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2006

Online at <http://mpa.ub.uni-muenchen.de/5490/>
MPRA Paper No. 5490, posted 30. October 2007

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Abstract

The rapid growth in Turkish credit card market brought together new issues. Card holders and consumer unions complain about the high interest rates, economists complain about the default rates and banks complain about the amnesties. After all of these complaints coinciding with the accelerating suicide incidences due to credit card debts, regulation has been enacted in the credit card market in Turkey. In 2003, credit cards had been taken into the scope of the Consumer Protection Law. This was the first legal arrangement on the credit cards. However it was not satisfying. It was criticized for bringing out temporary solutions. In 2005, a more comprehensive credit card law came into effect. With this regulation, Central Bank of Turkey has put a ceiling on the credit card interest rates and clarified some issues that were left untouched. In this paper; reasons, advantages, disadvantages of this regulation are discussed along with a quick glance on the development of credit card market in Turkey. The regulation and amnesties in 2003 and 2005 are examined and their effects are exposed from the point of view of parties involved: banks, customers and government.

Keywords: Credit Cards, Regulation, Amnesty, Interest Rates, Default, Banks, Consumer Unions

Cell Classifications: L500, L510, G280, G380

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1. Introduction

Three years...Thirty four cases and forty one deaths...¹ These numbers do not show the consequences of a tragic car accident or a disaster. They show the number of people who committed suicide or killed their acquaintances because of their defaulted credit card debt between 2003 and 2006 in Turkey. These alarming statistics subsequently drew all the attention in the public and speeded up the process in the formation of the regulation in the credit card market in Turkey. Despite the belated regulation for the credit cards, Turkey had encountered the first credit card in 1968 which did not have a feature in crediting. Later, big banks started to introduce their credit cards in 1988. Since then the number of credit cards outstanding increases day by day and credit cards started to replace cash in consumers' pockets.

Credit cards are plastic cards bearing an account number assigned to a cardholder with a credit limit that can be used to purchase goods and services and interest is charged on the outstanding balance. With this definition credit cards may seem to be a good and harmless alternative for payment. But in fact what makes credit cards so popular in Turkey is not its ease of use or availability but the complaints about it in recent years. Card holders complain about the high interest rates that the banks charge on unpaid credit card debts. Consumer Unions have started campaigns to intensify pressure on the government to lower the interest rates. After all these campaigns and complaints, together with the extent of credit card volume and its spread of usage especially after the accelerating suicide cases due to credit card debt, Turkish government started to regulate the credit card market.

¹ These statistics are taken from the web site of Consumers Union, for further information see <http://www.tuketiciler.org>

With the new regulation, the Central Bank of Turkey puts a ceiling on the credit card interest rates every three months and the banks are not allowed to charge beyond this rate. Card holders complain that the interest rates are still high. Banks complain that they are harmed financially and economists argue that the regulation is contrary to competition. As can be understood from this brief summary about the reactions of various parties, nobody is satisfied with what regulation has brought. However, above all these arguments, there is an interesting fact that Turkey is one of the fastest growing credit card markets in Europe despite these complaints. Turkey is ranked the third with respect to the number of credit cards in Europe and it is the tenth in the credit card usage. In the early 1990s, the number of credit cards was just 556,000. It became 13,408,477 in 2000, and then 13,996,806 in 2001, 15,705,370 in 2002, 19,863,167 in 2003, 26,681,128 in 2004, 29 million in 2005 and now it has reached 31,289,000.² As the number of card holders increases, the number of problematic cards increases in proportion. The total number of people in the black list has become 481,261 by July 2006.

Table 1 : **BLACK LIST**

<u>Years</u>	<u>No of cards</u>	<u>Defaulted card no</u>	<u>Late payment no</u>	<u>Default ratio(%)</u>	<u>Debt per person(\$)</u>	<u>Unpaid debt per person(\$)</u>
2000	13,408,477	17,266	788	0.13	379	7,173
2001	13,996,806	111,072	9,490	0.86	260	1,461
2002	15,705,370	41,586	7,567	0.31	323	3,519
2003	19,863,167	43,480	19,048	0.31	425	3,290
2004	26,681,128	77,972	43,847	0.46	649	3,404
2005	29,050,403	198,373	35,580	0.80	772	6,002

Source : Data from Milliyet newspaper

This electronic payment tool may even become the reason for depression, divorce or even the death of its holder. Hence, in order to prevent such undesirable outcomes and with the pressure of Consumer Unions, Turkish government put forward amnesties in 2003 and 2005. The amnesties in 2003 and 2005 aim at helping the card holders to pay out their debt to

² The number of credit cards with respect to years has been taken from the Interbank Card Center.

banks. In order to do that, a lower interest rate was announced and the maturity date was extended. Also in 2003, an amnesty to clear the records of holders who had defaulted on their credit card debt until that time was enacted. The only condition to get use of that amnesty was to pay back the defaulted debt before the amnesty or in three months following the amnesty. While the government is trying to find solutions to credit card problems, the actions taken with their disclosed intention are not appreciated by some parties. Particularly, banks are the first ones complaining about these amnesties because they earn profit from the credit card holders. Hence, the government's ceiling on the interest rates and the amnesties are to the disadvantage of the banks.

The paper is organized as follows. In the next section, we give a brief overview of the development of credit card market in Turkey. The Section 3 explores the regulation and the amnesties in 2003 and 2005. In this section, characteristics, effects, advantages and disadvantages of the regulations and the amnesties are exposed from the point of view of parties involved: banks, customers and government. The last section is relegated for the conclusions.

