



REINVENTING THE “NON-BANKING”

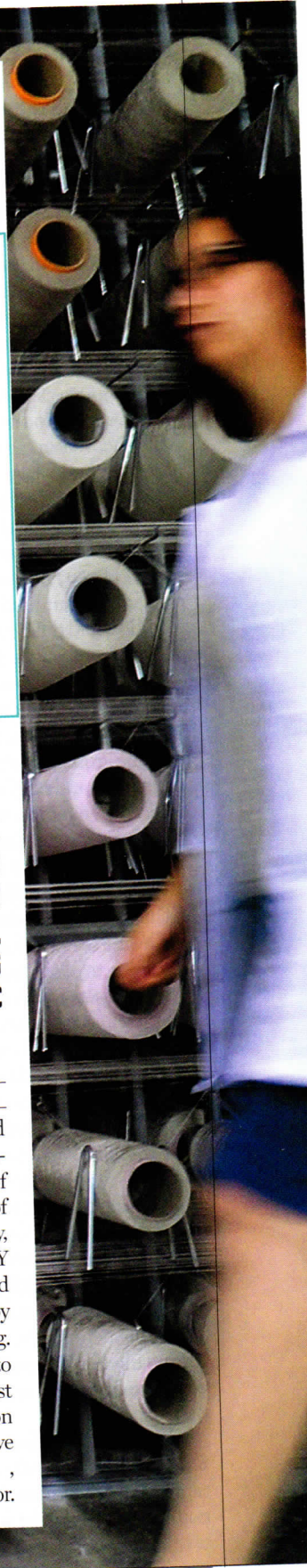


THE ROLE OF SMEs IS VITAL, IN TERMS OF KEEPING THE STRONG GROWTH TREND OF TURKEY. THEY FUNCTION AS THE “STEAM ENGINES” THAT IS BOOSTING THE MOMENTUM. IN ORDER TO SUPPORT THE ENTREPRENEURIAL SPIRIT AND MAINTAIN THE DYNAMISM, A HEALTHY AND STRONG FINANCIAL INFRASTRUCTURE SHOULD BE PROVIDED. TURKISH NON-BANKING FINANCIAL INSTITUTION (NBFI) MARKET, THANKS TO THE NEW LEGAL BACKGROUND AND REGULATIONS, IS OFFERING ALTERNATIVE FINANCIAL SOLUTIONS AND SPECIALIZED SERVICES TO THE ECONOMIC AGENTS, “STEAM ENGINES” IN PARTICULAR.

BY TURGUT ETİNGÜ

SMEs are representing 55% of GDP, 75% of employment, 63% of turnover and 54% of value added at factor cost in Turkey. Defining them as the heroes-behind-the-curtain of rapid growing period whilst considering the fact that 59.3% of Turkey's exports were carried by SMEs in 2013, is apt and Turkey is well aware of it. According to the statistics announced by Ministry of Science, Industry and Technology, Turkey has doubled the number of Service Centres while providing 640 million TRY finance support to 120 thousand and allocating 11.6 billion TRY loan to 210 thousand enterprises. Nevertheless, according to “SME Strategy and Action Plan” prepared by Ministry, two prominent problems that SMEs underscore are lack of equity and financing.

Turkish non-banking financial sector heeds the call of SMEs and is striving to fulfill their need of finance, by virtue of recent changes in legal background. First milestone of legal transformation was BRSA (Banking Regulation and Supervision Agency) taking charge of the sector in 2006. Constructive and incorporative approach adopted by BRSA and background of present Chairman of BRSA, Mukim Öztekin as a financial leasing expert, had a stimulative effect on the sector.



The second milestone which bears the most significance is the the new law implemented in December, 2012. In accordance with various articles stated in the law, non-banking financial institutions are redefined and sector is practically reinvented.

New Law, New Organization and New Profile

“Financial Leasing, Factoring and Financing Companies Law” transmuted the sector in many ways by categorizing the firms as “financial institutions”, elucidating establishment and governance principles, elaborating transactions regulation, drawing the frame of competition conditions etc. New umbrella organization of the sector, Association of Financial Institutions (AFI), is another welcomed and paramount outcome of aforementioned law.

