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BUSINESS OPPORTUNITIES FOR SWISS FINTECH COMPANIES IN RUSSIA



Zürich, 2016

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EXECUTIVE SUMMARY



Executive Summary

This report was compiled by the consulting company Cominfo mandated by the Swiss Business Hub Russia **in order to show Swiss FinTech companies** (established firms, start-ups and also investors) **business opportunities on the Russian market.**

In Russia the **market volume is smaller than in the US/Europe** due to less prosperity. Furthermore, the economic crisis and sanctions reduce demand, increase volatility and anxiety. But even in the actual situation, **FinTech categories such as investment, wealth management, online platforms, reinsurance** and others have growth potential.

Russian people are very much used to internet services in general, and, according to surveys, more open to online financial services, in particular, than most Europeans.

Many people do not trust the Russian finance system and prefer to use the services of foreign banks or other financial service providers.

Currently, the **legislative framework** concerning FinTech **is not so developed** in Russia, except the strict ban of cryptocurrency. But in the law and administrative field there are a lot of developments going on, which have to be monitored carefully. Furthermore, Russia has recently introduced **market protection measures** which concern also the IT market.

But there are **still good business opportunities for Swiss FinTech companies** in the private sector, especially if they provide innovative and user friendly products and services which are not offered by Russian companies.

INTRODUCTION



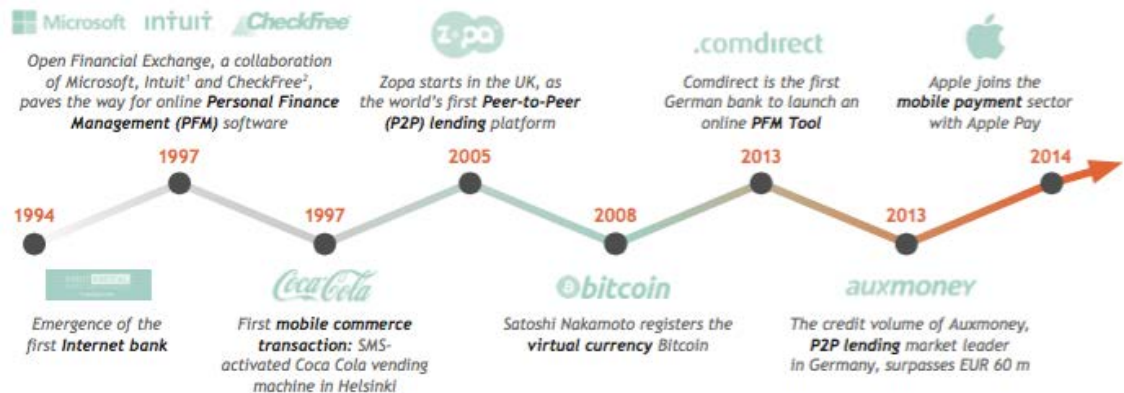
What is Meant by Financial Technology (FinTech)

The National Digital Research Centre in Dublin, Ireland, defines **financial technology** as **"innovation in financial services"**, adding that **"the term has started to be used for broader applications of technology in the space – to front-end consumer products, to new entrants competing with existing players, and even to new paradigms such as Bitcoin"**.

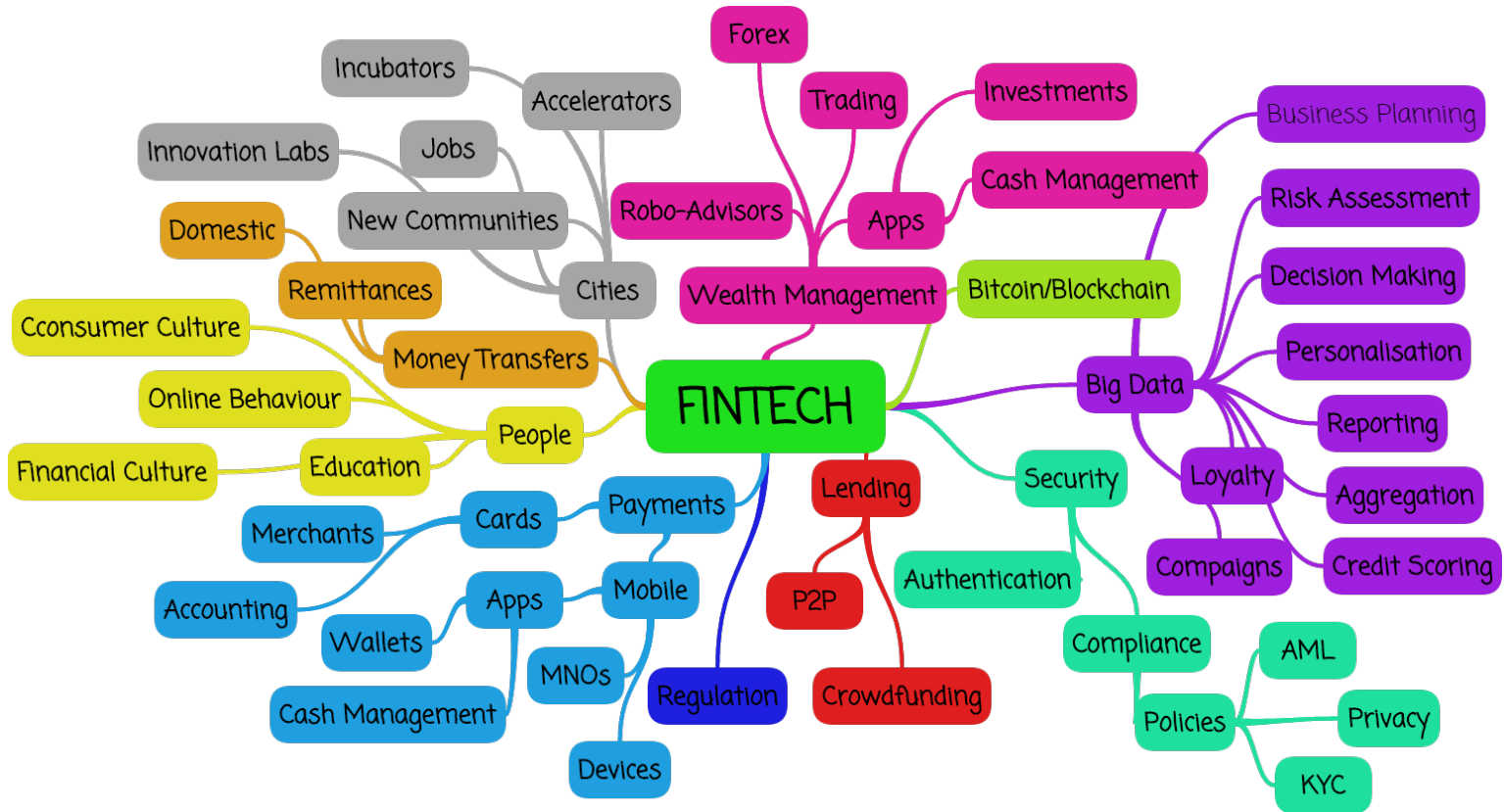
Ernst & Young defines **FinTechs** as **high-growth organizations, combining innovative business models and technology to enable, enhance and disrupt Financial Services (FS)**. This definition is not restricted to start-ups or new entrants, but includes scale-ups, maturing companies and even non-FS companies, such as telecommunication providers and e-retailers.

PricewaterhouseCoopers (PwC) describes **FinTech** as **a dynamic segment at the intersection of the financial services and technology sectors where technology-focused start-ups and new market entrants innovate the products and services currently provided by the traditional financial services industry**.

Therefore, **FinTech** refers to the **application of technology within the financial industry**. The sector covers a wide range of activities from payments (e.g. contactless) to financial data and analysis (e.g. credit scoring), financial software (e.g. risk management), digitized processes (e.g. authentication) and payment platforms (e.g. P2P lending)



What is FinTech about



Source: FintechInfo.com – Fintech Mindmap

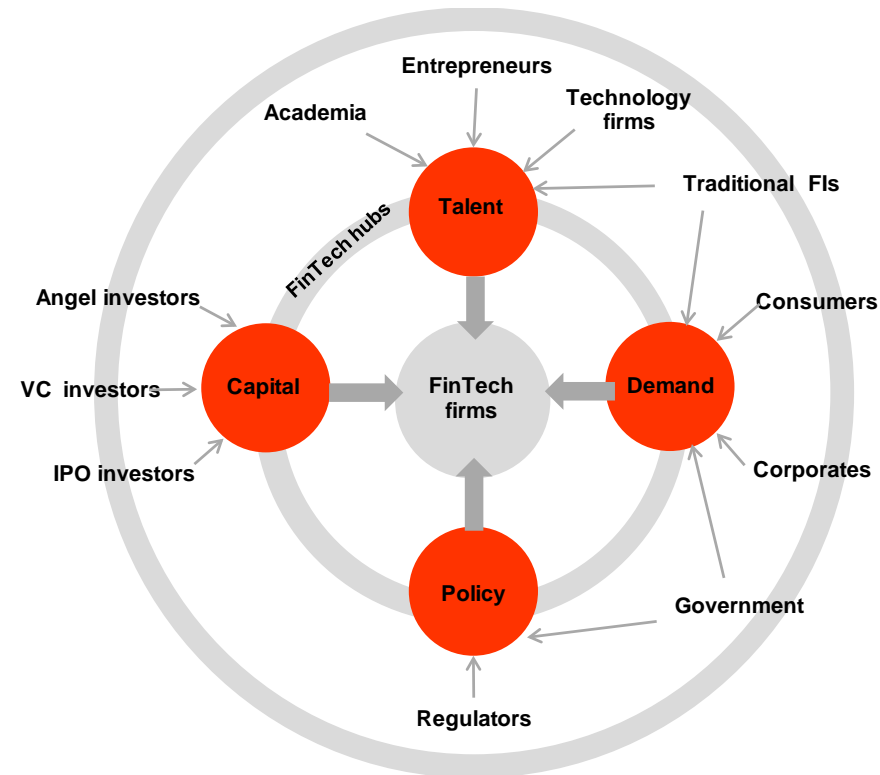
FinTech Ecosystem

Well-functioning FinTech ecosystem is built on four core ecosystem attributes

Attributes	Factors	Description
Talent	Talent availability	Current availability of technical, FS and entrepreneurial talent
	Talent pipeline	Availability of future talent, both domestic and foreign
Capital	Seed capital	Access to start-up capital (EUR 0m– EUR 5m)
	Growth capital	Access to growth capital (EUR 5m– EUR 100m)
	Listed capital	Access to the public markets
Policy	Regulatory regimes	Regulator support for new entrants and innovative business models
	Government programmes	Government support for programmes to open up the sector, increase competition, attract foreign FinTechs and improve cybersecurity
	Taxation policy	Availability of tax support for investors and corporates
Demand	Consumer demand	Adoption by local market consumers (B2C)
	Corporate demand	Adoption by corporates, particularly SMEs (B2B)
	FI demand	Adoption by FIs (enterprise)

