finance

HIGHLIGHTS FROM THE UK

In the UK, money management platforms come in a variety of shapes and forms. Osper & GoHenry aim to provide a solution for parents to manage their children's money, teaching kids how to spend, budget, and save their allowance. Moreover, Tully seeks to change people's behavior- from spender to saver to investor, through assisting adults in building a budget and understanding precisely what their money situation is, as well as paying off their debts in a timely manner. The self-explanatory Money Dashboard helps people save money, plan and achieve their goals, ranging from buying a house, saving for a holiday, or be completely debt-free. Cleo is an AI-powered chat interface helping people save more and control their finances. Cleo can give instant answers to questions about spending and affordability of purchases, and snapshots of savings while making the interaction humorous and fun. Similar to Cleo, Plum is an AI assistant, facilitates seamless savings after analyzing its customers' spendings once they link their bank account to Plum. The UK residents have another alternative, Moneybox, which round-ups purchases to the nearest pound, and the spare change gets put into an investment account automatically, according to each individual's risk profile: cautious, balanced and adventurous. In addition to consumer-facing companies, there are fintech companies that aim to bring solutions to businesses. For instance, Soldo offers prepaid cards to businesses, providing transparency on where and how the employees are spending and automatically preparing expense reports.

In addition to money management platforms, the UK has taken deliberate steps in spreading financial literacy. According to an article, England made financial education mandatory in state-funded schools starting in 2014. At the time it appeared to be a global leader in the effort to raise financial awareness among young people. MyBnk reaches 35,000 young people a year and has the UK's most substantial impact based on teaching financial education. However, the UK, like many other nations, is still struggling with the problem; in the latest OECD survey of adult financial literacy, the UK ranks 17th out of 17, on a level pegging with Albania.

HIGHLIGHTS FROM TURKEY

Similar to the UK, Turkey's financial literacy is a problem that requires more attention from industry players, NGOs, and the government.

One of Turkey's most extensive and continued initiatives in promoting financial literacy is Paramı Yönetebiliyorum. The leading program created in partnership with Visa, UNDP, and Habitat aims to increase financial literacy, initially created to teach budgeting to the Turkish youth. With the shared vision, FODER (Financial Literacy and Inclusion Organization) is another active player that cooperates with government, private institutions, and other civil society organizations. They have offered financial education programs to young people, women, and farmers.

Paramı Yönetebiliyorum

Paramı Yönetebiliyorum (I Can Manage My Money) is the largest financial literacy project in Turkey in terms of geographical coverage and volunteer network, launched in 2009 by Visa, in partnership with the United Nations Development Programme (UNDP) and Habitat Association, along with the support from 27 Turkish banks. The multi-partnered support from the public and private institutions, and NGOs has enabled the program to be highly sustainable and inclusive.

In the past ten years, the training delivered to 1.5 million young people, entrepreneurs, farmers, and blue-collar workers. Habitat has played a significant role in expanding the program by integrating its network of volunteers. Adopting a "train the trainer" model, the program reached more than 2k volunteer trainers in 81 cities. Project's reach is expanded through collaborations with various public institutions and ministries, such as Ministry of Education, Ministry of Family, Labour and Social Services.

The program initially started with a single content targeting youth aged between 15-30. Based on the feedback from volunteer trainers and trainees, today, Paramı Yönetebiliyorum training is available in 6 segments: High school students, university students, young adults, entrepreneurs, farmers, and blue-collar workers. Two new segments will be added by the beginning of 2020, addressing senior citizens and women cooperatives. The program also offers a mobile budgeting app, where people can track their budgets and can set reminders to pay their bills on time.

The project's impact is measured on an annual basis. The recent study (2019) reveals positive results showing a significant difference in the financial knowledge and behavior of the people who had received the training.

Paramı Yönetebiliyorum contributes to 6 SDGs (Sustainable Development Goals) which are no poverty, quality education, gender equality, reduced inequalities, responsible consumption and production and partnership for the goals.

With regard to money management platforms, Turkey has fewer players in this area. Similar to GoHenry and Osper, Manibux offers Turkish parents a way to manage and track their children's spendings through a prepaid card and an app while teaching the children how to manage their pocket money.

	NOT TRAINED	RECEIVED TRAINING
BUDGETS FREQUENTLY	56%	71%
HAS ISSUES PAYING BILLS	29%	12%
CAN CALCULATE THE EFFECT OF INFLATION ON INCOME	43%	61%
SAVES MONTHLY	24%	58%

Manibux

Manibux, established in 2016 by Canan Bayrak (CEO & Founder), offers a solution designed for parents to track and control their children's pocket money through a prepaid card and an app. Its recent piggy bank feature is designed to teach children how to save money. Manibux is able to operate without an e-money license, by utilizing ininal's API, they already comply with related regulations. Manibux's prepaid card is available for purchase online and key retail stores; the card can be used for online and in-store purchases, where credit and debit cards are accepted. Bayrak's 16-year counselor background and experience as a mother were for her to realize the need for a solution to keep track of her children's spending.

Manibux is preparing to expand its operations into foreign countries with a high Turkish population, such as Germany and Belgium, by Q1 2020. Bayrak rationalizes, "The parents and the kids are the same everywhere. Once we find the right strategic partners overseas, we will only need to change the language on our app."

Despite its current success, Bayraktar has initially faced adoption problems "It is hard to change parents' behavior around giving pocket money – switching from cash to digital," says Bayrak. While the children have been very fast to adapt to a digital pocket money solution, the parents have been slower.

"Another bottleneck in Turkey is the approach to fintech and start-ups, while being a woman raises a lot of eyebrows, too," admits Bayrak. This underlines the need for progress towards equality between men and women. "Especially for Manibux, understanding the relationship between a mother and child is extremely important," stresses Bayrak.

Capital flow into start-ups make the biggest hurdle in Turkey, observes Bayrak, "... and therefore we need to be very careful when we take risks, and if we do, it needs to be extremely calculated. We need to take risks to bring our visions into life; however, due to lack of investments, we cannot take steps forward easily. As the world is advancing very fast, this is why we are always left behind," explains Bayrak.

