



# The Feasibility of Istanbul as an International Financial Centre

*What is required to make Istanbul a global financial centre?*

An extensive study commissioned by TBB on behalf of the Government of Turkey  
*A Safe Haven for Investment, 12 February 2009, Swissotel, Istanbul*

Consulting • Corporate Finance • Tax • Audit

# Introduction

---

- **Vince Colvin** – 18 years Financial Services Strategy; 6 years dedicated to building international financial centres; built complete IFC in Qatar
  - **The question:**
    - “Is the development of a world-class, value generative financial centre in Turkey feasible? How can we achieve this?”
  - **The study:**
    - 14 weeks feasibility study, 6 weeks development plan
    - Over 60 interviewees, 200 data sources
    - 6 comparative case studies (London, Moscow, Dubai, Dublin, Warsaw, Istanbul)
    - Combined expertise of Deloitte Istanbul, London and Global
    - 300 page report, recommendations, financial model, change roadmap
-

## **The nature of financial centre competition**

---

- An international financial centre is:
    - ...an aligned political, legal, fiscal, regulatory and physical environment
    - ...that provides a low cost, low risk framework for all participants
    - ...within which commercial, investment and private banking, asset management and insurance flourish, and where capital flows efficiently
  - We are witnessing the emergence of financial services as a global marketplace – but “regionality” remains critically important
  - There is true competition – but the market is not mature
  - Every jurisdiction can compete on its own terms – e.g. niche vs. global
  - Strategically, each jurisdiction must use its assets to maximise return
  - Given it’s assets, Istanbul has the potential to be truly international – rising above existing centres to match the best in the world
-

## **Findings of the study I: the answer first**

---

### **Is the development of a world-class, value generative financial centre in Turkey feasible?**

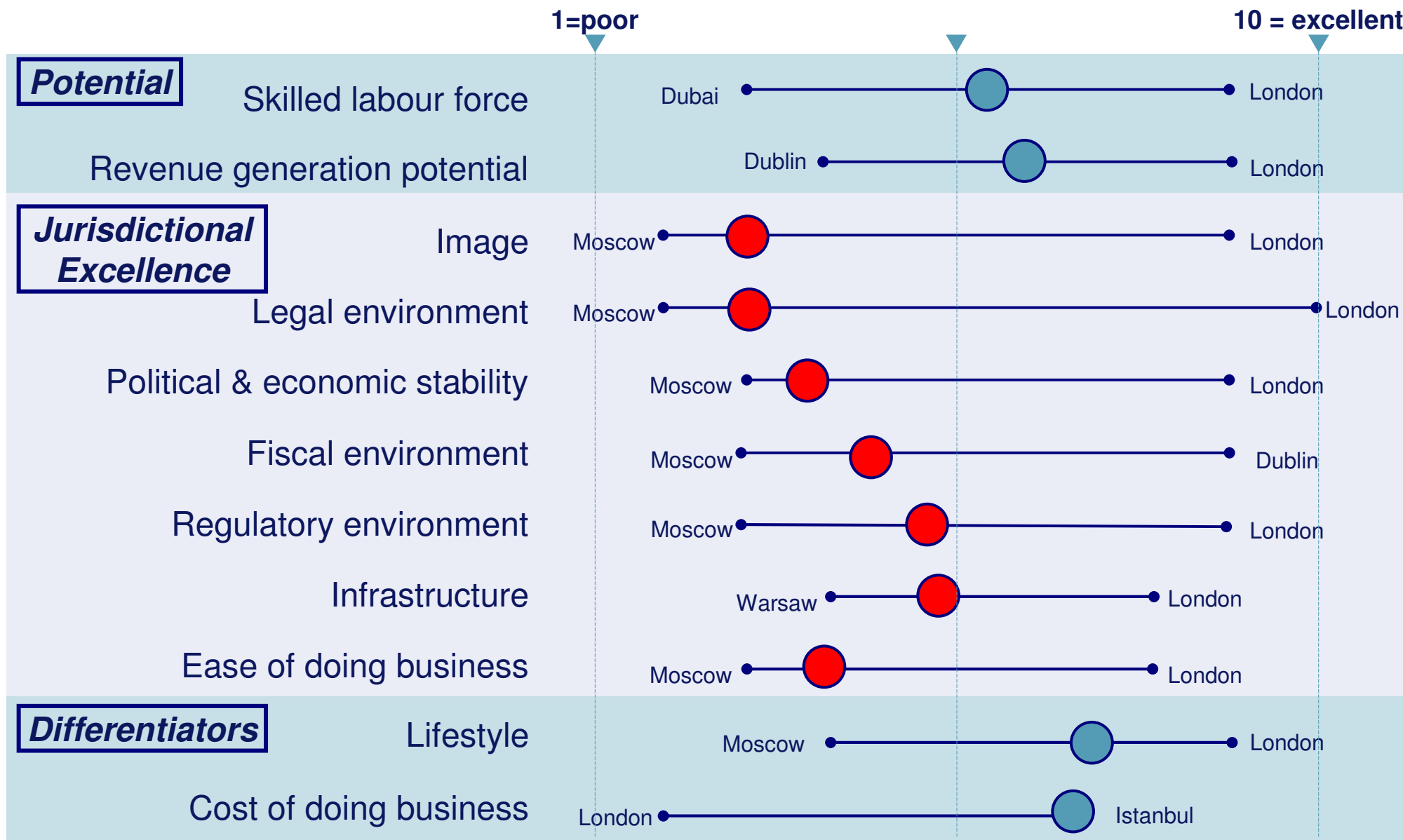
Yes... Turkey is a country with the resources, domestic and regional potential, latent skills-base, location and national pride ...

