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ASSOCIATION OF CYPRUS BANKS

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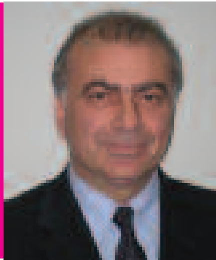

Dr Michael Kammas

At the time of writing this issue of the "Cyprus Banking Insight", global markets are still reeling from the Greek debt crisis. The rapid escalation of events proved to have a widespread reach and overwhelming potential impact. This new crisis serves to remind everyone of the interconnectedness of global economies and the need to have the means to address developing crises decisively and in a co-ordinated manner. But it should also bring into focus the importance to a country of maintaining fiscal discipline and of retaining international competitiveness.

For Cyprus, maintaining international competitiveness goes hand in hand with enhancing its role as a regional financial centre. In the current issue of the "Insight", we describe how the new tax regime for investment funds in Cyprus places our country in an ideal position for hedge fund, UCITS and private equity fund location. We also present the Association's proposals for reforming the VAT regime which will further the advantage that Cyprus has due to its direct tax regime and serve to attract foreign direct investment. Furthermore, we host an article by the Association of International Banks which outlines the advantages foreign banks have perceived in setting up presence on the island. Other articles contributed by our staff address recent developments on reforming financial supervision, the Savings Taxation Directive, current issues in financial education, as well as information about the financial ombudsman that will soon be in operation.

In this issue we are proud to introduce a host article by our subsidiary, Artemis Bank Information Systems Ltd, a credit bureau that began operations towards the end of 2009. Its operations are expected to allow banks to improve the management of credit risk and fraud monitoring, as well as to enable bank customers to gain better access in financing. As a result, the functionality of the banking system in Cyprus will further improve.

We hope that you find this issue informative and, as always, we look forward to your suggestions.

Dr. Michael Kammas
Director General
Association of Cyprus Banks

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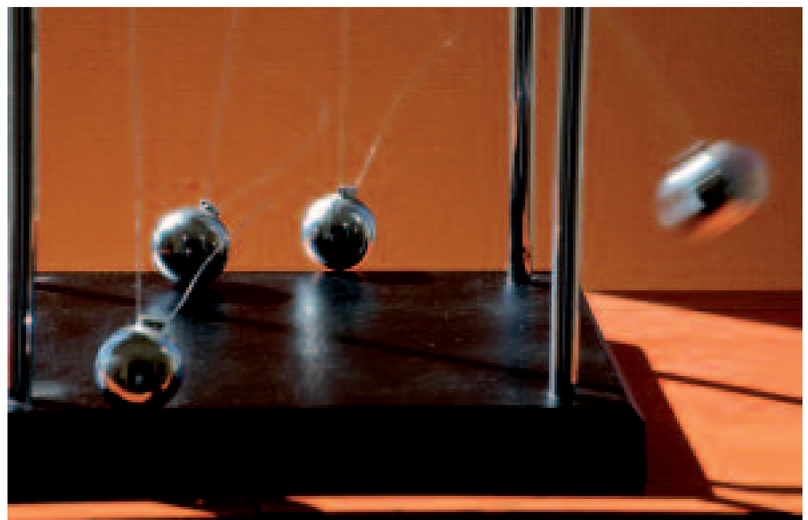
Financial crisis and the need to reform EU financial supervision

The big question emerging from the financial crisis is why supervising authorities did not prevent it from occurring. The causes of the crisis have been analysed extensively, hence it is time to discuss future necessary changes to the supervisory structure on an EU level. Before reviewing the various policy options for the future it is useful to briefly mention the present set up of the EU financial supervision system. The current system is based on the principle of home country supervision, which is recognized by the host country supervisors. A financial group supervised in one EU country can offer cross-border services or establish branches in other EU countries without additional supervision. On the other hand, a financial group's subsidiary company established in another EU country is supervised by the host country's supervisory authority. The rapid integration of the EU financial services sector has rendered financial supervision highly complex. This is evident from the fact that (1) financial institutions are becoming more international and are covering all types of financial services (banking, investment and insurance), (2) financial products are becoming increasingly complicated and sophisticated, and (3) return on equity and shareholder value is prompting financial institutions to take up more risk.

