2023

FINANCIAL SECTOR SUPERVISION REPORT

CENTRALE BANK VAN ARUBA

Cover design:

Our turtles.
They choose Aruba’s beaches as a safe haven;
They choose Aruba’s beaches are their breeding ground;
They connect and communicate through vocalizations and body language. Their slow and steady pace represents resilience and endurance.

PRESIDENT'S STATEMENT

This is the 12th edition of our Financial Sector Supervision Report 2023. In this edition, we provide you with detailed insights regarding the implementation of the various supervisory state ordinances assigned to the CBA, including the prevention and combatting of money laundering and terrorist financing. Through this publication, the CBA complies with the obligation to inform the Minister of Finance annually, about the execution of the CBA's supervisory mandate.

Also, by means of this report stakeholders, including the public, are kept informed on how the CBA complies with its supervisory mandate to promote the soundness and integrity of the financial system. The insights offered in this report encompass the significant changes in the regulatory and supervisory landscape, the main activities conducted by the CBA to comply with its supervisory mandate, as well as an overall view of the main developments within the Aruban financial sector during 2023.

Resilience and endurance

This year's cover depicts a native green turtle, symbolic of the adversity turtles face yet always persist in. Though their journey is perilous, they remain undaunted and unwavering, returning to Aruba's shores year after year. Their journey is a testament to their resilience and endurance. Similarly, the CBA, on an ongoing basis, strives to maintain a solid and reputable financial sector, which is fundamental to economic growth. With due regard to the rapid international development in the regulatory and supervisory domains, the CBA endeavors to keep pace with these developments.

Outlook

The economic outlook for Aruba remains upbeat. This positive development is also reflected in the sound prudential parameters of the supervised sectors, including their solvency, liquidity, and profitability. The ample financial buffers that banks and other supervised institutions must hold are instrumental for maintaining a sound financial system. Nonetheless, financial stability must never be taken for granted, especially against the backdrop of more volatile financial markets, and emerging risks in connection with climate change, cybercrime, and the rapid advances in digital technology. Climate change is of increasing concern, also to Aruba, as it may cause rising sea levels and generate severe draughts. Therefore, the CBA recognizes the need to give more attention to this emerging risk in coming years.

National and international developments

Aruba's financial sector has shown remarkable resilience to external shocks, including the recent COVID-19 pandemic, reflected by the financial sector's solid performance. Without prejudice to the aforementioned, the CBA has found it necessary, in light of the international standards and risks associated with a highly one-sided economy, to further strengthen the prudential regime of the financial sector by raising the prudential requirements of the banks, insurance companies, and pension funds operating in Aruba. This will further improve their loss-absorbing capacity, as well as their ability to withstand situations of liquidity stress. In this regard, consultation also took place with the representative organizations of the banking and insurance sectors to discuss the changes in the prudential ratios proposed by the CBA.

As you will read in this report, these ratios have or will be increased in the coming years, fortifying the resilience of Aruba's financial sector.

Other notable developments are the progress made in designing a deposit insurance scheme and establishing a legislative framework for the licensing and supervision of payment service providers and the supervision of providers of payment systems. Also, the CBA submitted a legislative proposal for the introduction of the basic bank account to the Minister of Economic Affairs. This proposal aims to foster financial inclusion by improving access to basic banking products like a current account for domestic payments that are essential to participation in an increasingly digitalized economy. Furthermore, the State Ordinance on Consumer Credit is expected to enter into force soon, providing protection to customers entering into a loan agreement for consumptive purposes. Together with the introduction of this state ordinance, market conduct provisions will be incorporated in the supervisory ordinances governing the banking and insurance sectors, fostering sound and fair practices when engaging with bank or insurance clients.

Fourth Round CFATF Mutual Evaluation Report (MER) of Aruba

The Fourth Round of the MER of Aruba underscores Aruba's success in establishing an effective AML/CFT framework. It also recognizes the effectiveness of the risk-based approach applied by the CBA in this area. Without prejudice to the aforementioned, further steps are necessary to become fully compliant with the FATF recommendations to prevent and combat money laundering, terrorist and proliferation financing.

The CBA has drafted a plan of action, of which a part has already been executed, to follow up on the actions recommended in the MER that fall under the CBA's domain. These recommended actions include further improving the risk-based supervision methodology and holding more frequent information sessions with the different sectors that fall under the scope of the AML/CFT ordinance.

Enhancing cybersecurity oversight

Given the increased cybersecurity risks faced by the financial sector, evidenced by the higher number of cyberattacks worldwide, the CBA will continue to intensify its vigilance of the cybersecurity frameworks at the financial institutions. Secure and reliable operations also require the implementation of up-to-date Information Technology (IT) security-related policies, procedures, and measures at the supervised financial institutions. The CBA's technology-related policy papers form the benchmark against which the adequacy of the IT security framework at the supervised financial institutions are assessed.

In conclusion, the CBA remains steadfast in its commitment to foster a sound and reputable financial sector, a commitment that stems from its legal mandate, and is vital to maintaining economic and financial stability in Aruba.

Jeanette R. Semeleer
President

Aruba, June 2024

LIST OF ABBREVIATIONS

ABA	Aruban Bankers' Association
ACAMS	Association of Certified Anti-Money Laundering Specialists
ACSS	Association of Certified Sanctions Specialists
Afl.	Aruban florin
AFM	Autoriteit Financiële Markten (the Dutch Authority for the Financial Markets)
ALLP	Allocated loan loss provision
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AML/CFT Handbook	Handbook for the Prevention and Detection of Money Laundering and Financing of Terrorism
AML/CFT State Ordinance	State Ordinance on the Prevention and Combating of Money Laundering and Terrorist Financing
APFA	Stichting Algemeen Pensioenfonds Aruba (the Civil Servants Pension Fund of Aruba)
AI	Artificial Intelligence
API	Application Programming Interface
ASBA	Association of Supervisors of Banks of the Americas
ASD	Annual Statistical Digest
BCBS	Basel Committee on Banking Supervision
BCM	Business Continuity Management
BCPs	Basel Core Principles
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBCS	Centrale Bank van Curaçao en Sint Maarten (the Central Bank of Curaçao and Sint Maarten)
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CGBS	Caribbean Group of Banking Supervisors
CMMA	Coördinatiecentrum Mensenhandel Mensensmokkel Aruba
CTR	Coverage Test Ratio
CPF	Combating of Proliferation Financing
DIS	Deposit Insurance Scheme
DLT	Digital Ledger Technology
DNB	De Nederlandsche Bank N.V. (The Dutch Central Bank)
DNFBPs	Designated Non-Financial Businesses and Professions
DPP	Data Protection and Privacy
EDD	Enhanced Due Diligence
EML	Enforcement, Market Entry & Legal Advisory Department
EU	European Union
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit (*Meldpunt Ongebruikelijke Transacties*)
FSI	Financial Stability Institute
GDP	Gross Domestic Product
GIFCS	Group of International Finance Centre Supervisors
GIICS	Group of International Insurance Centre Supervisors
GOA	Government of Aruba
IAA	Insurance Association of Aruba
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
IO	Immediate Outcome
ISD	Integrity Supervision Department
IT	Information Technology
Ltd	Loan-to-deposit ratio

MER	Mutual Evaluation Report
ML	Machine Learning
MLCO	Money Laundering Compliance Officer
MLRO	Money Laundering Reporting Officer
ML/TF/PF	Money Laundering, Terrorist Financing, and Proliferation Financing
MoU	Memorandum of Understanding
(M)MoU	Multilateral MoU
MTCs	Money Transaction Companies
NRA	National ML/TF Risk Assessment
PEP	Politically Exposed Person
PF	Proliferation Financing
PLR	Prudential Liquidity Ratio
PSDB	Prudential Supervision Department Banks
PSIPI	Prudential Supervision Department Insurance Companies, Pension Funds & Investment Institutions
REGTECH	The use of digital tools and processes by financial institutions to manage the regulatory requirements they must comply with
SBO	Sound Business Operations
SDCIC	State Decree on Captive Insurance Companies
SDSIB	State Decree on the Supervision of Insurance Brokers
SOCPF	State Ordinance on Company Pension Funds
SOSCS	State Ordinance on the Supervision of the Credit System
SOSIB	State Ordinance on the Supervision of the Insurance Business
SOSMTC	State Ordinance on the Supervision of Money Transaction Companies
SOSSB	State Ordinance on the Supervision of the Securities Business
SOSTSP	State Ordinance on the Supervision of Trust Service Providers
SUPTECH	The use of technology for supervisory purposes
TF	Terrorist Financing
TSPs	Trust Service Providers
UBO	Ultimate Beneficial Owner
UTR	Unusual transaction report
VA	Virtual Assets
VASPs	Virtual Assets Service Providers
WGFI	Working Group on FATF Issues

CONTENT

Chapter 1

Supervisory mandate and achievements in 2023 at a glance

1.1 CBA SUPERVISORY MANDATE

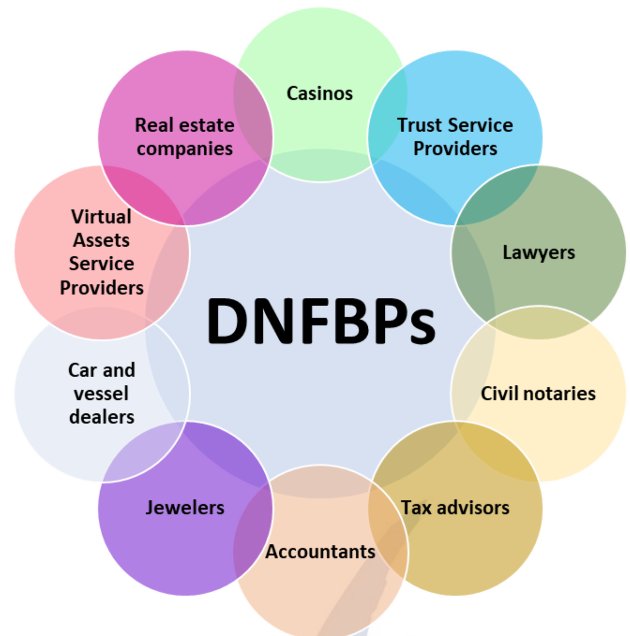
By legal mandate, the CBA is tasked with the supervision and regulation of Aruba's financial sector, fully committed towards maintaining confidence in the financial system by ensuring the solidity and integrity of the sectors and institutions supervised. Pursuant to the sectoral supervisory state ordinances, the CBA is overseeing the following financial institutions (Figure 1.1).

Figure 1.1 Financial institutions

Furthermore, the CBA is also responsible for monitoring compliance with, inter alia, the State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing (AB 2011 no. 28) (AML/CFT State Ordinance), the Sanctions State Ordinance 2006 (AB 2007 no. 24) and the sanctions state decrees, along with the Directive on Sound Business Operations (DSBO). The

AML/CFT oversight also encompasses the so-called Designated Non-Financial Businesses and Professions (DNFBPs) (Figure 1.2).

Figure 1.2 DNFBPs



1.2 CBA STRATEGIC PLAN: DILANTI BIENTO

Following the 5-year completion of its strategic plan called "Bela Yen"[1] in 2021, the CBA issued a new strategic plan called "Dilanti Biento"[2] for 2021-2025, thereby also giving direction to the supervisory agenda.

In "Dilanti Biento", the following six strategic pillars have been identified (Figure 1.3).

I. Culture and capability
II. Digital transformation
III. Dynamic resilience and regeneration
IV. World class knowledge
V. Innovation of implementation
VI. Forward thinking governance

To attain the outcomes set in our strategic pillars and contribute to our purpose, a total of 14 programs have been identified.

> "The six strategic pillars outline what we see as essential elements in **our focus on deeply transforming our organization** with the intent of **supporting change in our community**. We deliver on this strategic intent with a clear focus on **human and planet centricity, digital transformation**, and **enabling resilience** inside and outside our organization. We establish a culture through capability building that will carry us through this work and ensure we deliver strongly on every element."

These programs relate to one or more strategic pillars. Furthermore, the CBA has defined strategic actions for each program. These actions contribute to the realization of outcomes as set out in our strategic plan, "Dilanti Biento".

The program "Regulation and Supervision" contains a comprehensive set of actions designed to promote a financially sound and reputable system. By 2025, the goal is to further strengthen the resilience of the financial system, inter alia, via a deposit insurance scheme, modernization of the resolution regime for banks and insurers, strengthening of the solvency (and liquidity) framework of banks and insurers by incorporating (parts of) the Basel II and Solvency II frameworks, and deepening of the IT-oversight, as well as furthering compliance with the FATF standards.

Figure 1.4 highlights the primary achievements of 2023 in the areas of banking, insurance, and integrity supervision, as well as enforcement.

[1] "Bela Yen" is a saying in Papiamento meaning "full steam ahead".
[2] "Dilanti Biento" is a saying in Papiamento, which means "hopi lihe" and if literally translated to English means "in front of the wind", indicating anticipation, taking actions, and moving forward fast with the wind.

Figure 1.3 Dilanti Biento: six strategic pillars

I. Culture and Capability

We promote a culture that enables bold action focused on inclusiveness, trust, agility, and human centricity.

II. Digital Transformation

We transform our processes and services to be delivered digitally with the focus on increased efficiency, effectiveness, transparency, and (data) analytical capabilities in accordance with best practices.

III. Dynamic Resilience and Regeneration

We think beyond sustainability to regeneration. We focus on transitioning CBA's operations, the financial system, and the economy to a regenerative resilient (eco)system.

IV. World Class Knowledge and Communication

We communicate and share our knowledge internally and externally in effective and innovative ways to develop and foster a collaborative culture, financial literacy, and economic understanding.

V. Innovation of Implementation

We embrace new approaches to set up new or redesigned (internal and external) processes, products, and services to ensure we remain relevant and in step with the times.

VI. Forward-thinking Governance

The CBA is known for its sound governance, and we are a trusted leader on contemporary financial regulation and transparency. We promote good governance practices in Aruba to build the trust that underpins the economic and financial transformation.

Figure 1.4 Overview of the primary supervisory achievements in 2023

Prudential Supervision Banks

- Conducted 4 (remote) onsite examinations in the areas of corporate governance, risk management, internal audit, loans, and IT oversight;
- Conducted a stress test on the commercial banking sector in the area of concentration risk;
- Carried out 11 integrity and suitability assessments (see annex 7);
- Approved 3 petitions for a change in external auditor;
- Intensified its IT supervision;
- Held panel discussions to determine the internal risk rating of each credit institution; and
- Consulted and implemented proposals to increase the minimum CAR and PLR of the banking sector.

Prudential Supervision Insurance Companies, Pension Funds & Investment Institutions

- Carried out 1 onsite examination to assess the correctness of the coverage test report, which is used to monitor the solvency of insurance companies and pension funds;
- Held an information session for the insurance brokers;
- Conducted 10 integrity and suitability assessments (see annex 7);
- Approved 10 petitions for a change in external auditor;
- Held panel discussions to determine the internal risk rating of each insurer and pension fund; and
- Consulted and implemented proposals to strengthen the minimum CTR for life insurers and company pension funds.

Integrity Supervision

- Executed 14 on-site examinations in the areas of AML/CFT and Sound Business Operations (SBO);
- Organized 5 information sessions — 3 for financial institutions and 2 for DNFBPs;
- Organized12 bilateral meetings — 10 for financial institutions and 2 for DNFBPs (see section 2.2);
- Designed a roadmap for follow-up on the CFATF recommended actions related to the findings in the Mutual Evaluation Report (MER) of Aruba;
- Conducted surveys to feed the sectoral and individual risk-assessments in the areas of AML/CFT and SBO; and
- Held panel discussions to determine the internal risk rating of sectors and institutions falling under the AML/CFT framework.

Enforcement, Market Entry, and Legal Advisory

- Granted 4 permissions for changes in the qualifying holding of supervised entities;
- Issued 1 permission to a commercial bank to acquire the assets and liabilities of another commercial bank;
- Provided 26 dispensations to insurance brokers to conduct brokerage services with insurance companies not established in Aruba on behalf of their clients;
- Granted 6 dispensations to act as sales agents for insurance companies established in Aruba; and
- Imposed 8 formal measures (see Annex 11) and issued 6 warning letters and 4 public warnings.

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Chapter 2

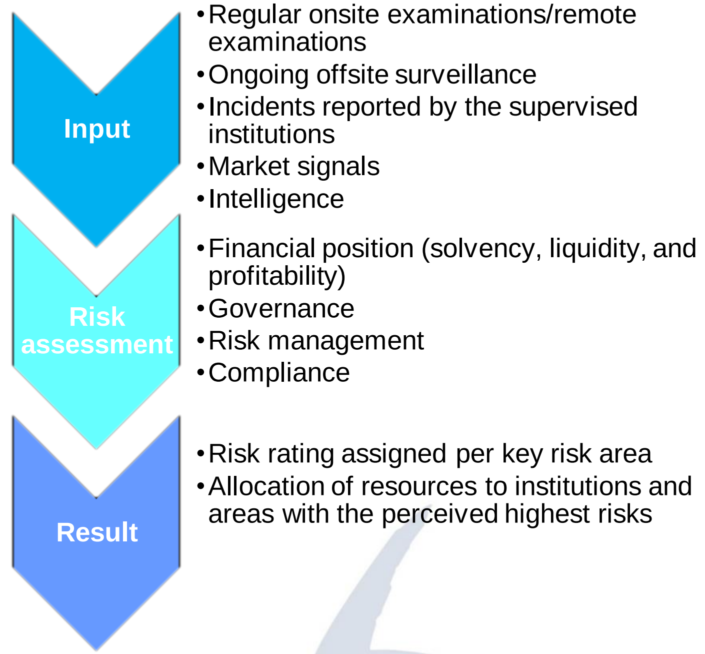
Supervisory approach

Since 2017, the CBA has applied a risk-based supervisory approach, allocating its supervisory resources to institutions and areas with the highest risks. As part of its risk-based supervisory framework, the CBA strives to address the “root cause” of problems rather than treat the symptoms.

2.1 RISK-BASED SUPERVISORY APPROACH

Figure 2.1 illustrates the key components of the CBA’s framework for credit institutions, insurance companies, and company pension funds. Panel sessions are held internally, to discuss the results of the risk assessments performed. Based upon the discussions and conclusions drawn the internal risk ratings allocated to key risk areas (inter alia, financial position, governance, risk management, internal controls, compliance, and IT risk) of the institutions concerned are approved by the Executive Director Supervision and Enforcement. The implementation of a risk-based supervision framework has contributed to a more effective allocation of the scarce supervisory resources to the supervised institutions and areas with the highest risks as identified by these risk assessments. Continued efforts are undertaken to further refine the risk-based approach. Also, in the area of AML/CFT/CPF and SBO[3] a risk-based approach is applied.

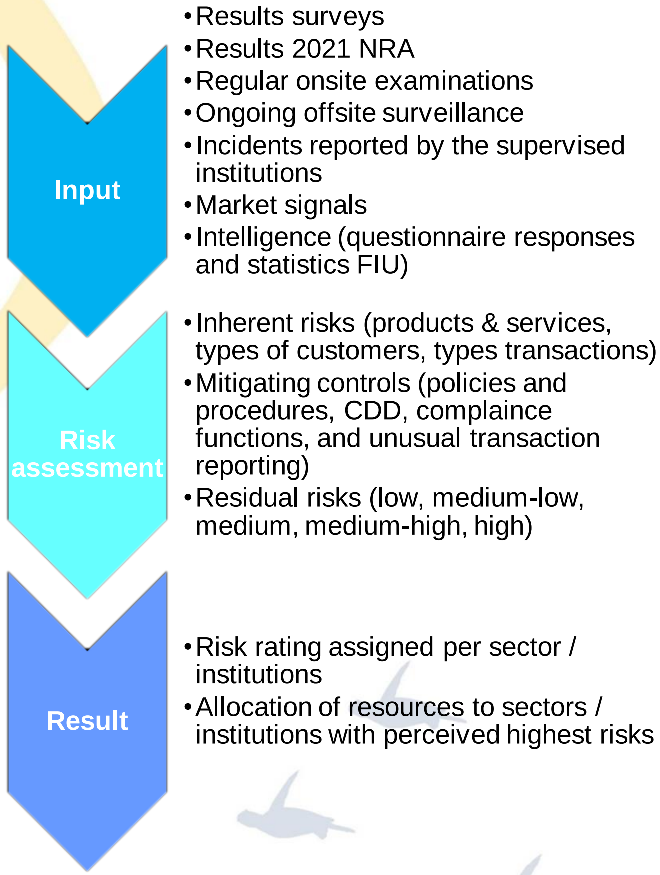
Figure 2.1 Key components of the risk-based supervision framework for credit institutions, insurance companies, and company pension funds



Two key factors are considered when assessing risks, namely: (i) the inherent risks present specific to a supervised sector; and (ii) the effectiveness of existing controls employed by the sector to manage the identified risks (see Figure 2.2).

[3] SBO supervision ensures that financial institutions have proper policies, procedures, and measures in place to manage the risk of unethical conduct.

