



Πανεπιστήμιο Κύπρου  
University of Cyprus

# **Cypriot Banks: Navigating Global Challenges and Future Prospects**

**Andreas Milidonis**

**Professor of Finance**

**Department of Accounting & Finance**

**Faculty of Economics & Management**

**University of Cyprus**

June 27, 2023

# Outline: Cypriot Banks

## 1. Global Challenges

1. Pandemic and Russia
2. Anti-Money Laundering (AML)
3. ESG

## 2. European Challenges

1. Transparency
2. Regulation
3. Asset Quality (NPLs) + Capital Adequacy
4. ECB Monetary Policy
5. Digitization

# 1.1 Pandemic/Russian Invasion

- Economic consequences of managing the pandemic.
- The Russian invasion of Ukraine.
- Banking “incidents” in the US and Europe
  - Silicon Valley Bank (SVB)
  - Signature Bank
  - First Republic Bank
  - Credit Suisse

## 1.2 Anti Money Laundering

- Significant progress made since 2013.
- But more work to be done.



### Moneyval (2019)

<https://rm.coe.int/anti-money-laundering-and-counter-terrorist-financing-measures-cyprus-/16809c3c47>

## 1.2 Anti Money Laundering

- Moneyval (2019), p.108:





“Overall, this ML/TF risk mitigation activity appears to represent a conscious, strenuous effort by Cyprus banks to clearly improve their compliance with the established regulatory framework, and the public perception of such compliance. While still a work in progress and not uniformly successful, overall this effort has had remarkable results.

Examination results tend to confirm that banks are taking more, and more effective ML/TF risk mitigation steps than they did in the 2013-2016 examination cycle.”

## 1.2 Anti-Money Laundering

- US and UK Sanctions (April 2023): served as a good test for Cypriot banks.

We witnessed:

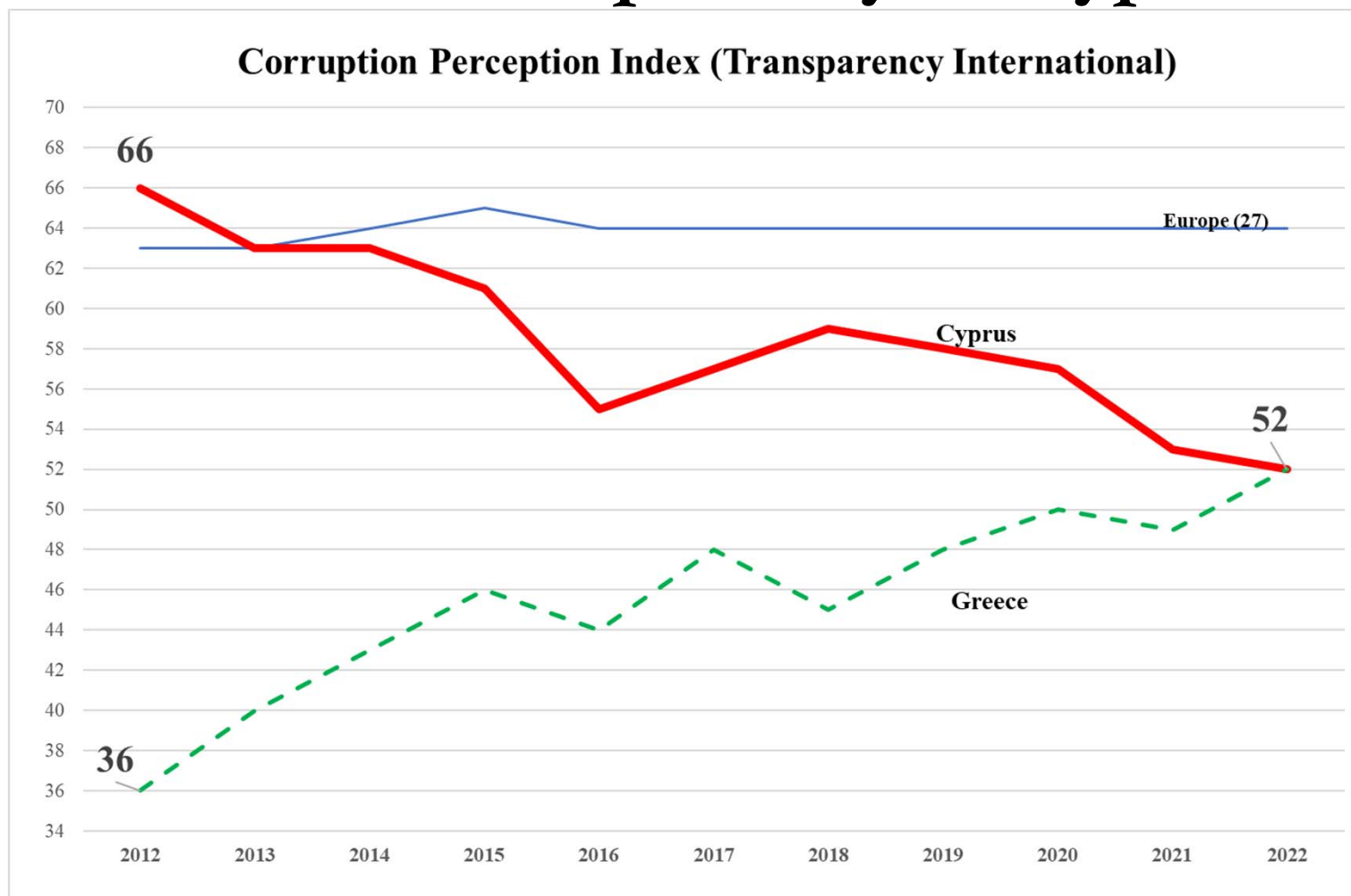
- Good reflexes by Cypriot Banks at the announcement of recent sanctions. 
- Freezing of accounts of sanctioned individuals and any corporations connected to them. 

## 1.3 ESG

- Environmental, Social and Governance (ESG) is happening!
- Like many other regime changes happening around the world, they arrive in Cyprus with a delay.
- Cypriot Banks are among the leaders in Cyprus, in adopting ESG standards and practices.