This rapidly changing environment increases the need to improve the current supervisory structures in the EU, moving towards an integrated financial supervisory regime. The international expansion of financial institutions requires a move towards an integrated financial supervisory regime in order to prevent inconsistencies or gaps in oversight, to create a level playing field in regulation and to reduce duplication of supervisory activities. One of the suggestions gaining support is the creation of a single EU supervisory authority to partially replace national supervisors. Currently there are two proposals on the table for discussion. The first proposal is to shift the task of EU-wide supervision to the European Central Bank (ECB). Those in favor say that the ECB, which is responsible for monetary policy and systemic stability, has knowledge of the overall EU economy and financial system. Those against transferring such responsibilities to the ECB say that dual responsibility of monetary policy and financial supervision may decrease transparency and lead to conflicts of interest and moral hazards. The second proposal is to create a single European Financial Services Authority (EFSA). The EFSA will be responsible for the supervision of all cross-border financial groups as well as national financial institutions that through their activities can affect financial stability in other countries. National supervisors will maintain responsibility for the supervision of small national financial institutions. Those in favor of the proposal say that the introduction and application of uniform supervisory rules by the EFSA will guarantee a "level playing filed", prevent regulatory competition within the EU, deter lax supervision at the national level and reduce reporting costs. In addition, the creation of the EFSA will help to avoid conflicts of interest between monetary and supervisory policies, as it will only be responsible for supervision and not for bailouts in times of crisis, thus eliminating any moral hazard concerns. However, there are several arguments against the creation of a EFSA, most importantly the fact that this model will pay little attention to systemic stability, will not have any financial means to save bankrupt financial institutions and will need an EU constitutional change.

The global financial crisis, and in some cases the failure of national supervisory authorities to identify systemic risks, provide an opportunity to reform the European supervisory regime. Monitoring the stability and financial supervision on a predominantly national basis is becoming increasingly difficult. It is evident that, despite all attempts, much work remains to be done in order to promote cooperation between supervisory authorities. The financial sector is becoming increasingly interwined and therefore standardization of EU supervisory practices is very important. The necessary reforms require a long and complicated process and need to be discussed at the highest EU level.



Achilleas Amvrosiou
General Manager
Artemis Bank
Information
Systems Ltd

Artemis and credit data sharing in Cyprus

Credit data sharing between financial institutions is considered an essential element of the financial infrastructure that facilitates credit risk assessment for consumers requiring access to finance. The use of credit data in assessing borrowers' creditworthiness is of paramount importance in attaining the goal of upgrading the quality of financial institutions' loans portfolio, thereby limiting exposure to risks. Access to such data greatly facilitates the drive of financial institutions to comply with responsible lending obligations.

It must be said from the outset that while the setting up of credit bureaus in most European countries is a well established practice, in Cyprus the issue received the priority status it warrants only very recently. European Union legislation and practice were certainly of major importance in shaping attitudes and moving things in the direction of establishing a credit bureau in Cyprus.

It is thus fair to say that Directive 2008/48/EC of the European Parliament and the Council of Europe, which specifically states that a financial institution should consult relevant databases (namely credit bureaus) in order to adequately, assess the credit status of a consumer (borrower), expedited developments on the island.

The Association of Cyprus Banks (ACB) and the Central Bank of Cyprus (CBC) gave full support to a project whereby the banking industry could share credit data with the sole aim of obtaining information that would fundamentally change the principles behind decision making with respect to the extension of loans and credit facilities. The intention was to help banking institutions provide loans and credit facilities through the use of an all-round, data-based assessment of consumer creditworthiness. At the same time due care should have been taken to ensure that the adoption of such fact-based evaluations of would-be clients' creditworthiness would not, in any way, infringe the laws on consumer protection nor limit consumer rights.

Setting up of Artemis

With these in mind, the country's banking industry through the Association of Cyprus Banks, set up Artemis Bank Information Systems Ltd (Artemis) in October 2008. Artemis was to be a subsidiary company of the Association, entrusted to act as a private credit bureau with a mission to share both negative as

well as positive data, and operating on the principle of reciprocity. Artemis started operations in December 2009 with the focus on negative data sharing, having earlier safeguarded its compliance with the Cyprus Data Protection Act and banking secrecy legislation. Through Artemis the Association of Cyprus Banks strives to attain the following:

- Facilitate the exchange of consumer credit data among banks
- Manage the banking industry's common interests with respect to credit data sharing.
- Address all matters related to the collection and distribution of credit data, particularly with respect to all regulatory aspects, ensuring in the process that data protection standards are met.
- Promote the standardization of terms and ensure consistency in data usage.