With the introduction of PSD2 regulation, the introduction of open-banking infrastructure, the number of money management platforms is expected to increase significantly in Turkey.

EXPANDING FINTECH FOR GOOD:

Impact Investment

IMPORTANCE OF CAPITAL FLOW

Expanding the availability of financial inclusion services and products, i.e., increasing availability and access to digital financial services, is driven by fintech initiatives, both by large institutional players and start-ups. A sustainable fintech ecosystem demands capital inflow into fintech initiatives. Thereof the lack of investment is an undeniable impediment for the growth and sustainability of the fintech ecosystem.

Securing funding in emerging markets is especially difficult. BFA, a global consulting firm innovating solutions for a sustainable and equitable world, acknowledges that "Capital is scarce, many start-up models are unproven in these environments, traction with low-income customers can take longer, and foreign investors are unfamiliar with the sector and local markets." The lack of capital flow results in a "valley of death" for early-stage companies, as they fail to generate sufficient revenue to offset the costs of launching in a realistic timeframe.

The European Trade Association for Business Angels, Seed Funds and Early State Market Players (EBAN) emphasizes the importance of pre-growth funding "Angels play an increasingly important role as they provide both financing and managerial experience, which increase the likelihood of a start-up to survive 'the valley of death'."

IMPORTANCE OF IMPACT INVESTMENT

Increasing capital flow into "fintech for good" start-ups calls for the understanding of impact investments. Impact investment, shortly, can be defined as the intersection of, traditionally, two distinct areas: investments and impact (environmental, social, and governance). Traditional investors, when evaluating a project, are mainly concerned about their returns; however, impact investors benefit from making returns as well as making an impact at the same time.

Millennial investors stand to inherit $30 trillion of potential assets from baby boomers, according to a CB Insights Report. The report claims that "advisors need to offer sustainability, clean, energy and social impact investing strategies" to attract and retain this next generation. Foreseeing this wave, a new fintech vertical has risen, aiming to galvanize the future of impact investment: wealth tech. Motif Investing and Wahed Invest, robo (investment) advisors are creating a low-account minimum, low-fee investment products aligned with investors' social, religious, or economic values. Tickr, a UK based wealth tech start-up, offers theme-based (climate change, disruptive technology, equality, and combination) impact investment focused ETFs through their platform.

In the UK, 9.2% of total Tech for Social Good [13] investments were made in fintech, totaling £90 million. The UK's fintech for good solutions are targeting different segments, such as consumers, social entrepreneurs, and non-profit organizations, aiming to remove challenges and bottlenecks in their day-to-day financial activities. These challenges range from merely sharing expenses with friends to providing access to a broader base of investors to support social entrepreneurs, and finding volunteers for causes in need of help. The digitalization of these services offer scalability at low costs, penetrability that otherwise was not possible without technology.

In this vision, promoting "Fintech For Good: Financial Inclusion" idea demands investors with the right risk appetite and vision for social impact. This action also demands support, and incentive from the governments as well.

Paul Miller, the CEO of Bethnal Green Ventures, Europe's leading early-stage tech for good VC, shares that "In the UK, there is more interest (to impact investment) from the media, investor, and the government side. The government is starting to really look at fintech for good. Still relatively small in comparison to

13 — Tech Nation, UK Tech on the Global State, 2019

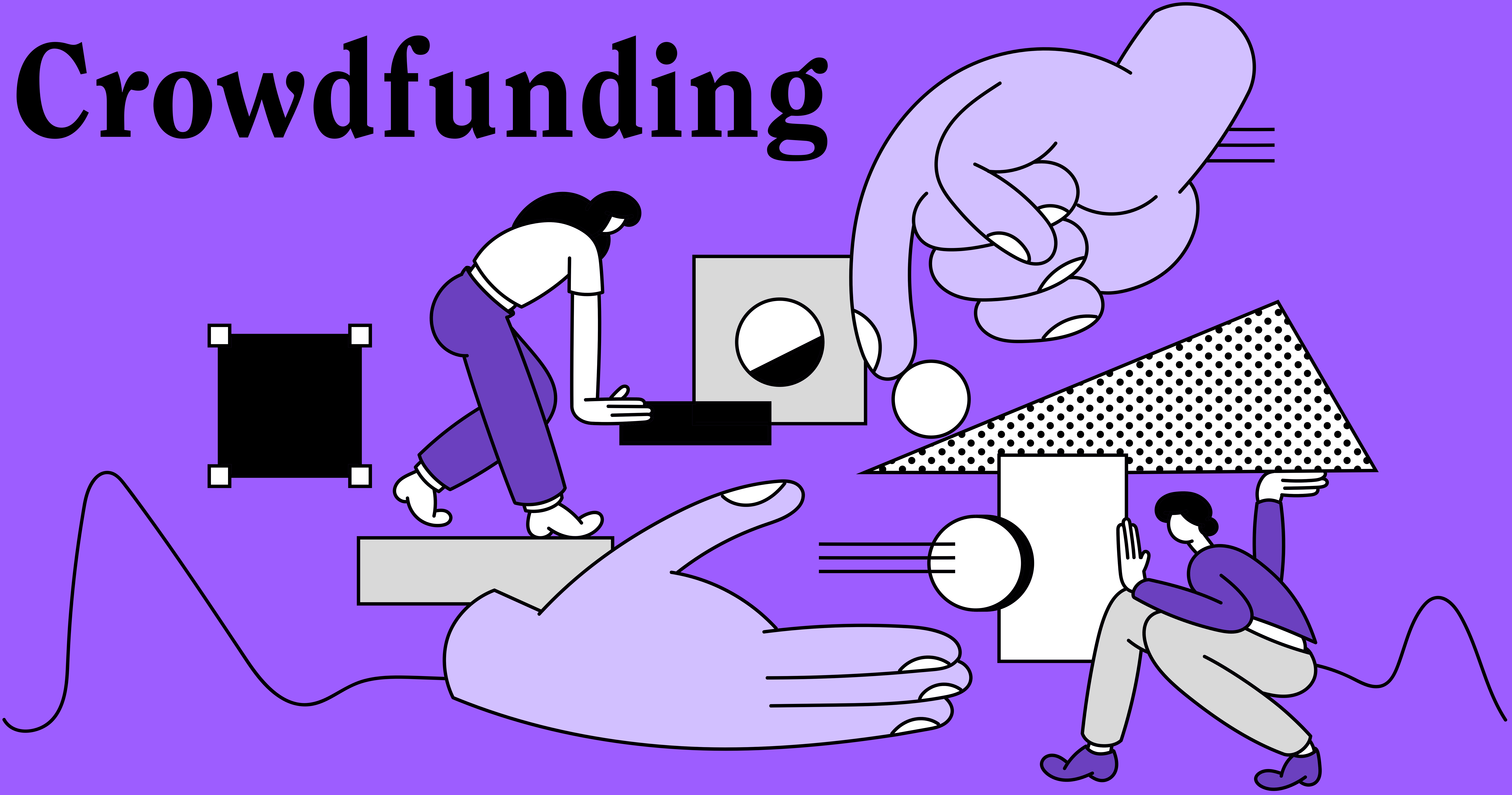
"Fintech for good areas feel like what they (Monzo and others) did 5-6 years ago, growing very quickly, with lots of interest. There are lots of start-ups but still not at a big scale, but they are going up quite quickly."