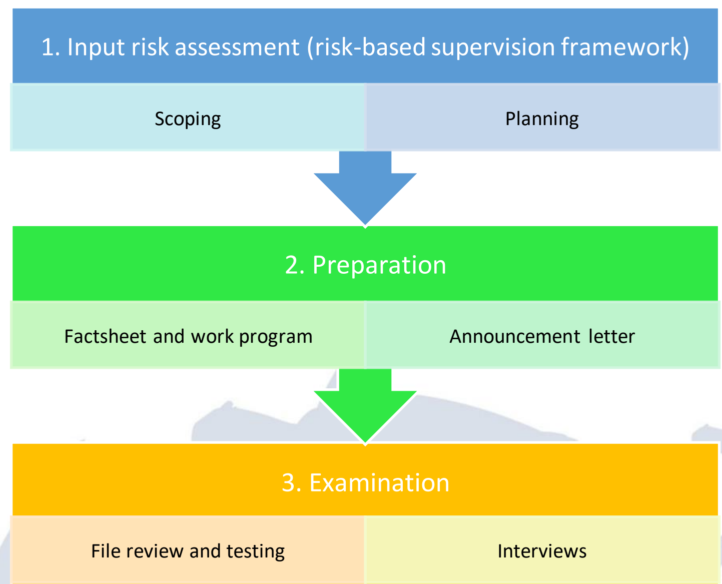
Figure 2.2 Key components of the AML/CFT and SBO risk-based supervision framework

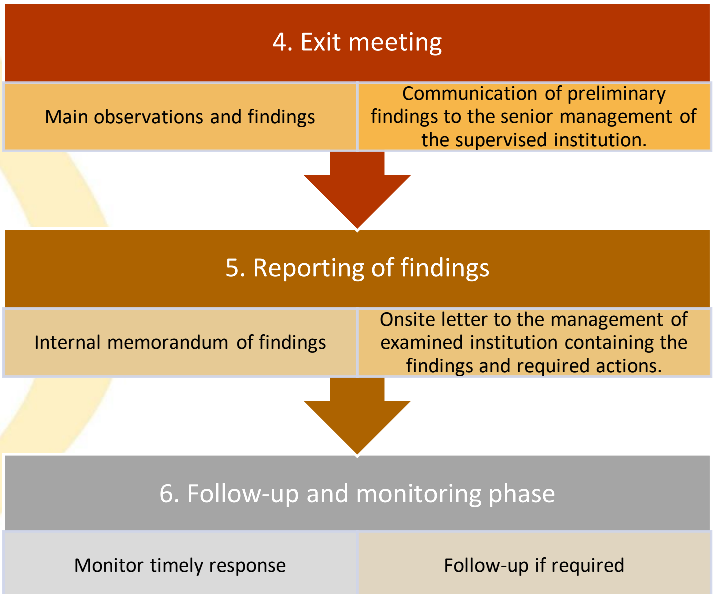


2.2 SUPERVISORY APPROACH TO PRUDENTIAL SUPERVISION

The PSDB conducted targeted onsite examinations at four (4) commercial banks in the area of prudential supervision, while PSIPI carried out one (1) onsite examination at a company pension fund due to resource constraints. The examinations at these supervised financial institutions were all performed based on the following key components (see Figure 2.3).

Figure 2.3 Key components of the examination procedures





Additionally, ongoing offsite surveillance was performed in the year under review, including but not limited to the desk review of the financial and regulatory reports that the supervised entities have to file on a periodic basis, as well as the regular bilateral meetings with the supervised (financial) institutions and, insofar applicable, their representative organizations. The regular examinations and ongoing offsite surveillance form the main pillars through which the CBA carries out its supervisory tasks and serve as the primary source of information for the risk-based supervisory framework. The onsite examinations, offsite activities, and the stress testing performed were key to maintaining a close watch on the financial and nonfinancial developments at the supervised institutions, their ongoing compliance with the relevant laws and regulations, the quality of their governance, risk management and internal controls, and, where necessary, taking formal measures, including the imposing of administrative fines.

2.2 SUPERVISORY APPROACH TO INTEGRITY SUPERVISION

As part of its AML/CFT / SBO supervision, the CBA carried out fourteen (14) onsite examinations in 2023: four (4) at financial institutions and ten (10) at the DNFBPs. The examinations at these supervised institutions were all performed based on the key components illustrated in figure 2.3. The selection of institutions for examinations was driven mainly by the results of the National Risk Assessment (NRA), market signals received, and the results of the risk assessments performed by the CBA.

The CBA also held seventeen (17) information sessions in the form of both general sessions and (bilateral) meetings, aimed at reaching out to the different sectors falling under the CBA's AML/CFT/ SBO supervision in 2023. Annex 9 provides an overview of the information sessions held and the main topics discussed.

In 2023, the CBA also conducted surveys under the supervised financial institutions and DNFBPs to feed the risk-based approach to AML/CFT and SBO in the year under review. One objective was to assess supervised institutions' progress toward addressing follow-up actions from the NRA findings related to money laundering (ML), to evaluate the sector's AML/CFT framework and the effectiveness of the actions taken by the sectors to improve their framework. Questionnaires on the topic of sound business operations were also sent to TSPs, credit unions, bank-like institutions, insurance companies, company pension funds and insurance brokers to obtain a general view of their level of compliance with the DSBO. The information gathered is used in determining the CBA's supervisory approach in this area.

2.3 SUPERVISORY APPROACH TO IT-SUPERVISION

In recent years, there has been an increased focus on IT supervision. The CBA recognizes cybercrime as one of the most significant risks to which financial institutions are exposed. While managing cyber security risks is first and foremost each financial institution's own responsibility, the IT Supervision Unit oversees compliance with the legal provisions and regulations in the areas of technology risk management, business continuity management, and outsourcing arrangements. Through its IT supervision, the CBA aims to promote awareness among financial institutions on IT risks (including cyber risks) and to stress the importance of having a sound risk management framework in place to manage these risks.

2.4 SUPERVISORY STAFF

In consideration of the increasing complexity of the (international) regulatory framework and the dynamic environment in which financial institutions operate, the CBA strives to maintain a highly qualified supervisory staff by also investing in ongoing training in relevant areas. Such trainings are key to maintaining high-quality oversight of supervised institutions and keeping abreast of relevant developments. In 2023, most trainings and courses were attended virtually. Table 2.1 provides an overview of some of the trainings and courses undertaken in 2023 by the Supervision and Enforcement (S&E) Division.

Table 2.1 Overview of the main courses followed by the staff of supervision and enforcement and market entry departments in 2023

Prudential Supervision	
Bank for International Settlements (BIS)	Supervisory and Regulatory Course / Finance Innovation and Technology
Association of Supervisors of Banks of the Americas (ASBA)	Stress Testing and Scenario Analysis / IT Supervision
Toronto Centre	Greenwashing in financial services / Climate risks
IAIS	IFRS 17 Insurance contracts
Integrity Supervision	
Association of Certified Anti-Money Laundering Specialists (ACAMS)	Correspondent banking, de-risking, and grey listing / Sanctions / Cybercrimes
Organization of American States (OAS)	Combating human trafficking
FATF	Risks of virtual assets and VASPs
Enforcement, Market Entry, and Legal Advisory	
Frankfurt School of Finance	Digital finance ecosystem, regulation and supervision and risk management.
Toronto Centre	Risk management / crisis prevention, management, and communication

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Chapter 3

Major changes in the legislative and regulatory framework

The following provides an overview of the major changes made or proposed to the legislative and regulatory framework in Aruba. These actions were undertaken to fortify and improve the current framework against the backstop of (changes in) the international standards in respective areas.

3.1 LEGISLATIVE FRAMEWORK

3.1.1 STATE ORDINANCE ON CONSUMER CREDIT

In June 2016, a draft proposal aimed at regulating consumer credit was presented to the Minister of Finance. The primary objectives of the legislative proposal are: (i) to ensure that consumers receive adequate information prior to entering into a consumer loan agreement, (ii) to impose a cap on interest rates that lenders are allowed to charge to consumers, and (iii) to prevent over-crediting. On June 3, 2022, the draft State Ordinance was adopted by the Parliament of Aruba. This ordinance will enter into force once all the necessary supporting secondary legislation is in place. Note that this draft ordinance also contains changes to the SOSCS and SOSIB introducing market conduct provisions commensurate with international standards.

3.1.2 DEPOSIT INSURANCE SCHEME

In May 2017, the CBA submitted a (revised) legislative proposal to the Minister of Finance for the introduction of a deposit insurance scheme (DIS) for the domestic commercial banking sector. The DIS aims to maintain confidence in the banking system, thereby contributing to financial stability. The legal basis for the introduction of the DIS was established through an amendment to the SOSCS in December 2021. However, the further modalities and working of the DIS is regulated by state decree, which is now in preparation. In this regard, the CBA is also receiving technical assistance from the Dutch Central Bank (DNB) with the drafting of this state decree. Furthermore, a foundation will need to be established managing the funds of the DIS. Also, some changes will need to be made to the SOSCS and other laws, including the bankruptcy ordinance, before the DIS can enter into force.

3.1.3 TRADE REGISTER ORDINANCE AND AML/CFT STATE ORDINANCE

On March 7, 2022, the GoA submitted a draft proposal to the Parliament of Aruba for the establishment of a designated register for ultimate beneficial owners (UBO register) of companies, legal entities, trusts, and other similar legal constructions. Effective January 1, 2023, this ordinance entered into force. The Aruban Chamber of Commerce and Industry is in charge of the management of the UBO register.

3.1.4 STATE ORDINANCE BASIC BANK ACCOUNT

The draft State Ordinance Basic Bank Account designed by the CBA was sent to the Minister of Economic Affairs on December 29, 2022. The legislative proposal aims, (i) to promote financial inclusion of consumers by introducing a right to a basic payment account under certain conditions, and (ii) to reduce wholesale de-risking.

3.1.5 STATE ORDINANCE ON SUPERVISION OF PAYMENT SERVICE PROVIDERS AND THE STATE ORDINANCE ON SUPERVISION OF PROVIDERS OF PAYMENTS SYSTEMS

The draft State Ordinance on the Supervision of Payment Service Providers and the draft State Ordinance on the Supervision of Providers of Payment Systems designed by the CBA were simultaneously sent to the Minister of Finance on September 15, 2023.The primary objectives of these two legislative proposals are: (i) the regulation of payment transactions in Aruba, ensuring that (ii) payment service providers and providers of payment systems are solid and reliable parties, (iii) the protection of consumers by drawing up clear rights and obligations for payment service providers and providers of payment systems, and (iv) promoting proper market functioning.

3.1.6 STATE DECREE ON THE PASSING OF THE SUPERVISION COSTS INCURRED IN CONNECTION WITH THE EXECUTION OF THE AML/CFT STATE ORDINANCE TO THE DNFBPS

On January 1, 2023, subject State Decree entered into force, granting the CBA the authority to charge a portion of the supervision costs incurred with respect to the execution of the AML/CFT Ordinance to the DNFBPs. The supervision costs are charged to the DNFBPs on an annual basis before December 1st of each year (see Annex 12).

3.2 REGULATORY FRAMEWORK

The importance of staying informed of ongoing changes in the international regulatory and supervisory landscape to ensure continued compliance with standards set by international standard-setting bodies cannot easily be overstated. Therefore, the CBA puts much effort in closely following the international developments in the areas of financial sector regulation and supervision, as well as AML/CFT supervision, with the aim to translate the new or revised international standards in legislative proposals, directives, and policy papers.

3.2.1 PRUDENTIAL LIQUIDITY RATIO AND RISK-WEIGHTED SOLVENCY RATIO FOR CREDIT INSTITUTIONS

In order to increase the resilience of the banking sector, and after having consulted the Aruban Bankers' Association (ABA), the CBA decided to increase the capital adequacy ratio (CAR) from 16 percent to 18 percent, as of January 1, 2024, and gradually raise the prudential liquidity ratio (PLR) from 18 percent to 19 percent, as of January 1, 2025, and to 20 percent, as of January 1, 2026. This also in view of the one-sidedness of Aruba's economy, the high degree of concentration, and the stricter international standards in these areas.

3.2.2 INCREASE MINIMUM COVERAGE TEST RATIO FOR LIFE INSURERS AND COMPANY PENSION FUNDS

Due to the increasing size of the life insurance and pension fund sector, and in light of the fact that the current solvency framework does not take into account interest rate and operational risks, the CBA, after having consulted the IAA and representatives from the company pension funds, decided to gradually increase the minimum required Coverage Test Ratio (CTR) over a five-year period.

Table 3.1 Changes to the CTR per sector

	Minimum required CTR for the Life Insurance sector	Minimum required CTR for the Company Pension Fund sector
Current	100 percent	100 percent
January 1, 2025	102 percent	101 percent
January 1, 2026	104 percent	102 percent
January 1, 2027	106 percent	103 percent
January 1, 2028	108 percent	104 percent
January 1, 2029	110 percent	105 percent

3.2.3 REVISION SUPERVISORY DIRECTIVE ON THE "APPOINTMENT OF AN EXTERNAL AUDITOR"

In December 2020, the International Auditing and Assurance Standards Board published 3 (revised) Quality Management Standards to improve the quality of the audits. In consideration of these standards, in July 2023 the CBA amended its supervisory directive on the "Appointment of an External Auditor" and the "Questionnaire External Auditor (QEA)". It also adapted the associated guidance notes for the credit institutions, insurance companies, captive insurance companies, insurance brokers, and company pension funds. The main purpose of these changes are to incorporate these quality standards in the CBA's assessment process with regard to the external auditor of financial institutions.

3.2.4 REVISION DIRECTIVE REPORTING GUIDELINES INSURANCE BROKERS ("RICHTLIJNEN PERIODIEKE RAPPORTAGES")

The CBA revised its directive on the "reporting guidelines for insurance brokers" for the annual filings and quarterly reports that must be submitted by insurance brokers. Note also that the reporting requirements for insurance brokers will be enhanced in coming years with a view to obtain more detailed information on the developments in this sector.

Chapter 4

Follow-up on CFATF mutual evaluation report of Aruba

This chapter focuses on the recommended actions following the June 2022 AML/CFT assessment of Aruba by the CFATF.

4.1 FOURTH ROUND MER

The Fourth Round MER of Aruba was adopted at the CFATF Plenary on June 2, 2022, and was subsequently published on July 14, 2022. The MER of Aruba demonstrates a high level of adherence to the FATF Recommendations in the area of preventing and combating money laundering, terrorist financing, and proliferation financing. It also confirms that Aruba has an effective AML/CFT framework in place.

4.2 RECOMMENDED ACTIONS RESULTING FROM THE CFATF ASSESSMENT & ACTIONS TAKEN OR UNDERWAY INSOFAR IN THE CBA'S DOMAIN

The MER contains recommended actions[4] both in the area of technical compliance and effectiveness which partly falls under the CBA's domain. In this regard, the CBA developed a roadmap to address the technical deficiencies and recommended actions relevant for the CBA pertaining to, inter alia, Immediate Outcome 3 (Supervision) and Immediate Outcome 4 (Preventive measures).

Some of the CBA's most significant actions taken or underway are presented below.

Figure 4.1 Recommended actions and actions taken or underway for Immediate Outcome 3 (Supervision)

RECOMMENDED ACTIONS FOR IMMEDIATE OUTCOME 3 (SUPERVISION)	ACTIONS TAKEN OR UNDERWAY
Implement a more structured approach for conducting on-site examinations at financial institutions and DNFBPs, beyond relying solely on trigger events and on data from previous on-site examinations, desk-based reviews, and participation in the NRA Working Groups.	Updating of the CBA's AML/CFT Risk Based Supervision methodology.
Sustain the CBA's efforts to implement the risk-based assessment, fostering a clear understanding of the AML/CFT obligations and ML/TF risks among financial institutions and DNFBPs.	Revision of the AML/CFT Handbook.
Ensure that the CBA's onsite examination findings are provided to the financial institutions and TSPs in a timely manner.	Providing timely feedback on the onsite examination findings to the institutions examined.

[4] Source: CFATF's Mutual Evaluation Report on "Anti-money laundering and counter-terrorist financing measures Aruba", July 2022.

Figure 4.2 Recommended actions and actions taken or underway for Immediate Outcome 4 (Preventive measures)

RECOMMENDED ACTIONS FOR IMMEDIATE OUTCOME 4 (PREVENTIVE MEASURES)	ACTIONS TAKEN OR UNDERWAY
Ensure sustained efforts to improve the level of compliance among DNFBPs, particularly those operating in the higher risk sector.	Increasing the number of information sessions/bilateral meetings with higher risk sectors.
Financial institutions and DNFBPs should continue to review their policies and procedures based on the findings of the NRA.	Carrying out an NRA survey to evaluate the progress made by supervised financial institutions and DNFBPs on the required actions following the 2021 ML/TF NRAs.
Maintain sustained effort to keep financial institutions and DNFBPs aware of CDD, EDD, and record keeping obligations. Also, continuous training and outreach should be provided to financial institutions and DNFBPs to ensure a good understanding of reporting obligations and that unusual transaction report (UTR) filings are com-mensurate with ML/TF risks.	Intensifying the number of information sessions with a focus on, inter alia, CDD, EDD, record keeping and reporting of unusual transactions. Refer to Annex 9 for an overview of the topics discussed during the information sessions held in 2023 .
Promote a sustained effort in fostering financial inclusion within the existing AML/CFT framework, while mitigating any potential ML/TF risks associated with it.	Drafting of a legislative proposal for the introduction of a basic payment account as an instrument to foster financial inclusion.

Furthermore, to align with some additional recommended actions with respect to, among other things, Immediate Outcome 10 (TF preventive measures and financial sanctions) and Immediate Outcome 11 (PF financial sanctions), the CBA took the following steps (see Figure 4.3).

Figure 4.3 Recommended actions and actions taken or underway for Immediate Outcome 10 (TF preventive measures and financial sanctions) and Immediate Outcome 11 (PF financial sanctions)

	RECOMMENDED ACTIONS	ACTIONS TAKEN OR UNDERWAY
IIMMEDIATE OUTCOME 10	Ensure that the UN designations are communicated promptly or in a timely manner, in keeping with the FATF requirements and the requirements set out in the Sanctions Decree.	Establishing internal procedures to ensure promptly communication (within 24 hours) to the financial institutions and DNFBPs on new or amended sanctions.
IMMEDIATE OUTCOME 11	Ensure that a PF supervisory framework is implemented, and further training and guidance are provided more frequently to all financial institutions and DNFBPs, informing them of their obligations and emerging global trends and typologies.	Revising the PF Guidance Note and AML/CFT Handbook for supervised financial institutions and DNFBPs and to provide further guidance with regard to emerging risks and recent developments in the PF area.

4.3 FOLLOW-UP PROCESS

Given the positive outcome of the CFATF mutual evaluation, Aruba was placed in the regular follow-up process[5]. By August 16, 2024, Aruba is required to report to the CFATF Secretariat on the improvements made in relation to the technical compliance and effectiveness findings in its MER. The follow-up report of Aruba will be presented, for information purposes only, at the upcoming CFATF Plenary in December 2024.

[5] Following the discussion and adoption of a MER, the assessed country could be placed in either regular or enhanced follow-up. While regular follow-up is the default monitoring mechanism for all countries, the enhanced follow-up involved a more intensive process of follow-up considering the significant deficiencies (for technical compliance and effectiveness) in the country's AML/CFT system and results in the country reporting back to the Plenary more frequently than for regular follow-up. The follow-up process of Aruba is managed by the CFATF ICRG in accordance with the CFATF ICRG Procedures for the 4th Round of AML/CFT Evaluations.

Chapter 5

International developments

This chapter focuses on several significant international developments relevant to Aruba's legislative and regulatory framework. Staying abreast of ongoing changes in the international regulatory and supervisory landscape is of paramount importance to ensure ongoing compliance with standards set by the international standard setting bodies in the areas of regulation and supervision.

5.1 BCBS: REVISIONS TO THE CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

On July 6, 2023, the Basel Committee on Banking Supervision (BCBS) issued a public consultation on revisions to the Core Principles for effective banking supervision (BCPs). These revised BCPs entered into effect as per its endorsement during the 23rd International Conference of Banking Supervisors held on April 24-25, 2024.The revisions reflect supervisory developments and structural changes that affect the banking system since the BCPs were last updated in 2012. More specifically, the amendments made relate to regulatory and supervisory developments in the areas of (i) financial risks; (ii) operational resilience; (iii) systemic risk and macroprudential aspects of supervision; (iv) new risks, including climate-related financial risks and the digitalization of finance; (v) non-bank financial intermediation; and (vi) risk management practices. It is the CBA's intention to identify and close any gaps vis-à-vis the revised BCPs as soon as possible.

