

CYPRUS BANKING INSIGHT

ISSUE 15 MAY 2018

**Shaping the future
through national cohesion**





introduction

By Dr. Michael Kammis Director General, Association of Cyprus Banks

National cohesion for banking sector has become a necessity

In a period of great challenges, changes and increased regulatory demands in Europe as well as (and even more so) in Cyprus, the need for having a national cohesion for the banking sector is now more pressing than ever.

In the new issue of Cyprus Banking Insight, the biannual publication of the Association of Cyprus Banks, we cover at length the increased challenges met by the banking sector, as well as the great potential of our economy and banking institutions. A necessary condition to seize these opportunities is to proceed with the reforms that will unleash Cyprus's growth potential.

Professionals of the Association as well as from large institutions in Cyprus, through their articles in the present issue, address the regulatory demands on banks, as well as the required amendments to legislations that would improve the operational framework of the local banking system.

Notably, important partners and external observers of our country such as the European Central Bank, the European Commission, the International Monetary Fund as well as credit rating agencies, have expressed their views which boil down into one main conclusion: drastic decisions should

be taken in order to address the major problem for banks, that is to speed up the rate of reduction of Non Performing Loans in the upcoming years.

Within this framework, the Association of Cyprus Banks is expressing views through its participation at the House of Representative committees, as well as through public discourse with articles in the media or interviews. The Association aims to bring ideas, suggestions and recommendations underpinned by technical analysis to institutions and persons who are responsible for generating and implementing decisions. The situation at the banking sector necessitates the generation of a national cohesion and its strict adherence by all relevant economic players.

The Association of Cyprus Banks, having as its long-term policy the open and genuine cooperation with all interlocutors, aims to support to the greatest extent this project which will define the future of the country. The fact that we managed to come through in much harder circumstances in the past, underscores our ability, as a country, to find the necessary strength and cohesion to agree and implement all the changes required in order to advance.

articles

- 4 Reforms key to sustainable growth
- 6 EU Prudential Regulation: A new regulatory capital regime for investment firms
- 8 National culture and bank risk-taking
- 10 GDPR - Analyzing processing based on the ground of legitimate interest
- 12 Digitalisation: Challenges and opportunities for the Banking sector
- 14 Banking's new dawn
- 16 Challenges faced by Cypriot banks
- 18 Suggestions for a better functioning foreclosures framework
- 20 Resolving non-performing loans: a role for securitization
- 22 Implementation of the Fourth EU Anti-Money Laundering Directive in the Cypriot Legal Framework
- 24 The Global Code of Conduct in the Foreign Exchange market
- 26 Learning the "Financial Alphabet": A useful skill in life
- 28 Mentoring magic: One mentor's perspective
- 30 Implementing utilitarian principles to labour disputes

Reforms key to sustainable growth



By
Michalis P. Michael
Chairman of the Board of Directors,
Cyprus Investment Promotion Agency
(Invest Cyprus)

If there is one lesson we can draw from our country's recent economic history, it is that in order to achieve long-term and sustainable levels of growth, we must continue to reform the economy so as to make it as attractive to foreign investments as possible. It is now more obvious than ever that economic growth is directly linked to our competitiveness as a business hub and by extension to our capacity to attract foreign investors.

Cyprus has traditionally been a highly attractive investment destination due to its compelling competitive advantages, namely its tax system, legal framework, its geostrategic position providing access to European and international markets, its pool of high calibre human talent and the overall ease and low cost of doing business. Combined with a high quality of life and a long tradition of hospitality, Cyprus admittedly makes an ideal place to start and scale a company.

Beyond its well-recognised competitiveness, the economy has also proven its ability to adjust to and bounce back from external shocks, turning crises into multiple opportunities to the benefit of its economy and therefore investors.

Opportunities for investments can now be found in a number of emerging and traditional sectors. We see great potential in regional headquartering for a variety of sectors mainly due to the low operating costs Cyprus offers to investors, in addition to the availability of high calibre human talent and the excellent quality of professional services. Especially in view of Brexit, we see even greater potential in promoting Cyprus as an attractive alternative destination for businesses. To this end, we have allocated a specific budget that will help us capitalise on the prospects that lie ahead. Start-Ups and Innovation

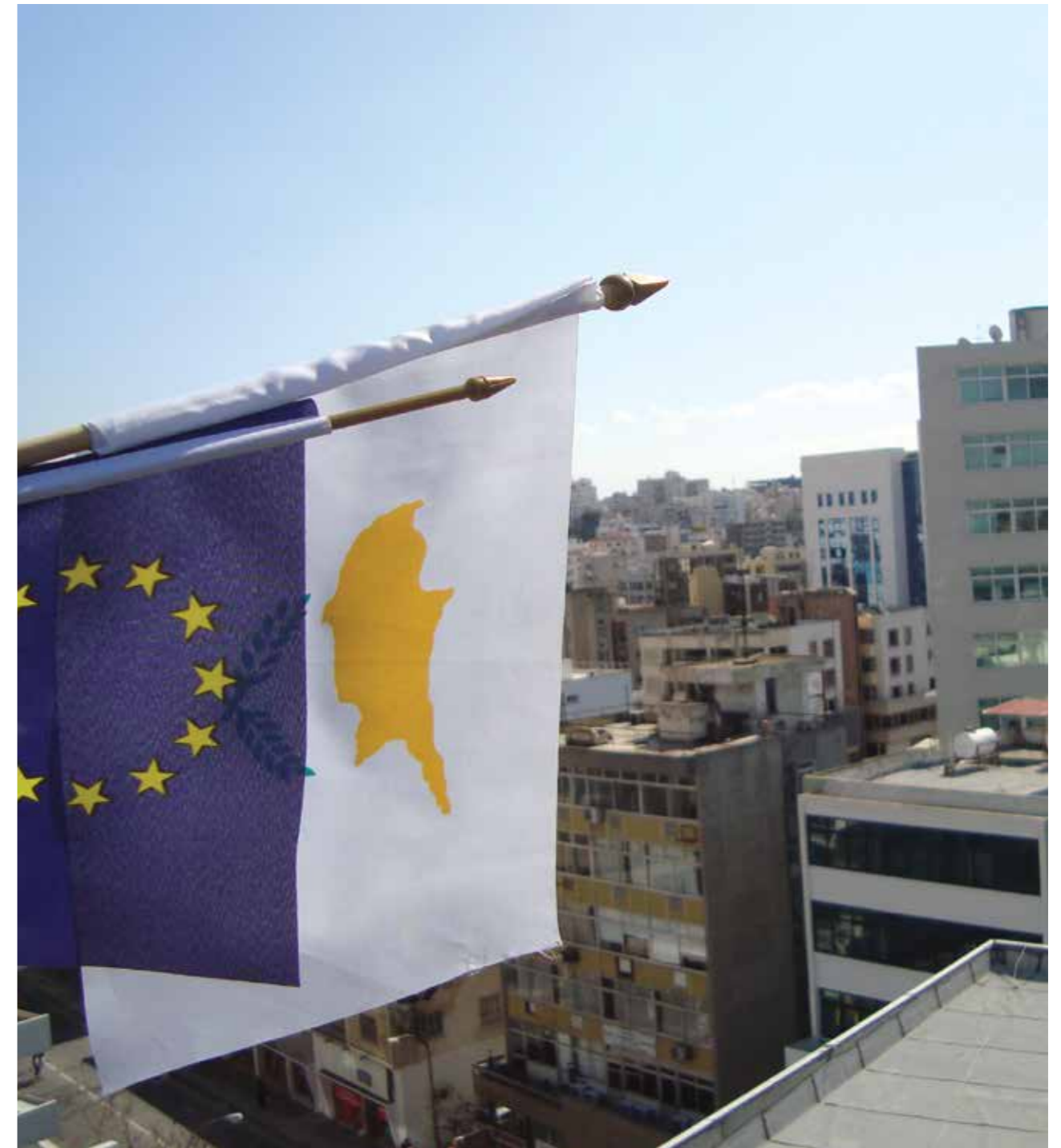
are two other sectors offering investment opportunities, as is the investment funds sector, which has recorded an annual increase of 18% since 2014 and is seen as an emerging sector with considerable potential. Investment opportunities also appear in real estate, shipping and ICT (information and communication technologies), higher education and filming. Another alternative sector that holds growth potential is health and wellness tourism, which is a fast-developing industry that combines medical and wellness treatment with rehabilitation and holiday options. We don't, of course, neglect tourism and real estate which continue to be the main drivers of economic growth.

In addition, the hydrocarbons sector has attracted investments from leading international oil and gas companies as well as global Auxiliary Service Providers during the past few years. Renewable energy is also a vibrant sector which has attracted FDI in various projects in wind and solar energy and has great potential for the future.