2. The Development of Credit Card Market in Turkey

Credit cards have become one of the indispensable tools of daily lives in Turkey. At first, the number of credit cards did not even exceed 10,000 but nowadays it has reached a number of 30 million. Turkish consumers skipped the personal check-account stage altogether and moved directly from cash to plastic in the mid-1990s. Turkey first met with the credit cards in 1968 with Diners Club. Diners Club cards were charge cards that required to pay the whole balance as of final payment date. The card limit was assigned as the blocked cash amount. It was perceived as a prestige element, so it was just given to the rich and creditable customers. Because of that reason, the number of Diners Club holders was very few. It did not

exceed 10,000 until 1975. It could only be used in Turkey. Instead of today's POS machines a mechanical device called Imprinter was used. The number of shops that had the Imprinter devices was very low. Hence the usage of Diners Club Card was very limited. The technology was old comparing to today's technology that provision was taken by telephone. After Diners Club, Turkish Express Aviation and Tourism entered the market with American Express Cards. These two cards continued their business unrivalled until 1975. Starting from 1980, the credit cards that belong to Visa, Master Card branded banks started to enter into the market.

In the beginning of 1980s, Turkish population was one of the largest in Europe, its investments were low and it was developing. Hence its credit card market carried a high potential. Then, Turkish banks started to distribute credit cards to their customers. In that period different products like gold, classic cards started to take place. In 1984, Visa opened an office in Turkey and that accelerated the development of Turkish credit card market. In 1990, Interbank Card Center (ICC) was established with the association of thirteen private and public banks. The purpose of establishing ICC was to execute authorization procedures between different banks' credit cards and also to execute interchange procedures. Also in 1990, the application of bonus points started to take place. This application is still popular and consumers get points as they spend with their credit cards and these points can be spent in shopping ahead. In 1993, first electronic POS terminal was used and in that year, EuroPay/MasterCard opened its first office in Turkey which increased the credit card numbers. In 1999, for the first time Turkey witnessed the payment installments in credit cards.

Credit card usage turnover has a portion of 25 percent of GDP in Turkey. In the first six months of 2006, consumers spent 50 billion 171 million YTL with their credit cards. As of July 2006, there are 31,289,000 credit cards and according to ICC's estimation each customer has 1.8 cards. Hence, there are approximately 17,382,778 credit card holders. In Turkey, among 20 million salaried employees, there are 11-12 million credit card holders which

generate approximately 20 million credit cards. Whereas in England, 32 million employees have 59 million credit cards.³ Comparing to developed countries' population-credit card number in the market ratio, it can be concluded that number of credit cards in Turkey are still to increase. This situation shows that Turkish credit card market carries a high potential. Turkish credit card market consists of 22 banks currently. These 22 banks compete to increase their market share by launching different credit cards for various needs of different customers. For that reason, the market is comprised of various types of credit cards that emphasize their installment advantages or bonus points or low interest rates, etc. The credit card market is growing day by day and card issuers are trying to get higher shares from this growth. Hence they are using all of their financial and marketing power to attract new customers. In fact the situation was not alike in the late 1980s and in the beginning of 1990s. In that period, what was important for a card holder was just the usage area of the cards. The important criteria for choosing a credit card was whether it could be used in many stores. But today the situation has changed. Now almost every store has the POS machines which enable the customers to shop with whatever card they want. POS machine, which stands for Point of Sale, is a machine that is used in the shopping done by credit cards and it sends the credit card information to the bank through telephone line. In Turkey, first POS system was launched by IBM in 1973 and in 1991 first POS terminal started to be used. The number of POS machines has reached an amount of 1,105,482 as of end of year 2005; this number shows a 800,000 increase in five years. But recently, the banks started to act collectively about POS machines and in order to reduce the operational costs some banks agreed to serve from the joint POS machines.

Table 3 :	2000	2001	2002	2003	2004	2005	2006(1st quarter)
POS machine	299,636	364,636	495,718	662,429	912,118	1,105,482	1,165,590

Source : Obtained from the web site of Banking Regulation and Supervision Agency

³ From an interview of Prof. Dr. Ahmet Ulusoy, economy professor in Karadeniz Technical University

Table 2: How did "TOP TEN" change in credit card market in 9 years? (based on credit card numbers)

	<u>1997</u>	<u>2000</u>	<u>2003</u>	<u>2005</u>
1	Yapı Kredi	Yapı Kredi	Yapı Kredi	Yapı Kredi
2	Pamukbank	İş Bank	Garanti	Garanti
3	İş Bank	Garanti	İş Bank	İş Bank
4	Vakıfbank	Vakıfbank	Akbank	Akbank
5	Akbank	Pamukbank	Vakıfbank	Finansbank
6	Garanti	Ziraat Bank	HSBC	Vakıfbank
7	Ziraat Bank	Akbank	Finansbank	HSBC
8	Koçbank	Citibank	Pamukbank	Denizbank
9	Dışbank	Finansbank	Dışbank	Halkbank
10	Denizbank	Koçbank	Denizbank	Ziraat Bank

Source : Capital Monthly Economy and Business Journal⁴

Since 1980s, there have been banks that went out of the market or entered the credit card market. The credit card league has not much changed considering the leader and its followers in recent years (See Table 2). Yapı Kredi Bank has been the market leader with its 17 percent market share in the number of cards and 25 percent market share in the card volume.⁵ The bank's known "World Card" has also featured versions (like Worlduniversity, Çağdaşkart, Kontrollü Worldcard, etc.) in order to fulfill their customers' different needs. Garanti Bank which is a close follower of Yapı Kredi Bank released Turkey's first credit card with chip in 2000 that is called "Bonus Card". As of September 2005, Garanti Bank has 15 percent market share in the number of cards and 21.05 percent market share in the card volume.⁶ The third important player in this competitive market is İşbank. İşbank's Maximum Card has 11 percent market share in the number of credit cards and 15 percent market share in the card volume.⁷