The sector is growing globally in terms of investment, employment, and the number of FinTech companies, but it is far from mature

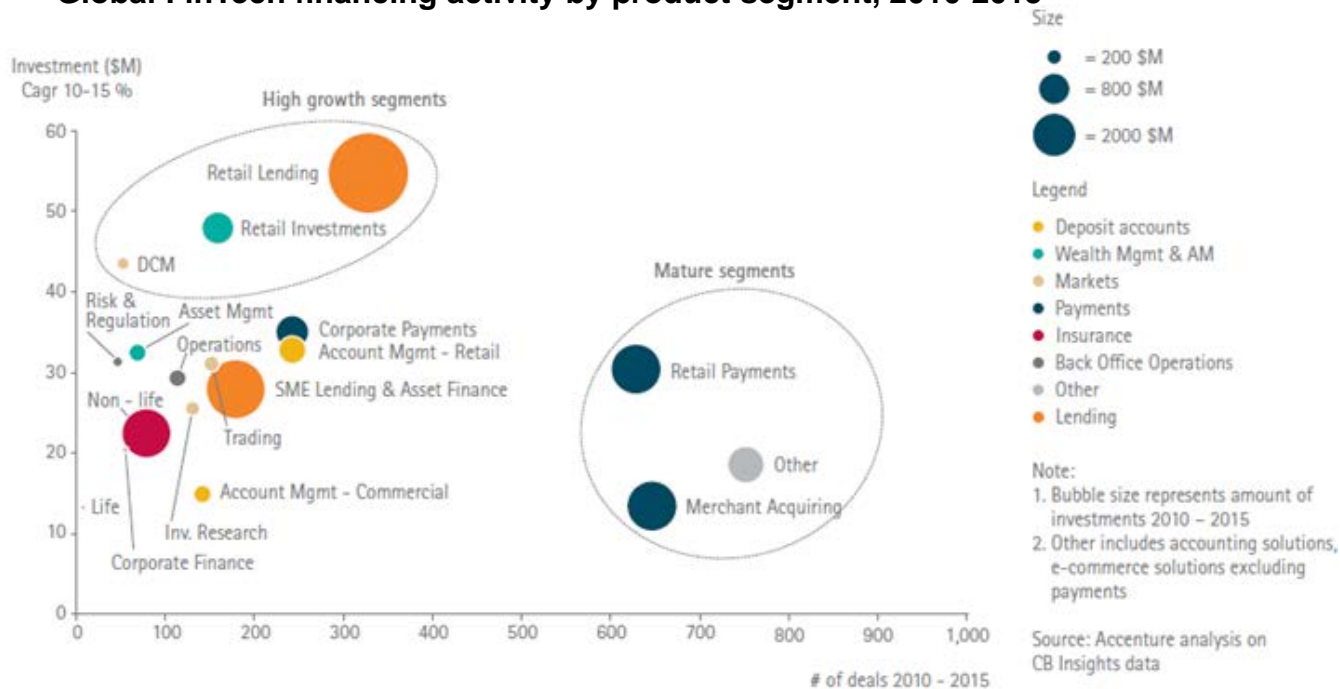
The FinTech ecosystem



Source: Ernst & Young Global Limited

FinTech Financing Activity by Product

Global FinTech financing activity by product segment, 2010-2015



- According to Accenture analysis on CB Insights data report, **global FinTech investment in 2015 grew 75%, or \$9.6 billion (EUR 7.3 billion), to \$22.3 billion (EUR 17.9 billion)**. This was driven by relatively moderate growth in the US FinTech sector – the world’s largest – which received \$4.5 billion (EUR 3.64 billion) in new funding (44% increase); rapid growth in China’s FinTech sector which increased 445% to nearly \$2 billion (EUR 1.57 billion), as well as in India (\$1.65 billion or EUR 1.32 billion), Germany (\$770 mln or EUR 618 mln) and Ireland (\$631 mln or EUR 507 mln).
- In the past five years, global **FinTech investment has been largely focused on retail payments**. However, maturity has brought much greater diversification with innovators seeking to disrupt and enhance elements along the financial services value chain.
- **Insurance is rapidly emerging as the next big thing in FinTech**, with investment into firms with InsurTech propositions more than tripling from 2014 to 2015.

RUSSIAN FINTECH MARKET OVERVIEW



FinTech Structure (I)

Russian Financial Technology may be classified into 6 categories listed below.

The largest segment in the Russian FinTech industry is Digital Payments with the total transaction value expected to reach around EUR 45 billion in 2016 with an annual growth rate of 18% reaching EUR 85-90 billion by 2020.

Segment	Subsegment	Description	Examples
Lending&P2P Finance	Consumer Lending	New ways for consumers to obtain personal loans and have their credit risk assessed.	Peer-to-peer lending, micro-financing, big data analytics, and consumer credit scoring services.
	Business Lending	New ways for companies to raise debt financing and have their credit risk assessed.	Peer-to-peer lending platforms, asset-based lines of credit, micro-financing, and big data risk analytics.
	Crowdfunding	New ways for companies to raise non-equity and non-debt financing.	Crowdfunding platforms for products, social causes, and creative projects.
Payments and Money Transfer (Remittances)	Consumer Payments	Payment companies centered around issuers and consumers.	Mobile wallets, credit card aggregators, prepaid card innovations, and peer-to-peer payments.
	Point of Sale Payments	Payment companies centered around acquirers, providing physical payment solutions for brick-and-mortar businesses and organizations.	Mobile point-of-sales (POS) systems and POS innovations (e.g. QR code, palm scanners).
	Payments Backend and Infrastructure	Payment companies centered around acquirers and the infrastructure enabling payments.	Payment solutions for e-commerce merchants, online payment gateways, ACH, direct deposits, and payment back-ends for mobile apps.
	International Money Transfer (Remittances)	Companies that allow businesses and individuals to send money abroad easily and cheaply.	Digital-only remittances, mobile top-off services, and gift cards.
	Cryptocurrency	A cryptocurrency is a medium of exchange like normal currencies, but designed for the purpose of exchanging digital information through a process made possible by certain principles of cryptography. Cryptocurrency is electricity converted into lines of code with monetary value (digital currency)	The first cryptocurrency to be created was Bitcoin. Today there are hundreds of other cryptocurrencies, often referred to as Altcoins (Litecoin, Ripple, BitSharesX, Nxt, Dogecoin, ect.)
Banking	Consumer and Commercial Banking	New ways for consumers and SMBs to interface with banking services.	Internet-only banking services and virtual credit cards.
	Banking Infrastructure	Solutions that improve the operations of financial institutions.	API integration with banks, white-label mobile solutions, and big-data analytics.

Source: Venture Scanner, Cominfo Consulting

FinTech Structure (II)

Category	Subsegment	Description	Examples
Insurance		Any company that provide insurance though the engagement of technology in a user-centric way. It means the application of information technology (IT) in the domain of the insurance industry (including software, data and imagery).	Include life and non-life insurances, health premium aggregators or car Insurance using telematics intended to lower premiums, customer interaction - the convergence of hardware, such as smartphones and tablets as well as software, such as mobile services
Wealth Management	Private Banking	The financial and non-financial services for banks VIP-clients and includes a personalized service system	Include banking, investment and consulting services
	Institutional Investing	New ways for wealth managers, hedge fund managers, and professional traders to manage their portfolios and optimize returns.	Tools for stock sentiment analysis, alternative investment platforms and algorithmic trading tools.
	Personal Finance	New ways for consumers to manage their personal finances.	Tools for tracking expenses, managing a budget, addressing wrongful credit card charges, and optimizing credit card rewards.
	Stock Brokerage	New ways for optimization of transacting via electronic brokerage platform.	Social trading network, market funding platforms
	Financial Research and Data	Information services that enable investors to make better investment decisions.	News, research and data sources
Others*	Small and Medium Business Tools	Tools that help small and medium sized businesses manage their finances.	Tools for taxes, payroll, invoicing, and accounting.
	Equity Financing	News ways for private companies to raise capital in exchange for equity and for investors to participate in private securities markets.	Crowdsourcing platforms and secondary market solutions.
	Retail Investing	New ways for consumers to invest in various securities.	Theme-based investments, crowdsourced investment expertise, unbiased algorithmic investment advice, and investment social networks.
	Financial Transaction Security	New ways for companies to secure transactions, authenticate users, and prevent fraud.	Identify verification, big data analytics, and fraud detection algorithms.

* Including underdeveloped Russian FinTech sub segments

Source: Venture Scanner, Cominfo Consulting

Main Characteristics of the Russian FinTech Market (I)

Target customers are open for FinTech products and services, but so far the market is much smaller than in US or Europe

- *2/3 of Russians use bank cards, and the Internet penetration is around 50% of households.* Residents of large cities increasingly make purchases over the Internet, unlike medium and small cities. In the last years we see an increasing number of non-cash payments. However, the starting point is much lower compared to matured markets.

Heterogenous supplier landscape

- Suppliers include all sorts of companies from established large banks to start-ups and individual entrepreneurs.
- A growing number of freelancers and socially active intellectual workers are active in this sector.

Lack of funding and investment in FinTech

- Lack of investment into institutional infrastructure prevents FinTech development. In Russia, historically, most innovative development initiatives come from the government. At the moment, the state has no specialized center or cluster which is ready to fully meet the market demand for innovation in FinTech.
- Lack of support for FinTech projects from business angels leads to a small number of FinTech startups in Russia, and those that have growth potential focus mostly on foreign markets.
- The economic crisis and sanctions reduce demand, increase volatility and anxiety. This results in decreased confidence of market participants in the monetary policy of Russian authorities and growing dependence on access to capital.

Traditional banks offer very competitive services

- High interest rates in traditional banking services lead to modest economic advantages of many FinTech services. In the USA and Europe, interest rates on bank savings accounts are about 1-2% per annum, so people are always looking for more profitable ways of investment. In Russia, it is still possible to open a saving account with state guarantees with up to 20% interest rate in RUR and 7-8% in foreign currency. The high level of technological "advancement" of Russian banks also makes life hard for FinTech start-ups. But, in spite of this, FinTech projects do appear.