### **How can we achieve this?**

but... It will take strong leadership & political mobilisation to make difficult decisions, commitment of significant resources and a patient attitude to 'return on investment'

---

# Findings of the study II: parameters of competition



# Findings of the study III: potential and differentiation

---

## 1. Skilled labour force

- Large, young workforce
- High relative tertiary education spend
- Well trained top management elite, *but...*
- Total spend per capita is low
- Good middle management is scarce

## 3. Lifestyle

- “One of the coolest cities in the world”*
- Rich cultural heritage, vibrant nightlife
  - Quality of amenities is improving greatly

## 2. Revenue generation potential

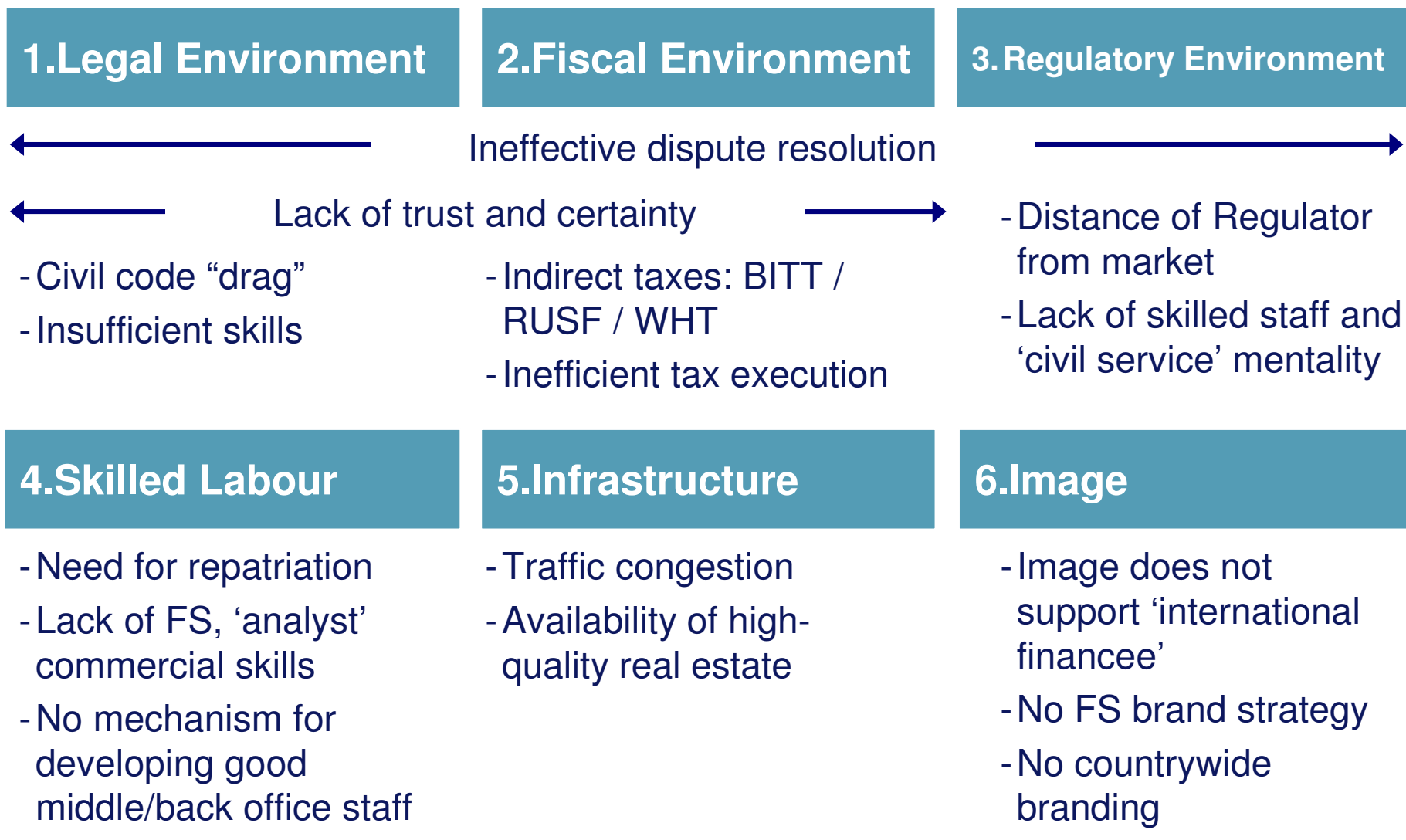
- Huge economic ‘hinterland’
- Large and fast growing economy – in almost every sector
- Relatively underpenetrated FS market
- Straddles economic zones, with strengthening economic ties

