The second edition of the “Cyprus Banking Insight”

I am pleased to present the second edition of the “Cyprus Banking Insight” published by the Association of Cyprus Banks (ACB).

The comments and feedback we received on the first Bulletin from abroad as well as locally, were most encouraging and it has given us the incentive to establish its publication biannually. The “Insight” provides a forum to other service producing sectors of the economy, which are complimentary to financial services, to present their activities or current developments in their industry.

This current issue of the “Insight”, beyond the articles that the staff of the Association contributed, hosts articles submitted by:

- The Cyprus Bankers Employers’ Association, a sister organization,
- The Cyprus Shipping Chamber and
- Hellenic Bank Public Company Ltd, a member of our Association.

The articles presented in this Bulletin provide and inform the reader about current issues, developments and practices taking place in the banking community of Cyprus as it is becoming more and more integrated with the European Union.

I hope that the quality and depth of the articles in the second edition of the “Insight” will be helpful, thought provoking and of interest to our readers.

I would like to thank our contributors from other organizations as well as the Senior Officers of ACB for their continuing efforts to support and keep-up with various functions and projects that ACB is currently involved in, including the publication of this Bulletin.

Given this opportunity I would like to inform our readers that the Board of Directors has decided to proceed with changing the name of the Association of Cyprus Commercial Banks to “Association of Cyprus Banks”. This reflects changes taking place in the global banking sector and denotes the willingness of our Association to welcome new members from different banking backgrounds.

Your comments and suggestions are most welcome.

Dr. Michael Kammas
Director General
Association of Cyprus Banks
Massive numbers of cheques are transferred every day from various financial institutions to the branches where the customer accounts are maintained. This bulk of cheques make manual sorting and cheque clearing a time-consuming and tiresome process. In order to counter this problem, many financial institutions worldwide have proceeded to adopt a technology called ‘electronic cheque processing solutions’. These effective and modernized electronic-based solutions have been adopted in locations as diverse as the United States, Spain, Belgium, Germany, Singapore, Hong Kong, India, Nigeria, UAE and many more. Different clearing systems have evolved in these countries, varying from image-based clearing systems (i.e. Hong Kong) to exclusively data-based solutions (i.e. Greece). Instead of exchanging physically huge numbers of cheques, in many cases having to travel thousands of kilometers, cheques are nowadays cleared and settled on the basis of the electronic presentation of images and/or cheque information. The upshot of this is that the clearing cycle is significantly speeded up and in some countries cheques are cleared the next day or even the same day, thereby bringing efficiency into the entire banking system.

The Association of Cyprus Banks (ACB) has evaluated the benefits of such truncated systems and initiated the introduction of an image-based cheque clearing solution among its member banks and the Cooperative Societies in Cyprus. Following the ACB’s proposal, the Bills of Exchange Act was amended in 2000 so as to facilitate the electronic presentment of cheques throughout the clearing process. However, an additional legislative amendment was necessary in order to reflect the modern environment. This concerned Article 305A of the Criminal Law which sets the process that banks must follow for the dishonored (unpaid) cheques. In order to obviate the need for banks to exchange physically the dishonored cheques, an amendment was proposed in order to allow for the electronic presentment and exchange of the images of unpaid cheques. This amendment was voted by the House of Parliament in the Summer of 2008 and finally gave pace for the implementation of the new system.

After a tender process the ACB awarded the project to NCR (Cyprus) Ltd. According to the agreement reached, JCC Payments Systems Ltd, the primary processor of card transactions in Cyprus will act as the Dispatcher Company. The solution was built on the basis of the technical and functional requirements set by the Association and the participating banks. The intention is for the system to go live during the first quarter of 2009 after a pilot period running for approximately 5-6 months. Although there will be a period of parallel processing where manual cheque clearance and the truncated process will operate at the same time, it is anticipated that eventually all local banking institutions will rid the cumbersome manual work and deploy the modern truncated clearing operations for the benefit of both the financial system and the customers.

But, how will cheques be processed using the electronic clearing system?

Local banking practice today sets for the physical cheques to be exchanged daily between financial institutions through the Cyprus Clearing House (CCH), which operates under the auspices of the Central Bank of Cyprus. When a cheque is deposited at a branch (of the collecting bank) it is forwarded to the bank’s central clearing centre. All cheques are bundled and processed and are transferred the next day through the CCH to the bank on which they were drawn for payment. In the event where a cheque cannot be honored, the payer bank returns the original cheque
The progressive development of Cyprus’s banking system as well as the latest developments at the EU legislative level have underlined the need to create a credit bureau in Cyprus.

