

# Expanding SME Acceptance Footprint

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Merchant Sales & Solutions, Russia  
March 2018

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# Brief details



## Objective

Scalable solutions that will allow to Small & Medium enterprises open acceptance:

- Easy and cheap solution that will make acceptance an essential element of business in SME sector
- Ability to demonstrate solution benefits for large number of SME's via smaller investments



## Way to go

Do not stick to the elements of the existing landscape only:

- Various POS terminal (POS, mPOS, contactless only etc.)
- Various methods of payments (cash, QR-codes, on-line banking etc.)
- Governmental regulations etc.



## Our Expectations

We are looking for end-to-end cases for Small and Medium enterprises that will convince them accept cards having no doubts of doing this.

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Go through "being SME" journey, think out-of-box about solutions that will unite all existing and may be new elements of that eco-system into one.

# Key questions

## Situation

Low card penetration in Small and medium businesses (SME) caused by limited card acceptance infrastructure.

Key reasons:

- it's not profitable for banks to acquire SME due low merchant's turnover
- Some SME prefer cash to avoid taxes and don't understand the value of electronic payments.



### How does it affect VISA?

Still large share of Visa TV are ATM withdrawals ~70%. Visa cards may be used in many more locations resulting in additional MV and Net revenue for Visa.



### How does it affect clients?

Limited acceptance in regional SME stores prevent acquirers and issuers to get additional revenues from transactions on POS rather than ATM withdrawals.



### How does it affect consumers?

Visa card holders will be able to pay in a safer and faster manner for their purchases/services by using bank cards where they previously had to pay in cash. To use credit cards, get cash backs and loyalty bonuses on co-brand car



## What we're trying to achieve / solve for VISA

- To expand the card acceptance network for small and medium-size businesses
- To increase transactional consumer behavior for the Everyday spend segment
- Understand the best collaboration model with partners/vendors on the market to increase SME acceptance

# SME Pain Points



## Turnover

Banks are unwilling to invest in terminals or maintenance of merchant locations with an unstable and small acquiring turnover below 100,000 rubles per month.

With MDR at 2%, the acquirer's revenue is ~0.5% / ~250 rubles per merchant client.

## Taxes

Some Merchants are reluctant to accept cards to avoid taxes. In case of individual entrepreneurs (IP), the tax amount is 6% of the business turnover.

Thus, with MDR at 2%, this is 33% of expenses in addition to the tax burden.

## Merchant discount rate

SME merchants consider merchant discount rate (MDR) to be very high. Acquiring fees for micro business with a less than 300 rubles bill (0.3% in MDR) are higher.

## Settlement period

SME Merchants consider that 3 days settlement period is too long since their business is built on the daily turnover and daily payment for the salesperson's work (15% of turnover).

## Terminal cost

Merchants are reluctant to buy terminals (costing 15,000 to 40,000 rubles per POS)

## Low awareness

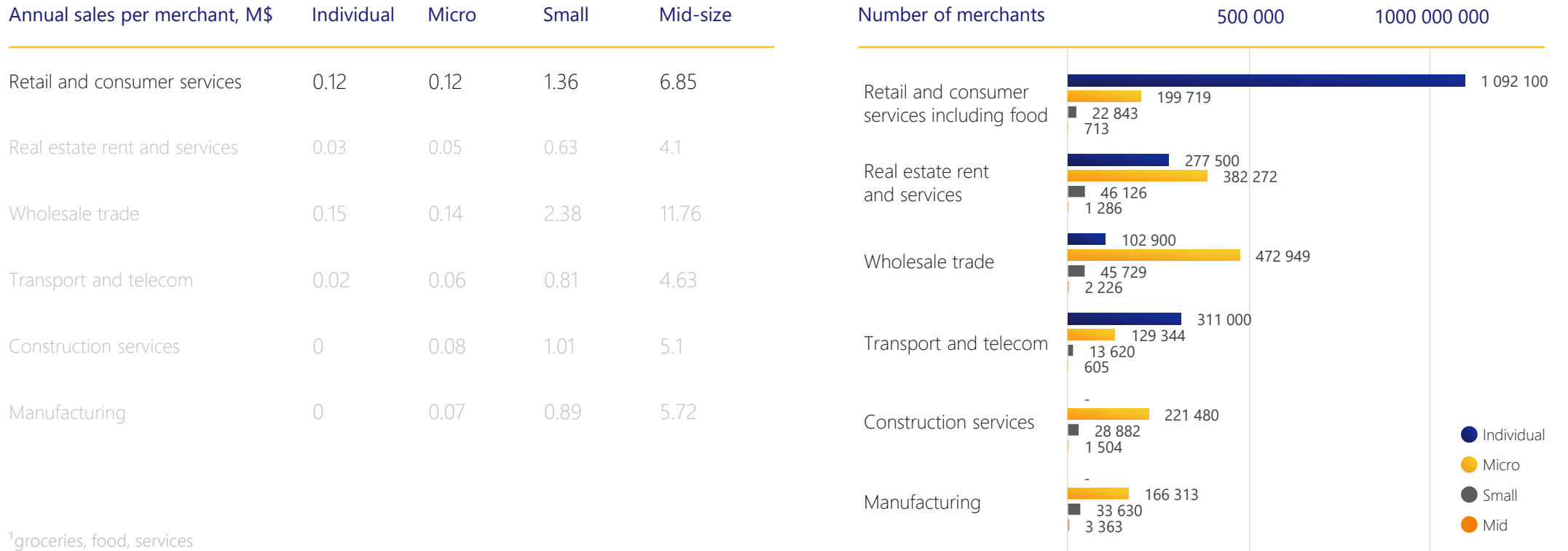
Low awareness about benefits of electronic payments