interest in Monzo, TransferWise." Finding fintech for good investment playfield similar to the early stages of Monzo, Miller believes that "Fintech for good areas feel like what they (Monzo and others) did 5-6 years ago, growing very quickly, with lots of interest. There are lots of start-ups but still not at a big scale, but they are going up quite quickly."

Miller is enthusiastic regarding the increased attention around impact investment in the UK "There were only a few tech incubator investors in London 5-6 year ago, now there is a whole group of them, who start to either shift their message or funds focused on impact. Around 10% of total VC funds, is still a small percentage but it would be interesting to see how much next year it'll change, because it seems to be growing."

Expanding financial inclusion efforts made by fintech initiatives calls for the increased attention towards impact investments. Jennifer Pryce, President and CEO of Calvert Impact Capital, believes that fintech has tremendous potential, however "...we need private, values-aligned investors helping to capitalize and grow these companies responsibly; we need bank executives who are looking at fintech as a promising area of investment to think about the communities they are serving, not only the shareholders to whom they will return capital," stresses in her Forbes article.

Crowdfunding



For many years investing in high growth and promising start-up has been exclusive to an elite group of investors. Difficulties and obstacles in gathering many stakeholders, and accessing to such attractive deals could only be overcome by actively managed funds or those close to an entrepreneur, supporting and simultaneously profiting from entrepreneurs' growth trajectory. This resulted in the exclusivity of the vast majority of people from the world of investing in high-growth companies.

While the traditional angel and pre-seed venture capital still play an essential role in ramping up start-ups and help them establish operations that start generating cash flows, the scarcity of capital, lack of trust still exists. Fintech has developed a prominent and booming alternative way of directing investment into start-ups at the pre-growth stage: crowdfunding. According to Beauhurst "Crowdfunding is considered by some as a way to hack this system, by democratizing support for high-growth companies and distributing the returns made from their high-growth."

Crowdfunding is "the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet." It allows entrepreneurs to validate their markets, gauge the size of their audience, build awareness, and gather insights from experts much faster. All these powerful tools enable entrepreneurs to prove the scalability and adaptability of their ideas, which are critical in raising more significant funds and expanding operations.

Crowdfunding first gained popularity after the 2008 financial crisis. As traditional banking institutions were no longer able or willing to provide the same loans as they were in the past, people turned to the internet and each other.

The most prominent platforms, Indiegogo and Kickstarter, were founded in 2008 and 2009, respectively. As crowdfunding

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platforms gained immense popularity, witnessing an increase in total investments from $1.5 billion in 2009 to $24.4 billion in 2015, different forms of crowdfunding have emerged: rewards-based, donation-based, debt-based, and equity-based crowdfunding.

Rewards-based crowdfunding such as Indiegogo and Kickstarter extend tiered rewards and perks to backers based on the pledged amount.

Donation-based crowdfunding is for individuals who want to support public initiatives and private needs without receiving any return for their contribution. GoFundMe has become a leader in this field since its inception in 2010, opening doors to small organizations in pursuit of funds.

Debt-based crowdfunding also referred to as peer to peer lending, allows entrepreneurs to borrow money without turning to banks. Entrepreneurs can borrow from investors to fund their projects and pay interest when repaying them.

Equity-based crowdfunding allows entrepreneurs to reach out to a large number of potential investors. The investors obtain some form of ownership in the company in exchange for their contributions. In the UK, the crowdfunding commenced in 2011 with Crowdcube, followed by the establishment of Seedrs in 2012.

CROWDFUNDING IN THE UK

From 2011, over seven years, a total of £17.2 billion in funding has been raised by online alternative finance platforms in the UK. P2P lending models continued to account for the majority of the market activity in the UK. P2P

Business Lending was the largest alternative finance model, accounting for just over £2.04 billion lent in 2017, followed by P2P Consumer Lending (£1.4 billion) and P2P Property Lending (£1.22 billion). Equity-based crowdfunding grew by 22% from £272 million in 2016 to £333 million in 2017. [14]

For peer to peer lending, Zopa, started in 2005, is the world's first peer to peer lending platform with £4.5 billion in personal loans issued to over 470.000 UK Consumers and £280 million interest generated by over 60.000 active investors. Similar to Zopa, Funding Circle, a business lending platform, started in 2010 expanded to across four markets—the UK, US, Germany, and the Netherlands—enabled £2.3 billion in new loans to SMEs in 2018. Founder's Circle's 2018 Impact Report remarks that 66% of SMEs approached Funding Circle, instead of the banks first, because "The (lending) decision would have taken too long/too much hassle." [15]

Seedrs and Crowdcube are the two leading crowdfunding platforms in the UK. The article published by Start Ups, Seedrs and Crowdcube enabled more transactions than any other UK investors between January and December 2016, with Seedrs facilitating 134 deals and Crowdcube facilitating 124 in this time, making the two platforms responsible for 86% of all crowdfunding activity and 21% of equity investments.