The numerous opportunities for investments in a wide range of economic sectors reflect the growth potential of the Cyprus economy. This is reflected in the steady rate of economic growth, with GDP rising by a significant 3.9% in the last quarter of 2017, which is the highest in the past decade. Additionally, we have seen unemployment levels drop below 10% for the first time in seven years. This positive momentum is also confirmed by recent projections which see real economic activity continuing to expand at robust rates in 2018. Another testament to the economy's growth potential is economic sentiment, which reached an all-time high this January, peaking at 117.8 points (highest value since the introduction of the index in 1990), according to the Directorate General of Economy and Financial Affairs of the European Commission.

Further proof of the progress made across the board is the fact that Cyprus was rated as the second fastest growing nation brand for 2017 after Iceland according to globally renowned independent valuation consultancy Brand Finance.

But even though our efforts so far appear to be delivering the desired results, the biggest challenge continues to lie ahead. In order for us to solidify our country's growth potential and ensure our economy is upgraded to investment grade the soonest possible, we must stay focused on continuously im-



Recent history highlights need for continued efforts to make country as attractive to foreign investments as possible.

proving the business and regulatory environment, as well as addressing the issue of non-performing loans which is yet to be resolved.

In order to establish the necessary conditions for long-term growth which are directly correlated with the country's competitiveness, our Organisation is committed in its effort to strengthen and safeguard the country's numerous competitive advantages. We shall keep working to further facilitate investments, both existing and potential, by advocating

for reform while providing continuous investor support and aftercare services. Our main target for the coming couple of years, is to focus on promoting investments in specific industries as mentioned above, in specific geographical areas around the globe.

Our goal, as Invest Cyprus, is to help entrench Cyprus as a world-class investment and business centre, which we believe is a prerequisite to achieving sustainable economic growth.

EU Prudential Regulation: A new regulatory capital regime for investment firms



By
**Maria Orphanides
Sofocleous**
Manager, Advisory-
Financial Services,
EY Cyprus

Investment firms provide a range of investment services to third parties and/or perform investment activities such as brokerage, execution of client orders, portfolio management, investment advice, and dealing on own account. According to the latest information made available by the European Banking Authority (EBA), there are over 6.000 investment firms operating in the European Economic Area (EEA). Out of those, approximately 160 are licensed by the Cyprus Securities & Exchange Commission (CySec) and are operating in Cyprus.

The current regulatory landscape

The prudential regime for investment firms is currently in line with the Capital Requirements Directive and Capital Requirements Regulation (collectively referred to as CRD IV), an EU legislative package encompassing prudential rules for banks, building societies and investment firms. CRD IV works in conjunction with the Markets in Financial Instruments Directive (MIFID II) which came in effect in January 2018 and which sets out the conditions for the authorisation of investment firms as well as their organisational and business conduct requirements.

CRD IV was designed with a focus on credit institutions and consequently, it has been described as lacking the necessary risk sensitivity and proportionality with respect to the investment firms' business models and their systemic importance. In addition,

the transposition and implementation of the CRD IV rules by the national competent authorities has been found inconsistent across the different member states.

Overall, the supervisory landscape has been criticised as being overly complex and levying excessive compliance costs to investment firms. In December 2017, following numerous calls for a review, the European Commission (EC) adopted a proposal for a regulation and a proposal for a directive to amend the current EU prudential regulation for investment firms. The EC's proposals are generally aligned with EBA's findings and recommendations report for a sound prudential regime for investment firms, and are summarised below.

The proposed changes

Under the revised regime, the 11 categories of investment firms included in CRD IV are now streamlined into three different classes which determine, along with the initial and own funds requirements, the extent of the required compliance with the complete set of prudential standards in place.

Class 1 includes the largest investment firms that carry out bank-like activities such as underwriting or dealing on own account, or that have assets worth over €30 billion. Those would now be classified as systemic and be treated as credit institutions. This would be most likely achieved by amending the CRR definition of credit institutions. Class 1 firms will remain under the current CRD IV rules, but they will also fall under the direct supervision of the European Central Bank (ECB) in the context of the Single Supervisory Mechanism (SSM).

The other two classes described below, will be regulated under the new simplified regime which is tailored to match their business profiles and be more closely aligned to their risks.

Class 2 includes investment firms which either deal on own account and incur market and counterparty credit risk, safeguard and administer client assets, hold client money or those which exceed certain size-thresholds with regards to the client orders handled, assets under management, balance sheet and total gross revenues. The capital requirement



for Class 2 investment firms will be derived based on the newly introduced K-factor approach which is attributing capital factors to:

- the risks to the firm's customers, considering for example their client assets held;
- the risks to markets, by considering the firm's net position risk, and;
- the risks to the investment firms themselves from the default of a trading counterparty or from concentration risk.

Class 3 includes smaller "non-interconnected" investment firms which don't fall under the Class 2 definition. Those shall compute their capital requirements in line with current CRR provisions for fixed overheads under which they must hold eligible capital of at least one quarter of their fixed overheads of the preceding year, or in line with their initial capital, whichever one is higher.

As part of the new regime, the level of initial capital to be held permanently now ranges between EUR 75.000 to EUR 750.000, depending on the investment services provided and the investment activities undertaken.

While for Class 1 systemic firms all current CRD IV provisions will apply, for Class 2 and Class 3 firms the compliance with liquidity and concentration risk requirements is revisited, with more stringent rules applicable to the former. Reporting to the national competent authorities is also more granular for Class 2 firms applying the K-factor approach, and those are also expected to make their capital adequacy assessment results publicly available.

Corporate governance and remuneration requirements are also revised for non-systemic firms, taking into account the principle of proportionality.

In particular, for Class 3 firms MIFID II relevant requirements are considered sufficient, whereas for Class 2 firms the requirements are a mixture of MIFID II and CRD IV existing provisions.

To mitigate the capital impact resulting from the new regime, some transitional arrangements have been proposed that allow investment firms to limit their capital requirements to twice the level of those under the existing regime for 3 years after the official implementation date. In addition, the transitional arrangements give firms the option to incrementally meet any increase in initial capital requirements, over a period of five years. Some flexibility is also allowed for firms moving between classes.

Where does this leave us?

The new regulatory regime introduces more risk sensitivity of the rules to the business undertaken by the investment firms, it increases harmonization of the regulations across member states and it leaves less room for regulatory arbitrage. As a result, investor protection will be better served and investor sentiment and market stability will benefit.

Even though the deadline for implementation is not yet finalised, it is expected that the new rules will be officially in effect by 2020. It is advised that investment firms take advantage of this lead time to assess their categorisation under the new regime, understand in a timely manner any capital impact they might experience and take appropriate action proactively. The target state for investment firms should not only be focused on achieving regulatory compliance, but instead, they should aim to undertake change from within and leverage the benefits of the regulatory reforms underway.

National culture and bank risk-taking



By
Dr. Stella Mourouzidou Damtsa
Manager, Premier Banking and Strategy, Bank of Cyprus

The banking industry is heavily regulated; however, regulation is not able to fully capture the intricate dynamics affecting managerial decision-making mainly because of three reasons.

Firstly, regulators do not impose on banks to take a particular level of risk. Instead, they set rules (e.g., capital requirements), that prevent banks from taking excessive risks aiming to maintain the stability in the financial system. Secondly, banks retain some flexibility and power over their loan granting and deposit accumulation strategies (Dothan and Williams, 1980). Thirdly, managerial perception of risk and predisposition to taking risk vary between individuals and societies (Deleryue and Simon, 2009). National culture influences the risk appetite of bank managers directly as well as indirectly since bankers should cater to the needs and risk preferences of their customers (Storey and Easingwood, 1993), who are bound to be influenced by national characteristics.

Following prior studies (Ahern et al., 2015), three national cultural values are identified, which are expected to be associated with bank risk-taking, namely individualism, trust and hierarchy. Conjectures are empirically examined using a sample of 99 banks in 19 European countries studied for 20 years (1995-2014). These banks were included in the European Banking Authority (EBA) 2014 stress tests.

Countries characterised by individualistic cultural norms are known for their emphasis on individual advancement, regardless of group goals. In contrast, countries with collectivist cultures give priority to societal and work group goals over individual gain and needs. Therefore, banks operating

in individualistic societies are expected to increase risk to cater to their customer and shareholder needs whose primary objective is wealth maximisation (Yahanpath, 2011) and may have little consideration about the impact of bank risk to the stability of the national financial system.