5.2 BCBS: REPORT ON THE 2023 BANKING TURMOIL

On October 5, 2023, the BCBS published a *Report on the 2023 banking turmoil*. The banking turmoil that started in March 2023 with the failures of Silicon Valley Bank and Credit Suisse is the most significant system-wide banking stress since the Great Financial Crisis (GFC) in terms of scale and scope. The bank failures, while having largely distinct causes, triggered a broader crisis of confidence in the resilience of banks, banking systems and financial markets across multiple jurisdictions. In response, wide-scale public support measures were deployed by the authorities in the respective jurisdictions to mitigate the impact of the stress. Against this backdrop, the Committee undertook a stock take of the regulatory and supervisory implications, as well as of the lessons that can be learned from these events. Also, in consideration of the aforementioned, the CBA decided to increase the CAR and PLR (see section 3.2.1).

5.3 BCBS: DIGITAL FRAUD AND BANKING – SUPERVISORY AND FINANCIAL STABILITY IMPLICATIONS

On November 15, 2023, BCBS issued a discussion paper on how the ongoing digitalization of finance presents numerous benefits to the economy and financial stability, including improved efficiency, convenience, and access to banking services, along with greater transparency and quicker crisis response. However, technological advancements also heighten risks, such as digital fraud, which has grown due to increased agility and sophistication among cybercriminals. This discussion paper evaluates the impact of digital fraud on the global banking system, highlighting the need for heightened awareness and robust security measures amidst evolving fraud risks. The CBA intends to give more attention to this area in the coming years, taking into consideration the increasing digitalization of financial services and the associated cybersecurity risks.

5.4 IAIS: REGULATION AND SUPERVISION OF ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING (AI/ML) IN INSURANCE

On December 7, 2023, the International Association of Insurance Supervision (IAIS) published a thematic review of the adoption of AI/ML across the insurance value chain (e.g., marketing, underwriting, pricing, claims management, etc.) at varying levels of pace, sophistication, and complexity. While the adoption of AI/ML has significant potential to bring value to both insurers and their customers, there are supervisory concerns. For example, (i) operational risk in terms of data security, third-party dependency and cyber risk, (ii) market conduct risk such as discrimination or unfair or biased treatment of customers, (iii) model risks arising from flaws in design and the lack of transparency with AI/ML models. The CBA will continue to monitor the developments in this area.

5.5 IAIS: ISSUES PAPER ON INSURANCE OPERATIONAL RESILIENCE

On May 23, 2023, the IAIS published an *issues paper on insurance sector operational resilience* and addressed three sub-topics that are considered as matters of significant operational risk. These are Cyber resilience, IT third-party outsourcing, and Business Continuity Management (BCM). An operationally resilient insurer can encounter, withstand, mitigate, recover, and learn from the impact of a broad range of events that have the potential to disrupt the normal course of business by impacting critical operations or systems.

The CBA monitors the operational resilience of insurers under its supervision, mainly through surveys and onsite examinations.

5.6 FATF: TARGETED UPDATE ON IMPLEMENTATION OF THE FATF STANDARDS ON VIRTUAL ASSETS (VAs) AND VASPs

In June 2023, the FATF published a report titled *Targeted Update on Implementation of FATF Standards on VAs and VASPs*. This report presents the fourth targeted review of country compliance with FATF's Recommendation 15 and its Interpretative Note (R. 15/INR. 15), including the implementation of the Travel Rule,[6] while also providing insights into emerging risks and market developments in this area (e.g., among other things, the use of VAs for proliferation and terrorist financing and decentralized finance).

The CBA underscores the need for a robust regulatory and supervisory framework to mitigate the risks associated with VAs and VASPs. Currently, only VASPs fall under the AML/CFT supervision of the CBA. A legislative proposal needs to be designed to introduce a prudential supervisory regime for VASPs. This should encompass licensing requirements, ongoing prudential oversight, and an expansion of the current VASP definition to fully align with the FATF recommendations.

[6] The "Travel Rule" is a key AML/CFT measure and FATF requirement, which mandates that VASPs obtain, hold, and exchange information about the originators and beneficiaries of VA transfers (as per paragraph 7 of the FATF's Interpretative Note to Recommendation 15). This enables financial institutions and VASPs to conduct sanctions screening and to detect suspicious transactions.

5.7 FATF: BENEFICIAL OWNERSHIP OF LEGAL PERSONS

In March 2023, the FATF issued an updated guidance paper to assist countries in implementing the revised FATF Recommendation 24, which mandates that competent authorities have access to adequate, accurate and up-to-date information on the true beneficial ownership and control of legal persons. The primary aim of the revision to this global standard is to deter criminal organizations and sanctions evaders from utilizing anonymous shell companies and other businesses to conceal their illicit funds and activities. The guidance aims to aid countries in identifying, designing, and implementing appropriate measures to ensure that beneficial ownership information is maintained by a public authority or body functioning as a beneficial ownership registry, or through an alternative mechanism that facilitates efficient access to such information.

The Aruban Government has acknowledged the ongoing importance of preventing and combating the misuse of legal persons for illicit purposes. In this context, Aruba introduced a legal framework for the establishment of a UBO register through the enactment of a State Ordinance, amending the Trade Register Ordinance (AB 1991 no. GT 15) and the AML/CFT State Ordinance (AB 2011 no. 28). These amendments came into effect on January 1, 2023. The Chamber of Commerce is tasked with the UBO registration.

Chapter 6

National and international cooperation

6.1 NATIONAL COOPERATION

During 2023, the CBA again held periodic meetings with the Financial Intelligence Unit of Aruba (FIU-Aruba) to discuss various topics of mutual interest in relation to integrity matters. In total, three bilateral meetings took place, based on the Memoranda of Understanding (MoU) with the FIU-Aruba (signed in December 2011). Similarly, three bilateral meetings were held with the Public Prosecutor's Office (PPO) ("Openbaar Ministerie"). The basis for these periodic meetings is the MoU with the PPO, which was signed in May 2012.

In 2023, the CBA continued its periodic meetings with the representative organizations of the commercial banks and the insurance companies, i.e., the Aruban Bankers' Association (ABA) and the Insurance Association of Aruba (IAA), respectively. In these meetings, relevant supervisory topics were discussed, including, inter alia, recent macroeconomic and monetary developments, as well as updates on the deposit insurance scheme, and payment matters, the implementation of IFRS 17, reporting requirements, the revised directive on the appointment of an external auditor and updates on 57th Caribbean Financial Action Task Force (CFATF) Plenary and Working Group meetings.

Furthermore, the CBA met separately with the managements of each commercial bank during the bilateral meetings held in March and December 2023. These bilateral discussions covered a range of topics, including, inter alia, financial market developments, correspondent banking relationships, onsite findings, results of the surveys conducted in 2023 by the CBA in the area of AML/CFT and SBO, financial projections of the commercial banks, and the results of the stress test conducted by the CBA on the commercial banking sector.

6.2 INTERNATIONAL COOPERATION

The CBA meets regularly with its counterparts within the Kingdom of the Netherlands, namely DNB, the Centrale Bank van Curaçao en Sint Maarten (CBCS), and the Financial Markets Authority (AFM).

The Technical Committee convened in March and October 2023. The March session centered on taking stock of, among other things, each supervisor's approach to fit and proper testing and market conduct. The October session, hosted by the CBA, included discussions on the definition of PEPs and harmonization of different supervisory practices in the area of fit and proper testing of key persons (members of senior management, board members, and shareholders) at supervised institutions. The CBA's participation in these meetings is based upon the MoU signed among the parties involved. Annex 4 provides a complete list of the (M)MoUs signed with foreign supervisory authorities. In addition, the CBA participated in four supervisory colleges in 2023.

In 2023, following also the positive CFATF assessment results, the CBA received several information requests from foreign supervisory authorities to share information on its risk-based supervisory approach in the AML/CFT area for certain sectors. These information requests were promptly met.

6.3 INTERNATIONAL SUPERVISORY FORUMS

As a member of various international supervisory groups, the CBA participated in meetings held virtually and in-person by these groups throughout 2023:

a. Plenary meetings of the Group of International Finance Centre Supervisors (GIFCS).
b. Members' Assembly and XXXVIII Annual Conference of the Caribbean Group of Banking Supervisors (CGBS).

c. Plenary meeting of the CFATF.
d. Annual General Meeting and Annual Seminar of the Group of International Insurance Centre Supervisors (GIICS).
e. XXV Annual Assembly and High-level Meeting of the Association of Supervisors of Banks of the Americas (ASBA).

Furthermore, the CFATF 57th Plenary and Working Group Meetings were held in Aruba from November 26 to December 1, 2023. The CBA and other national stakeholders participated in these meetings. The main topics at this plenary meeting were the MER and follow-up reports of different Caribbean jurisdictions. Furthermore, the outcomes of the FATF Working Group Meetings held in June and October 2023 were presented, as well as the amendments to the CFATF 4th Round Mutual Evaluation Procedures.

Refer to Annex 5 for an overview of the main topics discussed during the meetings held by the international supervisory groups.

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Chapter 7

Prudential supervision banks

The Prudential Supervision Department Banks (PSDB) is tasked with the supervision of credit institutions. At year-end 2023, the PSDB consisted of four FTEs, one of which is fully dedicated to the IT-Supervision task.

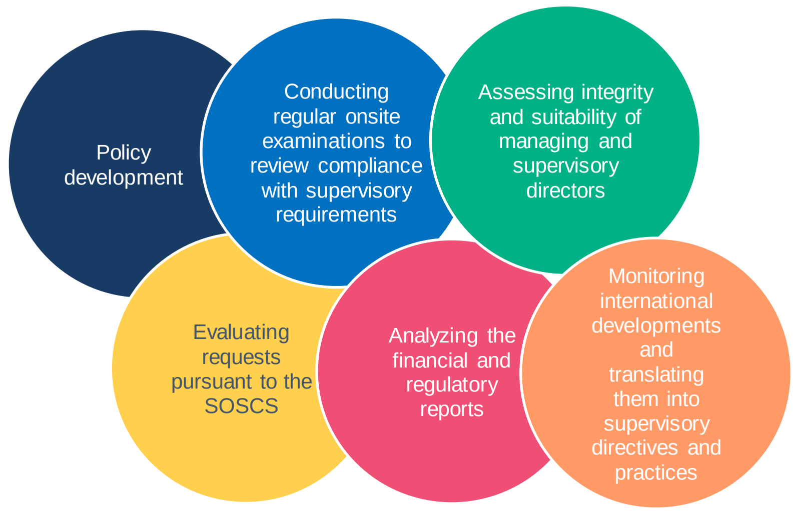
The CBA assesses ongoing compliance with the State Ordinance on the Supervision of the Credit System (AB 1998 no.16) (SOSCS) through offsite surveillance (including the analysis of the financial and regulatory reports) and regular (remote) examinations. In general, the supervised credit institutions remained in compliance with the CBA's prudential requirements during 2023.

As of January 1, 2022, PSDB is also responsible for IT supervision. Throughout 2023, IT supervision mainly focused on the adequacy of the IT specific policies, vision documents on the digitalization of the financial sector, and FinTech developments. Also, IT onsite examinations were conducted at two commercial banks to assess compliance with the CBA's technology risk management policy paper. Other IT surveillance activities included handling of IT-incident reports filed by the financial institutions, and monitoring of Swift CSP compliance by the commercial banks.

Furthermore, the CBA actively monitors international developments in the area of prudential and IT supervision. When relevant to Aruba, these international developments are translated into supervisory directives or policy papers. To this end, in 2023, staff members attended several (virtual) trainings on, among other topics, corporate governance, the revised Basel core principles, developments in banking supervision, stress testing, climate and environmental risks, crypto assets and digital currencies, and cyber security and fraud.

The primary tasks and responsibilities of the PSDB are summarized in Figure 7.1.

Figure 7.1 Tasks and responsibilities of the PSDB



7.1 OFFSITE SURVEILLANCE

In 2023, as part of its offsite surveillance, the CBA's PSDB undertook several activities including, inter alia, the analysis of the financial and regulatory reports submitted by the supervised credit institutions and the evaluation of requests received for approval pursuant to the SOSCS. The latter requests relate mainly to the appointment of key persons, changes of external auditors, and dividend distributions.

In 2023, the CBA received ten new petitions from credit institutions associated with the appointment of key persons. As per year-end 2023, four are pending (see Annex 7).

7.2 ONSITE EXAMINATIONS

During 2023, the CBA conducted four targeted onsite examinations at four commercial banks. At two commercial banks, the CBA carried out a thematic review on the quality of the bank's application of the "three lines of defense", specifically the second- and third lines of defense: risk management and internal audit. At two commercial banks, the CBA examined the bank's oversight of technology risks by the supervisory board and managing board. Table 7.3 provides an overview of the (remote) examinations conducted in the period 2021 to 2023.

Table 7.3 Remote examinations conducted by the PSDB in 2023

Sector	2021	2022	2023
Commercial banks	4	3	4
Bank-like institutions	1	1	0
Credit unions	1	2	0
Total	6	6	4

7.3 STRESS TESTING

Stress testing is a critical risk management tool for both banks and their supervisory authorities. It serves as an early warning system for unforeseen adverse outcomes stemming from numerous risks and offers insight into the financial resources required to mitigate losses should such scenarios materialize. This forward-looking technique simulates and estimates the impact of severe yet plausible adverse events on a bank's results and solvency.

In 2023, the CBA carried out its annual stress test on the commercial banks focusing on concentration risk. The motivation for conducting this scenario analysis is firstly derived from recent global developments, inter alia, the failures of Silicon Valley Bank, Signature Bank, and First Republic Bank in the US, stemming from concentration in their funding and a loss of confidence in these banks. Secondly, Aruba's unique characteristics, marked by its small size and limited diversification, further underscore the need for such analysis. The results of the stress testing exercise were presented and discussed with the banks individually during the bilateral meetings held in December 2023.

7.3 SELF-ASSESSMENT VIS-À-VIS THE BASEL CORE PRINCIPLES

In 2022, the CBA conducted a self-assessment vis-à-vis the BCPs. The BCPs, issued by the BCBS in 1997 and revised in 2012, are the minimum standards for sound prudential regulation and supervision of banks and banking systems, and are applied by countries as a benchmark for assessing the quality of their supervisory regimes. Overall, the self-assessment indicated a high level of compliance with the BCPs (see Table 7.4).

Table 7.4 Summary compliance grading with BCPs

Compliance grading	Number of gradings	Percentage
Compliant	14	48.3%
Largely compliant	12	41.4%
Materially non-compliant	2	6.9%
Non-compliant	1	3.4%
Total	**29**	**100.0%**

As mentioned in section 5.1, the BCBS approved the revised BCPs for effective banking supervision in April 2024. In consideration of these revised BCPs, the CBA will draft a road map to close the identified gaps vis-à-vis the revised BCPs for effective banking supervision.

7.4 PASSING ON OF THE SUPERVISORY COSTS

Pursuant to the various sectoral state ordinances and state decrees, the CBA may pass on the incurred supervisory costs, in full or in part, to the supervised entities. Annex 12 contains a breakdown of the supervisory costs passed on to the different sectors supervised by the CBA in 2023, including the banking sector.

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Chapter 8

Prudential supervision insurers, pension funds & investment companies

The Prudential Supervision Department Insurance companies, Pension funds & Investment institutions (PSIPI) is tasked with overseeing compliance with the prudential requirements laid out in the State Ordinances governing insurance companies, company pension funds, and investment institutions. The PSIPI consisted of four FTEs at the end of 2023.

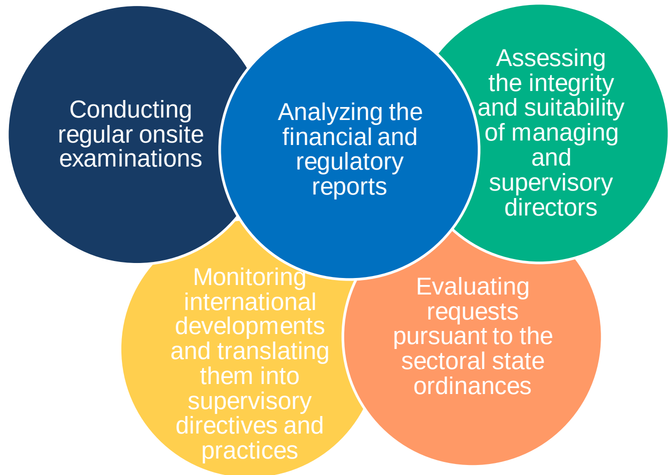
The CBA assesses compliance with the supervisory laws and regulations governing insurance companies, company pension funds, and investment institutions through ongoing offsite surveillance (including the conduct of integrity and suitability assessments of proposed managing directors and supervisory board members), and regular examinations. In general, with the exception of two pension funds, the supervised institutions remained in compliance with the minimum prudential ratio's during 2023.

The CBA also closely follows international developments in the area of prudential supervision and, insofar as relevant for Aruba, translates these developments into supervisory directives or policy papers. To this end, in 2023, staff members attended several trainings in the area of insurance and pension supervision, in particular on Climate Risk and the environmental, social, and governance (ESG) reporting requirements.

In 2023, the CBA continued to monitor the progress of the implementation of IFRS 17 and its impact on the insurance business in Aruba. The IFRS 17 Survey conducted in 2022 indicated that some insurance companies were still lagging behind with the implementation of IFRS 17.

The primary tasks and responsibilities of PSIPI are summarized in Figure 8.1.

Figure 8.1 Tasks and responsibilities of PSIPI



8.1 OFFSITE SURVEILLANCE

In 2023, as part of its offsite surveillance, the CBA undertook several activities, including, inter alia, the analysis of the financial and regulatory reports submitted by the insurance companies, insurance brokers, and company pension funds.

Since 2022, the CBA intensified its offsite surveillance on the insurance brokers and noted that further guidance on the timely compliance with its prudential reporting requirements remains necessary. Therefore, an information session for the insurance brokers was organized during 2023, in which compliance with the reporting requirements was discussed.

The CBA also evaluated requests submitted for approval pursuant to the sectoral supervisory laws. The latter requests relate mainly to the appointment of key persons and changes in external auditors and actuaries.

In 2023, the CBA received 13 new petitions associated with the appointment of a key person from insurance companies, four petitions from company pension funds, and two petitions from insurance brokers. As per year-end 2023, nine are still pending (see also Annex 7).

Also, 19 new petitions were submitted for a change in external auditor: nine from insurance companies, one from a company pension fund, and nine from insurance brokers (see also Table 8.1).

Table 8.1 Petitions to approve a change in external auditor in 2023

Sector	Insurance companies	Company pension funds	Insurance brokers	Total
Pending as of January 1, 2023	-	1	-	1
New requests	9	1	9	19
Withdrawn requests	-	-	-	-
Rejected requests	-	-	-	-
Approved	4	2	4	10
Pending as of December 31, 2023	5	-	5	10

In 2023, the CBA approved a change in the certifying actuary of one pension fund.

8.2 ONSITE EXAMINATIONS

In 2023, the CBA conducted one targeted examination at a company pension fund. Due to resource constraints as a result of staff departure, it was only possible to conduct one onsite examination in 2023. Efforts are undertaken to bring back the number of executed onsite examinations to at least four per year. During the 2023 examination, the CBA reviewed the completeness and correctness of the filled-out coverage test report. Table 8.2 provides an overview of the examinations carried out by PSIPI during 2021-2023.

Table 8.2 Onsite examinations conducted at insurance companies and pension funds in 2023

Sector	2021	2022	2023
Life insurance companies	2	2	-
Nonlife insurance companies	2	2	-
Company pension funds	-	-	1
Total	4	4	1

8.3 PASSING ON OF THE SUPERVISORY COSTS

Pursuant to the various sectoral state ordinances and state decrees, the CBA may pass on the incurred supervisory costs, in full or in part, to the supervised entities. Annex 12 contains a breakdown of the supervisory costs passed on to the different sectors supervised by the CBA in 2023, including the insurance and pension fund sectors.

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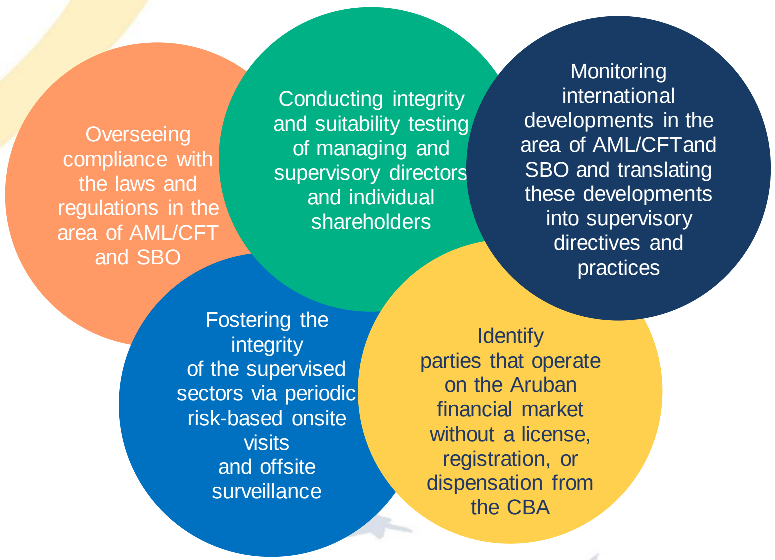
Chapter 9

Integrity supervision

The Integrity Supervision Department (ISD) is responsible for overseeing compliance with the AML/CFT State Ordinance and the Sanctions Ordinance applicable to financial institutions and DNFBPs. Additionally, the ISD is responsible for compliance with the sectoral state ordinances governing the MTCs and TSPs, along with the provisions outlined in the other sectoral supervisory ordinances related to sound business operations, the DSBO. At year-end 2023, the ISD consisted of eight FTEs. The primary tasks and responsibilities of ISD are illustrated in Figure 9.1.