Cornerstone

It is no exaggeration to argue that Artemis' credit data sharing operation will become a cornerstone of retail banking infrastructure. In addition, given that financial institutions will be able to access accurate and all-round credit data, consumers, or at least a significant part of them, could very well end up with having to pay lower interest rates on their bank loans. The system will also be easy to use with user friendly data access processes. The model adopted with respect to credit data provides that data ownership remains with the contributing financial institutions (banks), which bear responsibility for the quality and accuracy of the data. The financial institutions update the data once a month and are obliged to make instant corrections when they find out that the data is either wrong or outdated.

The borrower has the right to access, update, review and correct his/her personal data through the Artemis Customer Service Office.

Data categories

The range of negative data on individuals or legal companies collected at present comprises the following:
- Legal actions (source: banks)
- Court decisions (source: banks)
- Issuers of dishonoured cheques (source: The Central Bank of Cyprus)
- Bankruptcies / Dissolutions (source: The Registrar of Companies and Official Receiver)

Artemis also supports financial institutions' effort towards fraud prevention through the use of the Ministry of Interior's Deceased Registry to combat identity theft.

All the categories of data cited above are merged into a database and the recipient banks can access all entries about an entity, using either the national identification number or the company registration number. Terminated accounts by banks will form the next category of negative data to be incorporated into the database. It is anticipated that by July 2010 Artemis will cover about 70% of the lending market in Cyprus with very high quality data. Taking into consideration Cyprus' small market size, it is obvious that it cannot support more than one interbank credit bureau. The Artemis mission is to attain an almost 100% coverage of the market within a few years.

European alignment

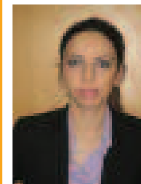
In line with the European Commission initiative on "responsible lending and borrowing", Artemis plans to incorporate positive data sharing in 2011. The company will, therefore, assist financial institutions to perform creditworthiness assessment before granting consumer loans, enabling them to also document the adequacy of their assessment.

At present creditors make their assessments primarily on the basis of information received from the borrower (consumer) who has to substantiate his claims through the provision of extensive evidence and/or guarantees.

The credit data sharing database will help prevent excessive debt accumulation on the part of borrowers, reduce the non-performing loan ratio, as well as supporting efforts to enhance the efficiency of loan application assessment. Credit data sharing activities resemble an intangible "discipline device" since borrowers will know all too well that if they default on their debt obligations, their creditworthiness will be downgraded, much to the knowledge of all the banks. The consequences of such a development for the heavily-indebted customers should be obvious and well understood. By the same token, borrowers with an upstanding credit history will not only get bank loans easier, they will also secure funds on more favourable terms.

Last, but not least, it is worth noting that the World Bank and the various international credit rating agencies (Moody's, Fitch, Standard & Poor's) tend to welcome the establishment of credit bureaus with a countrywide mandate of operations. The process of accurate data collection on economic behaviour is perceived by such prestigious organisations as the World Bank as an essential prerequisite for the promotion of further economic and social development.

On the make: Financial Ombudsman Scheme



Elena Frixou
Senior Officer
Legal Affairs

Cyprus is bracing itself for the introduction of a Financial Ombudsman.

Towards this end a Draft Law in relation to the Establishment and Operation of a Financial Ombudsman (Draft Law) has been prepared by the government and other relevant bodies and has been submitted in Parliament for discussion.

Scope of the Draft Law

In order to ensure a high level of consumer protection and to promote consumer confidence, there is an increasing need to ensure that consumers have simple and effective access to justice and encourage and facilitate the settling of disputes at an earlier stage.

The Financial Ombudsman Scheme being a type of 'Alternative Dispute Resolution' mechanism shall offer more flexibility than going to court and can better meet the needs of both consumers and the 'financial services providers'. Compared to going to court the Scheme shall be cheaper, quicker and more informal which means they are an attractive means for consumers seeking redress.

Consequently the Financial Ombudsman shall facilitate out–of court settlements by dealing independently in a cost effective, transparent and less time consuming way with unresolved complaints from consumers about their individual dealings with 'financial service providers'.

Complaints Covered

- The Financial Ombudsman shall cover complaints against financial services providers which do not exceed the amount of €170 000.
- The term 'financial services providers' against which complaints may be filed, includes amongst others banks, insurance companies, investment companies, electronic money institutions and management companies of mutual funds.

It does not include the Cooperative companies and the Central Cooperative Bank.