FOCUS

Seedrs is a full lifecycle platform, supporting companies from seed-stage start-ups through to publicly-listed companies, while Crowdcube focuses on start-ups through to growth-stage businesses. 46% have been early-stage, 28% start-ups, and 26% growth.

DEAL STRUCTURE

Seedrs operates a nominee structure whereby investors hold equity interest but only Seedrs sits on the cap table. This enables start-ups to raise follow-on funding with ease and also ensures investor protections such as pre-emption to

14 — The 5th UK Alternative Finance Industry Report, the University of Cambridge, 2018

15 — The Big Business of Small Business, Founding Circle Impact Report, 2019

prevent dilution of shares. Crowdcube investors hold a direct equity interest in a company subject to the rights and risks of any other minority investors. Crowdcube also offers a nominee structure, which it launched in February 2015, when JustPark used the platform to raise £3.7m.

NUMBER OF DEALS

2018 highlights as the best year for both Seedrs and Crowdcube.

Seedrs facilitated 165 million pounds of investment, and +500 million pounds since launching, and 186 successful pitches, showing a nearly 60% increase in investment from 2017. Investors from 60 countries made over 72,500 investments. Seedrs launched an investment automation industry-first with AutoInvest. **The Seedrs Secondary Market continued to see tremendous growth, having delivered more than 5,800 exists in over 300 companies.**

Crowdcube facilitated 224 million pounds of investment, and 198 successful pitches, up by 72% from the year prior.

SUCCESS STORIES

In 2018, international money transfer platform **TransferGo raised 11.3 million pounds from 1,047 investors; German Seedrs Alumnus, Sono Motors, returned to raise 6.1 million pounds**; plastic roads pioneer, **MacRebur, raised 3.2 million pounds from over 2,100 investors**; and wellness platform **Urban Massage raised 3.5 million pounds** alongside co-investment from Felix Capital.

UNICORNS

Seedrs Alumnus, Revolut, became a unicorn after being valued at $1.7 billion.

Revolut has also been a part of Crowdcube, where the original investors earned 19x returns; Monzo, the challenger bank, raised a record of 1 million pounds in only 96 seconds, valued at $3 billion; and BrewDog, a craft beer brewery, raised 10 million pounds on Crowdcube, now valued at $2.2 billion.

Overall, Seedrs and Crowdcube are very similar, though they have their differences. Seedrs' nominee structure gives investors a nice perk, while Crowdcube's investors receive non-financial rewards for their investments, such as goods

Fongogo and Arıkovavı (Beehive) are two leading crowdfunding platforms in Turkey. Both in total have gathered 8.6 Million TRY in funds for reward-based projects.

and services. For entrepreneurs, start-ups have only one investor, Seedrs representing many investors, whereas many investors via Crowdcube. Seedrs' Secondary Market gives a competitive edge over Crowdcube, providing liquidity options to its investors. Although Crowdcube does not have a secondary market yet, they hinted on plans to launch a secondary market.

CROWDFUNDING IN TURKEY

In Turkey, the regulation enabling equity-based crowdfunding was released in October 2019. Until then, the crowdfunding platforms have been functioning with a donation-based funding model without strict regulation.

Fongogo and Arıkovavı (Beehive) are two leading crowdfunding platforms in Turkey. Both in total have gathered 8.6 Million TRY in funds for reward-based projects.

Fongogo was established in 2013; since then, the platforms had over 700 projects published, with 200 of them ending with the goal reached, and in total, these projects have collected close to 4 Million TRY. The projects range from students' graduation films to a revival of a Rock FM station and the start of a makerspace. Ebru Elmas Gürses, co-founder of Fongogo, shares, "Fongogo is very popular for movie and documentary projects. They even turned it to a verb "to fongogo" to crowdfund for their graduation films or a long-form movie's production costs." One thing she shared was about a project owner who also backed 41 different projects. She says, "With that example for entrepreneurs, with a give-back culture, we can enable support within the ecosystem as well."

Arıkovanı (Beehive) was established by Turkcell, the biggest mobile network operator, in January 2016 with a focus on helping technology and innovation-oriented projects to raise capital from the public through a reward-based model. The entrepreneurs who apply to Arıkovanı, if approved, they are directed to Crowd Thinking – a phase where the project has a chance to improve its products as they meet with their target audience and receive feedback from them. Next, they go on the crowdfunding platform and try to raise their target capital. The funds are returned if the project doesn't reach its target fund.

Arıkovanı has facilitated to raise 4.6 million TRY since its inception; some of the projects have received global attention. For example, Ape, a smart drone project, was listed in the Top 20 Innovative Drones; WeWalk, a smart cane project, has received a gold medal in Edison Awards, and recently awarded one of the Best Inventions 2019 by Time Magazine; Outliers, a smart notebook project, is now distributed over 200 countries globally. Other projects with social impact also achieved a global footprint, such as Otsimo, an app that encourages kids with autism to talk and interact, have been distributed over 90 countries, reaching more than 100 thousand kids.

With the new law for equity-based crowdfunding, the governance on which platforms can offer this model will be overseen by The Capital Market Board. Hulusi Berik, the Turkish Crowdfunding Association President, remarks that the process for legislation of equity-based crowdfunding is an essential step for Turkish crowdfunding ecosystems' growth. "Entrepreneurs will now have another resource to fund their projects at the idea / pre-money stage, and have a chance to take their first step," assesses Berik.

