

Kazakhstan's FinTech Landscape

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I. Introduction

Nowadays digital technologies have become an integral part of human life. This is mainly due to the high availability of the Internet – 93.7%. Technologies simplify the process of obtaining services and also save time. Banks and financial organizations in Kazakhstan are actively developing their digital services and ecosystems to meet customer requirements and strengthen their positions. FinTech is the driver of the qualitative growth of the entire financial sector.

Kazakhstan is leading in the development of the FinTech market among the countries of Central Asia. The number of payment cards in circulation over the past five years has increased by 46.7% to 46.8 million. Every working citizen of Kazakhstan has an average of 5 payment cards. In 2021, compared to 2019, the amount of non-cash payments increased almost to 2.5 times. The average check for non-cash payments decreased by 7%. Kazakhstanis are increasingly using cards for day-to-day transactions.

Despite the prevalence, accessibility, and leading positions in the region, the FinTech market is still at an early stage of development. On the other hand, the FinTech market already has a great potential for growth amid the wide availability of the Internet and non-cash payment's high growth. In 2020 Nur-Sultan was 2nd in high-growth ecosystems ranking in the Global Startup Ecosystem Report 2020. In 2021 Kazakhstan ranks 13th among the countries of the Asia-Pacific region in the Global Fintech Index Rankings Report. According to the Kazakhstan market research, FinTech startups in Kazakhstan are young companies, most of which (44%) have been working on the market for one to three years. Almost 70% of startups are self-funded. In this regard, one of the main constraints on the rapid development of the FinTech market in Kazakhstan is the lack of free access to financing.

This article describes the current state of the financial technology market in Kazakhstan. Carried out an analysis of the dynamics of the latest trends, and described prospects of the development of financial technologies, which have not yet been widely spread.

II. Features and main directions of the fintech market in Kazakhstan

At present time, there is a certain bias in some types of services in Kazakhstan, as well as the dominance of some players, which to a certain extent hinders the development of the market as a whole. The most widespread direction in the field of FinTech at the moment is online lending and payment transactions. Except for major players, there are a significant number of small companies in this field. Despite a small market share, these companies demonstrate rapid growth, offering products in demand from customers.

The list of companies providing payment transaction services is plentiful and includes several dozen companies. They provide acquiring services (ipay, paybox.kz), Pos services (K-pay, Pay Me), e-wallets services (wooppay, QIWI), and more. It is noteworthy that this market has recently become popular for mobile operators. Beeline and Activ/Kcell launched their own digital payment cards Simply and OGO in 2021.

Another direction of FinTech development is the micro-lending market. Microfinance organizations have introduced the possibility of online lending and their business is focused on “payday loans” – short loans for no more than 30 days. Such short-term loans are popular among people with low or unstable incomes. This allows them to solve their financial issues promptly. According to a study, the average user of their services is a 30-year-old man with higher education, who works in the public sector and has neither a wife nor children.

III. Most influential FinTech companies and their services

As for the major players, the clear leader in the FinTech market of Kazakhstan is Kaspi Bank. In the rating of banks of Kazakhstan, prepared by the international consulting company Baker Tilly and Forbes Kazakhstan, Kaspi Bank took the 1st place. Kaspi Bank’s app provides customers services such as making purchases with home delivery, instant transfers inside and outside the system, receiving public services online, and buying air and railway tickets. Entrepreneurs accept payments with Kaspi QR, to increase sales and develop their business. In 2021, Kaspi Bank became the first bank that, in cooperation with government agencies, introduced the possibility of buying and online re-registration of a car in their application. The intertwining of banking and public services has become possible due to the high digitalization in the public sector of Kazakhstan. As a result, in 2020, Kazakhstan ranked 29th among 193 countries in the UN rating for the level of e-government development, moving up 10 positions. Other second-tier banks also have similar services and marketplaces (Forte Bank, Halyk Bank, Jusan Bank, etc.)