## 2.1 Transparency in Cyprus



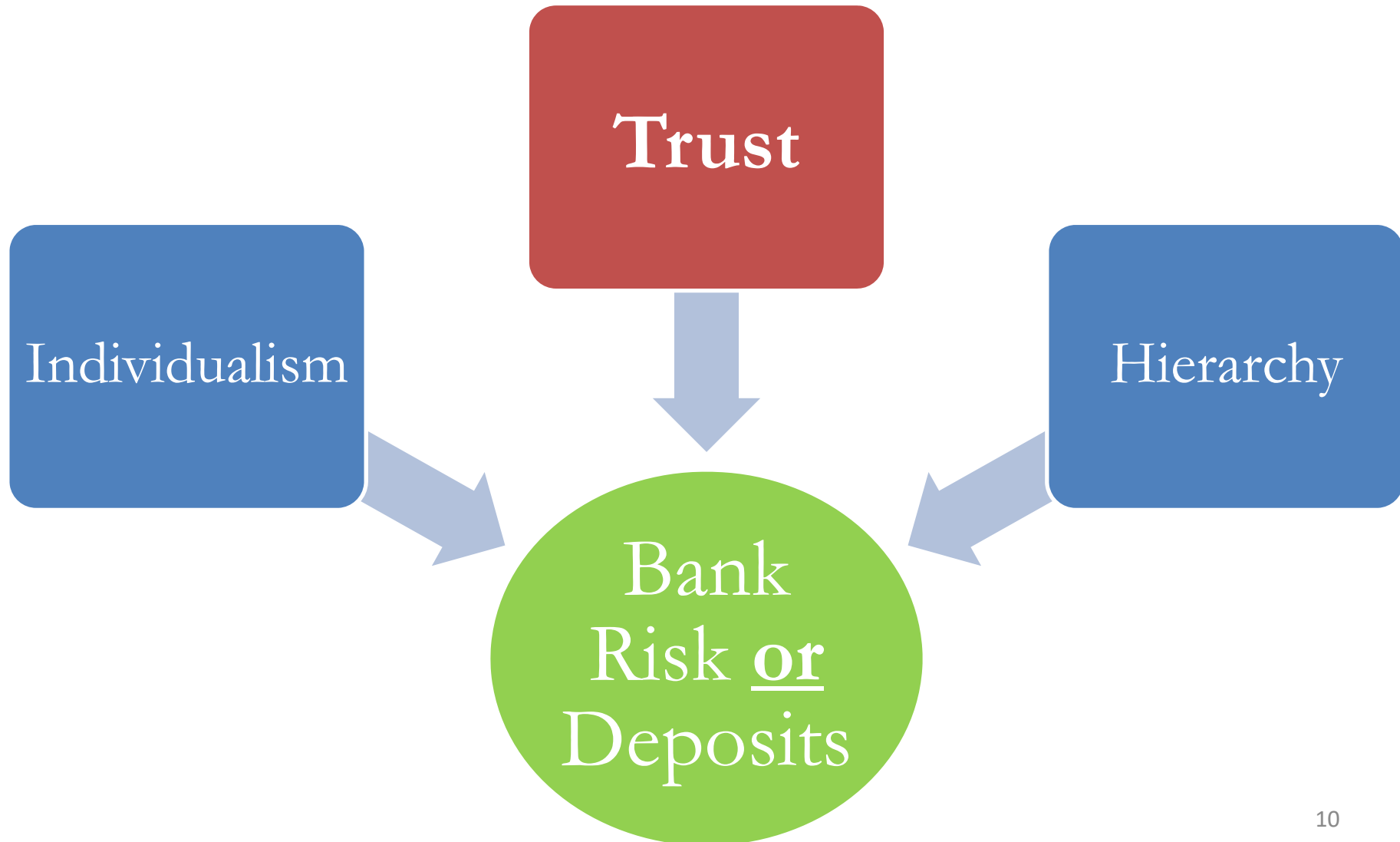
- Higher score => higher transparency (lower corruption perception)
- Cyprus perceived to be more opaque than average, which likely makes it harder for the operations of Cypriot banks.



## 2.2 Regulation

- European Banking Union forthcoming.
- Regulation for European Banks is becoming more uniform.
- Country Differences: not only size but culture as well.
- **National Culture affects** bank risk & bank deposits.
- This has implication for Regulation.

## 2.2 Research on:



# 2.2 National Culture and Bank Risk

Journal of Financial Stability 40 (2019) 132–143



Contents lists available at [ScienceDirect](#)

Journal of Financial Stability

journal homepage: [www.elsevier.com/locate/jfstabil](http://www.elsevier.com/locate/jfstabil)



Review

## National culture and bank risk-taking



Stella Mourouzidou-Damtsa<sup>a,\*</sup>, Andreas Milidonis<sup>b</sup>, Konstantinos Stathopoulos<sup>a</sup>

<sup>a</sup> Alliance Manchester Business School, The University of Manchester, Crawford House, Booth Street East, Manchester, M15 6PB, UK

<sup>b</sup> Accounting and Finance Department, Faculty of Economics and Management, University of Cyprus, 1678 Nicosia, Cyprus

### ARTICLE INFO

#### Article history:

Received 22 December 2016

Received in revised form 18 August 2017

Accepted 24 August 2017

Available online 6 September 2017

#### JEL classification:

G01

G21

Z13

#### Keywords:

Bank risk-taking

National culture

Financial crisis

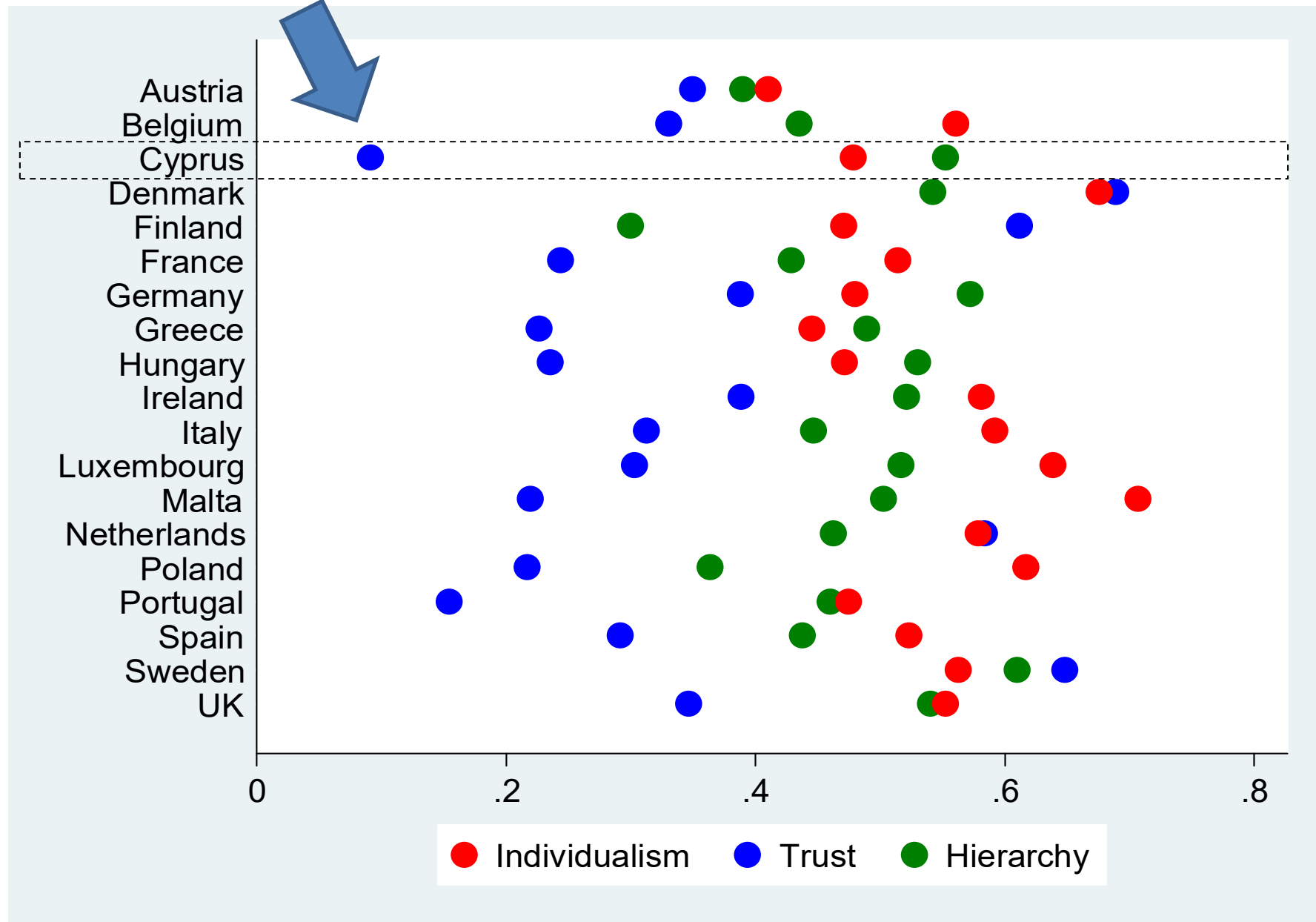
Domestic vs. global banks

### ABSTRACT

We investigate the relation between national cultural values and bank risk. Despite the rigid transnational regulatory oversight of systemic European banks, we find evidence of an economically significant association between cultural values and domestic bank risk. Specifically, we report a positive (negative) association between the cultural values of individualism and hierarchy (trust) and domestic bank risk-taking. Consistent with our predictions, this relation weakened during the recent financial crisis and does not hold for global banks, regardless of the period under investigation. Our findings are robust to endogeneity tests that mitigate concerns regarding reverse causality and confounding effects affecting our conclusions.

