



**Licensing and Supervision  
of Payment Institutions**

November 2022



## Question 1: What are Payment Services?

- 1) Services enabling cash to be placed on a payment account as well as all the operations required for operating a payment account
- 2) Services enabling cash withdrawals from a payment account as well as all the operations required for operating a payment account
- 3) Execution of payment transactions, including transfers of funds on a payment account with the user's payment service provider or with another payment service provider:
  - a) Execution of direct debits, including one-off direct debits
  - b) Execution of payment transactions through a payment card or a similar device
  - c) Execution of credit transfers, including standing orders
- 4) Execution of payment transactions where the funds are covered by a credit line for a payment service user:
  - a) Execution of direct debits, including one-off direct debits
  - b) Execution of payment transactions through a payment card or a similar device
  - c) Execution of credit transfers, including standing orders
- 5) Issuing of payment instruments and/or acquiring of payment transactions
- 6) Money remittance
- 7) Payment Initiation Services Provider
- 8) Account Information Services Provider

Please refer to Appendix A for a more detailed description of the above services

## Question 2: Who can set up a Payment Institution?

- Payment services in the Republic of Cyprus may **only be provided by a payment institution** which has been **granted an authorisation by the Central Bank of Cyprus (CBC)**
- An **authorisation** for the operation of a payment institution **is only granted to legal persons** which have been **incorporated and have their head office in the Republic**
- The **following persons** may provide payment services **in the Republic of Cyprus without obtaining the prior approval of the CBC**:
  - **Banks** licensed by the CBC or by a competent supervisory authority of another EU member state
  - **Cooperative societies** which have been licensed by the Authority for the Supervision and Development of Cooperative Societies or by the competent supervisory authorities of other EU member states
  - **Electronic money institutions** which have been licensed by the CBC or by competent supervisory authorities of other EU member states
  - **Post office giro institutions** which are entitled under national legislation to provide payment services
  - **The European Central Bank and national central banks** when not acting in their capacity as monetary or other public authorities
  - **Member states or regional or local authorities** when not acting in their capacity as public authorities
  - **Payment institutions** that have been granted and maintain a **valid authorisation to operate** by the competent supervisory authorities of other EU member states. These institutions may either exercise the right of establishment or the right to provide services on a cross - border basis, provided that the competent authorities of the home member state submit a notification to the CBC.

### Question 3: Are there any restrictions?

Restrictions exist on:

- The Board of Directors of the applicant institution.
  - The majority of the Board of Directors of the payment institution shall be independent from the shareholders.
- The **amount of the initial capital** that payment institutions are required to maintain
- The **amount of own funds** that payment institutions are required to maintain.

#### Method A

- A payment institution's own funds shall amount to at least 10 % of its fixed overheads of the preceding year.
- This amount may be adjusted in the event of a material change in a payment institution's business since the preceding year.
- Where a payment institution has not completed a full year's business by the date of the calculation, the requirement shall be that its own funds amount to at least 10 % of the corresponding fixed overheads as projected in its business plan, subject to any adjustments at the request of the Central Bank.

#### Method B

- Where payment volume (PV) represents one twelfth of the total amount of payment transactions executed by the payment institution in the preceding year:
  - 4,0 % of the slice of PV up to EUR 5 million, plus
  - 2,5 % of the slice of PV above EUR 5 million up to EUR 10 million, plus
  - 1 % of the slice of PV above EUR 10 million up to EUR 100 million, plus
  - 0,5 % of the slice of PV above EUR 100 million up to EUR 250 million, plus
  - 0,25 % of the slice of PV above EUR 250 million
- The payment institution's own funds shall amount to at least the sum of the above elements multiplied by the scaling factor k which is defined as 0,5 , 0,8 or 1 according to the payment services provided.