Another major player in the market is Freedom Finance, which had recently rebranded and announced their new ecosystem. Due to the integration of platforms and services of the holding, the client can receive a wide range of financial services: from classic financial services (banking, insurance, brokerage account) to obtaining a loan to buy an apartment and a car online.

In the financial market of Kazakhstan, the most significant innovation in recent years is the digital mortgage. Freedom Bank introduced this service in 2021. The next year, similar services appeared at fully digital Altyni Bank. The digitalization of such kinds of services has become possible due to biometric identification. This system compares the client's photo from the bank with an image from the state database. The results obtained are transmitted to the bank, which decides on the provision of services.

IV. Initiatives taken by authorities for Fintech

In response to the rapid changes in the financial technology market, many regulatory authorities have introduced a special legal regime for companies in this sector, which allows them to test new solutions in a safe controlled environment without the risks. This regime has been called a “regulatory sandbox”. Kazakhstan is no exception in this matter. At the moment there are 2 regulatory sandboxes. A special regulatory regime (regulatory sandbox) of the National Bank and the Regulatory Sandbox of the Astana International Financial Centre which is called “FinTech Lab”. The National Bank’s regulatory sandbox is aimed at increasing the flexibility of financial market regulation, developing and increasing the availability of financial services, and introducing new financial products. The term for the introduction of a special regulatory regime is determined within the framework of the agreement between the participant and the National Bank but does not exceed 5 years. “FinTech Lab” is a specialized productive environment in which firms can offer innovative financial services and services related to regulatory technologies (RegTech), without immediately becoming the object of the entire set of regulatory requirements.

V. Niche areas that fintech is yet to exploit

Despite the relative development of the FinTech market in Kazakhstan and the presence of favorable regulatory conditions, market distortion affects the underdevelopment of individual sectors. These include the insurance sector. For a long time, the development of InsurTech in Kazakhstan was limited by law. The need to issue paper policies with a handwritten signature of the client did not allow the development of online projects and the introduction of technological solutions. However, at the beginning of 2019, the National Bank introduced electronic insurance policies for mandatory types of insurance. This was the beginning of the digitalization of the market. In addition to the compulsory car insurance market and electronic insurance policies, technological solutions on the market include the cooperation of insurers with marketplaces and online services operating in the automobile and travel segments. The most popular retail insurance product in Kazakhstan is compulsory car insurance, which is the main driver of the market. Thanks to the introduction of electronic insurance policies, car owners have the opportunity to insure themselves online. InsurTech in Kazakhstan is still in its infancy but this direction has a promising future. The main goal now is to build the market and prove that technologies are needed not only by customers but also by the companies themselves, as well as by the regulator.

VI. Conclusion and SWOT analysis

Summing up, the FinTech market in Kazakhstan is undergoing a phase of rapid growth. However, it is still in the emerging stage. The high level of the Internet penetration and the increase in online payments create favorable conditions for its further growth. Furthermore, breakthrough fintech services similar to online mortgages are present and being introduced in the market of Kazakhstan. Constraints to the further growth of the fintech market are difficulties with financing for new players and startups. Concentration on some types of services, as well as the dominance of some players, to a certain extent, hinders the development of the market as a whole. At the same time, certain niches have not received significant development at the moment. A short SWOT analysis below highlights the many advantages and challenges of FinTech market in Kazakhstan.

SWOT analysis

Strengths	Weaknesses
A cheap and competent workforce; Ease of starting a business; Tax preferences and state support; The developed basic and financial infrastructure in cities.	Limited and heterogeneous domestic market; Underdevelopment of venture financing; Insufficient financial literacy; Striving for technological isolation.
Opportunities	Threats
A high proportion of the population is not covered by financial products; The state's focus on increasing the transparency of business and the economy; The possibility of developing cooperation/partnership between universities, banks and fintech companies, the possibility of developing young talents; Public investment in basic infrastructure.	High concentration of the banking sector; The growing shortage of specialists, the outflow of competencies and talents; Cyber threats and weak protection of consumers' data; Government regulation lagging behind the needs of business and technological development.

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