© 2017 Elsevier B.V. All rights reserved.

## 2.2 National Culture (Europe)



## 2.2 Trust



Survey which poses the following Question:

“Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?”

- *Higher values indicate higher trust in people.*

## 2.2 Trust

### Impact on Risk or Deposits

- Within Europe, as we move from a country of

**Low to High TRUST**  $\Rightarrow$  **Bank Risk** 

$\Rightarrow$  **Deposits** 

- References:
  - National Culture and Bank risk-taking: [Link](#)
  - National Culture and Bank deposits: [Link](#)

# Research Results important to:

- **Bank Regulators:**
  - When designing horizontal risk benchmarks across Europe.
  - Not all banks are the same and national culture matters.
  - In addition to size, Cyprus is different with respect to Trust.
- **Bank Boards:** when designing compensation risk-taking incentives for their CEOs.
- **Bank Managers:** when deciding on liquidity, also considering how potential depositors will behave with respect to their deposits.

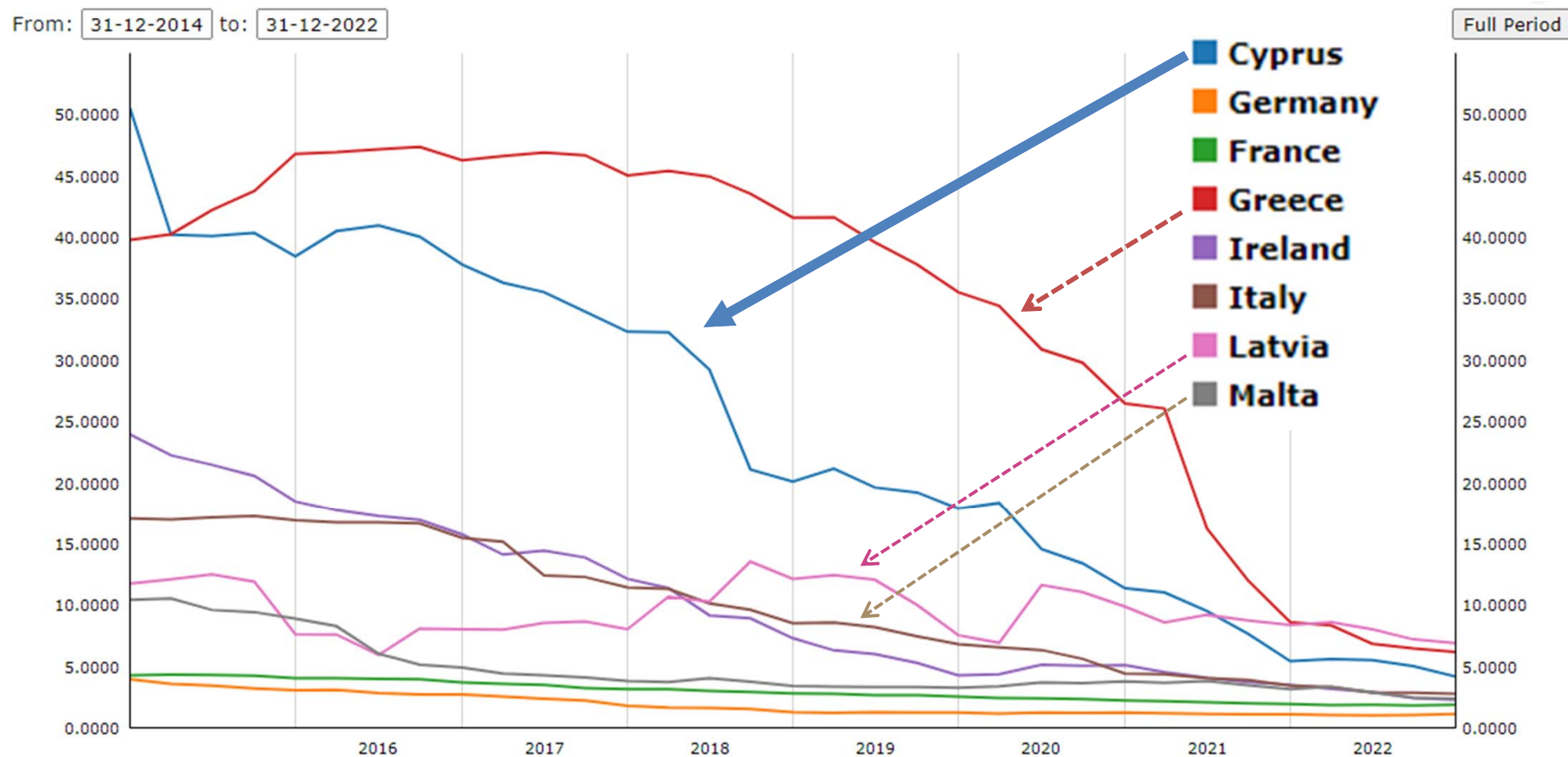
## 2.3 Banking Sector Consolidation

- Major structural changes after 2013 due to European Regulation, AML, sanctions (etc.).
- Examples:
  - Cyprus Popular Bank Public Co Ltd 2013
  - FBME Bank Ltd 2014
  - Cyprus Cooperative Bank 2018
  - RCB Bank Ltd 2022



