

International Deposit Insurance Survey

Section 1: Background Information

1.1 Organization (deposit insurer) responsible for administering the deposit insurance system:

1.1.1 Organization Name:

Central Bank of Cyprus

1.1.2 Organization Address:

given above

1.1.3 Organization Telephone No:

given above

1.1.4 Organization Fax No:

1.1.5 Organization Internet Address:

given above

1.2 Contact Person(s):

1.2.1 Contact Person(s) Name:

1.2.2 Contact Person(s) Address:

1.2.3 Contact Person(s) Telephone:

1.2.4 Contact Person(s) Fax:

1.2.5 Contact Person(s) E-mail address:

1.2.6 Are there other deposit insurance systems operating in your country ? (i.e. applying to other types of non-bank or non-depository institutions e.g.. insurance, securities) Please state their name(s) and contact information:

1.3 Please provide information on other participants in your financial system safety-net:

1.3.1 Name of Central Bank:

1.3.2 Central Bank Address:

1.3.3 Central Bank Telephone:

1.3.4 Central Bank Fax:

1.3.5 Central Bank Internet Address:

1.3.6 Central Bank Contact Person:

1.4 Financial Supervisor:

1.4.1 Financial Supervisor Name:

given above

1.4.2 Financial Supervisor Address:

1.4.3 Financial Supervisor Telephone:

given above

1.4.4 Financial Supervisor Fax:

1.4.5 Financial Supervisor Internet Address and contact:

given above

1.5 Other related entities:

1.5.1 Other Related Entities Name:

1.5.2 Other Related Entities Address:

1.5.3 Other Related Entities Telephone:

1.5.4 Other Related Entities Fax:

1.5.5 Other Related Entities Internet Address:

Section 2: Objectives, Mandates & Powers

2.1.1 When and why was the DIS established (please provide details)?

The Deposit Protection Scheme came to operation on 1st September, 2000. It was established for the purpose of providing protection to depositors and also for purposes of harmonisation with the European Union Acquis.

2.1.2 What are the stated public policy objectives or mandate for your country's DIS? When was the last time they were reviewed and changed?

The purpose of the Scheme as stated in the relevant Regulations is to offer protection and pay compensation to depositors in the event that a bank participating in the Scheme is unable to repay its depositors. There has not been any revision with regard to public policy objectives since the commencement of its operation.

2.1.3 What process was used to determine these objectives in your country?

The objectives were set in line with the E.U Directive on deposit guarantee schemes.

2.1.4 What is the legal basis under which the DIS was established? Please provide a copy.

Legislation

The Regulations regarding the establishment and operation of the Deposit Protection Scheme were issued under section 34(2) of the Banking Law, 1997.

2.1.5 Is there a formal process for a periodic review of the policy objectives/mandates?

No

The scheme is very recent. It is upto the Management Committee in consultation with the Central Bank to review the objectives or any part of the Regulations. Only the annex to the Regulations which sets out the members participating in the scheme must be updated by the Management Committee at regular intervals.

2.1.6 What sort of system do you have?

Other

The Deposit Protection Fund has a separate legal status. The Regulations provide for a Management Committee which takes decisions and administers the fund. The Central Bank offers administrative facilities for the implementation of the decisions of the Management Committee.

2.1.7 Who makes decisions to pay depositor claims?

DIS

The Management Committee of the Fund may proceed with the compensation payment when it receives notice that a deposit is rendered unavailable. This is determined either by the Central Bank which is the supervisory and regulatory body of banks in the Republic or by an order made by a Court.

2.2 Which of the following powers has been provided to the DIS in order to

carry out its mandate?

2.3 Authority to

2.3.1 Enter into contracts

Yes

2.3.2 Set regulations or by-laws for conduct of its business

Yes

The Management Committee levies the contributions to be paid by new members.

2.4 Authority over entry and exit of member deposit taking institutions

2.4.1 Establish terms and conditions of membership

No

No, only if the banking license is withdrawn.

