

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 16–18, 2011**

**THE ENTREPRENEURS' LAB: FROM NEW WAYS TO PAY HOUSEHOLD &
UTILITY BILLS, TO COMFORTABLE CITY LIVING
Building Russia's Creative Capital**

JUNE 18, 2011 — 10:30–11:15, Mercedes-Benz STARBAR

St. Petersburg, Russia

2011

Panelist:

Alexander Sakharov, General Director, A3

A. Sakharov:

Good morning everyone.

You join us for a far from simple morning. I will begin straight away with some simple and interesting facts that should be of interest to everyone present. Russian citizens collectively spend some RUB 180 billion per year on housing and utilities services. In addition, when paying these bills, we spend over 180 million hours travelling or standing in queues. These figures should seem strange to us businessmen, and it seems to me that we need to simplify the payment procedure for our citizens and make it simple, convenient and most importantly, an agreeable experience for everyone.

Looking at the country as a whole, I have got a few more interesting figures. More than a billion bills are sent in the post every year, leading to losses—due to the fact that people leave these bills to stack up and then fail to pay them on time—of almost RUB 30 billion. Put together, 180 million hours is the equivalent to the labour output of 60 thousand people per year. Viewing the country as a whole, this is a rather serious problem. In addition, if we look at the usual payment methods used by average members of the public, it can be seen that paying for housing and utilities services, as well as paying for several other public services, remain among the most inconvenient today. Here is another extremely important fact – all the other payment methods, more than 80% of them are made in cash, which leads to a cash flow of more than RUB 4 billion a year; in developed countries almost all transfers are cash-free.

Both the government and members of the public are aware of all these shortcomings. There are many projects underway to try and set up a convenient system by which to pay for housing and utilities services; there are terminals, banks, and Internet-banks. However, none of these have changed the situation that much. People have been walking to the local payment office or to a cashier

and they continue to do that now, wasting time and not effectively using the resources available. Yes, you can pay through a terminal. However, you still need to go outside; you need to have the bills in your hand. Not all services can be paid for via a terminal. Sometimes you have to search for them. Sometimes a terminal is located near your home, not the most convenient, but you still need to walk to it. You can also pay at an ATM, for example, but again, it is preferable that you are already a customer of the bank in question. The ATMs and the number of ATMs in our country are lower than in the rest of Europe. You have to walk to ATMs, and there are sometimes long queues to use ATMs, where people are figuring out how to use them properly. So, that is not the most effective method either. There is one more problem: you have to have the bill in your hands and you have to enter all the details by hand, this is also not particularly convenient.

The ideal payment method, the world over, is Internet banking, but in Russia, the standard of Internet banking is below par, and it is not the most convenient way. You have to receive a single-use password, delete everything, remember your login (they always get forgotten), and restoring your password is rather complicated. Not many Internet banks make this as convenient as possible. And again, there is the same problem: you always need to have your bill right in front of you, then enter a huge number of details. Again, looking at the country as a whole, not all services can be paid for using Internet banking, so due to the unpaid bills that you are left with, you still need to go to a cashier. Why then do you need to remember all these passwords and go through all these procedures? There are other ways. Many household appliance companies allow you to pay via their websites. And what is the result? You must know a few sites, again you need to remember the login and password, each time enter your credit card

details via the Internet, which is not particularly pleasant from a security point of view.

Consequently, it would seem that the most convenient way is to let the bills accumulate, and then ask someone to go to the bank once every three months, or go yourself, stand in a queue and receive some receipts that guarantee your payment has been processed.

What is important here? None of the aforementioned, seemingly modern methods gives an absolute guarantee that your payment has gone through. If you put money on your phone, you receive an SMS saying that payment has been received. It is the same with digital television. However, when it comes to paying for housing and utilities services, your lights do not get any brighter, the water does not get any hotter and the only confirmation that your payment went through is when, the following month, a bit of paper arrives stating that payment has been received. When people have tried to use a distance payment method to pay for housing and utilities services, in 50% of cases it transpires that there are no guarantees whatsoever that the payment has gone through. Due to the printing technology used, ATMs or terminals produce payment slips on special paper with ink that vanishes within three months so there is then nothing to show. Payments are sent simply as invoices to the household appliance company but it cannot be taken as fact that they will be sorted out, since they are added to special accounts, and an accountant has to sort everything out by hand and so on. In actual fact, the government has been working hard on this.

