Chapter 14
Fintech Ecosystem and Banking:
The Case of Turkey

Yakup Söylemez
https://orcid.org/0000-0002-6185-3192
Zonguldak Bulent Ecevit University, Turkey

ABSTRACT

In this study, Fintech platforms are compared to the traditional banking system. This comparison is based on the banking activities offered by Fintech platforms and the results of these activities. In the study, firstly, a general evaluation is made in the comparison of the Fintech platforms to the banking system and then the situation in Turkey is analyzed. It is clear that Fintech platforms have developed financial markets. Moreover, banks have the potential to adapt to the digital innovation advantage of Fintech platforms. In this study, the banking system and Fintech platforms are considered as competing institutions as well as supporting and transforming each other. Services within the scope of banking activities change as a result of digital innovations. As a result, it is clear that the financing system enters into a revolutionary process. This study contributes to the literature in terms of the analysis of the relationship between banking and Fintech, which is based on Turkish Fintech Ecosystem.

INTRODUCTION

Banking activities, which can be seen as one of the most important actors in the financial markets, have started to differentiate significantly from the 80s. Banking activities have made changes in both deposit collection and funding transactions. The reasons for these changes can be counted as follows: i) increasing risks in the financial markets, especially the exchange risk, ii) rise of competition, iii) deregulation of capital movements and iv) revolutionary movement taken place in technology.

Increasing risks in financial markets allowed new financial products to enter the system. Because the increased risk pressure in the markets led investors to tools such as financial derivatives to hedge the risks. How much these instruments protect investors from risk has become debatable after the global financial crisis.

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One of the reasons for the increase in risk in the banking system is that many banks operating on a national level have started to operate on an international level since the 80s. This led to the acquisition of international competitors by local banks. Thus, banks have been forced to manage a global fund flow as well as to fight a global risk wave. Banks that do not operate at the international level try to stay in this race with limited funds.

The start of international activities of local banks was realized by the liberalization of capital movements. The abolition of barriers to capital has made a big effect, not only on the banking system but also on the entire financial system. Developing countries such as Turkey thus faced more systematically with concepts such as the stock market and capital market. The abolition of barriers to the foreign exchange regime has improved trade and expanded the banking system's activity. For example, there were major restrictions on foreign exchange transactions in Turkey until 1983. Although liberalization of capital movements improved the banking system, it also significantly increased the risks.

Technological innovation is perhaps the most important driving force of the financial system and therefore the change in the banking sector. Since the 80s, the changes taken place in technology have enabled information to be obtained quickly. Banking activities were also greatly influenced by technological innovations. Banking activities and the way these activities are carried out have rapidly moved away from being staff oriented. Banks continue to use technology in a growing number of major business areas, such as accepting deposits, crediting and credit rating.

Changes in technological innovations have created extraordinary effects in many different sectors. For example, communication activities have been differentiated by many companies, such as Yahoo, Hotmail, and Google. In the same way, users have been able to create their own media through channels like YouTube. This also applies to retail companies. No matter what sector, companies have to design their activities according to technological changes. For example, the publicly supported PTT company, which has an important place in the communication sector in Turkey, had to establish the PTTCell brand as a mobile phone line. The same applies to other sectors.

This rapid transformation in technology has evolved into the Industry 4.0 process. According to Industry 4.0, information coming from the market will be included in the decision-making process through intelligent robots (Türkmen, 2018: 275). From a financial point of view, this means that financial decisions will be made by intelligent robots. Intelligent robots will collect information from the market fastly and then process this information very quickly.

The changes in the field of technology have also had a challenging effect on the banking sector. As a result of this compelling effect, Fintech has emerged, which are performing some of the banking activities. The emergence of Fintech has been realized at the end of a series of evolutionary processes in the field of technology. Electronic commerce and e-business technologies are developing digital technologies that bring out Fintech platforms (Gimpel et al., 2018: 245).

The World Economic Forum defines the concept of Fintech as institutions that will demolish traditional financial institutions equipped with destructive, revolutionary and digital weapons (World Economic Forum, 2017). This definition contains striking claims. Perhaps the most important of these claims is that Fintech is defined as organizations that break down traditional financial institutions.

Fintechs are more softly described as the acquisition of financial services and products through the use of digital technologies. According to the Financial Stability Board Fintech, new business models, applications, processes or financial markets and institutions and financial services have a significant effect on the presentation of products that may result in a technologically effective financial innovation (http://www.fsb.org/work-of-the-fsb/policy-development/additional-policy-areas/monitoring-of-fintech/,