In the European Union, there are a number of credit register systems in operation which differ according to their ownership (public / private systems), the type of information they provide (positive / negative credit information) as well as type of customers covered (consumers / legal entities) and sophistication of information provided. At present, out of all EU Member States only Cyprus, Malta and Luxembourg do not have a credit bureau. The experience in other Member States indicates that the operation of reliable sources of credit related data that reflects the economic behavior of borrowers improves the ability of banks to estimate the solvency and financial credibility of loan applicants. This in turn contributes to the reduction of credit risk, the prevention of fraud in financial transactions and to the smoother functioning of the banking system in general.

The European Parliament has recognized the above benefits and in the revised Consumer Credit Directive (2008/48/EC) it stipulates that lenders should assess the individual creditworthiness of applicants through consulting relevant databases. The Central Bank of Cyprus has also pressed the need for the banking industry to set up a system of exchange on information about customers’ credit standing.

For the above reasons, the members of the Cyprus Banking Association are working towards establishing a Credit Bureau in Cyprus which will facilitate the exchange of information on customer credit worthiness. Its objectives are as follows:

- To provide a better insight into individuals’ and companies’ indebtedness and their honoring of contractual obligations
- To mitigate potential risks associated with retail banking

Establishment of a credit bureau in Cyprus

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Christina Pierides
Senior Officer
Financial Markets
As anti-money laundering regulation becomes more complex and evolutionary so does the role of the Anti money laundering compliance officer (the ‘MLCO’). The MLCO being the new age ‘musketeer’ in the fight against money laundering and terrorist financing has the challenging role to stay abreast of rapidly changing regulations and deal with the regulatory pressure on financial institutions. His/Her role requires constant cooperation with the regulators and a significant investment of time and resources on the interpretation, implementation and monitoring of different guidelines.

The MCLO of a bank holds one of the few positions the duties of which is specifically defined not only in internal bank manuals but are stated in the Law and a Central Bank’s Directive. Hence, the person appointed to the post of MLCO according to the 2008 issue of the Directive of the Central Bank of Cyprus Directive on the Prevention of Money Laundering and Terrorist Financing (the ‘Directive’) should belong to the Management of the bank so as to command the necessary authority.

The Directive sets out in an extensive list, the Duties and Responsibilities of the MLCO. As a minimum, the duties of a MLCO include the following:

- Risk management and Procedures
  - The preparation of the bank’s risk management and procedures manual for the prevention of money laundering and terrorist financing.
  - The monitoring and assessing whether the policy, procedures and controls that have been introduced for the prevention of money laundering and terrorist financing are correctly and effectively applied.

- Customer Acceptance Policy
  - The preparation of the Customer Acceptance Policy which is submitted through the Senior Management of the bank to the Board of Directors for consideration and approval.

- Internal and External Reporting
  - Receiving information from the bank’s employees which is considered by the latter to be knowledge or suspicion of money laundering or terrorist financing activities or might be related with such activities.
  - The validation and consideration of this information.
  - If following the evaluation described above, the MLCO decides to notify the Unit for Combating Money Laundering (“MOKAS”), then he/she should complete a written report and submit it to MOKAS the soonest possible.

The Anti money laundering compliance officer: Role and Responsibilities under the Cyprus Anti money laundering framework

As anti-money laundering regulation becomes more complex and evolutionary so does the role of the Anti money laundering compliance officer (the ‘MLCO’). The MLCO being the new age ‘musketeer’ in the fight against money laundering and terrorist financing has the challenging role to stay abreast of rapidly changing regulations and deal with the regulatory pressure on financial institutions. His/Her role requires constant cooperation with the regulators and a significant investment of time and resources on the interpretation, implementation and monitoring of different guidelines.

The Bureau will be a separate legal entity, owned and financed by the 10 Member Banks of the Association of Cyprus Banks. As it is planned to be an interbanking system, access to the Bureau’s credit information will be limited to the members of the Cyprus Banking Association. At the initial stage of implementation, the Credit Bureau’s electronic database will only cover “negative” data which concerns information on bankruptcies, court orders, or any type of loan default by an individual or legal entity in Cyprus. Information will be collected from member banks as well as from other sources such as the Central Bank of Cyprus (Central Information Register - bounced checks), the Cyprus Banking Association (Bankruptcy Register) etc.