Figure 9.1 Primary tasks and responsibilities of the ISD



The main instruments applied to assess AML/CFT and SBO compliance are the onsite examinations and offsite surveillance, through sector-wide surveys. To stay current with evolving global threats and international advancements, CBA staff actively participated in several virtual training programs and in-person conferences in the area of AML/CFT organized by institutions like the Association of Certified Anti-Money Laundering Specialists (ACAMS), the Association of Certified Sanctions Specialists (ACSS), the, “Coordination Center on Human Trafficking and Migrant Smuggling Aruba” (CMMA), IMF, ASBA, Toronto Centre, CFATF and the FATF. These trainings covered areas such as proliferation financing, sanctions regimes, beneficial ownership, cryptocurrency, virtual assets and VASPs, human trafficking and emerging trends. These trainings provide the CBA staff members with ample opportunity to keep their knowledge up to date.

9.1 OFFSITE SURVEILLANCE

In 2023, the CBA actively monitored financial institutions and DNFBPs through various offsite surveillance activities. The CBA conducted general AML/CFT surveys, but also surveys on topics such as VASPS and on-line betting. The CBA communicated the key findings of the surveys undertaken to the respective sectors via letters and during information sessions. Additionally, specific surveys on the topic of SBO were completed for TSPs, credit unions, bank-like institutions, insurance companies, company pension funds, and insurance brokers. The comprehensive data gathered from these surveys provided valuable insights to the CBA, contributing to its ongoing risk-based approach to AML/CFT and SBO supervision.

9.2 ONSITE EXAMINATIONS

The CBA undertook fourteen (14) onsite examinations in 2023 in the area of AML/CFT: five (5) examinations at financial institutions namely, one (1) at a company pension fund and four (4) at the commercial banks. Additionally, ten (10) examinations were carried out at the DNFBPs: two (2) casinos, two (2) notaries, four (4) real estate companies, and two (2) project developers (see Table 9.1).

Table 9.1 Onsite examinations conducted by ISD in 2021-2023

Sector	2021	2022	2023
Credit institutions	11	-	3
Bank-like institutions	-	1	-
Life insurance companies	1	1	-
Company Pension Fund	-	-	1
Pawnshops	1	-	-
Money transfer companies	2	-	-
DNFBPs	7	9	10
Total	22	11	14

In alignment with the risk-based approach, the AML/CFT onsite examinations completed in 2023 focused on key areas such as customer due diligence (CDD), reporting of unusual transactions, and ongoing monitoring. The SBO onsite examinations focused on the areas of integrity risk assessments, conflicts of interest, whistleblowing, incidents recording, handling, and reporting.

The onsite examinations revealed breaches of the AML/CFT State Ordinance with respect to, among other things, CDD (including transaction monitoring and screening against sanctions and PEP lists), (timely) reporting of unusual transactions to the FIU-Aruba, and AML/CFT policies and procedures. Additionally, breaches of the DSBO were identified regarding, among other things, risk assessments, remuneration policy, conflict of interest, whistleblowing, incidents recording and reporting and the "Integrity Officer" function. Annex 8 provides a comprehensive overview of the breaches identified during the onsite examinations. The findings of the onsite examinations were communicated via the so-called "onsite letters" to the examined institutions. Each institution is provided a reasonable timeframe to take remedial actions.

In addition, in cases of more severe findings, formal measures may be taken (see Chapter 9).

9.3 INFORMATION SESSIONS HELD FOR SUPERVISED INSTITUTIONS

Seventeen (17) information sessions/ bilateral meetings were held by the CBA during 2023: thirteen (13) for selected financial institutions and four (4) for selected DNFBPs (see Table 9.2). The sessions were executed in the form of general sessions or (bilateral) meetings with individual institutions or with representative organizations, covering various topics in relation to, inter alia, overall results of AML/CFT and SBO questionnaires, compliance function, transaction monitoring, reporting of unusual transactions to the FIU-Aruba, and training in the area of AML/CFT. These information sessions were organized in response to requests from the sectors for guidance on specific topics. Annex 9 provides an overview per sector of the topics discussed during the information sessions held in 2023 with the respective sectors.

Table 9.2 Information sessions 2023

Sector	2021	2022	2023
Credit institutions	1	1	5
Bank-like institutions	-	-	1
Life insurance companies[7]	-	-	1
Company Pension Fund	-	-	1
Credit Unions	-	2	2
Pawnshops	-	-	2
Money transfer companies	-	2	1
DNFBPs	2	5	4
Total	3	10	17

[7] Including life insurance brokers

9.4 SANCTIONS

On March 7, 2023, the annexes to the Sanctions State Decree Human Rights (AB 2021 no. 30) were amended.[8] This sanctions state decree implements the EU global human rights sanctions regime.

On December 21, 2023, an amendment of the Interim State Decree on Priority Sanctions Regimes (AB 2019 no. 47) entered into force. Annex I of this state decree was amended to include to two (2) additional jurisdictions: Haiti and the Republic of Moldova.

Additionally, in response to Russia's aggression against Ukraine, the Council adopted three sets of sanctions packages in 2023. These European Union (EU) sanctions, and the aforementioned amendments were promptly communicated to all supervised financial institutions and DNFBPs within 24 hours of receipt. The institutions were provided with details concerning the specific restrictive measures imposed by the Council, including the newly designated individuals and legal entities against which the EU imposed restrictive measures. The CBA instructed all supervised institutions to take due notice of the content of the e-mails sent by the CBA and to stay informed of the EU list of sanctioned persons and entities, which undergo regular review and renewal by the Council.

9.5 STATE ORDINANCE REGULATING CONSUMER CREDIT

The State Ordinance on the Regulation of Consumer Credit (SOCC), approved by Parliament on June 3, 2022, is poised for implementation pending the establishment of the requisite ministerial regulations and the State Decree determining its implementation. The forthcoming regulations will delineate essential aspects like maximum credit compensation, delay compensation, early repayment compensation, and extrajudicial collection costs. The SOCC establishes a robust legal framework for consumer credit providers, emphasizing meticulous treatment and transparent information disclosure for all consumer lending providers, including enterprises providing loans for the purchase of consumer goods they offer. It sets comprehensive rules for disclosure of all relevant details in credit agreements. As part of the implementation of the SOCC, the CBA will set up a Conduct Supervision Unit, responsible for supervising compliance with the SOCC and conduct supervision requirements of the SOSCS, SOSIB, and SOSSB. This unit will temporarily reside within the ISD.

9.6 PASSING ON OF THE SUPERVISORY COSTS

Pursuant to the various sectoral state ordinances and state decrees, the CBA may pass on the incurred supervisory costs, in full or in part, to the supervised entities. Annex 12 contains a breakdown of the supervisory costs passed on to the Money Transaction Companies and the Trust Service providers supervised by the CBA.

On January 1, 2023, the State Decree on the allocation of supervision costs to non-financial service providers related to the execution of the AML/CFT State Ordinance entered into force, providing a legal basis to charge part of the supervisory costs incurred in connection with the execution of the AML/CFT Ordinance to the DNFBPs. In November 2023, all registered DNFBPs were invoiced. Annex 12 contains an overview of the invoiced amounts per sector.

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[8] The subject annexes are included in the Council Implementing Regulation (EU) 2023/500 of March 7, 2023, implementing Regulation (EU) 2020/1998 concerning restrictive measures against serious human rights violations and abuses and Council Decision (CFSP) 2023/501 of March 7, 2023, amending Decision (CFSP) 2020/1999 concerning restrictive measures against serious human rights violations and abuses.

Chapter 10

Enforcement, market entry, and legal advisory

The Enforcement, Market Entry, & Legal Advisory Department (EML) consisted of three FTEs at year-end 2023. The EML Department works closely with PSDB, PSIPI, ISD, and the Legal Services (LS) Department on enforcement and market entry related matters. It monitors international standards and best practices in the area of enforcement and market entry and, insofar as these are relevant for Aruba, translates these developments into legislative, regulatory, and policy proposals. In addition, EML also fulfills the role of internal legal adviser to the CBA on supervisory and enforcement related topics.

The primary tasks and responsibilities of EML are presented in Figure 10.1.

Figure 10.1 Primary tasks and responsibilities of the EML

10.1 ENFORCEMENT

In 2023, the CBA continued its strict oversight of the supervised institutions to ensure their compliance with the applicable supervisory laws and regulations. In cases where the CBA identifies a situation of noncompliance with the applicable supervisory laws and regulations, informal (a normative conversation or a written warning) or formal measures are considered. The decision whether to apply informal or formal measures depends, among other things, on the seriousness of the breaches found. The CBA's enforcement policy lays out the process for such decisions. In this context, a so-called escalation ladder is used, on the basis of which an assessment is made for the application of the type of measure. The more serious the (possible) consequences of a violation and the more culpable the behavior of the offender, the sooner not only a (formal) remedial sanction may be imposed (provided remediation is possible), but also a punitive sanction (or an administrative fine). The CBA also has established further guidelines for determining the amount of an administrative fine. Both the CBA's enforcement policy, as well as the Guidelines for determining the amount of the administrative fines can be found on its website: www.cbaruba.org.

The formal measures that the CBA can take include the following:

a. Issuing a formal direction;
b. Imposing a penalty charge order and/or an administrative fine;
c. Declaring that an auditor or actuary is no longer authorized to certify the annual filings of a credit institution, an insurance company, an insurance broker, a money transfer company, or a company pension fund;
d. Appointing a silent receiver in the case of a credit institution, an insurance company, or a company pension fund;

e. Filing a request to the Court of First Instance to apply the emergency regulations and to appoint one or more administrators (*bewindvoerders*) in the case of a credit institution or insurance company;
f. With respect to company pension funds, requesting the Court of First Instance to appoint an administrator (*bewindvoerder*) in the case of mismanagement, for example;
g. Revoking the license, dispensation, or cancelling the registration; and
h. In addition, the CBA also can report a punishable breach to the Public Prosecutor's Office ("Openbaar Ministerie").

In 2023, the CBA imposed eight (8) formal measures for noncompliance with the sectoral supervisory state ordinances and/or the AML/CFT State Ordinance. Annex 11 provides an overview of the number of formal measures imposed per (sub)sector during the period 2021-2023 for noncompliance with the sectoral supervisory state ordinances and/or the AML/CFT State Ordinance. During 2023, the CBA has also issued six (6) warning letters for noncompliance as well as four (4) public warnings regarding among other things illegal financial activities conducted by non-licensed institutions or parties.

10.2 MARKET ENTRY

Companies wishing to enter Aruba's financial market require permission to do so via a license, dispensation, or registration. A request can be submitted to the EML Department, which then will assess, on the basis of the application and documents, whether all entry requirements have been met and whether the license or dispensation can be granted, or the registration can take place. In 2023, the EML Department processed the following requests in the area of market entry, among others:

- Five requests for a permission concerning a change in the qualifying holding of a supervised financial entity;
- One request for a permission from a nonlife insurance company to acquire the assets and liabilities of another entity;
- One request for a license to operate in an additional nonlife insurance segment;
- Two requests for permission from a supervised financial entity to participate in subordinated loan;
- Two requests from Aruban legal entities for a license to operate as an insurance broker in Aruba;
- One request of a nonlife insurance company for a license to operate in an additional insurance segment;
- Twenty-seven requests from insurance brokers for a dispensation to act as intermediaries for insurance contracts with foreign insurance companies not in the possession of a license from the CBA; and
- Seven requests for a dispensation to operate as a sales agent for an insurance company.

Moreover, upon its own request, the license of one commercial bank was revoked, as its assets and liabilities were sold to another commercial bank. Three dispensations to operate as a sales agent for an insurance company were withdrawn due to the termination of their agreement as a sales agent with the respective insurance company. Finally, the licenses of two insurance companies were repealed at their own request, as they decided to cease their operations in Aruba.

Reference is also made to Tables 10.1 through 10.5 for a complete overview of the licenses, dispensations, and permissions granted, as well as revocations during the year under review.

Table 10.1 Requests reviewed and processed in 2023 – Licenses

	Licenses			Total
	Art. 4 SOSCS[9]	Art. 2 SDSIB[10]	Art. 5 SOSIB[11]	
Pending as of January 1, 2023	-	2	1	3
New requests	1	1	-	2
Issued	-	2	1	3
Request discontinued	-	-	-	-
Pending as of December 31, 2023	1	1	-	2

Table 10.2 Requests reviewed and processed in 2023 – Dispensations

	Dispensations				Total
	Art. 4 SOSIB[12]	Art. 27b SOSIB[13]	Art. 10 SOMTC	Art. 48 SOSCS[14]	
Pending as of January 1, 2023	-	2	-	2	4
New requests	7	25	1	2	35
Issued	6	26	-	1	33
Request discontinued	1	1	-	1	3
Pending as of December 31, 2023	-	-	1	2	3

[9] License to pursue the business of a credit institution.
[10] License to act as an insurance broker.
[11] License to engage in the insurance business.
[12] Dispensation to operate as a sales agent for an insurance company.
[13] Dispensation to act as an intermediary in the conclusion, surrender, or payment of an insurance contract with an enterprise or institution domiciled in or outside Aruba, which does not dispose of a license to engage in the insurance business as issued by the CBA.
[14] Dispensation to operate as a finance company, pawnshop and/or mortgage broker.

Table 10.3 Requests reviewed and processed in 2023 - Permissions

	Permissions						Total
	Increase in equity[15]	Change in qualifying holding[16]	Acquisition of assets and liabilities of another entity[17]	Change in activities[18]	Financial reorganization and acquiring a qualifying holding in a new entity[19]	Entering in a subordinated loan[20]	
Pending as of January 1, 2023	-	1	1	-	-	1	3
New requests	1	6	-	1	1	1	10
Issued	1	4	1	-	-	1	7
Request discontinued	-	1	-	1	1	1	4
Pending as of December 31, 2023	-	2	-	-	-	-	2

Table 10.4 Requests reviewed and processed in 2023 – Revocations

	Revocations					Total
	Article 17 SOSIB	Art. 8 SOSIB	Art. 4 SOSIB	SOSCS	SOSTSP	
Pending as of January 1, 2023	1	1	-	1	1	4
New requests	-	1	3	-	1*	5
Issued	1	2	3	1	-	7
Request discontinued	-	-	-	-	-	-
Pending as of December 31, 2023	-	-	-	-	2	2

* This is an intention to revoke a license ex officio

Table 10.5 Total requests reviewed and processed in 2023

	Total
Pending as of January 1, 2023	14
New requests	52
Issued	50
Request discontinued	7
Pending as of December 31, 2023	9

[15] Pursuant to article 9 of the SOSCS.
[16] Pursuant to article 17 of the SOSCS, article 14a of the SOSIB (also in conjunction with article 4 of the SDSIB) and article 5a of the SOSTSP.
[17] Pursuant to article 22 of the SOSIB.
[18] Permission for and decision by the CBA to change or expand licensed/dispensated activities.
[19] Pursuant to article 14c of the SOSIB.
[20] Permission required based on conditions set in the license, dispensation or registration of the supervised entity.

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Chapter 11

Key financial developments

This chapter describes the key developments in the financial sector, which comprises of commercial banks, bank-like institutions, money transaction companies, life and non-life insurance companies, and pension funds. Detailed financial data on these sectors can also be found in the *Annual Statistical Digest (ASD)* published by the CBA.

Table 11.1 Number of supervised institutions (at end of period)

Number of supervised institutions within the banking sector	2021	2022	2023
Total	10	10	9
Commercial banks	5	5	4
Bank-like institutions	3	3	3
Credit unions	2	2	2

Number of supervised institutions within the insurance sector	2021	2022	2023
Total	20	20	18
Nonlife insurance companies	10	10	9
Life insurance companies	6	6	6
Captive insurance companies	4	4	3

Number of supervised institutions within the pension fund sector	2021	2022	2023
Company pension funds[21]	8	7	7

Source: CBA.

[21] Including Civil Servants Pension Fund (APFA).

11.1 BANKING SECTOR

In 2023, there was a decline in the number of credit institutions supervised by the CBA compared to 2022 as shown in Table 11.1. On October 26, 2023 (effective December 8, 2023), the CBA revoked the license of First Caribbean International Bank (Cayman) Ltd., Aruba Branch (FCIB), as it sold its assets and liabilities to Aruba Bank N.V. in 2022.

11.1.1 COMMERCIAL BANKS

In 2023, the banking sector demonstrated notable credit growth and strong profitability. Nevertheless, the year under review also presented some challenges, mainly in the liquidity domain.

The commercial banks' loan portfolio saw notable growth of 10.7 percent, primarily due to the refinancing of a substantial foreign loan on the domestic market.
The profitability of the commercial banks continued to outperform pre-pandemic levels, despite the fact that the substantial release from the loan loss provisions formed during the COVID-19 pandemic had levelled off.

The challenges faced by banks related predominantly to their reduced liquidity due mainly to the monetary policy tightening and the issuance of government debt paper on the local market.

The subsequent sections provide a comprehensive analysis of the performance of the commercial banks and examine their financial position.

AGGREGATED BALANCE SHEET, TOTAL OUTSTANDING LOANS, AND TOTAL DEPOSITS

In 2023, the commercial banks' aggregated loan portfolio saw double digit growth.

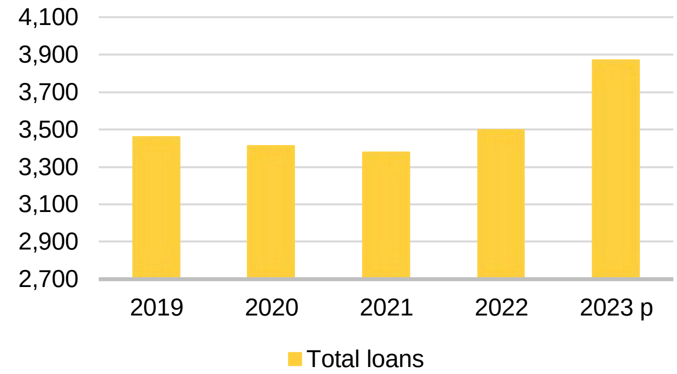
AGGREGATED BALANCE SHEET TOTAL

The commercial banking sector forms an essential part of the Aruban economy, with a combined balance sheet total amounting to 107.8 percent of Aruba's 2023 Gross Domestic Product (GDP) as estimated by the CBA. The commercial banks' aggregated balance sheet total contracted slightly by Afl. 32.0 million or 0.4 percent at year-end 2023 compared to year-end 2022, amounting to Afl. 7,098.3 million. On the asset side, the loan portfolio grew markedly by Afl. 373.7 million or 10.7 percent, while cash & due from banks, and investments decreased by Afl. 334.3 million (-11.8 percent) and Afl. 68.6 million (-11.7 percent), respectively. On the liability side, total deposits grew by Afl. 113.7 million or 2.0 percent, while equity plunged by Afl. 133.7 million or 10.3 percent mainly the result of dividend payments.

AGGREGATED OUTSTANDING LOANS

Aggregated outstanding loans reached Afl. 3,870.5 million at year-end 2023 (see Chart 11.1). Lending at the commercial banks picked up significantly in the last two years, and 2023 showed the strongest growth with Afl. 373.7 million or 10.7 percent. The latter was largely driven by loans to businesses that contributed with Afl. 244.7 million to the overall growth of the loan portfolio, while loans to consumers rose by Afl. 129.0 million. The main catalyst of this buoyant rise in business loans of the commercial banks was the refinancing of a substantial foreign loan on the domestic market.

Chart 11.1 Aggregated outstanding loans of the commercial banks in Afl. million (at end of period)



Source: CBA: commercial banks; p= preliminary figures.

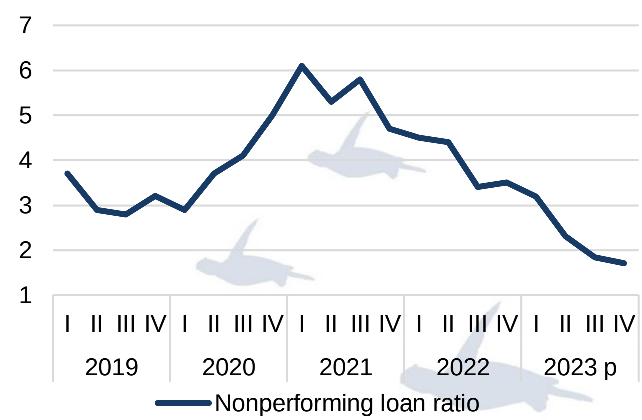
AGGREGATED TOTAL DEPOSITS

In 2023, total deposits expanded by Afl. 113.7 million or 2.0 percent, reaching Afl. 5,818.1 million compared to 2022. This growth primarily stemmed from an increase in time deposits, rising by Afl. 119.9 million or 11.1 percent. However, the overall growth in total deposits in 2023 was relatively modest when compared to the increase rendered in 2022 (Afl. 227.3 million or 4.2 percent).

