SKOLKOVO

RETAIL PAYMENTS IN RUSSIA

Retail payment customers' sentiments in 2017:
established habits & new trends

Moscow, 2017

Agenda

- Executive summary
- Motivation
- Research design
- Retail payments: consumer profile
- Retail payments: merchant profile
- The effect of changes in current terms
- Financial innovations: attitude & habits of consumers & merchants
- Financial inclusion: in-depth review

Executive summary

Consumers

Average experience of using cashless payments is **more than 3 years;** 75% have cards, 88% of them use them, **64% of users** are ready to pay using cashless methods **always or almost always**

One third are ready to get **all banking products remotely (online)**. Key benefits of innovations are time saving & convenience.

The diversity of used services **decreases** because of **distrust to new services, non-transparent terms, insufficient financial literacy level**

Reaction to changes in loyalty programs (LP)

45% of LP participants would use card more actively if their terms were improved

13% (17%) of LP participants will decrease card usage frequency, whilst **3% (5%) refrain** from cards under worsening LP conditions (or their cancellation)

Merchants

62% of merchants accept cashless payments, 38% of merchants don't accept; e-commerce merchants prefer cashless payments (37%)

7-15% of merchants consider current level of merchant discount fee as **too high, whilst 50%** of merchants consider current **MDF rate as satisfactory.**

The share of merchants that are ready to switch to **fully remote use of** financial services: 44% of traditional chains, 36% of traditional non-chain stores & 76% of e-commerce merchants. The satisfaction of needs in financial services is estimated at 70-80%

Reaction to changes in merchant discount fees (MDF)

50% of traditional merchants will not change retail prices despite some increase in costs, while 44% of e-commerce shops will get cost increase followed by price increase, **if MDF rises**

If MDF decreases, the costs of traditional merchants will decrease significantly **(45%),** while prices will remain unchanged **(64%); 48% of** e-commerce merchants note cost decrease & in **30%** of cases the decrease in MDF rate may lead to price cuts

Motivation

Idea & goals

Empirically investigate & evaluate:
- Russian retail payments market from the perspectives of individuals & merchants
- Attitude of individuals & merchants towards cashless payments & emerging financial innovations,
- Access & usage of financial innovation (FI)

Main additions

- Analysis of **developing** Russian retail payments market
- Particular focus on **attitude of customers**
- **Counterfactual experiment** of changes in current terms & their consequences
- Evaluation of FI usage & the level of financial inclusion
- Usage of **focus groups & in-depth interviews with experts** of the market to gain in-depth analysis

Research design

Individuals

Survey

- **All Russian population**
- **Face-to-face** interviews
- **18 years** & older
- **Representative** sample **of 1500 individuals**
- **Special focus on** attitude towards cashless payments & financial innovation
- **3 stage** probability sampling, quotas on age & gender
- Additional **focus groups (4)** for results verification

Merchants

Survey

- **Representative** sample of **800 traditional & e-commerce** merchants in Russia
- **Face-to-face** interviews
- **Extensive questionnaire** with the focus on card acceptance & attitude towards cashless payments & financial innovation
- Additional **in-depth interviews (15)** for results verification

Consumer profile

>3 years - average experience of using cashless payment methods

64% of cardholders that use cards for payments **are ready to pay with card always or almost always** if the merchant accepts cashless payments
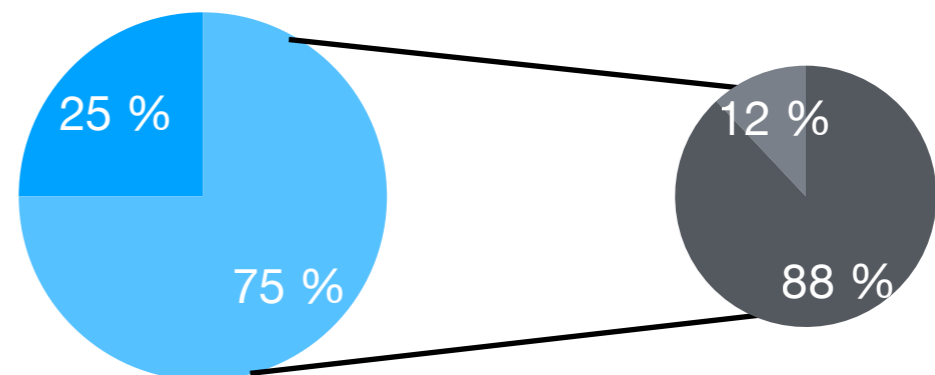
41% of cardholders that use it for payments participate in **stimulating programs**