Banks operate in a competitive environment, hence building and maintaining good relationships with customers is important (Mosad, 1996). A strong bank-customer relationship enhances customer loyalty (Dick and Basu, 1994), which can be attributed, to a considerable degree, to customer trust (Dwayne et al., 2004). Customer trust is necessary for banks (Ratnovski, 2013) to maintain and increase deposits. When trust in a country's financial institutions is low, we observe the phenomenon of 'mattress cash' (Coupé, 2011), that is, significant deposit withdrawals from the domestic banking system, which limits the ability of banks to execute their primary role as financial intermediaries.

Finally, hierarchical societies form power ranks according to importance and social power. In such societies, lower rank managers (for example branch and other middle-management) follow top-management (CEO, director and board-member) instructions without questioning them, even if managerial motives are not necessarily aligned with their own (or the firm's) interests. In contrast, in egalitarian societies management and employees view themselves as equals (Brett et al., 1998), thus middle-management employees are more likely to challenge top-management decisions. Furthermore, egalitarian societies cater for all stakeholders and the society at large, thus are more likely to be concerned about the financial stability of the banking sector. Bank risk is higher in societies characterised by hierarchical values compared to that in egalitarian societies.

Extensive literature exists on the association between corporate governance and bank risk-taking. Certain studies highlight the failure of bank boards to monitor bank risk effectively (Bebchuk & Spamann, 2009; Kashyap et al., 2008; Kirkpatrick, 2009). Other studies focus on the role of governance in bank risk optimization allowing managers to maximize shareholder value whilst



“The banking sector is currently facing several challenges, including low profitability, increased regulation and new competition by financial technology firms who aspire to revolutionize banking.”

considering the social costs of bank failures (Stulz, 2015). A literature review by Srivastav and Hagendorff (2016) highlights three future strands of research on bank governance, one of that being the risk management culture, which is expected to have dependencies on national culture. The second is the impact of board attributes, including personal characteristics, which again is expected to be, to some extent, defined by national culture. The third is the types of pay instruments that will incentivize managers' long-term stability.

The banking sector is currently facing several challenges, including low profitability, increased regulation and new competition by financial tech-

nology firms who aspire to revolutionize banking. Culture influences strategic decisions. Each bank is accountable to its stakeholders to formulate the appropriate strategy, to create value. Bank managers need to be aware that when making decisions, they are susceptible to cultural influences. Bank regulators need to acknowledge that the current legal framework has certain boundaries imposed by informal institutions (including national culture). The European Union is currently planning to unite culturally different countries under a common banking regime. These cultural differences have a direct impact on banks hence will affect the efforts for further harmonization through the banking union.

GDPR - Analyzing processing based on the ground of legitimate interest



By
Maria Aristidou
Chief Compliance
Officer, Cyprus
Cooperative Bank

The General Data Protection Regulation (EE Regulation 679/2016) - GDPR seems quite straight forward to comply with, however each one of its basic principles requires a tsunami of changes in the culture, policies & procedures, documents, communication strategies and IT systems of obliged entities.

This article tackles specifically one of the six grounds for lawful data processing covered in article 6(f) of the GDPR.

Processing shall be lawful only on the grounds of: (1) consent, (2) performance of a contract, (3) a legal obligation, (4) protecting the vital interests of the data subject, (5) public interest, (6) the legitimate interests pursued by the controller or by a third party, except where such interests are overridden by the interests or fundamental rights and freedoms of the data subject which require protection of personal data, in particular where the data subject is a child. This last basis does not apply to processing carried out by public authorities in the performance of their tasks.

Each Data Controller must first assess which of the lawful grounds mentioned above best matches the processing undertaken. The ground of legitimate interest should not be chosen as a last resort if none of the other grounds are deemed to apply but it should rather be chosen if the circumstances indicate that it is indeed the right lawful ground. If this ground is chosen as the best "fit" for the processing undertaken, then a balancing test must be carried out in order to assess whether the legitimate interests of the Controller or any Third Parties to whom the data is disclosed, surpass the interests or fundamental rights and freedoms of the Data Subject. The outcome of the balancing test will finally determine whether the basis of legitimate interest may be relied upon as a legal ground for processing.

The balancing test requires the answering of a set of questions. The questions have not been standardized by the regulators but the Data Protection Working Party issued a relevant opinion (06/2014) on the notion of legitimate interests of the data controller. Via that opinion one may conclude a possible set of questions to be used when carrying out the balancing test. The set of questions below is indicative and merely a personal view.

Analyzing the scope of processing

Describe the purpose of the processing operation – Why does the Controller or the Third Party to whom the data is disclosed need to carry out this processing?

Is legitimate interest the right ground for the specific processing? - The purpose of processing must be assessed against all 6 grounds of processing and the best 'fit' must be chosen. If Legitimate Interest is the right ground then proceed to the next questions.

Is the 'interest' lawful? - If the interest cannot be pursued in a way that is in accordance with data protection and other laws (EU or National) then it is not considered lawful.

Is the 'Interest' real and present? - If the interest is too vague or speculative it will not be sufficient.

Is the processing necessary and proportionate for achieving the objectives of the Controller or the Third Party to whom the personal data is disclosed? – It should be assessed whether other less invasive means are available to serve the same end.

Could the processing be carried out for the public interest? – In general, the fact that a controller acts not only in its own legitimate (business) interests, but also in the interest of the wider community, can give more "weight" to that interest.

Applying the balancing test

Is the processing likely to impact the individuals' rights (positive and negative impact)? – Identify the sources of potential impact, the likelihood of materializing and the severity of the consequences of a materialized risk. (Possible risks to be assessed - exclusion of or discrimination, defamation or damaging the reputation, reducing negotiating power or autonomy, broader emotional impacts such as irritation, fear and

“ This article tackles specifically one of the six grounds for lawful data processing covered in article 6(f) of the GDPR.



distress from losing control over personal information or realizing that it has been or may be misused or compromised).

Would there be a prejudice to the Data Controller or the Third Party if processing is not carried out? – This should be compared with the outcome of question 1 above.

What is the nature of the data processed? i.e. does it include any sensitive data? - If sensitive data is identified then there are special provisions under article 9 which must be taken into account.

How is the data processed? – It should be assessed whether the processing involves public disclosure or access to a large number of persons or whether large amount of personal data is processed or combined with other data for profiling purposes, data mining etc.

Would the processing be reasonably expected by the data subject? – This question should be answered taking into account the type of relationship between the Controller and the Data Subject and the type and context of notices already provided to the data subject and/or whether the data was initially collected directly from the Data Subject.

Is the Data Controller in a dominant position over the Data Subject? – If yes, this is expected to tip the balance slightly against the use of legitimate interest. However, in this case the Controller must demonstrate how the imbalance is addressed to ensure that the Data Subject's rights are not impacted. In this respect, if the Data Subject does not control

the processing because it is not possible or not appropriate, it should be explained why.

When carrying out the above assessment, the measures taken by the controller to mitigate the risks identified should be taken into account. If it is not clear from the above assessment which way the balance should be struck, a further assessment should be carried out to consider whether additional measures could be introduced to help reduce the undue impact of the processing on the Data Subjects.

Additional safeguards that may be applied by the controller

- Technical and organizational measures
- Data minimization
- Limit the period to store the data
- Anonymization techniques, pseudonymisation and encryption
- Aggregation of data
- Privacy by design, privacy impact assessments
- Increased transparency
- Right to opt-out
- Measures to empower data subjects (i.e. data portability)

Finally, it is advisable to document the balancing test procedure and reasoning in the interests of greater accountability. The Controllers should be able to explain to the Data Subjects why they believe their interests would not be overridden by the Data Subject's interests, fundamental rights and freedoms.

Digitalisation: Challenges and opportunities for the Banking sector



By
Christos Avgoustinos
Manager, Alternative Delivery Channels Divisions, Cyprus Cooperative Bank

Over recent decades, technology has been reshaping the banking industry worldwide. Customers' increasing expectations, new market entrants, regulatory frameworks, big data along with the unlimited technical capabilities, are formulating a perfect combination of challenges. Banks need to seriously take into consideration these challenges, during their next steps.

Fintech companies, have levelled the financial playing field for customers, giving them easy global access to advanced services and products, such as payments processing, alternative lending and investment services.

The pace of innovation will continue to increase, and banks should find ways of leveraging this innovation in order to remain competitive. The innovators are able to focus their resources on providing several advantages to their customers, including increased convenience, simplicity, flexibility and personalization.

Challenges

Banks face a number of challenges in this changing landscape, some of which are analysed below:

- **Increased competition:** Regulations are opening up market access to technology-enabled companies, which are changing the ways customers obtain financial services. Payment processing is one of the many areas, where competition is presenting a challenge for banks. PayPal remains one of the most popular ways for consumers to pay for goods and services online and digital wallets are gaining market share.

- **Satisfy new customer needs:** We have to be fully focused on identifying and satisfying customer needs. Financial institutions must utilise their resources in an effective manner, in order to optimise the total customer experience across all servicing channels.