Main Characteristics of the Russian FinTech Market (II)

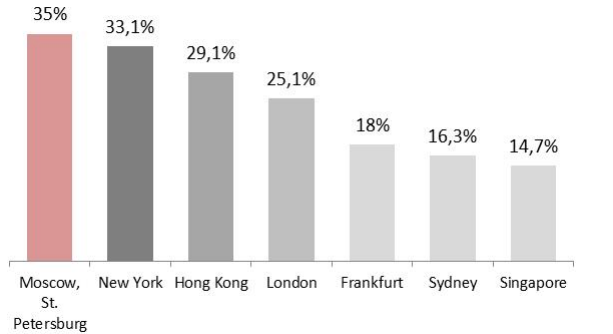
Sectoral characteristics

- High growth of the number of export/import operations.
- The majority of FinTech startups in Russia are in the niche of payments, since it is most transparent and open for new entrants.
- Russian banks are developing online banking services, and reducing the branch network. Some of them are heading towards a complete digitalization of banking.
- Mobile financial services show a fast growth, especially mobile acquiring, which allows payments via smartphone.
- Mobile operators are looking for new sources of profit and focus on financial services. In Russia, a mobile operator is a bank partner, not competitor. Mobile banking services are well developed in Russia, many banks have mobile applications. Therefore, the potential for these services from mobile operators is low.
- Marketplaces are currently appearing in various areas, including finance. Aggregators services or marketplaces are proliferating.
- P2P lending in Russia is not developing yet because of the high level of inflation and interest rates.

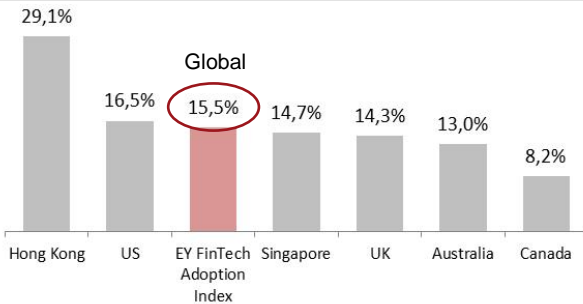
FinTech Customers (I)

FinTech users penetration

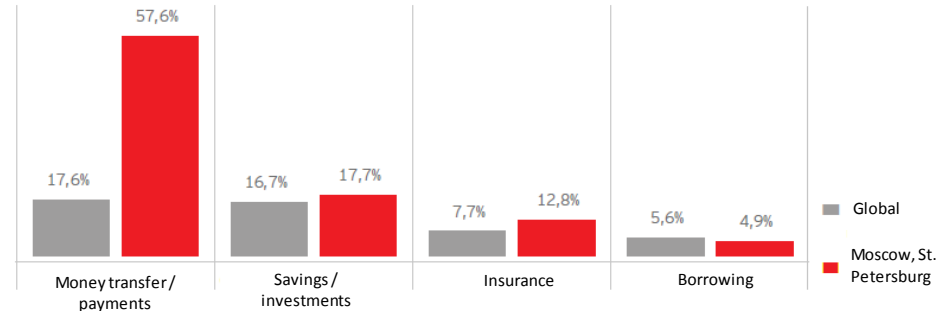
Cities



Countries (global)



Analysis of FinTech use by product type



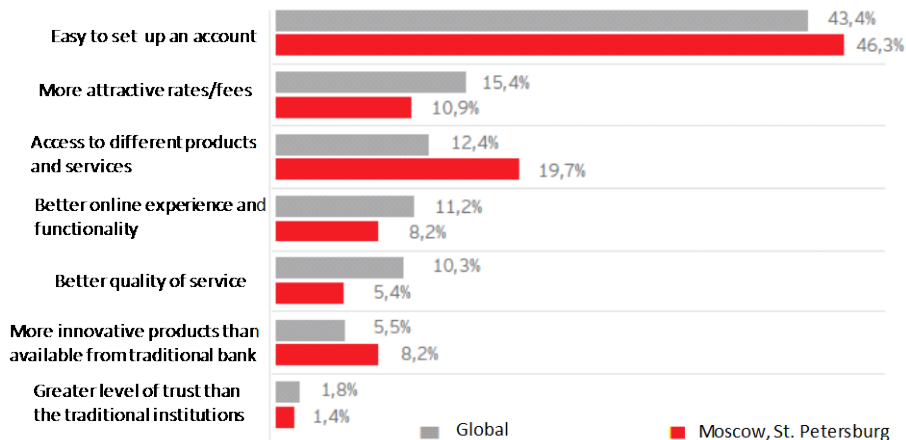
Base: 2,592 global respondents (429 Moscow and St. Petersburg respondents) who indicated using at least one FinTech service . EY FinTech Adoption Index 2015-2016

Base: EY FinTech Adoption Index 2015-2016

- According to the survey by Ernst & Young “FinTech Adoption Index 2015”, FinTech customers are mostly residents of megacities. So, online financial and technological services penetration in Moscow and St. Petersburg is 35% against the global average of 15.5%. The two largest Russian cities are ahead of New York (33.1%), Hong Kong (29.1%) and London (25.1%). However, in the remaining Russian territories the FinTech services penetration is below the world average.
- In Russia, the FinTech services are most actively used by citizens with an annual income of \$30-70 thousand - 65% of this category are users of financial and technological services. In the \$70-150 thousand annual income category is 45.5% FinTech users.
- The most popular service in Russia is money transfers and payments, these services are used by 57.6% of Russian FinTech customers (against the global average of 17.6%).
- Investment and savings banking services are used by 17.7% of Russian FinTech customers (against the global average of 16.7%).
- Another popular service is Insurance (12.8% FinTech Russian users and 7.7% globally), and lending/borrowing (4.9% of Russian FinTech users against 5.6% globally).

FinTech Customers (II)

Reasons for using FinTech services (reasons that respondents voted as first)

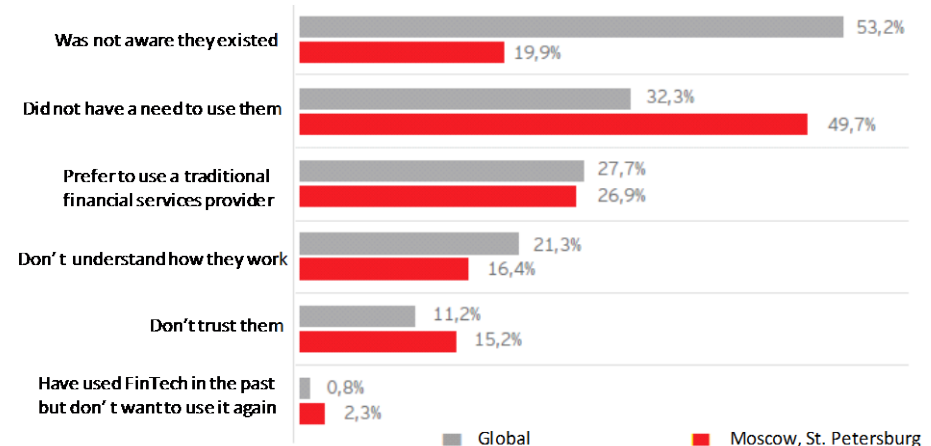


Base: 1,485 respondents who indicated using two or more FinTech products in % of first choice rankings. EY FinTech Adoption Index 2015

The main reasons for using FinTech services:

- ease of setting up an account (46.3% of Russian FinTech users and 43.4% of global)
- lower interest rates/commission (10.9% of Russian respondents and 15.4% of global)
- access to different products and services (19.7% of Russian respondents and 12.4% of global)

Reasons consumers say they don't use FinTech



Base: 7,539 respondents who have not used any FinTech products
EY FinTech Adoption Index 2015

Respondents not using FinTech:

- 53.2% of global respondents said they simply were not aware of the existence of FinTech services. About a third said they don't need such products, and just over a quarter said they prefer working with a traditional bank or insurance company
- About half of Russian non-FinTech respondents didn't have need to use FinTech services, while only 20% were not aware such services existed

MARKET SEGMENTS



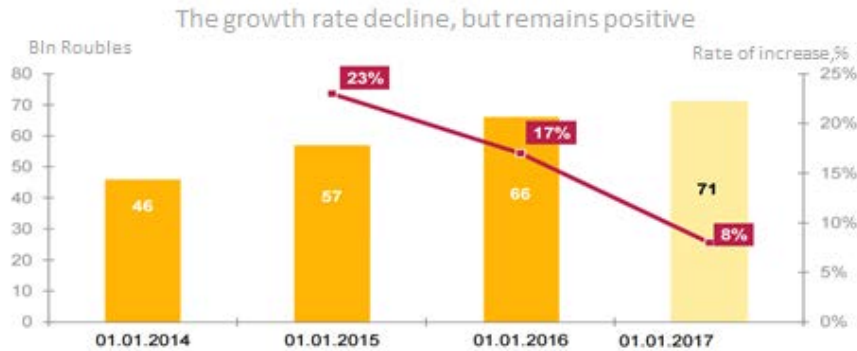


Russian FinTech in Online-Lending & P2P Finance



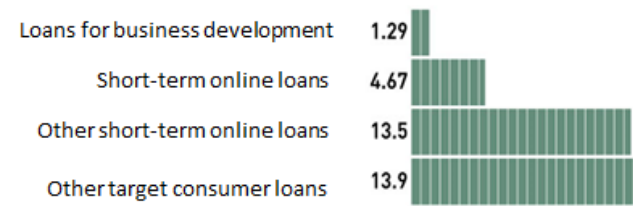
Online-Lending & P2P Finance Market Structure and Trends (I)

Microfinance market size



Source: NAFI, The Bank of Russia

The microloans volume issued by members of self-registered organization MIR, 3 Q 2015 (RUR bln)



Source: NAFI, The Bank of Russia

- **Number of registered microfinance organizations in Russia is close to 150, online-lending – 20 and growing fast**
- **Addressable market estimate: 2.7 mln borrowers account for almost 95% of funds as of end of 2015 (only individuals, there is no estimate for legal entities)**
- Online-lending penetration by the end of 2015 is estimated close to 10%
- According to Central Bank of Russia estimate (based on monitoring of self-registered organizations), P2P market volume of lending for individuals was RUR 170 mln (or EUR 2,5 mln) at the end of 2015. However, the leading player on SME market reported RUR 530 mln (or EUR 7,8 mln) worth portfolio by mid 2016.