Main reasons for **not owning a card:**
- No need (**53%**)
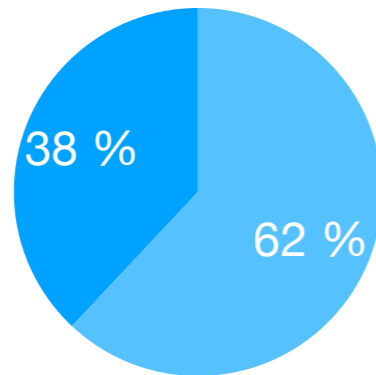- Convenience of cash (**38%**)
- Distrust to banks (**20%**)

Have at least one card   Pay with cards
Don't have any cards   Don't pay with cards

25 %

75 %

12 %

88 %

Merchant profile

Share of merchants accepting cards

● Accept ● Don't accept
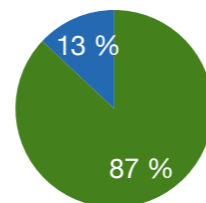

38 %

62 %

E-commerce

33 %

67 %

Traditional non-chain stores

48 %

52 %

Traditional retail chains

13 %

87 %
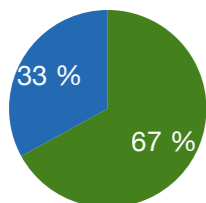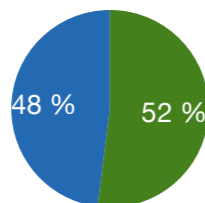
- The largest share of merchants preferring cash are among traditional non-chain stores (36%).
- Traditional retail chains are indifferent between cards & cash (23%).
- Cashless payments are preferred among e-commerce shops (37%).

Merchants associate cashless payments with **convenience and benefits even under current cost of acceptance.**

Consumers' demand & competition among merchants are the main **drivers for card acceptance**

Merchants & acquirers

More than half of merchants **are ready to change the acquiring bank** if the terms are unsatisfactory. Moreover, not only MDF is important but **the set & the quality of services** as well. Yet, MDF is still the most important contract parameter for 55% of retailers.

About 50% of merchants consider current **MDF level as acceptable**

More than half of all merchants **would like to lower MDF rate** in current contract with the acquirer

7-15% of merchants consider current MDF rate as **too high**

Key factors behind acquirer choice:
- bank credibility
- suitable set of services
- convenience of the services
- terms of the equipment provision

Less than 25% of merchants use **additional services** as a part of their contract: salary project, employee training, encashment & lending

The effect of changes in current market terms

Individuals

More attractive loyalty programs

- **45%** of loyalty programs participants **will use card more actively**
- Additional **21%** will issue a card but will not use it for purchases of goods & services

Cuts (cancellations) of loyalty programs

- **13% (17%)** of the loyalty program participants will **use card less often**
- **3% (5%) refrain** from cards

Merchants

50% increase in MDF rate

- Approximately **half of traditional (brick & mortar)** merchants will not change retail prices but will experience cost increase.
- 44% **of e-commerce retailers** will experience cost increase that will be followed by retail price increase.
- **Cut-off** MDF rate levels:
  - e-commerce merchants: 5-6,9%;
  - traditional merchants: 3-4,9%

50% decrease in MDF rate

- Costs of **traditional merchants** will decrease significantly **(45%)** but prices will remain the same **(64%)**.
- Cost decrease in **e-commerce merchants (48%)** might lead to decreases in retail prices **(30%)**.

Financial innovation

Individuals

Merchants

The majority of both individuals & merchants **don't understand
what is meant by financial innovation**

Key **advantages**:
- time saving **(54%)**
- convenience & comfort **(49%)**

Key drivers of **cashless methods
acceptance** are:
- innovations
- consumer demand

- 34% of individuals **are ready to
  use all** banking products &
  services **remotely (online)**

- 59% of individuals are ready to use
  payments & money transfers if
  they are provided **only remotely
  (online)**

The share of merchants ready to use
financial services **only remotely
(online)** is:

- 44% among traditional retail
  chains,
- 36% among traditional non-chain
  stores,
- 76% among e-commerce merchants

Financial inclusion

Individuals

Merchants

Financial access level is high among both merchants & individuals

The abilities of consumers **are diminished** because of **distrust** to new services & **non-transparent** terms

Loans are considered as **less accessible** services

Negative experience is shared more often: incompetent staff, queues, non-transparent/unclear terms

The satisfaction of needs is at the level of **70-80%**

Increases in **financial literacy** & legal help are needed

Traditional non-chain stores & e-commerce merchants are more often ready to use the services from **non-traditional** providers

Active users of financial services use non-traditional providers (Yandex.Money, Webmoney, PayPal) more often

Merchants are aware of regulatory initiatives but often consider them as **negative**

THANK YOU!

