

A New Non-Banking Financial Service: Savings Finance Company

Introduction

Private companies that provide financing services for the purchase of housing properties and motor vehicles, namely savings finance companies, have been operating for a long time in Turkey. The enormous increase in the popularity of this model led to novelties in the Law on Leasing, Factoring and Savings Finance Companies (No. 6361, "Law") to ensure regulatory supervision of this business model. A change in the title of the law is also made by replacing the term "Financing Company" with "Savings Finance Company". The amendment was published in the Official Gazette (No. 31416) on March 7, 2021 and entered into force on the same date.

Legal Definition

Savings finance agreements grant the companies the right to manage the accumulated savings of the customer, to provide financing and the right to receive organization fees while providing interest-free financing for the acquisition of a house, office, or a motor vehicle to the customer if the predetermined conditions are met. Such conditions vary according to the negotiated savings amounts and periods.

Incorporation Requirements

A savings finance company must be established in the form a joint stock company. Moreover, the trade name of such a company must

contain the component, "Savings Finance Company". The incorporation requirements also set a minimum capital of 100 million Turkish Liras.

The capital contribution must be paid in cash, and all the shares must be registered. It is also required to submit an activity program illustrative of the business plans of the envisaged activity fields, projections regarding the financial structure of the organization, a budget plan for the first three years, and the structural organization. The Law also stipulates requirements for the founders regarding their criminal records and financial position in terms of insolvency, concordatum, et cetera.

In addition to the fulfilment of the above-mentioned criteria, at least five of the members of the Banking Regulatory and Supervisory Authority ("BRSA") should vote in favour of the incorporation of the company to grant an establishment license. However, further authorization is required to start its operations. BRSA should also issue an operating license to be published in the Official Gazette.

2 **Liquidation**

The amendment introduces several provisions regarding the cancellation of the operating licenses and liquidation of such companies. In cases where it is no longer possible to strengthen the financial structure or if the requested measures are not taken, BRSA may cancel the operating license or liquidate the company through a decision taken by the affirmative votes of a minimum five of its members.

Transition Process

The existing savings finance companies must apply to BRSA within a month after the amendment enters into force and they must submit a plan to make their situation in compliance with the provisions of the Law within six months at the latest. Such a period can be extended in the presence of certain conditions. Companies that wish to terminate their operations, on the other hand, should submit a liquidation plan within the same period.

Conclusion

The institutionalization of the existing financial services through the introduction and regulation of the savings finance company is vital for consumer protection and market reliability. In terms of consumer financing, these developments will have a positive impact within the meaning of constituting alternatives to loans extended by conventional banking institutions, as it increases the number of safe financing options provided to consumers.

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