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Visa and MasterCard Cling to Russia Despite $3.8Bln Blow

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The creation of a national payment system in Russia was initiated by Vladimir Putin after Master Card and Visa cut services for two Russian banks sanctioned by the U.S.

Visa and MasterCard will hold fast to Russia despite a new law that forces them to pay over $3.8 billion as a security deposit to the Central Bank.

Both international firms consider the measures taken as too severe and think that they will not only make work in Russia more difficult, but also have a negative impact on the whole system of electronic payments in the long-term, the companies said in an official statement on Tuesday.

"Several provisions in the law are unprecedented and will have a severe impact on the payments market in Russia — particularly cardholders, financial institutions and merchants," Visa said in a statement. The company, however, intends to work closely

with the government in order to resolve the existing difficulties.

MasterCard said that they would also continue their cooperation with government bodies, financial and trade organizations and will examine the new law thoroughly. The company added it would try to overcome the difficulties.

The new legislation on the national payment system, signed on Monday by President Vladimir Putin, requires all international firms to pay a security deposit equivalent to two days of transactions processed in Russia to the Central Bank.

The new regulations come into force on July 1, 2014. They also require foreign payment operators to inform the government about any stoppage of service in advance. International payment systems will also have to set up a processing center based in Russia.

Analysts Slam New Legislation

"The amount of the deposit is too big as it is stated now. At the moment it exceeds the companies annual profit in the country," said Alexei Portansky, professor at Moscow's Higher School of Economics. He added that he had not heard of security deposits being common practice in other countries, so Russia may become a pioneer in this respect.

Portansky, however, doesn't think that the restrictive measures may eventually lead to a massive pull out of MasterCard and Visa from the country. "The companies will struggle to find a solution. The Russian market is too big for them to lose," he added.

"The legislator has gone into extremes. The approved regulations are almost a ban on the work of foreign payment systems," said Garegin Tosunyan, an expert in banking legislation at the Russian Presidential Academy of National Economy and Public Administration.

The creation of a national payment system in Russia was initiated by Vladimir Putin after Master Card and Visa cut services for two Russian banks sanctioned by the U.S. The two companies are major players on the Russian market as they process nearly 60 percent of all transactions in the country.

See also:

Visa and Mastercard Resume SMP Bank Transactions After Sanctions

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