



CENTRALE BANK VAN ARUBA

PRESS RELEASE

THE RESILIENCE OF THE FINANCIAL SECTOR IN ARUBA REMAINS STRONG, ALSO UNDER THE CURRENT UNPRECEDENTED STRESS LEVELS CAUSED BY COVID-19

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Today the Centrale Bank van Aruba (CBA) publishes its FINANCIAL SECTOR SUPERVISION REPORT 2019.

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

Although this 2019 report focuses mainly on the developments that took place in 2019, it was inevitable also to reflect on the possible impact of the COVID-19 pandemic on the financial sector. Similar to other countries, the Government of Aruba took drastic measures to mitigate, as much as possible, an outbreak of the virus on the island, including the closing of its borders. To soften the economic impact of the COVID-19 virus on the economy of Aruba as well as the financial sector, the CBA quickly took measures in the monetary, prudential, and foreign exchange domains to amplify the commercial banks' liquidity and loss-absorption capacity and to protect the international reserves. These measures were taken with a view to ensure the smooth functioning of the credit market under stressed conditions. Although at the time of writing this report, there is no indication that the financial sector will not be able to withstand the financial shock arising from the COVID-19 pandemic, much uncertainty still exists on the overall impact of this pandemic on the economy of Aruba as well as its financial sector. The stress test conducted on the commercial banking sector in connection with the COVID-19 pandemic shows that the impact may be very significant; however, the ample capital and liquidity buffers provide the banks with ample room to weather this unprecedented economic storm.

As in previous years, in 2019 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. If the CBA identifies serious breaches of the supervisory laws and regulations, it may consider taking formal measures. In 2019, a total of 45 formal measures were taken (24 more than in 2018). An administrative fine was imposed in 36 cases, formal directives were issued to remedy the identified deficiencies in 4 cases, and a penalty charge order was imposed in 5 cases.

The CBA applies a risk-based approach to execute its supervisory tasks. Under this approach, it allocates the largest part of its supervisory resources to the institutions and areas with the highest risk profile (e.g., the loan and investment portfolio, governance, risk management, and compliance). This approach, together with the CBA's 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 2019, Aruba's financial sector remained robust, profitable, and highly resilient. The current Covid-19 induced economic crisis once again clearly demonstrates the need to have ample capital and liquidity buffers in place to weather unprecedented storms. 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 3.9 percent at the end of 2018 to 3.0 percent at end-2019. Furthermore, the yearly stress tests conducted on the domestic banking sector demonstrate that this sector's risk-weighted capital ratio and prudential liquidity ratio, amounting to 30.9 percent and 29.3 percent, respectively, at end-2019 are sufficient to absorb significant external shocks.

As in previous years, during 2019 the CBA continued its efforts to strengthen the regulatory framework by issuing new or revised policy rules and guidelines. An overview of the most significant developments in this area can be found in chapter 3 of the report. Without prejudice to the aforementioned, the CBA finds it essential – once again – to highlight the importance of passing the revised draft State Ordinance on the Prevention and Combating of Money Laundering and Terrorist Financing (AML/CFT State Ordinance) as quickly as possible. This also in light of the upcoming evaluation by the Caribbean Financial Action Task Force (CFATF) of the effectiveness of Aruba's AML/CFT framework. Due to Covid-19 the CFATF evaluation has been postponed and now most probably will take place early next year.

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.

The FINANCIAL SECTOR SUPERVISION REPORT 2019 is available on the website of the CBA www.cbaruba.org as of today.