

# Visa, MasterCard Better Off Quitting Russia, Morgan Stanley Says

By [Delphine d'Amora](#)

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A police officer walking by the Central Bank, which now requires Visa and MasterCard to pay security deposits.

New legislation placing foreign payment service providers under the thumb of Russian regulators is so damaging to Visa and MasterCard that the two U.S. companies might be better off abandoning the Russian market, according to research by investment bank Morgan Stanley.

Compliance with the new law will cost Visa and MasterCard at least \$2.9 billion — some five times more than the two companies' combined annual revenue in Russia, Morgan Stanley estimated in a confidential May 6 report titled "The Russian Bear: Impacts on V and MA," obtained by The Moscow Times on Thursday.

The report studies the impact of amendments to the Russian law on a national payment system, signed by President Vladimir Putin on May 5, which massively increased regulatory

control of foreign payment service providers. Visa and MasterCard, which together service 90 percent of Russian payment transactions, unceremoniously cut services to two Russian banks in March in response to U.S. sanctions against Russia over its annexation of Ukraine. Within days, Putin was leading the charge to reduce Russia's vulnerability to foreign government coercion, and the law was fast-tracked through parliament.

The legislation will require international payment systems who intend to remain on the Russian market beyond July 1 to place a security deposit in the Central Bank equal to the cumulative value of two days of transactions processed in Russia.

According to Morgan Stanley's calculations, Visa would have to hand over \$1.9 billion to the Central Bank, while MasterCard would have to part with \$1 billion.

Nor are these deposits the full cost that the companies would bear, the analysts added. Under the law, the payment systems would also have to build processing centers in Russia and pay fines of up to 10 percent of the funds held by the Central Bank in the event of a unilateral denial of services.

Meanwhile, the companies' Russian business brings in returns far below the impending costs. Their Russian divisions make up from 3 to 4 percent of Visa's total revenues, or between \$350 million and \$470 million, and 2 percent of MasterCard's, or about \$160 million, Morgan Stanley estimated. The report concluded that the revenue losses to the two companies if they exited Russia would be "manageable."

Whether Russia would cope so easily with Visa and MasterCard's withdrawal not so clear cut, as the country lacks any payment system able to step into the two companies' shoes. The May 6 law mandated the creation of a national payment system able to take on the task, but it will not be in place until months after the demands on Visa and MasterCard come into force on July 1.

But at least in its public statement, MasterCard is not ready to leave the market just yet.

"MasterCard has worked in Russia for more than 20 years. We are continuing to study all aspects of the new law and are sure that some of its provisions may not only create serious difficulties for our operations in Russia, but harm the Russian market of electronic payments in the long-term as well," the company told Kommersant, adding that they intend to continue "cooperating closely with Russian government agencies, financial organizations and commercial enterprises."

Visa declined to comment on the report, but a spokesman previously said they "intend to work closely with the government to find a way out of the current situation."

**See also:**

[Visa and MasterCard Cling to Russia Despite \\$3.8Bln Blow](#)

Contact the authors at [d.damora@imedia.ru](mailto:d.damora@imedia.ru) and [p.hobson@imedia.ru](mailto:p.hobson@imedia.ru)

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