- **Consider additional IT costs:** Seamlessly upgrading legacy systems while at the same time maintaining work as usual, is a difficult but necessary prospect. Doing so on a budget is even more challenging since technology implemented today, may well be obsolete in five years' time.

Opportunities

Alongside the challenges stated above, a number of opportunities have arisen:

- **Reduced operating costs:** Customers want to access banking services anytime and anywhere, using the channel of their choice. Digital channels have become, for many customers, the main method to carry out their everyday banking. This trend towards going digital, leads to cost saving and therefore results in offering reduced prices or free services and products to our customers.

- **Business growth:** We need to ensure that a complete range of banking solutions is offered to our customers, across various channels and devices. By achieving this goal, the majority of customers will likely remain loyal as they will not need to manage multiple banking service providers. In doing so, we will also be more attractive to new customers.

- **Improved customer experience:** Although new and talented players are entering the market, banks hold an important amount of customer data. The challenge in this case, is to transform the data into usable and comprehensive information. Banks must leverage data and digital technologies to optimise customers' experience.

Conclusion

If banks want to remain dominant players in the financial industry, the following measures should be taken:

- **Accept the challenge:** The effects of digitalisation we already experience should be a wakeup call for everyone involved. We must therefore, always embrace and be part of innovative trends and technologies within the industry.

- **Identify and satisfy customer needs and expectations:** Typically, banks focus on what they already have to offer to their customers. Most of the times, this is not what is expected. What we must do is to continuously listen to and value our customers' opinions and expectations. This leads to highly valued and attractive personalised solutions.

- **Enhance digital experience:** As mentioned in the previous paragraphs, shifting frequently used transactions to digital channels offers a number of benefits to both the bank and the customer. We



“ Fintech companies, have levelled the financial playing field for customers, giving them easy global access to advanced services and products, such as payments processing, alternative lending and investment services.

should constantly improve our services through digital channels in order to accelerate this transition.

This process greatly assists our bankers by maximising their efficiency in supporting our valued customers, in the most prompt and effective manner.

- **Establish successful collaborations:** The success of any collaboration rests with those organizations who can understand each other's strengths and weaknesses. By doing so, this improves the customer experience while reducing

operational costs. The right collaborations with tech firms can lead to a win-win situation for all, resulting in a unified and solid financial environment for everyone.

In summary, digitalisation touches every aspect of banking operations. Organisations that will not be agile, or believe that resistance is an option, will be exposed by their own customers. Financial institutions competent in creating successful strategies, aiming to turn each digital challenge into an opportunity, will be the winners in a continually changing environment.

Banking's new dawn



By
**Eleftheria
Koumouli**
Senior Officer,
Bank of Cyprus

The current financial crisis has forced banks to adapt and evolve in order to face the challenges ahead. Thus, institutions need to formulate strategies so as to avoid the mistakes of the past and create the business environment of the future.

Following the spate of high value fines imposed by regulators across the globe, corporate governance has recently turned its focus to compliance. This, however, will need to change in the coming years. Futurist, trends and innovation expert Jim Carroll recently stated: "Sadly, with all the current focus on 'compliance', I've come to believe that there is a critical lack of future planning on many other corporate boards around the world." As such, banks will have to shift their concentration to new technologies for the future.

There are certain emerging themes that will affect the business models of banking in the years to come. Increasingly, it appears that smaller banks and those operating in emerging markets, such as Turkey and India, are generating more innovative ideas than more traditional leaders. This has to do with the antiquated systems that most banks have heavily invested in, which they are now reluctant to give up.

Service first

Despite such reluctance, customer needs and behaviours will push financial institutions to rethink their strategies. Customers now expect banks to offer more than transaction processing, and instead become advice providers. Despite the confidence crisis in institutions, most customers believe that banks are secure and this is a trend that must be taken in consideration. In order to maintain this view, banks need to ensure they do not fall victim to hacking or open themselves up to lawsuits.

A recent survey of consumers in the United States and Canada conducted by Accenture indicated that customers do not consider bank branches to be an irrelevant service. Rather, they expect them to be more efficient through in-branch digital tools that create new customer experiences.

As customers become increasingly technologically knowledgeable, they will also expect new innovations that will serve them in a more personalised and efficient manner. Thus, banks are now expected to deepen their personal connections with custom-

ers using data analysis techniques.

These efforts appear to be very futuristic by current standards. For example, a number of banks are working on predictive analytics of their customers' accounts, which allows for impressive insight into purchasing habits. Using this, not only will banks be able to remind customers of their partner's birthdays, but they will be able to remind them of the gifts they previously gave as well. At the other end of the spectrum, banks are offering merchants similar insights through market intelligence services.

Contactless payments made using wearable devices are already a trend, and have become something of a status symbol among the younger generation. Biometrics is also likely to play a more important role in the future. From bracelets, stickers, jackets, mobiles and fitness gadgets, payment providers that have been utilising data from these devices are showing tremendous growth and signalling the way of things to come.

Expertise from the top

To be able to visualise and understand these trends, the opportunities offered and the risks involved, boards must pay more attention to their composition. Information technology expertise will become more necessary and in time, technology committees will become as important as audit committees, if not more so. Data protection and information security will be the next bywords in banking, following the recent spate of hacking incidents experienced by some major financial institutions. Boards that do not pay attention to these parameters may pay heavy fines in future lawsuits relating to data loss.

For too long boards have concentrated on short-term profits and growth. In the near future it will become increasingly important for a board to play a role in long-term value creation. Pressure will mount on boards to ensure their companies are providing information to the markets that allows investors to assess long-term corporate sustainability and financial health through greater transparency on environmental, social and governance considerations. Perhaps it is time that boards took into account customer and employee satisfaction, as there is evidence to suggest that these are becoming better predictors of future financial success, as opposed to measures of past financial performance.

Banks also need to get better at spotting new emerging opportunities, be it through markets, customers or products. Most companies seem to be looking inwards to solve problems and fight fires, rather than looking outward to see what is coming next and what should be done about it. Markets are now very fast paced, and companies need to adapt quickly in order to reinvent product lines and meet changing expectations.

It is no secret that a major concern for big banks is having their business consumed by the likes of Apple, Google, Facebook and Amazon. It will come as no surprise if these internet behemoths build on their consumer relationships to make further inroads into the payment industry in the years to come. Apple has continued to roll out its Apple Pay mobile payments service last year, and others, such as Samsung, are set to enter more markets with similar offerings. While Barclays has its own wallet named Pingit, it will be interesting to see if other banks attempt to stake a claim in this market too, or leave it to the big tech firms.

Many banks do not have leaders with the experience needed to meet these challenges. A recent global study by Accenture of 109 large banks found that only six percent of board members have professional experience in the technology sector. More than 40 percent of these banks did not even have a single board member with a professional background in technology. The situation is even worse in small banks that need to address major challenges such as cyber security. In late 2015, the US introduced new legislation that requires all publicly traded companies to disclose whether their boards have cyber security experts, meaning that banks are now under even further scrutiny. That said, some banks have become aware of this problem and have instituted regular technology coaching sessions for their boards.

Building blocks

Blockchain technology may be the next big thing in banking, and has now become a subject that boards are forced to pay close attention to. Through the use of a variety of cryptography-based technologies,

once an entry is added into a blockchain database, it cannot be changed. The value of this technology is how it enables new forms of money movement and data storage that is cryptographically secure.

Blockchain could allow for the development of a smart contract between two corporations, which automates the release of a portion of funds whenever certain parameters are met, such as the shipment of goods for example. As more data is stored via blockchain in the future, other possibilities open up. The on-boarding of clients could take a matter of days rather than weeks, thereby enabling banks to avoid embarrassment over misapprehensions. To achieve this, competent authorities must be engaged at an early stage of the process in order to help manage one of the costliest and most troublesome activities - compliance with numerous regulations that surround the adoption of blockchain.

Staying social

Social media can play a large role in the future of banking, whereby customers can contact their bankers and exchange information through any platform of their preference. The Standard Bank of South Africa is already offering a single dashboard to let relationship managers connect with their clients via any network the client prefers, including WeChat, Facebook Messenger, Google Hangouts and Whatsapp.

Social media can also transform the way the world regards both banks and bankers, especially for smaller community banks. The Citizens Bank of Edmond has encouraged its employees to shoot videos and post them on YouTube. Its customers began to fall in love with the bank and its local initiatives, which in turn promoted a positive image of the business rather inexpensively. Also changing the face of banking is increased advocacy for diversity, which has helped to spread the message of a warm industry with a softer touch.

Overall, this is an interesting time for financial institutions that have the vision to form strategies, while taking into account technological advances. Those that keep their customers happy and secure will be the winners of the game.