A large number of programmes have been initiated: information-orientated society, electronic government, all-in-one cards, taxpayer's personal account cards and many more. All of this is designed to make everything convenient and—most importantly—to switch from a cash to a non-cash system and to make the whole procedure more efficient.

We are of the opinion that paying for housing and utilities services is an area that people understand but it is problematic. If we make a simple, understandable and reliable system for paying for housing and utilities services in a non-cash and remote format that anyone can use, and then integrate it into the state run programmes indicated above, then this will be the driving force behind implementation in the near future. Most importantly, it needs to be clear for the public. We need to explain why we need all-in-one cards, and why government-run services need to be in electronic format. It is quite clear that there are government services and there are public utilities, which are a daily hassle for everyone.

What specifications does the system need to have so that people will enjoy using it and will not view it as an additional chore? Everything must be clear; it must follow the same logic currently in use. At the moment, bills are put in our post boxes. So all the bills that need to be in electronic format should be placed in a single personal account, in the same manner that they are put in our post boxes. On average, bills are sent once a month. In the same way, some sort of notification should appear each month in your personal account, an information statement, some sort of notification that you have a new bill, and you understand this procedure, and all residents will understand it in the same way. It is similar to the way in which holding a piece of paper in your hand means that you can always see how much you owe. The platform that we are discussing, the integrated payment infrastructure for paying for housing and utilities services, must retain this same functionality. At any moment, you must be able to find out how much you owe and for what service. In other words, up-to-date information about outstanding debts must be transparent and in an analogous format to the mobile one. You send a query and you get a reply: you owe, for example, RUB 100. And here that functionality would provide anyone with clarity and

understanding. And of course, there must be a guarantee that the payment has gone through, there must be a built-in procedure that can provide confirmation that the payment has been processed. It is vital that the actual payment method used remains unimportant. The average member of the public does not choose the bank that then provides their services – the accountant at the firm where he works chooses the bank. Therefore, he likes, for example, Alfa-Bank or Sberbank, but he uses the salary card provided for him at work. However, the firm where he works uses completely different criteria when choosing a bank, and there is no guarantee that they will choose a bank with convenient Internet banking, or with any other convenient services for that matter. So people should be able to use this platform and infrastructure, regardless of the institution with which they bank.

The same goes for people who do not use banks but are nevertheless willing to use their mobile phones and so-called mobile commerce. Here we need to provide the same degree of clarity. All mobile operators need to be accessible when making payments. The same applies to the type of payment method used. For Internet users, it needs to be possible on the Internet; for those who use mobile devices, there needs to be a corresponding system in place for mobile devices. For those who use neither the Internet, nor a mobile connection, there should be a call centre where a friendly voice will explain—at any time of day—how to carry out the same operations by phone.

Around a year ago, having conducted research in this area and met with a number of leading retail companies, we decided to take it upon ourselves to try and build a payment infrastructure for paying for housing and utilities services and then propose it to the government. In addition, it was not only for housing and utilities bills, there are also vital government services such as, for example, motoring fines that we all come up against, and when we receive these fines, it

is not clear what needs to be done with them. Then after two or three months, it becomes clear that accumulating fines can get in the way of everyday life, for example, it is impossible to renew your driving licence for as long as you have unpaid fines, and so on. In addition, having paid the fine, you then have to get confirmation from the traffic police, and in so doing waste a lot of time, since they are not usually located close to your office.

Therefore, we recently—in spring 2011—launched a pilot scheme in a few regions in cooperation with leading retail companies and municipal holdings. This was all agreed to and supported by the governor and local administration of the corresponding regions. We have been working on this for around two months and we are already seeing results. We are seeing that people are essentially ready to switch to a non-cash electronic format. Naturally, something is missing, the correct popularization of the idea, a correct and uniform approach. Later on, I will tell you what else is getting in our way.