⁴ http://www.capital.com.tr/haber.aspx?HBR_KOD=3331

⁵ Taken from the web site of Yapı Kredi Bank, <http://www.ykb.com>

⁶ Taken from the web site of Garanti Bank, <http://www.garanti.com.tr>

⁷ Taken from the web site of İşbank, <http://www.isbank.com.tr>

3. The Regulations & The Amnesties in 2003 and 2005

The number of credit cards has increased 275 percent between 1998 and 2004. This rapid increase brought about the complaints and dissatisfaction in return. Most of the complaints are about the “usury”. Some card holders get into difficulties to pay their card debts and when they cannot pay, their debt increases rapidly with high interest rates. Hence some finally default. Especially after the economic crisis in 2000 and 2001, the number of defaults skyrocketed. The number of people who defaulted on their debt in 2001 reached a peak of 111,072. However recently, even though there is no crisis default numbers still increase rapidly. The main reason for that is banks’ wrong marketing tactics. In order to get more market share and increase their profits, banks attempt to increase their credit card numbers. However, marketing competition in the credit card market has become so intense that banks give credit cards to everyone without looking at their credit history; they even distribute cards on the streets or send cards to the addresses without request. Hence, this situation causes the defaulted credit card numbers to go up. Chakravorti (2003) categorizes the consumers under two groups according to their usage of credit cards. The convenience users pay the credit card bill on due date and the revolvers use the credit feature of the cards. The convenience users are not as profitable as the revolvers for the issuers given that they just use the credit cards as the payment instruments. In Turkish credit card market, 76 percent of the cardholders pay their bill on due date⁸. Hence, a revolver subsidizes the cost of three convenience users. Extremely high interest rates in Turkish credit card market are likely to stem from these consumer characteristics. Since this low share of the revolving customers are also separated as illiquid and higher risk customers, the interest rate charged to the customers appear to be an increasing function of risk. Indeed, this mechanism generates a vicious circle. High interest rates lead to fewer revolvers and more convenience users. High share of

⁸ See: http://www.bkm.com.tr/images/basinodasi/06082005_dunya.jpg

convenience users in turn increases costs and thereby leads to high card rates (Aysan and Muslim, 2005).

As more people default on their debt, Consumer Unions react more aggressively and they blame the government for not taking any action. Consumer Unions organize campaigns and gather signatures to protest the banks. On the other side, banks claim that they get harmed from the regulation. In fact their claim is true because defaulted debts are the parts where banks get the most profit from. As interests bear on unpaid debts, banks gain large amounts in short period. Hence putting a ceiling on the interest rates hurts banks' profitability. Also some economists argue that regulating the market and putting a ceiling on the interest rates are contrary to competition. They comment that at that point consumers should be conscious and consumers should choose the bank with lower interest rate, so that other banks will also lower their rates to compete. Ausubel (1991) categorizes existing explanations for this failure of competition under three clusters: consumer irrationality, search costs and switch costs. In addition to these explanations, Ausubel provides his own explanation as well. The consumers who are not willing to borrow at the beginning are insensitive to changes in the interest rates. However, the consumers who plan to borrow are very sensitive to the changes in the credit card interest rates. Hence, when an issuer decreases the credit card rates, the issuer can only attract these risky consumers. Moreover, the consumers searching for a lower rate would also be the ones who carry out more interest payment. The low risk customers pay the bill on due date. Hence, the return from searching a lower rate would be higher than the search cost. Since the benefit from searching is higher for consumers with high balances, a credit card issuer by offering a lower rate will again only attract high risk consumer (Ausubel, 1991).

Except the consumers' complaints, suicides due to credit card debt accelerated the process of regulation. In three years, forty one people killed themselves or others because of their credit card debts. As a result, after all these campaigns and complaints, with the growing

credit card volume and its spread of usage and mainly with the accelerating role of credit card debt suicides, Turkish government started to regulate the credit card market.

The process of regulation has started in 2003. Even though “Bank cards and credit cards law draft” was being prepared, this draft somehow could not progress one step ahead and become a law until 2005. However with the 4822 numbered law, which was legalized in 2003, credit cards had been taken into the scope of the 4077 numbered Consumer Protection Law. By adding an article that is related to credit cards -named 10/A- to the law, the first legal arrangement was made on the credit cards. The text that Consumers Union proposed was put exactly as the temporary article. With this temporary article, it was aimed to end the credit card problems by providing twelve month installments with a low interest rate for the defaulted card holders. The important question now is who was going to get benefit from this temporary law. The ones who were already taken or that were going to be taken to the court because of their unpaid card debts and the ones who did not pay their card debts even two consecutive months were going to utilize from the law. In this temporary law, credit card debts were stated to be paid in twelve equal installments with a maximum annual 50 percent interest rate to be applied on the capital.

The most important part of the amnesty in 2003 is that it made installments on the principal without processing interest on it. Later on, the government would be protested for 2005 amnesty because of falling short of 2003 amnesty. The details of this topic will be argued in the following sections. There are still question marks about the benefits of amnesties. Do really people apply to configure their debt, to get benefit from the amnesty? According to Ersin Özince⁹, the easiness in payments of credit card debts and partial amnesties do not attain the target. The number of people that was expected to benefit from 2003 amnesty was between 500,000 and 1 million, but only 150,000 people applied. In fact,

⁹ Taken from a report that Ersin Özince sent to deputies. Ersin Özince is the president of Turkey Banks Union

banks do not get benefit from the amnesties as they may seem so. Because, among the credit card operations that they make, banks get the most of their profit from their defaulted customers. Accumulated debts make banks get much money in short period of time; hence they are against the amnesty.