Who can Complain

The complaints may be submitted by Consumers which consist of:

a) a natural person,
b) a legal person having a yearly turnover which does not exceed the amount of €250 000
c) a charitable institution , club or connection of persons, with turnover not exceeding the amount of €250 000
d) a trust which its net assets of the previous year does not exceed the amount of €250 000
e) a provident fund which its net assets of the previous year does not exceed the amount of €250 000

Procedure

The Consumer should first submit his complaint to the Financial Business. The Financial Business should reply to the Consumer within 3 months from the day of submission of the complaint.

In the case where the Consumer is not satisfied with the answer of the financial business then the Consumer is allowed to submit a claim to the Financial Ombudsman.

The Financial Ombudsman will then ask the parties if they will accept any decision as binding and continue to issue a decision irrespective of the willingness or not of the parties to be bound by the decision. The decision given may include a compensation which does not exceed the amount of €50 000.

Once the decision is issued the Financial Ombudsman will ask again the parties if they would like to be bound by the decision.

The decisions of the Financial Ombudsman shall not be binding on the financial services providers unless a financial service provider, chooses for the decision to be binding.

Funding

The Financial Ombudsman shall be funded by the financial service providers as follows:

- €20 paid by the consumer for each complaint submitted
- €350 paid by the financial services provider for each decision issued against it
- 70 % of the contribution of each financial sector towards the GDP and 30% of the number of complaints in relation to decisions issued against the financial service provider.

Reports

The Financial Ombudsman shall issue reports showing for each type of financial services providers the number of decisions which they have accepted as binding. In addition a report shall be issued with the names of financial servicers providers which have accepted the decision of the Ombudsman as binding and have then changed their opinion and did not comply with it.

Cost

The Consumers shall not incur any substantial expenses or costs for the use of the Financial Ombudsman's Services, except only of a nominal fee upon submission of their complaint.

The primary initial focus of the parties involved in the implementation of the Draft Law is to get the Financial Ombudsman Scheme up and running successfully as soon as possible and to ensure that it operates in a pragmatic, fair and impartial manner thereafter.

The enactment of the operation of the Financial Ombudsman Scheme will enact a new era on the 'Alternative Dispute Resolution' environment in Cyprus, since until now this was practically non existent and shall lead to a general strengthening of the confidence of consumers in the financial sector.

Marios Nicolaou
Senior Officer
Payment Systems

Proposal for amending the Savings Taxation Directive – Is it necessary?

The Savings Taxation Directive follows the basic principle that a person's interest income should be taxed in accordance with the laws of his / her country of residence and that evasion of tax payments by private investors (on their cross-border interest income), must be eliminated. Consequently, it is necessary for the investor's country of residence to be provided with information on the interest income earned in other European Union (EU) countries, so as to be recorded for income tax purposes.

The Savings Taxation Directive (the "Directive") is the EU legal framework covering the above principle and it was put into effect by 24 out of the 27 EU member states, on the 1st of July 2005. According to the Directive, the tax authorities of the participating countries must exchange information amongst each other by issuing details on the interest paid by the so-called paying agent (i.e. the bank) to the beneficial owner (i.e. the recipient of the interest) of an investment. The information must be exchanged at least once a year and must include the account number, the identity, the name & address and interest receipts of the beneficial owner. As noted above, 3 EU member states (namely Austria, Luxembourg and Belgium) have not adopted the Directive, as they have opted for a transitional arrangement.

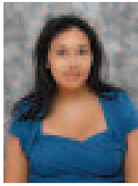
The scope of the Directive covers interest and income earned from bank deposits and specific forms of investments, such as cash deposits, savings accounts, fixed deposits and bonds. It does not however cover any other income from investment funds, such as dividends, certificates, or interest on claims arising from life insurance products or pensions. Furthermore, the tax liability extends only to physical persons and hence it does not cover legal entities such as companies, foundations or trusts.

Almost five years after the adoption of the Directive, it has been realized that the Directive in it's present form, has limited impact. This is because of the loopholes created, both in terms of the nature of the interest income covered, as well as the group of "persons" concerned. In particular, the Directive has been criticized about the following: (a) The definition of the term "interest" is too narrow. This allows product providers to build financial instruments that are substitutes of interest, thereby avoiding certain provisions of the Directive. (b) The definition of the "paying agent" only relates to the final financial institution paying interest to the individual. This allows paying agents to route interest to another paying agent outside the jurisdiction of the Directive, or route payments to an entity not defined as a paying agent. (c) The definition of the "beneficial owner" is defined as the individual directly collecting interest from a paying agent. This however allows beneficiaries to collect interest via legal entities or arrangements (such as partnerships, trusts, foundations, etc), thereby avoiding certain provisions of the Directive.