QUALITY OF LOAN PORTFOLIO

As shown in Chart 11.2, the deterioration of the asset quality due to the COVID-19 pandemic peaked in the first quarter of 2021, as reflected by the commercial banks' nonperforming loan ratio of 6.1 percent. A period of significant improvement followed, evidenced by the overall declining trend as of the fourth quarter of 2021, leading to historically low levels by the end of 2023, with the nonperforming loan ratio dropping to 1.7 percent. The decline in 2023 compared to 2022 is largely attributed to an Afl. 58.6 million or 46.4 percent contraction in nonperforming loans, primarily due to a sizable loan restructuring, several commercial loans being paid off, while other loans becoming performing again. The latter developments also reflect the rapid recovery of the Aruban economy after the COVID-19 pandemic.

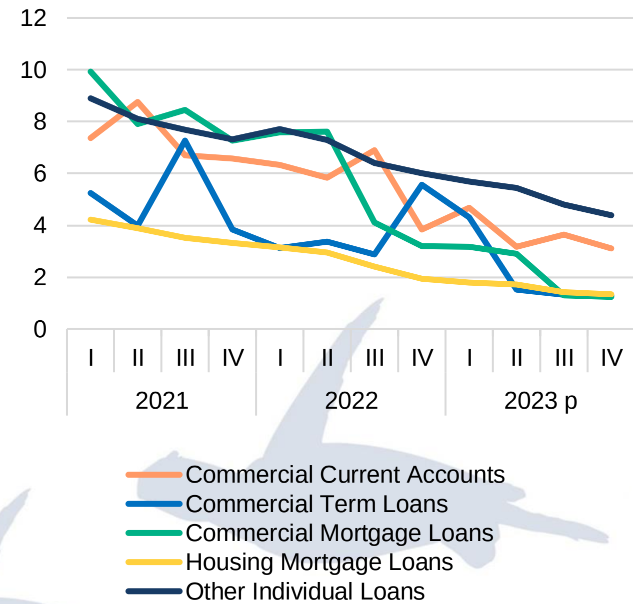
Chart 11.2 Development of the nonperforming loans (gross) to total gross loans of the commercial banks (at end of period and in percentages)



Source: CBA: commercial banks; p= preliminary figures.

Chart 11.3 shows that during 2023, all nonperforming loan categories experienced improvements, as the nonperforming loans in both the commercial and individual loans categories trended downwards. However, the strongest decrease was registered in the commercial term loans category due to the restructuring of a sizeable nonperforming loan.

Chart 11.3 Development of the nonperforming loans (gross) ratio by loan category of the commercial banks (at end of period and in percentages)



Source: CBA: commercial banks; p= preliminary figures.

KEY RATIOS COMMERCIAL BANKS

CAPITAL ADEQUACY

Significant dividend distributions in 2023 caused a 7.1 percentage points drop in the aggregated risk-weighted capital adequacy ratio, reducing it to 32.7 percent by year-end 2023. Despite this, the commercial banks' capital buffers remained robust and well above the required minimum of 16.0 percent.

As reflected in Table 11.2 and Chart 11.4, the commercial banks' aggregated risk-weighted capital adequacy ratio followed an upward trajectory from 2020 to 2022, and, subsequently, experienced a sharp decline at the end of 2023, reaching 32.7 percent. The notable increase observed during 2020-2022 can be primarily attributed to prudential measures imposed by the CBA during the COVID-19 pandemic, which included the prohibition on dividend distributions. The drop witnessed in 2023 followed the easing of the prudential measures, prompting banks to distribute sizable dividends, some of which were to compensate undistributed profits from previous years. Despite the significant decline, the commercial banks' capital buffers remained adequate, as the risk-weighted capital adequacy ratio continues to far exceed the required minimum of 16 percent[22]. The stress test conducted at the end of 2023 also confirms the adequacy of the commercial banks' robust capital buffers under severe stress.

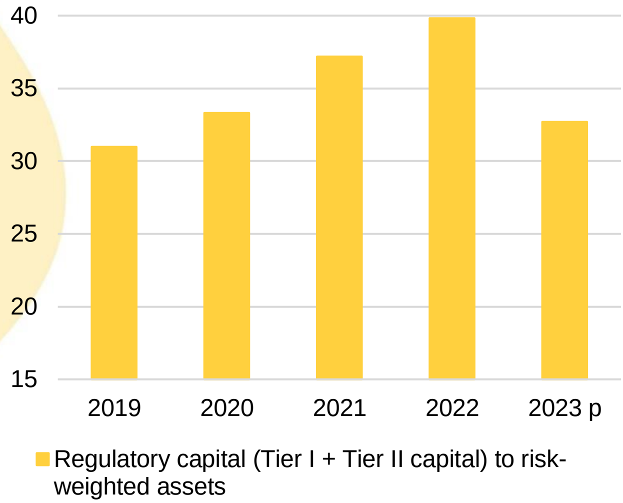
Table 11.2 Financial soundness indicators for commercial banks on an aggregated basis (at end of period and in percentages)

	2019	2020	2021	2022	2023p
Capital adequacy					
Regulatory capital (Tier I capital) to risk-weighted assets	24.6	27.5	28.6	30.5	23.8
Regulatory capital (Tier I + Tier II capital) to risk-weighted assets	31.0	33.3	37.2	39.8	32.7
Asset quality					
Nonperforming loans to gross loans	3.2	5.0	4.7	3.5	1.7
Nonperforming loans (net of ALLP[1]) to gross loans	0.9	1.1	1.5	1.3	0.0
Nonperforming loans (net of ALLP) to regulatory capital	3.0	3.8	4.5	3.6	-0.1
Profitability					
Return on assets (before taxes)	1.7	0.4	2.1	2.3	2.2
Return on equity (before taxes)	10.6	2.7	13.5	14.2	14.5
Interest margin to gross income	56.0	63.3	55.5	51.2	53.6
Noninterest expenses to gross income	81.9	93.5	71.1	69.3	71.9
Interest rate margin[2)]	4.4	4.7	4.7	4.5	4.2
Liquidity					
Loan-to-deposit ratio	68.4	66.8	58.9	58.5	63.6
Liquid assets to total assets[3)]	29.3	33.7	38.0	29.8	25.5

Source: CBA: commercial banks; p= preliminary figures.
1) ALLP= Allocated Loan Loss Provision.
2) Weighted averages related to new loans granted and new deposits during the indicated period.
3) This ratio is the PLR.

[22] Reference is made to section 3.2.3 of this report for more details on the upcoming changes to the prudential requirements.

Chart 11.4 Development of the aggregated risk-weighted capital asset ratio of the commercial banks (at end of period and in percentages)

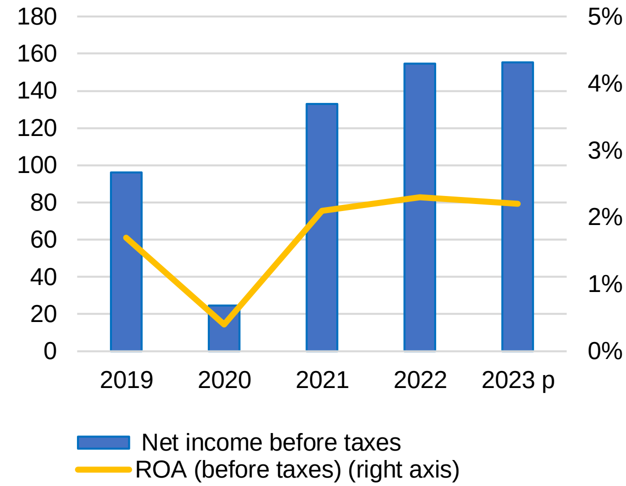


Source: CBA: commercial banks; p= preliminary figures.

PROFITABILITY

Subsequent to the significant hit to the commercial banks' profitability in 2020 amid the COVID-19 pandemic, banks recovered quickly, achieving pre-pandemic levels by 2021 (see Table 11.2 and Chart 11.5). This rebound was predominantly fueled by the release of substantial loan loss provisions formed during the pandemic. In 2023, the banks continued to deliver strong results with a net income (before taxes) of Afl. 155.3 million and a return on assets (before taxes) of 2.2 percent in 2023.

Chart 11.5 Development of the profitability, net income before taxes (in Afl. million) and return on assets before taxes (in percentages) of the commercial banks (at end of period)



Source: CBA: commercial banks; p= preliminary figures.

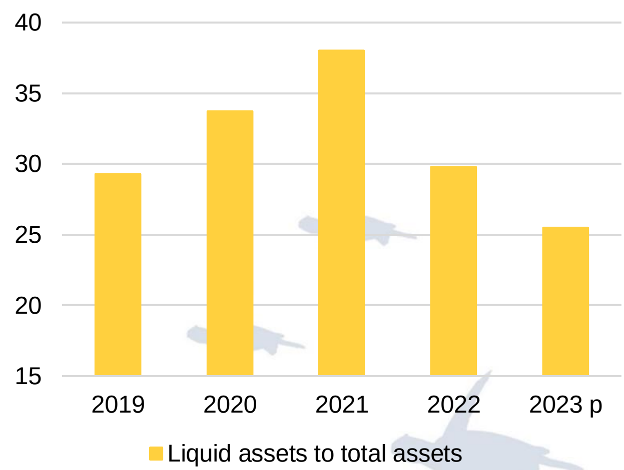
On the income side, the net interest margin was Afl. 31.7 million or 15.2 percent higher in 2023 compared to 2022, while other operating income (consisting of fees and commission and revenues from foreign exchange transactions), grew by Afl. 9.2 million or 4.6 percent. The interest margin to gross income ratio rose from 51.2 percent in 2022, to 53.6 percent in 2023, reflecting the higher revenues generated from lending activities. On the expense side, total noninterest expenses were Afl. 40.6 million or 16.1 percent higher in 2023 compared to 2022, largely due to lower releases in loan loss provisions, and higher general expenses and salaries. This translated into a noninterest expense to gross income ratio of 71.9 percent in 2023 compared to 69.3 percent in 2022.

LIQUIDITY

Per year-end 2023, the PLR (liquid assets to total assets) continued to decline from 29.8 percent in 2022 to 25.5 percent in 2023, but remained above the required minimum of 18 percent.

Chart 11.6 illustrates that the upward trend in the PLR of the commercial banks during 2020-2021, and peaking at 38.0 percent in 2021, came to an abrupt halt in 2022, as the PLR dropped by 8.2 percentage points, reaching 29.8 percent in 2022 and declining further in 2023 to 25.5 percent.

Chart 11.6 Development of the aggregated prudential liquidity ratio of the commercial banks (at end of period and in percentages)



Source: CBA: commercial banks; p= preliminary figures.

The change in the PLR's trajectory can be mostly attributed to the CBA's monetary policy tightening, as the Reserve Requirement (RR) [23] rate increased substantially in 2022. In 2023, the PLR continued to decrease, albeit at a slower pace compared to the previous year. This was influenced by several factors. Despite some reductions in the RR rate during 2023, it remained elevated. Additionally, banks faced liquidity funding pressures stemming from the issuance of government debt paper on the local market, along with significant liquidity outflows due to the refinancing of a large foreign loan, and dividend distributions.

11.1.2 BANK-LIKE INSTITUTIONS

AGGREGATED BALANCE SHEET TOTAL

The bank-like institutions' aggregated balance sheet total was Afl. 904.1 million at year-end 2023, equivalent to 13.7 percent of Aruba's 2023 GDP, as estimated by the CBA.

At year-end 2023, the bank-like institutions' aggregated balance sheet total grew by Afl. 6.5 million or 0.7 percent to Afl. 904.1 million when compared to end-2022, primarily reflected in the loan and investment portfolio expansion of Afl. 28.5 million and 7.9 million, respectively. The surge in the loan portfolio was largely due to the participation in the domestic refinancing of a large foreign loan mentioned in previous sections. The aforementioned expansion in the loan and investment portfolio was mostly counterbalanced by a decline in cash and due from banks of Afl. 42.9 million. In terms of liabilities, funds borrowed increased by Afl. 6.4 million.

[23] The reserve requirement rate, the CBA's primary monetary tool, requires the commercial banks to maintain account balances at the CBA based on a percentage of their deposits. The reserve requirement balances held at the CBA are excluded from the PLR calculation.

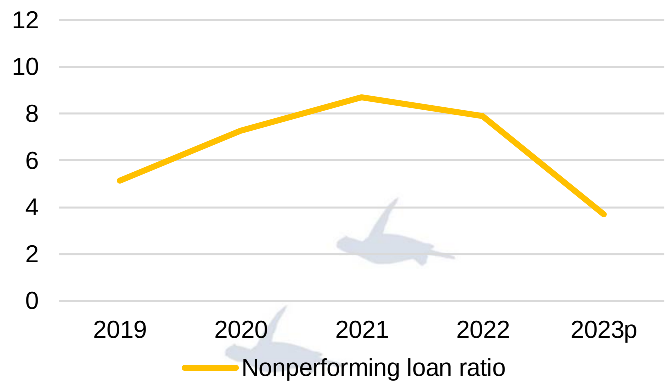
54

KEY RATIOS BANK-LIKE INSTITUTIONS

ASSET QUALITY

Chart 11.7 and Table 11.3 illustrate a significant increase in the nonperforming loan ratio during the years 2020 and 2021, primarily attributable to the impact of the COVID-19 pandemic, reaching its peak at 8.7 percent by the end of 2021. However, by 2022, there was a noticeable improvement in asset quality, which continued into 2023, with the ratio in question contracting sharply by 4.2 percentage points to 3.7 percent by the end of 2023.

Chart 11.7 Development of nonperforming loans (gross) to total gross loans ratio of the bank-like institutions (at end of period and in percentages)



Source: CBA: bank-like institutions; p= preliminary figures.

Table 11.3 Financial soundness indicators for bank-like institutions on an aggregated basis (at end of period and in percentages)

	2019	2020	2021	2022	2023p
Capital adequacy					
Regulatory capital (Tier I capital) to risk-weighted assets	51.4	54.6	55.9	56.4	56.7
Regulatory capital (Tier I + Tier II capital) to risk-weighted assets	58.1	59.6	61.3	62.9	63.0
Asset quality					
Nonperforming loans to gross loans	5.1	7.3	8.7	7.9	3.7
Nonperforming loans (net of ALLP) to gross loans	4.0	5.4	6.9	6.3	2.1
Nonperforming loans (net of ALLP) to regulatory capital	4.7	6.2	7.5	6.4	2.3
Profitability					
Return on assets (before taxes)	4.0	1.2	2.3	3.1	2.9
Return on equity (before taxes)	7.2	2.2	4.0	5.4	5.4
Interest margin to gross income	61.5	66.1	58.6	63.3	61.7
Noninterest expenses to gross income	65.7	86.1	78.2	68.4	67.3

Source: CBA: bank-like institutions; p= preliminary figures.

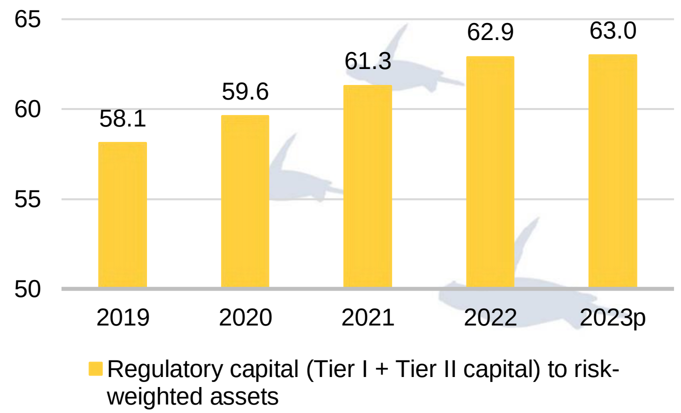
CAPITAL ADEQUACY

The aggregated regulatory capital-to-risk-weighted assets ratio of the bank-like institutions remained highly solid at 63.0 percent at year-end 2023.

Table 11.3 and Chart 11.8 depict the increasing trend of the regulatory capital (Tier I and Tier II capital) to risk-weighted assets ratio of the bank-like institutions over the period 2019 - 2023.

However, the year 2023 witnessed reduced growth in the capital adequacy ratio as it saw an uptick of only 0.1 percentage point compared to 2022, primarily due to dividend distributions, leading to reduced retained earnings (Tier I component). Despite the aforementioned, the capital buffers of the bank-like institutions remained highly adequate.

Chart 11.8 Regulatory capital (Tier I + Tier II capital) to risk-weighted assets of the bank-like institutions (at end of period and in percentages)



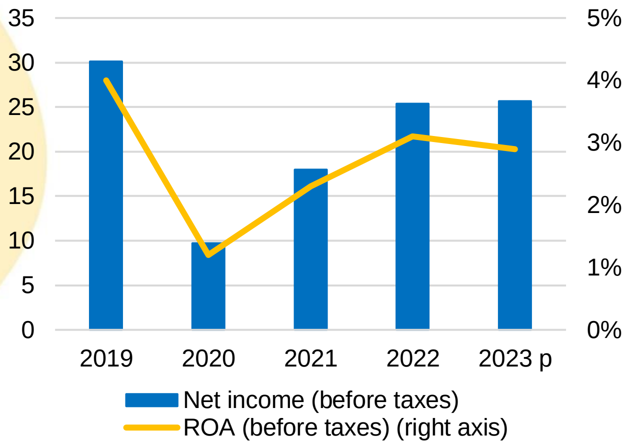
Source: CBA: bank-like institutions; p= preliminary figures.

PROFITABILITY

Similar to the commercial banks, the profitability of the bank-like institutions was notably impacted by the pandemic, evidenced by the abrupt drop in return on assets (before taxes) to 1.2 percent in 2020. However, unlike the commercial banks, the bank-like institutions' return to pre-pandemic performance is moving at a slower pace. As indicated in Table 11.3 and Chart 11.9, the return on assets (before taxes) began to rebound in 2021 to 2.3 percent, and further to 3.1 percent in 2022. In 2023, return on assets (before taxes) was slightly lower than that the previous year at 2.9 percent. The interest margin to gross income ratio indicates the portion of the bank-like institutions' income that is generated by core lending activities. This ratio declined from 63.3 percent in 2022 to 61.7 percent in 2023, attributed to a contraction in the interest margin brought on by increasing interest expenses.

The noninterest expenses to gross income declined from 68.4 percent in 2022 to 67.3 percent in 2023. This drop was due to lower other operating expenses of Afl. 3.2 million, largely related to lower general expenses and releases in loan loss provisions.

Chart 11.9 Development of the net income before taxes (in Afl. million) and return on assets before taxes (in percentages) of the bank-like institutions (at end of period)



Source: CBA: bank-like institutions; p= preliminary figures.

11.2 MONEY TRANSACTION COMPANIES

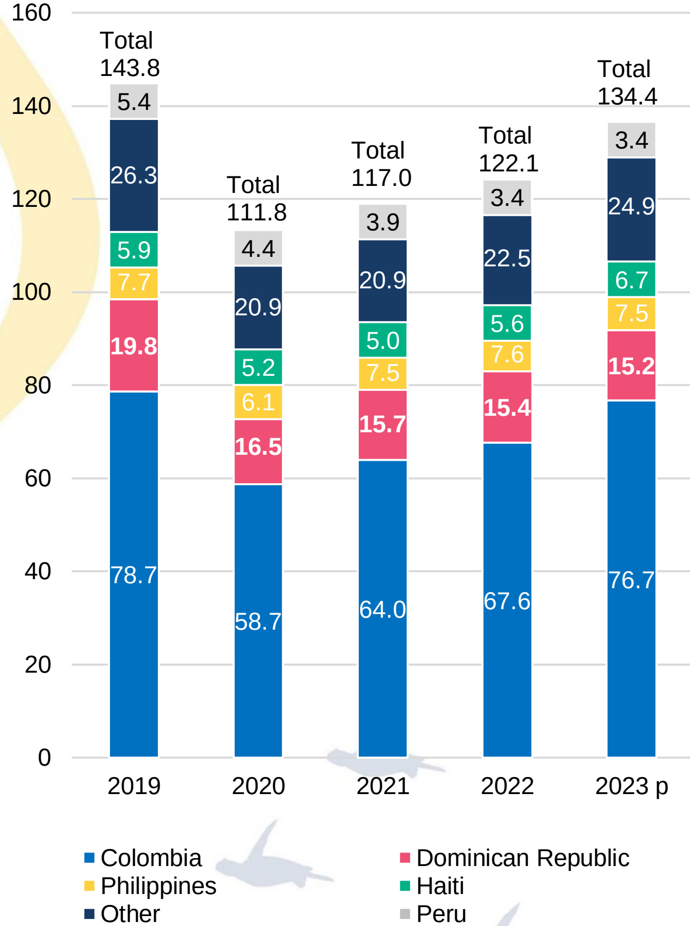
At the end of 2023, four money transaction companies were registered in Aruba, of which only 2 were operational.