Elçin Karatay, Partner at Solak & Partners, points out to the requirements within the new law, which makes it challenging for crowdfunding platforms to adopt the equity-based approach. Equity-based crowdfunding platforms are required to have 1 million TRY capital, which will be in addition to the operational expenditure that could sum up to 600 thousand TRY per year. "These figures add up to create significant capital barriers for new entrants," emphasizes Karatay. As the equity-based crowdfunding is in its early stages, the revenue

A possible collaboration could be done with the participation of intermediary portfolio management companies. As they have the necessary licenses and the capital, they could potentially collaborate with the existing crowdfunding platforms and initiate equity-based crowdfunding.

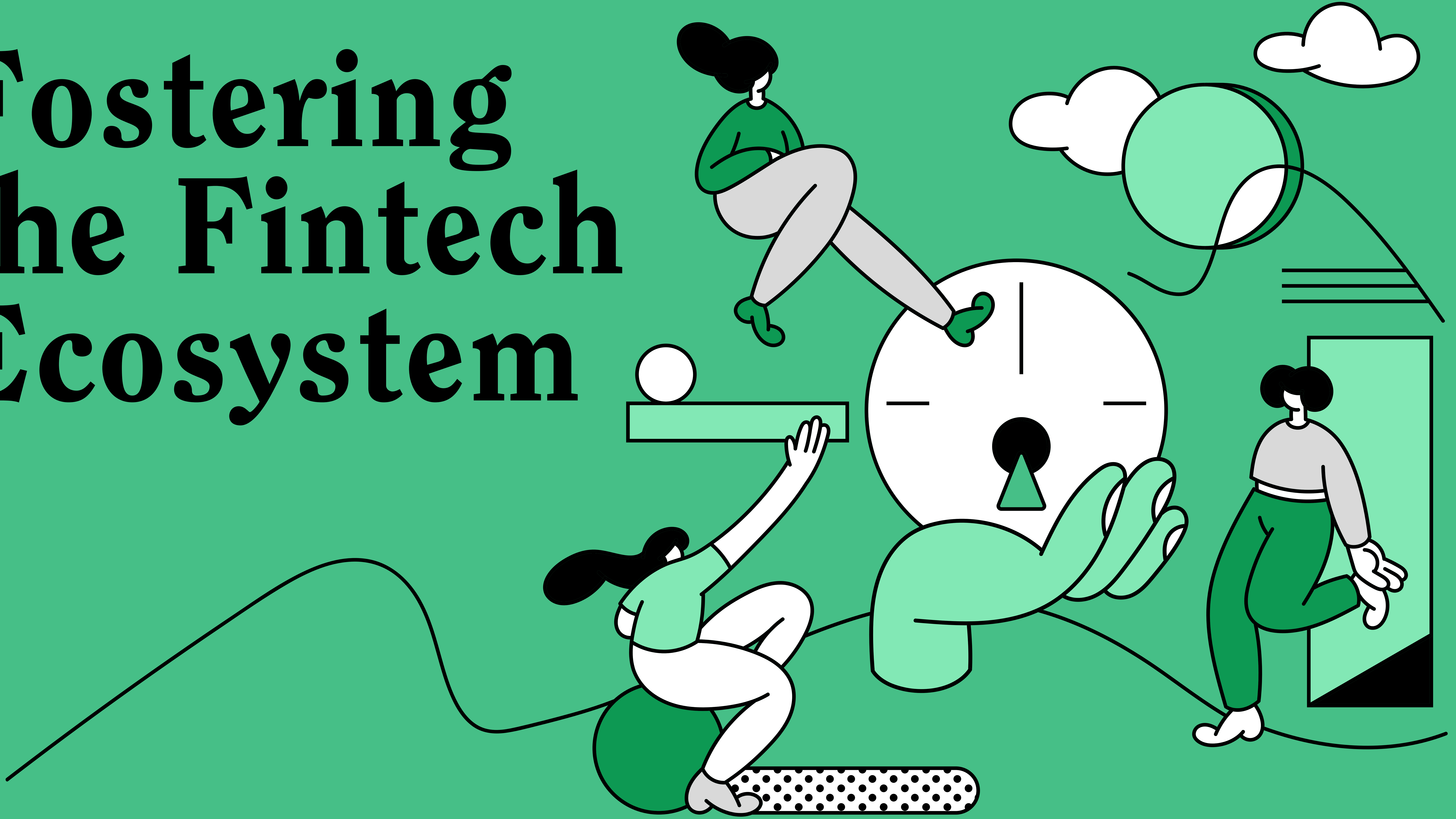
model for the platforms may not be able to cover those expenses. Part of that is because the secondary market has not yet been established for those shares – the lack of such secondary market disables part of a business model for the crowdfunding platforms while creating a lack of opportunity for the investors to liquidate their holdings. Since this is one of the first steps to set up the equity-based crowdfunding model in Turkey, it'll take time to find the right system design.

A possible collaboration could be done with the participation of intermediary portfolio management companies. As they have the necessary licenses and the capital, they could potentially collaborate with the existing crowdfunding platforms and initiate equity-based crowdfunding.

Berik also shared that "Talks with Borsa Istanbul are on-going to create a secondary market for equity-based crowdfunding, which, once established, will create a sustainable business model for the players." Berik believes that these structures will come together in time and that Turkey has taken the important first step towards building a better ecosystem for entrepreneurs and investors.

In the lending arena, peer to business model is being structured in Turkey with related parties.

Fostering the Fintech Ecosystem



Fostering the fintech ecosystem is a multi-faceted goal that requires all the stakeholders in the ecosystem – innovators, entrepreneurs, investors, key industry players, regulators and more – to, first, be willing to investigate and recognize the problems, aligned under the same vision, and, second, to act in unity to tackle obstacles, and support each other.

What worked in the UK, what supports the ecosystem?