The Bank of Cyprus, the winner of Best Corporate Governance, Cyprus 2017 Award, is at the forefront of adherence to best international practices and current trends in corporate governance. It has become the benchmark among the best well-governed institutions in Europe, offering a high degree of credibility and reassurance to its shareholders, customers and stakeholders alike. The listing of the Bank of Cyprus on the London Stock Exchange is further proof of its robust corporate governance framework.

“ The banking industry is changing faster than ever before thanks to advances in technology. Those that successfully take advantage of these trends stand to be immensely successful. ”

Challenges faced by Cypriot banks



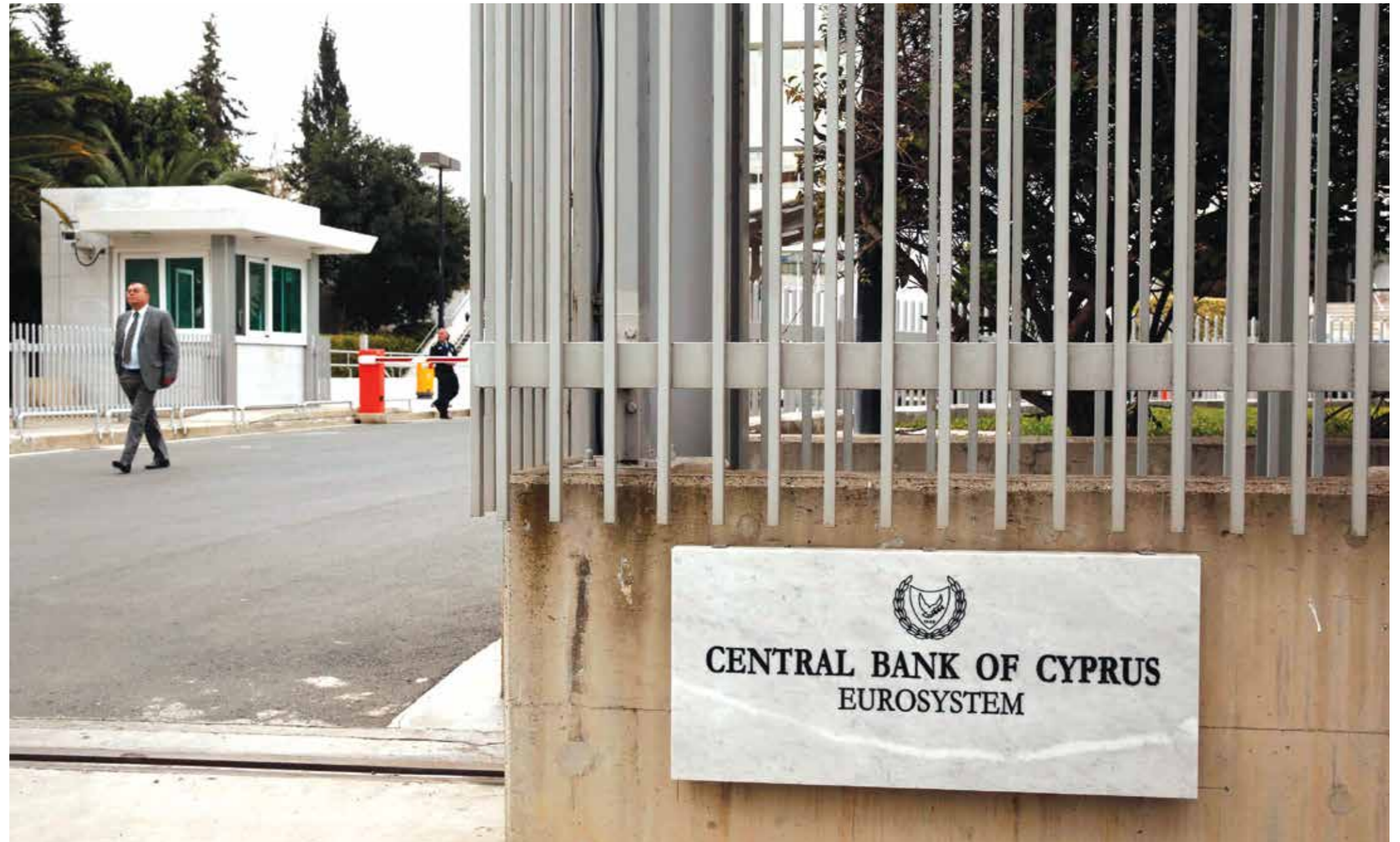
By
Michael Kronides
Manager,
Association of
Cyprus Banks

Throughout the years following the financial crisis in 2013, Cypriot banks have managed to significantly improve both their liquidity and capital positions. Nevertheless, they face many challenges of which the three most important will be explained below.

First, tougher regulation as a response to the financial crisis. The banking supervision reforms aim to improve the quality and quantity of capital to ensure banks can withstand losses in times of stress. In addition to amending the risk weighted capital framework (more capital of higher quality), regulatory authorities introduced a binding minimum leverage ratio and capital buffers (macroprudential element) to be drawn in times of stress. The adoption of the new capital requirements incurs significant compliance costs. The “one-size-fits-all” approach to regulation results in a comparatively high regulatory burden for small and medium sized banks. Increased compliance costs are particularly burdensome for Cypriot banks and present a massive challenge.

Second, high levels of NPLs as a result of the economic downturn and the bail-in of bank depositors. NPLs are a burden both for the Cypriot economy and the banking sector. The large stock of NPLs on the balance sheet of local banks is a financial stability concern and a burden for individual banks. High levels of NPLs reduce bank profits, tie up resources (capital, management), weaken trust and restrict new lending to the real economy. Only reliable financing by banks will boost economic growth and support economic recovery. Nevertheless, eliminating NPLs is not an easy task.

Cypriot banks have come a long way in the last few years despite legal and other system inefficiencies. Management of NPLs internationally uses a range of options/tools like restructuring loans of viable borrowers, selling/securing loans to third parties and resolving loans by liquidating security (e.g. real estate). Unfortunately, Cypriot banks do not have at their disposal all of the above options/tools due to the absence of a securitization legal framework and inefficient and long foreclosure procedures. It is therefore of



“**Management of NPLs internationally uses a range of options/tools like restructuring loans of viable borrowers, selling/securing loans to third parties and resolving loans by liquidating security (e.g. real estate).**”

the utmost importance for Cypriot authorities to proceed with the necessary legal enactments and amendments so as to provide local banks with all available options/tools to effectively manage and eventually to eliminate the still high NPL stock.

Third, low profitability as a result of cyclical and structural factors. The financial crisis and the economic downturn that followed have significantly affected bank revenues and profitability. Banking consolidation in the last few years has subdued credit growth below average levels, thus decreasing interest income. The large stock of legacy NPLs elevated loan impairment and provision costs, thus dampening any profitability prospects.

Lastly, cost inefficiencies and especially high cost-to-income ratios weigh on profitability. All the above factors exert pressure on local banks to rethink their business model and explore merger or acquisition opportunities. Profitability is expected to improve as economic growth continues to recover and interest rates rise.

Cypriot banks have managed to recover considerably since the 2013 financial and subsequent economic crisis. Nevertheless, they still face challenges that need to be settled swiftly so as to enable them to operate profitably in this highly regulated and competitive euro area banking industry.

Suggestions for a better functioning foreclosures framework



By
Christina Antoniou Pierides
Senior Advisor,
Association of
Cyprus Banks

Prior to 2015 there were long delays in the foreclosure process in Cyprus, to the extent that the average “time to foreclosure” was around 10 years, among the longest within the EU. This deprived banks of an effective collection mechanism which had the result of undermining payment discipline, encouraging strategic defaulters and effectively reducing borrower incentives for debt restructuring.

Given the urgent need to reduce the level of non performing loans, the importance of an effective foreclosure regime was recognized. Therefore, in co-ordination with the country’s international lenders, Cyprus introduced by mid-2015 an enhanced foreclosure procedure.

The aim of the new regime was to establish a transparent and swift creditor-led process while at the same time providing adequate safeguards for all parties involved. However, even though the revised foreclosure framework has been a step forward, a number of legal and operational issues have emerged in its practical application which limit its effectiveness.

The practical experience with foreclosures since the introduction of the new regime indicates that to prevent borrowers taking advantage of weaknesses or gaps in the legal framework in order to strategically default on their loans, the existing legal framework needs to be further strengthened.

The main impediments in the foreclosure procedure are outlined below, together with recommendations to make existing tools more effective.

Servicing

Servicing of notices has proved to be problematic in a number of cases, due to the need to deliver the various notices to multiple recipients and in particular due to the difficulty in locating other charge holders (physical persons) but also missing mortgagors, borrowers and guarantors.