11.2.1 OUTGOING MONEY TRANSFERS

The total amount of outgoing money transfers increased by Afl. 12.3 million from Afl. 122.1 million in 2022 to Afl. 134.4 million in 2023.

A significant portion of Aruba's workforce comprises - foreign workers, predominantly from South America. Many of these foreign workers remit a portion of their earnings back to their home countries. The volume of outgoing money transfers exhibited a steady growth from 2016 to 2019. However, in 2020, there was a decrease of Afl. 32.0 million or 22.3 percent in outgoing money transfers compared to the year before. This decrease was primarily attributed to the contracted economic activities in Aruba caused by the COVID-19 pandemic, which led to reduced employment opportunities and salaries. From 2021 onwards, there has been a rise in outgoing money transfers as economic activities have resumed and some COVID-19-related foreign exchange remittance restrictions were lifted. In 2023, Colombia continued to be the top destination for outgoing money transfers, accounting for around 57.1 percent (equivalent to Afl. 76.7 million) of the total transfers in 2023 (Chart 11.10).

Chart 11.10 Outgoing money transfers by countries of destination (in Afl. million)



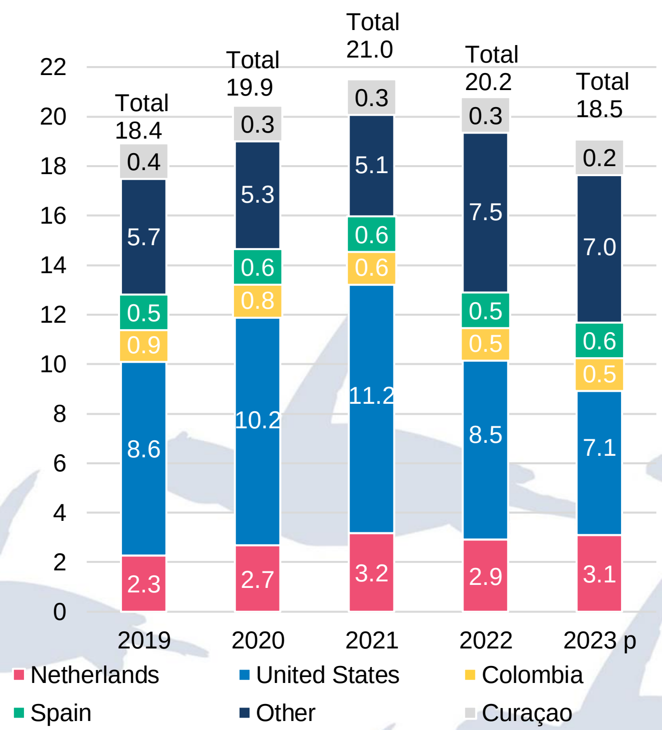
Source: CBA: money transfer companies; p= preliminary figures.

11.2.2 INCOMING MONEY TRANSFERS

The total amount of incoming money transfers decreased to Afl. 18.5 million in 2023, down from Afl. 20.2 million in 2022.

The majority of the incoming transfers originated from the U.S. in 2023 (Chart 11.11).

Chart 11.11 Incoming money transfers by countries of origin (in Afl. million)



Source: CBA: money transfer companies; p= preliminary figures.

11.3 INSURANCE COMPANIES

The number of insurance companies (including nonlife and life [captive] insurance companies) supervised by the CBA declined by two compared to year-end 2022. On July 3, 2023, Best Doctors Insurance V.B.A.'s license to conduct the nonlife insurance business was revoked, while on September 29, 2023, Fides Rae Insurance Company N.V.'s license to conduct the nonlife captive insurance business was withdrawn. In both cases, it was on the companies' own request, as they decided to cease their activities in or from Aruba. Consequently, by year-end 2023, the number of supervised insurance companies stood at eighteen.

11.3.1 NONLIFE INSURANCE COMPANIES

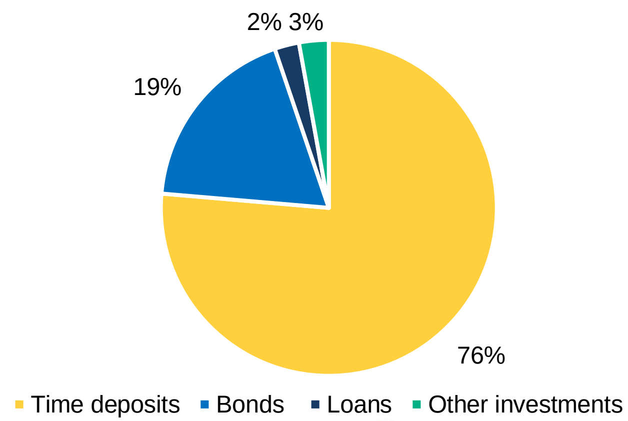
AGGREGATED BALANCE SHEET TOTAL AND NET PREMIUM PER INDEMNITY LINE

The combined assets of the nonlife insurance sector amounted to Afl. 335.5 million at the end of 2023, equivalent to 5.1 percent of Aruba's 2023 GDP, as estimated by the CBA.

AGGREGATED BALANCE SHEET TOTAL

The nonlife insurance companies' aggregated balance sheet decreased by Afl. 12.8 million or 3.7 percent to Afl. 334.5 million at the end of 2023. This decrease was due primarily to a decline of Afl. 21.3 million or 15.6 percent in current assets, which was somewhat offset by a growth in due from affiliated companies of Afl. 8.8 million or 44.8 percent. Total investments for the nonlife insurance companies grew steadily from 2018 on, standing at Afl. 188.5 million at year-end 2022. In 2023, total investments for this sector reduced somewhat from Afl. 188.5 million to Afl. 188.1 million or 0.2 percent. Nearly all the investments are local. Only Afl. 2.8 million or 1.5 percent of the total investments at year-end 2023 are foreign. Chart 11.12 displays the composition of the investments at year-end 2023.

Chart 11.12 Investments by nonlife insurance companies at year-end 2023



Source: CBA: nonlife insurance companies (preliminary figures).

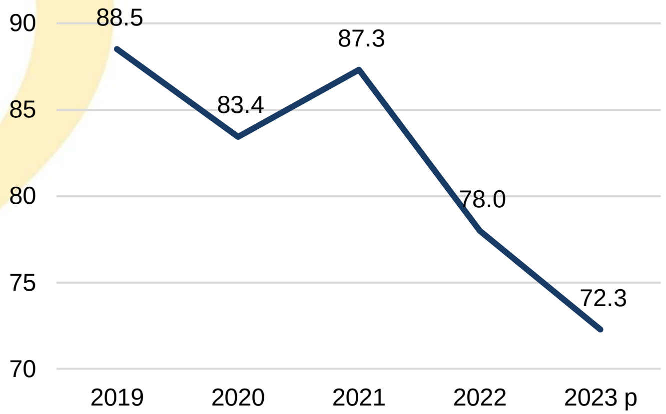
NET EARNED PREMIUMS

The net earned premiums of the nonlife insurance companies fell over the last five years, amounting to Afl. 72.3 million, the lowest point since 2011. In the last five years, the decline reached Afl. 16.2 million or 18.3 percent (Chart 11.13).

The motor vehicle indemnity line shrank by Afl. 7.9 million or 11.5 percent over the last few years, mostly due to higher premium discounts given by insurers. In addition, net earned premiums for property registered a drop of Afl. 5.7 million or 28.4 percent, as the property reinsurance costs had been increasing (substantially) over the same period. Note that the net earned premium is calculated as gross written premiums less the ceded reinsurance premiums.

In 2022 and 2023, a decrease of Afl. 15.0 million was recorded in net earned premiums. This drop was mostly driven by an Afl. 11.1 million decline in premiums related to accident and health insurance, as the compulsory tourist health insurance during the COVID-19 pandemic was discontinued in 2022.

Chart 11.13 Net earned premiums of the nonlife insurance companies (in Afl. million)

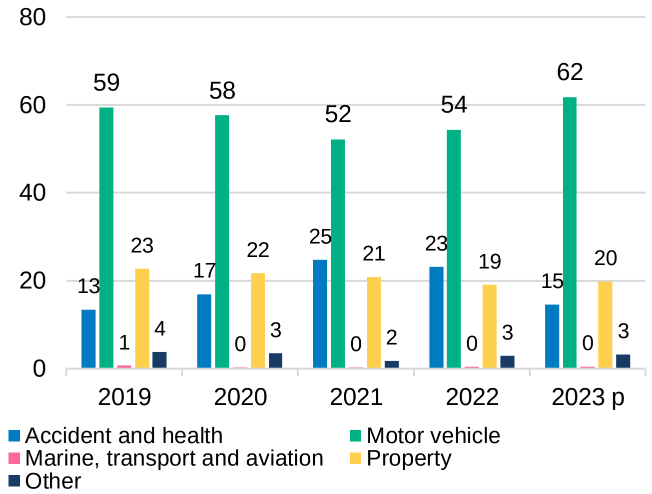


Source: CBA: nonlife insurance companies; p= preliminary figures.

NET EARNED PREMIUMS PER INDEMNITY LINE

Net premiums received from motor vehicle insurance increased by Afl. 2.2 million or 3 percent in 2023, after shrinking during 2019-2022 (2020: Afl. -4.5 million, 2021: Afl. -2.5 million, 2022: Afl. -3.2 million). Net premiums received from motor vehicle insurance remained the main source of income for nonlife insurance companies in 2023, constituting 62 percent of the total net earned premiums in that year (Chart 11.14).

Chart 11.14 Net earned premium by indemnity line of the nonlife insurance companies (in percentages)



Source: CBA: nonlife insurance companies; p= preliminary figures.

The premiums related to accident and health insurance expanded in the years 2020 and 2021 by Afl. 2.2 million and Afl. 7.5 million, respectively, as compulsory health insurance for tourists during the COVID-19 pandemic period is included in this indemnity line. However, this requirement was discontinued in 2022, leading to a decrease in this indemnity line in 2022 and 2023 of Afl. 3.6 million and Afl. 7.5 million, respectively. In 2023, the net premiums from accident and health insurance amounted to Afl. 10.6 million.

The net premiums from property insurance in 2023 stayed almost the same as the prior year at Afl. 14.4 million.

KEY RATIOS FOR THE NONLIFE INSURANCE SECTOR

COVERAGE RATIO

The coverage ratio of the nonlife insurance sector decreased by 26.1 percentage points to 329.6 percent at year-end 2023, but remained far above the regulatory minimum of 100.0 percent.

Table 11.4 shows that the coverage ratio of the nonlife insurance sector improved from 320.6 percent in 2019 to 355.7 percent in 2022. The largest improvement occurred during 2020-2021, when it increased by 29.3 percentage points. This was mostly the result of growth totaling of Afl. 12.4 million or 4.9 percent in admissible assets to cover the technical provisions, while the latter contracted by Afl. 3.0 million or 3.8 percent to Afl. 75.7 million.

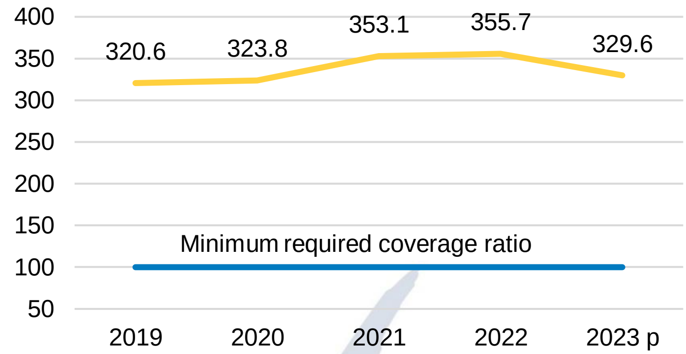
Table 11.4 Financial soundness indicators for nonlife insurance companies on an aggregated basis (at end of period and in percentages)

	2019	2020	2021	2022	2023p
Coverage ratio[1]	320.6	323.8	353.1	355.7	329.6
Return on investment ratio[2]	3.6	3.2	3.3	3.0	3.6
Liquidity ratio[3]	47.3	38.4	42.0	39.4	34.5
Net income before taxes[4]	30.5	28.1	26.0	13.3	8.7

Source: CBA: nonlife insurance companies; p= preliminary figures.
1) Weighted assets less current liabilities (excluding affiliated companies) to technical provisions.
2) Investment income to average invested assets.
3) Current assets to total assets.
4) In Afl. million.

However, in 2023, the coverage ratio decreased by 26.1 percentage points to 329.6 percent compared to year-end 2022 (355.7 percent). This decrease was mainly caused by an Afl. 11.9 million or 4.4 percent decline in the admissible assets to cover technical provisions, while the technical provisions grew by Afl. 2.5 million or 3.2 percent (Chart 11.15). Despite this decline, the coverage ratio of all nonlife insurance companies remained far above the minimum of 100 percent.

Chart 11.15 Combined coverage ratio nonlife insurance companies (at end of period and in percentages)

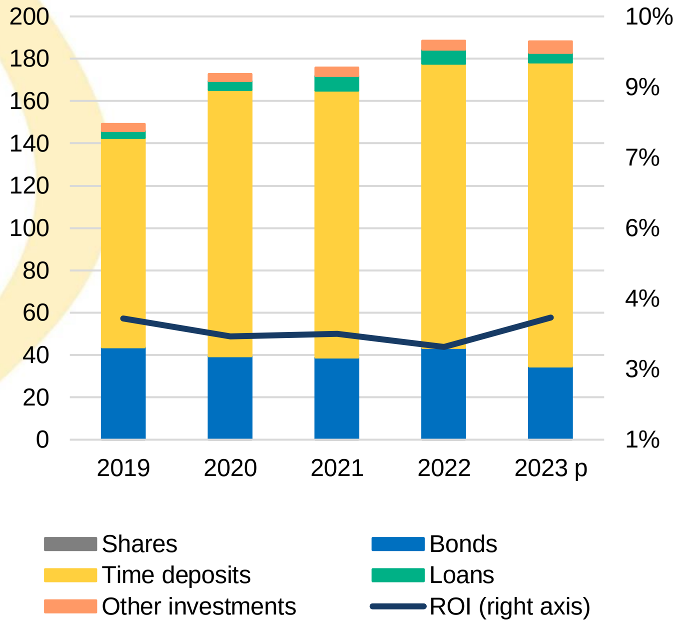


Source: CBA: nonlife insurance companies; p= preliminary figures.

RETURN ON INVESTMENT RATIO

The return-on-investment ratio was relatively stable over the last five years, hovering around approximately 3 to 4 percent. In general, the return on investment for the nonlife insurance sector is lower compared to the life insurance sector, as a large portion of the investment portfolios of the nonlife insurers consists of time deposits, which yield relatively lower returns compared to other investment categories. Chart 11.16 illustrates the development of this ratio over the period 2019-2023.

Chart 11.16 Total Investments (in Afl. million) and return on investment ratio (in percentages) of the nonlife insurance companies (at end of period)



Source: CBA: nonlife insurance companies; p= preliminary figures.

LIQUIDITY RATIO

Table 11.4 shows that the liquidity ratio for nonlife insurance companies fell by 8.9 percentage points in 2020. The marked drop in 2020 was mostly related to the decrease in receivables from reinsurers. The liquidity ratio widened by 3.6 percentage points to 42.0 percent in 2021, primarily due to a rise in current assets. But, since 2022, this ratio has continued to fall, namely by 2.6 percentage points in 2022 and by 4.8 percentage points to 34.5 percent in 2023. These decreases are mostly on account of reductions in the current assets in 2022 and 2023 of 5.8 percent and 15.6 percent, respectively.

PROFITABILITY

Net income before taxes of the nonlife insurance companies declined over the last five years. In 2019, the nonlife insurance companies registered a net income before taxes of Afl. 30.5 million, while in 2023 it amounted to Afl. 8.7 million, a drop of Afl. 21.8 million or 71.2 percent. This drop is related to a decline in total income of Afl. 11.1 million (11.0 percent), as net earned premiums shrank by Afl. 16.2 million. Further, the expenses of the nonlife insurance companies increased by Afl. 10.7 million (15.2 percent), mainly due to an Afl. 10.9 million rise in management expenses.

11.3.2 LIFE INSURANCE COMPANIES

The combined assets of the life insurance sector stood at Afl. 1,817.8 million at year-end 2023, equivalent to 27.6 percent of Aruba's 2023 GDP, as estimated by the CBA.

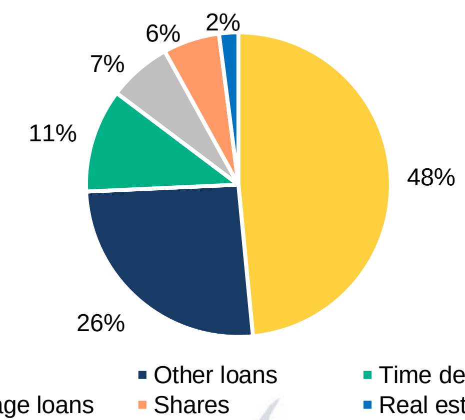
AGGREGATED BALANCE SHEET TOTAL

Looking at the latest five-year period (2019-2023), the aggregated balance sheet total of the life insurance sector expanded steadily, i.e., from Afl. 1,439.7 at year-end 2019 to Afl. 1,817.8 million at year-end 2023, equivalent to an Afl. 378.1 million or 26.3 percent expansion, mostly due to a growth in investments.

In the last five years, investments grew by Afl. 314.1 million or 24.3 percent, i.e., from Afl. 1,289.9 million at year-end 2019 to Afl. 1,604.0 million at year-end 2023. In these years, other loans (including consortium loans) rose by Afl. 219.3 million.

In 2023, the total investments by the life insurance sector increased by Afl. 157.5 million, from Afl. 1,446.5 million to Afl.1,604.0 million, or 10.9 percent compared to 2022. Chart 11.17 reflects the composition of the investments at year-end 2023, and shows that almost half of the investment portfolio consisted of bonds. This investment class expanded by Afl. 89.3 million or 13.0 percent in 2023 compared to 2022.

Chart 11.17 Investments by life insurance companies at year-end 2023



Source: CBA: life insurance companies (preliminary figures).

In addition, other loans, including consortium loans, grew by Afl. 84.6 million or 25.7 percent in 2023, from Afl. 329.2 million at the end of 2022 to Afl. 413.8 million at the end of 2023. The vast majority of these loans are secured loans.

In 2023, real estate investments, although still the smallest investment category, realized a significant increase of Afl. 21.1 million or 181.0 percent, mostly due to a rise in real estate properties not for own use by the life insurance sector. On the other hand, time deposits recorded a decrease in 2023, dropping by Afl. 51.6 million or 22.6 percent compared to 2022.

In 2023, foreign investments went up by Afl. 63.5 million, which is a 21.3 percent increase from the year before. At year-end 2023, the foreign investments, amounting to Afl. 361.5 million, accounted for 22.5 percent of the total investment portfolio (year-end 2022: 20.6 percent).

The technical provisions form a substantial portion of the liability side of the life insurance sector’s balance sheet as these provisions represent the discounted future liabilities toward policyholders. Technical provisions exhibited a consistent upward trend over the past five years, rising by Afl. 303.5 million or 24.5 percent to Afl. 1,541.7 million at end-2023, up from Afl. 1,238.2 million at year-end 2019.

During 2019-2023, capital and reserves grew from Afl. 157.4 million in 2019 to Afl. 220.0 million, despite a reduction of Afl. 25.4 million or 12.3 percent recorded in 2022, as the capital and reserves shrank from Afl. 207.4 million at year-end 2021 to Afl. 182.0 million at the end of 2022. The drop in reserves in 2022 was primarily caused by fair value losses on the international bond portfolio, measured at fair value through other comprehensive income.

In contrast, in 2023 capital and reserves rebounded to Afl. 220.0 million, which was Afl. 38.0 million or 20.9 percent higher than in 2022. This expansion was mostly attributed to an Afl. 29.9 million growth in the investment income in 2023 compared to 2022. In addition, the investments of the life insurance companies grew at twice the rate of the technical provisions in 2023.

KEY RATIOS OF THE LIFE INSURANCE SECTOR

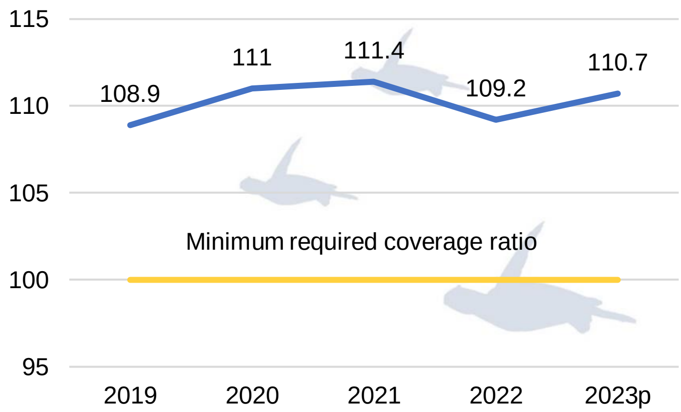
COVERAGE RATIO

The coverage ratio of the life insurance sector stood at 110.7% percent at year-end 2023, which is well above the regulatory minimum of 100.0 percent.