Each time a consumer or company applies for credit from one of the Member Banks, the bank will access the applicant’s credit report to find out about the performance under previous credit agreements with the other Member Banks. This can help the bank assess the applicant’s credit worthiness and ability to repay a loan. It is expected to reduce non-performing loans and it will also provide the bank with the capability of carrying out risk-based pricing by varying interest rates depending on the different expected risk of different borrowers.

By virtue of its activities, the Credit Bureau will inevitably need to comply with the European Data Protection Directive and Cyprus data protection law based on the Directive. Consequently, the credit bureau will follow closely the instructions of the Commissioner for Personal Data Protection and will make every effort to safeguard citizens’ rights.

Furthermore, in line with international practice, it is envisioned that the data in the credit bureau will only be used for the purpose of credit risk management and not for commercial/marketing purposes.

The Cyprus Banking Association has identified the technical supplier and business consultants for the set up of the Credit Bureau. The aim of the Association is for the Credit Bureau to commence operations within 2009. Following the successful implementation of the initial phase of the project, the Credit Bureau’s services will be expanded to include provision of “positive data” and credit scoring.
the transactions of the customer(s) involved are monitored by the MLCO.
- The MLCO maintains a registry with statistical information in relation to the Internal Money Laundering Suspicious Reports and the MLCO’s reports to MOKAS.
- The MLCO responds to requests from MOKAS and provides all the supplementary information requested and fully co-operates with MOKAS.

Compliance of branches and subsidiaries
- The MLCO ensures that all branches and subsidiaries of the bank in non-EU countries have taken all necessary measures for achieving full compliance with the provisions of this Directive in relation to customer identification, due diligence and record keeping procedures.

Annual Report
- The MLCO has also the additional duty of preparing an Annual Report which is a significant tool for assessing a bank’s level of compliance with its obligations laid down in the Law and the Central Bank of Cyprus’ Directives for the prevention of money laundering and terrorist financing.

Annual Evaluation of Risks and Periodic Reports
- The MLCO is responsible for the evaluation, on an annual basis, of all risks arising from existing and new customers, new products and services and updating and amending systems and procedures applied by the bank for the effective management of the aforesaid risks.
- The MLCO informs, through regular periodic reports, the Senior Management of the bank regarding the management of risks associated with money laundering and terrorist financing.

Cash Deposits
- The MLCO is responsible for examining and deciding on the applications for accepting cash deposits in foreign currency notes submitted in writing by the responsible officials of the branches/units of the bank where the related customers’ accounts are maintained.

Cooperation with the Central Bank
- The MLCO responds to all requests and queries from the Central Bank of Cyprus and provides all requested information and co-operates fully with the Central Bank of Cyprus.

Guidance and Training of Employees
- The MLCO provides advice and guidance to other employees of the bank on the correct implementation of procedures and controls against money laundering and terrorist financing.
- The MLCO determines which of the bank’s units/branches staff and employees need further training and education for the purpose of money laundering and terrorist financing prevention and organises appropriate training sessions/seminars. In this regard, the MLCO prepares and applies, in co-operation with other departments of the bank, an annual staff training program.

Evaluation of Third Persons and non-EU banks
- The MLCO assesses the systems and procedures applied by a third person on whom the bank relies for customer identification and due diligence purposes or who applies for the opening of “client accounts”.
- The MLCO assesses the adequacy of the policy measures and procedures against money laundering and terrorist financing applied by non-EU banks which apply for the opening of correspondent accounts.

Categorisation of Customers
- The MLCO ensures that the bank prepares and maintains lists of customers classified as low and high risk which should contain the names of customers, their account number(s), the branch/unit maintaining the account(s) and the date of the commencement of the business relationship.

The responsibility of the MLCO takes up a higher difficulty level taking into consideration that all of the above duties must be accomplished while not appearing to be ‘anti- business’. Additionally even though the MLCO is often surrounded by a team of fellow bank employees to assist in implementing the different procedures, the ultimate measure of success or failure often falls on the MLCO of the Bank.

It is therefore important for the MLCO to apply the necessary steps in order to successfully and effectively achieve his given role. Generally these steps may involve: (i) securing the support of top management; (ii) buy-in from middle management ;(iii) applying a strong system of internal controls throughout the organization and specifically in the compliance department; (iv) the ability to manage compliance risks while allowing business development and (v) recognition and credibility with regulators and peers.
The Implementation of MiFID in Cyprus

Nearly one year since MiFID went live, implementation in Cyprus has been successful and investment services providers are already enjoying the benefits, being the Single European Passport combined with the tax advantages in Cyprus.