With the establishment of AFI, three sectors have united under an institution with their Sector Representative Councils which composed the board of the whole Association. Bestowing a platform to communicate and interact with all its members and different counterparties both from public and private sectors, AFI, surely proved to be successful in creating synergy. Acting with the notion of common initiative of non-banking financial institutions, AFI was able to create dialogue grounds with copious government institutions and NGOs including, Prime Ministry, Ministry of Finance, Ministry of Economy, BRSA, Turkish Exporters’ Assembly, Türk Eximbank, Turkish Central Bank etc. which are crucial for further sectoral development.

The figures demonstrate that with its new profile, the sector is surely getting good results. According to consolidated data gathered by AFI, total net assets of three sectors (financial leasing, factoring and financing) have increased 23.7% percent and reached to 69.3 billion TRY. Total equities and net profits of three sectors have increased by 12.4% reaching 11.1 billion TRY and 16.6% reaching 740 million TRY, respectively. It remarks that share of non-banking financial sector in GDP is increased to 7.6% in first half of 2014.

NBFI market have shown a strong trend of growth in last 8 years, especially following the authorization of BRSA. Between 2005-2013, with the exception of financial crisis’ acute era in 2009, sector has grown with an average of 25% per year which represents a total expansion of 364%. Meanwhile banking sector has grown 20% per year concluded in 325% expansion, during the same period.

AFI is quite keen to increase the share of SME loans, in particular. Currently, SMEs are capitalizing 50% of total credits generated by non-banking financial sector meanwhile share of transactions associated with SMEs is 70%.



NBFIs are of vital importance as they offer alternative financial solution to companies of all scales.



OSMAN ZEKI ÖZGER
Chairman of AFI

The new law implemented in December, 2012, opened the path for new break throughs. Perhaps the most eminent one is the establishment of Association of Financial Institutions, which has set new horizons for Turkish NBFI sector. The harmony and synergy within the sector is the main locomotion that drives the sector for further growth. Thanks to the new regulations that allow the use of various financial instruments, define the governance principles and business standards, sector has shown a robust trend in last 2 years. We have intensified our work to utilize our potential which was clearly addressed as “strong” in various credit rating companies’ reports. SMEs are of vital importance in our agenda.

Osman Zeki Özger, Chairman of AFI stated that “Regarding to financial leasing, we are expecting to see another peak in SME financing and transactions in 2015. The highest volume we’ve ever achieved was 8.2 billion TRY in 2007, just before the financial crisis”.

Upshifting the Sectoral Dynamics

The new law enabled financial leasing firms to offer alternative leasing products which didn’t have the proper legal framework before. Sell-and-leaseback, software leasing, operational leasing are the prominent products that will appeal to companies from all scales. Furthermore operational advantages like liberty of counterparties that inherent in a leasing contract to determine the term of contract and period of installment payments have been granted. Whilst terms and registration of leasing contract are redefined in detail.

On the factoring side, new regulations are helping the sector to be more institutionalized and to have a strong financial structure. An article in law requires that factoring companies should increase their minimum paid-in capital from 7,5 million TRY to 20 million TRY (approx. 11 million USD). It will strengthen the solid position of Turkish factoring industry in global arena which is ranked second after China regarding two-factor export business. Factors Chain International (FCI) recognizes the success of Turkish factors, as 5 Turkish factoring companies have been ranked in FCI’s global top-10 list of exports factoring category. The protocol signed between Türk

Eximbank and AFI was an important figure of this particular success story as it is assisting factors to conduct business in all 238 countries of the world.

The financing companies which direct their credit portfolio to financing of the SMEs to buy investment goods like commercial vehicles, trucks, buses, tow trucks; support Turkey's economy in periods of tightening, especially SMEs and automotive industry with the aid of international and domestic capital holders. Financing companies have also benefited from the frame of sectoral profile. In 2013, the following year of implementation of new law, financing sector's total size of assets has increased by 36% and is expected to reach 40% as of fye 2014 according to AFI.

