

# Online Payments on the Russian Internet

## According to Yandex.Money Summer 2007

*This analysis is based on data from Yandex.Money, one of the most popular online payment systems in Russia. Launched in July 2002, Yandex.Money has over a thousand vendors of products and services connected to the system. Through Yandex.Money, a person can pay for cell phone service, Internet connections, IP telephony, Web-hosting, television, utilities, advertising, online gaming, and virtually any product (from flowers to consumer electronics) available online. In addition, the service also allows users to pay for food deliveries, make loan repayments, or even charity contributions. Funds can be deposited into accounts through a pre-payment card, an ATM, a cashier's office, a bank or a post office. Yandex.Money easily allows users to transfer all or some of their funds to their bank account. If users do not have or do not want to open a bank account, they can receive the funds in cash at any office of Impexbank (a leading Russian commercial bank) or at a location of the international money transfer system called CONTACT.*

*The figures below are specific to Yandex.Money. Data from other payment systems may differ. The analyzed statistics covers the summer 2006 to summer 2007 time period.*

### Contents

Introduction .....	2
1. Shops .....	2
1.1 Products and services .....	2
1.2 Structure of payments .....	3
1.3 Consumer basket .....	6
1.4 Average cost of products and services .....	7
2. History of payments .....	8
2.1 Filling personal account .....	8
2.2 Operations between user accounts .....	8
2.3 Purchasing activity of an average user .....	9
Appendix 1. Key figures and facts .....	10
Appendix 2. Glossary .....	11

## Introduction

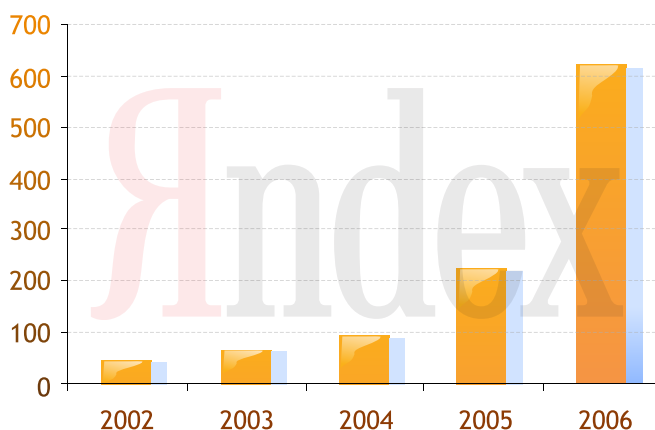
An online payment system is essentially a system of contracts and technologies, that enable various payments through data communication networks. The significant advantage of electronic payments is that they are fast and easy. It is possible to pay for many products and services from home even if the seller is located in another city. Record keeping as well as all information about transactions is stored in the system.

To perform financial operations, a user must first register with the payment system. A registered user gets an account and an electronic wallet (e-wallet), which is a program that manages the account. E-wallets can be installed on a user's computer or can be used as a web application. The e-wallet reflects the balance on the account, payment history, and other information about user's activity. After registering and setting up an e-wallet, a user can pay for products and services offered by businesses connected to the system.

The number of people using the Internet to make purchases is increasing dramatically. In **2006**, the number of e-wallet owners on Yandex.Money **almost tripled in** comparison to the previous year (fig.1). During the first five years of Yandex.Money's existence, Russian Internet users have used the service to make more than **15 million transactions**.

Fig.1. Registrations in Yandex.Money

Number of e-wallets, thousands



According to Yandex.Money (2002-2006)

User activity is booming as the number of online transactions in July 2007 was more than double when compared to the numbers for July 2006. On average, Yandex.Money had 2,000 new e-wallet registrations and over 20,000 transactions per day in July 2007.

## 1. Shops

Online payments systems are used to pay for most of the popular products and services found on the Web. In 2007, users **paid around 400,000 bills per month for various products and services** using the Yandex.Money payment system. This number is more than double 190,000 bills per month users paid in 2006.