Ausubel (1991) in estimating the profitability of the credit card issuers uncovers abnormal returns and asymmetric power in the credit card market. The return from the regular banking operations was around 20 percent per annum. However, the credit card branches of the banks accrued 60-100 percent profits. On the other hand, the general idea among economists is not much different. Abdurrahman Yıldırım¹⁰ argues that people do not apply to consolidate their debt, firstly because they do not have enough money to pay the consolidated debt and secondly and most importantly they believe that some time later another amnesty will be released. Hence, they postpone paying their debts. Because of that reason, he claims that amnesties whip defaulting on the debt and provoke the regular payers not to pay. However from the consumers unions' view, the amnesties are insufficient and they claim that –amnesty adjusted- interest rate is still high. Apparently, compromise seems to be far away and discussions seem to last for a long time.

In 2003, the number of cards was 19,863,167 and money that was spent for shopping reached an amount of 40,3 billion YTL by increasing 15 billion YTL compared to previous year. Of this amount, 5.3 percent was financed with credit cards. In 2005, Turkish consumers financed 15.8 percent of their expenditures with credit cards. As credit card usage volume increases, default rates increase as well. But also there is a more important factor that increases default rates which is amnesty. After the temporary law was accepted, an amnesty on the bad credit records was also legislated. The record clearing amnesty was legislated in December 2003. According to that amnesty, if the legal and real people who defaulted on

¹⁰ Abdurrahman Yıldırım is an economist in Sabah newspaper, for further information about that news see: <http://www.sabah.com.tr/2005/12/28/yildirim.html>

their debt (debt should be due before December 2003) pay or consolidate their debt before the amnesty or in three months following the legislation of amnesty, then their bad credit histories will be erased and they will not be taken into account in further banking transactions. For those who are not in the scope of amnesty; the Central Bank of Turkey removes people from the black list three years later if they pay their debts and if there is no information whether the debt was paid or not, then they are removed from the list after five years. In the end of December 2003, in which the results of record amnesty were reflected to the black list, the number in the black list decreased by 324,316 and fell to 500,486.

2003 amnesty did not go further from being a partial and temporary solution to the credit card problems. In order to regulate the market more efficiently studies continued and finally from the beginning of March 2006 on, “Bank and Credit Cards Law” got into effect. This new law has been the most comprehensive credit card law. There are several subjects in the law that get attention. The organizations that want to establish credit card system and make agreements with member stores are required to get permission from BRSA.¹¹ Card issuers cannot distribute credit cards without the permission or request of consumer. If the minimum payment is not paid within three months following the final payment, then the card issuer sends a notice to the card holder for his debt. If the debt is still not paid after one month of this notice, then the card issuer cancels the credit cards that it has given to the card holder and do not give a new card until the debt is paid.

Before the law, consumers were complaining about credit card limits. They were stating that their credit card limits were being increased without their consent. Credit card issuers were used to increase the card limit if the holder made his payments regularly. With this new law, card issuers will not be able to increase credit card limit without the consent of the holder. A card holder’s total credit card limit of his all credit cards, for the first year,

¹¹ BRSA is responsible for the regulation and supervision of banking system in Turkey.

cannot exceed two times of his monthly net average income. For the second year, it cannot exceed four times of his monthly net average income. 2003's temporary article gave the right to card holders to object their debt summary in thirty days following the final payment day. But in 2005 law, this period has been decreased to ten days. In 2003, card issuers had to respond to consumers' objections in fifteen days; but after the law in 2005 they have to respond in twenty days. This situation supports the claims of consumers union because they claim that "Bank and Credit Cards Law" that was legalized in 2005 is in favor of banks. According to them, this law has been published not to help consumers but to help banks. The decrease in the number of objection days to the debt summary is one of their evidence in supporting their viewpoint.

With this law a new application has started and so called card insurance application was aimed to prevent unjustifiable usage of credit cards. According to that, if a card holder's credit card is stolen or his credit card information is lost and if he informs relevant authorities; his responsibility from illegal usage of his credit card prior to his declaration has been limited to 150 YTL. Another feature that aims to protect consumers' rights is about concealing the consumers' information. Consumer information cannot be sold or shared with third parties. Of course the most important part of this regulation is about the interest rates. The Central Bank of Turkey is the only authority to determine credit card interest rates and it announces these rates every three months. Banks should not pass beyond this ceiling rate.¹²

As of the beginning of July 2006, the Central Bank of Turkey announced the monthly maximum conventional interest rate for YTL as 5.72 percent -it was 5.75 percent after the law was legalized in March 2006- and 2.68 percent for US \$ and 2.5 percent for €. The monthly maximum default interest rate was announced for YTL as 6.44 percent -it was 6.88 percent after the law was legalized in March 2006- and 2.98 percent for US \$ and 3.05 percent for €.