Seeing as we have had some success and we are seeing results, we are planning to roll out the system in 30 of our country's largest cities and make these services available to the majority of the Russian population.

A brief overview of the technical side. An integrated centralized platform, a central server directly integrated into the bilingual systems of the operators whose services are pooled within a central platform. Integrated, essentially, online. All bilingual information is then stored on the central database, with all the arrears owed and any relevant up-to-date information readily available. Accordingly, it works in exactly the same way payments are processed with retail companies using an online-exchange, in which a debt is paid off in order to provide a guarantee that the payment has gone through. And it includes all the popular payment methods, including international credit cards and mobile operators that provide a function for paying off debts from a personal account.

On the basis of this platform, we have constructed our own infrastructure: how it will look on the Internet, how it will look on a mobile phone, how it will work at a call centre – we are working hard to promote this infrastructure through front-office channels of retail companies: banks, Internet banks, large retail stores, leading websites. To illustrate the point, for example, how it will look on mobile phones, there are the same mobile applications for iPhones as there are for the Android platform or the Java platform and for Windows Mobile. A simple menu, with five options, allowing you to pay for any service with your telephone. Access to the Internet from your phone is a requirement – either through Wi-Fi or GPRS. Having completed any payment, it is all stored in frequently-used payments or as a template, meaning you have a mobile connection, the Internet, and all types of utilities services available. You can therefore alter your settings to include new payment methods or add your credit card, with which you can make payments. You can use your personal mobile phone account, and there is also a virtual wallet that can be filled with cash. And the most important section: here your accounts are displayed—something I already spoke about—in just the same way that bills appear in your mail box. This is refreshed each month with all your outstanding bills from retail companies. You can see them all, compare it with the paper copy and make a payment. You also receive an SMS, and if you already have some degree of confidence in the system, it will look like this: "Dear Ivan Ivanovich, you have a new electricity bill for May amounting to RUB 200, confirm payment?" And if you confirm payment, an SMS is sent to say that the retail company is carrying out payment from your credit card, and you will then receive the corresponding confirmation. The same applies to the Internet, absolutely identical, with the same logic. If you suddenly decide to switch from the Internet to your mobile phone, or from your mobile phone to the Internet, then everything is just as clear and accessible. And most importantly, you can

always order a paper statement by post, which will be sent with a stamp from the bank that you can then show to a retail company.

From the audience:

<No sound>

A. Sakharov:

This is all the Internet but we have taken this further. I am saying that any payment method can be used, we will integrate it. For example, integration into television: here no special skills are required whatsoever. Simply by using the remote control, someone who does not know how mobile phones or the Internet work can perform any of these operations. The remote control is as simple as it can be; there is a wheel and two buttons. The Internet/television has a built-in card reader attachment with which you can add cards simply by swiping the card through the card reader. We made this option with a company that currently designs attachments for digital televisions. The idea was exhibited at Ekspokom and attracted a lot of interest from telecommunication providers. I think that there will be several pilot projects launched in conjunction with providers. From the point of view of usual household appliances, this is the most convenient method.

This has also been integrated along with a portal for government services, we have been working hard with the Ministry of Communications, since as I was saying, people associate housing and utilities services with government services and it really is being used as a driving force. So far, users of the public services portal in those regions where we have been carrying out our pilot projects have been able to see how much they owe, and in the future by developing the portal, they will be able to pay for government services as well as utilities bills. This

function is already up and running. Together with Rostelecom and the Ministry of Communications, we are planning to develop this infrastructure further throughout the whole of the Rostelecom infrastructure and the government online. As I said, we are working hard to develop this function, as well as forge partnerships. We are therefore willing to work in cooperation with any bank. The payment infrastructure is completely ready to be integrated with any Internet bank, mobile bank, ATM or terminal. You can see some examples in the photos. But this is all still a work in progress, and this year there will be several pilot projects with large retail chains that you all know, with large Internet projects that you all know too, and with large Internet banks. Therefore, I hope that in the near future, we will see televisions with this inbuilt facility. Therefore, television and telephone manufacturers should, I think, be interested in this. We know this because manufacturers are already communicating with us directly.