Until now, the UK has been way ahead of the game in terms of fintech innovation compared to other countries. The UK is the fifth most innovative country in the world and was named as a leading European tech innovator in KPMG's Global Technology Innovation report. [16]

Behind this success, there are a number of factors, which include several key players' determination in advancing fintech in the UK.

GOVERNMENT, REGULATORS, AND AUTHORITIES

The UK government's Financial Inclusion Policy Forum, established in 2017, has brought together key stakeholders in the fintech ecosystem players to provide strategic leadership and promote best practice in tackling financial inclusion. This forum has informed crucial government interventions, which include a feasibility study for no-interest loans scheme, a prize-linked savings scheme, and a 2 million pound fund harnessing the UK fintech innovation to help social and community lenders. The government has also worked closely with the **Financial Conduct Authority (FCA)** to create the right regulatory environment for firms to tackle financial inclusion.

The FCA has now approved 135 entities to provide open-banking enabled services to consumers and SMEs.

16 — KPMG Gloabal Technology Innovation Report 2018

The FCA has now approved 135 entities to provide open-banking enabled services to consumers and SMEs.

This shows a rapidly growing open-banking system, which allows start-up companies to leverage this infrastructure, and offer specific solutions; traditional banks did not have done before.

With no doubt, the UK's regulatory foresight, in introducing open-baking, has been one of the most significant factors in advancing the legislation. **The Competition and Markets Authority (CMA)** initiated the current version of open-banking, which included Open Up Challenge 2018 and later 2020, designed to unlock and accelerate the next generation of financial products and services for small businesses by incentivizing agile, innovative fintechs to develop new ideas.

INNOVATORS, TECHNOLOGY DEVELOPERS, AND ENTREPRENEURS

The financial crisis stimulated the growth of the fintech ecosystem; it was a wake-up call to many talents, realizing how badly financial the financial industry treated many of its customers. Instead of working at traditional banks, the graduates started shifting their focus on innovative ideas. The UK's ability to develop open-banking infrastructure and the related technology is another critical factor for its success. The UK is ranked fourth in the GEDI (The Global Entrepreneurship and Development Index).

INVESTMENT

None of the fintech growth could have been possible without access to capital from private equity, venture capital firms, angel investors, and corporate venture capital. **The UK's tax incentives** have encouraged investments into start-ups and tax credits that rewarded start-ups focused on innovative technology. Tax-advantaged venture capital schemes such as the **Seed Enterprise Investment Schemes (SEIS), Enterprise Investment Schemes (EIS)** and **Venture Capital Trusts (VCTs)** have all raised significant sums from retail investors and have played an important role in providing a continuum of early-stage funding for companies.

Equity-crowdfunding platforms have also been a significant part of capital flow into fintech in the UK. The rapidly growing investment channel accounts for 10% of all the UK fintech's investment in 2018, offering not-so-elite investors to participate in the ecosystem, who also benefit from tax-incentives, too.

This positive investment climate has resulted in nearly 300 million pounds of investment into the UK's fintech in 2018 [17] and expected to grow exponentially in the coming years.

ACCELERATORS & INCUBATORS

Accelerators and incubators make up another strategically significant group in the fintech ecosystem. Start-ups often need more than merely capital for their existence and growth, such as strategic advice, mentoring, networking, etc This is where accelerators and incubators come into play. **According to TechNation, the latest estimates put the number of accelerators operating in the UK at 186 and the number of incubators at 205.** These programs are hugely beneficial. According to new research, the average accelerated

17 — The 5th UK Alternative Finance Industry Report, the University of Cambridge, 2018

company raises 44% more funding and achieves a 75% higher valuation than those that do not. [18]

Overall, the UK's fintech ecosystem's success hasn't come by chance. All the key stakeholders in the ecosystem have worked hand-in-hand to foster fintech, creating a more accessible financial system and fulfill different needs. The collective work of the government and regulatory authorities created frameworks for fintech start-ups to innovate and grow while attracting different forms of investments with tax-incentives, the abundant number of accelerators and incubators have helped numerous start-ups to grow. Such a robust ecosystem is a leading example for other nations to follow.

18 — Tech Nation, UK Tech on the Global State, 2019

How is the fintech ecosystem in turkey: accelerators, programs, bank's participation

Turkey has started to take important steps forward in creating a more financially inclusive society, promoting financial literacy through start-ups and nation-wide programs. However, there is still a lot of room for growth, and the UK's vibrant ecosystem sets exemplary footsteps to be followed.

ACCELERATORS, INCUBATORS & KEY INDUSTRY PLAYERS

The vital role of accelerators, incubators and key industry players, was established previously to foster the fintech ecosystem. There are 35 Active Accelerators, founded between 2015-2019 and 27 Active Incubators & Science Parks (Techno Parks). In Turkey, international banks and payment technology companies are front runners as they have launched

There are 35 Active Accelerators, founded between 2015-2019 and 27 Active Incubators & Science Parks (Techno Parks).

incubation centers supporting the fintech ecosystem and start-ups in Turkey. Some of the exemplary ones are:

Visa X Hackquarters: Visa's program holds a leading position for the future of Turkish fintech initiatives. The main goal they have is to support the ecosystem and enrich its structure. Visa is a global company, once an enterprise gets linked with it, many different opportunities automatically are created, as well. They have been focusing on these topics so far: Concept verification, data security, design thinking, digital marketing, financial planning.

Fincube (Finansbank): Fincube is an accelerator founded by Finansbank in January 2018. They accelerate enterprises by focusing on their growth and linking them with the appropriate resources. Fincube Accelerator Program is designed to facilitate collaborations outside of the bank and support start-ups with their initiatives. The start-ups are required to have a lean team with a solution that could be integrated into the bank, creating a win-win scenario for both parties.

ING Innovation Center (ING Bank): ING Innovation Center brings together students and professionals working on fintech, entrepreneurship, innovation, software, banking, finance. They hold ING Enterprise Workshops to develop people working within the ecosystem and train them to create customer valuing innovative designs.