#### Method C

- The payment institution's own funds shall amount to at least the relevant indicator (refer to point a below), multiplied by the multiplication factor (refer to point b below) and by the scaling factor k which is defined as 0,5 , 0,8 or 1 according to the payment services provided.
  - (a) The relevant indicator is the sum of the following:
    - (i) interest income less interest expenses,
    - (ii) commissions and fees received, and
    - (iii) other operating income.
  - (b) The multiplication factor shall be:
    - (i) 10 % of the slice of the relevant indicator up to EUR 2,5 million;
    - (ii) 8 % of the slice of the relevant indicator from EUR 2,5 million up to EUR 5 million;
    - (iii) 6 % of the slice of the relevant indicator from EUR 5 million up to EUR 25 million;
    - (iv) 3 % of the slice of the relevant indicator from EUR 25 million up to 50 million;
    - (v) 1,5 % above EUR 50 million.

#### Question 4: What information are you required to submit?

- For the purpose of obtaining an authorisation for providing payment services, interested persons must submit:
  - An application to the CBC
  - Accompanied by the following information and documents
    - a. A **program of operations**, setting out in particular the payment services envisaged
    - b. A **business plan including a forecast budget calculation for the first three financial years**, which demonstrates that the applicant is able to employ such systems, resources and procedures so as to operate soundly
    - c. **Evidence that the applicant** holds the required initial capital
    - d. A **description of the measures** to safeguard the funds of payment services users
    - e. A **description of the applicant's governance arrangements and internal control mechanisms**, including administrative, risk management and accounting procedures, which demonstrates that these governance arrangements and control mechanisms are appropriate and adequate
    - f. A **description of the internal control mechanisms which the applicant has established in order to comply** with the requirements of the Prevention and Suppression of Money Laundering Activities Law of 2007 on information on the payer accompanying transfers of funds, as it may further be amended or replaced
    - g. A **description of the applicant's participation in a national or international payment system** as well as the applicant's structural organisation, including, where applicable, a description of the intended outsourcing arrangements and/or use of agents and branches
    - h. The **identity of persons who have, directly or indirectly, control of the applicant or who are partners in the applicant partnership**, as well as details on the size of their holdings and evidence of their suitability in view of the need to ensure the sound and prudent management of the payment institution
    - i. A **detailed organisational chart and an overall forecast of the staff numbers for the next three years** as well as any outsourcing agreements and the use of branches and agents where applicable
    - j. A **description of the business continuity arrangements**
    - k. The **identity of all directors as well as of the persons responsible for the management of the payment services activities; evidence that they are of good repute** and possess appropriate knowledge and experience to perform payment services, in particular a copy of criminal record, a non-bankruptcy report, a description of professional and academic qualifications, of the positions of manager or director that they hold in other legal persons and of their previous employments
    - l. The **identity of statutory auditors**
    - m. The **applicant's memorandum and articles of association and**
    - n. The **address of the applicant's head office**
    - o. A draft **framework contract**
    - p. The **process for filing, monitoring, tracking and restricting access to sensitive payment data**
    - q. The **procedure for monitoring, handling and following up on security incidents and security-related customer complaints** and
    - r. A **security policy** document, including a description of the IT systems and a detailed risk assessment of the payment institution.

#### Question 5: How long does the CBC approval process take?

- **Within three months of receiving a duly completed application** for authorisation as a Payment Institution, the CBC shall decide on the application and notify the legal person applying for authorisation of the approval or the rejection of the application.
- An application shall be considered as being duly completed only if it is submitted with all the required information (refer to question 4)
- Rejection of an application shall be duly justified

## Question 6: Are there any application fees?

The following fees are applied for each application:

- Applicants shall pay an amount of EUR 5.000 at the time of submitting their application to CBC to operate as a payment institution for the provision of any payment services listed in points 1 – 7 of Annex I of the Law
- For the provision of payment services mentioned in point 8 of Annex I of the Law, the Applicant shall pay the amount of EUR 500
- Where a payment institution wishes to extend its existing operating authorisation to additional payment services (Services 1-7 of Annex I of the Law) it shall pay the amount of EUR 1.000 for each additional service requested or EUR 500 if the additional service is service 8 of Annex I of the Law