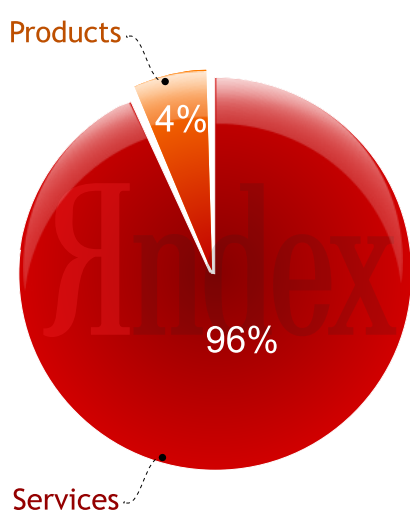
### 1.1. Products and Services

Russian's tend to use electronic money (e-money) to pay more for services than products (see fig.2 and fig.3). This happens because services are not as tangible as products. The data demonstrates that most Russian users are more at ease paying with e-money for cell phone service, information access, or online games, than they do purchasing actual products. When users do buy

products online, they prefer to pay cash on delivery. The number of online payments for actual products as a percentage of total online payments has remained constant at just 49% in both June 2006 and June 2007.

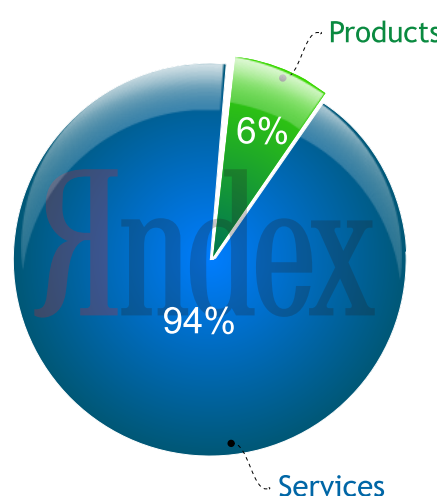
Over the same period, the ratio between the **sizes of payments** for products and the sizes of payments for services changed insignificantly, with payments for products rising from 5% to 6% of the total. This data appeared to indicate that user interest in using e-money for products remains roughly the same, but now users are increasingly prepared to pay for more expensive things with e-money.

Fig.2. Ratio between the number of payments for products and for services



According to Yandex.Money  
(June 2006 – July 2007)

Fig.3. Ratio between the sizes of payments for products and for services



According to Yandex.Money  
(June 2006 – July 2007)

### 1.2. Structure of Payments

According to Yandex, most Russians use online payment systems to pay for cell phone service. In fact, nearly one out of every two payments on the Yandex.Money system is a cell phone payment.

**There are five types of services that amount to 70% of all online payments. They are cell phone services, advertising, Internet access, online gaming, and Web hosting (see fig.4).** The next 20% of online payments are private, person-to-person payments involving individual users' e-wallets. The remaining 10% of online payments is shared among books and music, television, information services (including online dating, statistical resources, translating), and software. Payments for products (excluding books and music), insurance, courses and train-

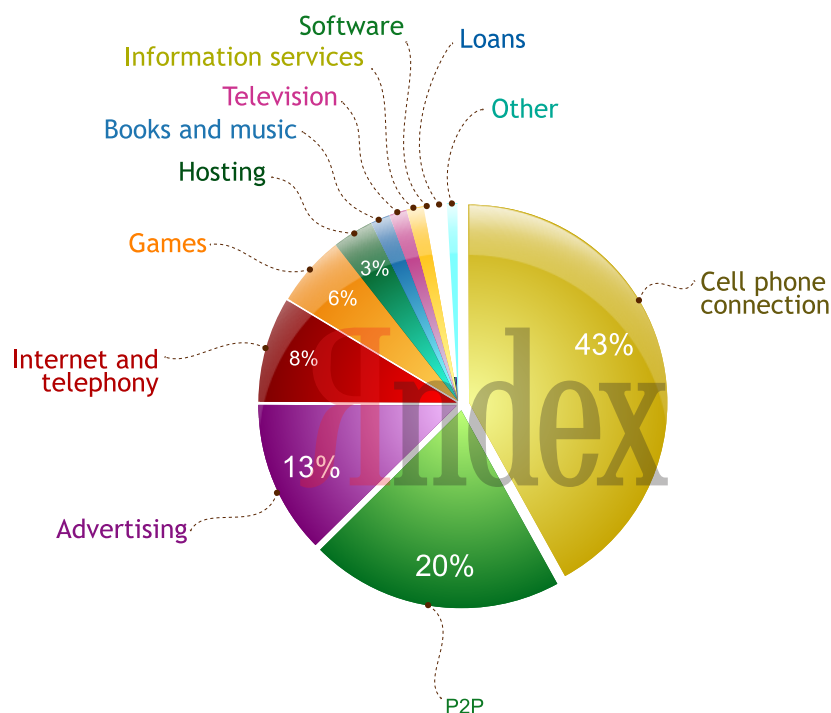
ing classes, utilities, and charity contributions all together total only 1% of the overall number of total payments. In fig.4, payments for these products and services are pooled in the category «Other».