# There are >5M SME merchants Only 4% accepting cards payments

## What is SME in Russia

|                     | Micro | Small  | Mid-size |             | Micro      | Small | Mid-size | Total |
|---------------------|-------|--------|----------|-------------|------------|-------|----------|-------|
| Annual sales        | <2M\$ | <13M\$ | <33M\$   | Individuals | 99% (3,0M) | 1%    | 0%       | 3,0M  |
| Number of employees | <15   | <100   | <250     | Enterprises | 90% (2,4M) | 9%    | 1%       | 2,7M  |
|                     |       |        |          | Total       | 95% (5,4M) | 5%    | 0%       | 5,7M  |

# Micro Retail<sup>1</sup> is in absolute focus!



# SME's typical representatives



Convenience Store

Self-employed / Individual

Located in regional cities

Shopping space ~20 m<sup>2</sup>

Sales alcohol and meat semi-products

Monthly sales at ~10K \$US

Limited card acceptance  
POS is stored under the desk



Car service / Car wash

Micro SME

in Moscow or Moscow region, open 24 hours

~100 m<sup>2</sup>

Tyre repair center / car wash and waxing

~10-15K \$US

No card acceptance



Street Food

Self-employed / Individual

in Moscow at railway station

~10 m<sup>2</sup>

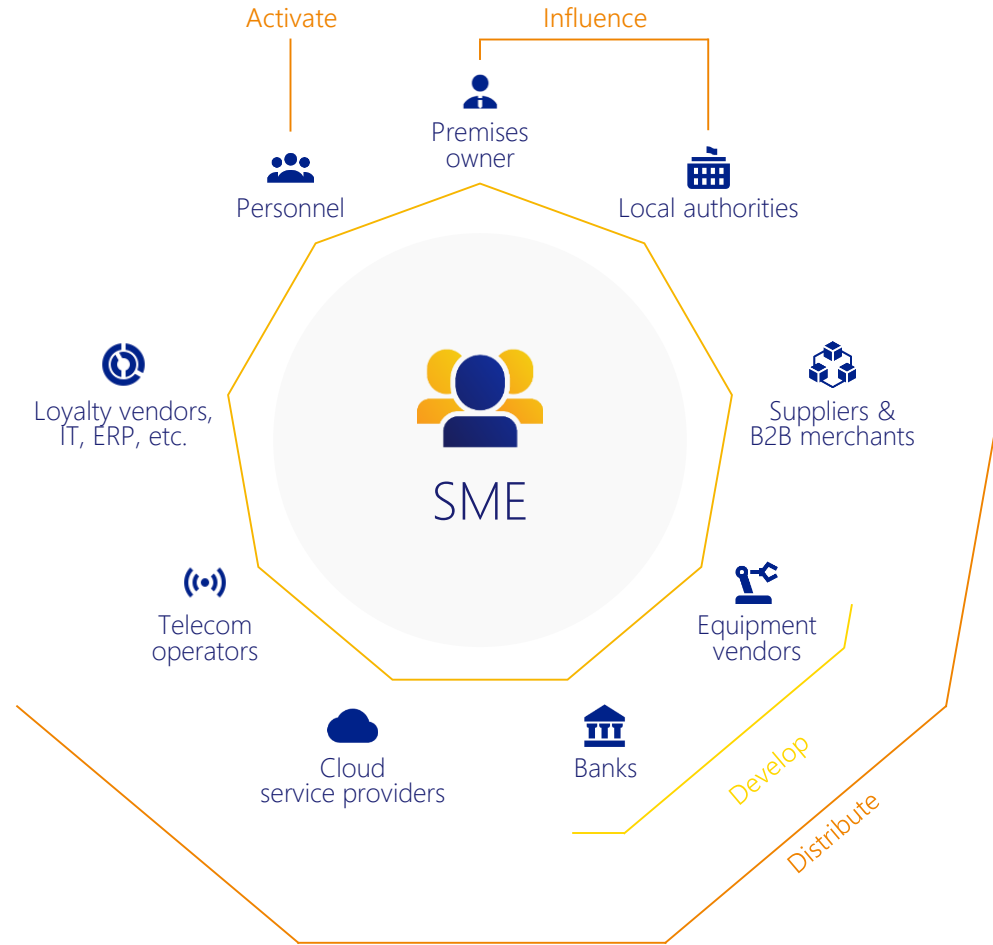
Sales fast-food and alcohol

~ 3-5K \$US

No card acceptance  
Prefer cash



# SME's ecosystem



# Acceptance solutions available to SMEs

| Standalone / mobile POS terminal   | POS terminal / PIN-pad integrated with cash register  | mPOS  | E-commerce / in-app  | Invoicing   | QR payments   |
|--|---|---|--|---|---|
| <b>Pros</b>  |   |   |  |   |   |
| <ul style="list-style-type: none"> <li>– Seller could buy or rent POS equipment</li> <li>– MDR is lower than in e-commerce</li> </ul>    | <ul style="list-style-type: none"> <li>– PIN-pads could be cheaper than standalone POS</li> <li>– Faster as there is no need to enter transaction amount twice</li> <li>– More user-friendly</li> </ul> | <ul style="list-style-type: none"> <li>– Device is cheaper than POS/PIN-pad</li> <li>– Best fit for insurance agents and pay-on-delivery merchants</li> </ul>   | <ul