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Visa, MasterCard Required to Pay $3.8Bln Security Deposit to Work in Russia

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Foreign payment systems will have to leave a security deposit at the Central Bank equivalent to the value of two days of transactions processed in Russia.

The State Duma on Friday passed a law tightening requirements on embattled foreign payment systems Visa and MasterCard and giving them new competition in the form of a national payment system.

Visa and MasterCard have been at the center of a political storm since U.S. sanctions forced them to cut services to two Russian banks in March. Faced with this demonstration of U.S. power, President Vladimir Putin led the charge to restrict their influence and turn the creation of a Russian payment system into a national security issue.

The law passed on Friday will require payment systems to ensure uninterrupted service,

and obliges them to pay a security deposit to the Central Bank to guarantee their good behavior.

Foreign payment systems will have to leave a security deposit at the Central Bank equivalent to the value of two days of transactions processed in Russia. Visa and MasterCard together processed $1.9 billion per day last year, meaning that they will between them be obliged to relinquish about $3.8 billion to the Central Bank.

The legislation comes into force on July 1, after which payment system operators will begin handing over the deposits in quarterly installments worth 25 percent of one day's transaction volume.

Operators will also have to immediately inform the Central Bank about any stoppages of service and the reasons for them. Employees at companies that violate these regulations will be liable for fines ranging from 100,000 rubles to 1 million rubles ($2,800 to $28,000). The payment system companies themselves will face a penalty of 10 million rubles ($280,000) for every day of suspended service if they are large enough to be classified as nationally significant. Smaller operators will lose 10 percent of their security deposits for each day of interrupted service.

Visa and MasterCard are currently the dominant players on Russia's payment services market — Visa processes about 60 percent of payments in a market that saw transactions worth $740 billion last year. MasterCard accounts for 35 percent of payments.

These companies will also soon face a state-supported domestic competitor. Russia's new payment system will be built under the aegis of the Central Bank, which will gain full ownership over a new company that will operate the system. The Cabinet said last week the new system should be up and running within 6 months.

Visa is already feeling the squeeze — the company warned last week that U.S. sanctions were damaging its transaction volumes, pulling its revenue growth rate down to four-year lows.

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