In view of the above, the EU Commission has released a press statement at the beginning of 2008, proposing an amendment (the "Proposal") of the Directive. The original text of the Proposal was first published in November 2008 and went through several negotiations and amendments before reaching it's latest draft version. The latest version of the Proposal was submitted by the Swedish presidency in December 2009, but was also not approved. The Proposal is nevertheless expected to be approved by the member states within 2010, with an expected pan-European implementation, three years later.

The main provisions of the latest, (unapproved) version of the Proposal include: (a) expansion of interest definition to more collective investments such as non-ucits, hedge funds, private equity, structured products, insurance bonds, fixed annuities, derivatives linked to interest etc, (b) expansion of the definition of paying agent so as to include legal entities and arrangements that are managed within the jurisdiction of the Directive and receive interest on behalf of beneficiaries and (c) widening the group of beneficial owners so as to include specific legal entities and arrangements.

Eventual implementation of the Proposal is expected to considerably broaden the scope of the Directive and enhance transparency and fairer tax competition. This of course will come under the cost of significantly more work and effort put by both the tax authorities as well as the banks of the member states. The EU is therefore expected to seriously consider the additional costs and time spent for amendments in the systems, operations and infrastructure of all involved parties. Finally it must not be forgotten that the agreements with (non-EU) third countries (such as Switzerland, Monaco and Lichtenstein) must also be revised, so as to incorporate the amendments of the Proposal. This however would be a very difficult task, bearing in mind the huge amounts of investments kept at these countries.



Christina Pierides
Senior Officer
Financial Markets

Suggestions on updating the VAT regime in Cyprus

In the past twelve months, the Association has initiated discussions with the Ministry of Finance with the objective of updating the Cypriot VAT regime and procedures.

The Association's suggestions are expected to have numerous benefits for its members and the Cypriot economy at large such as:
- Extend to indirect taxation the advantage that Cyprus has due to its direct tax regime;
- Reduce the VAT administration costs for our members as well as for government authorities;
- Attract foreign direct investments through the set up of centres of excellence.

Following consultation with our members and the preparation of a report by tax professionals commissioned by the Association, a set of proposals was send to the Ministry of Finance. The proposals in effect advocate the early introduction of the amendments of the proposed EU Directive on the common system of VAT as regards the treatment of insurance and financial services (which are currently under discussion) and which may be unilaterally introduced in Cyprus under the existing EU framework. They also take into account best practice in other EU countries:

a) Issuance of a VAT circular by the Customs & Excise Department. At present, there are many uncertainties on the interpretation of various legal aspects of VAT on financial services. As a result, banks often need to resort to external consultants as well as request official interpretations and rulings from the VAT Service. Through a new circular, the Cyprus VAT Service can introduce the definition of VAT exempt financial services as they appear in the Proposed EU Directive. The circular should also provide more detailed guidance clarifying the definition of value, time and place of provision of financial services, in order to reduce legal uncertainty.

Through the circular, the VAT Service should also outline alternative methods of calculating the recoverable VAT on common expenses. Other member states which aim to be attractive financial centres already give banks the option of choosing alternative methods of calculating the recoverable VAT. This enables banks to claim back VAT on allowable transactions using the most appropriate (and fair) allocation method for each circumstance. At present, the Cypriot legislation requires banks to obtain a special approval from the VAT Service each time they believe that the general rule of allocation is not fair. Having a set of pre-defined criteria for cases when alternative allocation methods can be applied would reduce the administrative burden for banks as well as government authorities.

b) Introduction of a cost-sharing group provision. Eleven EU members already implement this provision, which allows financial groups to pool investments and re-distribute the costs for these investments from the group to its members without having to apply VAT.

If implemented in Cyprus, this measure would allow banks to organize their structure better and gain through economies of scale. A financial group could set up a centre of excellence for all of its subsidiaries, for example a telephone centre to cover banking, insurance, investment and other activities. In addition, the measure would allow a group of banks to set up a joint venture this way, such as a cash transfer service or real estate valuation centre.