Notices must be served to mortgagor, borrower, guarantors as well as other charge holders (memos, mortgages) as per the Land Registry records. Problems abound especially if these people are abroad or their address is unavailable through the Land Registry Department. As the law currently stands, not finding the owner of e.g. a memo, or

any other interested party, might lead to practical inability to proceed with the procedure of sale.

Solution: Amendment of the definition of ‘servicing’ in the Law - the definition of “servicing” should provide for the possibility to apply to the court for alternative servicing when the delivery of the notices cannot not be effected. This can be done as specified by the mechanism of substitute service provided in the Civil Procedure Rules.

The law lacks clarity on key points opening up the process to legal challenge

Inconsistent decisions are being made by the courts in relation to the applicability of the Foreclosure Law in cases where a court decision has already been obtained (based on the old foreclosure regime). The bulk have found in favor of the use of the Law but some have been against it.

Solution: A specific clause should be added in the Law to confirm that the existence of a judicial decision ordering the sale of the mortgaged property, which has never taken place, shall not hinder the application of the new legislation.

Right of objection to the disposal of the profits of the sale

As the legislation currently stands, it provides for a right of objection to the manner in which the profits of the sale are to be disposed. Practically, the mere existence of an objection by anyone would essentially halt the finalization of the sale by the disposition of the proceeds for several years, until the court procedures would end. This is clearly unreasonable and needs to be amended. What would be the point of completing the process, merely to be unable to dispose for several years due to the mere filing of an objection by the interested party concerned?

Solution: The law should be amended to provide that the disposal of the proceeds should be halted only if the court issues an interim order to the contrary.

Simplification of process to make it less confusing to borrowers

The notice that the Law specifies that banks should send followers in the beginning of the



foreclosure process (Θ Notice sent with Notice I) confuses recipients and it is irrelevant where termination has been effected. Basically, this notice refers to the rights of the borrower to request restructuring, under Code of Conduct of the Central Bank of Cyprus, which has no relevance for terminated accounts.

Solution: The Law should be amended to remove the need to send Notice Θ with mortgage demands for terminated accounts.

A more effective foreclosure framework would enable banks to pursue more effectively those who have borrowed depositors’ money and do not return it. Consequently, the increased ability to move against strategic defaulters would give banks more leeway to address borrowers who genuinely cannot meet their obligations. At the same time, increasing the efficacy of the foreclosure regime would benefit borrowers who do meet their obligations, since stronger enforceability of contracts has been found to be associated with lower lending interest rates and interest rate spreads.

“ **The practical experience with foreclosures since the introduction of the new regime indicates that to prevent borrowers taking advantage of weaknesses or gaps in the legal framework in order to strategically default on their loans, the existing legal framework needs to be further strengthened.** ”

Resolving non-performing loans: a role for securitization



By
Dr. Demetra Valianti Plati
Senior Advisor,
Association of
Cyprus Banks

The Financial Stability Review of May 2017 notes that large stocks of non-performing loans (NPLs) on euro area bank balance sheets continue to present risks to financial stability. Likewise, in Cyprus, although various legal reforms have been undertaken over the last years under the MOU with the Troika to streamline insolvency proceedings, speed up foreclosure procedures and maximise non-performing loans (NPL) recovery values, still the problem is far from being resolved. It is believed that securitization may help address NPLs in the country but may also have broader economic and social benefits.

Securitisation is a financing technique by which homogeneous income-generating assets – such as loans – are pooled and sold to a specially created third party (securitization special purpose entity or SSPE or issuer), which uses them as collateral to issue securities and sell them in financial markets.

The benefits

Soundly structured securitisation is an important channel for diversifying funding sources and enabling a broader distribution of risk by allowing banks to transfer the risk of some exposures to other banks, or long-term investors such as insurance companies and asset managers. This presents advantages to the banks because it allows them to remove NPLs from their balance sheets, to “free” the part of their capital that was set aside to cover for the risk in the sold exposures, thereby allowing them to generate new lending, while still satisfying regulatory capital requirements.

Apart from banks, securitization presents advantages to investors and markets and it may even have broader economic and social benefits, as follows:

1. Taking into account that in the European financial system bank lending accounts for 75-80% of total funding of the economy, securitisation can lead to more credit for businesses and households.
2. Securitisation can also provide additional investment opportunities by allowing banks to transfer assets to institutional investors (such as pension funds) to meet those investors’ asset diversification, returns and duration needs.
3. More securitization would encourage market

participants to develop standardisation further. This in turn should reduce operational costs for securitisations. Since these costs are higher for the securitisation of SME loans than average, the drop in price should have an especially beneficial effect on the cost of credit for SMEs.

4. For SMEs in particular, boosting securitisation markets would:

- help banks to free up capital that can then be used to grant new credit to firms, most of which are SMEs in the EU and Cyprus;
- foster issuance of asset-backed commercial paper products, which represent an important source of short-term SME financing;
- allow banks to securitise and therefore finance loans to SMEs more easily.

The Stigma

The above begs the question why we have not seen any securitization transactions yet in Cyprus. This is mainly due to the absence of the appropriate legal framework. One reason behind this has probably been the political hesitation to provide the appropriate legal tools to banks to use securitization due to public misconceptions about underlying borrower protection and the stigma attached to securitisations of subprime mortgages created in the US which contributed greatly to the financial crisis of 2008. Of course, it is well understood now that the problems with securitisations were mostly limited to US markets and can be explained by a series of shortcomings in the US and not the EU. In fact, it is worth noting that the worst-performing EU securitisation products rated AAA defaulted in only 0.1% of the cases at the height of the crisis. In comparison, their US equivalent defaulted in 16% of cases.

The European Commission Proposal

The European Commission believes that securitization has a role to play in the financial stability (by reducing NPLs) and the broader economy. For this reason, it is currently working on a securitisation framework. This includes a Securitisation Regulation and amending the Capital Requirements Regulation.

The general objective of the proposed frame-

work is to promote a safe, deep, liquid and robust market for securitisation, which is able to attract a broader and more stable investor base to help allocate finance to where it is most needed in the economy.

The main features of this package are:

1. It introduces a clear set of criteria to identify simple, standardised and transparent securitisation (STS), and aims to make securitisation sustainable; It is believed that STS securitisation can act as an effective funding channel to the economy;
2. It differentiates between simpler and more transparent securitisation products and other products which don’t satisfy such criteria; such differentiation should restore an important funding channel for the EU economy without endangering financial stability. The aim here is to promote longer-term investors including non-bank institutions. It is also clear that this market is not for retail investors;
3. It allows securitisation to function as an effective funding mechanism for some non-banks (such as insurance companies) as well as banks;
4. It aims to protect investors and to manage systemic risk.

The Securitisation Framework in Cyprus

In Cyprus, a long-awaited Bill is on its way now to the Cyprus Parliament and will hopefully be voted into law before the summer. However, before it is submitted to Parliament, the various weaknesses of the Bill identified by the ECB in its recent opinion will need to be addressed. Otherwise, if these are not differentiated, they could lead to a general weakening and ineffectiveness of the framework. Then, in order to achieve the required majority vote in Parliament, it is important for the Ministry of Finance to clear any public concerns or misconceptions for underlying borrowers’ protection or potential risks. Once the appropriate legislation is finally in place, it will help boost investor confidence and remove any legal and administrative obstacles for banks.

Nevertheless, this may not be the end of the story. The mere passing of the Bill will not automatically help dramatically reduce NPLs and the



state may still have a role to play. As the Financial Stability Review of May 2017 points out, despite the significant legal and administrative reforms that have been undertaken over recent years in euro area countries, the market continues to provide low NPL valuations in the EU. These result in wide bid-ask spreads, thus impeding large-scale NPL sales. The Review concludes that this special feature highlights the potential role and benefits of co-investment strategies (between the private sector and the state) for addressing NPLs. It is suggested that these co-investment strategies may reduce information asymmetries between buyers and sellers, thereby enabling transactions that might otherwise not occur, or facilitate sales at higher prices. Moreover, the fact that the proposed schemes will be priced at market levels implies that they will not fall under the prohibitions of state aid.

We therefore expect more developments at the European level, which will address the information asymmetries of securitisations. In Cyprus, the passing of the securitisation Bill is an important prerequisite in order to stay in line with on-going EU developments in this area of bank financing.

Implementation of the Fourth EU Anti-Money Laundering Directive in the Cypriot Legal Framework



By
Elena Frixou
Senior Advisor,
Association of
Cyprus Banks

The transposition of the Fourth Anti-Money Laundering Directive 2015/849 (the 'EU Directive') into the Cyprus Antimoney Laundering and Countering Terrorist Financing (AML/CFT) legal framework has been completed with the publishing of the amended Cyprus AML/CFT Law (Law) on 3 April 2018.