## 2.3 Bank Asset (Loan) Quality

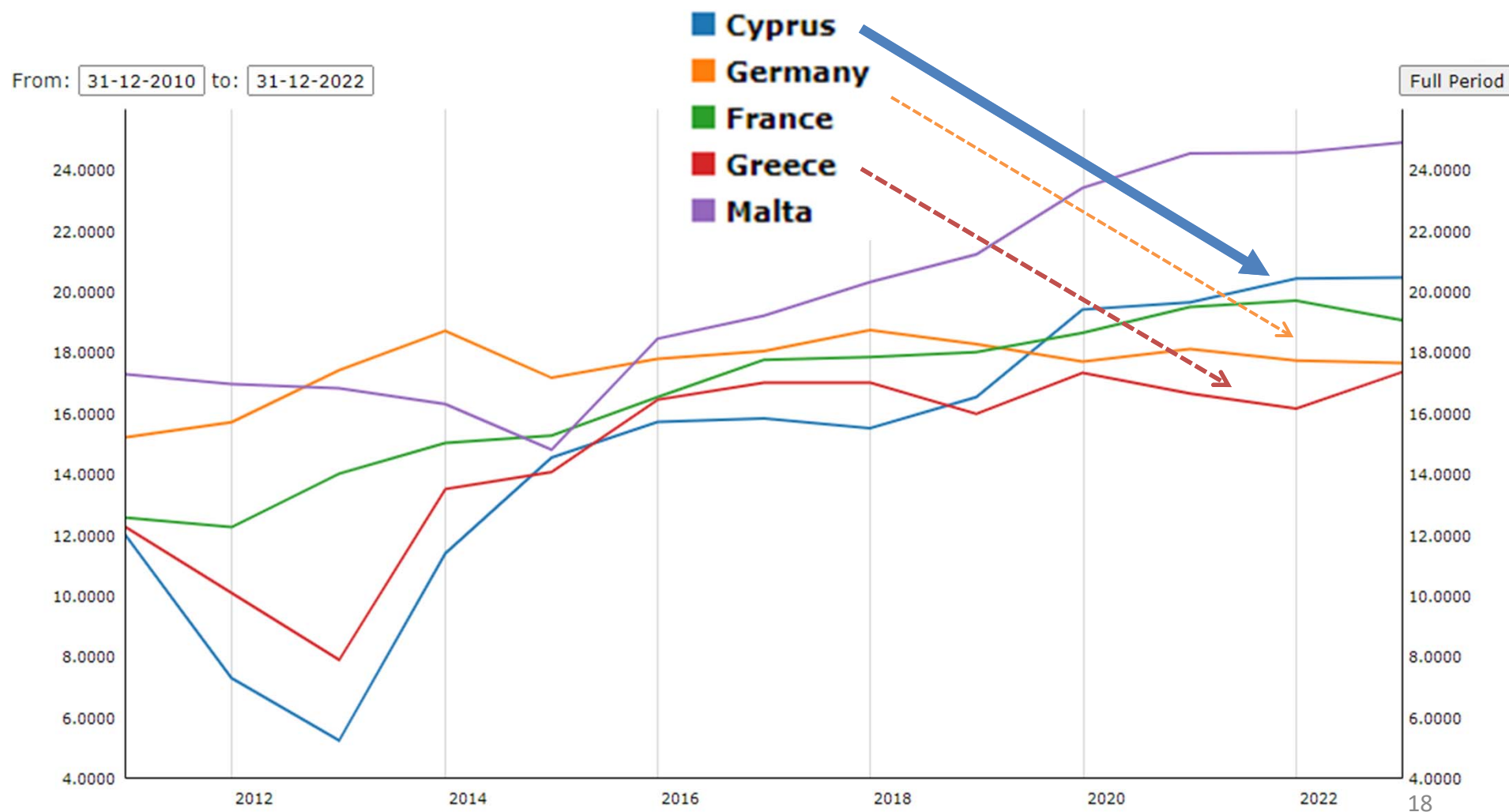
- **Non-Performing Loans:** Significant progress. ✓
- More work to be done for the Cyprus Banking Sector.



Source: ECB (SDW) Consolidated Banking data. [Link](#)

## 2.3 Solvency ratio [%]

- Good Job for the Cyprus Banking Sector. ✓



Source: ECB (SDW) Consolidated Banking data. [Link](#)

## 2.4 ECB Monetary Policy



### Tools and policy measures

---

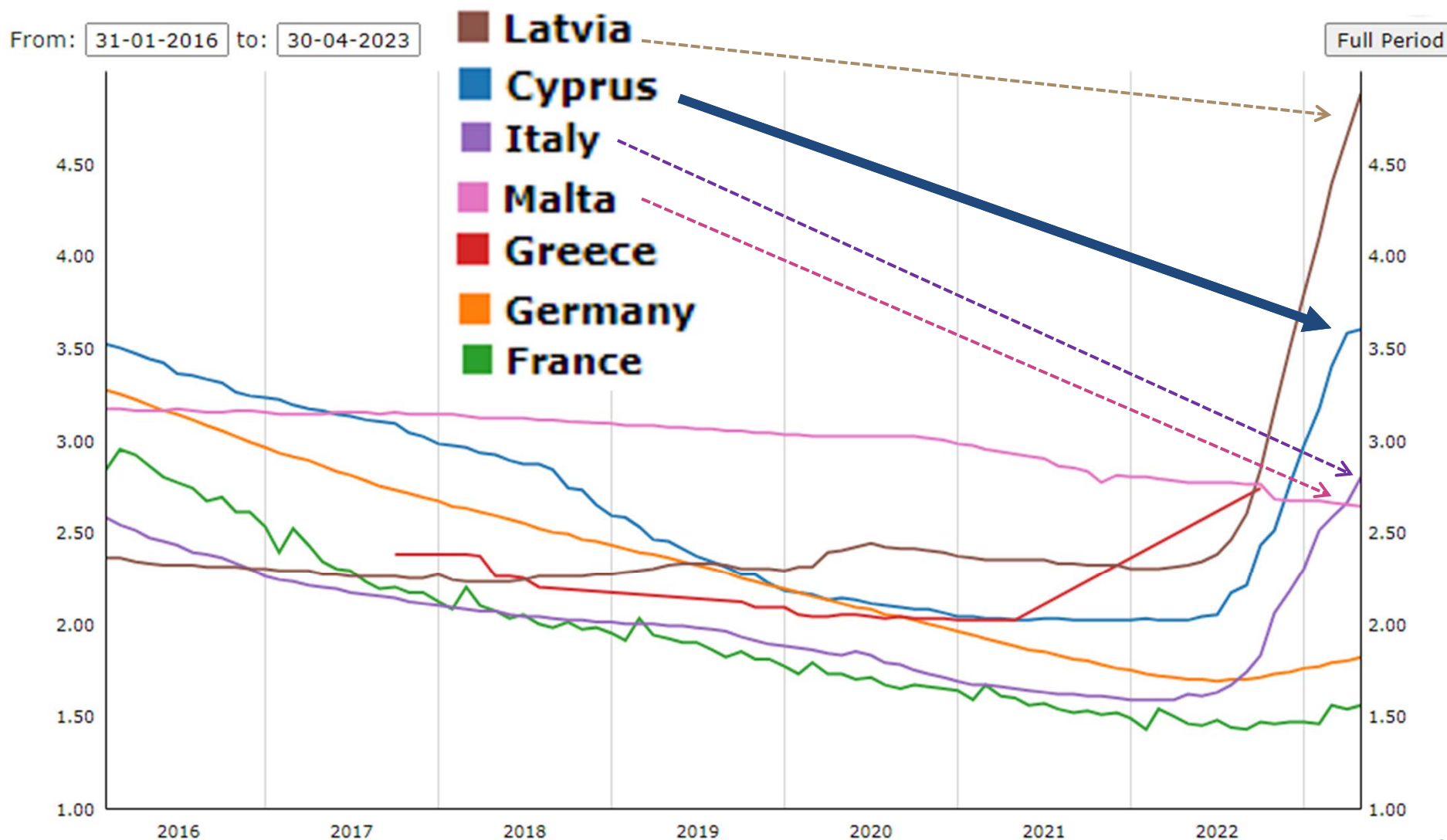
Our monetary policy influences how much you have to pay to borrow and how much interest you receive on your savings. We steer interest rates with the aim of achieving price stability in the euro area. Find out how our tools and measures work.

