

PRESS RELEASE

THE FINANCIAL SECTOR REMAINED SOLID AND ROBUST IN 2022, DESPITE THE MORE CHALLENGING EXTERNAL ENVIRONMENT

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Today, the Centrale Bank van Aruba (CBA) releases the eleventh edition of its yearly FINANCIAL SECTOR SUPERVISION REPORT.

This report aims to inform stakeholders, including the general public, on the changes in the international and domestic regulatory landscape, the activities undertaken by the CBA in the supervisory domain, and the main financial developments in the Aruban financial sector during 2022, also vis-à-vis the prudential requirements in the areas of solvency and liquidity.

Strong economic rebound

After an unprecedented decline in economic activities caused by the COVID-19 pandemic, Aruba's economy experienced a strong economic recovery in 2022, even overshooting pre-COVID levels in terms of tourism-generated income. Pushed up by strong leisure travel in 2022, the resurgence in the Aruban tourism sector was one of the highest within the Caribbean region. Notwithstanding the solid economic recovery, downside risks have increased considerably, due to the war in Ukraine and the ensuing sharp inflation experienced worldwide. Also, the sharp tightening of the monetary policy stance in the main economies in 2022, especially in the USA, aimed at counteracting inflation may lead to an economic recession in these countries. Although the inflationary pressures have meanwhile lessened somewhat, it is expected that interest rates will remain high coming years, which may result in lower global economic growth. This may potentially also affect Aruba's economy and its financial sector.

Aruba's financial sector remained solid and resilient

The COVID-19 pandemic has clearly demonstrated that Aruba's financial sector can withstand significant and prolonged external shocks. The ample capital and liquidity buffers accumulated over the years, as well as the CBA's strict oversight, have been instrumental in maintaining a solid financial sector during the pandemic, thereby contributing to Aruba's swift economic recovery. It is important to note that a sound and solid financial sector is an essential pre-condition for economic growth and financial stability, also considering that the financial sector's assets amounted to approximately Afl. 13.9 billion (equivalent to USD 7.8 billion) at end-2022, which is more than twice the size of Aruba's 2022 gross nominal domestic product, as estimated by the CBA.

Strengthening prudential requirements banking sector

Without prejudice to the aforementioned, it is noted that the recent turmoil in the US and Swiss banking sectors clearly demonstrates the necessity of sufficient capital and liquidity buffers, as well as strong governance and risk management frameworks. Although it is too early to draw final conclusions, it appears that the decisive actions taken by the regulatory and supervisory authorities in the USA and Switzerland have calmed the financial markets, thereby preventing a spillover of these events to the global financial system and economy. Also, in consideration of these events, the CBA has meanwhile decided to increase the minimum risk-weighted capital ratio as well as the prudential liquidity ratio to 18 percent and 20 percent, respectively, as of January 1, 2024.

Bolstering the insurance and pension funds sector’s supervisory framework

Although the insurance and pension fund sectors remained solid and resilient, they faced significant challenges in the year under review. The sharp tightening of the monetary policy stance by the Federal Reserve Bank during 2022 resulted in significant losses on their foreign investment portfolios. On the other hand, the positive returns on their domestic investment portfolios dampened these losses. Overall, the solvency of the insurers and pension fund sectors remained within satisfactory parameters, meaning that they are able to meet their future liabilities. Notwithstanding the aforementioned, the CBA intends to strengthen the regulatory and supervisory framework for insurance companies and pension funds in coming years.

Positive outcome CFATF mutual evaluation of Aruba

An important highlight of the year under review was the positive outcome of the mutual evaluation of Aruba by the Caribbean Financial Action Task Force (CFATF). The mutual evaluation report of Aruba, published on July 14, 2022, demonstrates the significant progress made over the years in establishing a sound and effective framework for preventing and combating money laundering, terrorist financing, and proliferation financing. The CBA is also extremely pleased with the “substantially effective” rating received for both Immediate Outcome 3 (Supervision) and Immediate Outcome 4 (Preventive Measures). Herewith Aruba belongs to one of the three countries worldwide together with Spain and the Holy See that has achieved this. Without prejudice to the positive outcome of the CFATF evaluation, further steps are necessary to fully meet the FATF standards, including but not limited to developing a prudential framework for Virtual Asset Service Providers, establishing a Gaming Authority, and setting up a regulatory framework for real estate brokers. Aruba has to report back to the CFATF in November 2024 on the progress made with regard to the implementation of the recommendations laid down in the mutual evaluation report of Aruba.

Increased attention for cyber risks

In consideration of the increased cyber-security risks worldwide, the CBA is stepping up its oversight efforts in this area. The implementation of sound Information Technology (IT) (security)-related policies, procedures, and measures at the supervised institutions is critical to ensure safe and sound operations. The policy papers issued by the CBA in the areas of technology risk management, business continuity management, and outsourcing arrangements form the benchmark against which the IT (security) policies, procedures, and measures in place at the supervised financial institutions are assessed by the CBA through its offsite surveillance and onsite examinations.

To conclude, the CBA remains vigilant to foster a sound and reputable financial sector, thereby contributing to maintaining financial stability.

The FINANCIAL SECTOR SUPERVISION REPORT 2022 is available on the website of the CBA www.cbaruba.org as of today.