What is preventing us from doing this quickly and smoothly? We are working hard with mobile operators, and there are mobile operators who understand that the approach to utilities and services bills is a little different from the standard approach to selling content. I am grateful to the company Beeline who is with us here today. We have been working hard to reduce the commission in the first few stages when paying from the personal account from your mobile operator. However, not everyone understands this; it is still a very new payment infrastructure. An integrated approach needs to be developed so that all operators understand this problem in much the same way.

There are, of course, regulatory constraints. A new amendment to a proposed piece of legislation concerning national payment systems is currently being hotly debated, which seeks to limit anonymous payments, that despite being officially anonymous payments, are in actual fact payments from credit cards that have been issued completely legitimately by Russian banks. Nevertheless, this is being

limited to RUB 40 thousand per month. For example, the company Domstroy which has a rather large amount of housing space in Moscow receives housing and utilities bills amounting to RUB 50 thousand per month on average.

In addition, more importantly, if someone starts using this system, he will not only be including his own household. He also has, for example, elderly relatives, parents, grandmothers, and a house in the country. He will put all these together in one single personal account—all his accounts can be found in one personal account—and of course, a limit of 40 thousand roubles a month may put off some people and hinder progress.

I probably will not speak for that long, I will just come to the most important point. The sort of simple, user-friendly platform that I spoke about is the driving force for the development of important state run projects, Domstroy, and this all helps to create a clear national payment system that will be understood by everyone. In other words, it will not be an abstract payment system and people will not be wondering why it was designed, but an essential system packed with vital functions, and people will know exactly why it was created. The quicker, the better.

This is a critical moment, all these types of electronic payment and remote payment mechanisms represent a new area to people and of course, some specific training will be required to enable people to use this. It is very important to have a coherent approach. Everyone can do something themselves, carry out various advertising campaigns. This is competition, and no one will prevent that. However, doing different things all the time and implementing different technology and methodology, we very often simply confuse the public who are beginning to think that everything is too difficult and complicated to work out: "It would be better if I just go and pay at a cashier where it is calmer and more reliable".

That is, probably, everything that I wanted to say. Thanks very much that you came. We have some time for questions, if there are any. I would appreciate it; I will be able to answer them.

From the audience:

<No sound>

A. Sakharov

Yes, security is a very important issue. There was a session yesterday entitled 'Internet-Economy', and there was a very important question there: what can stop development? The moderator asked our Internet project leaders the correct questions.

So, I think, Arkady Volozh said that sometimes security is not treated in the correct way, and this can compromise the industry as a whole. We use standard results and years of research from international payment systems. We have all the essential certificates; we work hard with leading companies to provide security. IBM is present here, and I think, in the near future, we will launch some sort of initiative as to how to ensure security on the Internet, and IBM has a great deal of experience in this area.

From the average person's point of view, it is clear and understandable that making a payment via the Internet is in our case secure. On any other site and using any other platform, you enter your card details every day. In addition, security breaches take place right at that moment, and not just when you already have card details, and these details are protected. We do not pass on these details, we protect them to the maximum, and you do not need to enter them every time. Not all the details are kept, you have some of the details that you need to repeatedly enter, some sort of code, etc.

From the audience:

<No sound>

A. Sakharov:

Thank you for your question. We are experimenting with direct channels by ourselves and we are working hard with marketing companies to take this further together. So that everything will be written directly on the bills. You can pay online; you do not need to go anywhere. In addition, forging partnerships is very important.

From the audience:

<No sound>

A. Sakharov:

It already exists, it will be taken much further for some time and our partners will work hard with the brand. It will be a straightforward product, we are going to work on security, we will work directly with our clients, and we will be putting together our own client database. However, it will be a client database containing clients who are, broadly speaking, loyal to us. Nevertheless, we understand that everyone prefers to work with front-office applications. Some work with mobile operators, some with banks, and some with Yandex Money. We will push this infrastructure but retain the name as an infrastructural brand. Nevertheless, we are going to have an application. We already have applications and they are working. There is an Internet site, there is Android, iPhone. I just gave some examples.