Online-Lending & P2P Finance Market Structure and Trends (II)

- Russian microfinance market is outpacing the banking credit business: it grew by 17% compared to shrinking by 13% of individual credit banking market and by 5% of SME credit banking market
- Past-due debt is close to 40% of the whole market portfolio as of January 1, 2016
- According to NAFI, the industry's association, online-lending growth was two-fold compared to offline in 2015
- New regulations require increase of reserves on past-due debts to 70% by January 1, 2017
- **According to new amendments to the Law “On microfinance organizations and activity”, only microfinance organizations with own capital not lower than RUR 70 mln (or about EUR 1 mln) will be allowed to provide online-lending. Another important provision is a proper identification of the borrower. Microfinance organizations may have an agreement with a bank for outsourcing of borrowers' identification**
- Legally, a microfinance organization may receive financing from individuals only starting from RUR 1.5 mln (or EUR 22,5 thou.). Some P2P intermediaries start to provide aggregation of financing from individuals in favor of microfinance organizations
- Currently, August 2016, there is no regulation of P2P finance business in Russia. However, according to Russian Central Bank officials, corresponding legislative initiative will be published by the end of 2016

FinTech Leaders in Online-Lending & P2P Finance

E-lending market players:

According to the rating agency “RA Expert”, the following companies are the leaders of the e-lending market by size of portfolio in the 1st half of 2015:

- <http://moneyman.ru> (RUR 506 mln or EUR 7,5 mln; growth +179% compared to 1st half of 2014)
- <https://mili.ru> (RUR 257 mln or EUR 3,8 mln; growth +864%)
- <https://www.kredito24.ru> (RUR 216 mln or EUR 3,2 mln; growth +252%)

Other e-lending market players:

<https://www.ezaem.ru>, <http://www.payps.ru>, <https://vcredit24.ru>, <https://ekapusta.ru>,
<http://platipotom.ru>, <https://bezbanka.ru>, <https://platiza.ru>, <https://legkiy-zaem.ru>, <https://www.qppi.ru>,
<https://zaimionline.ru>, <https://www.revoplus.ru>

Crowdfunding market players:

<http://boomstarter.ru>, <https://planeta.ru>

P2P finance market players:

<https://fingooroo.ru>, <https://townmoney.ru>, <https://vdolg.ru>, www.fundico.ru, <https://www.loanberry.ru>,
<https://credit.webmoney.ru>, <https://zaymigo.com>

RUSSIAN FINTECH IN PAYMENTS



Payments Market Structure and Trends (I)

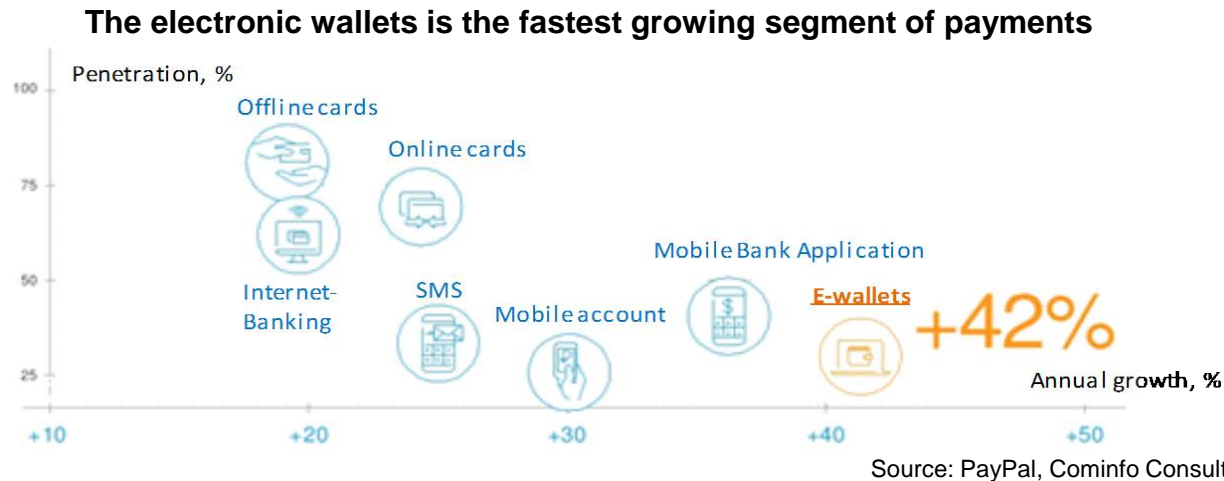
Digital payments market can be segmented as follows:

- 1) ATM
- 2) Distant financial services:
 - distant banking, Internet-banking, Mobile banking and SMS-banking
 - payments through mobile account and e-wallets

These technologies are actually partly used for International Money Transfer (remittances), overlapping with this segment.

- According to J'son & Partners, digital payments market size in 2013 reached EUR 57,7 billion (RUR 2,4 trl). Some experts estimate this market to be close to EUR 40-45 bln (or RUR 3 trl) in 2016.
- Approximately 40% of this market goes through ATM with estimated installed park close to 500 thousand.
- According to report from the rating agency "RA Expert" dated July 2016, Consumer and Commercial Banking segment, including Internet banking and mobile banking systems, increased by 1% in 2015, and its share reached 35% of digital payments market. SMS banking has 5% share of the market.
- Mobile operator assisted transactions – less than 1%.
- Cyber-cash market size is close to 18% of digital payment market and is based completely on E-wallet services.

Payments Market Structure and Trends (II)



- Due to RUR devaluation and working emigration slow down, cross-boarder money transfer transactions have significantly dropped.
- Drastic decrease is evident in travel related markets.
- According to experts, in 2016 e-payments market will show moderate growth of 6–9%.
- Internet-banking transactions increased by 1% in value, but decreased by 5% in volume.
- Number of SMS transactions have increased threefold during 2015.
- Nonbanking transactions grow faster, their share reached 40% in 2015.
- Digital Wallet part of cyber-cash market is a strong duopoly - 85% belong to 3 players: Qiwi, YandexDengy (75% owned by SberBank) and Webmoney. PayPal estimates its clientbase in Russia over 1 Mln users.
- Prepaid Cards number shows strong growth. Number of prepaid cards in use is over half of bank cards (45 Mln).

FinTech Leaders in Payments Market

Category	Fintech Leaders in Russia	Web sites
Payment/ money transfer	Inbox, Лидер, Liqpay, PayPlug.in, Moneymail, Dengionline, Splittpay, Мупай, Cloudpayments, Копилка (Sberbank Online), PayQR, Platius, CashFon	https://payment.inbox.lv/ https://leadermt.ru/#/index/main-page https://www.liqpay.com/ http://payplug.in/ https://money.mail.ru/ https://dengionline.com/ru/ https://splittpay.com/ https://www.mypay.ua/ru http://cloudpayments.ru/ http://www.sberbank.ru/ru/Person/promo/kopilka https://payqr.ru/ https://platius.ru/ https://cashfon.com
mPos	2Can, LifePay, Payme	http://www.2can.ru/ https://www.life-pay.ru/ https://www.pay-me.ru/
E-wallets	Qiwi, Webmoney, ЯндексДеньги, Ubank, OnlinePay Кошелек	https://qiwi.com/ https://www.webmoney.ru/ https://money.yandex.ru/new https://www.ubank.ru/ http://www.payonline.ru/
Payment aggregators	Яндекс.Касса, Robokassa, PayOnline, Assist, RBK Money, PayAnyWay, Wallet One, PayMaster, Patron, Uniteller	https://kassa.yandex.ru/ https://www.robokassa.ru/ http://www.payonline.ru/ http://www.assist.ru/ https://rbkmoney.ru/ http://www.payanyway.ru/info/w/ru/public/welcome.htm https://www.walletone.com/ru/wallet/ http://info.paymaster.ru/ http://front.platron.ru/ http://www.uniteller.ru/
Virtual banking	HandyBank, Faktura.ru, Krawly, CashOff, Touchbank, Кукуруза, Futubank, Instabank (closed 12 May 2016), Rocketbank, IQCard, Ibank, ModulBank, Точка Банк	http://www.handybank.ru/ https://faktura.ru/ https://www.krawly.com/ https://cashoff.ru/about/ https://www.touchbank.com http://kykyryza.ru/ http://futubank.com/ https://www.vpb.ru/services/instabank/ https://rocketbank.ru/ http://www.iqcard.ru/ https://ibank2.ru/ https://modulbank.ru/ https://tochka.com/
Services for banks	Zaimix, Mycreditinfo, Crediograph, Аксиоматика, Скориста, Rubbles, StockTalk, Арбитрос, StrategyStore, Brainysoft, Sputnik, DoubleData	http://zaimix.ru http://mycreditinfo.ru/ http://crediograph.me http://axiomatika.ru/ http://scorista.ru/ http://rubbles.ru/ http://www.stock-talk.ru http://arbitros-lawyer.nethouse.ru/ https://strategystore.org/ http://www.brainysoft.ru/ https://sputniknews.com/ http://doubledata.ru/
Banks online	PromsviazBank, Tinkoff Bank, AlfaBank, ZapsibcomBank, MDM Bank	http://www.psbank.ru/ https://www.tinkoff.ru/ https://alfabank.ru/ http://www.zapsibkombank.ru/ http://www.mdmbank.ru/
M-payments	MTS, BeeLine, Megafone, Tele2	http://www.mts.ru http://moskva.beeline.ru http://moscow.megafon.ru/ http://ru.tele2.ru/

Cryptocurrency Market Trends

According to present view of Russian Authorities, anonymous payment systems based on cryptocurrency, including Bitcoin, are money substitutes and can not be used by Russian citizens and business.

