

MSc in Finance Capstone Project:

“Retail Banking & FinTech in Kazakhstan (key indicators, products, channels) in terms of future perspectives for foreign online banks”.

Presentation summary.

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1. Macroeconomics and political situation in Kazakhstan.

Kazakhstan is very attractive in retailing banking & FinTech perspectives:

Kazakhstan's economy has become more beneficial due to expanded transparency and adaptability over the previous decade.

For the last ten years, over \$250 billion of foreign direct investment has been invested in Kazakhstan mainly by Netherlands, Switzerland, USA and China. The commodity sector has traditionally accounted for the largest share of foreign direct investment. Sound fiscal and monetary policies would maintain economic and price stability and encourage investment in non-oil economies.

Kazakhstan consumer spending increased despite KZT devaluation and inflation 2014-2016.

2. Retail banking market overview (presentation includes list of main players, total Assets Profitability, market share based on: total assets, retail loans volume, deposit volume, number of branches. Intro about TOP 5 banks (ownership, general business structure, profile, strategy, key focus in retail, size of physical branch network)).

Key points:

- Halyk&Qazkom and Tsesnabank are the best leaders of TOP-10 KZ Banks. Halyk&Qazkom is the most stable and profitable bank in Kazakhstan, it also has the most extensive branch network. Halyk&Qazkom and Kaspi Bank have the largest retail deposit market share in TOP-10 KZ Banks.
- 1st internet bank in Kazakhstan – Altyn-I.¹
- HalykBank was the pioneer who implemented QR-payments based on mVisa.

3. Online channels development & perspectives (internet banking, mobile banking, e-money, e-wallets) based on TOP 10 banks in KZ: level of online channels development, regulations and existing barriers, main risks, perspectives and recommendations.

In 2016 Kazakhstan's Internet/mobile banking² accomplished 58.3 million transactions for a total of KZT934 billion, which is 69.4% and 2.3 times more y-o-y. These transactions represent 44% of all non-cash transactions conducted through remote access systems.

Kazakhstan has a solid foundation for online business development³. Kazakhstan is not just catching up, but it is ahead of China in terms of Internet infrastructure development. According to the World Economic Forum's "Global Information Technology Report 2016", "Kazakhstan took the 39th place in the Networked Readiness Index, while China is at 59th place"⁴. According to TNS Infratest, Kazakhstan is a leader by share of smartphone users among post-Soviet counties – 65% of the population. There are 2.1 mobile devices with Internet connection per person on average. Thus, from the Internet access point of view, Kazakhstan has a solid foundation for online business development.

Recently, the use of electronic money has spread very rapidly. In 2016, the number of e-money transactions increased 2.7 times to 43.3 million, the volume increased 3.5 times and reached KZT154.2 billion⁵. At the beginning of this year, Kazakhstani consumers had 5.9 million e-wallets (2.9 million in 2015). There is certain progress in the online lending sector: in 2013 the first companies entered the market, on April 1, 2017, their loan portfolio was KZT18.8 billion (according to the First Credit Bureau). However, this is still a "drop in the bucket" – the share of online loans in the total volume of consumer loan portfolio does not exceed half a per cent.

Kazakhstan's online services potential customers forecast⁶:

In Kazakhstan, the most Internet-advanced Y generation also made up 25% of the population in 2015. However, where the population is rapidly ageing, in Kazakhstan the proportion of potentially active online consumers by 2030 will increase by 45% up to 37% of the population. This will happen thanks to the increasing inflow from generation Z (born after 1995), which is called the "genuinely digital generation". This is another ray of hope for fintech development. For today, not all our consumers trust purchasing and financial transactions online. Thus, to realize the existing fintech potential, it is necessary to take measures to overcome customers' negative perception of online services and improve their financial literacy.

¹ Source: <https://altyn-i.kz/>

² Source: National Bank of RK: <http://www.nationalbank.kz>

³ Source: International Telecommunication Union statistical database

⁴ Source: <https://www.weforum.org/reports/the-global-information-technology-report-2016>

⁵ Source: National Bank of RK: <http://www.nationalbank.kz>

⁶ Source: RFCA Rating Agency calculations on the basis of Committee on Statistics of RK data

4. FinTech Market in Kazakhstan⁷.

Currently, there are 63 companies in 10 segments of the Kazakh fintech industry. The main segments are payments and transfers (26 companies) and microlending (15 companies). There are even three P2P loan platforms, but there is no open data on their activity.

A new retail banking brand - B1NK bot, a new generation bank in Kazakhstan (retail business platform of Capital Bank Kazakhstan), successfully started communicating with customers via Telegram and WAY4 platform.

Conclusion:

Kazakhstan's fintech has its own path.

For now, the fintech development in Kazakhstan is at its initial stage and only “tests” the market for the adoption of radically new products. The economic and social prerequisites in Kazakhstan are very different from those that provided fintech breakthrough in Europe.

On the one hand, the wide availability of the Internet as an infrastructure background for fintech development has been created. However, on the other hand, the unfavourable economic conditions in 2014-2016, the devaluation, the sharp drop of the population's real income restrain the activity of consumers in the network, limit the improvement of their financial literacy, increase customers' sensitivity to the risks associated with using of new virtual products.

As for the banking sector, in Kazakhstan, banks have already created a certain background (successful card business, developed Internet banking, the trust of many consumers) to develop fintech on their own basis and become a part of this market. If only they will be on time to integrate into a dynamic virtual market.

What will be the main factor for successful penetration of the KZ Bank sector?

First of all, advanced technologies (digitalization) which do not need a large number of staff. What will happen? The foreign companies will be able to compete successfully at least in the financial sphere, providing the best conditions to clients because of having access to international funding. And it will significantly change all economy of Kazakhstan.

⁷ Source: National bank of RK, Fintech Association, RFCA Rating Agency calculations