



Reshaping the Investment Culture in Turkey

Attila Köksal, CFA

TSPB

Vice Chairman - FODER

IFIE, Istanbul

14 June 2016

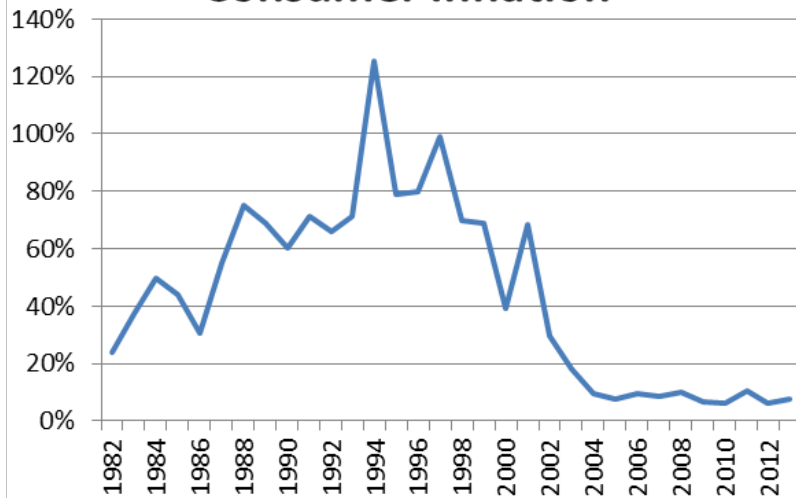


Background

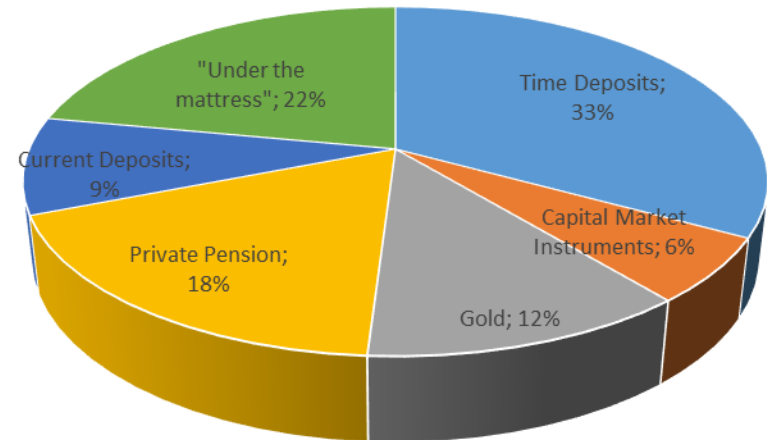
- ❖ **From 1970s to mid-2000s Turkey went through a period of:**
 - ✓ High inflation
 - ✓ Political instability
 - ✓ High twin deficits (budget and current account)
 - ✓ Extremely high interest rates
 - ✓ Crises every 3 years
- ❖ For almost three decades, investors suffered from high volatility, high interest rates, political uncertainties and domestic/global crises.
- ❖ Hence most of the household savings are in gold, foreign exchange and bank deposits. Equity investment is considered equivalent to “gambling”.
- ❖ Younger generation members are not «net savers» but «spenders».

Asset Allocation of Turkish Investors

Consumer Inflation



Breakdown of Total Savings

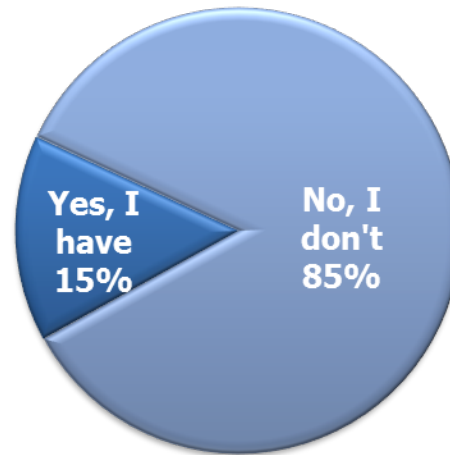


Source: ING Bank Survey 1st Q 2016

- ❖ 20+ years of high inflation/high interest rate environment created a unique investor generation.
- ❖ Average Turkish investor invests with '**protection bias**' rather than long-term growth.
- ❖ Asset allocation is sub-optimal.
- ❖ One big positive: Private Pension system is growing.

Interesting Outcomes of Savings Trends Surveys

Do you have savings?



- ❖ ING Turkey's Savings Survey results reveal that 85% of the population does not save!
- ❖ Out of non-savers, 78% claim that they do not have enough income to save.
- ❖ 14% of non-savers are heavily indebted.