2.4.2 Authority to terminate the insured status of a member institution

Yes

2.5 Depositor reimbursement

2.5.1 Affect reimbursement of depositors claims

Yes

2.5.2 Access to depositor information

No

The procedure to be followed is specified in the Regulations.

2.5.3 Use various methods of reimbursing depositors claims

Yes

using the sources of funding specified in Regulation 7

2.6 Funding

2.6.1 How funding is provided

Yes

2.6.2 Terms and conditions of premiums or levies

Yes

The Committee may borrow when the need arises.

2.6.3 Borrowing authorities and limits

Yes

The committee may request information either directly or through the CBC (Central Bank of Cyprus)

2.7 Information Requirements

2.7.1 Access to information directly from member deposit taking institutions or its auditors

2.7.2 Access to information through supervisory authorities

Yes

The Central Bank is empowered to carry out on-site examination.

2.8 Enforcement and intervention

2.8.1 Authority to conduct examinations and/or reviews

2.8.2 Ability to set standards or guidelines for member institutions

No

The Central Bank may take such action as described in the Banking Law.

2.8.3 Authority to take enforcement actions against members (i.e. such as the authority to require a change in institutional control and/or behaviour).

No

2.8.4 Authority to cancel deposit insurance of a member institution

2.8.5 Authority to hold officers and directors of failed institutions legally liable for the failure of the institution

No

The purpose of the fund is restricted to compensation of depositors.

2.9 Failure resolution

2.9.1 Authority to decide on appropriate form of failure resolution

No

2.9.2 Authority to provide financial assistance (e.g. in the form of a loan -- with or without security -- by purchasing assets from the institution or through some other process).

No

2.9.3 Authority to guarantee deposits with member institutions or guarantee loans to an institution by other parties

2.10 Authority to:

2.10.1 Undertake formal liquidation

2.10.2 Purchase and assumption (sale and merger)

2.10.3 Open assistance (bridge bank)

2.10.4 Other forms of failure resolution

2.11 Optimizing recoveries

2.11.1 Ability to act as a receiver

No

2.11.2 Ability to act as a liquidator

Yes

only if the banking license is withdrawn

Section 3: Governance Arrangements

3.1.1 Is the DIS a legally separate organization from other public or private bodies? (e.g. central bank, supervisor, industry association)

Yes

The Deposit Protection Fund is a separate legal entity.

3.1.2 What is the form of governance used by the DIS organization?

3.1.3 How is the governing body selected?

The chairman and vice-chairman of the committee are ex-officio the governor of the Central Bank and the head of the Banking Supervision and Regulation Division. The other three members are appointed by the Governor of the Central Bank (two members are nominated by the Association of Commercial Banks and one member by the Minister of Finance).

3.1.4 What is the composition of the governing body?

The Committee consists of five members: Chairman: the Governor of the Central Bank Vice chairman: the head of the Banking Supervision and Regulation Division of the Central Bank two representatives of the Association of Commercial Banks one representative of the Minister of Finance

3.1.5 What are the duties and responsibilities of the governing body?

The Committee has full authority for the administration and management of the Fund including power to: a) levy the contributions to be paid by members b) make compensation and other payments for the operation of the Fund c) borrow when the need arises

3.1.6 Is there any direct or indirect representation in the management of the DIS by member insured institutions?

Yes

Please see section 4.

3.1.7 Is there any direct or indirect representation in the management of the DIS by the central bank?

3.1.8 Is there any direct or indirect representation in the management of the DIS by the regulator?

3.1.9 Is there any direct or indirect representation in the management of the DIS by the supervisor?

3.1.10 Is there any direct or indirect representation in the management of the DIS by other?

3.1.11 Please provide a breakdown of the management structure of the DIS

Chairman Vice chairman three other members Decisions are taken by absolute majority of the members who are present. The Chairman has the casting vote.

3.1.12 Do you have an internal control and audit systems

No

The financial management of the Fund and its final accounts are audited by the Auditor General of the Republic.

3.1.13 Are directors and officers of the DIS and/or supervisors personally liable for their decisions in the normal course of their activities?