[> More information on our tools](#)

## 2.4 Loan Interest Rates

### Outstanding Amounts (House Purchase)

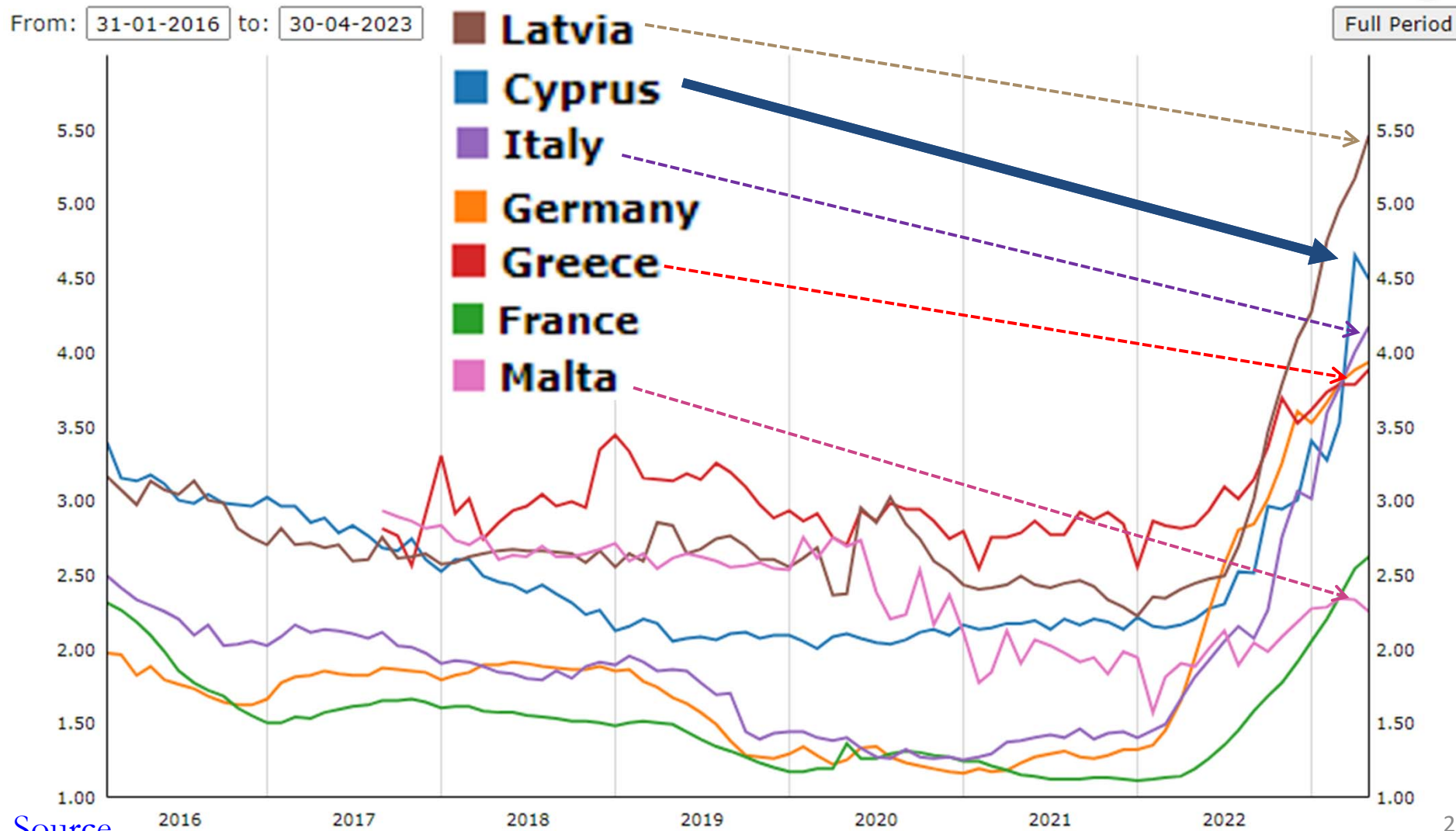
- Similar or faster response to ECB rate hikes than others...



Source: ECB (SDW) MFI Interest Rate Statistics. [Link](#)

## 2.4 Loan Interest Rates New Business (House Purchase)

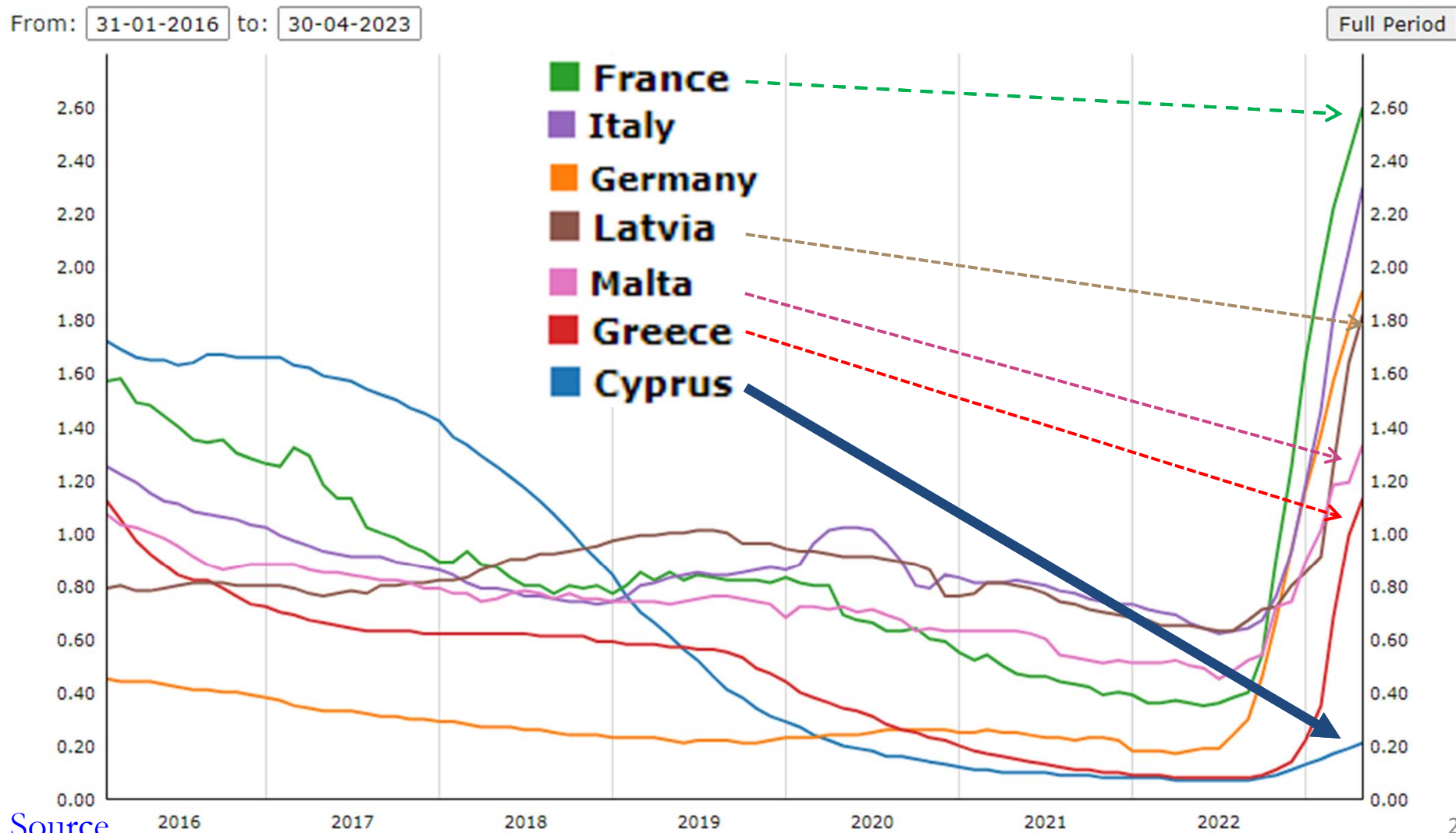
- Similar or faster response to ECB rate hikes than others...