¹² Banks' maximum monthly interest rates are stated in the next page. The rates are taken from the web site of Turkish Republic Central Bank, <http://www.tcmb.gov.tr>

There are still objections and complaints about these rates. Banks claim that they are in loss with this configuration. On the other hand, Consumer Unions claim that CB determined the interest rates by taking into account banks' requests. They state that country realities and consumer demands are not taken into account and request that the ceiling that was announced as 5.72 percent to be reduced to 3 percent. On the other hand, Turkish National Assembly European Union Conformity Commission suggested old card debts to be consolidated using a rate that takes producer price index as the base, but the government and Turkey Banks Union object their suggestion. The government members state that after the amnesty in 2005, only 266,840 people consolidated their debt. 35 percent of 1.5 billion YTL card debt was just consolidated. Hence they state that after the regulation the credit card problem does not occur because of the system but because of the ones who did not get benefit from the amnesty. The president of BRSA, Tevfik Bilgin made an invitation to banks to help card holders reconfigure their debt. He stated that they were criticized for their works during the arrangement of credit cards and for acting like Consumer Unions. However he also notes that the new arrangements that have been brought together with the law required banks to make self-sacrifice. These arrangements have provided fewer advantages than the funding costs to the banks.

Table 4: BANKS' MAXIMUM MONTHLY INTEREST RATES

YTL (as of July 2006) (in percentages)		
<u>BANKS</u>	<u>MAXIMUM MONTHLY CONVENTIONAL INTEREST RATE</u>	<u>MAXIMUM MONTHLY DEFAULT INTEREST RATE</u>
CITIBANK	5.72	6.44
KOÇBANK	5.70	6.44
TEKSTİL BANK	5.70	6.44
YAPI VE KREDİ BANK	5.70	6.44
FİNANSBANK	5.70	6.43
HSBC BANK	5.70	6.43
AKBANK	5.65	6.44
DENİZBANK	5.65	6.44
FORTIS BANK	5.65	6.44
GARANTİ BANK	5.65	6.44
ŞEKERBANK	5.65	6.39
ANADOLUBANK	5.62	6.44
TÜRK EKONOMİ BANK	5.45	6.44
TEKFENBANK	5.00	5.00
TÜRKİYE İŞ BANK	4.75	6.18
TÜRKİYE VAKIFLAR BANK	4.75	4.75
BANKEUROPA	4.72	6.14
OYAK BANK	4.25	5.52
TURKISH BANK	3.75	4.88
TÜRKİYE HALK BANK	2.99	3.89
T.C.ZİRAAT BANK	2.90	3.77
MNG BANK	2.75	3.58

Table 5: BANKS' MAXIMUM MONTHLY INTEREST RATES

US \$ (as of July 2006) (in percentages)		
<u>BANKS</u>	<u>MAXIMUM MONTHLY CONVENTIONAL INTEREST RATE</u>	<u>MAXIMUM MONTHLY DEFAULT INTEREST RATE</u>
ŞEKERBANK	2.59	-
HSBC BANK	2.50	2.97
TÜRK.VAKIFLAR BANK	2.50	2.50
MNG BANK	2.50	-
TEKSTİL BANK	2.50	-
TÜRKİYE İŞ BANK	2.00	2.60
AKBANK	2.00	2.60
FİNANSBANK	2.00	2.00
TURKISH BANK	2.00	-
KOÇBANK	1.90	1.90
OYAK BANK	1.90	-

Table 6: BANKS' MAXIMUM MONTHLY INTEREST RATES

EURO (as of July 2006) (in percentages)		
<i>BANKS</i>	<i>MAXIMUM MONTHLY CONVENTIONAL INTEREST RATE</i>	<i>MAXIMUM MONTHLY DEFAULT INTEREST RATE</i>
TÜRK.VAKIFLAR BANK	2.50	2.50
TÜRKİYE İŞ BANK	2.00	2.60

Bank and Credit Cards Law came along with the amnesty in 2005. This amnesty was added to the law at the last minute because the government refrained from consumers' reactions. After 2003 amnesty, consumers' and Consumer Unions' complaints went on, number of defaulted cards increased and number of suicides because of credit card debts also continued to increase. Hence the amnesty in 2003 was criticized for bringing out temporary solutions. Hence, same problems continued and finally with the legislation on credit cards a new amnesty was released. However this new amnesty was not only criticized again for bringing out temporary solutions, but also for falling short of 2003 amnesty. The main reason for that criticism is that with the new amnesty, only the ones whose debts accumulated with high interests and who were taken to the court would get benefit. Consumer Unions wanted the unpaid debts to be taken under the scope of the amnesty. However, their request was not taken into account. The card holders that defaulted until the end of January 2006 or the ones that were taken to the court because of their card debts got benefit from this amnesty. The debt was to be paid in 18 equal payments with an annual interest rate of 18 percent.

Table 7 : CARD STATEMENT

No of people that had card debt	958.948
Debt Amount	1.572.000.000 YTL.
No of people who took advantage of the law	266.840
Configured Debt Amount	548.055.000 YTL.

Source: Data was taken from Sabah newspaper's 14.05.2006 edition

From 958,948 people, number of those who had card debt, only 266,840 people applied to take advantage of the amnesty in 2005 (see Table 7). The number of people who

had credit card debt has reached an amount of nearly one million. One of the reasons for that increase is that some people pay their credit card debt with other credit cards. Hence, it becomes a vicious circle. Banks' unreasonable card distributions without checking the consumers' credit history is the main cause of this circle. According to the president of BRSA, Tevfik Bilgin¹³ ; "credit cards are perceived as the way of the continuation of lives not the way of easing the lives".

Bülent Deniz¹⁴ states that in a country where average civil servant salary is about 800 YTL, there are examples that a teacher has 21 credit cards and he pays 2800 YTL interest of these cards every month. The teacher admits that he is paying his card debts by borrowing from his acquaintances and when there will be nobody left to borrow from, he thinks that suicide will be only solution for him. There have been 41 deaths up to now because of card problems and this serious problem still continues as long as this vicious circle is not broken apart. According to a research named Consumer Index made by AC Nielsen in 2005; in the world, 40 percent of consumers prefer to save spare cash left over their essential needs. Europeans prefer to utilize 38 percent of spare cash after covering essential needs with buying new dresses and going to amusements. People in Turkey prefer to utilize 44 percent of spare cash after covering essential needs with credit card debts and other debts payments.