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Behavioral patterns - consumers & payments

Top 3 reasons for choosing a bank

1 **salary card opened by the employer (40%)**

2 bank being state-owned (28%)

3 bank's trustworthiness (27%)

Have an opportunity to pay via contactless method:

Visa payWave **17%**

paypass **11%**

pay **5%**

Pay **4%**

pay **4%**

The opportunity to use **a contactless payment card certainly consider 12%** of the respondents that are not using them currently. 25% consider this under certain circumstances

61% use cards to pay for goods and services not less than once a week.

However, **10%** of cardholders never use their cards as a payment method.

28% will visit shops less often, if they do not accept cashless payments

64% of cardholders always or almost always pay with a card if it is possible

31% might pay with cash in order to get change

Active users of financial services and cashless payments, 25-49 y.o.

- Clients of several banks;
- Have several deposits

- **Not afraid to change banks/ loyalty programs**

Actively use debit card, note speed and comfort

«Live by their needs»,
that is why avoid taking loans

More prone to innovation: ready to explore, compare different services of different providers, if non-traditional providers offer **smaller fee** for the same service, they will definitely use their services.

VS

Between visiting the bank and **solving an issue online** they will choose the latter option (preference towards remote access to banking services)

BUT banking branches **are still needed** for extreme cases (at least one branch in the city for safety)

Consumers with low financial inclusion, prefer cash payments, 25-49 y.o.

Use cash most of the time
(safe and accessible at any time);

Use **ATM to withdraw money** when they need it (payment cards - "storage/container")

OR

In case of salary card **withdraw all sum** (leaving max 1000 RUR);

Prone to use alternative financial services – pawnshops, electronic money

Won't use loans, as they do not understand the product/conditions

Active users of financial services and cashless payments, 50 + y.o.

All have Sberbank card, however, some of them withdraw all money and use cards of other banks

Cash for the dacha/country house, market, spending time with grand children, traveling abroad

Use card in the supermarkets: no need for coins, there is no change very often

Actively use **debit card**, note its **comfort, speed, safety.** Moreover, for different purposes use cards of different banks (e.g. paying for utilities, shopping online, etc.)

Consumers with low financial inclusion, prefer cash payments, 50 + y.o.

Prefer cash, perceive it as a safe method

Positive experience is associated with **24/7 ATMs** nearby the house for cash withdrawals

Pay with card **very rarely**: only when buying expensive things, plane tickets

Want additional attention from financial organization - e.g. symbolic presents – impression of **VIP banking**

- Prone to use alternative financial services – **pawnshops, MFO**

- Won't use a debit card as they **do not understand the product** and the terms/are **afraid to be charged for extra services** by the bank

- Won't use a deposit as they can "save money without a bank"

Behavioral patterns - financial innovations usage

Usage of a mobile banking app

Village

towns with 50k -100k population

cities with 500k - 1mln population

56%

78%

78%
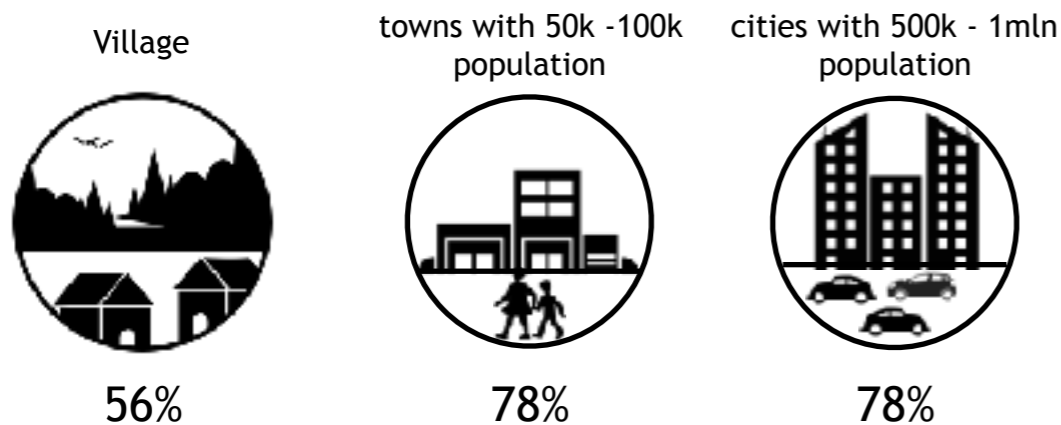
Among those that currently do not use any services

12%   **certainly** consider usage of **the mobile banking app**

11%   **certainly** consider usage **of smart devices**

The **importance of digital channel** to connect with banks **decreases with increasing age. Percent of the** respondents that are not ready to get financial services via the Internet, on the contrary, is **increasing with age.**

Among the youth (18-24) only 23% are not ready to receive all of the banking services through the internet.
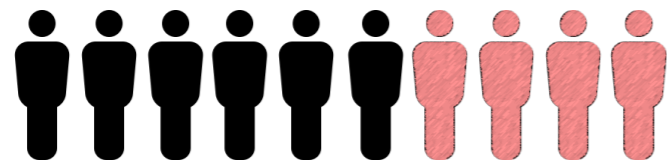In the group 55+ such respondents constitute 61%.