## 4. Cost of doing business

- Relative advantage in labour cost (e.g. best graduate starting salaries)
- Relative advantage in real estate cost (e.g. lowest office space per sq. meter)

# Findings of the study IV: issues to be addressed

---



## **“Winning” vision and strategy**

---

- One of five truly international centres within 30 years - regionally dominant within 10 years
  - Based in Istanbul; instantly recognisable; a cluster of world-class financial service and business expertise
  - Initial strategy = ‘domestic jurisdictional excellence’ + ‘regional dominance’
  - A product focus that utilises immediate opportunities and domestic potential
  - Allow the market to choose the winners
  - Based upon a ‘fit-for-purpose’ jurisdiction
  - Fully integrated into the legal, regulatory and fiscal environment of Turkey in the medium-term, but with:
    - specialised courts and arbitration bodies
    - certain indirect/transaction tax exemptions
    - a single FS regulator in Istanbul and a world-class IFC governing body
-

## Cost and benefit

---

- Scale of programme: approx \$2bn
- 4-5 year programme
- Significant allocation (and re-allocation) of resources
- Requires the dedication of a very senior team
- Many funding options



By 2025:

- \$20bn additional annual GDP
- 150,000 new financial services jobs
- x1.2 to x2.2 economic multiplier

## **Who will benefit?**

---

- 1. All Turkish financial services companies and all international companies who compete here**
  - 2. Turkish People and Government**
  - 3. Turkish Banks**
  - 4. Turkish Financial Market**
  - 5. Central Bank and Regulatory Bodies**
  - 6. Turkish Companies (especially SMEs)**
  - 7. Metropolitan District of Istanbul (and beyond...)**
  - 8. Turkish Cultural Institutions**
  - 9. Skilled Turkish citizens abroad**
  - 10. Turkish EU accession**
-

## **Do current market conditions change anything?**

- **Tighter credit** to mid-term?
- Consolidation of balance sheets will **reduce capex-led growth**
- **'Re-balancing'** towards Sovereign Wealth Funds, Hedge Funds, Oil Investors, Asian Banks, Asia
- **Talent migration**
- **Cannot 'un-invent' financial services products.** They all have their place in the future - though their place of manufacture may change

## **Flux and Mutability: What will it mean for IFCs?**

---

- Opportunities and threats. **Winners and losers.**
- **Greater intensity of competition** for global and regional financial business
- Strengthened calls for tighter regulation (e.g. TIEAs, 40% of currently unregulated capital), hence **fewer “regulatory arbitrage” opportunities.**
- **Complex product picture** (e.g. securitisation v. private placement)
- **New-entrant IFCs may focus** on specific sectors
- **Strains on governments’ finances**
- Need for **“pursuit curve strategies”**

---

Source: Flux and Mutability, V Colvin & J Cullinane, Financial Times, September 2008

## **Appropriate 'change management' philosophy**

*"I am not predicting success. I am not predicting failure. Rather than make predictions I am encouraging you to get on with the job that needs to be done"*

**Professor Jeffrey Sachs**

(Professor of Sustainable Development, of Health Policy & Management at Columbia University)

*Reith Lectures, 2007*

---

**Deloitte.**