

# **Yandex in the financial field.**

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Yandex has been and remains a company that creates projects with high potential and uses various technologies of the modern time. In 2021, we see an influential corporation with many services provided. The only thing that remains volatile is the system of financial services. How risky is it to build a large ecosystem that includes online markets, deliveries, ticket purchases, and so on, being not a banking organization? Were the built collaborations initially temporary?

## **Yandex and Sber's partnership**

By 2001, Yandex had been working for 4 years and had become a leader of the web-platforms. It began to work with financial services in 2002 - acquired the PayCash payment system and transformed it into Yandex.Money. They confidently developed, becoming the market leader in their segment, but law enforcement complaints regularly arose to payment Internet systems (and Yandex. Money, in particular), because of the ability to open anonymous accounts.

To tighten the regulation of operators of electronic payment systems even more, the law "On the National Payment System" of June 27, 2011 was introduced, which obliged all payment services to work either in the status of a non-bank credit institution or with a partner bank. (<https://m.gazeta.ru/business/2012/12/19/4897905.shtml>)

Initially, Yandex was inclined to cooperate with banks. In particular, negotiations were held with Alfa Bank and Sberbank. A compromise could not be reached, and Yandex.Money had to be registered as an NGO, but in a report for the third quarter of 2012, the Internet corporation warned investors about the possible sale of the service.<sup>1</sup> (<https://www.shopolog.ru/news/novye-ogranicheniya-ot-y>) Obviously, they did not have much resources and experience to produce qualified products themselves. Problems with the regulation of developing Internet payment and the deep financial orientation of the project required special knowledge, approach, strategy, development and marketing.

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<sup>1</sup> 'Новые Ограничения От "Яндекс.Денег"', SHOPOLOG.RU, accessed 29 May 2021, <https://www.shopolog.ru/news/novye-ogranicheniya-ot-yandeks-deneg/>.

It led to the fact that Yandex could not itself ensure the further development of its service and in 2012 Sberbank bought 75% of the shares of the Yandex.Money payment system. (<https://m.gazeta.ru/business/2012/12/19/4897905.shtml>) For 2012, three large payment systems worked in Russia: Yandex.Money, Web Money and Qiwi. They controlled 80% of total payments (<https://www.gazeta.ru/business/2012/12/19/4897905.shtml>.)

A partner in the form of a state-owned leader bank gave access to the largest network of ATMs in Russia, and most importantly saved Yandex from a non-core asset for itself. Sber's work on the Internet was limited to the Sberbank Online project, a standard remote banking portal, and the bank, which had never previously collaborated with electronic payment systems, saved time developing its own platform and attracted young people who then used the services of other banks. And their common customer base gave rise to the redistribution of the whole country system's turnover towards cashless payments (<https://republic.ru/posts/l/866653>). Yandex retained a blocking package of 25% plus one share. The deal was closed in early 2013.

Among the launched services based on "Yandex.Money" were plastic bank cards, payment provider "Yandex.Kassa", "Yammi" micro-investment service, "Yandex.Platyozhka" the payment form designer. Since 2017, "Yandex.Kassa" is the most popular payment provider in Russia. And according to research from 2016-2018 (e-Finance User Index, NAFI, Mediascope), Yandex.Money was the most popular electronic money service in Russia and the third most popular electronic payment tool after Sberbank Online and bank cards, and since 2019 it was already the second. (<https://nafi.ru/analytics/rynok-roznicnykh-elektronnn>).

To establish something fundamentally new in a country where this is not yet regulated by law, in the long run, turned out to be quite laborious when you are thrown sticks in the wheels with new bills and have to twist out every time. The company already was powerful and could build its own financial structure, but it continued to work with Sber. Why?

In 2014, restrictions on Internet payments in the Russian Federation were again considered. German Gref, a Russian statesman, chairman of the board of Sberbank of Russia, in February sent letters to the presidential administration, the Central Bank and the Ministry of Finance with a request not to impose restrictions on the use of virtual currencies and electronic payment

systems, (<https://tass.ru/ekonomika/910739>) but on April 22, the State Duma nevertheless adopted a law that tightens the requirements for anonymous Internet payments. (<https://vc.ru/flood/3591-no-money-no-cry>)

In May, 2014, at a meeting of Yandex shareholders, they decided to appoint Gref as the additional 9th member of the company's board of directors. For Yandex, Sberbank was a reliable partner who values his reputation, and at the same time is controlled by the state. And Gref, valued as a first-class manager, had experience in work and communications in the Government of the Russian Federation, which would be useful to the company in connection with the process of "regulation of the Internet" that began in those years (<https://www.rbc.ru/economics/27/05/2014/57041d799a794>) So, after all, political aspect was important too.