No

3.1.14 Is there an advisory committee to the DIS?

No

There is a Management Committee which has full authority for the administration and management of the Fund.

3.1.15 Has the DIS ever taken legal action against directors of failed member institutions? Or others? What position did the person(s) hold?

No

3.1.16 Please indicate which of the following tools are used as part of your accountability regime.

Section 4: Human Resources & Infrastructure

4.1.1 What is the total number of employees at the DIS (e.g. full-time, part-time and contract) ?

Apart from the five members participating in the Management Committee there are currently 3 employees of the Banking Supervision and Regulation Division dealing with the Fund's administrative work

4.1.2 Are the majority of DIS employees dedicated staff or do they come from other organizations (i.e. government, central bank, private sector)?

No

The Fund has no full-time staff. Employees of the Banking Supervision and Regulation Division of the Central Bank carry out the required work and implement the decisions of the Management Committee.

4.1.3 Does the DIS train and develop its own staff? If so, briefly describe programs which have been put in place for training and development?

No

The Central Bank provides for this kind of training. The head of the section of the Banking Supervision and Regulation Division which is responsible for the administration work of the Fund, participates in various workshops and international fora with regard to Deposit Guarantee Schemes.

4.1.4 Is there shared training and development between the staff of the DIS and other authorities involved in financial sector supervision or regulation? (i.e. central bank, supervisor, regulator, other)

No

The employees of the Fund are employees of the Central Bank, which is the only institution involved in the supervision of banks.

4.1.5 Are compensation and incentives offered sufficient to attract and retain skilled staff? Please elaborate.

3

Not applicable as the Fund has no employees. The work is done on an ex-gratia basis by employees of the Central Bank.

4.1.6 Are confidentiality provisions for employees provided for?

Yes

This is stated explicitly in the Regulations.

4.1.7 Do employees of the DIS receive legal protection against lawsuits for their actions taken in good faith and acting in the best interests of the DIS?

Yes

The administrative work of the Fund as well as the implementation of the decisions of the Management Committee is carried out by the employees of the Central Bank. The directors and officers of the Central Bank receive legal protection for their actions taken in good faith in accordance with the provisions of the Banking Law.

4.1.8 What percentage of the budget is spent on training and development and information technology?

Not applicable. Expenses of training and development for the employees of the Fund are undertaken by the Central Bank

Section 5: Information Sharing & Interrelationship Among Safety-Net Players

5.1.1 Who performs examinations of DIS member institutions?

Central Bank

The Central Bank is the regulatory and supervisory body of banks in the Republic.

5.1.2 Please describe the examination process that is used to evaluate member institution performance?

Supervision by the Central Bank is carried out through both off-site monitoring and on-site examination. The main areas covered through on-site examination are: quality of management and loan portfolio, adequacy of the provisions for bad and doubtful debts, review of financial condition and profitability, liquidity position and treasury operations as well as verification of the accuracy of information in regulatory reports and compliance with the Law and other prudential rules.

5.1.3 What information is collected from member institutions for the DIS and other parties?

The Regulations provide that the data requested by the Committee may include: -data regarding the deposit base for the purpose of calculating the amount of contributions -balance sheet and profit and loss account data -any other information relevant for serving the purpose of the scheme.

5.1.4 What arrangements (i.e. formal or informal) are in place between organizations responsible for deposit insurance and other parties comprising the safety-net (e.g. central bank, supervisor, regulator) regarding the sharing of information concerning member institutions? Please provide details of these agreements.

There are no formal arrangements. However the Central Bank participates in the Management Committee and hence there is cooperation.

5.2 On a scale from 1 to 5, 1 being low and 5 being high, please rate both the accessibility (i.e. access to all necessary information for the DIS to fulfill its mandate) and timeliness (i.e. information is received when needed) of information that is shared amongst members of the safety net.

5.2.1 accessibility

4

5.2.2 timeliness

4

5.2.3 Is there a consistent definition/classification across authorities of problem institutions

Other

Not applicable as there is only one authority responsible for the supervision of banks, the Central Bank.

