





## Taking the hassle of dealing with the Central Bank of Cyprus off our clients shoulders

Applying for a Banking Licence can be a complicated process. Deloitte offers the full spectrum of services required to help your organisation address the Regulator's requirements.

### Introduction

At a high level the banking licence application process is as follows:

- Pre-application meetings
- Application stage
- Licensing of the bank
- Authorisation for the commencement of banking business by the bank

This note sets out an overview of the steps and information an applicant is expected to complete as part of the Central Bank of Cyprus' (CBC's) Banking licence application process.

### Overview of the process

#### Minimum Capital:

- The EU law sets the minimum amount of capital for an applicant at EUR 5 million

#### Timings:

- The CBC has up to 6 months from the date of receiving a complete application (i.e excluding the time during which questions are being raised and additional information requested) for the communication of a decision
- In the event that the application is successful, and a licence is issued by CBC, the licensed bank must, within a maximum period of 12 months, prepare for its setting up and operation.

#### Management:

- At least two Executive directors are required

#### Phases

- **Phase A:** During the **Pre-application period** the CBC will try and explore some Early stage questions (Appendix A lists some indicative questions)
- **Phase B:** During the **application phase**, the Application form must be submitted alongside an extensive list of information and documentation. The application documentation is intended to provide the CBC with, inter-alia, information on:
  - The identity and **suitability** of all direct or indirect Controllers, directors and managers of the Applicant – **there are specific questionnaires and regulations governing the suitability of Management**
  - The source of funding of the proposed bank, as well as the transparency and legitimacy of this source;
  - The financial standing of the Applicant, its Controllers and/or the group to which it belongs;
  - The adequacy of the proposed **bank's business plan**, which must provide insights on
    - the proposed banking activities to be conducted
    - the proposed bank's projected **financial condition**,
    - its management and organisational structures, including the proposed internal governance and compliance procedures and systems to be used;
  - The existence of any close links between the Applicant and other natural or legal persons, which may prevent the effective exercise of the CBC's supervisory function.
- **Phase C:** At the end of Phase C, **Licensing**, a letter must be addressed by the licensed bank to the CBC declaring that:
  - It has observed all conditions attached to its banking licence;
  - Its initial capital has been fully paid-up (for locally incorporated banks);
  - Its initial contributions to the Deposit Protection Fund and the Investor Compensation Fund for Clients of Banks have been paid, unless it is exempted from such an obligation under the relevant Regulations governing the establishment and operation of the above Funds;
  - The premises where bank activity will be conducted comply with security and protection requirements according to best practices and industry standards;

## Banking Licence application process

- The information and accounting systems implemented, are capable of producing its true financial picture, providing the necessary information for decision making and ensuring the compilation of annual or periodic financial statements, as well as of the prudential/statistical returns, in an accurate and timely manner.
- **The above letter should be accompanied by a confirmation from the bank's approved external auditors, that requirements under Phase C have been met by the bank.**

## Situations where the applicant is a Legal person whose controllers (Management) are not part of an existing regulated Banking/Financial group.

Such situations are deemed of higher risk by CBC and may (but not always) involve limitations such as:

- The CBC may make its granting of a licence conditional on an active participation by way of shareholding interest and/or by way of management by an already licensed and established bank of repute.
- A person (whether natural or legal) may not be allowed to own, directly or indirectly, more than 20% of the capital of the bank to be licensed in the Republic.
- The CBC may, grant a licence with restrictions. Examples of limitations are restrictions on:
  - the type of clients that the proposed bank may deal with, for example limiting its activities to market counterparties and intermediate customers only;
  - the number of clients of any particular type that the proposed bank may deal with, either in absolute terms or on a roll-out basis related to the development of the proposed bank's systems; or
  - the specified investment activities which the proposed bank may carry out.

## How Deloitte can help

**Our services with regards to the authorisation of a Banking licence include the full spectrum of services required:**

- Preparing the Banking Application
- Preparing a detailed time plan for the full establishment and operation of the Bank
- Drafting the required questionnaires
- Compiling the appropriate and relevant information
- Advising on Management structure
- Designing and drafting a Business Plan including:
  - Strategy/Market and client target/Customer journey
  - Organisational structure
  - Financial projections
  - Operational procedures
  - AML procedures
- Designing the required IT Architecture
- Business Continuity plan
- Communicating with CBC on behalf of client
- Acting as liaison /Project management
- Advising on CySEC licence requirements (depending on clients' Business Plan)
- Testing the IT systems ahead of going live
- Internal Audit
- Tax compliance
- If we are appointed as external auditors, perform the review that CBC requires ahead of the completion of the Phase C (Licensing)

## APPENDIX A: Questions to be considered during the Application process

### Strategic Level questions

- Is setting up a Bank the right thing for your objectives?
- Do you need to go through the authorisation process?
- Is there a different licence you can apply for?
- Is your firm already authorised for something else?
- Do you simply need to apply to vary your permissions to add deposit taking?
- **What is the scope of permissions required?** – details of the regulated activities you wish to undertake
- Do you need to undertake any other regulated activities?
  - For example, if you plan to offer any of the following you will need to be authorised by Central Bank of Cyprus, Cyprus Stock Exchange, the Insurance Regulator etc
    - Broker services/investment advice etc
    - Mortgages;
    - Consumer credit; and/or
    - Insurance mediation.
- Can you access payment systems?
  - You should consider your options for accessing payment systems as early as possible in order to be able to adequately reflect these in your plans.
  - Firms can access a payment system through either direct access (where they have a direct relationship with the payment system operator (PSP)) or indirect access (where a direct PSP acts as their sponsor)

### Corporate level questions

- What will your bank do and how will it do it?
- The following key areas, should be considered as these are things the Regulators initially want to focus on:
  - **Business plan** - what products you will be offering, how you will offer them and your target market
  - **Business viability** – competitive advantage, market research and how your bank will make money;
  - **Customer journey** – products, pricing, complaint handling and on-boarding arrangements (including Anti-Money Laundering/Know Your Customer processes);
  - **Senior management**- details of proposed owners and controllers (specific information questionnaire)
  - **The board and governance** - details of structure, board, senior management and governance arrangements,
  - **Financial resources**
    - How do you propose to fund the business and whether you have any investors and/or funding in place?
    - Proposed funding model is required - financial projections (for five years), capital and liquidity strategy will be requested
  - **Recovery and resolution** – what are the Bank's expected Recovery plans in stress scenarios?
- **Project plan** – do you have an overview and indicative timelines of your plan to set up the new bank?

### Operational level questions

- **IT strategy** – What is your IT strategy vis a vis infrastructure and systems and timescales for implementation and testing?
- **Outsourcing** - Is your proposed business particularly dependent on IT or outsourcing arrangements?
- **Risk management** – What is the proposed risk management and control framework?
- **Policies and procedures** – How might the operational and regulatory policies and procedures of the Bank look like?
- **Business continuity** – Do you have a business continuity plan in mind?

# Contacts

If you require any further information on any of the issues mentioned in this material and on how Deloitte can help you address the challenges ahead, please do not hesitate to contact



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