Sberbank was an equal partner of Yandex in another project of an Internet company - Yandex.Market. In 2017, Sberbank invested 30 billion rubles in Yandex.Market. Yandex hoped that going beyond its experience and worldview, technology, experience, partner infrastructure, Sberbank could provide a high-quality breakthrough.

The head of Sberbank, German Gref, said that he considers the deal to be extremely significant for the entire market and plans to create "Russian Amazon" based on Yandex.Market. Partners developed Yandex.Market, whose audience was more than 20 million people per month. Companies created the Beru marketplace, a system that will cover all stages of online purchase - from selecting an item to receiving it. (<https://www.vedomosti.ru/tech>) Customers had to be sure that at any stage they were guaranteed high quality of service, and partners - that cooperation is a direct path to customers. They also tested the Bringly cross-border online trading platform but decided to focus on Beru.

Yandex was always appreciated for being professional, and in the financial sphere, which was not specialized for Yandex, to transfer it to the hands of Sber was the corresponding decision. But the disadvantage of partnering with the same large and successful companies is that they can become competitors someday. Or even one wants to devour another.

In the summer and fall of 2018, top managers of the bank discussed with Yandex shareholders the possibility of transferring control over the company to Sber. If Sber got control of Yandex, then Yandex services would form the basis of the large user ecosystem that Gref decided to build. But the founder and main shareholder of Yandex, Arkady Volozh, ultimately did not accept the bank's offer. Then in the summer of 2019, Sber acquired a 46.5% stake in the Rambler Group and later created a joint venture with the Mail.ru Group in the field of electronic food trade and transport. The project with the Mail.ru Group was a direct competitor to Sberbank's joint venture with Yandex. (<https://www.vedomosti.ru/business/articles/2020/06/02>)

## **Yandex and Sberbank's divorce**

Was the partnership free from arguments and disagreements? It turned out that it was not. And that fact had far-reaching consequences.

On the 23th of June, 2020 Yandex and Sberbank announced the end of their partnership. Both of the companies mentioned different reasons.

Firstly, Sberbank wanted deep integration with Yandex, although the latter did not appreciate that idea. Yandex lost its trust to Sberbank after it tried to acquire up to 30% of Yandex's equity in 2018. Secondly, the companies had different points of view on the partnership. Yandex treated Sber as a payment platform, whereas Sber wanted Yandex to be an important part of its ecosystem.

Another reason was incompatible corporate cultures. Yandex's way was to do experiments to see how a new project goes. Sberbank was more assertive and aggressive in terms of bootstrapping new projects. Besides, Sber had unsatisfied expectations about "Beru" ("Беру"). The first year KPIs of "Beru" failed.

There were also complications with competitive choices. What if a competitor of Sberbank offers better interest rates on deposits for Yandex's cash? Moreover, Sberbank had partnerships with Yandex's competitors. For example, the bank has joint projects with Mail.Ru Group in delivery and logistics. The projects compete with "Yandex.Eda" ("Яндекс.Еда") service. Both

companies wanted to develop their own ecosystems. Unfortunately, they started to compete with each other. (<https://www.vedomosti.ru/>, <https://www.forbes.ru/tehnologii/405031>, <https://thebell.io/yandeks-i-sberbank-obyavili-o-razvode>, <https://www.rbc.ru/business/09/07/2019/5d249a709a79470c103c59d9>, <https://www.vedomosti.ru/finance/articles/2018/10/18/784055-sberbank>)

The largest joint projects “Yandex.Market” (“Яндекс.Маркет”), “Beru” (“Беру”), “Superchek” (“Суперчек”) needed to be divided. The companies discussed several options of assets split and came to that Yandex bought the Sberbank’s share of 45% for ₴42 bln. Yandex financed the deal through shares emission for \$0.8 bln. At the same time, Sberbank purchased Yandex’s 25% + 1 share in “Yandex.Money” for ₴2.4 bln. (<https://www.forbes.ru/tehnologii/405031>, <https://yandex.ru/comp>)

Sberbank’s press-release stated that the separation takes off the restrictions of the partnership agreement and grants to the bank many possibilities of further ecosystem development. First deputy CEO of Sberbank Lev Khasis said it was a well-informed and mutually beneficial decision. ([https://www.sberbank.ru/ru/press\\_center/a](https://www.sberbank.ru/ru/press_center/a))

In conclusion, the reason behind those events was that the cons of the partnership have outweighed the pros. After that breakeven point the companies had nothing to do but to separate from each other and follow their own ways of developing ecosystems. The target the companies accomplished by separating was to be able to grow with no restrictions because of the partnership.