For the income group **55000 RUR and higher mobile app is more important** in comparison to all other respondent groups (**5,8 out of 7**).

The same group is **the most satisfied** with the mobile app as a channel to connect with their bank (**6,4 out of 7**)

Behavioral patterns - financial innovations usage

41% mentioned that do not use any devices for financial operations

The share of those who use gadgets among young population (below 25) **is twice more than** among oldest (55+ y.o.).

For financial operations

27% use computers

26% use mobile phones

to get sms-alerts (63%)

to recharge mobile phone account (62%)

to control card balance and transactions (56%)

5 из 10 for money transfers (54%)

The most unpopular operation (8%*) that is done via the mobile devices - taking loans and opening deposit accounts
among people, that use electronic devices for financial operations

Method validity: sample used for the quantitative analysis in this study is representative for the Russian population

Individuals

Number of individuals surveyed: 1500. National sample of 1500 individuals is enough to obtain representative information with **3,4% margin of error**.

Sampling method: m**ultistage stratified territorial random sampling**.
Represetative for: adult (18+ years old) Russian population in terms of sex, age, employment status & type of locality in which respondent lives (including particular federal districts).

Sample t**arget features**:
- the number of subjects of Russia in which sample is realized – **at least 40;**
- number of localities (administrative territorial units - ATU) – **at least 150;**
- number of respondents per one locality (ATU) – **at least 5 people.**

4 steps of selection of different sample elements: by economic & political indicators, by population structure and by aggregated indicators in region.

Method: **survey** via **face-to-face interview**

Field study was conducted in August 2017. All the data is used in the analysis in an anonymized form

Method validity: sample used for the quantitative analysis in this study is representative for the Russian merchants

🏪 Merchants

Number of merchants surveyed: 800 traditional non-chain, chain & e-commerce retailers. This number is based on **quantitative representation of these merchant types in Russia** and is sufficient for representativeness of data.

! Only retail trade merchants were included as they constitute 2/3 of card payments turnover/value:
- traditional brick-and-mortar retailers with trade areas
- e-commerce retailers that are not associated with particular geographic location (in terms of federal districts, regions).

Sampling method: **quotas sampling (non-random sampling method)**. Shares of merchants in actual & target samples coincide.

! Quota sample is a **model of population** in terms of studied proportions. In this study **quotas were formed by federal districts, regions, city types & merchant types**.
! Target number of merchants were **artificially lowered** in some regions (e.g., CFO) to ensure sample representativeness. Share of large merchants was **artificially increased** for the same reason.
! **Soft restrictions** were chosen (from 20 to 50% in every region) for the share of merchants that don't accept cards. Similar restrictions (15-25%) were used for chain stores.
! **Sampling weight were used**. Weights were calculated based on geography & merchant types.

Field study was conducted in August 2017. All the data is used in the analysis in an anonymized form

Qualitative parts of the research

👤 Individuals

Method: **focus groups**

Number: **4 groups, 8 people each**

Location: **Moscow**

Target group 1: Active users of financial services and cashless payments, 25-49 y.o.

Target group 2: Consumers with low financial inclusion, prefer cash payments, 25-49 y.o.

Target group 3: Active users of financial services and cashless payments, 50 + y.o.

Target group 4: Consumers with low financial inclusion, prefer cash payments, 50 + y.o.

For additional criteria refer to the next slide

🏪 Merchants

Method: **in-depth interviews (via guides and free conversation)**

Number: **15** (5 - large traditional chains, 3 - traditional non-chai, 7 - интернет-магазины)

Location: **Moscow**

Target audience: head of the departments/ managers that are responsible for cards acceptance policy

Criteria for the selection of the focus group participants

Selection criteria: As a measure of the activity of users of financial services:
- Ownersip of a bank card
- Use at least two of the following financial services:
1. Money transfers via the opened account
2. Loan (consumer, mortgage, car loan, credit card)
3. Plastic card (debit), obtained by opening a bank account
4. Deposit (Deposit for a fixed term, at interest)
5. The current account
6. Investment services (mutual funds, asset management)
7. Insurance (except for state medical insurance)
8. Services of non-state pension funds
9. Services of microfinance organizations, pawnshops – at least 3 persons per group
10. E-wallets – not less than 3 persons per group
11. Mobile bank
12. Internet banking / mobile banking (access and account management via the Internet, mobile phone) – not less than 3 persons per group
- Preference for cashless payments (when making payments for goods and services)

Criteria for inactive financial services users (low level of financial inclusion) selection were as follows:
- Ownersip of a bank card
- Money transfers without opening an account and / or bank card only to receive pensions, salaries
- The preference of cash payments (when making payments for goods and services)