## 2.4 Deposit Rates

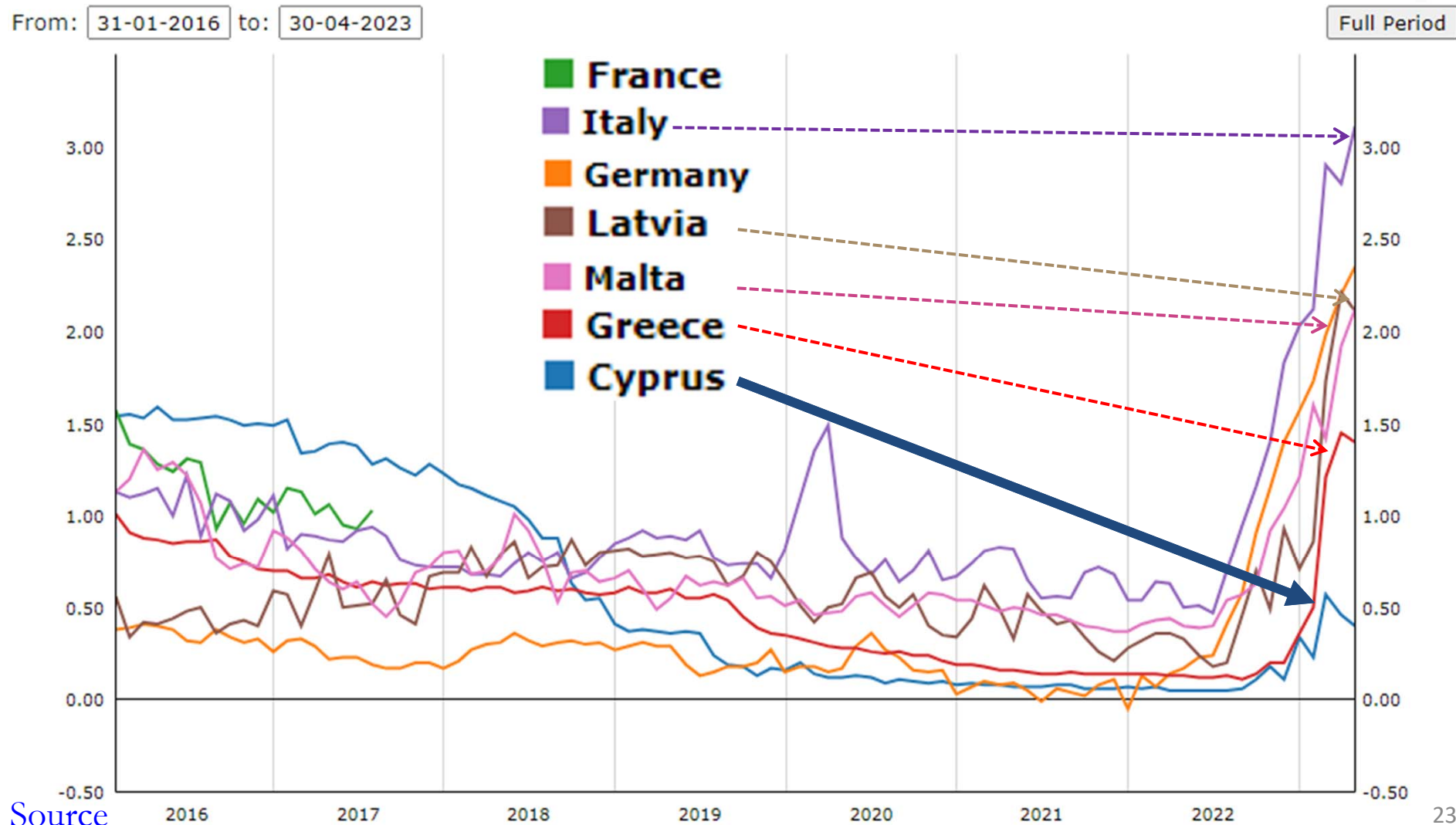
### Outstanding Amounts (2 years)

- Slower response to ECB rate hikes than others...



## 2.4 Deposit Rates New Business (2 years)

- Slower response to ECB rate hikes than others...



## 2.4 Interest Rates - Summary

### Relative to recent interest rate increases by the ECB:

#### Deposit rates:

- We observe a rather **“sticky”** trend in **Cyprus** relative to other Eurozone (EZ) countries.
- Same trend for both outstanding amount and also new business.
- **Deposit rates among the lowest in EZ.**

#### Loan rates:

- We observe a rather **“responsive”** trend in **Cyprus**.
- Trend is comparable to many other Eurozone (EZ) countries.
- **Loan Rates among the highest in Europe.**
- Same trend for both outstanding amount and also new business. <sup>24</sup>



