

June 23, 2008

## How to spend money in a foreign country

### Research of Russian middle-class spending behavior abroad

Economic recovery, appreciation of the Ruble and growth of consumer incomes allow Russians traveling abroad more often. According to official sources, in 2007 more than 9 million Russian citizens visited foreign countries, mainly as tourists.

In line with increasing frequency of traveling (it should be noted that many Russians have foreign voyages 2-3 times a year or even oftener), the market sees growing requirements for quality services that Russians expect to get during their foreign vacations and as a result larger sums of money they spend abroad. There are several important changes affecting both the geography of traveling and its contents - Russians do more individual tours, tours including shopping, they more often visit Western Europe and exotic countries, etc.

The new quality of Russian tourism leads to increasing importance of banking services provided to domestic clients in foreign countries; first of all, that concerns [banking credit and debit cards](#) that serve as the main means of payments in the course of overseas travel tours. Today, banking cards of the world leading payments systems are used by the vast majority of Russian travelers who fully realized their advantages.

In this article prepared by Citibank specialists in cooperation with a market research agency IRG, we summarized the most interesting facts and figures on how Russians use banking cards during their overseas trips. The analysis is based on the data for randomly selected 20,000 Russian [credit and debit cards](#) users' transactions made at foreign destinations in 2007 and also on the data provided by Kuda.ru.

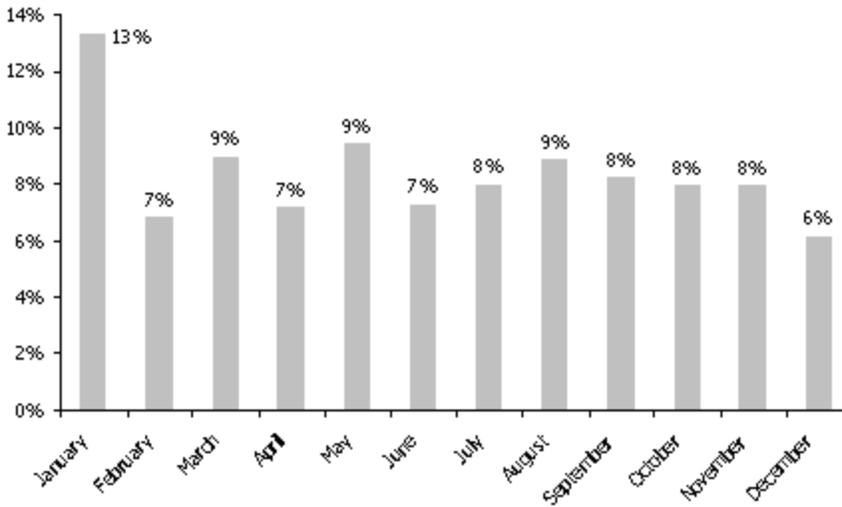
### Seasonality of payments

Monthly value of transactions, which are conducted by Russian tourists during their travels abroad, differentiates during the year. January is the hottest month with the largest amounts of payments via banking cards made - over 60% higher than the monthly average. That can be explained by the fact that significant % of transactions made in the late of December (New Year gifts and celebrations) are technically posted only in January, plus many Russians spend long New Year holidays abroad. Moreover, many of those travelers visit winter sales in top European cities such as Paris, Milan, London, etc.

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**Chart 1. Monthly split of payments made by Russian overseas travelers with Citibank cards (2007 data, % of total payments during the year)**

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Source: Citibank, IRG calculations

The same explanation is valid for the second (May) and the third (March) most popular months for spending abroad. During these months there are banking holidays in Russia that many people use for traveling and overseas shopping.

Traditional vacation months (July, August and September) do not excel substantially at other months in terms of spending amounts. The main travel destinations during this period mainly include sea resorts while in January, March, and May the most popular tours are to Western Europe.