In terms of the size and value of the payments, 57% of turnover is distributed among the five most popular types of services. The next 33% of the total turnover of Yandex.Money is person-to-person payments. The volume of payments for «purchases and gifts» (consumer electronics, medicine, cosmetics, clothes, footwear etc.) is only 1%, the same as the volume of payments for software or information services (fig.5).

During the year (from summer 2006 to summer 2007), the highest growth rates in turnover were in three categories: information services, hosting, and software (fig.6).

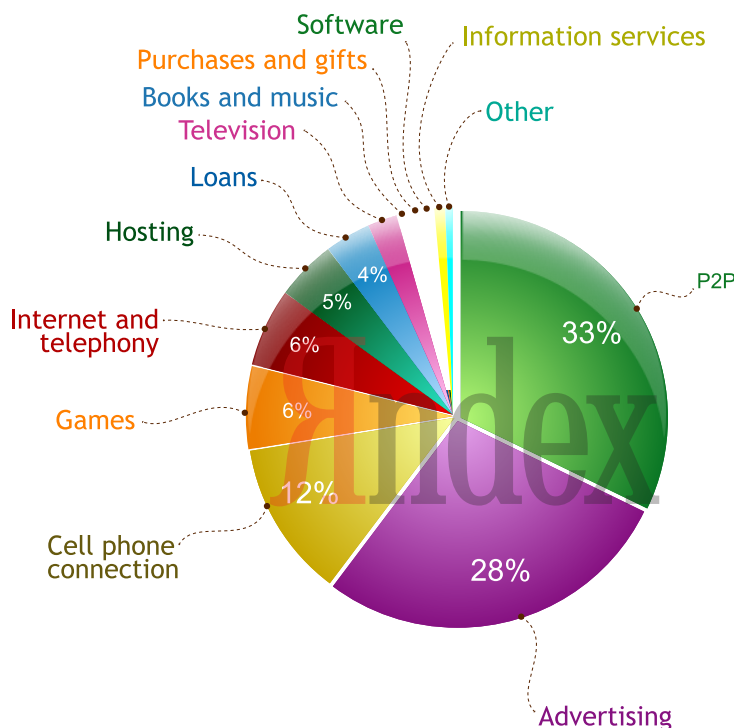
Although the turnover of the general market for online

Fig.4. Percentage of the number of payments in various categories



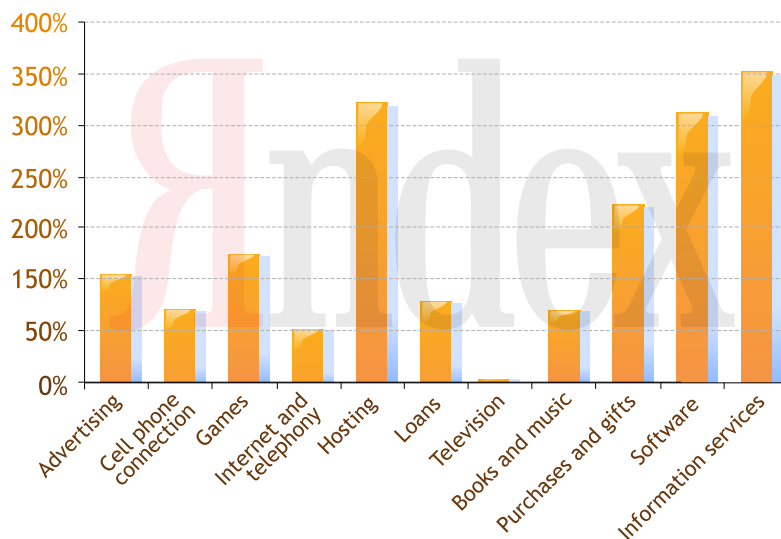
According to Yandex.Money (summer 2006 – summer 2007)

Fig.5. Percentage of the volume of payments in various categories



According to Yandex.Money (summer 2006 – summer 2007)