## **Yandex and Tinkoff: almost the done deal**

After the separation with SberBank, Yandex was free to develop its own fintech projects (after the selling 75% of YaMoney to Sber it was not allowed to do so by the terms of the agreement ([thebell.io/vtb-i-roman-abramovich-pomogut-yandeksu-razvestis-so-sberbanku](https://thebell.io/vtb-i-roman-abramovich-pomogut-yandeksu-razvestis-so-sberbanku))). All paths were open to Yandex, and it did not wait long to make its move. On September 22 of 2020 it was announced that Yandex reached preliminary agreement about acquisition of TCS Group

([www.londonstockexchange.com/news-article/TCS/tcs-group-holding-plc-statement-regarding-media-speculation/14694897](http://www.londonstockexchange.com/news-article/TCS/tcs-group-holding-plc-statement-regarding-media-speculation/14694897)).

The news was not entirely unexpected. Rumors about possible merging begun a year ago, when Oleg Tinkov suggested that Yandex and Tinkoff are among few companies in Russia which are able to create a proper ecosystem ([www.vedomosti.ru/technology/](http://www.vedomosti.ru/technology/)). Leading Russian IT-company and innovative online-only bank would have made a perfect match, complementing each other's systems.

Simply buying an entire bank with developed infrastructure would have saved a lot of effort and provided access to technological and market expertise immediately. The bundle includes a whole team of professionals in the financial sphere, which would have been very useful for Yandex, unacquainted with this market ([www.kommersant.ru/doc/4501866](http://www.kommersant.ru/doc/4501866)). (Better yet, Tinkoff can be considered more of a transaction system than a bank. It takes only 16th place among Russian banks by value of assets. But it is among the top-5 by number of cashless payments in stores ([thebell.io/istoriya-i-posledstviya](http://thebell.io/istoriya-i-posledstviya)). For Yandex, which does not want to do traditional banking, but wants to develop its online acquiring, that is what matters. There also existed huge potential for synergy between two companies – both of them could have accelerated their growth and acquired new customers by sharing them between each other ([quote.rbc.ru/news/article/5f6b5db99a7947f621dff140](http://quote.rbc.ru/news/article/5f6b5db99a7947f621dff140)).

The purchase of an entire existent company went against Yandex's habit of creating new additions to the ecosystem from scratch and by themselves. There was also the risk that the real state of the bank's assets and liabilities differs from presented reports ([www.bbc.com/russian/news-54257114](http://www.bbc.com/russian/news-54257114)). Another problem was in the name.

When after the first rumours about the merging Alfa-Bank published an analytical note regarding the possible M&A ([www.alfadirect.ru/analytika/](http://www.alfadirect.ru/analytika/)), Oleg Tinkov, the founder and the main shareholder of Tinkoff, jokingly dismissed concerns raised in it about "reputation of ambitious independent entrepreneur" and his desire to personally participate in management of the united companies. "You are confused by my name coinciding with the bank's name" ([www.forbes.ru/finansy-i-investicii/](http://www.forbes.ru/finansy-i-investicii/)). But in the end he became the reason for the failure of the negotiations.

At the end of September 2020, it seemed that the deal was all but concluded ([www.rbc.ru/business/](http://www.rbc.ru/business/)). However, a month later companies announced they will not be merging ([www.rbc.ru/finances/16/10/2020/5f89747a9a7947ad79bb4763](http://www.rbc.ru/finances/16/10/2020/5f89747a9a7947ad79bb4763)). Tinkov explained that he wanted this deal to be a merger, not a buyout, and for the firms to work together. Whereas Yandex, claimed the businessmen, just wanted to purchase itself a bank. The exact difference between a “merger” and a “buyout” was not explained by him, since, however one puts it, Yandex would have acquired the full ownership of the bank. On the part of tech-giant, its CEO Tigran Khudaverdyan explained that they were ready to make concessions, but new demands kept appearing after each new round of talks, until Tinkov decided to not go through with the deal. ([www.rbc.ru/business/16/10/2020/5f89cd469a7947dca0efdb0d](http://www.rbc.ru/business/16/10/2020/5f89cd469a7947dca0efdb0d)). Anonymous sources claimed that the main issue was Oleg Tinkov’s desire to participate in management of the new entity. And Yandex allegedly was strongly against this ([www.bbc.com/russian/news-54566542](http://www.bbc.com/russian/news-54566542)). Later, Tinkov gave yet another explanation: he wanted to haggle \$200 mil. more for his company, but was already too tired to continue negotiations and chose to break them off ([www.rbc.ru/business/29/12/2020/5feb8afa9a7947f1fa6c7ac5](http://www.rbc.ru/business/29/12/2020/5feb8afa9a7947f1fa6c7ac5)).