Investment Services Providers

MiFID was transposed into national legislation with Law 144(I) of 2007 (Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets Law). Under this Law, investment services may be offered in Cyprus by: 1. Cyprus Investment Firms (CIF) (licensed under the Law); 2. Investment Firms from other Member States (MS) of the European Union (EU) that may provide their services freely in Cyprus with their Single Passport; 3. Investment Firms from third countries that obtained a license in Cyprus; and 4. Credit Institutions (Banks and Cooperative Societies).

Supervision

These providers need to follow the same requirements of the Law regarding the protection of investors, albeit their supervision is performed by different Supervisory Authorities. So, unlike the situation in other EU countries, (i.e. the UK where there is a single Supervisor for all financial institutions (the FSA)), in Cyprus there is a different Supervisor for each type of financial firm. Hence,

- The Cyprus Securities and Exchange Commission (CySEC) is the Supervisor for CIFs and Investment Firms from third countries.
- The Central Bank of Cyprus supervises Banks.
- Cooperative Societies are supervised by the Authority for the Supervision and Development of Cooperative Societies (ASDCS).
- Investment Firms of other MS of the EU that offer their services in Cyprus via their Single Passport, are supervised by their home Supervisor, while CySEC has some powers over them.

Despite the existence of different national Supervisors, the directives issued by each Supervisor have exactly the same requirements and text, aiming to ensure a level playing field amongst market players. This is also the case regarding Capital Adequacy Requirements and Anti-Money Laundering directives.

Licensing

CySEC may grant an authorization to an undertaking, whether existing or under formation, for the provision of the investment and ancillary services and activities, if the following requirements are met:

1. The applicant’s Memorandum and Articles of Association allow the provision of such services;
2. The applicant has the appropriate capital requirements (depending on which services they will provide);
3. The applicant has the appropriate organizational and internal procedures in place to comply with the Law (with transparency requirements, suitability and appropriateness tests), so as to protect investors and to avoid and deal with conflict of interest situations;
4. The persons who effectively direct the business should be of sufficiently good repute and sufficiently experienced as to ensure the sound and prudent management of the investment firm;
5. The management must be undertaken by at least two persons meeting the requirements laid above [four-eye principle];
6. Where close links exist between the investment firm and other natural or legal persons, CySEC grants authorisation only if those links do not prevent the effective exercise of the supervisory functions of the competent authority;
7. Shareholders and members with qualifying holdings (who hold 10% and over of voting rights) must be suitable;

8. The persons employed by a CIF must be of sufficiently good repute and have the necessary skills, knowledge and expertise for performing their assigned responsibilities;

9. The applicant must participate at the investors’ compensation scheme;

10. The head offices are situated in Cyprus.

Once a complete application is submitted, CySEC must reply within six months. In practice, CySEC may reply in three months. Of course, this depends on the quality of the work of the consultant that has undertaken to promote the application for the investment firm registration.

Investment Services and Activities
Cypriot Investment Firms provide nearly the full range of investment services and activities, namely:

1. Reception and transmission of orders in relation to one or more financial instruments;

2. Execution of orders on behalf of clients;

3. Dealing on own account;

4. Portfolio management;

5. Investment Advice;

6. Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis;

7. Placing of financial instruments without a firm commitment basis.

However, it should be noted that although, the Law makes provision for the Operation of Multilateral Trading Facilities (MTF), no firm has yet activated such a service.

Ancillary Services include any of the following:
- Safekeeping and administration in relation to one or more financial instruments;
- Safe custody services;
- Granting of credits or loans to clients to enable them to carry out transactions in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
- Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and acquisitions;
- Services connected to underwriting;
- Investment advice concerning one or more financial instruments;
- Foreign-exchange services where these are connected with the provision of investment services.

The procedure involves notification via the home Supervisor to the host Supervisor. This possibility opens the doors for Cyprus established investment firms to all major European markets and hence enables the provision to cross-border investments.

Single Passport
The Single Passport was further enhanced by MiFID. The idea of a Single Passport is very simple. An Investment Firm granted authorisation and operating in a European Union country may establish a branch or provide, without establishment, services in another MS, without prior authorisation by the other country’s supervisor. The procedure involves notification via the home Supervisor to the host Supervisor. This possibility opens the doors for Cyprus established investment firms to all major European markets and hence enables the provision to cross-border investments.

