



CENTRALE BANK VAN ARUBA

PRESS RELEASE

THE SOUNDNESS AND RESILIENCE OF THE FINANCIAL SECTOR IN ARUBA REMAINED UNABATEDLY STRONG IN 2018

July 9, 2019

Today the Centrale Bank van Aruba (CBA) publishes its FINANCIAL SECTOR SUPERVISION REPORT 2018.

The CBA is the sole supervisory authority of the financial sector in Aruba. In the Financial Sector Supervision Report 2018, a legally mandated report, that has to be submitted to the Minister of Finance before July 1st of each year, the CBA provides an overview of the main activities it carried out and the principal policy decisions taken to implement the supervisory ordinances, including the laws to prevent and combat money laundering and terrorist financing. This report also describes the main actions the CBA took to further strengthen the legislative and regulatory framework. In addition to an outline of the recent developments in the international supervisory landscape, also an analysis is given of the most salient developments in the domestic financial sector.

As in previous years, in 2018 the CBA's core supervisory activities consisted of periodic onsite examinations conducted at the supervised institutions to assess key risks and compliance with the prevailing laws and regulations, and ongoing offsite surveillance. Offsite surveillance includes reviewing the mandatory periodic financial and regulatory reports filed by the supervised institutions at the CBA and holding bilateral meetings with them.

Where deemed necessary, the CBA applies the instruments available to it to effectively enforce compliance with the prevailing laws and regulations. In case it identifies a situation of noncompliance with the supervisory laws and regulations, it may consider taking formal measures. That decision depends on, among other things, the seriousness of the case. In 2018, a total of 21 formal measures were taken (9 more than in 2017). An administrative fine was imposed in 14 cases, formal directives were issued to remedy the identified deficiencies in 5 cases, and a penalty charge order was imposed in 2 cases.

The CBA applies a risk-based approach in the execution of its supervisory tasks, whereby it allocates the largest part of its supervisory resources to the institutions and areas (e.g., the loan and investment portfolio, governance, risk management, and compliance) with the highest risk profile. This approach, together with its strict enforcement policy and its ongoing commitment to comply with the highest standards and best practices in the area of financial sector regulation and supervision, has been conducive to maintaining a very solid and reputable financial sector in Aruba.

The financial sector supervision report also shows clearly that in 2018, Aruba's financial sector remained robust, profitable, and highly resilient to external shocks. The aggregated prudential

ratios of the supervised sectors stayed within sound ranges. The nonperforming loan ratio of the commercial banking sector continued its decreasing path, from 4.0 percent at the end of 2017 and standing at 3.9 percent at end-2018. Furthermore, the stress tests conducted on the domestic banking sector demonstrate that this sector's risk-weighted capital ratio and prudential liquidity ratio, amounting to 32.2 percent and 29.8 percent, respectively, at end-2018 are highly adequate compared to the applicable minimum standards, to absorb significant external shocks.

As in previous years, during 2018 the CBA continued its efforts to strengthen the regulatory framework by issuing new or revised policy rules and guidelines. Below an overview of the most significant developments in this area.

1. Revision of the AML/CFT State Ordinance

Following the gap-analysis conducted vis-à-vis the 2012 FATF recommendations, in the second quarter of 2018, the CBA drafted a legislative proposal to address the mostly technical deficiencies identified. This proposal was submitted to the Government of Aruba in August 2018, which regrettably has not yet entered the legislative process. Also in light of the upcoming CFATF evaluation in 2020, it is of high importance that this proposal enters the legislative process as quickly as possible.

2. Revised policy rule on banking license and admission requirements for credit institutions

As of January 1, 2018, a revised policy rule for license and admission requirements for credit institutions operating in or from Aruba came into force. Under this revised policy rule, the CBA only allows financial institutions with solid financial strength and reputation, subject to comprehensive and effective consolidated supervision, to have a major shareholding in a financial institution established in Aruba.

If in the CBA's opinion the condition of comprehensive and effective consolidated supervision by the home country supervisor is no longer met, or if it has significant doubts about the adequacy of the solvency of the parent company, then the shares in the Aruban credit institutions must be transferred to a (pure) holding company. With this revision, the CBA aims to prevent negative spill-over effects on the Aruban credit institutions.

Implementation of this revised policy rule is still in the preliminary stages.

3. Revised directives on the publication of the audited annual financial statements for credit institutions and insurance companies

As of the reporting year 2019, based on the revised directives on the publication of the audited financial statements of credit institutions and insurance companies, the credit institutions and insurance companies are required to publish, among other things, their certified annual reports on their websites. The revision is in line with international standards on disclosure of financial information.

In October 2018, also in preparation for the already mentioned upcoming CFATF assessment of Aruba, the AML/CFT National Risk Assessment (NRA) was started, with an intensive 3-day

workshop organized by the CBA for all relevant stakeholders. This important assessment is conducted in close cooperation with the World Bank and makes use of the tool developed by this institution.

The NRA is divided into five different working groups, dealing with the following five topics: (1) threats; (2) vulnerabilities; (3) banking; (4) other financial institutions, and (5) Designated Non-Financial Businesses and Professions (DNFBPs). The CBA is the project coordinator and chairs working groups three and four. It also participates in the other three working groups.

The finalization of the NRA is planned for October/November 2019, which will provide detailed insight into the effectiveness of the current AML/CFT framework, as well as the AML/CFT risks Aruba is exposed to and identify the additional measures necessary to reduce these risks to acceptable levels.

To conclude, the strict and consistent enforcement of the supervisory and AML/CFT laws and regulations over the years has contributed to maintaining a stable, reputable, and healthy financial system in Aruba. In addition, the CBA works on an ongoing basis to uphold the highest international standards in the areas of financial sector supervision and AML/CFT.

However, in consideration of the upcoming CFATF assessment in 2020, swift progress needs to be made in the legislative area for Aruba to meet -to the largest extent possible- the 2012 FATF recommendations. No room exists for further delay.

The FINANCIAL SECTOR SUPERVISION REPORT 2018 is available on the website of the CBA www.cbaruba.org as of today.