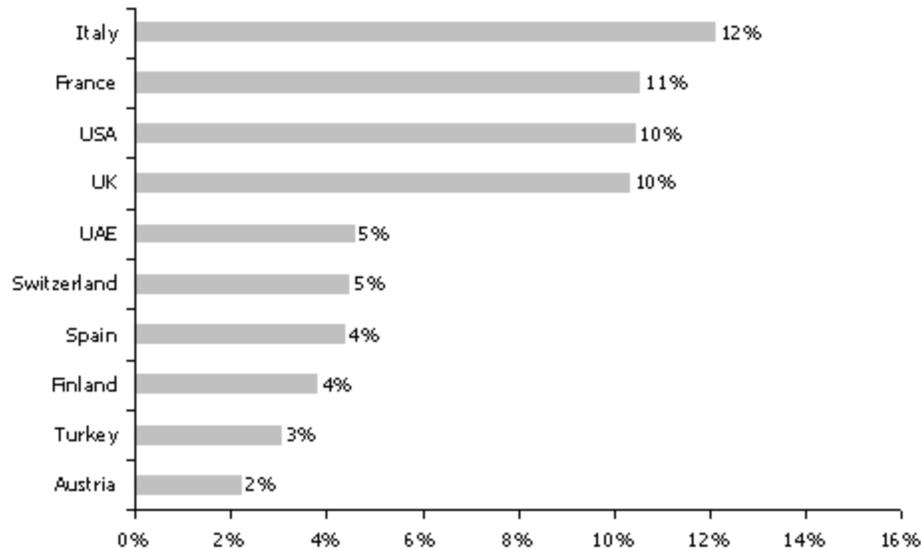
December, June, and February are the least spendthrift months; although, they are quite close to the monthly average.

### Most popular countries

Four countries (Italy, France, USA, and UK) are far ahead of others in terms of spending via banking [credit and debit cards](#) by Russian users. Those countries Russians prefer to make purchases. The leadership of Italy, France and UK is certainly based on their attractiveness as tourist places and also on a high level of development of national fashion industry and fashion retail trade.

The high rank of the United States wasn't a surprise for us - many experts notice that this destination is becoming more popular among Russian travelers. With a significant appreciation of the Ruble against the US dollar the attractiveness of American shopping is rising as well. This is also important that many Russian travelers take individual tours to USA, which are more expensive and also impose additional traveling costs within the country. American origins of Citibank may have also influenced the country split of spending via its [banking cards](#), since in the US the bank has the strongest presence and penetration. Spain and Turkey are traditional sea resorts in our ranking, whereas Austria and Switzerland are preferred by Russian mountain skiers and snow borders. Many Russians and especially the citizens of Saint Petersburg like traveling to Finland because of its geographical closeness. United Arab Emirates for a long time have been serving as a favorite resort and a shopping destination attracting many rich tourists from Russia.

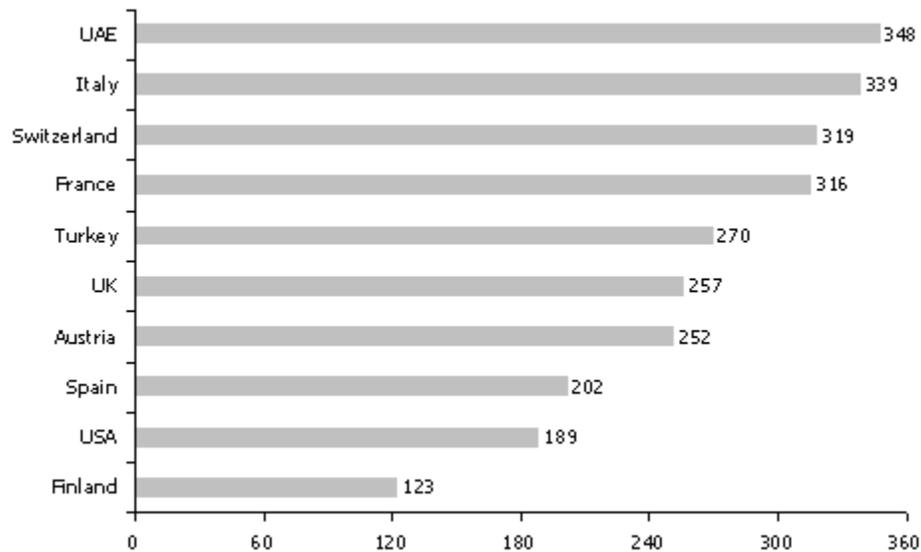
**Chart 2. Country split of total payments made by Russian overseas travelers with Citibank cards (2007 data, % of total payments during the year)**



Source: Citibank, IRG calculations

Russian tourists spend different average sums when paying with Citibank cards in various countries. The largest average bills they have in UAE, Italy, Switzerland and France; the smallest ones - in Spain, Finland and USA.

