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Follow The Money: Decoding PayPal's Withdrawal From Turkey

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Does the global payment services company need a new **regulatory affairs strategy** to resume its operations in Turkey?

PayPal has suspended its operations in Turkey as of June 6th, 2016. The decision was taken due to the refusal of Turkey's banking regulator agency to grant a required license for the resumption of payment services. According to PayPal spokesperson **quoted by TechCrunch,** the disagreement is caused by Turkey's financial regulation that "requires PayPal to fully localize information and technology systems in Turkey." In a notice to customers, PayPal said it would continue its attempts to obtain the licenses to resume payment processing in Turkey. However, it remains to be seen how the company will determine a new strategy for Turkey and how the Turkish government will respond.

The incident stirred a debate among IT gurus, costumes and pundits regarding the implications of Turkey's political and legal environment on its connectedness with the global economy. Therefore, looking deeper into the underlying reasons and possible solutions is critical to understanding how the payment services and e-commerce sectors will be affected.

The Logic Behind the Regulation

An announcement by Turkey's Banking Regulation and Supervision Agency (BRSA) claims that Turkey's demand for the localization of IT systems is in line with the Law No: 6493 enacted in 2013. Comments by BRSA's chairman assert that the agency communicated the issue with PayPal in previous encounters. However, in addition to refusing to transfer its IT systems to Turkey due to its corporate policies, the company also did not respond to

BRSA's suggestion to apply for a limited type of license within the "cross-border" framework allowed by the law.

Since the debate has become highly politicized, understanding the goal and strategy of the Turkish government is important to make an accurate analysis. Below are the highlights of the law's preamble:

- **Creating a coherent legal framework in line with EU and international legislation to regulate the expanding non-cash payment services, whose importance is increasing in economic life.**
- **Allowing non-bank payment service companies to operate in Turkey, improving competition and service quality in the field, decreasing the costs and broadening access.**
- **Determining the rules and regulations within a regulatory framework to ensure control and audit of payment and electronic currency companies.**
- **Establishing a supervision mechanism by the Central Bank for the stable operation of payment and securities systems.**

A Complex Stakeholder Landscape

Given the complexity of the situation, in part created by reciprocal declarations from both sides, it is unlikely that BRSA will step back and make regulatory changes in the short-term. Moreover, BRSA is not the sole decision-maker on the topic. The Revenue Administration, the Financial Crimes Investigation Board (FCIB) and Central Bank of the Republic of Turkey (CBRT) are also important players. Let's have a look at their positions.

The tax dimension is important for the Revenue Administration. The Administration expects greater revenues based on the example of the tax issue between Italian government and Google. It is possible to diversify money traffic in addition to goods traffic when it comes to customs duties.

What matters for FCIB is to control money traffic thus to be able to prevent and investigate financial crimes. For this reason, it is important to have the critical infrastructure related to this traffic within the jurisdiction of the Turkish law. This is an important issue in the fight against terrorism and financing of terrorism.

Even though CBRT sees the issue within the authority of BRSA, money transfers are important for its activities as well.

Road Ahead for PayPal

Under the current circumstances, there seems to be three options for PayPal if it wishes to continue its operations in Turkey:

- **Abandoning some of its activities and continue as a "cross border" platform under a limited license model.**
- **Establishing payment services' IT systems in Turkey and synchronizing them with the systems abroad. This means setting up a special system in Turkey only to meet the limits of the Turkish regulations, which will be simultaneously connected to its international systems. Turkey possesses competences and infrastructure to provide that capacity. Given the global scope of PayPal's global activities, this option should be considered according to PayPal's market share in Turkey. Whether it's a worthy undertaking is a business decision .**
- **Considering Turkey as a financial hub instead of a single country, which can be beneficial for tax and payment services purposes.**

There might be other options as the situation unfolds. What's clear is that PayPal needs a new regulatory affairs strategy that supports its business goals in Turkey.

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