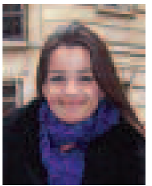
This would also make it attractive for foreign banks to expand their activities in Cyprus by setting up their centres of excellence here. Such a centre of excellence could carry out activities in Cyprus (for example back office work) to cover the financial group's regional operations. The activities of the centre of excellence would benefit from Cyprus's direct taxation regime and also it would not need to charge VAT to the group's subsidiaries which receive the services (subject to its resident state's regulations).

c) Introduction of the option to tax, whereby financial intermediaries can choose to charge their clients VAT on a transaction basis.

According to current EU legislation, member states now have the option to allow financial intermediaries to choose whether to charge VAT, and five member states have already implemented it. The Association recommends that Cyprus also applies this measure, in the way that Germany has applied it, whereby each financial organization is given the choice of implementing VAT on a transaction basis. In this way, banks will charge VAT on services to corporations, but not to individuals. Banks will therefore benefit by being able to reclaim a larger part of their VAT input costs. It is estimated that this would reduce the state VAT revenues by 0.28% annually; however, this is expected to be offset by attracting more financial organizations in Cyprus.

Overall, it is believed that the adoption of the three measures outlined above will bring significant benefits to Cyprus and enhance its role as a recognised international financial centre. Furthermore, they will significantly contribute towards Cyprus's target of reducing the administrative burden for enterprises and government authorities by 20% until 2012, as per the Finance Ministry's commitment in the "National Action Plan for Better Regulation in Cyprus".

The New Tax Regime for Private Funds in Cyprus



Dr. Demetra Valianti
Senior Officer
Legal Affairs

Recently, there has been an increasing demand for the registration of private funds in Cyprus (from Russia, CIS countries, Central Europe, the Middle-East and Gulf Countries). Currently, there are over 50 private funds, mainly private equity in investment strategy, and around 12 real estate funds. At present, officials have over 15 applications before them.

Such Private Funds or ICIS (International Collective Investment Schemes), as they are called, are normally addressed to high net worth individuals (of up to 100) and are governed by the International Collective Investment Schemes Law, 47(I)/1999 ("the Law").

The Central Bank of Cyprus (CBC) is the relevant competent authority responsible for the recognition, regulation and supervision of ICIS. It is noted that the Cyprus Government is now preparing a new Law which will shift responsibility from the CBC to the Cyprus Securities and Exchange Commission, which is also the authority for UCITS. However, this shift is not expected to take place soon and will neither affect current applications nor impose any additional burdens of existing private ICIS.

A private ICIS can take any of the following legal forms:
- Fixed Capital Company (SICAF equivalent)
- Variable capital company (SICAV equivalent)
- Unit Trust Scheme
- Investment Limited Partnership

ICIS offer unique advantages such as: Investment flexibility, Transparency to investors, Low set-up and Low operating costs and Favourable tax Advantages.

Notably, on the 22nd of October 2009 the Cyprus Parliament voted a number of amendments to the Income Tax and Special Contribution for the Defense of the Republic laws, which aim to improve further the position of Cyprus as an attractive jurisdiction for the establishment of private funds. These are presented below.

Interest Income

Before the amendments, interest received by private Funds was subject to 10% Special Defense Contribution ("SDC"). In addition, 50% of the interest received was also subject to corporate income tax (currently 10%) – effective tax rate of 15% was applicable to Funds on interest income. Now, the interest income received (less any allowable expenses) by an ICIS is taxed only at corporate income tax. The SDC for ICIS has now been abolished. Thus, a 10% effective tax rate is now applicable to ICIS on interest income.

Dividend Income

The new amendments have abolished the requirement for minimum participation of 1% for the exemption of foreign dividends from taxation in Cyprus when it relates to dividends received by an ICIS from abroad. However, in order to benefit from this exemption, dividends received from abroad must qualify for either one of the following conditions:

(a) more than 50% of the foreign paying company's activities result directly or indirectly in investment income, or

(b) the foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus (i.e. less than 5%).

Disposal of Units

Units in both closed-ended and open-ended ICIS are considered as "titles". Profits derived from the disposal of a title in an ICIS are now exempt from corporate tax and SDC – this applies to both individuals and companies.

Redemption of Units

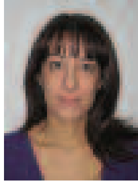
Redemption of units (or other ownership interest) in an ICIS does not constitute a reduction of capital under the Deemed Distributions provisions of the SDC and, therefore, ICIS will not be subject to any tax implications.