## Summary of the process

- Legal persons interested in obtaining an authorisation for providing payment services, must:
  - complete and submit to the CBC an **Application for authorisation as a payment institution**
  - ensure that all required data and documents are included in the application before submitting it to the CBC (refer to question 5)
- Legal persons
  - (a) which hold/propose to hold, directly or indirectly a shareholding of 10% or more in the share capital of the applicant or
  - (b) which are partners in an applicant partnership
  - (c) which are appointed agents in Cyprus of payment institutions licensed in other EU member states must complete the **Questionnaire QHL**
- Natural persons
  - (a) who hold /propose to hold directly or indirectly a shareholding of 10% or more in the share capital of the applicant
  - (b) who are partners in an applicant partnership
  - (c) who are appointed agents in Cyprus of payment institutions licensed in other EU member states and
  - (d) who are directors/proposed directors of the applicant as well as persons who will be responsible for the management of the applicant must complete the **Questionnaire QHN**
- Natural persons
  - (a) Each member of Management Body or
  - (b) A key function holder of the applicant must complete the **Questionnaire MMB-KFH** as well as a **Time Commitment Table**.

Additionally, each UBO is required to submit a Net Wealth Statement.

Applicants seeking registration as an Account Information Service Provider (AISPs), i.e. those applicants seeking to provide only payment service 8 listed in Annex I of the Law, must complete the **AISP Application form**.

## How Deloitte can help

Our services with regards to the licensing of a Payment Institution include the full spectrum of services required:

- Preparing the Application
- Preparing a detailed time plan for the full establishment and full function of the Payment Service Institution
- 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
- Communicating with CBC on behalf of client
- Acting as liaison/Project management
- Testing the IT systems ahead of going live
- Internal Audit
- External Audit
- Tax compliance
- Legal Services

# Appendix A

## Service Description

1. When you are accepting cash electronically or over-the counter or through ATMs which is placed on a payment account which you operate.

The crediting of interest to a payment account is not a service enabling cash to be placed on a payment account.

2. When you provide, for example, an ATM cash withdrawal or over the counter cash withdrawal service in relation to the payment accounts which you operate.

3. When you provide a service to clients enabling them to complete payment by way, for example, of direct debit, payment card (such as a debit card), electronic cheque or credit transfer (such as a standing order).

4. Where these services are provided using a credit line. For example when you provide a service to clients enabling them to complete payment, by way of direct debit using overdraft facilities, payment card such as deferred debit or credit card, electronic cheque using overdraft facilities or credit transfer (such as a standing order) using overdraft facilities.

5. This is when your business includes "merchant acquiring". This will typically include providing services enabling suppliers of goods, services, accommodation or facilities to be paid for purchases arising from card scheme transactions.

6. Money remittance is defined as a service for the transmission of money (or any representation of monetary value), without any payment accounts being created in the name of the payer or payee, where:

- funds are received from a payer for the sole purpose of transferring a corresponding amount to a payee or to another payment service provider acting on behalf of the payee; or
- funds are received on behalf of, and made available to, the payee.

The service of money remittance cannot therefore involve the creation of payment accounts.

Money remittance is a simple payment service that is usually based on cash provided by a payer to a payment service provider, which remits the corresponding amount, for example, via communication network, to a payee or to another payment service provider acting on behalf of the payee.

This service is likely therefore to be relevant, for example, to money transfer companies.

7. A 'payment initiation service' is an online service which accesses a user's payment account to initiate the transfer of funds on their behalf with the user's consent and authentication. Payment initiation services provide an alternative to paying online using a credit card or debit card.

8. An 'account information service' is an online service which provides consolidated information on payment accounts held by a payment service user with payment service providers.





# Reach out

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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