

# Central Bank to Create National Payment System From Scratch

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April 16, 2014



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A national payment system will be created by a new company controlled by the Central Bank, a Cabinet meeting decided Wednesday.

The system will be built from scratch over six months using technology from two existing Russian payment systems, said VTB 24 chief Mikhail Zadornov, who attended the meeting, Itar-Tass reported.

Since MasterCard and Visa abruptly stopped processing the payments of three Russian banks last month, the country has been wringing its hands over the dependence of its financial system on U.S. forbearance.

The companies quickly restored services to two of the banks, but the incident woke Russia up

to the fact that if Russia's standoff with the west over Ukraine spikes, Visa and MasterCard, which dominate the Russian payment systems market, could be forced by the U.S. government to abandon Russia, leaving banks and customers in the lurch.

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In response, the creation of an independent Russian national payment system has become an issue of national security, its advocates say. President Vladimir Putin called for its creation last month, and amendments obliging banks and payment terminal producers to use it have been submitted to parliament.

On Wednesday, a Cabinet meeting chaired by Prime Minister Dmitry Medvedev delegated responsibility for creating the system to the Central Bank. Adding another line of protection, Zadornov said that by the end of May, Russian banks would create an interbank network to defend themselves against the actions of foreign payment systems.

"The payment system is undoubtedly necessary — not only for banks, but for the country. The risk of bank cards failing due to the will of any other state is absolutely unacceptable," said Yury Bozhor, head of the bank cards department at Otkritie Bank.

But the burst of defensive energy may be misplaced, said another banker. The furore is reminiscent of the French obsession with the Maginot Line in the run-up to World War II, said Maxim Osadchy, head of the analytical department at Corporate Finance Bank. The French built massive fortifications along their border with Germany, but in 1940, when the Germans invaded, they simply outflanked the line by going through Belgium.

"You have only to look at Russian roads or imported products in our shops to see the level of Russia's dependence on the West. Our forex reserves are mostly in dollars and euros. Most of the technology we use is from the West. It is naive to think that the next round of sanctions will be aimed at the same targets as before," he said.

Since the system's creation became a state priority, different players on the financial market have disagreed on the mechanics of its creation.

On Friday, a majority of banks, in a vote run by the Central Bank, rejected the idea of using the Universal Electronic Card, or UEC, which is controlled by state-owned Sberbank and uses technology supplied by MasterCard, as the base for the system, preferring to have the Central Bank create a noncommercial organization to develop and run the system.

Under the model that won the vote, and which was approved at Wednesday's Cabinet meeting, the Central Bank would create a new payment system with the participation of banks and existing payment systems including UEC and Zolotaya Korona, which has operated since 1994 using domestic technology, Vedomosti reported.

This system would be fostered collaboratively, and then privatized, Deputy Finance Minister Alexei Moiseyev told banki.ru.

Before Friday's vote, consultants Accenture distributed the results of a report into UEC that suggested the system would only be able to cope with 40 percent of the total volume

of transactions in Russia, which according to the Central Bank amounted to almost 26 trillion rubles (\$740 billion) in 2013.

But the larger stumbling block was the system's reliance on MasterCard's system. UEC's chief Alexei Popov said Tuesday that the system intended to liberate itself from MasterCard's technology from 2016, and that UEC had developed its own, "more modern" system that was "Russian and certified by the Federal Security Service," Prime reported.

Popov said adapting the UEC system would take six months and cost 1 billion rubles (\$28 million), while building a new one from scratch would cost 3 billion rubles and three years.

Rather than focus exclusively on reinventing the wheel, Russia should start by diversifying its payment systems market. Currently, some 85 percent of cards issued in Russia are Visa and MasterCard, Osadchy said. But these systems are only the second and third largest in the world in terms of the number of cards. The global market leader is China's UnionPay, which is relatively rare in Russia, he said.

National security jitters are also not the only motivating factor — Visa and MasterCard make \$3 billion to \$4 billion annually in Russia, profits that could be earned by local companies, Osadchy said. "Why should we be handing them such a big slice of the pie?"

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Original url:

<https://www.themoscowtimes.com/2014/04/16/central-bank-to-create-national-payment-system-from-scratch-a34075>