The new law promises stricter standards for the evaluation of credit card applications, tighter alignment of account limits with regular income, and a reduction in the ceilings on penalties for late payments. This is good news considering Turkey's problem of card debt. However, Turkish people have had a love-hate relationship with plastic money. Chronically high inflation, though currently under control, and reciprocally high nominal and real interest rates, combined with a low GDP per capita, have proven to be disastrous for many consumers taking on more credit card debt than they can afford. However, banks are also to blame, at

¹³ Taken from a report in Sabah newspaper in 20.02.2006

¹⁴ Bülent Deniz is the president of Consumers Union

least in part, for an inordinate rise in the stock of debt associated with credit card transactions. They have generally maintained rather loose standards on ability to pay when issuing credit cards, peddling them through stands at malls and supermarkets, making them available to anyone able to complete an application form, and sending out pre-approved credit cards.

Data released by the Interbank Card Center (ICC) and the Central Bank of Turkey (CBT) provide a good indication of the basic scenario. According to the ICC, the number of credit cards in circulation in Turkey reached 29 million as of the end of September 2005. Cumulative CBT figures up to the same point in time show that 570,000 credit cards were in default, with debts amounting to 1,17 billion YTL, the equivalent of \$875million. The total volume of debt outstanding in connection with credit card usage amounted to 16 billion YTL or \$12billion, according to the CBT report. However, the ICC and CBT data shows that almost 2 percent of credit cards in circulation as of the end of the third quarter of 2005 were in default, or, from a positive perspective, that slightly more than 98 percent were in good standing. On a less positive note regardless of the perspective, the underlying monetary values indicate that the volume of debt associated with accounts in default represented 7.3 percent of the total stock of debt on credit cards. This seems to paint a more somber picture of the default rate than does the ratio indexed to the number of cards. Especially as the 7.3 percent rate prevailing in September 2005 reflects an increase of three percentage points over the corresponding figure at the end of 2004. It also represents the highest rate on record since a peak of 8.9 percent registered at the end of 2001, the year Turkey experienced a major economic downturn. While the current default rate is slightly lower than the global average, estimated to be somewhere between 8 and 10 percent, the pace that Turkey is catching up with international norms is particularly alarming. The only mitigating factor is that the problem seems to be localized, as suggested by CBT figures anchoring the entire amount in default to 570,000 cards and an assessment by the Banks Association of Turkey connecting

these cards with 250,000 people. Regulation has been done to gain some degree of control over a persistent albeit isolated tendency to finance rather than earn a living, and a system providing the means to do so.

Together with the disadvantages Bank and Credit Cards Law has also some deficiencies according to banks and Consumer Unions. According to the president of Bank Asia Payment Systems, Faruk Nurdoğan,¹⁵ the biggest problem is about when the new arrangement will be applied. In the past, the credit card limit of a person who has 10 credit cards could reach 10-20 times of his income. However the new law gives permission to two times of income for the first year as the limit and four times of income for the second year. This new law is not clear about the way how the document about the annual income of a person will be obtained. Not the old card holders, but the ones that request for new cards will be investigated. But what if the card holder previously owns other credit cards? How its limit will be learned? These issues are still not clear with the new law. Another problem is the standardization in limits. For example, a self-employed person's tax statement sometimes can be very low or it can even show loss on it. Only the income of employees with payroll can be determined. Hence this new law may bring the problems about the documentation of income. A solution offered for that problem is the application of Turkish Republic Identity Number. If the consumer's all credit cards' information, both previously owned ones and the ones that will be owned in the future, are collected in a pool relating to identity numbers, supervision of credit card market will be easier.

In the past banks were used to keep the limits high. But with the law, the limit will be determined according to income and it will not be increased without the consent of the card holder. This situation will increase the bureaucracy and also it will increase the banks' burden. Another point in the new law is about the joint bail. The guarantor that signed in the

¹⁵ Taken from a report in Aksiyon magazine in 06.03.2006

credit card purchase was legally responsible in the past. According to new regulation, no operation will be made for the guarantor without completing the legal procedure. Faruk Nurdoğan interprets this as the removal of joint bail and adds that by that way, competition among the banks will become fierce and big banks will get advantage from this regulation.

The president of Consumer Association Engin Başaran¹⁶ claims that the law is in favor of credit card victims but not in general. He asks that: “In order to be a credit card victim is it necessary to default, disappear or even commit suicide?” The law does not include the consumers who make the minimum payments, do not miss the final payment. Hence the law is argued to be contrary to equality principle. Consumers Unions claim that the law will be modified in the future because it will not meet the needs. However, according to the general manager of Industry and Trade Ministry Consumers and Competition Authority, Özcan Pektaş: “The law is comprehensive. I wish it was not too late then there would not be so much problems. The release of this law should make consumers pleased.” Contrary to his statement, consumers complain mostly from the credit card interests. From those who applied to the Application Center, which was established in the structure of Consumers Union for helping consumers solving their problems, 37.41 percent complained about high credit card interest rates.