Tax Advantages
Many service providers choose Cyprus for trading in international markets due to Cyprus’ tax advantages. The corporate tax rate of 10% is possibly the lowest in Europe, while gains from trading in stocks and shares are exempt from taxation. In addition Cyprus is a party to a number of double taxation treaties. Finally, Cyprus’s accession in the EU has brought compliance with all EU Directives. This combined with microeconomic stability provides a safe environment for investment service providers.
The European Union enlargement has boosted the modernisation and reforms in many Balkan and Eastern European economies. Improved economic conditions, macro economic stabilization, policy reforms and the path to European Union accession, have opened up opportunities for investments in the banking sector. Credit institutions have been privatized and restructured and as a result banking activity in the region has increased considerably. These developments, together with the sheer size of the markets, provide opportunities for investments. Foreign investment is beneficial for both the investor and the recipient credit institutions. It allows the investor to expand its business activity and gain market share, while the recipient benefits from the transfer of capital, knowledge and technology. The most common mode of entry that foreign credit institutions use to enter a new market is either to set up a subsidiary, which requires a lengthy process for the acquisition of a banking license, or to acquire a local bank, which enables a quick increase in market share

Traditionally, Cypriot banks concentrated on exploiting their comparative advantages over domestic counterparts in the local market. Today, their main strategic target is to expand their operations into new markets and take advantage of the attractive opportunities and growth prospects offered overseas. Historically, the first wave of the international expansion of Cypriot banks begun in the 1960s in the U.K. where Cypriots and Greeks emigrated. The main reason for this expansion was to serve the banking needs of Cypriot and Greek expatriates and the mode of entry was through the establishment of subsidiaries or branches. The second wave of international expansion of Cypriot banks was in the 1990s to Greece, Australia, countries with significant presence of Cypriot and Greek expatriates, and to the Channel Islands so as to introduce offshore banking services. The mode of entry was again the establishment of subsidiaries or branches. During this period Cypriot banks strengthened their operations particularly in Greece, opening a significant number of branches and offering the full range of banking services to retail and corporate customers.

Cypriot banks are now riding the third and most significant wave of their international expansion into new markets. Increasing competitive conditions in the local market and the reduction of opportunities for significant growth, combined with the need to increase earnings, diversify risks and realise efficiency gains, forces Cypriot banks to seek new and profitable investment strategies overseas. This is particularly evident from the presence of Cypriot banks in countries where their international customers hold their activities and operations (Russia, Ukraine, Serbia and Romania). The Balkan and Eastern European markets offer considerable opportunities for expanding banking services. The strengthening of political stability, the relaxation of restrictions on foreign ownership and the application of free market economic policies have contributed to the growth of cross-border banking in the region, and Cypriot banks have taken advantage of the opportunities that have arisen.
The choice to expand in these markets is not accidental. First, there is close proximity to Cyprus, which facilitates the monitoring and efficient operation from the Head Office. Second, Cyprus has become a major trading partner of Eastern European countries and a significant investor in the region due to the existence of favourable double tax treaties and its status as a financial centre. Third, local banks have built strong relationships with individuals and corporations which are extensively active in the region (“follow-the-client” strategy). Fourth, the banks’ management developed considerable knowledge of the regional market conditions, business growth prospects, investment opportunities and corporate culture.

The three largest Cypriot banks are currently going through the most important phase of their efforts to strengthen their international presence and become key regional players in the markets of Eastern Europe and the Balkans. In the last couple of years they have been particularly active and have completed a number of deals concerning the acquisition of local banks or the establishment of subsidiary companies. Bank of Cyprus is currently in the process of completing the acquisition of local banks in Ukraine and Russia and opening additional branches in Greece. With these additions the bank will be operating a well diversified network of 520 branches in Cyprus, Greece, Romania, Ukraine, the United Kingdom, Channel Islands and Australia. Marfin Laiki Bank has further enhanced its activities in southern and eastern Europe, acquiring banks in Ukraine, Malta and Russia. Through these acquisitions the bank has expanded its network to 451 branches in Cyprus, Greece, the United Kingdom, Australia, Romania, Serbia, Estonia, Guernsey, Ukraine, Malta and Russia. Hellenic Bank is in the final stages of acquiring a banking license in Russia, where it will open its first branch in Moscow, and is further expanding its presence in Greece with the opening of additional branches. The bank is also considering several options for the acquisition of a local bank in Eastern Europe.