A draft federal Law "On Amendments to the Federal Law" by Central Bank of the Russian Federation (Bank of Russia) "and Certain Legislative Acts of the Russian Federation" prohibits the issue and turnover of cryptocurrency in Russia. The main points of the law:

- Equate virtual currency to money substitutes
- Prohibit not only the issuing, but also any operations with it
- Restrict access to information resources
- Enter the administrative responsibility
- Extend the effect of law at the citizens and business (enterprises)

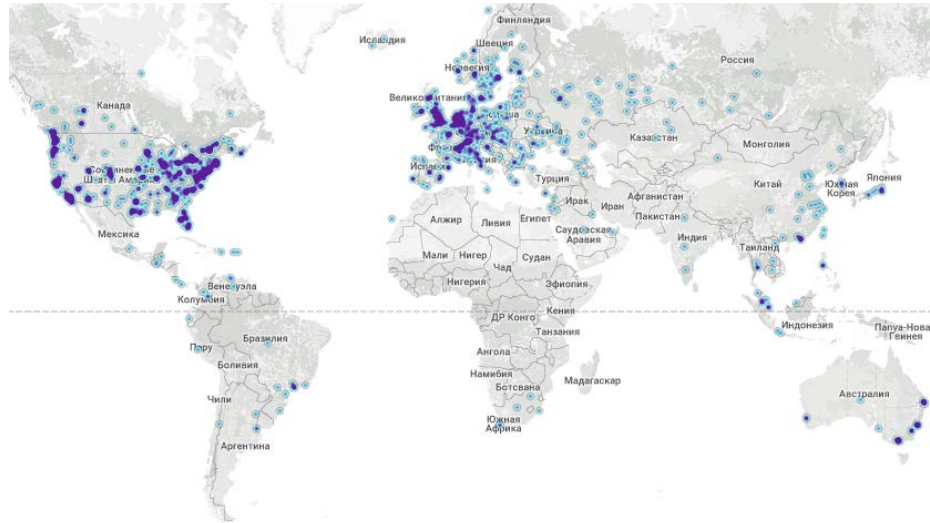
The main purposes of banning a cryptocurrency are viewed as:

- The struggle with the shadow sector of the economy, with the purchase of illegal goods and legalization (laundering) of proceeds from crime
- Stop the violation of the rights of legal users of virtual currencies, since they are deprived of the possibility of protecting their interests in court and (or) administrative rulings

However, there is growing understanding of the fact, that banning a technology is not the way to deal with risks. More and more professionals are voting for separation of technology (e.g. Blockchain) and the service (e.g. Bitcoin) and, at least, for differential regulations concerning the two.

Cryptocurrency. Bitcoin Nodes in Russia

Global bitcoin nodes distribution



**As of July 29, 2016,
5344 total nodes exist,
including 167 nodes in Russia (3.1%)**

- | | | |
|------------------------------|-------------------------------|---------------------------------|
| 1. United States (1619) | 2. Germany (782) | 3. France (391) |
| 4. Netherlands (300) | 5. Canada (300) | 6. United Kingdom (236) |
| 7. Russian Federation (167) | 8. China (146) | 9. n/a (145) |
| 10. Australia (88) | 11. Switzerland (81) | 12. Sweden (80) |
| 13. Japan (57) | 14. Ireland (56) | 15. Ukraine (51) |
| 16. Poland (49) | 17. Singapore (48) | 18. Korea, Republic of (46) |
| 19. Italy (44) | 20. Hong Kong (43) | 21. Spain (39) |
| 22. Bulgaria (38) | 23. Finland (36) | 24. Norway (35) |
| 25. Brazil (32) | 26. Czech Republic (32) | 27. Lithuania (31) |
| 28. Taiwan (26) | 29. Austria (24) | 30. Hungary (22) |
| 31. Romania (21) | 32. Belgium (19) | 33. Latvia (18) |
| 34. Greece (16) | 35. Slovenia (16) | 36. Denmark (16) |
| 37. South Africa (15) | 38. Malaysia (13) | 39. New Zealand (12) |
| 40. Portugal (10) | 41. Moldova, Republic of (10) | 42. Slovakia (10) |
| 43. Luxembourg (10) | 44. Kazakhstan (7) | 45. Iceland (7) |
| 46. Argentina (7) | 47. Israel (7) | 48. Belarus (6) |
| 49. Turkey (6) | 50. Thailand (6) | 51. Georgia (5) |
| 52. Philippines (4) | 53. Colombia (4) | 54. Cyprus (4) |
| 55. India (4) | 56. Europe (3) | 57. Costa Rica (3) |
| 58. Venezuela (3) | 59. Guatemala (2) | 60. Anonymous Proxy (2) |
| 61. Peru (2) | 62. Estonia (2) | 63. Mexico (2) |
| 64. Chile (2) | 65. Cambodia (2) | 66. Dominican Republic (2) |
| 67. United Arab Emirates (2) | 68. Indonesia (2) | 69. Bosnia and Herzegovina (1) |
| 70. Jordan (1) | 71. Belize (1) | 72. Guernsey (1) |
| 73. Croatia (1) | 74. Puerto Rico (1) | 75. Panama (1) |
| 76. Ecuador (1) | 77. Monaco (1) | 78. Malta (1) |
| 79. Isle of Man (1) | 80. Kuwait (1) | 81. Saudi Arabia (1) |
| 82. Macedonia (1) | 83. Lebanon (1) | 84. Virgin Islands, British (1) |
| 85. Armenia (1) | 86. Vietnam (1) | |

Source: getaddr.bitnodes.io

RUSSIAN FINTECH IN BANKING



Online Banking Market Structure and Trends

- According to a survey by Merku and Goolge, the Russians are the most common users of online banking among the polled nations - *UK, US and Germany*.
- The Russians most often use it to pay their electricity, rent or other bills (37.8% of people using online banking).
- Banking online (or Internet-banking) in Russia is overwhelmingly related to payments.
- Value-added services, that are being increasingly offered by the most innovative banks in mature economies, are not yet present in Russian market. One exception is Alfa Bank personal finance and virtual assistant services.
- The share of distant banking is already 40% of all payment transactions going through banks.
- An important event on the online-banking market took place at the end of 2014, when regulator allowed consumers to choose among banks for their wage&salary services.
- It is specific for the Russian market, that 80% of salaries transferred to bank account are immediately cashed-out. Competition is strengthening for these monies between banks and alternative (e-wallets) platforms.
- On the other side, the leading e-wallets providers in Russia (YandexMoney, Qiwi, PayPal), are closely related to banks.

FinTech Leaders in Online Banking

The leading Russian banks online are:

- PromsviazBank <http://www.psbank.ru/>
- Tinkoff Bank <https://www.tinkoff.ru/>
- AlfaBank <https://alfabank.ru/>
- ZapsibcomBank <http://www.zapsibkombank.ru/>
- MDM Bank <http://www.mdmbank.ru/>

Besides of these banks, almost all international banks operating in Russia offer online services

RUSSIAN FINTECH IN INSURANCE



Online Insurance Market Structure and Trends (I)

Under the term “Direct insurance”, the rating agency “RA Expert” implies distant selling and price calculation of a policy over the Internet or call-center without intermediary (agent) participation

- Direct insurance market growth (17% in 2015) is significantly higher than insurance market growth in general.
- Direct insurance market size grew by EUR 18,1 mln (RUR 1.2 bln) to reach EUR 121,5 mln (or RUR 8.2 bln) in 2015.
- Its share in insurance market as a whole (EUR 15,2 bln or RUR 1.03 trl) increased by 0.1% to 0.8%.
- The biggest sub segments of direct insurance market are auto casco (31% in 2015), self-paid medical insurance (19%), P&C and health insurance (16%).
- Tourist direct insurance penetration is already close to 90%. Direct obligatory auto insurance market penetration is only 10%. According to Banki.ru, online insurance market penetration money-wise is only 0.28% of the total insurance market.
- ***In the next couple of years the Eurasian Economic Union insurance regulations are to be harmonized.*** This will open the markets on the territory to any insurer, registered in a Union Country. ***CAGR in Russian online insurance market is around 20%*** and it is expected to remain dynamic in 2016-2018: in crisis more and more users go to on-line channels. ***In auto insurance, electronic policy and price calculation algorithm have been introduced*** by regulatory organization in 2016, which will significantly boost the market.

Online Insurance Market Structure and Trends (II)

- **Industry self-governing organization set-up is being finalized.**
- **High initial investment in the online insurance projects.**
- **Lack of experts who know both the insurance and the Internet technology.**
- **Using traditional POS-terminals in omni-channel payment insurance sales model.** Mobile POS-terminals in the insurance business are scarcely used because of the high cost of the service acquiring. It is also not possible to print out the supporting documents.
- **Insurance fraud.** Despite the increasing popularity of e-services, not all rely on direct insurance. Wanting to be sure of the reliability of the insurer people still prefer personal contact with an agent, making it possible to verify his competence and honesty.
- **According to the Law on Insurance, brokers and agents are not allowed to issue their own online policies.** According to the Law on CTP, only insurance companies can conclude insurance contracts on their official websites.
- **Usage-based insurance (pay as you go).** Personalization of insurance through usage- and behaviour-based models in auto coverage leverages new ways to capturing of driving data.
- **Self-directed services.** Use of self-service tools to reduce cost of serving customers and improve simplicity, transparency, and fulfillment speed.
- **Remote access and data capture.** Use of non-traditional data capturing solutions including remote devices, to improve risk and loss assessments.
- **Granular risk and/or loss quantification.** Advancement in technology helping to quantify risk and/or loss at a granular level.

FinTech Leaders in Online Insurance Market

- Cumulative market share of top-5 leaders in 2015 was 71%.
- According to polling results carried out by “RA Expert”, the leaders in volume are Metlife, Intouch and Tinkoff Insurance. One of the pioneers of the direct insurance market - Renaissance Insurance - is also among the leaders.
- The most dynamic share-gainers in 2015 are Tinkoff Insurance (33.3% increase) and Liberty Insurance (29.5% increase).
- The Russian top-5 leaders in online insurance are:
 - <http://www.renins.com>
 - <https://www.tinkoffinsurance.ru>
 - <https://www.metlife.ru>
 - <https://www.liberty24.ru>
 - <http://www.in-touch.ru>

RUSSIAN FINTECH IN WEALTH MANAGEMENT



Online Wealth Management Market Structure and Trends (I)

- On March 3, 2016, Franklin Research Group published “Private Banking and Wealth Management in Russia” research. In Russia, Franklin RG defines “private banking & wealth management” as ***services in which the proportion of investment products is not more than 20%.***
- According to Franklin RG, the private banking market in Russia in 2015 was close to EUR 90-95 mln or RUR 6-6,5 trl (including assets located in banks which carry out banking activity on the Russian territory).
- 70-75% of private banking assets are deposited in 19 banks, that participated in the research.
- According to some experts, Russia hosts about 100 thou. dollar millionaires and over \$300 bln in cash (EUR 240-250 bln).
- **Open-Architecture investment solutions** are the most represented in Russian wealth management market – wealth managers in multi family offices and agencies rely solely on third-party financial products and services, offered by competitor institutions and companies



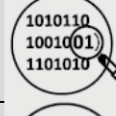

Online Wealth Management Market Structure and Trends (II)

1) There is onset of digital technologies in wealth management in Russia

These technologies are moving beyond the experimentation phase and the rate of diffusion and adoption of these technologies is steadily increasing. In wealth management, digital technologies are fundamentally transforming how wealth managers serve clients and conduct their business operations: (a) Interactions among multiple digital channels; (b) Social media; (c) Algorithmic asset management and big data analytics.