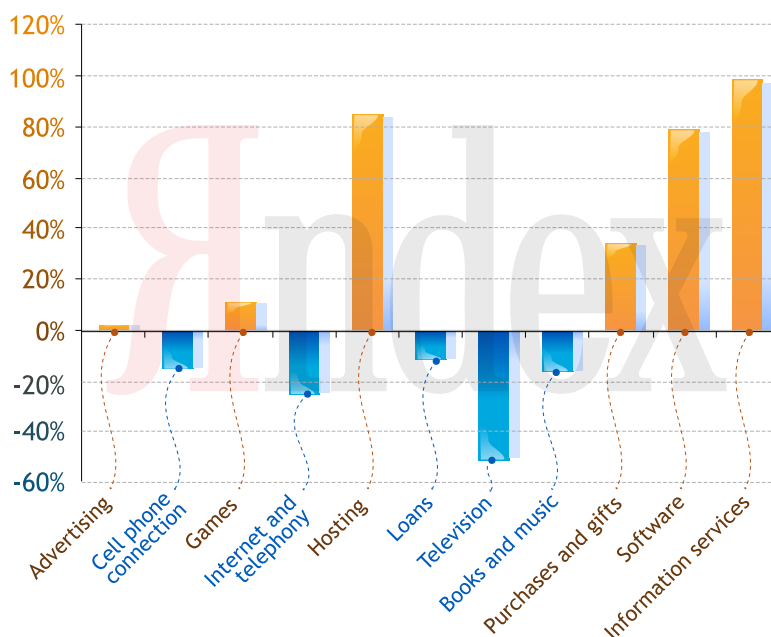
Fig.6. Turnover growth



According to Yandex.Money (June 2006 – July 2007)

payments in Russia in absolute expression has grown during the year, the relative growth is noted only in the six of its categories (fig.7). In other words, the growth rates of these categories have outpaced the growth rates of the system. The growth rates of payments for the most popular services (cell phone service and Internet) have decreased if compared to the overall growth rates of the system, and the growth rates of payments for products (purchases and gifts) have grown. The growing numbers of pre-payments in the product category is, presumably, caused by the increasing trust in online shopping. Users stopped worrying that they might get the wrong

Fig.7. Turnover growth compared with overall growth of the system



According to Yandex.Money (June 2006 – July 2007)

product, or would not get the product at all.

The number of transactions also grew in all categories. The number of payments for hosting and for information services showed the greatest growth, increasing by 3.3% more than three times its previous volume.

### 1.3. Consumer Basket

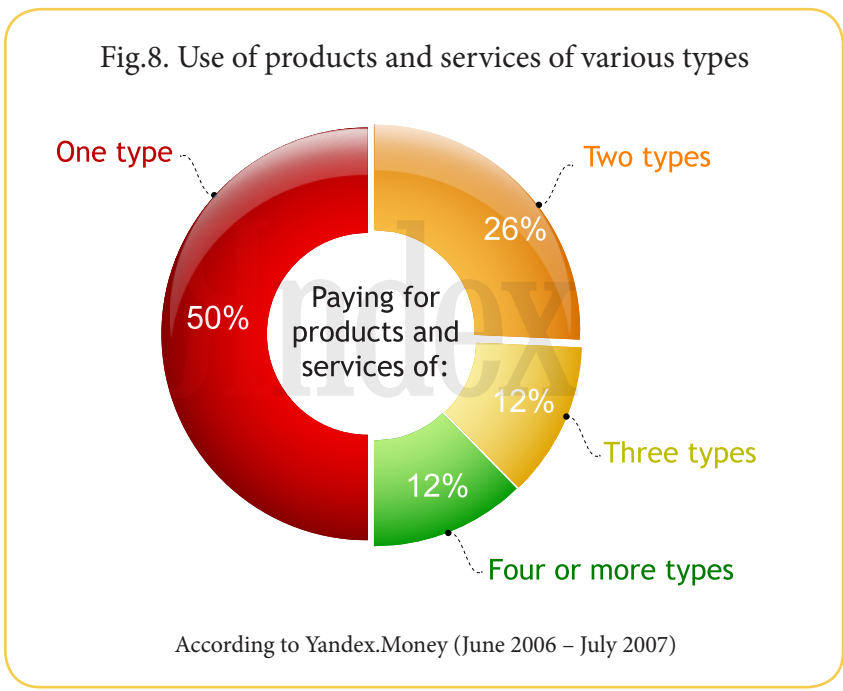
The most «versatile» users (who pay for the most varied number of products and services) are those who pay with e-money for hosting, advertising, and utilities. On

average, those users also purchase products and services in four additional categories of the market. **Half** of all active users in the Yandex.Money users pay for just one type of **products and services** (for example, only for games, or only for advertising), and **less than 1%** purchase products and services of **ten or more various types** (fig.8).