style="list-style-type: none"> <li>– Customers could pay “on-the-go”</li> <li>– Best fit for e-commerce merchants to get payment in advance</li> <li>– Could increase transaction frequency</li> </ul> | <ul style="list-style-type: none"> <li>– No need to buy POS equipment</li> <li>– Could be used in face-to-face environment</li> </ul>   | <ul style="list-style-type: none"> <li>– Similar to invoicing</li> <li>– No need to buy POS equipment</li> </ul>  |
| <b>Cons</b>  |   |   |  |   |   |
| <ul style="list-style-type: none"> <li>– Slower than integrated solution as the transaction amount should be entered manually</li> </ul> | <ul style="list-style-type: none"> <li>– Integration cost</li> </ul>  | <ul style="list-style-type: none"> <li>– Cheapest mPOS that support magnetic stripe only like Square could not be used in Russia as chip&amp;pin market</li> <li>– Seller needs smartphone or tablet to operate mPOS</li> </ul> | <ul style="list-style-type: none"> <li>– Could be used in card-not-present environment only (internet, in-app payments)</li> <li>– Higher MDR vs face-to-face acceptance</li> </ul>                        | <ul style="list-style-type: none"> <li>– Seller needs smartphone or tablet to generate invoice/payment link</li> <li>– Customer needs smartphone or tablet to proceed with payment</li> <li>– Connectivity issues</li> <li>– Higher MDR vs face-to-face acceptance</li> <li>– Lower conversion</li> </ul> | <ul style="list-style-type: none"> <li>– Customer needs smartphone or tablet to proceed with payment and to install app</li> <li>– Connectivity issues</li> </ul> |

# Legal background

Federal Law [54-FZ](#) "On the Application of Cash Register Equipment in Settlements in Cash and / or via Electronic Means of Payment"  
Effective since 15 July 2016

**It establishes new rules for using cash register equipment by enterprises and individual entrepreneurs including the following changes:**

- Taxpayers should transmit fiscal data to Federal Tax service online
- Taxpayers should be able to send receipt electronic copy by email
- New mandatory details of a fiscal cash receipt introduced