Two Colossal Tasks

- ❖ Reshaping the investment habits of the X Generation and the older generations;
- ❖ Forming savings and investment habits of the Y, Z and Alpha Generations.



Issues

- ❖ Our Financial Literacy scores are low;
- ❖ We do not save (Gross Savings / GDP is 15%);
- ❖ Do not budget, do not do Financial Planning;
- ❖ Spend excessively using credit cards (2.7 million people are in arrears);
- ❖ Do not believe in the benefits of long-term investing;
- ❖ Do not invest properly.



Opportunities

- ❖ A young and vibrant society; 51% of the population is below the age of 30.
- ❖ With the “normalization” of the Turkish economy (i.e. lower inflation, less volatility, lower budget deficits, etc.) the Turkish capital market should grow provided that current political issues are resolved.
- ❖ Very low penetration of investment products.
- ❖ New products and services are being introduced. (Derivatives, ETFs, capital-protected funds, private equity funds, islamic funds, real estate funds, hedge funds etc.).
- ❖ Private sector has started several initiatives for investor education. Some private institutions are strongly committed to Financial Literacy.



Challenges – Retirement System

- ❖ Our current Private Pension system is designed as a savings system, not a retirement system. => **Needs to be modified.**
- ❖ The proposed structure of Auto-Enrollment System might not be optimal. => **No rush!!!**
- ❖ There isn't sufficient sophisticated human resources to provide investment advisory and asset allocation services to masses. => **Need to leverage with technology.**
- ❖ Returns of Turkish capital market instruments are low and volatile.
- ❖ Ongoing political and terror issues influence investor sentiment and markets negatively.
- ❖ Trust to the finance sector is low.



Challenges – Financial Literacy

- ❖ Too many parties (both public and private) are involved but there is an apparent lack of coordination among them. Focus, effective governance, stronger leadership and guidance are required.
- ❖ Public institutions are slow and do not have enough human and financial resources.
- ❖ Non-profit NGOs which focus on FL and FI lack financial resources and human capital.
- ❖ Financial literacy efforts do not reach and influence masses yet.



Investor Education Target Groups

- ❖ Women and families
- ❖ Primary and secondary schools
- ❖ Universities and academia
- ❖ Private and public sector employees
- ❖ Finance industry employees
- ❖ People with disabilities, elderly and young population
- ❖ Turkish Armed Forces



Success Stories

Üç Kumbara – 3 Piggy Banks: YOUTH (FODER & Doğus Group)

- ❖ Projects to increase awareness of 411,000 students.

I Can Manage My Money: 15 to 30 Age Group (VISA/Habitat)

- ❖ Financial literacy training for 220,000 young people

Global Money Week: 8 to 24 Age Group (FODER / GMW)

- ❖ Financial literacy training for 60,000 young people over 4 years

Turuncu Damla – Orange Drop: 15 to 30 Age Group (ING Bank)

- ❖ Financial literacy training for 25,000 students

MyBnk / Parayön: Students (FODER & J.P. Morgan Foundation)

- ❖ Increase financial awareness of 9,000 students from 14 to 23 years

Evin Hesap Uzmanı Kadın: FEMALE WORK FORCE (FODER & Mastercard)

- ❖ Financial literacy training for 1,000 women entering the workforce
- ❖ Financial inclusion



Pending Projects

Target Group: Turkish Armed Forces (TSPB/UNDP/VISA/Habitat)

- ❖ Financial literacy training for soldiers – (Project at approval stage)

Target Group: Turkish Armed Forces (FODER)

- ❖ Financial literacy training for 2,000+ officers – (Project on hold)

Target Group: Primary and High School students (Project pending)

- ❖ Integration of financial education in the primary and secondary education curricula.



Proposed Structure

- ❖ Current unstructured system is ineffective.
- ❖ Financial literacy efforts by the industry and regulator are focused at investing (how to invest and how to protect investors). Not on financial planning, budgeting and saving.
- ❖ We need an independent “Financial Literacy / Investor Education” entity (a company, a foundation or an association) with:
 - a well defined mission and vision;
 - independent governance;
 - decision-making ability and accountability;
 - focused leadership team and staff;
 - financial resources.
- ❖ Regulator’s role should be policy making and oversight.



Thank You!

**Buyukdere Cad. No:173
1. Levent Plaza A Blok Kat:4
1. Levent 34394 Istanbul**

**Tel.: (90) 212-280 85 67
Fax: (90) 212-280 85 89**