2) Four technologies leading in the digital innovations:

- **Mobile** is developing into the preferred channel for clients across all wealth bands, owing to the “anytime, anywhere” and context-aware capabilities that mobile devices offer.
- **Social media and collaboration tools** provide wealth clients the ability to interact with peers on portfolio strategies and client advisor performance.
- Through **advanced analytics**, wealth managers can improve insight generation and decision-making by infusing data into all aspects of revenue generation, cost control and risk mitigation.
- **Cloud-based computing** provides wealth managers the opportunity to reduce infrastructure costs and increase agility and time-to-market. Within wealth management, cloud computing is mainly used for non-core activities not involving confidential client data.

		Emerging trends
Mobile computing		<p>Mobile-first development. User experience is designed for mobile first, then permeated to other channels</p> <p>Relationship orientation. Tablet form factor shifting client experience from transactional focus towards stronger relationship orientation</p>
Social media		<p>The social CEO. Senior executives use social media to interact effectively with clients and engage within community</p> <p>Social media as service channel. Divert customer service requests from costly call centers towards social media interactions</p>
Advanced analytics		<p>360° client profile. Customer analytics that combines internal with external data sources to create real-time and holistic view on clients</p> <p>People analytics. Determine new approaches to attracting and retaining talent base through advanced analytics</p>
Cloud computing		<p>Pay-as-you-go cloud models. Ability to apply browser-based technologies for non-core business applications, such as enterprise content management, performance management cycle and recruitment</p>

Source: EY analysis, Cominfo Consulting

FinTech Leaders in Wealth Management Market

Private Banking

- VTB24 <http://www.vtb24.ru/private-banking/Pages/default.aspx>
- Gazprombank <http://www.gazprombank.ru/>
- Sberbank <http://www.sberbank.ru/ru>
- Bank of Moscow <http://www.bm.ru/> (now belongs to VTB24)
- Rosbank <http://www.rosbank.ru/ru/>

Private Banking & Wealth Management

- Friedrich Wilhelm Raiffeisen <http://fw.raiffeisen.ru/>
- Citi Gold Private Client <https://www.citibank.ru/russia/citigoldprivateclient/privilegii.htm>
- Unicredit Private Banking <https://www.unicreditbank.ru/ru/private-banking.html>
- А-Клуб <aclub.alfabank.ru> (belongs to Alfabank)
- M2M Private Bank <http://www.m2mbank.ru/>

Multi Family Offices

- Family Office AVC <http://multi-familyoffice.ru/o-nas>
- Alfa Capital <https://www.alfacapital.ru/>
- UFG Wealth Management <http://www.ufgwm.ru/>
- General Invest <http://www.c-g-i.ru/>
- Oracle Capital Group <http://orcap.co.uk/ru/> , GB Finance <http://www.gbfinancial.com/> , SORP <http://sorp.ae/multi-family-office/> , Третий Рим <http://third-rome.com>

Institutional Investing

Start-ups and Agencies: <http://artquant.com/> , <http://cofite.ru/products/> , tab-trader.com , <http://investcafe.ru/> , <https://homemoney.ua> , <http://www.drebedengi.ru/> , <https://coinkeeper.me/> , <https://zenmoney.ru/> , <http://easyfinance.ru/> , <https://www.krawilly.com/> , <https://www.massbanking> , <https://www.nalogia.ru>

FOREX brokers in Russia:

OptoSpot <http://optospot.com/en/about-us>
MetaTrader <http://www.metaquotes.net/>

Internet-trading platforms:

- <http://www.onlinebroker.ru/> - pioneer in internet-trading in Russia, now belongs to VTB24 Bank
- QUIK - <http://arqatech.com/en/products/quik/>
At present, QUIK is the leading internet-trading platform used by over than 270 financial organizations in Russia
- Alfa Bank trading platform - <https://www.alfadirect.ru>
- <http://www.finam.ru/about/whyfinam/> - the leading platform for private investors in Russia.

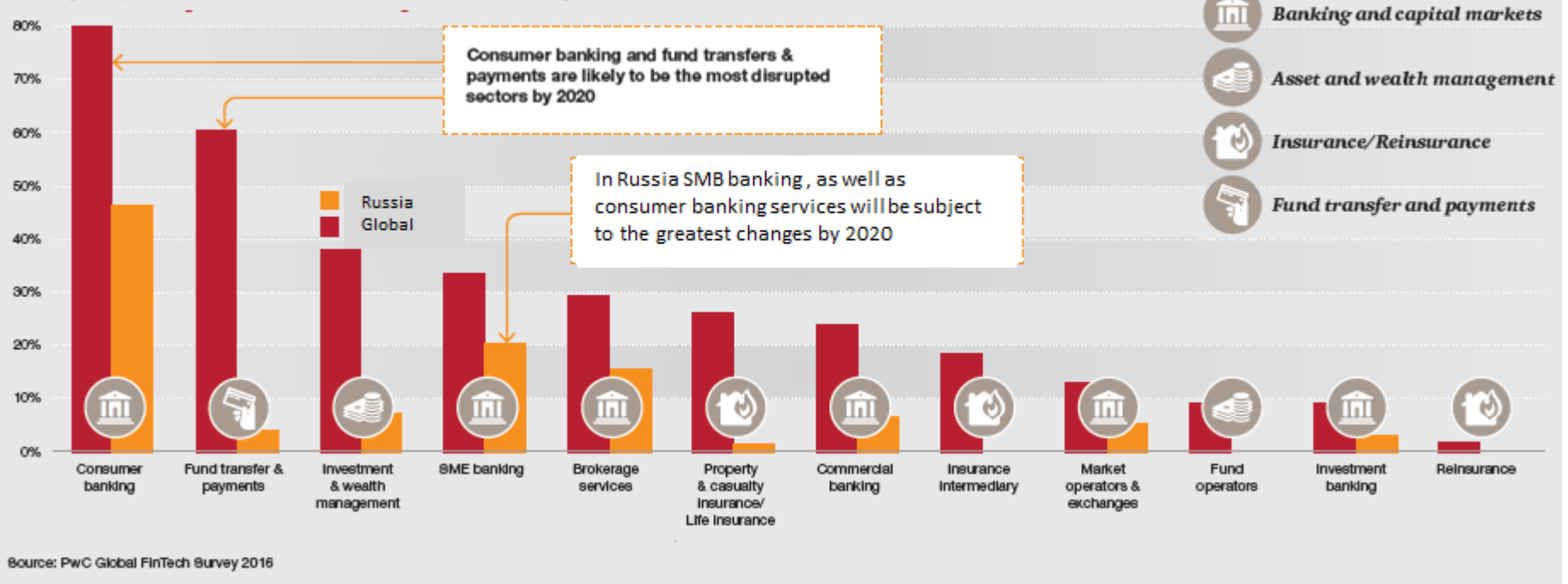
You can find the first robo-advisory service in Russia here: <http://www.finance-autopilot.ru/>

MARKET FORECAST



Areas of Disruption in the Next 5 Years

Which part of the financial sector is likely to be the most disrupted by FinTech over the next 5 years? – All industries



Banking in all the segments, wealth management, brokerage and exchanges – are the areas that will be the most disrupted by FinTech in Russia, according to the PwC survey

Russian FinTech Forecast for 2016-2020 (I)

- ***The growing influence of the regulation in the development of FinTech market:*** A draft law on self-regulating organizations in the financial market and a draft law on prohibition of cryptocurrency are currently developed. Other planned regulations also include: Ban on the transfer of funds between unidentified users, law on the bloggers, prohibition of open Wi-Fi, mandatory notification of Roskomnadzor about the establishment of any website, and the requirement to store information about users, as well as to provide this information on request, increased payment limits between identified users, state attempts to regulate such a key factor for the payments market as exchange fee.
- ***Increasing number of market participants:*** In London - a city with a population comparable to Moscow - there are about 10 different FinTech accelerators, as well as in Singapore, which is three times less populated than Moscow. In this regards, Russia has a great potential for growth. So, in October 2015, "Moscow City" opened the first international FinTech cluster in Russia "Future FinTech".
- ***Education and knowledge base as a precondition for the development of new FinTech categories:*** Russian FinTech developers have one of the highest level of competence in the world. Therefore, experts expect they will create leading FinTech products for international markets.
- ***FinTech companies' specialized field of expertise:*** It is expected that future start-ups will focus on specific financial services in order to provide the highest quality, and will lead one of the FinTech segments.
- ***Middleware will diminish the role of core systems:*** The industry will move away from its reliance on core systems and start using middleware that serves as a communication layer between core systems and the rest of a bank's software solutions. The middleware layer will make it easier to plug new products and services into the transactional data housed in core systems. Large banks and core solutions providers alike are already developing middleware that will remake their core solutions into transactional databases.
- ***Personalization of client relationships: creating and customizing a financial product for each client***

Russian FinTech Forecast for 2016-2020 (II)

- **Investing will involve everyone:** Development of Trading Platforms, investing in real estate and other investment solutions - pension funds, savings for college educations, etc.
- **Alternative methods of investment projects: social IPO, crowdfunding:** In Russia, private debit customer accounts are worth RUR 17 trl (or EUR 250 bln). So, people have money and they are ready to invest.
- **Bank and FinTech partnerships:** The largest banks have shaped the dominant model of bank-FinTech partnerships. These banks have used venture capital arms to give FinTech startups cash to get their ideas off the ground. If the startup's product proves it has potential, then the large bank will consider acquiring it outright and bring its technology in-house.
- **The growing role of telecommunications companies:** Some telecom companies (Megafon, MTS, Vimpelcom) launched the basic banking services. Others will likely be on the market in the next 1-3 years.
- **Development of mobile acquiring services:** Today with the increasing popularity of smartphones, to make a fund transfer, pay purchase or get a credit should be as easy as sending a message to the social network. Many Russian enterprises do not have traditional POS-terminal to receive payment with plastic cards. The main reason for the failure of the launch of payment by plastic cards is the high commission from banks for acquiring services. Retailers will become a main driver in the acquiring markets and mobile acquiring.
- **Non-cash payments: Near Field Communication (NFC), mobile banking, virtual wallets, payments based on client biometric identification:** Since 2008, the share of non-cash payments by cards increased from 10% to 27%. Simplicity, security, the opportunity to receive bonuses and cashback are key motivators for customers to pay cashless.