Deemed Distribution

The rate of SDC imposed to ICIS in the event where the ICIS fails to distribute at least 70% of its accounting profits within a period of two years from the tax year to which the profits relate has been reduced from 15% to 3% - no taxation is applicable in the event where the unitholders of the ICIS are not tax residents in Cyprus.

Liquidation

The rate of SDC imposed to the proceeds arising from the liquidation of an ICIS has been reduced from 15% to 3% - no taxation is applicable in the event where the unitholders of the ICIS are not tax residents in Cyprus.



Maria Ioannou
Senior Officer
Consumers Affairs

Financial Education

Financial literacy is essential in order to become aware of financial risks and opportunities, evaluate credit options available and make informed decisions. Surveys show that consumers have low levels of financial education and in many countries the vast majority of citizens have almost zero knowledge of basic financial issues. According to surveys carried out in the UK, Italy, France and Spain, two out of three consumers find financial issues complicated and difficult to understand. Another study in Hungary showed that 70% of the responders were not aware of the meaning of inflation.

Financial literacy and awareness is becoming increasingly important in globalised financial markets characterized by technological innovation and rapid product advances. Today consumers are not just choosing between interest rates on two different bank loans or deposit schemes, but they face a variety of complex financial products and services with a large range of options. Within sophisticated financial markets, individuals find it more difficult to choose the right product or service that truly responds to their needs. Financial education is therefore necessary in order to understand economic and financial issues and take responsible choices and low risk decisions.

Financial education does not only benefit the individual but it also contributes to financial stability, the wider society and the economy as a whole. Educated individuals choose the correct products and make the appropriate investments and savings. Situations such as the US financial turmoil could have been prevented with financially educated citizens. It is considered that the lack of financial understanding among the US citizens contributed to the financial crisis. If consumers were financially informed they would have avoided buying risky products and would seek better, cheaper and more appropriate products. Financial education would help citizens to invest wisely and would avoid risks that lead to financial difficulties. Of course financial education itself is not a direct cause of the crisis. Other factors, such as the lack of proper supervision were undoubtedly more responsible for the crisis.

Following the above, financial providers should be more concerned about 'lending responsibly' and should engage in educational programmes for the benefit of both their customers and the financial system. The new Consumer Credit Directive that will be implemented in all Member States as from June 2010, will secure responsible lending through transparent and fully informed procedures. This means that standardized and simple forms which will be given to the consumers before the conclusion of a contract, will facilitate better understanding of the different credit products resulting to the right borrowing decisions. Furthermore, under this legislation creditors will be obliged to assess the consumer's creditworthiness before the conclusion of the credit agreement.

However, financial education should not only be a matter of responsible lending but an issue which should be promoted by governments within the society in general. Financial education should be life-long learning, starting at primary and secondary schools. Some EU studies showed that most literacy projects which were carried out in Member States focused on children and young adults as well as low income groups. In fact, the introduction of financial education in schools should be extended in all EU member states as a traditional subject like mathematics and history. Financial education must be considered a life-time issue.

The European Commission has recognized the importance of financial education and acknowledged that consumers should be educated in economic and financial matters as early as possible. Within this framework, the Commission encourages national authorities to include

financial literacy as a compulsory part of school curriculum. It is also worth saying that the Commission intensified its efforts especially after the 2007 crisis, by launching several initiatives. One of these initiatives is the web-based information tool named 'Dolceta' which offers free consumer education to adults (such as budgeting, consumer credit and home loans, means of payment etc). In 2008 the Commission also established an Expert Group on financial education for the promotion of the exchange of ideas, experiences and best practices within the EU. Furthermore, in 2009 a database of financial education initiatives was also established by various providers in Member States. The OECD has also taken a lead in promoting financial education across member countries with suggestions how to improve it. This was firstly facilitated through a set of recommendations published in 2006 and later in 2009 with a publication on best practices. One example is that of GE Money Bank in Poland, which developed a campaign targeted to Women to help them expand their financial knowledge and provide them with tools for effective management of home budgeting. Another practice is that of Citibank Belgium which launched a 'Use Credit Wisely' website that provides consumers with access to high quality credit information of how to protect themselves and manage their budget in the best way.

During 2008-2009 the Association of Cyprus Banks organised various seminars aiming at educating consumers and generally the public on banking products. The seminars focused on understanding bank accounts, loans as well as debit/credit cards. The seminars were organised in cooperation with the Consumers Educational School in the main provinces of Cyprus. In addition, some of the largest member banks of the Association develop on an occasional basis, educational activities for the general public and young people (primary and high schools, businesses). These initiatives usually take place when the need is identified i.e. introduction of EURO in Cyprus.