From the audience:

<No sound>

A. Sakharov:

Yes, Moscow and Saint Petersburg... and, in general, it should be admitted, here we have already done a lot of the things that I have been talking about, but we still have not realized entirely everything. We have agreements with shareholders of large retail companies in Moscow and in St. Petersburg concerning accepting payments using precisely this technology. So, we retain the idea behind receiving bills in a way that is analogous to the current system. Mosenergosbyt and Petroelectrosbyt are supporting this. I think that by the end of the summer we will have persuaded both of them. Mezhrefiongaz is using the same process to pay for the delivery of gas to the population. The same process is already going on in St. Petersburg and in Moscow, as well as in all other parts of the country.

From the audience:

<No sound>

A. Sakharov:

This is, of course, a very large elephant that needs to be eaten bit by bit. And for this reason, as I said, this year we plan to involve 30 large cities. This will be in every city. When I say, 'complete city', that means where more than 80% of the inhabitants have the necessary capacity. There are smaller managing companies, there are smaller housing cooperatives that we will not manage to connect to, but in this city, it will be available to more than 80% of homeowners. Therefore, the complete roll-out will only be completed in 2012 when we reach all the regions and smaller cities. For retail companies, this is extremely important

because at the moment they rely on two large companies, Sberbank and Russian Post to collect their money for them. In addition, in many regions, Russian Post has a huge advantage because there is nothing else there. And there are federal districts in which there are very few local offices or banks as well as post offices. And there the problem of collection is urgent.

From the audience:

<No sound>

A. Sakharov:

Here there are many components. In addition, since this is not a state-run programme but a private-run programme, it means we have to work a lot harder, because we have deadlines. The company was formed in 2010, and within a year, we already had six cities that were working with our developed mechanism. This year the number will reach 30.

From the point of view of returns, there are several essential aspects. What we call 'profit from each operation', this is a part of it, but not the largest part. By far the largest part is correctly working with a client base, a partnership programme that is in order, interacting well with retail providers and modern retail providers such as banks or otherwise, because we have here a whole load of settlement banks that can offer related services to the public, making bank services more direct, in other words, direct for the user. Therefore, essentially, there are many components. The revenue from completed payments is significant but not the only revenue. From an investor's point of view, the project is forecast to last from three to five years. We are now in the first year.

From the audience:

<No sound>

A. Sakharov:

It is too early to say. We talk about success when there are significant breakthroughs in society. And by this we mean when a significant percentage of homeowners start using it. The cost of attracting one customer falls relative to the increase in membership. For this reason, we are right this minute experimenting with marketing companies to resolve the issue of how to build up this marketing moment.

From the audience:

At the moment, are manufacturers themselves ordering this service?

A. Sakharov:

Our retail companies have all reached different levels of maturity. Many have already thought about it, many have done something themselves. Those who have done something themselves realise that it is impossible for one company to do it on their own. Quality does not come cheap. Our own members' database will still never pay off, even if we were to hook up all the electricity in the country and design a portal only for paying for electricity, it would not be enough to pay it off, if it is a quality product. If we our quality of work is poor, then there will never be a members database, then what would all of this been in aid of? Those who have gone past this stage, for example, Mosenergosbyt and all the other companies that have worked with this, understand that they must unite and work together. Those companies that have not tried it may be under the illusion that they can now try it for themselves. Nevertheless, there is always a lot of discussion with executive management and stockholders, and we know

how to explain properly why it is advantageous to work together. It is easy to see in Excel, if we look together.

From the audience:

In other words, it is complicated to have all the payments displayed in one window.

A. Sakharov:

Try it out for yourselves. I will not use a service if I need to set it up in different places: two services here, two services there and a third service somewhere else and yet another slip of paper that I still need to take with me to the bank. Thank you very much. I hope it was interesting. All the best for the rest of the Forum.