**New requirements are mandatory for SME and milestone as follows:**

- Feb 2017 – offline cash registers could not be installed
- Jul 2017 – existing offline cash registers should be replaced except taxpayers applicable for single imputed income tax or patent based simplified tax
- Jul 2018 (postponed till 2019) – all existing offline cash registers should be replaced by all Taxpayers

**What does it mean for SME acceptance:**

- All SMEs have to buy new online cash registers (avg price 400-500\$)
- All SMEs have to establish internet connection to transmit data online

In addition SMEs with annual sales > 0,66 M\$ (40M RUB) obliged to accept MIR cards in accordance Federal law [161 FZ](#) "On the National Payment System" starting Oct 2017. As the same equipment is used for cards acceptance most likely that Visa would be accepted by such merchants by default.

# Barriers and motivation to accept cards

## Barriers

|  |     |
|--|-----|
| Cash is more convenient  | 31% |
| Customers do not demand to accept card   | 29% |
| Afraid of technical issues   | 23% |
| To high acquiring fees   | 16% |
| Unable to ensure internet connection   | 10% |
| Card acceptance is not typical for our business/segment                          | 10% |
| Our bank does not proactively offer such service                                 | 8%  |
| Connectivity / internet access issues  | 8%  |
| Considering card accept as too complicated                                       | 6%  |
| Afraid of fraud  | 5%  |
| POS equipment is to expensive  | 4%  |
| Our bank does not have POS equipment or unable to provide the requested quantity | 3%  |
| We do not sell through e-commerce  | 2%  |

## Drivers

|  |     |
|--|-----|
| If card acceptance is demanded by customers  | 45% |
| Reasonable acquiring fee   | 29% |
| Good and prompt technical support  | 26% |
| Acceptable cost of POS equipment   | 21% |
| If our competitors will provide such service   | 18% |
| If someone will explain the benefits of card acceptance and educate how to use it              | 16% |
| If our bank will approach us to offer such service   | 14% |
| If the bank will be able to provide such equipment (contactless terminals)                     | 11% |
| If connectivity / internet access issues will be resolved                                      | 8%  |
| If we will start e-commerce sales  | 4%  |
| If we will be sure that service works well and e-commerce payments are credited on our account | 4%  |
| Connectivity / internet access issues are resolved to ensure POS equipment operability         | 4%  |

# Key trends related to acquiring and SMEs

## Bundled products

Banks are proactively developing bundled products for SMEs including acceptance, commercial cards, cash registers etc.

## Payment service providers

Payment service providers, cashdesk vendors and POS equipment vendors become prominent on acquiring market.

## Government owned banks

Large government owned banks boost acquiring market share, private banks acquiring business at risk.

## Contactless payments

Contactless payments become popular due to introduction of Apple Pay, Samsung Pay and others.

## Federal Law 54-FZ

Federal Law 54-FZ «On Cash Register Equipment» facilitates cash conversion to electronic payments.

## E-commerce grow

E-commerce volumes are growing more aggressively versus face-to-face acquiring.

## Mobile apps

Mobile apps become state of mind, everything including payments move to mobiles.

# Cases from other markets

## Red qiubo (Mexico)



A platform that allows small businesses to increase productivity in their daily operations and their competitiveness with other business formats of greater scale.

Through Red Qiubo, local grocery stores can accept payments with payment cards, voucher cards as well as value-added services such as electricity or telephone bills, which ultimately leaves commissions to shopkeepers.

Source: [http://www.milenio.com/negocios/bimbo-visa-negocios-terminal-tarjeta\\_de\\_credito\\_0\\_181781834.html](http://www.milenio.com/negocios/bimbo-visa-negocios-terminal-tarjeta_de_credito_0_181781834.html)

## Payleven mPOS + prepaid card (Brazil)



The solution allows small merchants to receive the money transacted via the payleven Chip & PIN card reader without requiring a separate bank account. The money will be transferred directly to their prepaid card.

The prepaid card are issued under the name of the merchant and delivered with the Chip & PIN card reader. Shopkeepers may use it to make purchases and withdraw money at ATMs. Additionally, all purchases made with the prepaid card appear in their payleven account: so they can keep track of their business activity.

Source: <https://www.finextra.com/pressarticle/60726/payleven-targets-brazils-non-banked-with-visa-prepaid-card>

We are looking for end-to-end cases and disruptive ideas for SME that will convince businesses to accept cards having no doubts of doing this.

Go through "being SME" journey, think out-of-box about solutions that will unite all existing and may be new elements of that ecosystem into one.