## 2.4 Why the deviations?

**Why do we observe these deviations in interest rates in Cyprus vs. other EU countries?**

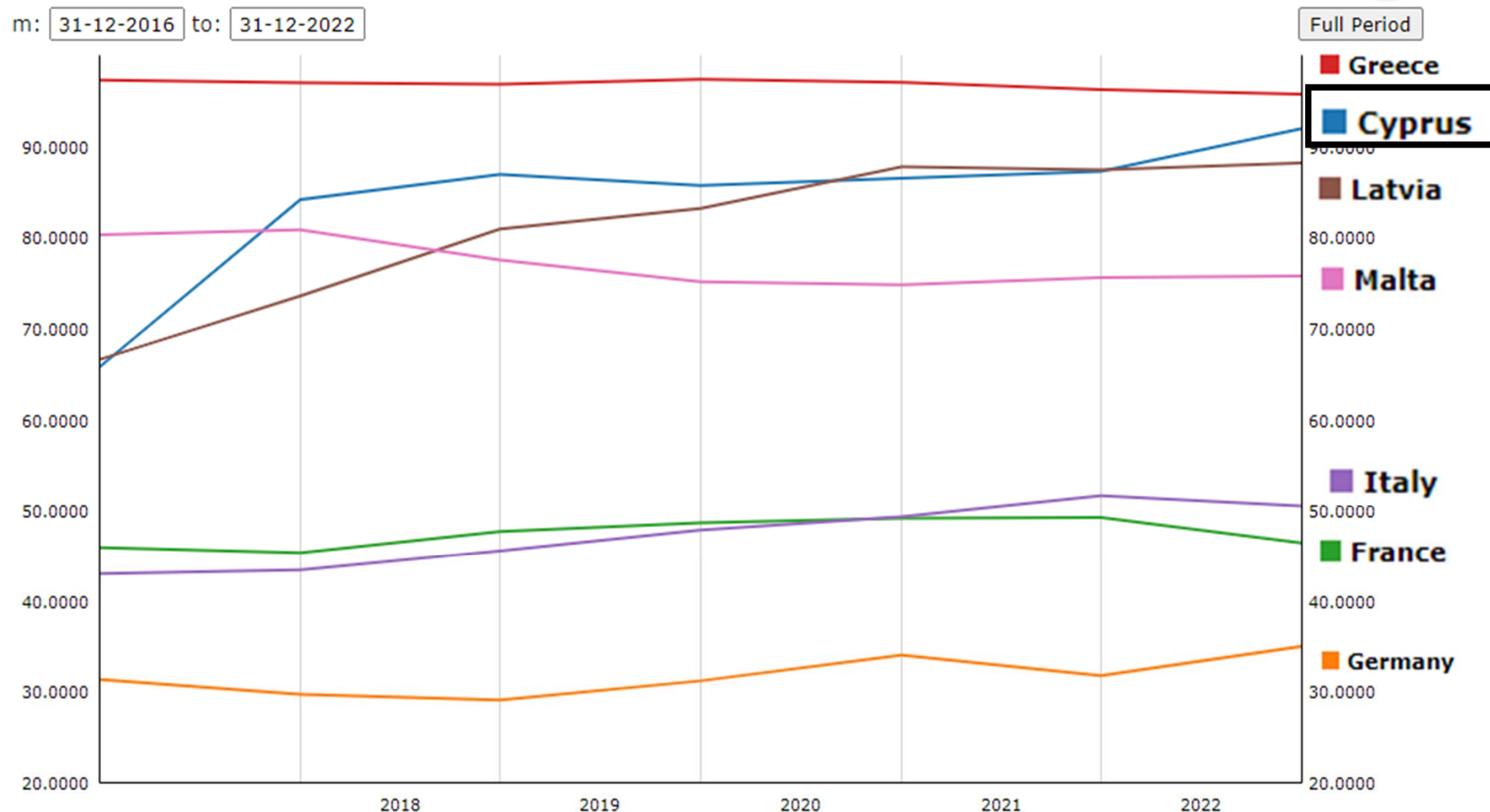
**Possible explanations:**

- Increased market concentration (low competition)?
- Excess Liquidity?
- Are Cypriots more risk averse than others?
- Is it the low level of Trust self-reported by Cypriots?
  
- Any other reason?

# Market Concentration?



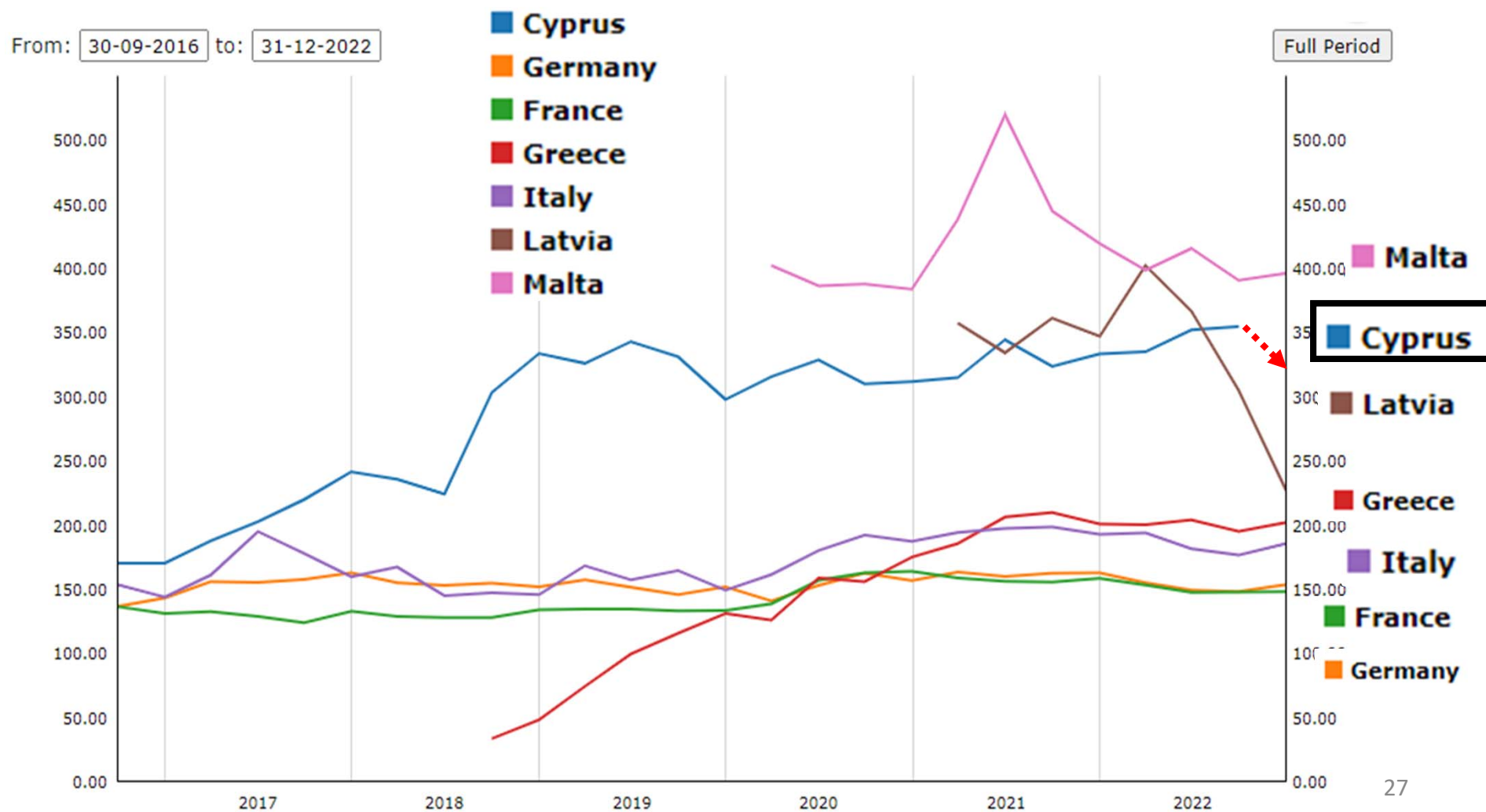
- Share of largest 5 Credit Institutions: **2<sup>nd</sup> most concentrated.**
- Source: Banking structural statistical indicators (2022). [Link](#)



# Is it Liquidity?



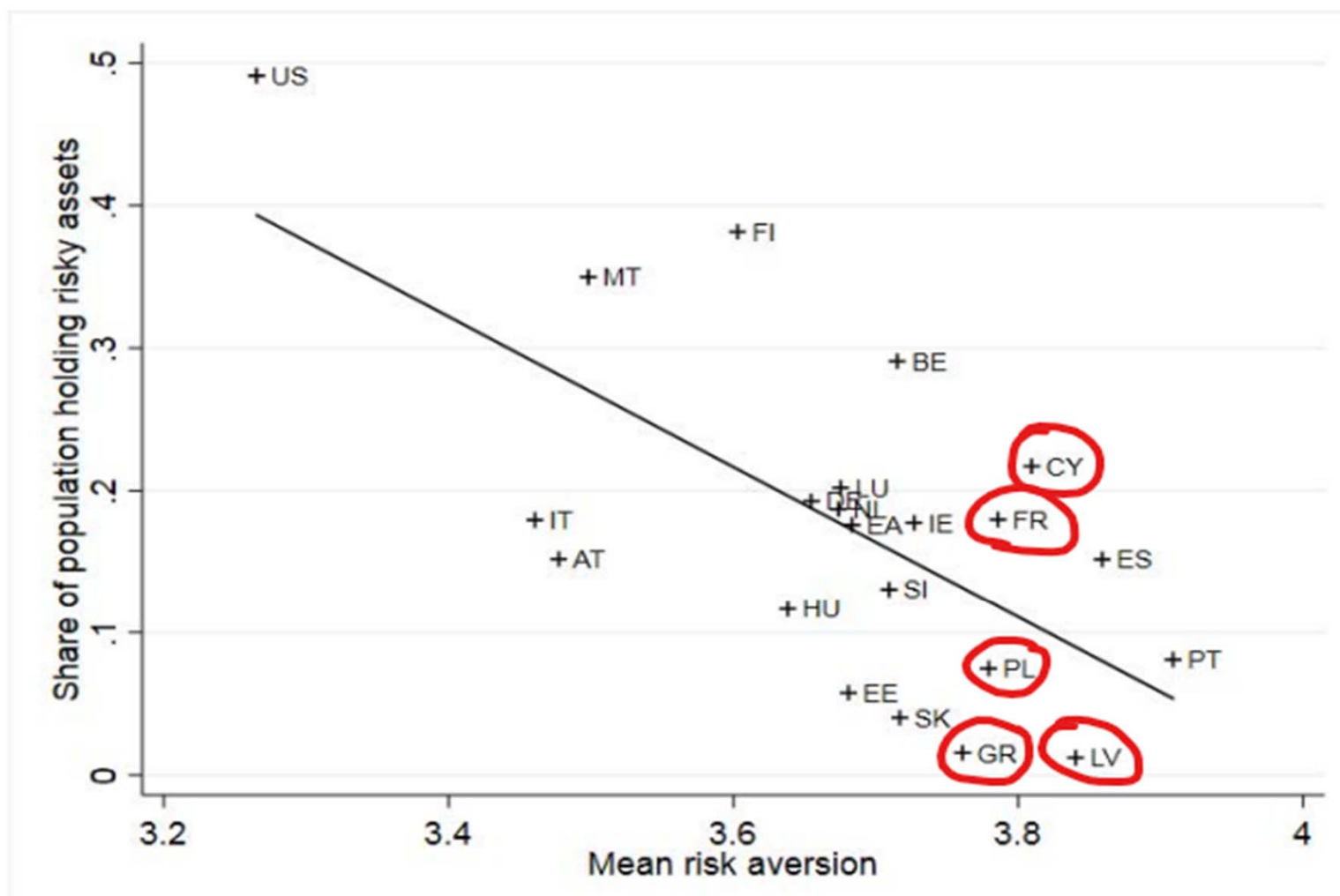
- Liquidity Coverage Ratio: **2<sup>nd</sup> highest in Europe.**
- Source: Supervisory Banking Statistics (2022). [Source](#)