Most aspects of the EU Directive are not completely new to Cyprus and its already advanced AML/CFT regime, as a substantial part of the changes have already been incorporated in the Cyprus AML/CFT Legislation and relevant Directives issued by the Supervisory Authorities.

The AML/CFT Law includes amongst other, the following provisions:

1. It has been opted in the Law to forbid/ban trading in certain goods (works of art, cars, gold and precious metals/stones) as part of the business activity, to the extent that payments are made or received in cash in amount of 10 000 euro or more, whether the transaction is carried out on a single operation or in several operations which appear to be linked. A violation of this provision is a criminal offence bearing a fine.

2. Furthermore obligations for customer due diligence measures are imposed to obliged entities when carrying out an occasional transaction that constitutes a transfer of funds under Regulation (EU)2015/847, exceeding Euro 1 000.

3. In relation to the categories of Political Exposed Persons, the Law goes beyond the EU Directive by including the category of 'Mayors'.

4. The Advisory Authority for Combating Money Laundering members are increased with the addition of the Tax Authority, the National Betting Authority, the Cyprus Gaming and Casino Supervision Authority.

5. The definition of the 'ultimate beneficial owner' is modified for harmonization purposes in order provide for the application of the participation threshold of 25%, as described in the EU Directive. Currently, this threshold is set at 10% in the Cyprus AML/CFT Legislation. Obligated entities shall continue to apply their thorough mechanisms to identify the ultimate person (s) who has the

controlling function (significant control/material decision making) of the company irrespective of the shareholding percentage.

6. As required in the Directive, Gambling Services are included in the definition of obliged entities to be governed under the AML/CFT Law. The relevant cypriot legal framework on Gambling/Betting, currently bans online casinos, poker and exchange betting but allows and regulates online sports betting.

7. The Law also provides for the creation of ultimate beneficial owners registers for companies and Trusts. The accessibility of the Registers is aligned with the provisions of the Directive. The operation and safeguards for these Registers shall be governed by Regulations yet to be issued.

8. The increase emphasis on Risk Based Approach is embedded in the Law as described in the Directive, allowing for greater responsiveness and acknowledgement of the need to adjust measures taken according to the risks presented in specific jurisdictions and sectors.

This latter will enable countries and the private sector to apply their resources more efficiently by focusing on higher risk areas. However the imposition of new risk-based approach measures should not lead to any regulatory overlap and the unnecessary duplication of successful standard setting exercises.

Existing Cyprus AML/CFT Legal Framework

The key changes of the EU Directive which are already inserted in the Cyprus AML/CFT regime during the last five years approximately, are noted below:

- Domestic PEPs have been included in the definition of PEPs in the Cyprus AML legal framework.
- Currency Exchange Offices and Trust and Company Services Providers are licenced and supervised.
- Tax crimes have been included in the AML predicate offences.
- Enhanced Cross-border cooperation and administrative sanctions.



“ Most aspects of the EU Directive are not completely new to Cyprus and its already advanced AML/CFT regime, as a substantial part of the changes have already been incorporated in the Cyprus AML/CFT Legislation and relevant Directives issued by the Supervisory Authorities. ”

The Global Code of Conduct in the Foreign Exchange market



By
Marios Nikolaou
Senior Advisor,
Association of
Cyprus Banks

An international series of misconducts in the foreign exchange (FX) market that came to light in 2013, has led to an increasing recognition of the importance of enhancing the discipline of the FX market across the globe. Therefore, it was broadly agreed that developing a common set of guiding principles, adopted globally and endorsed by Central Banks, would help to restore confidence and promote the effective functioning of the wholesale FX market.

After considering the above, the Bank for International Settlements (BIS) has commissioned a working group from the BIS Market Committee, which was composed of senior officials responsible for market operations in 21 Central Banks representing the 15 largest currency areas. Their assignment was to facilitate the establishment of a single Global Code of Conduct for the wholesale FX market.

After two years of hard work, the Code was eventually released on 25 May 2017. Its main objective is to promote a robust, fair, liquid, open and transparent FX market and to help build and maintain market confidence and improve market functioning. The Code contains 55 principles, all grouped under the following 6 leading principles:

- **Ethics:**

Market Participants (MPs) are expected to behave in an ethical and professional manner and to promote the fairness and integrity of the FX Market.

- **Governance:**

MPs are expected to have robust and clear policies, procedures, and organizational structures in place, that will enable them promote responsible engagements in the FX Market.

- **Information Sharing:**

MPs are expected to be clear and accurate in their communications and are expected to protect confidential information. They are also expected to promote effective communications that support a robust, fair, open, liquid and appropriately transparent FX Market.

- **Execution:**

MPs are expected to exercise care when negotiating and executing transactions, so as to promote

a robust, fair, open, liquid, and appropriately transparent FX Market.

- **Risk Management and Compliance:**

MPs are expected to promote and maintain a robust control and compliance environment, which will effectively identify, measure, monitor, manage, and report on the risks associated with their engagement in the FX Market.

- **Confirmation and Settlement Processes:**

MPs are expected to put in place robust, efficient, transparent, and risk-mitigating post-trade processes in order to promote the predictable, smooth, and timely settlement of transactions in the FX Market.

Considering the above, there are three key elements to highlight. First, since the FX Code is Global, it is intended to cover the entire wholesale FX industry, the sell side, the buy side, non-bank participants and the platforms. Its breadth is hence both across the globe and across the whole structure of the industry. Second, the Global Code is a single Code that promotes a unified framework across jurisdictions of a widely acknowledged set of common principles of best practice. Third, the Global Code is strictly voluntary and principle-based, thus taking into account the diversity of market participants. A principle-based approach, is considered better than a prescriptive rule-based approach, as it manages to address a diverse set of participants and tackle the complexity of the FX market structure across the globe.

As far as the third element is concerned, it should be clarified that the principle-based

“ **Code’s main objective is to promote a robust, fair, liquid, open and transparent FX market and to help build and maintain market confidence and improve market functioning.** ”



approach implies that the Code will not impose legal or regulatory obligations on market participants, nor will it supplant existing regulatory standards or expectations. The Global Code is hence intended to become an integral part of the FX market and to articulate the good practices with which market participants and their counterparties conduct their business. For this to occur it will need to be adopted and adhered to by a wide range of market participants who will commit to apply it in their culture and everyday business practices across various segments of the market.

Demonstrating their strong commitment to sup-

port and promote adherence to the Global Code, the Central Banks that acted as Market Participants during the creation of the Code, have fully adhered to it, and have strongly encouraged their local associations to raise awareness amongst their members.

After considering the above, the Association of Cyprus Banks has committed to embrace the Code in August 2017, following a request made by the Central Bank of Cyprus. The Association has furthermore committed to promote the use of the Code amongst its members, always emphasizing that its use shall be effected under a voluntary and principle-based basis.

Learning the “Financial Alphabet”: A useful skill in life



By
Maria Ioannou
Senior Advisor,
Association of
Cyprus Banks

Financial literacy is not new or unknown. It has been a concern for many countries in Europe and America since the early 20th century. The Cooperative Extension Service was established in America in 1914, and this was the first organization to promote financial skills and knowledge, particularly to farmers, in order to help them manage their finances. A lot of efforts followed and in 2013, the Consumer Financial Protection Bureau (CFPB) has been pushing for regulations requiring all states to mandate financial literacy training for children in elementary and secondary schools.

The philosophy behind this is the idea that a viable financial system is based on two pillars: competitive and sound financial institutions and well-informed consumers, investors and entrepreneurs. Financial education, which may take many different forms, helps consumers make wise financial decisions and avoid unnecessary risks and excessive debts. Financial literacy has profound impacts on the daily lives of individuals and is regarded as the knowledge that is necessary to make responsible and thoughtful decisions about spending, savings and investments. Many consumers worldwide, due to the lack of financial education have been led to over-indebtedness and to the inability to meet recurring expenses. Likewise, due to the absence of financial knowledge, unsophisticated consumers have invested in opaque and complex financial instruments and products. The outcome of this, in many cases, was disastrous. Looking back at the financial crisis of 2008, the lack of understanding of mortgage products had undoubtedly a deep financial impact on the entire economy.

In February 2017, a new platform, the European Platform for Financial Education, was formed as an active effort in preparing young people for the financial world. The platform is comprised of nine European organizations (including the European Banking Federation of which the Association of Cyprus Banks is a member) and facilitates the exchange of ideas, financial information, knowledge and experience among EU member states.

Movements to strengthen financial literacy actions are not restricted to this point. The G20 leaders recognized the important role of financial

knowledge, notably through the adoption in 2012 of the Organization for Economic Cooperation and Development (OECD) High Level Principles on National Strategies for Financial Education. These principles provide global guidance for policy-makers in the field of financial education, both in developing markets and in developed economies.