Albaraka Garaj (Albaraka Turk Bank): Albaraka Garaj supports and works with enterprises that work on financial technologies, Islamic Fintech, Mass Data, Payment Systems, Ai. They Provide Financing Support, Mentoring, Network, Co-Working Space As Well As Access To Albaraka Cvc, Among Other Standard Accelerator Services.

Lonca Entrepreneurship Center (Kuveyt Türk Bank): Lonca Entrepreneurship Center has been created by Lonca Kuveyt Türk to help entrepreneurs develop and prototype their ideas. They give working space and personal mentorship for the enterprises. They work with mentors, fintech professionals, investors, experienced entrepreneurs, And consultants.

Workup (İş Bank): Workup is an "entrepreneurship program" established by İş Bankası (İş Bank) to help entrepreneurs accelerate the growth of their businesses. Once accepted, their 6-month free program offers various trainings and office space. Upon graduation, the entrepreneurs are brought together with investors from the ecosystem. Although they are not fintech focused, İş Bank's initiative has helped 51 start-ups in Turkey.

REGULATION – E-MONEY LICENSE & OPEN-BANKING (PSD2)

Acquiring an e-money license is cumbersome for start-ups in Turkey since they are always cash-strapped at the beginning. The money management platforms don't specifically require e-money licenses; however, they can't survive without e-money licensed platforms, i.e., availability of open-API infrastructures provided by the licensees. Availability of open-APIs is critical for the growth of fintech ecosystem as fintech initiatives will be able to start offering products and services without making hefty capital investments to comply with e-money license regulations. The more the availability of open-API platforms, the more confidence start-ups will have in tackling money management problems in different verticals, such as farmers, retirees, etc.

Despite the lack of PSD2 regulation, ininal, Iyzico, and Birleşik Ödeme Sistemleri offer their APIs for other start-ups to use; such unique offerings have already sprouted initiatives like Manibux. Once PSD2 becomes effective in Turkey, by leveraging banks' technology architecture

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many more start-ups are expected to flourish in Turkey. Selim Yazıcı, co-founder of **Fintech Istanbul**, stresses that "During and after the (PSD2) implementation, banks and fintechs need to cooperate. The banks will undergo a new structuring, and place themselves as a platform, and can offer their products through the fintech partnerships." Underlining the importance of partnerships among sector representatives in Turkey, Yazıcı notes that "It is vital for ecosystem players (like banks, fintechs, regulators, and other infrastructure players) to communicate with each other, and work together to detect where the opportunities lie and how such collaboration can lower the bottlenecks in the fintech ecosystem."

Soner Canko, CEO of BKM (The Interbank Card Center), foresees that "With the emergence of PSD2 and other regulations, there will be many new opportunities for the current and upcoming players. This (PSD2) will benefit the consumers the most, which will inherently increase competitive rivalry, leaving no free lunch on the table for any player in the ecosystem." After PSD2 implementation, Canko predicts that the players outside of the financial services (such as retailers, airline companies, coffee shops, etc.) are also expected to act upon the financial needs of their customers – similar to Amazon, Google, and Apple. However, they will not be able to replace banks, according to Canko: "Even though these companies serve as the medium of financial transactions, another important focus is savings and preserving them. With regard to savings, these brands could be at a disadvantage because banking requires trust. Transactional banking could prove possible, for

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instance, buying coffee, and paying for public transit with one card; however, we would want to deposit our savings into a bank. This can be achieved through reliable and user-friendly apps. Open-banking will change and improve many aspects, while they will intensify the competition with banks, they won't be able to replace the functions of the banks."

The recent amendment to the Law No.6943, which defines the purpose, roles, and responsibilities of payment services pave the way for FinTech in Turkey. With these developments, Burhan Eliaçık, President of **ÖDED (Payment and E-money Association)**, says, "Our dreams came true. Now the target is to attract investments to our country and to create unicorns. We have strong beliefs that our sector will gain serious momentum and that we will have payment and electronic money institutions with valuations of more than one billion dollars at the end of 2023."

INVESTMENTS

The presence of operating fintech firms in Turkey, which were funded by both domestic and international investors, indicates a keen interest in the fintech ecosystem in Turkey. **In 2017, Turkey's fintech investors are made of six VC funds, two CVCs (Corporate VCs), seven foreign VCs, six angel investment networks, and two accelerator funds.** According to an Ernst & Young report [19], prepared by Fintech Istanbul and BKM, the biggest bottleneck for capital flow into fintech in Turkey is the insufficiency of data, and partially the conjuncture Turkey has been in.

19 — 23 Suggestions for a Sustainable Fintech Ecosystem in Turkey, EY & Fintech Istanbul, 2018 (In Turkish)

After Iyizico's success, there were 20 more applications for the "Service Provider" license in Turkey, which attracted more attention from both investors and budding entrepreneurs.

Additionally, the report indicates that the Turkish investors don't have full confidence in fintech yet, and therefore there is a lack of investment appetite towards fintech. Total investments have increased substantially since 2012, from $4.6 million to $29 million in 2016. [20] The number of investments made into fintech, by angels and VCs, in Turkey between December 2016 and May 2017 is ~450, totaling $4.5 million.

212, one of the most active and successful VCs in Turkey, has gained more popularity with their exit on Iyzico. **Numan Numan, Managing Director of 212**, attributed **Iyzico**'s success to the strength of the team "The team had previous fintech experience, both domestically and internationally, and they wanted to bring their know-how into Turkey's fintech ecosystem, which increased the success probability of the company, and proved that there is a big potential in the market." 212 initially invested in Iyzico at the seed stage, then participated in Series A & B rounds as well. After Iyizico's success, there were 20 more applications for the "Service Provider" license in Turkey, which attracted more attention from both investors and budding entrepreneurs. Such success stories are helping the expansion of Turkey's fintech sector.