Public-Private Partnerships: Tackling Bank Robberies in Cyprus

The Cyprus Bankers Employers’ Association hosted on May 30, 2008, the 19th Meeting of the Physical Security Working Group (PSWG) of the European Banking Federation in Limassol, Cyprus. The PSWG meetings take place twice a year and usually at the May/June meeting the major topic of discussion is the Report on Bank Robberies and Other Bank Raids. Representatives of each country give an overview of the status of bank robberies and raids in their own countries. These discussions are confidential and therefore will not be disclosed in this article. However, one of the important conclusions of the group and an important deterring factor against bank robberies are Public-Private Partnerships. Here below is the case of Cyprus on how this measure is implemented:

Public-Private Partnerships (PPP) refers to any type of co-operation between private companies (in this case banks), the Cyprus Police, and the Judicial Authorities of a country to fight crime. The Cyprus Bankers Employers’ Association formed a PPP in Cyprus in 1998 together with the Cyprus Police in order to specifically fight bank robberies. As part of this co-operation a bipartite committee between banks and the police was formed to tackle the issue of the physical security of bank branches. The committee meets on a regular basis when needed and discusses issues that may affect the physical security of bank branches, future crime trends (especially bank robberies) and any other threat that may evolve as a risk factor against the security of banks. Some of the more important measures agreed upon as part of the work of this bipartite committee are:

- The decrease in the amount of cash money available at bank branches.
- Further deployment and continuous upgrade of Closed Circuit Television (CCTV) systems.
- Further deployment and continuous upgrade of attack alarm systems directly connected to police control centres.

- Continuous staff training on how to cope with bank robberies.

To give you a better understanding of the facts see below the relevant table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Robberies in Bank Branches</th>
<th>Number of Robberies in Co-operative and Savings bank branches</th>
<th>Total number of Robberies in Bank, Co-operative and Savings Bank branches</th>
<th>Total number of Robberies in Cyprus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>5</td>
<td>2</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>2000</td>
<td>7</td>
<td>-</td>
<td>7</td>
<td>43</td>
</tr>
<tr>
<td>2001</td>
<td>6</td>
<td>5</td>
<td>11</td>
<td>42</td>
</tr>
</tbody>
</table>

The above measures were agreed and have been adopted since. As part of the Public-Private Partnership between banks and the police, an additional measure has been in effect since 2001. Special police patrols were set-up to patrol bank branches during normal working hours in the two major cities of Cyprus. The use of police patrols provides a sense of increased security among staff and works as a deterring factor against potential robbers. Also, since they are en route during normal working hours, in case of an emergency the time needed to respond to attack alarms is substantially decreased.

The situation after the implementation of the protective measures mentioned above and of police patrolling of bank branches is shown in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Robberies in Bank Branches</th>
<th>Number of Robberies in Co-operative and Savings bank branches</th>
<th>Total number of Robberies in Bank, Co-operative and Savings Bank branches</th>
<th>Total number of Robberies in Cyprus</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>38</td>
</tr>
<tr>
<td>2003</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>69</td>
</tr>
<tr>
<td>2004</td>
<td>6</td>
<td>7</td>
<td>13</td>
<td>104</td>
</tr>
<tr>
<td>2005</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>84</td>
</tr>
<tr>
<td>2006</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>80</td>
</tr>
<tr>
<td>2007</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>74</td>
</tr>
</tbody>
</table>

It is clear that since 2001, the number of robberies is decreasing with the exception of 2004, even though the total number of robberies in Cyprus was showing an upward trend till recently. The obvious conclusion is that the security measures implemented in bank branches along with the close co-operation with the police through regular meetings to discuss measures that increase the physical security of bank branches and the effective use of police patrolling have been successful. However, the fight against crime is an on-going struggle and the Cyprus Bankers Employers’ Association aims at minimising bank robberies, through a closer cooperation with the police and any other public-private partnership deemed necessary to achieve this goal.
Banks are in the business of taking risk. Credit risk, which is the risk that borrowers will fail to fulfil their credit obligations completely, is a major concern for Cypriot banks. The retail and small business segments are of particular importance to the Cypriot economy. Based on research published by the Statistical Service of Cyprus (Cystat) in 2007, 92% of the companies in Cyprus are classified as small and are employing less than 10 people. In addition, according to the Central Bank of Cyprus, the rate of growth for personal and professional loans has reached 54.6% in 2007, up from 50.6% in 2006 and the growth is expected to continue.

Nevertheless, for the credit expansion of Cypriot banks in the retail and small business segments of the economy to be healthy, robust credit risk measurement and management tools should be employed, in order to accurately assess and monitor the credit risk in their books. This article attempts to provide a brief description of the statistical tools available for assessing the credit risk of consumers and small businesses, namely credit scoring models.