In 2017, the OECD carried out a survey to assess the level of financial literacy and compare financial knowledge, behavior and attitudes of 101,596 adults aged 18 to 79 in 21 countries. The research concluded that a large number of adults are financially illiterate and the level of education in this field is very low. As the OECD Secretary-General stated, “financial literacy is an essential life skill. Financial literacy can make a crucial difference in the lives of people, in their opportunities, in their success. It is a foundation stone for well-being, for entrepreneurship, for social mobility, for inclusive growth.”

With the same philosophy, during the last three years, the ACB in cooperation with Junior Achievement Cyprus, is implementing an educational program named “More Than Money”. The program is targeted towards primary school students of the 6th grade and aims to familiarize children with basic economic concepts. The main objective is to help students acquire knowledge and skills so as to learn how to manage their money wisely and plan their financial future in a “smart way”. In other words, the program helps children to gain the knowledge and confidence that is needed to make the financial decisions that are right for them.

“More than Money” is being active every year during the European Money Week (EMW) in Brussels - a tool for the exchange of European best practices in the field of financial literacy. During the EMW (March 12-16, 2018), various events are being held by national banking associations under the umbrella of the European Banking Federation. The EMW involves private and public activities, such as national educational programs, specialized seminars, public speeches and press conferences.

It is worth mentioning that at this moment, a survey involving more than 1,000 people aged 18-79 is being conducted in Cyprus. The survey will determine the level of financial knowledge and eco-



nomical perception of Cypriot citizens. The expectation would be for the findings to mark the start of a national campaign for the financial education of young people in Cyprus. Obviously, the government should become the core supporter and promoter of national financial literacy activities in the island. Going further, the “financial alphabet” could even form an integral part of the school curriculum within the overall scope of the educational system. As stated by financial advisors, a thorough financial education nationwide could have enormous benefits on future generations.

“During the last three years, the ACB in cooperation with Junior Achievement Cyprus, is implementing an educational program named “More Than Money”.

Mentoring magic: One mentor's perspective



By
Vasso Michaelides
Senior Advisor,
Association of
Cyprus Banks

"We make a living by what we get, we make a life by what we give." **Winston Churchill**

"In learning you will teach, and in teaching you will learn." **Phil Collins.**

Both quotes above could not be any truer. For the past two years, I have volunteered as a Mentor in the "Junior Achievement More than Money" educational program, which teaches students of the 6th grade in primary schools the basic financial skills.

The Association of Cyprus Banks (ACB) is acting as a Sponsor, with the support of the Ministry of Education and Culture and in cooperation with Junior Achievement Cyprus (JA- Cyprus) through the program "More than Money", since 2016.

Through JA's hands-on program, ACB's employee volunteers provide teachers and students local support to build skills while inspiring young people to become future savings and investment minded leaders who positively impact the economy of the country.

This year, between the dates 20 February to 31 March 2018, in total 600 students from 12 schools from Nicosia, Limassol, Paphos, Larnaca and Famagusta will participate in the Program.

My role as a Mentor is to bring a real world perspective to the young students based on syllabi and material offered by JA, facilitate discussions and activities, add my personal experience where appropriate and encourage teamwork and leadership skills within the class. I have been fortunate enough to experience mentoring to almost 80 students during the last two years in schools at different areas of the island. Guiding them in how to manage their money smartly, explore consumerism and how to become financially protected has not always been easy, but at the end it was incredibly enlightening. I tried to teach them how to build on their understanding of money basics and apply that understanding to their daily lives and also enable them to recognize the significance of money management in making informed life decisions. The students looked at saving, spending and earning money, practiced being SMART when

making consumer decisions, played a board game, came up with new business ideas and worked on their business plans, as well as explored why businesses import and export goods. At the end of the program, students are able to understand better the role of money in their lives and to explore their job skills and the types of professions that interest them. Through the program activities, students acquire decision making skills and are engaged in activities aimed at developing a positive work ethic.

Each week we meet they look forward to hearing something new!

We share laughs, stories, aspirations. They confided in me and I tried my best to give them honest and genuine advice. I learned how to earn their trust and keep it, learning more and more about their dreams, plans and potentials.

Being a mentor taught me so many things and being with young students reminded me of the important things in life like happiness, laughter and focusing on the positive side of everything!

Mentoring is such a rewarding experience and my advice is don't hesitate and just go for it – you never know the people you will meet and the difference you can make!

“ My role as a Mentor is to bring a real world perspective to the young students based on syllabi and material offered by JA, facilitate discussions and activities, add my personal experience where appropriate and encourage teamwork and leadership skills.



Implementing utilitarian principles to labour disputes



By
Dr. Yiannos Rossides
Head of Human Resources, Social Affairs, Training and Development, Association of Cyprus Banks

The theory of utilitarianism leads managers to make decisions based on the overall consequences of their actions. In other words, it is a consequentialist theory to business ethics and social policy. It holds that managers should take decisions and actions that result in better consequences than other alternatives. The theory also explains what is meant by better consequences. They are those that promote human well-being such as happiness, health, dignity, integrity, freedom, respect, etc. From this point of view the decision that produces the greatest good or the greatest amount of the aforementioned better consequences for the greatest number of people is the most rational decision from an ethical viewpoint, the one that should be implemented.

The theory of utilitarianism supports the free market economy and the economic institutions operating in such an economy, and holds that these institutions exist to provide the highest standard of living (the greatest good) for the greatest number of people. According to this theory, economic institutions do not exist to create wealth for a privileged few, whoever they may be. We will revisit this notion a bit later. The theory holds that free and competitive markets are the best means for attaining utilitarian goals. Current free market economics advises structuring our economy according to the principles of free market capitalism. This version would promote policies that deregulate private industry, protect property rights, allow for free exchanges, and encourage competition. On the other hand, one could argue that this theory that otherwise supports the free market economy and its operations, is against the implementation of capitalism, at least in the way it is mainly demonstrated in the US and in several EU countries, which in essence allows the accumulation of wealth to the privileged few.

“According to this theory, economic institutions do not exist to create wealth for a privileged few, whoever they may be.”

Utilitarianism accepts utility (which in economics is defined as the measure of happiness or satisfaction received from consuming goods and services), or the greatest happiness principle, as the foundation of morals. It holds that actions are right in proportion, as they tend to promote happiness, and wrong, as they tend to promote the opposite of happiness.

Utilitarianism assumes the quantity and quality of happiness can be measured, hence it is argued that it is a calculating approach to business ethics. Businesses implementing the utilitarianism approach to ethics often assume that maximising happiness is the same as maximising returns. They hold that improved profitability will generate happiness for most. However, to apply the utilitarian principle properly, one must also consider the possibility that the pleasure derived from increased returns could have been achieved by causing cost to some people.

The discussion above raises several ethical questions that could spark a debate regarding the recent labour disputes. Will the modification of existing agreements result in the greatest good for the greatest number of people? If the answer is yes, then management has to be in a position to provide evidence to support its action and decisions. On the other hand, will the continuation of the current practices as the union side supports result in maximising the greatest good for the greatest number of people? If the answer is yes, then the union must provide evidence in support of their position.

Allowing either side to unilaterally impose its position is perhaps the wrong alternative as it will not produce positive outcomes. On the one hand, it will not satisfy the greatest good principle and on the other is quite possible it will result in a conflict that will disrupt the normal operations of the banking sector and will generate problems for society as a whole. Even though conflicts would produce changes needed for societies to advance to the next stage, that is to become more efficient and more competitive, they also could lead to unintended negative results.

What has been achieved over the last 5 years following the 2013 economic crisis should be acknowledged, and act as a guide for the two sides to work with each other to face the major challenges still lying ahead of us. The social outcome of such an endeavour far outweighs the potential costs.



15, Demetriou Karatasou str., 4th floor, Flat 401, 2024 Strovolos, P.O.Box 16113, 2086 Nicosia - Cyprus
• Tel: +357 22664293 • Fax: +357 22665135 • E-mail: info@acb.com.cy • Web: www.acb.com.cy

The Cyprus Banking Insight is a publication of the Association of Cyprus Banks (ACB). No part of this publication may be reproduced without the permission of the ACB. The views and opinions expressed by the authors in the publication are provided in the authors' personal capacities and are their sole responsibility. Furthermore the views and opinions expressed are not necessarily those of the ACB and its Board of Directors and must neither be regarded as constituting advice on any matter whatsoever, nor are interpreted as such.

on web and social media
anywhere, anytime



follow us

 LINKEDIN: acbcyprus

 TWITTER: ACBCyprus

WEBSITE: acb.com.cy

BLOG: acbcyprus.blogspot.com.cy