An average user of Yandex.Money during the last year made payments to **two different vendors** (not necessarily in different categories of the market.) One of the e-wallet owners used the products or services of **31** different vendors, a record number. People paying for products and services of different types allows for the analysis of various «consumer baskets» of e-money users.

The most common consumer baskets are as follows:

- **As stated above, Cellular Subscribers**  
Those who pay for cell phone service are the largest group of users of online payment systems. 24% of users paying cell phone bills online also paid for their Internet service online and another 12% paid for hosting online.
- **Advertisers and Clients of Web Design Studios**  
46% of the online buyers of Internet advertising and Web design services pay for their cellular connection online, 27% pay for hosting online, and 24% pay for Internet and telephony online.
- **Internet Users**  
51% of users who pay for Internet and IP-telephony online pay for cell phone service online, 14% pay for hosting online and 11% pay for advertising online. The most popular Internet service providers (both in the number and in the volume of payments) are Garant-Park-Telecom (parkline.ru), Corbina Telecom, and Zenon NSP.



- Gamers**  
 People who play games are the most «closed» group of users. Interestingly, they take almost no interest in anything except for games. 36% of gamers pay for cellular service online, but this figure is low when compared to other consumer baskets. The most popular gaming sites (both in the number and in the volume of payments) are Territory, Games@Mail.ru, and Dozory.
- Hosting Clients**  
 57% of users who pay for hosting online also pay for cell phone service online, 32% pay for Internet access online (these users seem to favor the Stream service from Comstar-Direct), and 28% pay for advertising online.
- Software Consumers**  
 55% of software buyers pay with e-money for cellular service, 30% pay for Internet, and 20% pay for books and music. 90% of all software purchases are made in the Softkey online store. This site is in fact used by 17% of the users of ANK.ru (the second most popular online shop) and 32% users of SoftLine Internet Trade (the third most popular shop) make their purchases.
- Utilities Customers**  
 Users who pay with e-money for their utilities are the most active. 95% of the users in this group also pay for cell phone service online, 62% of users pay for Internet and telephony online, 24% use e-money for hosting and books, 18% of them order advertising online, 17% pay for television online, and 13% of the users make online product purchases.

#### 1.4. Average Cost of Products and Services

**O**nline consumers tend to pay the most for electronics (cell phones, photo cameras, pocket PCs, notebooks, etc.). The average payment in this category is **5,000** roubles (\$195 USD.)

**Flower delivery is the second most expensive product that is paid for online.** The average cost of one floral arrangement in 2006 was almost **4,000** roubles (\$156 USD.) In March 2007, twice as many floral arrangements were bought than in any other month, but the average cost of an order was 3,500 roubles (\$136USD) lower than the annual average. At the same time, the largest average monthly cost of one floral order was in September 2007 and amounted to 7,000 roubles (\$273 USD.)

**The third** most expensive product category that is paid for

Table 1. Dynamics of average payments

Category	Difference
Books and CDs	+ 49%
Information services	+ 36%
Software	+ 35%
Advertising	+ 18%
Purchases and gifts	+ 13%
Hosting	+ 11%
Cellular connection	+ 1%
Games	- 13%
Loan	- 19%
Television	- 32%
Internet and telephony	- 42%

According to Yandex.Money (June 2006 – July 2007)

online is **clothes and footwear**. The average bill for clothes and footwear is greater than **3,600** roubles (\$140 USD.)

**The smallest payments made using Yandex.Money** are those made for **cell phone service**. The average monthly payment made towards cell phone service accounts is **180** roubles (\$7.00 USD.) This amount has not changed significantly over the past year as costs for cell phone service have remained stable. One of the reasons that users pay such a small amount towards their cell phone bills is that they are simply using whatever money is left over in their Yandex.Money account from a larger product they have purchased

The table below highlights the percent change in an average one-time payment for various product categories over the past year. The average one-time payment for electronics during the year grew by 25%. In contrast, the average one-time payment for Internet and telephony service decreased by more than 40%.