5.2.4 When policy regarding the DIS and financial sector is developed or amended, are other bodies consulted and/or advised (e.g. central bank, supervisor, regulator, government, industry associations) ? If you do consult and/or advise what bodies do you do it with?

5.2.5 Is discussion with other bodies encouraged prior to the implementation of new policy?

5.2.6 How often do you contact other DIS?

Occasionally

Whenever there is need for such a contact

5.2.7 Is the DIS consulted when the regulator, supervisor or central bank enters into an agreement with a financial institution that is experiencing problems?

Section 6: Membership

6.1.1 What types of institutions are covered in your DIS?

Currently all domestic banks operating in the Republic of Cyprus (including branches of foreign banks) are members of the scheme, with the exception of the Co-operative Central Bank. This bank together with the co-operative credit institutions participates in an equivalent Deposit Protection Scheme for co-operative credit societies.

6.1.2 Is membership in the DIS mandatory for designated deposit taking institutions?

Yes

Membership is compulsory for all banks licensed to operate in the Republic of Cyprus, unless a bank is specifically exempted by a decision of the Committee which administers the Fund.

6.1.3 Do you have terms and conditions of membership? (i.e. laws, regulations or agreements which member institutions have to abide by) If so, please explain the application process used and any conditions of membership imposed on institutions by the DIS.

6.1.4 Is the membership of foreign institutions (i.e. foreign bank branches and/or subsidiaries) covered in the same way as domestic institutions? If not, please describe the difference.

Yes

6.1.5 If more than one safety-net organization is responsible for the application process for membership, how is the application process coordinated between the parties responsible?

All decisions concerning membership are taken by the Fund's Management Committee. However, the administrative work with regard to the application process is carried out by the employees of the Central Bank.

6.1.6 Are deposit-taking institutions required to re-apply for membership after a certain period of time?

No

6.1.7 How many member institutions do you have?

There were eleven institutions participating in the Scheme as at 31st December, 2001.

6.1.8 What is the total level of assets, deposits and insurable deposits of all DIS member institutions?

The total level of assets (excl. contra accounts) of all member institutions amounted to CYP£13,6 bn as at end December, 2001. Total deposits stood at CYP£10,6 bn. The deposit base of member banks which excludes deposits exempted under the relevant Regulations is estimated around CYP£6,0 bn for the same date.

Section 7: Coverage

7.1.1 Is there a formal definition of a deposit and or insured deposit used by your DIS? If so what is it?

7.1.2 What types of deposits are eligible for coverage in your DIS?

Savings account, Chequing account, Certified drafts of cheques

The Regulations provide that all deposits in cyprus pounds are covered except those that are specifically exempted. |null|null|null|null|null|null|null|null|null|null|

7.1.3 Is coverage

per depositor per institution

7.1.4 What is the coverage limit per depositor?

Compensation amounts to 90% of each protected deposit up to a maximum of the equivalent in cyprus pounds of euro 20.000.

7.1.5 How was this figures arrived at?

The required minimum under the Directive of the European Union on the matter has been adopted.

7.1.6 For eligible financial instruments with maturity dates, what is the longest contract term covered by the DIS?

Not provided in the Regulations. The Regulations provide that all deposits in cyprus pounds are covered except those specifically exempted and there is no reference to the maturity of deposits.

7.1.7 What types of depositors are not eligible for coverage in your DIS?

Foreign (non-residents), Corporations (domestic), Corporations (foreign)

All depositors holding deposits in cyprus pounds except those specifically exempted. However, deposits belonging to persons, who in the opinion of the Committee have any responsibility for the bank's bankruptcy or for being unable to repay its deposits, or who have profited from the circumstances giving rise to those events are exempted. |null|null|null|null|

7.1.8 Is the coverage amount indexed?

No

7.1.9 What is it indexed to?

Not applicable

7.1.10 Does your DIS use coinsurance? If coinsurance is used please describe the approach used.

Yes

In addition to a maximum amount of compensation (the equivalent in cyprus pounds of euro 20.000) there is a percentage cover of 90% of each protected deposit.