Russian Online-Lending & P2P Finance Forecast

- According to some experts forecasts, **P2P lending market will reach RUR 4.3 bln (or EUR 64 mln) by 2018.**
- **Credit system development.** At present, high interest rates on loans, difficulty associated with a poor credit history or its absence, a long clearance process, low flexibility, long questionnaires to acquire a credit are inconvenient for customers. Start-ups will make it better in the next 5 years offering P2P lending, solutions for small businesses, underwriting, short-term microfinance services, low interest rates, etc.
- **Increasing customer demand** and growing trust with tech companies may enable non-traditional firms that excel in creating digital customer experiences to assume control of the customer relationship, while traditional institutions focus on manufacturing financial products.
- **Full-service virtual banks** could offer a comprehensive suite of financial products by **partnering with a range of niche alternative providers** (e.g., P2P lenders); allowing the network of alternative providers to compete directly with full-service retail banks.
- In the future, financial institutions could leverage virtual channels to offer **frequent customer interactions and non-financial value-adds above** and beyond needs-based transactions to strengthen customer relationships.
- **P2P lending focus on lending with mortgage of assets.** In Russia there is no credit bureau, collecting information on borrowers. At the same time, for the purpose of optimizing the tax base, the financial statements of Russian companies do not represent the real assets. So, effective consumer lending and business loans over the Internet are almost impossible. Lending secured by fixed assets is significantly more secure and understandable for most Russian creditors.
- **Crowdfunding platforms are widening access to capital raising activities**, making the overall ecosystem richer. Empowered angel investors and alternative adjudication are becoming more important.

Russian Payments Market Forecast

- **Consumer protection from identity theft, fraudulent transactions and account falsification.** Topological analytics will be used to ensure the authenticity or identify fraudulent transactions.
- **Increased value-added merchant service offerings.** Additional services offered by merchant acquirers and processors will include enhanced data analytics, reward and loyalty programs, fraud management, chargeback protection, check processing, refund management and customer relationship management solutions.
- **Next generation point-of-sale solutions.** Enhanced technology at the physical POS, such as the use of QR codes or NFC, will optimize the security of mobile wallets. Digital wallets will become more popular for the use of e-money, secure storage.
- **P2P payment solutions.** FinTech companies will provide an increased number of solutions to facilitate P2P payment. P2P transfer will penetrate into messaging services, social networks and other platforms, accumulating a critical mass of customers.
- **Alternative retail-payment networks and fund-transfer solutions.** Alternatives to traditional services offered by Visa, MasterCard, Discover, and American Express will include online payment systems, such as PayPal and Stripe, as well as loyalty and gift card solutions, as the one from Starbucks.
- **Proliferation of international /cross-border transfer platforms.** Increased number of solutions and points of user interaction enable faster and cheaper cross-border fund exchange or remittance.
- **Simplification of online-checkout experience.** The checkout experience can be directly affected by ease of website navigation, delays in transaction processing, volume of security checks, and limited payment options. New vendors aim to eliminate the multiple inept steps (i.e. shopping cart, card info, etc.) currently required in an online checkout process.
- **Increased push for faster payments.** Companies will focus on the fund transfer and payment space to limit the number of intermediaries for the purpose of faster (to immediate) transfer and/or settlement and with this, a lower fee. This can include direct party transfer, P2P transfer, use of prepaid account to transfer with a mobile phone and no bank account.

Russian Cryptocurrency Market Forecast

Cryptocurrency in Russia will not become legal for a considerable time

Debate about which public institution should be responsible for regulation of cryptocurrency is not resolved yet. Nevertheless, the latest news shows that ***the Ministry of Finance plans to equate cryptocurrency to foreign funds and to permit its purchase.*** The Ministry of Finance intends to develop blockchain technology. The Law “The Regulation of cryptocurrency” will be developed before the end of 2016.

- ***Prohibition of cryptocurrency will impact new Russian business /companies,*** forcing them to open special accounts in other, more favorable jurisdictions where they will pay taxes, create jobs, develop infrastructure.
- ***Adoption of the law will result in the outflow of IT professionals and young entrepreneurs abroad***
- ***It will not be possible for foreign funds and entrepreneurs to invest into the Russian virtual currency projects.*** The investments, the development of cryptocurrency services, and legislation in other countries show that business will only grow as the result of accumulated experience of regulation and interaction. So, in Russia there will be no self-education, the legal framework, law enforcement, experts, business and other expertise in this area.

If Russia decides to lift restriction on virtual currency in 5-10 years, foreign companies will come and lead the Russian market.

Russian Banking Forecast

- **Services and solutions for underserved consumers.** Online services are less expensive and therefore expected to be offered also to customers that are currently underbanked, e.g. in rural areas.
- **The enhancement of credit underwriting /decision making.** More granular data enable financial service providers to more accurately assess and price risks.
- **The move toward non-physical or virtual channels, including mobile channels.** Virtual banking utilizes online and mobile platforms to integrate and simplify customer banking experience. Virtual banking platforms equip customers with on demand access to manage bank accounts, pay bills, apply for loans, open new accounts, and perform other banking activities through a single portal. Banks are using these channels to collect data from customers, generate new revenue streams and offer compelling value propositions.
- **The simplification and move toward streamlined product application processes to improve customer experience.** The consumer product application process (i.e. loan origination) has been streamlined with the emergence of cloud-based lending solutions and electronic bank account management systems which automate the loan origination process and increase overall transparency in the lending process. The move towards such solutions improves customer experience by reducing the amount of manual work, cutting down time and reducing errors.
- **Solutions that banks will integrate or incorporate to improve and simplify operations.** APIs enable third parties to develop value-added applications for company platforms, artificial intelligence enables companies to extract greater customer insights. Employees and intelligent machines work as a team, banks expedite digital services.
- **The emergence of self-service tools.** Increase of customer autonomy in performing every service without human interaction. Self-service tools, such as internet banking and apps, are becoming more popular.
- **Banks will start leveraging Blockchain technology and Biometrics.** Both technology stacks will be implemented with the assistance of the Ministry of Finance, Federal Financial Monitoring Service, the Bank of Russia and the Ministry of Communications, in full compliance with the current legislation of Russia in the banking services. 2016 will be the year when banks start operating their blockchain experiments. Banks will likely use the blockchain for tasks that don't actually involve money, like authentication with internal applications, or verifying internal documents.

Russian Online Insurance Market Forecast

- ***New models of holistic advice (robo-advice):*** New models of holistic advice on insurance/investment needs assisted by automated advisors that leverage advanced analytics and artificial intelligence.
- ***Expansion of the telematics insurance models through connected devices and platforms*** will create channels for insurers to better understand their customers and engage more closely with them.
- ***Connected devices (Car Telemetry, Home Sensors security, Health Telemetry) can allow insurers to track and continuously refine individual risk profiles***, enabling more accurate underwriting of individual risks and more personalized products. The insurer will receive a predictable customer, and the customers - the protection of their risks at the best price.
- ***The greatest potential growth lies in Compulsory Third Party Insurance (CTP):*** From 2017 all insurers will be obliged to sell CTP policies in e-form.
- ***Acquisition of on-line CASCO insurance policies for used cars:*** Till now purchasing online CASCO policies was only available for owners of new cars.
- ***Development of aggregators:*** In addition to CASCO, aggregators will sell insurance for traveling abroad and property insurance services.
- ***Ride-sharing solutions:*** Rise of new ride and car-sharing business models, or similar sharing economies, that demand new insurance solutions regarding liability and personal injury.
- ***Connected /Smart Car:*** Solutions for connected cars and increasingly assisted /autonomous driving will impact auto claims frequency and severity.

Investment & Wealth Management Market Forecast

Expected booming in industry of Private Banking & Wealth Management as compensation of the current lack of services in Russia: ***personal financial advisory, personal finance management (PFM), stock market brokerage for private clients are in demand***

- ***Innovation in brokerage services, enabling better investment, provide advanced decision support:*** Innovations enabling advanced analytics and improved interface enhance decision support. Brokerage services that provide new data sources and tools analytics, portfolio and market information will enhance investment decision support.
- ***Technology to enable investments in new markets:*** With the support of new technologies FinTech companies can gain competitive edge and accelerate growth in new and emerging markets.
- ***Automation of asset allocation and wealth management:*** Automated advice solutions (e.g. robo-advisers) are changing the asset management landscape in many ways, including asset allocation.
- ***Better identification and quantification of risks:*** New models and broader data sets will be used to more accurately analyze risks.
- ***Community intelligence networks leading to better investment decisions:*** Technology and data from social media networks will help to improve investment decisions.
- ***Standardization of customer experience across all points of contact:*** Similar functionalities for end users across multiple devices create streamlined user experience.
- ***End user-created investment solutions:*** Customer-centric investment products are enabling investors to create personalized investment strategies.
- ***Shift from technology-enabled human relationships to experiences with human support:*** Rather than maintaining a human relationship with the support of technology services, clients are now directly using the technology with little to no human digital interaction. Human interaction only comes into play when there is a need for customer service.

OPPORTUNITIES FOR SWISS COMPANIES



Swissness as Main Point of Attraction

Many people do not trust the Russian finance system and prefer to use the services of foreign banks:

- The share of credit institutions with foreign participation is actively growing in Russia and is 27% at present. In 30% of credit institutions, authorized capital is fully formed by non-residents.
- The most trustworthy European jurisdictions are Switzerland, Liechtenstein, Austria.

The main trust reasons for foreign banks in Russia:

- Financial protection from the risks associated with RUR exchange rate and changes in Central Bank policy.
- Foreign banks are more reliable
- Image component – saving account in Swiss Francs or another foreign currency indicate the high status of its owner, it is psychologically more attractive than savings in RUR.

Any Swiss wealth management company operating from Switzerland under Swiss Civil Code and reinsured by reputable Swiss Bank or reinsuring agency may exploit the deficit for trust in the Russian personal finance and wealth management market

Business Opportunities in Online-Lending & P2P Finance

FinTech companies have opportunities to grow in the following perspective niches in the next 3-5 years:

- **Lending for Small and Medium Business** for the period of several years through accreditation with State Corporation for SME Development in Russia (6.5% Program).
- **“Credit card for business”** when the company is approved for a certain limit.
- **Refinancing educational loans.**
- **Refinancing receivables in international trade** with participation of Russian companies.
- **Crowdfinance**, secured by commercial real estate operations or fix & flip.
- Crowdfinance mortgage loans secured by residential real estate, eventually based on blockchain contracts and registration services.
- Empowering strong company brands in Russia to collect crowdfinance from their customers.
- **Linking mortgage loan providers with IPR registration services and trading** in order to finance Russian residents projects, creating intellectual property rights registered in Europe.
- **Audit and rankings, clustering investors, aggregators and marketplaces.**
- **P2P lending** in cooperation with Russian banks for identification and risk analysis.
- **Leverage expertise** of more experienced individual investors in certain fields (e.g., angel investors) by providing them an opportunity to lead crowdfunding for desired investments.

