

Russia May Force Visa, MasterCard to Work Via State Company

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October 07, 2014



A sign with a logo of Gazprombank for Visa, MasterCard and Union Card is seen on the door of a shop in St. Petersburg.

Visa and MasterCard could soon be forced to process all their Russian transactions through the “national payment system,” an unfinished state project that has gained political traction this year amid clashes with the West over the crisis in Ukraine.

A draft bill submitted to the lower house of parliament last week would require all international payment systems and banks that issue payment cards to process transactions via the new system, effectively centralizing all payment processing in one state-run company, business newspaper Vedomosti reported Tuesday.

“We must understand what processes are occurring on Russian territory,” Marina Mukabenova, one of the State Duma deputies who submitted the bill, told the newspaper.

President Vladimir Putin signed a law ordering the establishment of the national payment system in May in a bid to curb Russia's dependence on foreign systems such as Visa and MasterCard, which together process about 90 percent of transactions in Russia.

The initiative is just one of a swarm of new laws that have descended over business in Russia as Western sanctions over Ukraine set off a state campaign to diminish foreign influence in sectors including finance, media and the Internet.

Visa and MasterCard inadvertently set the wheels in motion earlier in the year when they halted service to Russian banks that had been sanctioned by the United States in response to Russia's annexation of Crimea.

The May law would also have forced the payment systems to submit a security deposit to the Central Bank worth the value of two days of transactions processed in the country — a sum that Morgan Stanley analysts at the time estimated at \$2.9 billion, or five times the systems' annual revenues in Russia, a cost so high it could have forced the two companies out of the country altogether.

The ensuing flurry of negotiations ended in a compromise: Visa and MasterCard could evade their fine if they found a Russian payment system “of national importance” to process their transactions by Oct. 31.

But as the deadline approaches, it is clear that the companies will not be able to transfer their transactions in time, a director in the payment card department of a major bank told Vedomosti.

The new bill would also give Visa and MasterCard an extension until March 31 to submit the security deposit, although market participants worry that this is still not enough time for the national payment system to reach agreements with both the payment systems and the hundreds of banks operating in Russia.

Meanwhile, domestic payment system companies worry that the state-sponsored company could sweep all competition off the market, Vedomosti reported.

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Original url:

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