Traditional methods for deciding whether to grant credit to customers use human judgement for the assessment of credit risk. This is purely based on the experience of previous decisions as well as on the valuable information collected from servicing a particular customer over time. However, economic pressure resulting from increased demand for credit along with the greater commercial competition and the emergence of computer technology have led to the development of sophisticated statistical models to aid the credit granting decision. Currently, not only are these tools the most efficient way of handling a large number of transactions, yet, they also seem to produce more accurate assessments of credit risk than subjective evaluations by human experts.

The statistical models used for the assessment of credit risk associated with consumers and small businesses are called credit scoring models (or scorecards). The development of these models is carried out with the use of a sample of customers whose repayment behaviour on a particular product is known. Each customer has its own attributes and an associated repayment history over a given time horizon. Statistical techniques are then employed in order to identify behavioural patterns in the sample of these customers. The procedure resembles a credit officer’s empirical knowledge, gained by assessing the creditworthiness of customers over time. The difference, however, is that the identification of attributes that define the creditworthiness of clients (called risk drivers) for a
given time horizon, is carried out in a statistical framework which has proved to be more consistent and thus more accurate in the assessment of credit risk than empirical expert judgement.

The attributes used for the assessment of the creditworthiness of clients via scoring models vary between different segments of the economy. For the retail segment which includes products like credit cards, personal loans, overdrafts, mortgages, etc., the attributes used are mainly the demographic characteristics of the consumer and the type/value of the collateral offered. Examples of these attributes include the customers’ occupation, marital status, age, education, monthly net income, etc. The personal characteristics of customers provide an indication about their ability to repay their obligations to the bank, whereas the information about the collateral offered usually provides an indication about their willingness to repay. To illustrate the latter, the Loan-to-Value ratio is reported by many practitioners to be an important variable in scoring models for mortgage applications.

On the other hand, for the small business segment, the attributes used in scoring models include the demographic characteristics of the owner, qualitative information of the business, such as the age of the company, its industry, etc. and information about the collateral offered. A number of studies have confirmed that the demographic characteristics of the owner of a small business are more suitable than the often unreliable financial data of the business itself, in the assessment of its creditworthiness. The principle here is that individuals that repay their debts are likely to run small businesses that also repay their debts.

Customers’ attributes are input into the appropriate scoring model, depending on the product requested. The scoring model then evaluates the creditworthiness of the customer, and assigns him a score. In general, the higher the score obtained, the higher is the customers’ presumed ability to serve their obligations. A crucial decision banks then have to take is to define the minimum score a customer has to achieve in order for his application to be approved.

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An important characteristic of scoring models is that they are susceptible to population drift. This phenomenon is the tendency of the attributes of the population to evolve over time, such as growth in the income level of consumers, which, as a result, reduces the accuracy of the models. Hence, scoring models need to be constantly redeveloped – around every 18 months to 2 years, to overcome this drift in the population and maintain the accuracy in the assessment of credit risk.

Credit scoring models for retail and small businesses not only provide an effective way of processing a large number of transactions, but also, if developed properly, an accurate assessment of credit risk. However, reliance on the credit assessments of scoring models over time should only be placed when their accuracy is closely monitored. The general principle is that the more confidence banks place on their scoring models, the more time and effort they should spend monitoring their performance.
Creation of a “Code of practice on Switching Personal Accounts” between Banks

The switching of personal accounts between Banks has been considered as a time-consuming and bureaucratic procedure that “prevents” customers from easily switching their accounts from one Bank to another. The reasons for which customers may wish to switch their accounts are: better prices (rates) offered by another Bank, dissatisfaction with the quality of service of the current Bank, better branch location, broader product-range and higher possibility to obtain credit from a new Bank.

Having the above in mind and after considering the European Commission’s position that: “obstacles to account mobility can function as competition barriers”, the Association of Cyprus Banks (ACB) took the initiative to create a Code of practice on Switching Personal Accounts. The drafting of the Code was effected by an Ad Hoc Committee which comprised of representatives from the Association and it’s 10 member Banks. The final version of the Code was approved by ACB’s Executive Board and will be implemented in the second half of 2008.

The Association and it’s members developed this step-by-step guide for both Banks and their customers, in order to help make the process of switching personal accounts, quick, easy and as hassle-free as possible. Among others, the Code clearly explains each of the steps involved, who is responsible for them, as well as the time limits of each procedure.

The Code’s main provisions are as follows:

Scope: The Code covers Current accounts, Notice accounts, Savings accounts and (expiring) Fixed Deposits belonging to physical persons. It does not cover accounts bearing Overdraft facilities, guarantees or any form of commitments.