# Are Cypriots more risk averse?

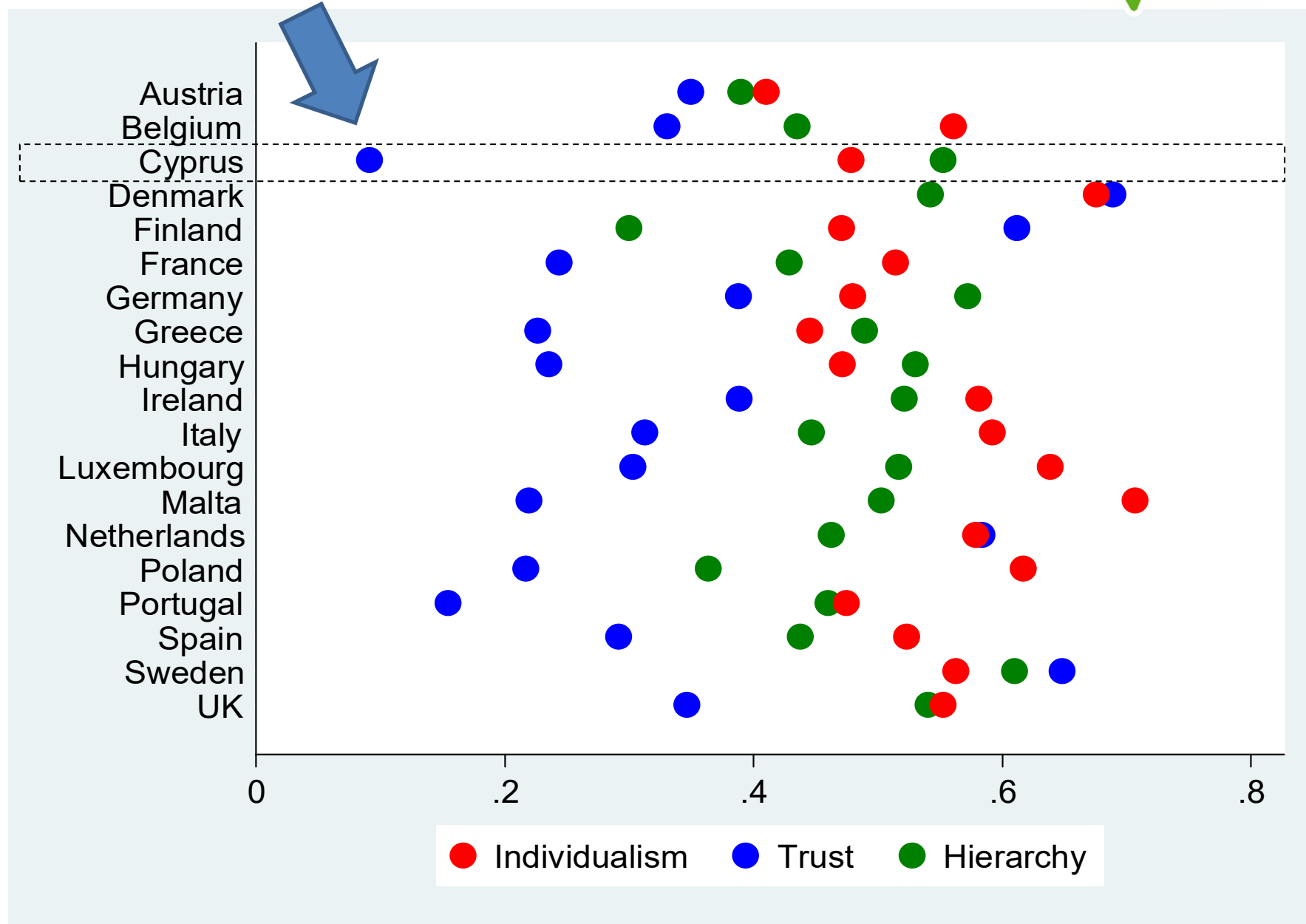


- Risk Aversion vs. Share of population holding risky assets.
- Cypriots not very different from GR, LT.



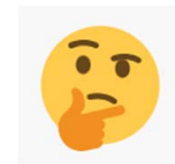
[Figure 4 from Bekhtiar, Fessler and Lindner \(2019\)](#)

# Is it Trust?



## 2.5 Digitization

- We observe significant efforts from banks to adopt digitization. ✓
- Bank fees should be used as a way to motivate digitization. ✓
- But we still observe:
  - Annual Fees on basic debit cards
  - Annual Fees on basic bank accounts.
  - Annual Fees for “account maintenance”
  - Increases in the above fees over time.
- How are the above encouraging digitization?



## 2.5 Digitization

- At the same time, how can digitization proceed without significant improvement in financial literacy through financial education?



- Suggestion:
  - Why not allocate some bank employees to train customers a few days per year?
  - This could happen at schools, universities, and/or other public events scheduled for retired people, unemployed people and others who might want to learn e-banking.

## Conclusions

Cypriot Banks operate in an environment with:

- The lowest Trust level self-reported across Europe
- The 3<sup>rd</sup> lowest Transparency score as perceived by non-Cypriot, experts on Transparency
- At least 4 major bank “closures” in the past decade.

Yet, they have improved significantly on:

- Corporate governance
- Asset Quality
- Capital Adequacy
- Anti-Money Laundering and Compliance



# Conclusions

## Challenges ahead:

- Interest Rates
- Liquidity Management
- Optimizing Asset and Liability Management
- Digitization & Financial Education
- ESG

# Thank you

- Contact: Andreas Milidonis
- Email: [Andreas.Milidonis@ucy.ac.cy](mailto:Andreas.Milidonis@ucy.ac.cy)
- Phone number: +357 22 89 3626
- Web: <http://amilidonis.com/>



Twitter: @A\_Milidonis