**Chart 3. Average transaction amount with a Citibank card, top 10 countries by total spend (US\$, 2007 data)**



Source: Citibank, IRG calculations

It's interesting that the top 10 countries ranked by value of payments made by Russians via Citibank cards greatly differ from the list of countries attracting largest numbers of tourists from Russia (according to the data from travel

agencies). In the second mentioned rankings Turkey and Egypt are undoubted leaders. Though, we believe that our analysis can be used for observation of some interesting trends in the travel market, mainly in its upper-middle segment.

**Favorite shopping places**

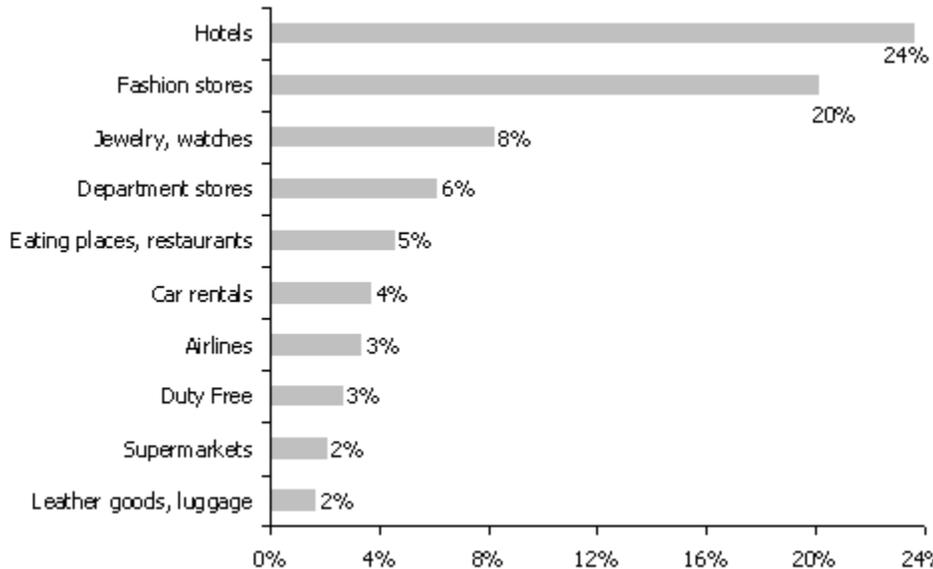
Our data shows that the largest total sums Russian spend in hotels (when paying with [banking cards](#)). Most likely, they pay either for additional services or for accommodation itself (in case if they make reservation themselves, not via travel agency).

Fashion stores enjoy the absolute leadership among retailers; we also think that clothes and shoes are popular purchase items in department stores. Thus, if we combine together spending in fashion stores and shopping malls, purchases of clothes will outrun spending in hotels.

Other recipients of Russian tourists' moneys among retailers include stores selling jewelry and watches, duty free stores, and leather goods and luggage stores.

Many Russians use car rentals during their overseas trips; in our opinion, this is an evidence of their increasing proficiency as tourists. Also, as our data analysis demonstrates, you can meet many Russian people in restaurants and bars all over the world.

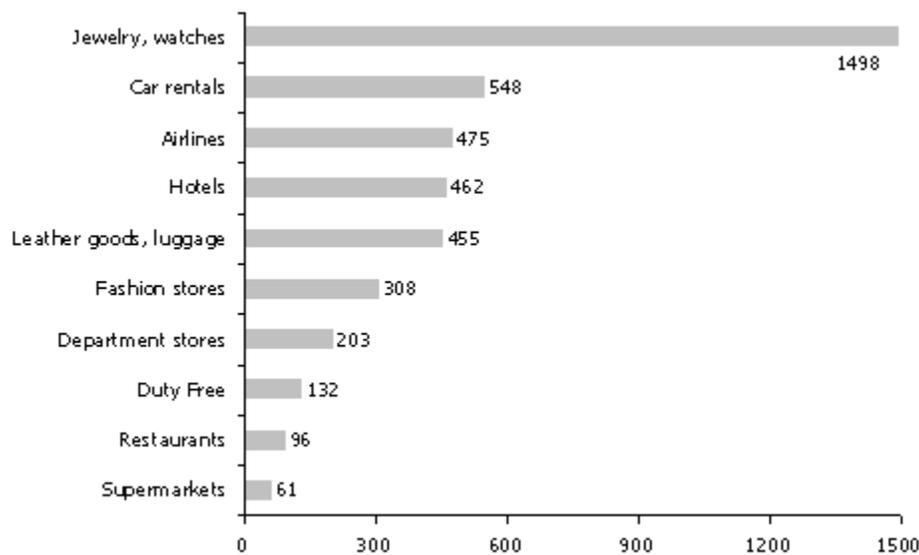
**Chart 4. Split by merchant of total payments made by Russian overseas travelers with Citibank cards (2007 data, % of total payments during the year)**