Selim Yazıcı, the founder of Fintech Istanbul, observes that Turkish banks, with an investment strategy focused on fintech, can create more Corporate VCs (CVCs), and play a vital role in fostering the fintech ecosystem in Turkey. For instance, Finberg, a CVC established by FibaBank in Turkey, which is

19 — 23 Suggestions for a Sustainable Fintech Ecosystem in Turkey, EY & Fintech Istanbul, 2018 (In Turkish)

20 — Fintech Ecosystem in Turkey, Deloitte, 2017 (In Turkish)

solely created to invest in fintech start-ups.

What could happen in between the UK and TR's ecosystems to enable connections?

With its 44% unbanked young population, and high penetration of smart-device and internet usage, along with its unmatched geopolitical location, Turkey bears a significant amount of potential for fintech. Bringing out such potential depends on several key factors to be enforced by all of the stakeholders in the ecosystem, from regulatory authorities and government to investors, key industry players, innovators, and talent.

REGULATORY AUTHORITIES AND THE GOVERNMENT

Unlocking regulatory barriers: establishing Sandbox & PSD2 regulations will lay out a framework for start-ups to take advantage of and give them the courage to take risks, which are essential for growth.

Advancing equity-crowdfunding regulations: providing a flexible regulatory regime to include crowdfunding platforms to attract more capital flow into start-ups, from "common people," is likely to prove a significant impact in the growth of the fintech ecosystem.

Providing tax-incentives to investors: from angels and VCs to crowdfunding participants - will increase the willingness and the risk appetite of investors, while such incentives to startups will propel them towards taking action and advance the fintech ecosystem.

Fintech Policy Forums: establishing such forums, by bringing together key stakeholders, will help the government make essential interventions, and enable a vision alignment by all key stakeholders in the fintech ecosystem.

INVESTMENTS (ANGLES, VCS, CROWDFUNDING PLATFORMS) & KEY INDUSTRY PLAYERS

Promoting Impact Investment and Fintech: Investors have a critical role in fostering the fintech ecosystem. Adopting an impact-focused mindset can unleash hesitancy around capital flow into the fintech ecosystem. A shift from a competitor to a collaborator perspective, the key industry players (i.e., banks) can discover win-win opportunities in distributing the fintech services and products.

Corporate Venture Capitals: Despite the low number of CVCs in Turkey, an increased number of such platforms, in addition to capital, can provide safety, expertise, and confidence to infant fintech start-ups, which would inspire budding entrepreneurs.

Corporate Entrepreneurship Efforts: The creation of the programs, within financial institutions, could incentivize employees to create fintech solutions, and provide invaluable ideas to the fintech ecosystem.

INNOVATORS AND TALENT

Education Programs: Education programs, offered through the collaboration of the government, financial institutions, accelerators, and incubators, could expand the talent pool in Turkey, increasing the number of fintech start-ups in Turkey. Providing additional funding to send such talent to foreign countries to attend workshops and education programs could increase the flow of know-how transfer.

Hackathons & Innovation Challenges: Such initiatives, organized by authorities, municipalities, or financial institutions, could bring out the dormant talent and innovators in Turkey.

CULTIVATING A SUSTAINABLE RELATIONSHIP BETWEEN THE UK AND TURKEY

We have gathered the ideas below to cultivate stronger ties between the UK and Turkey to promote Fintech and its international reach.

1- Eurasia Fintech Forum: Eurasia Fintech Forum is a gathering of policymakers, international finance institutions, start-ups, investors, accelerators, and incubators where they exchange know-how and discuss collaboration opportunities. An annual booklet can be a guide for all countries across Eurasia intended use for all the stakeholders in the ecosystem.

2- Enhancing and Activating Talent Pools: The UK could serve as a significant opportunity to improve the talent pool in Turkey - by hosting educational programs - while the unemployed talent in the UK can participate in Fintech projects in Turkey.

3- Investment Opportunities: With the implementation of PSD2 in Turkey, tax-incentivized investment opportunities could be offered the investors in the UK, to attract more FDIs into Turkey. UK-based fund of funds could provide capital to VCs and angel networks in Turkey. The evolution of the education programs for different target groups could serve predictive in determining areas where the future fintech companies will start to tackle in Turkey.

4- Borderless Operation Initiatives: With a favorable regulatory climate, Turkey and the UK can exchange know-how by allowing successful fintech companies to expand their operations into both countries. The strategic location of both countries could allow such start-ups to further expand into the Eurasia countries.

5- Sharpening Innovation: Cross-border hackathons organized by accelerators, incubators, and international financial institutions could potentially expose hidden talent, and boost the creation of new ideas to tackle problems of fintech.

6- Tackling Financial Literacy: preparing case-studies on how financial education programs did not have the expected outcome, with the Ministry of Education in the UK and Turkey, could provide insightful lessons, and ramp up the creation of better teaching initiatives.

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IMECE, IS A SOCIAL INNOVATION PLATFORM WHICH BRINGS PEOPLE AND INSTITUTIONS WHICH LEAD THE CHANGE TOGETHER BY GENERATING INNOVATIVE AND SUSTAINABLE SOLUTIONS FOR SOCIAL, ECOLOGICAL AND CULTURAL MATTERS WITH THE RIGHT RESOURCES. IT DESIGNS ELEVATED IMPACT BRINGING PROCESSES AND PROVIDES THE NECESSARY TRANSFORMATION.

THIS REPORT WAS REVIEWED BY FINTECH ISTANBUL AND TURKEY STARTUP ECOYSTEM'S DATA WAS COLLECTED THROUGH STARTUPS.WATCH.

THIS REPORT WAS CONDUCTED TO GIVE INSIGHT AND ATTENTION TOWARDS FINTECH SOLUTIONS FOR FINANCIAL INCLUSION IN UK AND TURKEY. THE REPORT WAS WRITTEN BASED ON DESKTOP RESEARCH AND INTERVIEWS WITH EXPERTS AND PROFESSIONAL. THE REPORT DOES NOT REFLECT THE WHOLE CONTEXT OF THE SUBJECT BUT AIMS TO GIVE DIVERSE INSIGHTS ON THE ISSUE.

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