

COMPLIANCE WEEK

FOR THE WELL-INFORMED CHIEF COMPLIANCE OFFICER AND AUDIT EXECUTIVE

Inside Cyprus' efforts to stem money laundering and sanctions evasion



By Aaron Nicodemus | Tue, Jan 28, 2025 10:35 AM

Are there success stories in the international fight against money laundering and sanctions evasion? The island nation of Cyprus is making its case.

Cyprus has long been a hub of financial connections for Russian and Ukrainian oligarchs seeking to avoid western sanctions and anti-money laundering (AML) rules. A 2023 investigation by the International Consortium of Investigative Journalists (ICIJ), [Cyprus Confidential](#), found that Cyprus-Russia financial connections persist, even after Russia's 2022 invasion of Ukraine.

But Cyprus has made significant progress in decoupling itself from its Russian/Ukrainian/Belorussian customer base. According to the Association of Cyprus Banks (ACB), inward transfers of funds in all currencies to Cypriot banks from those three countries fell from 40 billion euros in 2014 to 1.5 billion euros in 2023, while outward transfers have similarly fallen from 32 billion to one billion euros. Similar declines have occurred in transfers with customers in countries including Latvia, Estonia, Lithuania, Moldova, Turkey, Kazakhstan, Armenia, and Kyrgyzstan.

Cypriot banks have shed more than 72,000 customers and 160,000 accounts from risky jurisdictions over that time, according to the ACB.

To understand how this has been accomplished, Compliance Week asked Maria Aristidou Demetriou, chief compliance officer at Cyprus-based Hellenic Bank, to answer some questions in an [exclusive Q&A](#).

"The fact that ACB member banks de-risked from over-reliance on the Russian market and implemented a series of reforms to enhance AML compliance (something which has been validated by independent bodies such as Moneyval) proved beneficial, since investment opportunities evolved from other countries which previously were reluctant to invest in Cyprus due to the bad reputation of the country on AML weaknesses," Demetriou said in the Q&A.

Since 2023, Cyprus has enacted a strong regulatory framework for banks and has established a stand-alone AML authority. In March 2024, Cyprus signed a memorandum of understanding with the United States aimed at countering money laundering, the ICIJ **reported**.

However, U.S. officials, particularly those with the U.S. Treasury Department under then-President Joe Biden, **warned as recently as July 2024 that derisking**—the indiscriminate termination of banking relationships with broad ranges of customers by financial institutions—has led to a decline in the number and strength of international connections between banks in areas considered to be high risk.

The moves by the Cypriot banking industry have not been without financial consequences for the country. In 2014, the Cypriot banking sector had deposits worth eight times the country's gross domestic product; by 2023, that number had fallen to three times GDP.

And the moves may have affected customers who are not connected to illegal activity. AML Watcher, a compliance vendor that helps companies automate AML processes, noted in a recent report that during the time period that Cypriot banks were shedding thousands of Russian customers, only about 1,900 individuals and entities were sanctioned.

"This strongly suggests that not all de-risked accounts were connected to sanctioned Russian entities," said Georgina Demetriades, a consultant with AML Watcher. "Businesspeople unlinked to sanctioned sectors or entities may have been inadvertently affected by these measures."

Scott Greytak, director of advocacy for Transparency International U.S., was part of a group of U.S. officials and advocates who visited Cyprus' capital of Nicosia in 2023 to hear about the reforms firsthand. Moves to decouple from Russia by the

banking sector “shows that they’re taking steps in the right direction,” he said.

He pointed out, however, that there have been no arrests, no indictments, no investigations of the wrongdoing uncovered in the Cyprus Confidential stories.

In addition, a collection of enablers—lawyers, accountants, corporate service providers, and real estate agents—have escaped accountability for helping to facilitate sanctions evasion and money laundering.

“If they really want to go the full distance, the formal banking sector is only one component,” he said of Cyprus. “You’ve got to regulate the enablers as well.”

RATE THIS RESOURCE

Select your rating



MORE FROM AARON NICODEMUS



SEC charge against CCO in penny stock scheme raises more questions about gatekeeper liability



SEC fines LPL Financial \$18M for failed due diligence on new, high-risk accounts

Amex to pay \$230M in penalties to resolve charges it deceived customers, banking partner