7.1.11 Is the public widely aware of the presence of coinsurance?

7.1.12 Are coverage levels affected by resolution methods? If so, please explain.

No

7.1.13 To what extent, is there a public expectation that the DIS coverage limit would be extended to 100% coverage in the event of a banking crisis or the failure of a very large institution? Please provide recent examples, if applicable.

Other

maybe

7.1.14 How is a decision made on the insurance eligibility of new financial products?

At present the scheme covers only deposits in cyprus pounds with the exceptions specified in the Regulations. The issue of eligibility of new financial products has not arisen so far. In such a case it will be upto the Management Committee to decide.

7.1.15 When member institutions merge how are insured deposits treated?

This is not provided explicitly in the Regulations. it is up to the Management Committee to decide.

7.2 Does your country offer the following?

7.2.1 Islamic banking

7.2.2 Islamic deposit insurance

Section 8: Funding & Fund Management

8.1.1 What type of funding is used by the DIS?

8.1.2 Is the DIS funded by levying insurance premium assessments against member institutions or, by some other means such as general tax revenues?

8.1.3 If insurance premiums are assessed, are they assessed as a flat rate or are they differential in some way, please explain? (e.g. risk based)

8.1.4 What is the current premium rate? If there have been changes to this rate, details would be appreciated.

8.1.5 How often is the premium assessed?

8.1.6 Is the premium assessed on total deposits, insured deposits or something else?

8.1.7 Are premiums paid by member institutions tax deductible as a business expense?

8.1.8 For premiums that are differentiated please explain the risk assessment system that is used to ascertain a premium assessment.

8.1.9 Does the DIS have a target with respect to the optimal size of the DIS fund? (Yes is chosen go to question 8.10 otherwise Skip the next 2 questions)

8.1.10 How is the optimum level (i.e. target) of the fund determined?

8.1.11 What investment policies (i.e. safeguards against abuse) exist concerning the use of the fund?

8.1.12 If a fund is not maintained, is an assessment levied on institutions after the failure of a financial institution has occurred? If so, please explain how the levies are determined and losses distributed among institutions.

8.1.13 Which of the following sources of additional funding, for emergency or liquidity purposes, does the DIS have access to?

8.1.14 Are member institutions required by law to issue, on a regular basis, subordinated debt?

Section 9: Reimbursing Depositors

9.1.1 Please describe the procedure for reimbursing depositors used by your DIS?

9.1.2 Are depositors required to file a claim when a member institution fails? If so, what is the process?

9.1.3 When is the DIS obligated to reimburse insured depositors?

9.1.4 Is there an established legal basis upon which to base the reimbursement

process? Please explain.

9.1.5 Is the DIS subject to explicit standards for prompt reimbursement? If so what are they?

9.1.6 What methods of payment can be used and under what circumstances are they used?

9.1.7 Are the rules regarding clearing, set-off, trust accounts, and related issues well defined (through the legal system or formal agreement)? Please explain.

9.1.8 What are financial institutions obligated to hold with respect to deposit records?

9.1.9 When is the DIS given access to an institutions financial and depositor records?

9.1.10 Does the DIS have the option of making advance payments to depositors in situations of dire need (i.e. in an emergency)?

9.1.11 Does the DIS make interest payments to depositors during the time taken for reimbursement? Please explain.

9.1.12 What information is communicated to depositors regarding the reimbursement process?

9.1.13 What process does the DIS use to ensure that depositor secrecy and confidentiality is maintained during the reimbursement process?

9.1.14 What steps are taken to verify, reconcile and settle insured deposit accounts?

9.1.15 What steps are taken to ensure that an institutions depositor records are accurate, up to date and accessible?

9.1.16 Does the DIS document its experiences with respect to each reimbursement action (i.e. lessons learned) in order to allow for continuous improvement?