Source: Citibank, IRG calculations

The largest average bill is paid by visitors of foreign jewelry stores (about US\$ 1.5 thousand). The second place is far below the first one - Russian tourists spend on average US\$ 550 on car rental. Lunch in a foreign restaurant will cost you about US\$ 100 that is not so much if compared to the Moscow levels, especially given that Russians usually travel to other countries with a spouse.

Chart 5. Average transaction amount with a Citibank card, top 10 merchants by total spend (US\$, 2007 data)



Source: Citibank, IRG calculations

### Consumer profile

70% of payments for goods and services are made via [banking cards](#) possessed by men. Males also have a higher average bill that could be explained by the fact that namely men are the main buyers of watches and jewelry.

At the same time, the first place taken by fashion stores in the total consumer basket of Russian travelers conveys the suggestion that in some cases banking cards owned by men serve as means of payments for new female dresses and shoes (in order to please wives and mistresses of those owners).

Interestingly, about two thirds of all overseas transactions (in value terms) via Citibank cards are made by users aged 35 years old and above. Those adult users have a larger average transaction value as well. At the same time, younger Russian travelers (less than 35 y.o.) do more purchases on credit using credit cards with an overdraft option.

### Credit and debit cards

#### Kuda.ru statistics

ТОП-10 стран:

Top10 countries:

1. Turkey
2. Egypt
3. Spain
4. Greece
5. Italy
6. Cyprus
7. UAE

The final question that we would like to cover in this report is a difference in usage of debit banking cards and cards with overdraft (credit cards) in the course of traveling overseas.

If cash withdrawal is included, the total value of transactions with debit cards is more than twice larger than that with credit cards. However, if only payments for goods and services are given, the leadership of debit cards shrinks - they are used just 20% more frequently than credit cards. Thus, it can be concluded that credit cards are used comparatively more often as means of payments in contrast to cash withdrawal.

That is also interesting which of two main types of banking cards is preferred by clients that have both of them. In this case, credit cards are more popular with 60% of payments made via them.

Russian clients use credit cards more often (in comparison to debit cards) when paying for hotel services and less frequently in various retail stores. In addition, we found out that the usage of [credit and debit cards](#) has strongly marked seasonality - during the last four months of 2007 Russians made more purchases with [credit cards](#) while in the first quarter (and especially in January) they preferred paying with debit cards for various goods and services.

Finally, it should be noted that almost 90% of payments made during foreign vacations via Citibank credit cards accounts for cards with a credit limit over US\$ 2.5 thousand whereas spending via credit cards with a lesser limit (less than US\$ 1 thousand and from US\$ 1 thousand to US\$ 2.5 thousand) is significantly lower.

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In conclusion, we would like to notice that this article does not intend to provide comprehensive scientific analysis of the structure of payments made by Russian travelers overseas. Our purpose was just to draw your attention to some interesting facts and trends based on the data from one of the leaders of the Russian consumer credit market. One of the main conclusions from our analysis is that traveling abroad and shopping in the world's most famous retail stores is getting more and more popular among the Russian middle class. That is a positive sign, in our opinion. We hope that the number of Russian tourists and their spending capacities will continue growing as will do the quantity of users of banking cards.

8. Thailand
  9. Croatia
  10. Tunis
- Average cost of travel package per person - 1,700\$
  - Average number of people in one trip - 2,7.
  - Ratio of families among all tourists - over 80%
  - Average traveling frequency per person - 2,3 times a year.