Nevertheless, financial education in Cyprus is still limited and a lot needs to be done in the area of financial literacy not only in the local market but also worldwide. One key element is to persuade all stakeholders and national authorities to give more emphasis on financial education and provide the necessary tools to consumers to access it. One way to deliver this would be the sharing of information on successful experiences and best practices across countries. Surely, financial education enhances consumer protection, financial stability and prevents risks. And naturally, the benefits embrace not only the individual but the economy and the society as a whole.

International Banking in Cyprus

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International Banking in Cyprus, in the form of Offshore Banking Units (IBUs) then, has started to come alive in the early 1990s. The events in Lebanon in late 1980's and the need to serve the companies that escaped the war, in conjunction with the favourable "offshore" legislation that existed immediately after the events in 1974, provided a safe home for Lebanese banks to operate in Cyprus as IBUs. The events in Yugoslavia and later, the collapse of the Soviet Union has found Cyprus being the home of a number of fleeing companies and the banks to serve their needs. The prospects of Cyprus joining the EU have also attracted a number of European Banks that saw the advantages of a safe country with economic and political stability with favourable tax advantages. The joining of EU in April 2004 and the Euro zone in 2008 has cemented a stable economic and political environment that not only supports the existing international banking sector but also enhances it by attracting more international banks establishing operations in Cyprus.

Cyprus, which has achieved a high degree of sustainable economic convergence with the core of the European Union, has enjoyed price stability, healthy rate of economic growth and high levels of employment. With Cyprus joining the EU in 2004 and the Euro zone in 2008, Cyprus's status as a reputable financial centre has been boosted. As a result, Cyprus's success in becoming one of the world's primary international business centres for trading, investment and shipping activities, more than 100,000 international companies and over 1,857 ships under Cypriot flag, are currently registered in Cyprus.

A major role in Cyprus being an international business center is undertaken by the Central Bank of Cyprus. One of the primary objectives of the Central Bank of Cyprus is to ensure a safe and stable system that would preserve public (local & foreign) confidence and foster economic stability and growth, within a rigorous Anti-Money Laundering Legislation. This

objective is satisfied by maintaining an effective mechanism of bank regulation and supervision. The Central Bank of Cyprus grants a license to carry on Banking Business and exercises supervision, the main objective of which is to minimise systemic risk and preserve the stability of the banking system so as to ensure public confidence in the financial system and to protect depositors. In its supervisory role, the Central Bank of Cyprus has been guided by the recommendations of the Basle Committee on banking supervision and the EU Directives on banking regulation.

Given its developed financial services infrastructure, Cyprus has attracted a substantial number of International Banks from a variety of countries such as Russia, Greece, Lebanon, France, UK, Austria, Jordan, Romania, Bulgaria, Kuwait, Switzerland, Ukraine, Latvia and Lithuania.

Currently, there are 30 International Banks (excluding Greek banks) in Cyprus as follows:

a) Subsidiaries of foreign banks:	3
b) Branches of EU banks:	8
c) Branches of non-EU banks:	17
d) Representative offices:	2

In conditions of global financial crisis, in contrast to European Banks, most banks in Cyprus have benefited from a stable deposit base, strong capital adequacy and non-exposure to sub-prime lending. The International Banking sector in Cyprus is a major contributor to the Cyprus economy in various forms both directly and indirectly. The International Banks in Cyprus make up about 33% of the total assets of the banking sector in Cyprus or about Euro 33 billion, and employ around 600 people.

The Association of International Banks was set up in 2002 and represented the first concerted effort of Cyprus-based international banks to set up a collective body aiming to promote the objectives of the sector. Since its inception, the Association, which is based in Limassol, has played a leading role with regards to issues affecting or otherwise impacting upon the international banking sector. To that end, the Association is represented in and actively contributing to several Central Bank committees and several initiatives have been undertaken in close co-operation with other bodies and institutions in support of the sector. The Association is also a member of the Cyprus Chamber of Commerce & Industry.

International Banks have played a critical role during difficult times for the countries they come from and the host country Cyprus. This role has been played with success, if judged by the continued presence of these Banks for the last 30 years in Cyprus. Given that Cyprus enjoys the status of a reputable global business centre, it is guaranteed that international banks will not only remain in Cyprus but will continue to expand and increase in numbers.

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