9.1.17 What technologies does the DIS use to facilitate the reimbursement process?

Section 10: Public Information & Awareness

10.1.1 What obligations are there to inform the public?

10.1.2 Who is responsible for communicating information about the DIS to the general public?

10.1.3 Are these explicitly stated in policy or law?

10.1.4 Are the terms and conditions of DIS explained in a manner that the general public can understand fully?

10.1.5 If so, what methods are utilized?

10.1.6 At what point is information disclosed to the public about an institution that is having problems and how is information disclosed?

10.1.7 Has a survey of public awareness about the DIS been conducted? If so/ what were the results? If not why not? Please include supporting documentation.

10.1.8 Has the DIS ever embarked on a public awareness campaign to increase awareness and knowledge? If yes, how many times has this been done and when was the last time?

10.1.9 Please describe the approach used; objectives, target audience, communication strategy, and timing results.

Section 11: Risk Assessment & Intervention

11.1.1 Does the DIS have a risk monitoring function to analyze and assess the risk of member financial institutions?

11.1.2 Does the DIS perform examinations of its member institutions? If not, who does?

11.1.3 Does the DIS receive information/data/statistics directly from its member institutions or from a third party, such as a regulator or supervisor? If so what information is received and how often?

11.1.4 What is the risk assessment approach used by the DIS to monitor financial institutions? Please describe. Please be sure to include the criteria used to determine member institution risk.

11.1.5 Please list and describe the actions taken by the DIS in situations where member institutions are causing concern. Please indicate when coordination occurs with other supervisory/regulatory authorities and the mechanisms used.

Section 12: Failure Resolution

12.1.1 Is your DIS involved in the failure resolution of member institutions?

12.1.2 Who determines whether a member institution has failed or is insolvent?

12.1.3 Under what conditions can the DIS cancel/terminate the deposit insurance of a member institution?

12.1.4 How is the failure/non viability of a member institution determined?

12.1.5 How many member institutions have failed in your country in the last 20 years?

12.1.6 Do banks go through the regular corporate bankruptcy process? If no, what is the process used?

12.1.7 Is the receiver of failed institutions also the one that disposes of the institutions? If not, who does?

12.2 Which methods of failure resolution are used in your country to deal with failures. Also, please indicate the frequency of use of the various methods in the last 20 years.

12.2.1 Formal liquidation

12.2.2 Purchase and assumption (sale and merger)

12.2.3 Open bank assistance (e.g. recapitalization)

12.2.4 Bridge banks and other interim solutions

12.2.5 What criteria are used to determine the method of failure resolution?

12.2.6 Is the deposit insurer required to resolve failed or failing insured depository institutions in a manner that is least costly to the DIS?

12.2.7 Please indicate what kind of private companies, if any, are included in the failure resolution process?

Section 13: Claims, Recoveries & Estate Management

13.1.1 Does the DIS play a role in the claims and recoveries process? If yes please describe this role

13.1.2 What is the primary objective of the DIS when dealing with claims and recoveries (i.e.. maximization of nominal and present value recoveries, financial system stability, system discipline)?

13.1.3 What role does the private sector play in the claims, recovery process?

13.1.4 What approaches and strategies are adopted by the deposit insurer to accomplish the objectives of claims and recovery activities?

13.1.5 By what standard is the DIS judged with respect to performing its function in claims and recoveries (e.g.x. Comparative private sector or DIS benchmarks, internal assessments, past experience)?

13.1.6 What assets have you found to be the hardest to recover? Why? What types of strategies have been used to recover different assets?

13.1.7 Does the DIS have rights of subrogation (i.e. the subrogation of insurance entity to the rights of insured depositors) or an equivalent arrangement?

13.1.8 Is there depositor priority when banks fail? (i.e. Do depositor claims rank in priority above other unsecured creditors in the liquidation of a bank?)

13.1.9 Are rights of set-off available or imposed in your countrys legal system? Please describe the various forms set-off can take.

Section 14: Other Issues

14.1.1 What is your view on recent trends and emerging issues in the financial sector in your country and the potential impact they might have on the DIS?

14.1.2 Are there any issues related to deposit insurance which you would like to see more research in?