The development of credit card market has accelerated after 2001. In 2001, because of the economic crisis that Turkey experienced, 111,072 people defaulted on their credit card debt. After that crisis, as the government’s need for debt decreased, banks inclined to increase their consumer credits. That is why credit cards are marketed everywhere, in the streets, malls, etc. According to a questionnaire made in 2003, the answers to the question of how the consumers that joined the questionnaire possessed their credit cards reveals that; 43.9 percent reported that they applied to the bank, 29.2 percent answered that they possessed elsewhere

¹⁶ Taken from a report in Aksiyon magazine in 06.03.2006

than the bank, 26.9 percent told that credit card was sent without their consent. Banks are trying to get as more individual customers as possible to get more share of this market which will grow very much in the following 5-10 years. While doing that, they are not taking into account the financial situation of their customers. Nowadays, banks make cooperation in order to obtain wide spread usage in a short period of time. With these cooperation, one bank's credit card customer can get benefit from other bank's credit card opportunities. Another marketing tactic that the leader of Turkish credit card market realizes is the controlled credit cards. With the controlled credit cards, the bank aims to attract the consumers who are in the black list and who cannot document their income. With this new card, no legal procedure will be done for the collection of debt. Controlled card holders just need to open an account worth of 750 YTL-15,000 YTL. The limit will be equal to 70 percent of this amount. If the card holder defaults, then the amount will be taken from the customer's account. This is a good penetration tactic for banks in an environment where two of every three people do not have a credit card among adult population in Turkey.

Table 8: PERFORMANCE ANALYSIS OF 13 BANKS IN 6 YEARS
(card numbers and their volumes)

<i>Banks</i>	<i>2000</i>	<i>2005</i>	<i>Change(%)</i>	<i>Trade Amount(million YTL)</i>
1 Fortisbank	39,000	894,652	2194%	122
2 Denizbank	97,000	1,394,419	1337.5%	152
3 Finansbank	261,000	2,235,198	756.4%	369
4 Akbank	723,000	2,879,629	298.3%	958
5 Garantibank	1,205,000	4,750,387	294.2%	1,457
6 Koçbank	229,000	692,266	202.3%	121
7 İşbank	1,504,000	3,205,210	113.1%	891
8 Yapı Kredi	2,574,000	5,374,170	108.8%	1,613
9 Vakıfbank	1,219,000	2,022,147	65.9%	228
10 Şekerbank	159,000	219,344	38%	37
11 Ziraatbank	747,000	962,569	28.9%	98
12 Citibank	399,000	493,724	23.7%	57
13 Halkbank	1,325,000	1,102,047	-17%	95
TOTAL	13,338,000	29,263,906	119.4	6,198

Source: Capital Monthly Economy and Business Journal

The most recent news about the regulation of credit card market in Turkey is about the minimum payment. From the beginning of September 2006 on, the minimum payment limit will increase to 20 percent. In fact, it was not a surprise because this decision was stated in the Bank and Credit Cards Law. According to the law, minimum payment cannot be less than 10 percent of term debt following six months of legislation of the law; and it cannot be less than 20 percent of term debt after these six months. In the case of partial payment of term debt, interest will be calculated on the remaining account balance. To the remaining account balance, if the payment is made above the minimum payment, conventional interest will be applied and if the payment is made below the minimum payment, default interest will be applied. It is now expected to bring more financial straits. As Tefvik Bilgin, the president of BRSA, stated that nowhere in the world has such an application called minimum payment in the credit cards¹⁷. He told that during the preparation studies of the law, BRSA offered to prohibit minimum payment application, but their offer was not taken into account.

Consumer Unions argue that as long as the minimum payment application is not prohibited, the number of credit card victims will continue to increase. After this application, what will happen to 700,000 people who can just pay the minimum payment amount? This is the most recent question Consumer Unions are asking to the government and banks. Only a few banks heard of their calls and provided some opportunities for paying out their debt in fixed installments. According to Vice-president of Consumer Rights Center, Faruk Hançer,¹⁸ the biggest problem for credit card holders is the minimum payment amount. He claims that if a legal arrangement is made in order to abolish this application, then the number of credit card victims will be decreased by 80 percent. It can be understood from that statement is that credit card holders pay the minimum payment amount but do not pay the remaining balance. If the

¹⁷ <http://www.sabah.com.tr/2006/08/28/eko124.html>

¹⁸ Taken from a report in the web site of Haber Kenti, <http://www.haberkenti.com.tr>

minimum payment rate is increased from 10 percent to 20 percent, then the number of those who pay the minimum payment amount will decrease sharply.

The credit card usage prevents the informal economy, but on the other hand it sometimes causes illegal operations. Are usurers working with POS machines? This is the question that is being asked recently. According to Consumer Unions, usurers have started to settle credit card holders' debts through POS machines that they took from the banks in the name of companies that they established. They are using these POS machines in order to collect the debt that they have lent to consumers. The consumers who have difficulties in paying out credit card debt have also difficulties in borrowing consumer credits because of banks' deliberation in order to avoid bad loans. Hence the consumers who cannot take consumer credit borrow money from the unofficial usurers in order to pay their credit card debts who lend money with interest illegally. Usurers collect the debt by making installments from the consumers' same credit card that they have closed out the debt. While determining the interest, usurers also take the maturity date into account. They apply a monthly interest rate of 2.5 percent. For example, a person who wants to close out his 10,000 YTL credit card debt in 12 months pays around 13,500 YTL to the usurer. As the maturity date extends, the payment amount increases. If the same amount of money is wanted to be withdrawn from the bank through the credit card, by taking into account monthly average 5.15 percent interest rate, 18,300 YTL is paid in 12 months. Hence, the banks collect almost 5,000 YTL more from the consumer compared to the usurers.¹⁹

According to Consumer Unions minimum payment application should be removed totally. By that way the consumer should be directed to learn expending considering his earnings when the day of payment comes. Because minimum payment does not go further

¹⁹ Taken from the web site of http://www.haber3.com/haber.php?haber_id=148199

from causing debt increase with accumulated interest. Beside, banks and BRSA should investigate better when giving POS machines to the companies.