Which one of these explanations holds more truth is unclear. Whatever the truth, Yandex saw huge potential in this mutually beneficial acquisition, but just was unable to strike a deal, arguably, through no fault of its own. This goes to show that every offer has its price. Buying yourself a partner was not the usual Yandex way. But for Tinkoff they were ready to make an exception. However, they knew when it stopped worth it.

## **After Tinkoff: a new solution**

After the failed deal with Tinkov and the termination of the partnership with Sberbank, Yandex completely bought out another bank. After these two failed experiments, the company still decided to use the old effective way — to absorb a smaller company (Yandex created Yandex.Taxi and Yandex.Food in the same way by buying Ros.Taxi and FoodFox, respectively), — in this case, the hand fell on the Acropolis bank. The amount of this transaction was 1.1 billion

rubles, which is almost 5 times less than Yandex offered Tinkov. Link: ([www.cnews.ru/news/top/2021-04-29\\_posle\\_provala\\_s\\_tinkoff](http://www.cnews.ru/news/top/2021-04-29_posle_provala_s_tinkoff))

It is obvious that Yandex needs Acropolis only for obtaining a banking license, and there is no question of any bank branches. The bank will exist exclusively as an online service, as part of the Yandex ecosystem. Recently, ecosystems have become too fashionable among giant companies, such as Yandex. However, it is somewhat behind in terms of development at the moment from its direct competitors in this area, which have already launched their entire ecosystems – this is Sberbank and Mail.ru Group. Since Yandex did not have time to wait for them to develop to the limits, it was decided not to take any more risks with very large transactions and calmly buy out a small bank, and no longer go into contact with giants in this area, such as Tinkov and Sberbank. Also, such an urgent purchase of the bank was stimulated by falling shares against the background of rising financial indicators, such as net profit and others. This was due to the fact that investors already wanted to see Yandex promoted in other markets. Thus, obtaining a banking license will encourage this.

10 Mar 2021 Yandex launched an analogue of Samsung Pay and Google Pay – Yandex Pay. The service allows you to pay for goods and services on the Internet with just a couple of clicks, without entering your card details each time. In turn, this data is stored on your Yandex account. Yandex Pay perfectly allows to replace the lost Yandex.Money after the divorce from Sberbank. ([www.forbes.ru/newsroom/tehnologii/423079-yandeks-zapustil-platezhnyy-servis-yandex-pay](http://www.forbes.ru/newsroom/tehnologii/423079-yandeks-zapustil-platezhnyy-servis-yandex-pay))

In the near future, Yandex will integrate Yandex Pay into its applications and business units, which will make it more convenient to develop not only them, but also the entire ecosystem as a whole, because then the company will achieve what it wanted: money transfers will become much easier, access to traditional financial instruments, cryptocurrency and decentralized finance will open through the existing interfaces. All this will allow Yandex to finally finish building its own ecosystem, which is so necessary for them in the current realities. Link: ([www.forbes.ru/tehnologii/428533-proshchalnyy-gudok-dlya-staroy-ekonomiki-zachem-yandeks-u-bank](http://www.forbes.ru/tehnologii/428533-proshchalnyy-gudok-dlya-staroy-ekonomiki-zachem-yandeks-u-bank))

So far, there have been no official statements about the development of the financial structure, so we can only assume about the further actions of Yandex. Most likely, after receiving a bank license, Yandex will issue its own virtual cards, which will be credited with special bonuses from



using the ecosystem services; it will launch loans for Auto.ru. and Yandex.Market also seem possible; the development of Yandex will accelerate Yandex.Investments. All this will allow us to bring the ecosystem to a special level, but since all this is happening literally before our eyes, it is too early to judge what all this is about.: will Yandex be able to push back the competition or not? How will this affect the company's revenue? How much will Yandex's customer base increase by? We can only watch.

From all this, we can conclude that for the development of new structures of the company's ecosystem, it is essential to attract such partners who will maximally satisfy the needs, without unnecessary objects or restrictions, gaining exactly what is vital for the operation of this department and taking into consideration the long-term goals of the partners. Solving problems of this kind - companies must always analyze their needs for the development of any company's industry and look for what is the most beneficial.