As illustrated in Table 11.5 and Chart 11.18, the coverage ratio experienced little movement during 2019-2023, ranging between the lower bound of 108.9 percent in 2019 and the higher bound of 111.4 percent in 2021. Insurance companies are required to maintain, at a minimum, a coverage ratio of 100.0 percent.

In 2023, a 1.5 percentage points growth was registered compared to 2022, as the eligible assets held by life insurance companies to cover their liabilities grew at a faster pace than the technical provisions (sum of the discounted future liabilities toward policyholders).

Chart 11.18 Combined coverage ratio of the life insurance sector (at end of period and in percentages)



Source: CBA: life insurance companies; p= preliminary figures.

Table 11.5 Financial soundness indicators of the life insurance sector (at end of period and in percentages)

	2019	2020	2021	2022	2023p
Coverage ratio[1]	108.9	111.0	111.4	109.2	110.7
Return on investment ratio[2]	5.2	4.9	5.2	4.0	5.7
Liquidity ratio[3]	8.8	11.7	12.6	13.6	10.4
Net income before taxes[4]	17.8	22.3	38.5	-3.9	30.1

Source: CBA: life insurance companies; p= preliminary figures.

1) Weighted assets less current liabilities (excluding affiliated companies) to technical provisions.
2) Investment income to average invested assets.
3) Current assets to total assets.
4) In Afl. million.

RETURN ON INVESTMENT RATIO

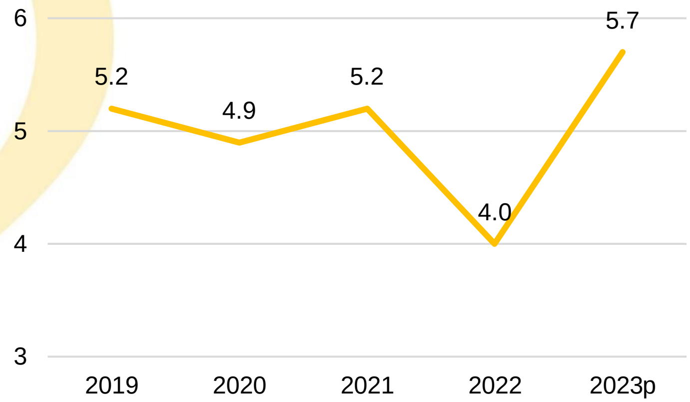
The return-on-investment ratio remained relatively stable from 2019 to 2021, fluctuating between 4.9 percent and 5.2 percent. However, it fell to 4.0 percent in 2022, due to the negative impact of the higher international interest rates on government bonds. By repositioning the investment portfolios and also considering the stable local returns, the preliminary figures over 2023 indicate that the return-on-investment ratio increased to 5.7 percent.

LIQUIDITY RATIO

Table 11.5 shows that the liquidity ratio fluctuated between 8.8 percent and 13.6 percent in the period 2019-2022. In 2023, there was a notable contraction of 3.2 percentage points in the liquidity ratio. This contraction was caused by a decrease of Afl. 42.3 million or 18.4 percent in current assets, i.e., from Afl. 230.5 million at year-end 2022 to Afl. 188.2 million at year-end 2023.

The decrease in current assets is primarily due to a reduction of Afl. 41.2 million in the deposits of the life insurance companies held at banks, because the life insurance companies used these deposits to increase their investment portfolio.

Chart 11.19 Return on investment ratio of the life insurance sector (at end of period and in percentages)



Source: CBA: life insurance companies; p= preliminary figures.

PROFITABILITY

During 2019 and 2021, the net profit before taxes of the life insurance sector fluctuated between Afl. 17.8 million in 2019 and Afl. 38.5 million in 2021. However, in 2022, a net loss before taxes of Afl. 3.9 million was recorded. This result was mostly related to a reduction in investment income of Afl. 14.6 million in 2022 compared to 2021, as well as a sharp increase of the operating expenses.

The results of the life insurance sector rebounded in 2023, rendering a net profit before tax of Afl. 30.1 million, making it the second-best result in the past five years after 2021 (Afl. 38.5 million). This result is largely due to a growth of Afl. 29.9 million in investment income in comparison to 2022.

11.4 COMPANY PENSION FUNDS[24]

The number of company pension funds (including APFA) supervised by the CBA stayed at seven at year-end 2023. At year-end 2023, the net coverage ratio (including a buffer for possible losses on the investment portfolio) of all company pension funds was above the minimum of 100 percent.

11.4.1 AGGREGATED BALANCE SHEET TOTAL, TECHNICAL PROVISIONS, AND CAPITAL AND RESERVES

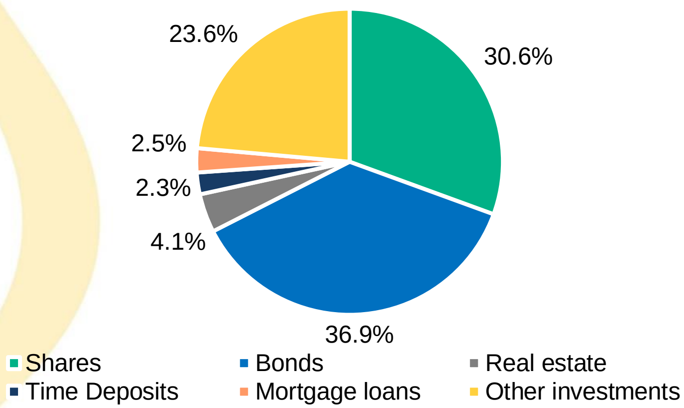
The combined assets of the company pension funds were Afl. 587.8 million, equivalent to 8.9 percent of Aruba's 2023 GDP, as estimated by the CBA.

AGGREGATED BALANCE SHEET TOTAL

The aggregated balance sheet total of the five company pension funds (excluding APFA and the Lago Annuity Foundation, whose pension obligations are covered by a guarantee of the parent company), widened by Afl. 56.6 million or 10.7 percent, from Afl. 531.2 million in 2022 to Afl. 587.8 million in 2023. This was primarily driven by the positive developments in foreign investments of the company pension funds in 2023.

[24] Note that the developments in this section do not include the Civil Servants Pension Fund (APFA).

Chart 11.20 Investments of the company pension funds at year-end 2023



Source: CBA: company pension funds (preliminary figures).

Furthermore, the majority of the investments of the company pension funds were kept in bonds (36.9 percent), shares (30.6 percent), and other investments (23.6 percent). Afl. 180.6 million or 33.0 percent of the investments of the company pension funds were held in foreign assets in 2023. Chart 11.20 displays the composition of the investments at year-end 2023.

TECHNICAL PROVISIONS

Over the past five years, the combined technical provisions of the five company pension funds increased gradually by Afl. 22.3 million or 4.7 percent from Afl. 474.9 million at year-end 2019 to Afl. 497.2 million at year-end 2023, Table 11.6 shows the number of participants in the company pension funds. At year-end 2023 the number of participating companies was 218, i.e., a net increase of seven companies compared to 2022.

Table 11.6 Number of participants in the company pension funds (at end of period)

	2019	2020	2021	2022	2023p
Participants	7,548	7,529	7,433	7,786	8,473
Inactive participants	7,730	7,951	8,591	9,428	9,915
Pensioners	969	1,010	1,149	1,149	1,246
Total	16,247	16,490	17,173	18,363	19,634

Source: CBA: company pension funds; p=preliminary figures.

CAPITAL AND RESERVES

The capital and reserves of the company pension funds grew by Afl. 13.8 million during 2019-2023, rising from Afl. 73.7 million in 2019 to Afl. 87.5 million in 2023. In 2023, the capital and reserves of the company pension funds increased by Afl. 20.3 million, rising from Afl. 67.2 million to Afl. 87.5 million. This was driven primarily by the strong investment performance of the company pension funds.

11.4.2 KEY RATIOS COMPANY PENSION FUNDS

COVERAGE RATIO

The aggregated coverage ratio of the company pension funds' sector increased by 2.6 percentage points to 107.7 percent in 2023, and remained above the minimum requirement of 100.0 percent.

The coverage ratio for company pension funds rose from 105.1 percent in 2022 to 107.7 percent in 2023, and stayed well above the required minimum of 100.0 percent (see Table 11.7 and Chart 11.21).

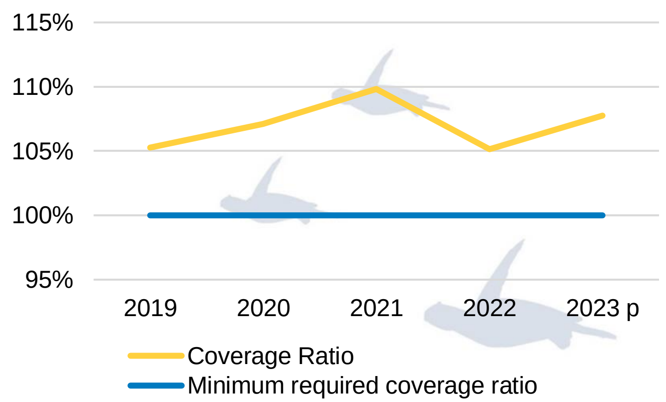
Table 11.7 Financial soundness indicators for company pension funds on an aggregated basis (at end of period and in percentages)

	2019	2020	2021	2022	2023p
Coverage ratio[1]	105.3	107.1	109.8	105.1	107.7
Return on investment ratio[2]	9.7	7.1	7.3	-1.1	7.5

Source: CBA: company pension funds; p= preliminary figures.
1) Weighted assets less current liabilities to technical provisions.
2) Investment income to average invested assets.

At year-end 2023, all company pension funds under the supervision of the CBA complied with the minimum coverage ratio requirement of 100 percent. This was primarily driven by the positive developments in the foreign equity markets, translating into an uptick in the investment holdings of the company pension funds, as well as an increase in the admissible assets to cover the technical provisions.

Chart 11.21 Aggregated coverage ratio company pension funds (at end of period and in percentages)

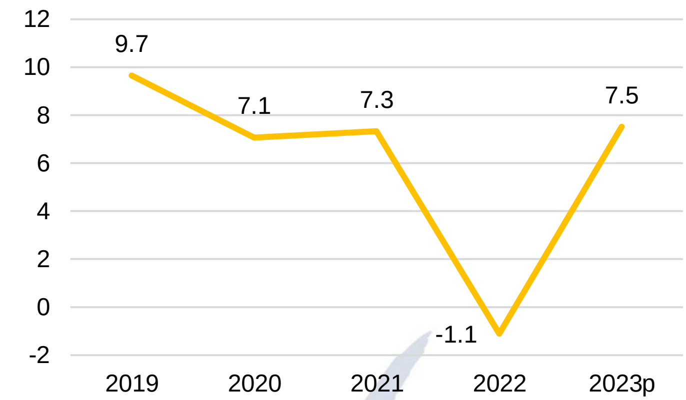


Source: CBA: company pension funds; p= preliminary figures.

RETURN ON INVESTMENT RATIO

In 2023, the return-on-investment ratio was 7.5 percent compared to a negative return on investment of -1.1 percent in 2022. This highly positive outcome was driven by the buoyant developments on the international equity markets, (see also Table 11.7 and Chart 11.22).

Chart 11.22 Return-on-investment ratio (at end of period and in percentages)



Source: CBA: company pension funds; p= preliminary figures.

11.5 CIVIL SERVANTS PENSION FUND (APFA)

11.5.1 BALANCE SHEET TOTAL, TECHNICAL PROVISIONS, AND CAPITAL AND RESERVES

The total assets of APFA amounted to Afl. 3,512.9 million at year-end 2023, equivalent to 53.4 percent of Aruba's 2023 GDP, as estimated by the CBA.

BALANCE SHEET TOTAL

APFA's balance sheet total grew during the period 2019-2023, i.e., from Afl. 3,032.6 million at year-end 2019 to Afl. 3,512.9 million at year-end 2023, equivalent to an Afl. 480.3 million or 15.8 percent expansion. Its investment portfolio grew by Afl. 446.2 million or 15.3 percent over the same period, and is the primary driver for the growth in the balance sheet total over this period. Moreover, in 2023, APFA's balance sheet total increased by Afl. 211.7 million or 6.4 percent, mostly pushed up by the increase of APFA's investment portfolio amounting to Afl. 311.9 million or 10.2 percent. At the end of 2023, the majority (about 68.5 percent) of APFA's investments were held in fixed-income instruments, namely Afl. 1,130.0 million or 33.3 percent in bonds, Afl. 845.8 or 24.9 percent in other investments including consortium loans, Afl. 265.8 million or 7.8 percent in mortgage loans, and Afl. 85.0 million or 2.5 percent in time deposits. APFA invested Afl. 910.6 million or 26.8 percent in equity-like instruments. Furthermore, Afl. 1,547.8 million or 45.6 percent of APFA's investment were in foreign investment holdings.

TECHNICAL PROVISIONS

During the period 2019-2023 the technical provisions climbed steadily by Afl. 327.2 million or 12.3 percent from Afl. 2,650.7 million at year-end 2019 to Afl. 2,977.9 million at year-end 2023. This growth is mainly due to the increase of inactive participants, indexation of the pension rights, adjustment to the mortality assumptions, as well as the joining of Stichting Bedrijfspensioenfonds Aruba to the APFA pension plan. In 2023, APFA's technical provisions increased by Afl. 66.5 million or 2.3 percent, mainly due to pension accruals and indexation of the pension rights.

As shown in Table 11.8, the total number of active participants in the APFA pension fund remained almost the same, despite the joining of Stichting Bedrijfspensioenfonds Aruba to the APFA pension plan in 2022. On the other hand, the number of pensioners (who have reached pension age) has been rising over the past five years, i.e., by 434 pensioners over this five-year period.

Table 11.8 Number of APFA participants (at end of period)

	2019	2020	2021	2022	2023 p
Participants	7,014	6,999	6,953	6,973	6,931
Former participants	1,080	1,219	1,314	1,512	1,611
Pensioners	4,166	4,239	4,338	4,513	4,600
Total	12,060	12,457	12,605	12,998	13,142

Source: CBA: APFA; p= preliminary figures.

CAPITAL AND RESERVES

APFA's capital and reserves expanded by Afl. 147.3 million or 40.3 percent, to Afl. 513.2 million at year-end 2023. This was primarily caused by the good performance of APFA's investment portfolio in 2023.

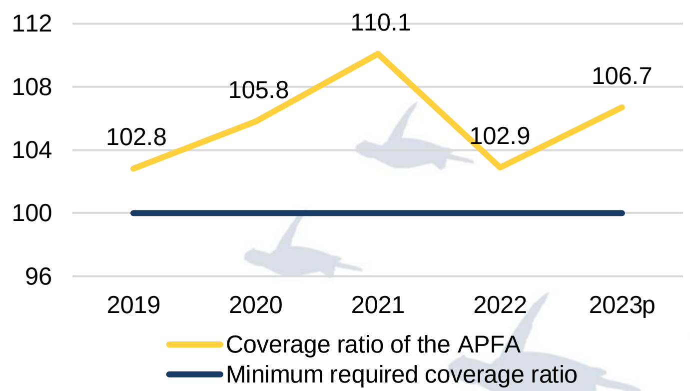
11.5.2 KEY RATIOS APFA

COVERAGE RATIO

The net coverage ratio of APFA stood at 106.7 percent at year-end 2023, well above the regulatory minimum of 100.0 percent.

Table 11.9 and Chart 11.23 depict the developments of APFA's net coverage ratio over the last five years. After experiencing a decline to 102.9 percent in 2022, APFA's net coverage ratio rebounded to 106.7 percent at year-end 2023. This gain is primarily attributed to a rise in admissible assets by Afl. 213.9 million or 6.5 percent, which was more than the increase in the technical provisions. As a result, the net coverage ratio rose by 3.8 percentage points to 106.7 percent.

Chart 11.23 Net coverage ratio of APFA (at end of period and in percentages)



Source: CBA: APFA; p= preliminary figures.

RETURN ON INVESTMENT RATIO

APFA recorded a return-on-investment ratio of 8.5 percent (see Table 11.9) in 2023. This positive outcome was partially driven by the result of an improved performance of APFA's international investment portfolio during 2023, as well as the positive investment return on the local investment portfolio.

LIQUIDITY RATIO

APFA recorded a liquidity ratio of 3.1 percent over 2023. The 2023 liquidity ratio for APFA is aligned with APFA's liquidity ratios over the last five years (see Table 11.9). The fall in the liquidity ratio is attributed to a decrease in APFA's current assets and an increase in total assets.

Table 11.9 Financial soundness indicators of APFA (at end of period and in percentages)

	2019	2020	2021	2022	2023p
Coverage ratio[1]	102.8	105.8	110.1	102.9	106.7
Return on investment ratio[2]	9.7	6.9	7.8	-4.3	8.5
Liquidity ratio[3]	3.2	3.1	3.9	4.4	3.1

Source: CBA: APFA; p= preliminary figures.
1) Weighted assets less current liabilities to technical provisions.
2) Investment income to average invested assets.
3) Current assets to total assets.

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Annexes

Annex 1a
Overview of the supervisory and AML/CFT laws*

State Ordinance on the Supervision of the Credit System (SOSCS)	AB 1998 no. 16
State Ordinance on Company Pension Funds (SOCPF)	AB 1998 no. GT 17
State Ordinance on the Supervision of the Insurance Business (SOSIB)	AB 2000 no. 82
State Decree on Captive Insurance Companies (SDCIC)	AB 2002 no. 50
State Ordinance on the Supervision of Money Transaction Companies (SOSMTC)	AB 2003 no. 60
Sanctions State Ordinance 2006	AB 2007 no. 24
State Ordinance on the Supervision of Trust Service Providers (SOSTSP)	AB 2009 no. 13
Sanction Decree Combat Terrorism and Terrorist Financing	AB 2010 no. 27
State Ordinance on the Prevention and Combating of Money Laundering and Terrorist Financing (AML/CFT State Ordinance)	AB 2011 no. 28
State Decree on the Supervision of Insurance Brokers (SDSIB)	AB 2014 no. 6
State Ordinance on the Supervision of the Securities Business (SOSSB)	AB 2016 no. 53

* Excluding the subsidiary legislation that put into effect certain provisions contained in these ordinances.

Annex 1b
Overview of the Sanctions legislation

Sanctions State Ordinance 2006	AB 2007 no. 24
Sanction Decree Combat Terrorism and Terrorist Financing	AB 2010 no. 27
Sanctions State Decree on Libya	AB 2011 no. 25
Sanctions State Decree on Ukraine	AB 2014 no. 26
Sanctions State Decree on Sudan	AB 2014 no. 46
Sanctions State Decree on South Sudan	AB 2015 no. 47
Sanctions State Decree on Syria	AB 2016 no. 2
Sanctions State Decree on Central African Republic	AB 2016 no. 55
Sanctions State Decree on Yemen	AB 2017 no. 10
Sanctions State Decree on North Korea	AB 2017 no. 42
Interim State Decree on Priority Sanctions Regimes	AB 2019 no. 47
Sanctions State Decree Cyber-Attacks	AB 2020 no. 125
Sanctions State Decree Human Rights Violations	AB 2021 no. 30
Sanctions State Decree Chemical Weapons	AB 2021 no. 31
Sanctions State Decree on Iran	AB 2021 no. 141
Sanctions State Decree Territorial Integrity Ukraine I	AB 2022 no. 47
Sanctions State Decree Recognition Donetsk and Luhansk	AB 2022 no. 48

Annex 2
Financial institutions supervised by the CBA (as of December 31, 2023)

In alphabetical order:

1. BANKING SECTOR[25]
1.1 COMMERCIAL BANKS
1. Aruba Bank N.V. (AB)
2. Banco di Caribe (Aruba) N.V. (BDC)
3. Caribbean Mercantile Bank N.V. (CMB)
4. RBC Royal Bank (Aruba) N.V. (RBC)

1.2 MORTGAGE BANKS
1. Fundacion Cas pa Comunidad Arubano (FCCA)

1.3 CREDIT UNIONS
1. Cooperativa di Ahorro y Prestamo Aruba (CAPA)
2. Coöperatieve Spaar- en Kredietvereniging Douane Aruba (CSKDA)

1.4 OTHER FINANCIAL INSTITUTIONS
1. AIB Bank N.V. (AIB)
2. Island Finance Aruba N.V. (IFA)

2. MONEY TRANSFER SECTOR[26]
2.1 MONEY TRANSFER COMPANIES
1. Kalpa Exchange Services V.B.A[27]
2. Mack's Exchange Services V.B.A.
3. Post Aruba N.V.[28]

[25] Supervision by virtue of the SOSCS.
[26] Supervision by virtue of the SOSMTC.
[27] Not operational.
[28] Not active anymore in the money transfer business

4. Union Caribe N.V.

3. TRUST SECTOR[29]

3.1 TRUST SERVICE PROVIDERS

1. AMTR N.V.[30]
2. Arulex Trust Services N.V.
3. C.T.F. (Aruba) N.V.
4. Euro Trust International N.V.
5. IMC International Management & Trust Company N.V.
6. Intima Management N.V.
7. Standard Trust Company N.V.
8. United Trust Management (Aruba) UTM N.V.
9. Vistra (Aruba) N.V.

