CARDS, PAYMENTS & MOBILE INTELLIGENCE

The weekly briefing for leaders in cards, payments & mobile worldwide

TURKEY'S TROY SCHEME DRIVEN BY INDEPENDENCE AND INNOVATION

Roisin Killeen: 19th November 2015 2:40pm

Turkey is a trailblazer when it comes to payments — it likes to do things its own way and in 2016 it will continue to do so. Next year, it will be launching its own local debit and credit card scheme, TROY.

Other major economies have introduced local card schemes over the last decade — China's UnionPay, India's RuPay and the new Russian card scheme are some examples, and now Turkey is to follow suit.

TROY stands for the Turkish words for Turkey: TR, Payment: O, and Method: Y. There will be no Trojan horse, but it could be seen as an attack on the market share of MasterCard and Visa, which today account for most of the cards in the Turkish market.

Celal Cündoğlu, of Bankalararası Kart Merkezi (BMK)

Lafferty News spoke to the executive vice-president of IT, Celal Cündoğlu, of Bankalararası Kart Merkezi (BMK), which is Turkey's interbank card organisation, about TROY and the Turkish payments market in general.

So what are the drivers behind setting up a local card scheme? Mr Cündoğlu cites three reasons: costs, independence and innovation. Regarding costs, Mr Cündoğlu points out that the Turkish cards business is not as lucrative as it was, let's say, ten years ago, with increased costs from all sides. "The cards business had been extremely lucrative for the banks over the years but with the decrease of inflation over the last ten years, (inflation had been in double digits in Turkey historically — in the last ten years, it's come down to single digits), and with the increase in regulation especially during the last couple of years, the profit margins are coming down. This has put pressure on the bottom line of the banks and because of that, finding ways to cut costs becomes important. If more than 95 percent of transactions are local, then it makes sense to have a local scheme."

Independence and innovation are other factors. "We want to be independent from the international card schemes because they no longer report to the banks. Visa and MasterCard used to be card associations, they no longer are, they report to the stock exchange, so independence becomes important, that's the second reason and the third reason is, of course, innovation. In the age of digital, we believe that innovation needs to happen locally. What we have experienced over the last two decades is that innovations in payment systems happen in London or San Francisco or New York and it takes a while before it hits the road in a country like Turkey."

MATCH THE EXISTING OFFERING

So how is the launch to be managed? "Of course, when we're setting up the system we first have to match the existing offering of the international card schemes. So in Turkey almost all of the credit cards are EMV, and out of all those credit cards, 24 percent are contactless. So the first product to come out will be targeting the contact-based EMV credit cards, followed with contactless EMV credit cards.

"On the debit front, 99 percent of debit cards today are magnetic stripe, so the TROY debit card will be magnetic stripe, as well as EMV. It will be up to the banks to decide what type of debit card to issue."

Another area where Turkish banks have worked together is with the launch of a national mobile wallet. Initiated by BKM and launched in 2012, there are one million users on BKM Express today and it has processed over one million transactions. While transactions are still low, they are growing, and the fact that the banks have cooperated and come up with a standardised solution should mean that when Turkish customers are ready for it, there will be a standardised wallet available with wide acceptance, reaching a coverage of 50 percent of e-commerce sites.

There are other wallet offerings on the market. Local mobile network operators have launched wallets, but they haven't built traction, and some have cancelled their offerings. Global payment players such as MasterCard and PayPal are actively pursuing the market. Also banks such as İşbank, Garanti, Denizbank and Dutch ING Bank have commercially available mobile wallet products, with more banks getting ready to launch their own branded wallets in the near future.

But what is not taking off in Turkey is NFC. Though Turkey's Garanti Bank was one of the first banks in the world to introduce NFC, its use is limited. And Mr Cündoğlu believes that with NFC, unlike in other areas, banks have not worked together and this has created confusion.

"Unfortunately, we have not experienced the success that we have seen with chip and PIN on the contactless side, and the reason for this is that when we were implementing chip and PIN nationally, all the banks cooperated for the national roll-out and there was a coordinated media campaign. However, it didn't happen like that with contactless. Banks implemented different POS transaction flows, different ways of explaining contactless cards to the card holders, and, as a result, there was confusion in the market place. So even though there are cards and terminals out there, the number of transactions have not picked up. Currently there are 2.5 million terminals in Turkey, and out of those, 230,000 are contactless (a 100 percent increase from the previous year). Moreover, 24 percent of all credit cards are contactless. BKM will continue to focus on coordinating the banks to increase the contactless acceptance network."

NFC ADOPTION HAMPERED

What has also hampered NFC adoption was a ruling from the Turkish revenue authority in 2013 that requires POS terminals to be fully integrated with cash registers. "Banks and merchants have had to try their best to come up with integrated devices for cash registers and POS devices, and that focus really took attention away from the adoption of contactless."

Looking at the Turkish payments market today, what is unusual is the dominance of credit cards. About 78 percent of transactions are by credit card. Compare that with a country like the UK, where in 2014 there were nearly three billion transactions on credit cards, but over 12.7 billion on debit cards, that is over four times more transactions on debit cards.

The high credit card usage is linked to high inflation but also to the flexibility of the banks' credit card offerings. When the Turkish economy started opening up about 20 years ago and customers wanted to buy the latest TV but couldn't afford it, Turkish banks reacted by introducing an instalment feature on credit cards. And today customers use their credit cards for both the large ticket item as well as for daily spending. And the innovation and flexibility by banks in terms of credit cards continues. For example, if a customer's card is refused at a terminal, the bank will immediately send an SMS to the customer asking whether they would like their credit limit increased.

As geopolitics increasingly overshadows the world today, doing things your way could become more important. Turkey is definitely following that path.