Time limits: The whole account switching process must be completed within 15 working days. Furthermore the “Former” Bank must provide to the “New” Bank all details relating to customer’s Direct Debits and Standing Orders within 3 working days (from the day the customer signs the New Bank’s Account Transfer Form). In order to facilitate the whole procedure, the Code also includes specimens of the two documents that must be completed by the 3 involving parties, i.e. the Former Bank, the New Bank and the customer. The said documents are: “The Account Transfer Form” (completed and signed by the New Bank and the customer) and a “List of customer’s Direct Debits and Standing Orders” (completed by the Former Bank in order to be submitted to the New Bank).

Charges: The whole procedure will be effected by Banks for the benefit of their customers, without imposing any charges.

Participation: Apart from the 10 member Banks of the Association and their customers, it is possible for other Financial Institutions to participate in the Code, provided that they have presence and operations in Cyprus and are offering the above-mentioned accounts.

The creation of the Code is expected to have a positive impact on both Banks and their customers, for the following reasons:

- It will facilitate the account switching process and will enable customers to save time and avoid mistakes or misunderstandings with their Banks.

- It will boost competition between Banks, which in the long term may lead to the offering of more choices to customers, the reduction of prices and the provision of higher quality products and services.

- It will enhance the relationship between Banks and their customers, as it promotes transparency and mutual understanding between the two parties.
After its independence in 1960, Cyprus recognised the political, economic and social importance of Shipping. Since then, Cyprus managed to attract shipping entrepreneurs and to develop the island into a fully-fledged international shipping centre combining both a sovereign flag and a resident shipping industry, which is renowned for its high quality services and standards of safety. The Cyprus Flag today is classified as the 10th largest merchant fleet globally and the 3rd largest fleet in the European Union.

Cyprus is considered to be the largest third party shipmanagement centre in the European Union, and one of the largest in the world. More than 130 shipowning, shipmanagement and shipping related companies maintain fully-fledged offices and conduct their international activities from Cyprus. The vast majority of these companies are located in Limassol and are Members of the Cyprus Shipping Chamber, the trade association of the Shipping Industry in Cyprus.

The contribution of Shipping to the economy of Cyprus is estimated at 4% of the Gross Domestic Product (GDP) and latest national statistics indicate that receipts from the Maritime Transport Sector in 2007 reached approximately 1 billion Euro. Another important contribution of the Cyprus Shipping Industry is that it has created many employment opportunities for Cypriots. The total number of gainfully employed persons by Cyprus shipping ashore is approximately 4,000 and more than 25,000 seafarers of different nationalities are employed onboard Cyprus flag ships at any one time.

Cyprus Shipping, especially now with the recent accession of Cyprus to the European Union, has a very promising future with more high quality ships expected to register under the Cyprus Flag and more shipowning, shipmanaging and shipping related companies from both the EU, as well as outside the EU, expected to establish their business operations on the island.

Further, since the accession of Cyprus into the EU, as well as more recently the beginning of Turkey’s EU accession negotiations, the long standing “Turkish Embargo” affecting Cyprus related Shipping has gained a new dimension, whereby Turkey is expected to lift its Embargo on Cyprus Shipping within 2009 and apply the Customs Protocol.

In a very fast-pace industry such as Shipping where competition is fierce and the business environment is changing rapidly, Cyprus must make sure that the following significant requirements are met on a continuously basis:

• A competitive Taxation System for Shipping companies, and
• A fast and efficient Government Service.

Cyprus, to a large extent, managed to meet the above requirements but still there are few important pending issues that Cyprus needs to resolve in order to maintain its position in the league of important maritime centres.

With respect to taxation of shipping companies, all taxation systems of EU countries will come under revision the next few months. The Cyprus Government, with the close cooperation of the Cyprus Shipping Chamber, already produced the necessary legal, financial and policy arguments in order to convince the EU to continue approving the tax system applied in Cyprus today for shipowning and shipmanagement companies. Also some additional financial incentives to act as a “counter-balance” measure against the Turkish Ban on Cyprus ships were included.

As regards the service offered by the Government, Cyprus made a considerable improvement over the last few years. However, in this fast growing and changing environment the Cyprus Government needs to create a Permanent Directorate on Shipping at the Ministry of Communications and Works, in order to create the necessary mechanism of even faster decision-making in effectively tackling the various issues affecting our Industry.

Cyprus Shipping can therefore be labelled, as the “blood-life” of the Cyprus Economy.
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