Business Opportunities in Payments

- **Mobile payments and P2P transactions.**
- **Small-medium-enterprises cross-boarder trade/supply chain finance and payments solutions** based on “blockchain” technology.
- Value-added services in **cross-area of payments and personal finance.**
- **Integration of payment methods in one gadget.**
- **Mediation by embedding payments software.**
- **Next generation security:** identity management solution (biometric identification algorithms, production of equipment for biometric information scanning), **QR codes** or **NFC** to enhance security of mobile wallets.
- **Innovations in the area of POS-terminals** and omni-channel retail payments.
- **Digitalization of cash and treasury management functions.** Sophisticated, proprietary decisioning software that chooses the most effective payment route, currency, delivery date and time of day, etc.
- **Convergence of non-bank payment infrastructure into bank platforms.**
- **In the long term the development of processing platform for Bitcoin payments,** which will allow regulated financial services (Forex, banks) to start to accept and process transactions with virtual currencies.

Business Opportunities in Banking

Capturing the potential of e-banking will require development of new offerings as well as enhancement of existing familiar services of the bank. The list of emerging initiatives include the following perspective niche areas:

- **Social media banking apps.** There is a gap between the customer demand and bank offerings over social media: customers value the ability to transact and get account information. Social media banking apps allow users to make small money transfers to friends. Users can also split a common bill and maintain payee list for instant fund transfers.
- **Virtual customer support.** Banking users value the ability to solve problems on real-time basis and keep the personal touch alive while using remote self-service channels. Banking apps are increasingly being innovated to include virtual customer support through videos, calls and messaging without having to visit the bank.
- **Use of analytics.** Voice biometrics, fingerprints, iris scans and other authentication options are beginning to replace passwords as a means to verify a user's identity and simplify the login process while banking online or via a mobile device. Banks are providing apps that recognise voice command and allow users to make balance inquiries and transfers, locate nearby branches and ATMs.
- **Integration with next-gen technologies. Cloud:** The ability to store banking-related documents such as authentication proofs and checks enhances user experience of e-banking.
- **Wearables:** The advent of smart watches and Google glass has created a niche market for mobile banking.
- **P2P business models** such as WeSwap10 – enabling users to buy and sell currencies directly at an agreed rate.
- **Multibank foreign exchange solution for active foreign trade participants in Russia.**
- **Services to Russian banks**, facilitating their participation in MyBank (pan-European payment authorisation solution) or other Automated Clearing House (ACH)-style or bank payment hubs (BPHs) models.

Business Opportunities for Swiss FinTech in Online Insurance

- Due to **market protection measures against foreign insurance providers**, foreign FinTech companies should rather focus on supplying services for Russian insurance companies than on entering the market with their own insurance products.
- **Big data applications to prohibit fraud**: Using large customer datasets and information from external sources (social networks, cookies, etc.)
- **Production of sensors and data processing systems**, home control systems installation, manufacture wearable devices for the health indicators, development of big data processing systems.
- To **partner with key automotive producers** and suppliers to Russia in **bundling of car insurance products**, based on embedded telematics, consider acquisition of one of leading aggregators of insurance products in Russia.
- To collaborate with Russian operator of Glonass geopositioning system in introduction of **new insurance products based on telematics**, addressing professionals (truck owners/drivers, field personnel).
- To step into strategic **partnerships with producers of wearables** and global tech companies that have already significant over-the-top client-base in Russia (Samsung, Apple, Google, Sony, etc.) in order to **promote health insurance products**.
- To step into **strategic partnership with global mega insurers** that are interested to enter Russian market through cost effective way without direct competition with established offline players, aiming first of all at **self directed services**.
- To propose pilots to most innovative municipalities in Russia (Moscow, St.Petersburg, Kazan) in area of shared economy (cars, bicycles, residences, etc.) to test new products in **usage-based insurance**.
- To **develop a travel-oriented insurance product** which is well **integrated with health assistance companies** in key travel destinations of Europe and other most popular destinations for Russian travelers.

Wealth Management Business Opportunities (I)

Digital tools such as mobile and analytics are providing wealth managers with a unique opportunity to modernize their traditional ways of doing business by better understanding and serving customers, improving business processes through automation and self-service, as well as creating an information advantage by pinpointing useful data and then deriving insights from it.

The main opportunities are centered around two themes: **Digital wealth manager** and **Analytical banking**

Area	Definition	Enabling technologies	Applications
Digital wealth manager	<ul style="list-style-type: none"> * Harnessing digital enablers to deliver a seamless and intuitive multi-channel client experience across multiple devices, with social media integration and ability to communicate with client advisors for a highly personalized client experience * Digitizing the full value chain across the front-, middle- and back-office to drive operational efficiencies 	<ul style="list-style-type: none"> Mobile computing, Social media, Advanced analytics 	<p>Digitally-enhanced client relationships Enrich and extend client interactions through an enhanced multi-channel client experience – with integration of social media across all channels, enabling a seamless flow from idea to analysis through to execution</p> <p>Increased front office productivity Increase productivity of clients advisors and reduce the amount of time spent on low-value and administrative tasks through use of instant messaging, web portals, web conferencing facilities and video calling channels</p> <p>Operational excellence in middle and back office Employ digital technologies in the middle and back office to reduce overheads within</p>
Analytical banking	<ul style="list-style-type: none"> * Harnessing large, dynamic and disparate volumes of data created by people, tools and machines to derive real-time and value-adding business insights that relate to clients, risk, performance and productivity * Improving decision-making and identifying new business opportunities by monetizing data assets 	<ul style="list-style-type: none"> Social media, Advanced analytics 	<p>360° client profiles Create holistic view of clients by enriching internal data with external data from social media sources to generate next-product-to-buy scenarios</p> <p>People analytics Avoid unwanted attrition by analyzing variables to determine attrition likelihood (e.g., compensation, performance ratings, supervisor skill and time in role) and identifying concrete measures to improve retention of highly skilled professionals</p>

Source: EY analysis, Cominfo Consulting

Wealth Management Business Opportunities (II)

- Online services for asset management with minimum human involvement (**robo advisors**).
- Investment services and **analytics for industrial indexes** (e.g. alternative energy, biotech, organic food).
- **Instruments and solutions for small account investors** accumulating purchasing power /voting rights for expensive stocks.
- **Social trading** (services enabling individual investors to build and share investment strategies and portfolios with other investors).
- **App to enable investors to easily build, test and execute trading algorithms** with limited technical knowledge and infrastructure.
- Provide **platform for sophisticated investors** to share trading algorithms with others.
- **Solutions** that provide **aggregated view and analysis on multiple accounts** in different currencies and jurisdictions.

CONCLUSIONS AND RECOMMENDATIONS FOR SWISS FINTECH COMPANIES IN RUSSIA



Conclusions and Recommendations

In Russia, historically, most innovative development initiatives come from the government.

Currently, the state has **no specialized center or cluster for FinTech**, which is ready to fully meet the market demand for innovation.

Financial support, either state or private, is also rare. The lack of investment prevents FinTech development since not many players have access to capital.

The **market volume is smaller than in the US/Europe** due to less prosperity. Some types of FinTech services for the Russian market do not have critical mass of addressable market, and, therefore, focus mostly on the foreign markets.

Furthermore, the economic crisis and sanctions reduce demand, increase volatility and anxiety.

But on the other hand, **Russian people are very much used to internet services** in general, and, according to surveys, more open to online financial services, in particular, than most Europeans.

Conclusions and Recommendations

Even in the actual situation, **FinTech categories such as investment, wealth management, online platforms, reinsurance** and others have growth potential.

Currently, the following trends can be observed:

- The development of online service or a total digitalization of banking. The largest banks have shaped the dominant model of bank-FinTech partnerships with start-ups and mobile companies. In Russia, mobile operators and FinTech start-ups are bank partners, not competitors.
- The growth of non-cash payments including cross-border trades. However, the starting point is much lower compared to matured markets. Since 2008, the share of non-cash payments with cards increased from 10% to 27%. Simplicity, security, the opportunity to receive bonuses and cashback are key motivators for customers to pay cashless.
- The emergence of marketplaces in various areas, including finance. Aggregators services or marketplaces are proliferating.
- Mobility – penetration of mobile financial services increasing fast, including mobile acquiring, allowing payments via smartphone.
- In future, the personalization of client relationships will gain even further importance, service providers will have to create and customize a financial product for each individual client.

Conclusions and Recommendations

The **level of competence of Russian FinTech developers is one of the highest in the world**. In October 2015, "Moscow City" opened the first international FinTech cluster in Russia "Future FinTech".

Currently, the **legislative framework** concerning FinTech **is not so developed** in Russia, except the strict ban of cryptocurrency. But in the law and administrative field there are a lot of developments going on, which have to be monitored carefully.

Furthermore, Russia has recently introduced **market protection measures** which concern also the IT market. Since 1 January 2016, **foreign software is banned from public procurement** except when the Unified Register of Russian Programs for Computers and Databases (the "Register") does not contain the software of the required category, or the software included in the Register does not meet the user's requirements.

But there are **still good business opportunities for Swiss FinTech companies** in the private sector, especially if they provide innovative and user friendly products and services which are not offered by Russian companies.

Many people do not trust the Russian financial system and prefer to use the services of foreign banks or other financial service providers. Any Swiss wealth management company operating from Switzerland under Swiss Civil Code and reinsured by reputable Swiss Bank or reinsuring agency may exploit the deficit for trust in the Russian personal finance and wealth management market.

Conclusions and Recommendations

Swiss FinTech companies will have to adapt their product and services to the local legal regulation and customer habits. This includes but is not limited to a full-fledged Russian version of the software.

In general, personal contacts with potential clients and decision makers are likely to take much more time than in European countries. Detailed information material in Russian will also be necessary to convince your business partner.

Further involvement of Swiss FinTech companies in the Russian market could include participation in venture projects, the establishment of consumer experience study centers, and partnership with Russian FinTech providers to unite local market knowledge and western best practices and successful business models.

The Swiss Business Hub Russia will be glad to consult and support you in all questions related to doing business in and with Russia.

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