



## RETAIL PAYMENTS MARKET IN RUSSIA

Behavior of users of retail payments in 2017:  
established habits and new trends

Retail payments has become an integral part of life. Innovations and initiatives of the largest players at the market change the behavioral trends and develop new habits for all participants in the economy. Innovations role became even more evident when convenient providers (e.g., banks, technological companies) implemented FinTech solutions to provide accessible mobile wallets, contactless payments and other consumer products to the masses. Cashless payments value in Russia have doubled during the last 5 years. In H1 2017 it reached ₽26.5 trln\*.

The complexity of current business ecosystems requires understanding of the consequences of the decisions made by any agent. Habits relating to the Russian Cashless retail payments market stabilize, whilst innovative solutions create opportunities for the emergence of new business models.

This motivated our decision to continue the series of research on Russian retail payments market and analyze the attitudes of payment services end-users towards current market situation and contemporary tendencies to a greater extend. Using the best practice in economic, sociological & financial research as well as interviews with experts we were able to create an in-depth study that covers both sides of end-users of retail payments (individuals and merchants).

### THE PROJECT

Russian retail payments, financial innovation and financial inclusion study covering both sides of the end-users of payment services that focuses on the attitudes of the users towards current state and tendencies & uses samples of 1500 individuals and 800 merchants

Using the representative surveys of individuals and merchants and focusing on the study of their attitudes towards retail payments and financial innovation we were able to evaluate current market situation deeper and show the effects of changes in participation terms for the key users' behavior. The results of this research will be useful to everyone, who is related to retail card payments and will allow them to create relevant strategies for sustainable development & growth\*\*.

\*CBR, statistics on National Payment System: [http://www.cbr.ru/statistics/print.aspx?file=p\\_sys/sheet014\\_1.htm&pid=psrf&sid=ITM\\_48796](http://www.cbr.ru/statistics/print.aspx?file=p_sys/sheet014_1.htm&pid=psrf&sid=ITM_48796)  
\*\*Moscow School of Management SKOLKOVO ©, «Cashless Economy in Russia: trends, perspectives, opportunities», [www.skolkovo.ru](http://www.skolkovo.ru)

**75% of Russian population have payment cards. 66% pay with them for goods and services. Average experience of using payment cards exceeds 3 years.**

75% of adult population in Russia have payment cards, 88% of which uses them for payments at least sometimes according to the individuals survey. 82% of the cardholders use cards for payments for goods & services at least once a month. 64% of cardholders that use payment cards will always or almost always prefer card payment if there is a choice at the point of sale. 74% of population in large cities had cards, 75% of which used them for payments for goods and services in an analogous 2014 retail payments market study.

**62% of merchants accept cashless payments. This figure varies significantly across the types of merchants. Cashless payments are associated with convenience & economic benefits even under current levels of acceptance costs.**

Cashless payments are accepted in 87% of retail chains, 52% of traditional (brick-and-mortar) merchants and 67% of e-commerce stores. Acceptance rate is highest among pharmaceutical companies (93%), lowest among small retailers (stalls, kiosks, etc.) (30%). Active acceptance rate growth has started after 2010. Highest acceptance growth rate is in 2015-16. Merchants that accept cashless payments associate them with convenience & economic benefits. E-commerce merchants note high acceptance costs more often than other types of retailers. Acceptance level across traditional (brick-and-mortar) merchants was 50% in 2014 study.

**Cash becomes less important: habit of paying with cash is no longer key reason for refusing card payments, while merchants prefer cash less often.**

Individuals that do not have payment cards note the lack of necessity (53%), cash convenience (38%), distrust to banks (20%), ability to use the card of other family member (15%) and the complexity of understanding of the terms (11%). Merchants that do not accept cards for payments note the lack of demand from their consumers for cashless payments. 29% of merchants (compared to 33% in 2014 study) that accept cards prefer cash payments.

**The market gained stability compared to 2014 study. However, the change in current market terms will lower the interest in using cashless retail payments for both individuals and merchants.**

41% of cardholders that pay with cards for goods and services and 21% of merchants that accept cashless payments participate in loyalty programs. The share of those, who use payment cards for goods & services payments every day is twice as large (46% vs 23%) among loyalty programs participants compared to those, who don't participate in stimulating programs. If bank decreases the amount of (cancels) bonuses/discounts/promotions 3% (5%) of the loyalty program participants will stop using card, while 13% (17%) will use it less often. Demand and activity on cardholders side is the main reason for accepting cards amongst merchants (66%). Costs of traditional merchants will lower significantly (45%), while prices will remain unchanged (64%) if merchant discount fee (MDF) is decreased by 50%. E-commerce merchants may partially pass through the costs decrease (48%) to retail prices (30%). Similarly, costs will increase across all types of merchants, while prices will increase in e-commerce retailers (44%) if merchant discount fee is increased by 50%. MDF is considered acceptable by 49% of all merchants, while too high by 41% the majority of which are traditional non-chain retailers. Cut-off MDF is 3-4.9% for traditional merchants and 5-6.9% for e-commerce retailers.

**Individuals and merchants don't understand what is meant by financial innovation.**

63% of individuals could not define financial innovations. The majority of merchants have false perception of innovations. Qualitative research shows the existence of negative attitude towards innovations, especially among the groups with low level of financial inclusion. Trust to innovations is estimated at the level of 54% if they are developed by banks and 40% if they are developed by other companies.

**Advantages of financial innovations are noted by both merchants & individuals. Considerable part of merchants and individuals are ready to use only online channels for interaction with financial services.**

Individuals note time economy (54%) and convenience & comfort (49%) as key benefits of financial innovation after hearing the explanation of its examples. Merchants note the importance of new technologies for acceptance decisions. 44% of retail chains, 36% of traditional merchants and 76% of e-commerce retailers are ready to use financial services in digital form. 34% of individuals are ready to use all banking services remotely. 59% of individuals are ready to use payments and transfers solely via the Internet. Youth (18-24 y.o.) more often uses social networks for money transfers (17% compared to 10% across all age groups).

**Access to financial services is high across both merchants and individuals.**

At the same time, the abilities of consumers is decreased because of the distrust to new services and non-transparent terms. Individuals need the increase in financial literacy levels and legal help. Merchants evaluate their level of needs satisfaction at financial services market at 70-80%. Non-traditional providers of financial services are more often used by traditional non-chain merchants and e-commerce retailers.