Turkey first met with credit cards that make installments in 1999. From that time on, Turkish people loved making installments for their expenditures in shopping. According to a questionnaire that was done about the credit cards, from the participant card holders, 63 percent told that the most important advantage that a credit card can offer is the option to increase the installment numbers.²⁰ Making installments for the expenditures using credit cards is a widespread application. In European countries installments are made with credit cards as well, but the maximum installment amount is 6, whereas in Turkey there are installments up to 24 months. In the regulation of credit card market, there is not even a word about the installment application. However one of the most discussed topics of this regulation is installments to credit cards. The credit amount that is obtained from the shopping done through using installments in credit cards is equal to an amount of 3.8 million YTL.²¹ Even the money of fast consumed goods like bread, cheese was paid in installments. This situation was bothering the banks because consumers were paying the money of the consumed goods even 6 or 12 months later. Finally in February 2005, in the leadership of Banks Union, banks made an agreement among themselves and agreed to stop making installments in fast consumed goods and fuel oil. In fact, this situation was contrary to competition. The banks who joined the agreement could even get a punishment for the violation of competition law. Nonetheless as of April 2005, with the request of BRSA, the application of installments in the fast consumed goods was abolished legally. The reason of BRSA for their request is that shopping in installments is expending unearned money. People expend more if their expenditure is made in installments. As they expend more, the probability to default increases. As default number increases, credit cards continue to be a big problem.

²⁰ Results of MasterCard's MasterIndex Research as of July 2006

²¹ <http://www.milliyet.com/2005/03/05/yazar/tamer.html>

The card holders are frequently warned about the possible adverse consequences of extreme and unconscious usage of credit cards. It is even offered to put warning notes on the credit cards to prevent the increase in the number of defaulted credit cards. Most of the defaulted card holders have small amount of credit card limits. 75 percent of those who are in the legal pursuit are the ones that have credit card limits of 0-500 YTL. In Turkey, for those who do not pay their credit card debt for 120 days, legal pursuit is started. Among those who have card limits of 0-250 YTL 433,000 people could not pay their debt back. There are 387,000 people who cannot pay their debt back and whose card limit is between 250-500 YTL. Hence, 820,000 people of whom credit card limit are between 0-500 YTL were not able to pay their card debt. The authorities claim that after the regulation in credit card market, card holders should become more conscious and should not undertake more debt than they can afford.

Despite the fact, if the credit card problems continue and default numbers go on to increase, then card holders are to blame not the system. Then the question comes to minds: Will this situation last forever? Everybody answers this question from a different point of view, some authorities claim that the problem will never end. On the other hand some others claim that the problem will be solved soon as the results of the regulation come into effect. Contrary to an expenditure amount of 11,9 billion \$, a default amount of 875 million \$ has occurred and the default rate has increased to 7.4 percent as of July 2006. This rate even passed the maximum level in 2000 which was 5.5 percent. The number of unpaid cards in the first seven months of 2005 was 176,215. The average monthly number of people who had troubles in paying out their credit card debts was 5,640, but this number has increased to 13,985 in the first seven months of this year. Hence, every month nearly 14,000 people get into trouble in paying out their card debts. At first, this seems to be the problem of defaulters and the banks only. But if we think the situation from a macroeconomic perspective, we see

that this problem also means the cut off of 14,000 people's expenditures. These 14,000 people will stop buying most of the things they buy in order to pay their debts. Hence, the credit card problems also affect tradesmen and cause stagnancy in their business. This stagnancy will last until the card debts are paid.

In fact, the beginning year of the problem is 2004. In 2004, growth reached a level of 9.9 percent and consumer demand was high, habit of making installments in shopping using credit cards was very widespread. Now, both the expenditure side and payments system side are trying to digest the effects of the credit card debts occurred as a consequence of this extensive and unconscious usage. System will be able to clean up itself probably in 2-3 years. The return of credit cards will make new expenditures possible starting from 2007. Although this process gives an advantage to control the inflation, it also causes some disadvantages in the growth in the domestic market. Hence credit cards bring many disadvantages together with its advantages. There are many issues that are being talked about credit cards; banks and consumers; both sides have important roles in the process of gathering solutions for credit card problems. However the first and the most important issue is that consumers should be conscious while making expenditures with their credit cards.

4. Conclusion

Turkish credit card market is a growing market that also carries a high potential. In this growing market, the competition is so fierce that banks try every possible tools to get more market share. Distributing cards in the streets, malls, etc is one way of this. But this extensive and unconscious distribution puts the credit card market into trouble. Card holders and Consumer Unions complain about the high interest rates, economists complain about the default rates and banks complain about the amnesties. After all of these complaints together with the accelerating role of credit card debt suicides, regulation has been made in the credit

card market. With this regulation, Central Bank of Turkey has put a ceiling on the credit card interest rates and clarified some points that were complained about. In this paper; reasons, advantages, disadvantages of this regulation are discussed.

The regulation and amnesties in 2003 and 2005 are examined and the effects of them are presented from the point of view of both sides. Banks claim that they are hurt from the amnesties, consumers cry out about the interest rates. None of the sides seem to be pleased with the regulations or with the amnesties. This situation is also obvious from the results of the number of people who got benefit from the amnesties. Few people apply to consolidate their defaulted debt. Hence it is argued that no further amnesty is needed since it does not reach the target. With the Bank and Credit Cards Law, Central Bank of Turkey announces the credit card interest rates every three months and banks' rates should be below this ceiling rate. This paper compares the default numbers before and after the regulation and then looks at the effect of the regulation from this perspective.

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