Information and Sectoral Management

Invoice and other receivables data is of high prominence for a healthy and steady sectoral growth. AFI possesses two strong assets in terms of providing info to its members and helping them to manage their risks. Thanks to the membership of NBFIs to the Risk Data Center, where credit information and payment performance of the clients of the banks and financial institutions are recorded and shared amidst them. Following the new regulations a system has been established which allows all the receivable data to be assigned to factoring companies to be recorded via new Receivables Recording Center.

Another issue that the new law has brought up is authorization of AFI with power of sanction. As stated by an article in the new law, AFI has



ZAFER ATAMAN
Financial Institutions Union
Deputy Chairman and
Factoring Representatives
Council Chairman

Source of finance and trading volume we provided in the real sector is growing regularly. We are trying to develop private products to meet the demands of companies. Diffusing to Anatolia is another one of our growth strategies. Factoring, quite dynamic and involved in trade, has shown an expansion of 38% since its first years. It is obvious that our sector has a great growth potential and I find it very natural to have a target of increasing our penetration rate to 10% from around 5.7%.



VAHİT ALTUN
Financial Institutions
Union Deputy Chairman
and Factoring Companies
Representatives Council
Chairman

Finance sector has properties of being a sector that touches to the personal consumer, as unlike financial leasing and factoring sectors. Factoring companies serve 446 thousand clients including individual clients. The sector is targeting to carry the size of its assets up to 18 billion TRY and the trading volume up to 13 billion TRY by the end of 2014. Our growth expectation is at 15% while the total finance that the sector will provide is aimed to reach 17 billion TRY.

the legitimacy to give warning to NBFIs and/or to fine them. Recognizing the requirements of responsibility, the organization aims to form a just and functioning competition ground and avoid sectoral disagreements, thus, common ethical principles are defined with the participation and consensus of all 121 member NBFIs. Various events like educational activities, workshops, round table meetings etc. are being held by AFI, to ensure harmony in sector and stimulate an accelerated growth.

Opportunities and Threats

Credit volume of Turkish banking sector has doubled in last 5 years and trend is keeping its pace. Same expansion performance is expected for next 5 years and NBFIs are sparing no effort to take their share to a higher level. As assets and net profit of the sector are arising, numbers evidence that the future of NBFIs market is simply bright as Fitch agrees.

Nevertheless while emphasizing that growth opportunities for Turkish NBFIs remain strong, Fitch is also underscoring that the raise in Turkish NBFIs equities may not be able to keep up with accelerated growth in their assets.

Another factor that Fitch pointed out is the new regulation that increases the minimum paid-in capital requirements. According to a report released by the rating institution, it is possible that 30% of factoring companies may not meet the precondition. In contrast JCR Euroasia rating's opinion towards the subject is "it is possible but highly improbable". JCR also stated that it is expecting an increase in the quality of consolidated assets.

Both rating companies agree that in terms of transparency, sector's performance ensued from the radical changes, is remarkable and will have an uplifting effect, particularly invoice registrar and access to central risk database will smoothen the operational difficulties.

NBFIs are the centrifugal force of the whole economic cycle with the function of funding production via leasing, trade via factoring and consumption via financing. They also provide FDI inflow, constitute a financial buffer against global shocks, help deepen the financial sector and most importantly make alternative and specific financial solutions to entrepreneurs. The role of NBFIs is quite important as many studies have evidenced that the strong feed-back between improvement in financial sector and GDP growth. Thus, especially in emerging markets, diversified finance sources and alternative financial solutions are crucial for a sustainable economic growth environment and Turkish NBFIs, under the leadership of their collective vanguard AFI are eager, striving and competent to do their parts.

TOTAL ASSETS (TRY)

SECTOR	30.06.2014	%
FINANCIAL LEASING	30.168.706	26,9
FACTORING	23.198.650	18,3
FINANCING	16.608.776	26,1
OVERALL	69.976.132	23,7

LOANS AND RECEIVABLES (TRY)

SECTOR	30.06.2014	%
FINANCIAL LEASING	26.743.493	30,4
FACTORING	21.564.139	20,0
FINANCING	15.045.324	25,6
OVERALL	63.352.956	25,5

EQUITIES (TRY)

SECTOR	30.06.2014	%
FINANCIAL LEASING	5.719.488	16,0
FACTORING	4.114.281	3,0
FINANCING	1.294.799	32,3
OVERALL	11.128.568	12,4