



CENTRALE BANK VAN ARUBA

PRESS RELEASE

THE ARUBAN FINANCIAL SECTOR, SOLID AND RESILIENT, HAS WEATHERED THE UNPRECEDENTED ECONOMIC STORM CAUSED BY THE COVID-19 PANDEMIC REMARKABLY WELL

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Today the Centrale Bank van Aruba (CBA) publishes its FINANCIAL SECTOR SUPERVISION REPORT 2020.

This year's Financial Sector Supervision Report provides an overview of the most important developments in the supervisory and regulatory domains in Aruba in 2020, a year dominated by the COVID-19 pandemic. First and foremost, this pandemic caused a considerable and regrettable loss of life that deeply shocked the Aruban community. In addition, it has had an immense negative impact on the economy of Aruba. Similar to governments in other countries, the Government of Aruba had to take draconian measures to reduce the risk of a widespread outbreak of the virus.

Aruba's financial sector showed high resiliency during the COVID-19 pandemic

In the face of one of the most impactful economic crises that Aruba has ever experienced, the local financial sector showed strong resilience. This resilience held up, also when compared to some other countries in the Caribbean basin, whose financial sectors were less prepared to weather this unprecedented storm. The resilience of Aruba's financial sector is evidenced by the strong prudential ratios in the areas of capital adequacy, asset quality, and liquidity of the supervised sectors, which stayed within sound ranges.

Banks provided general moratoria and tailor-made loan restructuring solutions

Anticipating the huge effects of the public health measures on the financial sector, the CBA responded quickly by implementing, amongst other things, temporary relief measures in the prudential area aimed at supporting the commercial banks so they could continue their lending activities and strengthen their ability to absorb losses without their ratios falling below the prudential requirements. These relief measures also incentivized the banks to provide general moratoria to their lenders. After the termination of these general moratoria, the banks offered tailored loan restructuring solutions to those clients that they assessed had the ability to survive the economic crisis, thereby preventing unnecessary bankruptcies.

Ample capital and liquidity buffers

The ample capital and liquidity buffers built-up over the years, as well as the CBA's strict oversight, have been instrumental in maintaining a solid and reputable financial sector. The temporary prudential relief measures taken by the CBA were also supported by the International Monetary Fund (IMF) in its recently issued Article IV Consultation Report on Aruba dated April 12, 2021. The IMF report confirmed as well that Aruba's commercial banking sector and other parts of the financial sector have remained solid. The importance of maintaining a solid financial sector should not be easily overestimated. The size of the financial sector's assets has reached approximately Afl 13.0 billion (equivalent to USD 7.3 billion) at end-2020, almost three times the size of Aruba's estimated nominal gross domestic product for 2020.

The quality of the commercial banks' loan portfolios declined slightly when expressed in the nonperforming loan ratio, which rose from 3.2 percent at the end of 2019 to 5.0 percent at end-2020 and stayed at an acceptable level. Furthermore, the commercial banking sector, on aggregate, remained profitable, while the capital and liquidity buffers remained at a very satisfactory level. Also, the insurance and pension fund sectors continued to comply with the minimum required coverage ratio, and, thus, their ability to meet their future insurance and pension obligations continued intact. The COVID-19 pandemic has undeniably shown the importance of having ample capital and liquidity buffers in place to navigate through unprecedented times like these.

Further strengthening of the legal framework in the AML/CFT area

With respect to further enhancing the legal framework in the AML/CFT area and bringing it up to par with recognized international standards, the CBA stresses the importance of having the still pending revised draft State Ordinance on the Prevention and Combating of Money Laundering and Terrorist Financing (AML/CFT State Ordinance) enacted by the Aruban Parliament as soon as possible. This recommendation also is made in light of the upcoming evaluation by the Caribbean Financial Action Task Force (CFATF) of the effectiveness of Aruba's AML/CFT framework, which will start around the end of August 2021.

Importance of the upcoming CFATF evaluation

A positive outcome of the upcoming CFATF evaluation is critically important. Insufficient compliance with the international standards issued by the FATF in the area of anti-money laundering and combating terrorist financing may lead to graylisting or blacklisting of a country. Such an action would be detrimental for a small island economy like Aruba. A highly undesired consequence of such listing also could be the loss of international correspondent bank relations (the so-called de-risking), making it very difficult and much more costly for businesses and consumers to conduct international bank transfers for, e.g., import payments. The AML/CFT legislation, as well as the firm oversight and enforcement carried out by the CBA, have been instrumental in maintaining the excellent international reputation of Aruba's financial sector. In contrast to many other jurisdictions in this region, the local commercial banking sector has to date been little affected by the aforementioned de-risking phenomenon. De-risking occurs when international banks in North America and Europe end their correspondent relations with banks in countries or regions perceived as a high risk for money laundering. Regrettably, different banks in our region that do not form part of an international banking group have been affected by the de-risking phenomenon.

Therefore, the opinions expressed from time to time in the (social) media that the oversight of the CBA is much too strict and that the fines imposed are over the top do not take into account the prevailing international FATF standards and the severe consequences of noncompliance with these high standards for the Aruban community.

The FINANCIAL SECTOR SUPERVISION REPORT 2020 is available on the website of the CBA www.cbaruba.org as of today.