## 2. Historical Payment Data

**A**n average Yandex.Money user deposits money into his or her e-wallet account once every two months and pays for products and services a quarter. On average, users only perform person-to-person transactions every eight months.

**The first payment** that e-wallet owners make after registering in the system is typically payment for **cell phone service**. Thirty-eight percent of subscribers for cell phone services registered in Yandex.Money specifically to pay their for that service with e-money. More than half (56%) of those who use their e-wallets to pay for Internet and online gaming made their first e-wallet payments for these services. In fact, these specific services are exactly why these users registered for the e-wallets.

**Eighty percent** of those who used e-wallets in the past to pay for cell phone services still use their e-wallet to do so. Users of services including **online gaming, advertising, and utilities are the most devoted to using their e-wallets as a form of payment**. Of those who paid at least once for games, advertising, or utilities using an e-wallet, 76%, 68% and 67%, respectively, are still using the payment service. The payments that have the lowest rate of return on usage are charity contributions and press subscriptions, only a third and a fourth of users correspondingly continue to use the payment service for any reason.

### 2.1. Filling personal account

**I**n the first six months of 2007, every user of Yandex.Money deposited money in their account an average of three times. The average deposit was 1,300 roubles (approximately \$50 USD.) Daily there were normally about 7,000 deposits.

### 2.2. Operations between e-wallets

**A**ccording to Yandex, **45%** of active users made a person-to-person payment. One in every ten online transactions is a person-to-person operation.

In July 2007 there were around 1,800 operations between e-wallets daily. The average transfer was around 1,000 roubles (\$38).

### 2.3. Purchasing activity of an average user

**F**ig.9 shows the payment characteristics of Yandex.Money users in 2007 over a six month period. A conventional user paid for cell phone service once a month, advertising and web design

services eight times over six months. For games he or she paid four times during six months, and Internet, web-hosting and utilities an average of three times every six months, and loan payments three times every six months as well. Products (software, books, etc) were only purchased once out of the six month period.

Fig.9. Purchasing activity



According to Yandex.Money

## Appendix 1. Key figures and facts

As of July 2007 the Yandex.Money online payment system had **over 1.5 million users**. In **2006** there were **three times as many new e-wallet owners as in 2005**. User activity is growing quickly, with the number of transactions in July 2007 more than double that of July 2006.

**One third of total turnover on Yandex.Money is person-to-person payments**. Five types of services: cellular connection, online advertising, gaming, Internet access and IP-telephony, and hosting account for almost 70% of all online payments and 60% of **total turnover**.

Using e-money to pay for services is more popular than using it to pay for products. However, the volume and the number of payments in the product segment is growing, indicating increasing trust in online shops.

**Information services** (including online dating, online statistics, translations, etc), **hosting**, and **software** make up the **biggest growth categories** (from June 2006 to July 2007), both in absolute and in relative values.

Users of online payment systems use the Yandex.Money service **most often** for payments of **cell phone service**. Cell phone bills are often paid when the remainder in the user's e-wallet is too small to pay for a more «substantial» order.

More than a half of those who now pay with e-money for the services of Internet and online gaming providers registered for their e-wallets specifically to pay for these services (**56%** for each service.)

**Eighty percent** of those who once paid for cell phone service using the Yandex.Money service continue using the service. Excluding cell phone service, the services that users most devotedly pay for are **online gaming**, **advertising**, and **utilities**. Of those who at least once paid for games, advertising, or utilities, correspondingly **76%**, **68%** and **67%** keep paying for them.

## Appendix 2. Glossary

**Account** - A record in the database of an online payment system, which stores the information about the amount of money deposited by the user, the history of payments, etc. Every new account gets its own unique identification number.

**Electronic wallet (e-wallet)** - A program that manages funds on a user's account. E-wallets can be installed on a user's computer (or a PC compatible medium), or can be accessed on the website of a payment system.

**Online payment system** - A system of processes, procedures, agreements and technologies, that enables online payment transfers between the members of the system.

**Person-to-person payment (P2P payment)** - A user's transfer of funds on his or her account to another user.

**Adding funds** - Depositing a payment for products or services to a payment system operator. That amount subsequently is registered on the user's account.

**Withdrawing funds** - Repayment of previously deposited funds from a bank account.

Analytical Group of Yandex Marketing Department  
[analyst@yandex-team.ru](mailto:analyst@yandex-team.ru)