4. INSTITUTIONAL INVESTORS' SECTOR

4.1 COMPANY PENSION FUNDS[31]

1. Lago Annuity Foundation (LAGO)
2. Stichting Algemeen Pensioenfonds Aruba (APFA)
3. Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico (FPEF)
4. Stichting Pensioenfonds Caribbean Mercantile Bank
5. Stichting Pensioenfonds Havenwerkers Aruba (SPHA)
6. Stichting Pensioenfonds META Bedrijven Aruba
7. Stichting Pensioenfonds Tourist Sector Aruba (PFTSA)

5. INSURANCE COMPANIES[32]

5.1 LIFE INSURANCE COMPANIES

1. American Bankers Life Assurance Company of Florida Limited, Aruba Agency
2. Ennia Caribe Leven (Aruba) N.V.
3. Fatum Life Aruba N.V.
4. Nagico Life Insurance (Aruba) N.V.
5. Pan-American Life Insurance Company of Aruba V.B.A.
6. Sagicor Life Aruba N.V.

[29] Supervision by virtue of the SOSTSP.
[30] In liquidation.
[31] Supervision by virtue of the SOCPF.
[32] Supervision by virtue of the SOSIB.

5.2 NONLIFE (GENERAL) INSURANCE COMPANIES

	Accident & health	Motor vehicle	Maritime, transport, & aviation	Fire & other property	Other indemnity
1. Bupa Insurance Company, Aruba Agency	•				
2. Elvira Verzekeringen N.V.	•				•
3. Ennia Caribe Schade (Aruba) N.V.	•	•	•	•	•
4. Fatum General Insurance Aruba N.V.	•	•	•	•	•
5. CG United Insurance Aruba N.V.	•	•	•	•	•
6. NAGICO Aruba N.V.	•	•	•	•	•
7. Netherlands Antilles & Aruba Assurance Company (NA&A) N.V.	•	•	•	•	•
8. Stichting Fondo Nacional di Garantia pa Vivienda					•
9. The New India Assurance Co. Ltd., Aruba Branch	•	•	•	•	•

Source: CBA.

5.3 CAPTIVE INSURANCE COMPANIES[33]

1. Bancarib Real Insurance Aruba N.V.
2. MCB Risk Insurance N.V.
3. Mondis Manufacturers Insurance Company N.V.

[33] Supervision by virtue of the SOSIB and SDCIC.

5.4 INSURANCE BROKERS[34]

5.4.1 Premium collecting insurance brokers

1. Aresta Aruba N.V.
2. Assurantie Service Centrum Aruba A.S.C.A. N.V.
3. Boogaard Assurantiën N.V.
4. Framo Insurances N.V.
5. Jai Mahalaxmi Enterprises N.V.
6. Lyder Insurance Consultants N.V.
7. Navigator Insurance Consultants Aruba N.V.
8. Seguros Geerman N.V.
9. TIB Tromp Insurance Broker VBA
10. Verdant Insurance and Management Company Group N.V.
11. Worldwide Insurance Agency N.V.

5.4.2 Non-premium collecting insurance brokers

1. De L'Isle & Sons Insurance Brokers N.V.
2. EFS Equidad Financial Services N.V.
3. Turtle Island Insurance Broker N.V. Dba Aruba Insurance Brokers
4. WeThink Solutions Consultancy V.B.A.

[34] Supervision by virtue of the SDSIB.

Annex 3
Financial institutions or persons in possession of a dispensation (as of December 31, 2023)

FINANCIAL INSTITUTIONS OR PERSONS IN POSSESSION OF A DISPENSATION

PAWNSHOPS
1. Compra y Venta El Triunfo N.V.
2. Estrella America N.V.

FINANCE COMPANIES
1. Mack's Total Finance V.B.A.
2. Qredits Microfinanciering Nederland
3. Volkskredietbank van Aruba
4. Bluestart Capital (Aruba) VBA

MORTGAGE BROKERS
1. Framo Insurances N.V.

FINANCIAL INSTITUTIONS IN POSSESSION OF A DISPENSATION AS MEANT IN ARTICLE 10, PARAGRAPH 1 OF THE SOSMTC

MONEY TRANSFER COMPANIES
1. MoneyGram International Inc.[35]
2. Western Union Financial Services International Inc.[36]

SECURITIES BROKERS IN POSSESSION OF A DISPENSATION AS MEANT IN ARTICLE 4, PARAGRAPH 2 OF THE SOSSB
1. Aruba Bank N.V.
2. Banco di Caribe (Aruba) N.V.
3. Caribbean Mercantile Bank N.V.

[35] For conducting money transfer activities through Union Caribe N.V.
[36] For conducting money transfer activities through Post Aruba N.V. and Mack's Exchange Services V.B.A.

LICENSED CREDIT INSTITUTIONS THAT REGISTERED AS AN INSURANCE BROKER AS MEANT IN ARTICLE 2, PARAGRAPH 3 OF THE STATE DECREE ON THE SUPERVISION OF INSURANCE BROKERS

1. Aruba Bank N.V.
2. Banco di Caribe (Aruba) N.V.
3. Caribbean Mercantile Bank N.V. (CMB)
4. Fundacion Cas pa Comunidad Arubano (FCCA)
5. Island Finance Aruba N.V.
6. RBC Royal Bank (Aruba) N.V.

PERSONS IN POSSESSION OF A DISPENSATION AS MEANT IN ARTICLE 4, PARAGRAPH 2 OF THE SOSIB TO ACT AS AN INSURANCE AGENT FOR THE INSURANCE COMPANIES LISTED BELOW:

FATUM LIFE ARUBA N.V. AND FATUM GENERAL INSURANCE ARUBA N.V.:

1. Ms. O.J. Barret
2. Mr. G.M. Daal
3. Mrs. B. Franke-Trumpie
4. Mrs. M.D.D. Geerman
5. Mr. J.W. Isenia
6. Mr. J.W.P.J. Kaan
7. Mrs. T.D. Kelly-Hernandez
8. Mr. J.A.M. Lomans
9. Mr. R.W. van der Meulen
10. Mr. E.G. Schwengle
11. Mr. R. Seraus

PAN-AMERICAN LIFE INSURANCE COMPANY OF ARUBA V.B.A.:

1. Mrs. S.S. Alli-Martijn
2. Mr. F.A. Angela
3. Mrs. M.T. Arends
4. Mr. I. Chai
5. Ms. J. Dijkhoff
6. Mrs. M.I. Garcia Martinez
7. Mrs. G. Geerman-Trott
8. Ms. J. Gomes
9. Mrs. L. Kelly
10. Ms. M. Kock
11. Mr. J.R. Martina
12. Mrs. J.M. Pesqueira
13. Mr. J.F. Theysen
14. Ms. J.M. Villafaña-Reyes

15. Mr. E.E. Werleman

SAGICOR LIFE ARUBA N.V.:

1. Mrs. F. Bernier Corbacho
2. Mrs. D.A. Dormoy
3. Mr. J. Erasmus
4. Mrs. L.R. Faustin
5. Mrs. O.A. Inocencia
6. Mrs. B.S. van Loon-Kadir
7. Mrs. N.C. Marquez Hidalgo
8. Mr. F.C. Martina
9. Mrs. M.V. Peters
10. Mrs. S.J.G. Velthuizen
11. Mrs. B.I. Wolff-Croes

(LEGAL) PERSONS IN POSSESSION OF A DISPENSATION AS MEANT IN ARTICLE 4, PARAGRAPH 2, OF THE SOSIB TO ACT AS AN INSURANCE AGENT PROVIDING SUPPLEMENTARY INSURANCE BROKERAGE SERVICES

1. Aruba Living Today N.V.

Annex 4

(M)MoU’s entered into by the CBA

Supervisory authority	Scope	Year signed
CBCS	Exchange of information regarding banks	1998
CBCS	Exchange of information regarding insurance companies	2003
Multilateral between Regional Regulatory Authorities in the Caribbean	Exchange of information and cooperation and consultation for adequate supervision of financial institutions	2011
FIU of Aruba	Cooperation and information exchange	2011
Public Prosecutor’s Office of Aruba	Cooperation and information exchange	2012
Supervisors of the Kingdom of the Netherlands	Sharing of information in support of the objective of facilitating and meeting requirements for effective supervision of the financial sectors and financial markets in the Dutch Kingdom	2012
DNB	Cooperation and exchange of information in the area of supervision of banks, insurance companies, trust service providers, and money transfer companies	2014
AFM	Cooperation and exchange of information in the area of supervision of banks, insurance companies, insurance brokers, trust service providers, and money transfer companies	2015
GIFCS	Cooperation and information exchange	2019[37]
IAIS	Cooperation and information exchange	2022[38]

[37] Agreed upon in 2016.

[38] The accession to and signing of the MMoU took place in May 2022.

Annex 5
Attendance of (virtual) meetings of international supervisory bodies in 2023

This annex provides an overview of the (virtual) meetings attended in 2023 by the CBA's supervisory staff in the areas of financial sector supervision and AML/CFT oversight.

Supervisory group/institution	Main topics discussed
GIFCS Plenary meeting (April)	▪ International banking developments and their effect on financial markets ▪ Operational risk in the crypto sector ▪ FATF Review of asset recovery ▪ AML/CFT investigations ▪ Taskforce on Nature Related Financial Disclosures framework
CGBS Annual Strategic Planning Meeting (May)	▪ CBGS strategic plan 2023 - 2026
CGBS XL Annual Conference and Members' Assembly (June) – " Resilience in Changing Times"	▪ Technological change and financial innovation in banking ▪ Cyber security compliance in the financial sector ▪ Financial inclusion ▪ Effective supervisory approaches and practices ▪ Correspondent banking relationships in the Caribbean
GIICS Annual General Meeting and Annual Seminar (June)	▪ Cyber-security ▪ Liquidity ▪ Claims Management ▪ Regulatory Trends ▪ Climate Risk ▪ Wholesale insurance market and reinsurance
ASBA XXVI Annual Assembly and High-level Meeting (October) - "Banking Supervision"	▪ Macro-financial stability implication of recent financial distress ▪ Dealing with weak banks – options for resolution ▪ Cyber resilience and digital fraud ▪ Policy approaches concerning critical third-party service providers
CFATF WGFI and Plenary meeting (November)	▪ Discussion on key issues and approval of the MERs of Virgin Islands (British) and Saint Vincent and the Grenadines based on the 4th Round Methodology ▪ Follow-up reports of some jurisdictions based upon the shortcomings identified following the evaluations undertaken by the FATF or sister body of these jurisdictions. ▪ Voluntary Tax Compliance Report – Saint Lucia ▪ Results of the FATF Working Group Meetings (June and October 2023) ▪ Amendments to the CFATF 4th Round Mutual Evaluation Procedures

Annex 6

Changes in the shareholding of supervised institutions in 2023

TRUST SERVICE PROVIDERS

- On June 21, 2023, pursuant to article 5a of the State Ordinance Supervision of Trust Service Providers (SOSTSP), the CBA granted permission to Thevalia Limited, Thevalia Holdings Limited, Thevalia Midco Limited, Thevalia Parent Limited, Thevalia GP Limited and BPEA Private Equity GP VIII Limited to acquire a qualifying holding in Vistra Aruba N.V.

- On August 31, 2023, pursuant to article 5a of the State Ordinance Supervision of Trust Service Providers (SOSTSP), the CBA granted permission to Vistra Group Holdings (BVI) III Limited, Vistra Group Holdings (BVI) II Limited, Vistra Group Holdings (BVI) I Limited en Vistra Group Holdings (BVI) Limited to cease having an interest in Vistra Aruba N.V.

INSURANCE COMPANIES

- On June 21, 2023, pursuant to article 14a, paragraph 1, of the State Ordinance on the Supervision of the Insurance Business (SOSIB), the CBA granted permission to First Star Inc. to increase its qualifying holding in Nagico Aruba N.V. respectively Nagico Life Insurance Aruba N.V. to 61%.[39]

COMMERCIAL BANKS

- On October 2, 2023, pursuant to article 17, paragraph 2, of the State Ordinance on the Supervision of the Credit System (SOSCS), the CBA granted permission to BNS International (Bahamas) Limited to acquire a qualifying holding of 48.1% in Caribbean Mercantile Bank N.V. through Maduro & Curiel's Bank N.V. (MCB).

[39] This permission is bound to conditions.

Annex 7
Integrity and suitability assessments conducted in 2023

This annex provides an overview of the integrity and suitability assessments conducted in 2023.

Sector	Credit institutions	Insurance companies	Company pension funds	MTCs	Trust service providers	Insurance brokers	Total
Pending as of January 1, 2023	5	4	-	-	-	-	9
New requests	10	13	4	6	-	2	35
Reassessments	-	-	-	-	-	-	0
Withdrawn requests	-	2	-	-	-	-	2
Rejected requests	-	-	-	-	-	-	0
Approved	4	1	-	-	-	-	5
Conditionally approved	7	7	2	1	-	-	17
Assessments ceased	0	-	-	-	-	-	0
Pending as of December 31, 2023	4	7	2	5	-	2	20

Annex 8
Type of breaches identified in 2023 during the AML/CFT and DSBO onsite examinations

SECTOR	BREACHES OF THE AML/CFT STATE ORDINANCE	AREAS
Financial institutions		
Commercial bank	Chapter 2 of the AML/CFT State Ordinance	* Customer due diligence
Company Pension Fund	Chapter 2, article 46, of the AML/CFT State Ordinance	* Customer due diligence * Procedures and measures
DNFBPs		
Notaries	Chapter 2 and article 26 of the AML/CFT State Ordinance	* Customer due diligence * Reporting of unusual transactions
Casinos	Chapter 2, article 26, and chapter 6, article 46 of the AML/CFT State Ordinance	* Customer due diligence * Reporting of unusual transactions * Procedures and measures
Real Estate companies and project developers	Chapters 2, and 6, and article 26 of the AML/CFT State Ordinance	* Customer due diligence * Procedures and measures * Reporting of unusual transactions

SECTOR	BREACHES OF THE DSBO	AREAS
Commercial banks	Paragraph 3, articles 7, 9, 10, 12, 13, 14, and 16 of the DSBO	* Risk analysis and policies and procedures to identify and control integrity risks * Remuneration policy * Conflicts of interest policies and procedures, and measures * Whistleblowing policies, procedures, and measures * Incidents recording, handling, and reporting * Integrity officer's function * Integrity-sensitive positions

Annex 9
Overview of the Information sessions and bilateral meetings held by ISD in 2023

Sector	Month	Type of Session	Topics discussed
Commercial Banks and MTCs[40]	February	General Session	* Human Trafficking and the financial Sector
Pawnshops	February	Bilateral meeting (2)	* Key findings onsite examination * Compliance function * Compliance with the guidelines on the conduct of business of pawnshops * Independent Auditor's Review Report
TSPs	March	Bilateral meeting	* Compliance officer function * Enhanced Due Diligence
Commercial Banks	March	Bilateral meeting (4)	* Key findings onsite examination * Response questionnaires * Registration of the DNFBPs * Correspondent bank relations
Real Estate (Representative organization AAR)	July	Meeting	* Certification of real estate agents * Brand umbrella structure and independent agents * Key findings onsite examination * Cryptocurrency as a payment method
Casinos[41]	July	General session	* Key findings onsite examination * Unusual transaction reporting and statistics * Enforcement * Gaming Authority * Supervision costs
Bank-like Institutions[42]	August	General session	* Key findings onsite examination * Unusual transaction reporting and statistics

[40] An awareness session was held with both sectors. This session was in collaboration with CMMA.
[41] This session was held for all casinos. The FIU-Aruba also collaborated with a presentation during this session.
[42] This session was held for 5 institutions. The FIU-Aruba also collaborated by offering a presentation during this session.

Jewelers[43]	August	General session	* Key findings NRA * CFATF Mutual Evaluation * Response questionnaires * Key findings onsite examination * Unusual transaction reporting and statistics
Life Insurance Sector[44]	August	General session	* Key findings NRA * CFATF Mutual Evaluation * Response questionnaires * Key findings onsite examination * Unusual transaction reporting and statistics
Pension Funds	August	Bilateral meeting	* Scope and applicability of the AML/CFT State Ordinance
Credit Unions	September	Bilateral meeting (2)	* Compliance with the regulatory requirements in the area of AML/CFT * Response questionnaires DSBO
MTCs	December	Bilateral meeting	* Latest development in the market

[43] This session was held for all registered jewelers. The FIU-Aruba also collaborated by offering a presentation during this session.
[44] This session was held for all life insurance companies and life insurance brokers. The FIU-Aruba also collaborated by offering a presentation during this session.

Annex 10

Effectiveness and Technical Compliance Ratings according to the CFATF MER of Aruba

Table 1: Effectiveness ratings

	Immediate Outcome (IO)	Rating
IO.1	Risk, policy, and coordination	SE
IO.2	International cooperation	SE
IO.3	Supervision	SE
IO.4	Preventive measures	SE
IO.5	Legal persons and arrangements	ME
IO.6	Financial intelligence ML/TF	SE
IO.7	ML investigation and prosecution	ME
IO.8	Confiscation	SE
IO.9	TF investigation and prosecution	ME
IO.10	TF preventive measures and financial sanctions	ME
IO.11	PF financial sanctions	LE

Note: Effectiveness ratings can be either: Highly Effective - HE, Substantially Effective - SE, Moderately Effective - ME, or Low Effectiveness– LE.

Table 2: Technical compliance ratings

FATF Recommendation (R)	Rating
R.1 – Assessing risk and applying a risk-based approach	LC
R.2 – National cooperation and coordination	LC
R.3 – ML offences	LC
R.4 – Confiscation and provisional measures	C
R.5 – Terrorist financing offence	C
R.6 – Targeted financial sanctions related to terrorism and terrorism financing	LC
R.7 – Targeted financial sanctions related to proliferation	PC
R.8 – NPOs	PC
R.9 – Financial institution secrecy laws	C
R.10 – CDD	LC
R.11 – Record keeping	C
R.12 – PEPs	C
R.13 – Correspondent banking	C
R.14 – Money or value transfer services	C
R.15 – New technologies	PC
R.16 – Wire transfers	C
R.17 – Reliance on third parties	C
R.18 – Internal controls and foreign branches and subsidiaries	C
R.19 – Higher risk countries	LC
R.20 – Reporting of suspicious transactions	C
R.21 – Tipping-off and confidentiality	C

FATF Recommendation (R)	Rating
R.22 – DNFBPs: CDD	LC
R.23 – DNFBPs other measures	LC
R.24 – Transparency and beneficial ownership of legal persons	PC
R.25 – Transparency and beneficial ownership of legal arrangements	PC
R.26 – Regulation and supervision of financial institutions	C
R.27 – Powers of supervisors	C
R.28 – Regulation and supervision of DNFBPs	PC
R.29 – FIUs	C
R.30 – Responsibilities of law enforcement and investigative authorities	C
R.31 – Powers of law enforcement and investigative authorities	C
R.32 – Cash couriers	LC
R.33 – Statistics	PC
R.34 – Guidance and feedback	C
R.35 – Sanctions	LC
R.36 – International instruments	LC
R.37 – Mutual legal assistance	LC
R.38 – Mutual legal assistance: freezing and confiscation	LC
R.39 – Extradition	LC
R.40 – Other forms of international co-operation	LC

Note: Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – non-compliant.

Annex 11
Formal measures imposed per sector for non-compliance with the supervisory state ordinances and the AML/CFT state ordinance

	2021			2022			2023		
Sector	Instructions	Penalty charge orders	Admini-strative fines	Instructions	Penalty charge orders	Admini-strative fines	Instructions	Penalty charge orders	Admini-strative fines
Credit institutions	-	1	1	3	-	1	-	-	3
Pawnshops	-	-	-	-	-	-	-	-	-
Insurers	-	-	-	-	-	-	-	-	1
Captive insurers	-	-	-	1	-	-	-	-	-
Insurance Brokers	-	1	-	-	1	-	-	-	1
Money transfer companies	-	-	-	-	-	-	-	-	-
Pension funds	-	-	-	-	-	-	-	-	-
Trust service providers	-	-	1	-	-	1	-	-	-
DNFBPs:							-	-	-
▪ **Casinos**	-	-	2	-	-	-	-	-	-
▪ **Lawyers**	-	-	-	-	-	-	-	-	-
▪ **Real estate**	-	1	1	-	-	3	-	-	-
▪ **Notaries**	-	-	1	-	-	1	-	-	-
▪ **Tax consultants**	-	-	-	-	-	-	-	-	-
▪ **Accountants**	-	-	1	-	-	-	-	-	-
▪ **Others**	-	1	-	-	-	1	-	-	3
Total	**0**	**4**	**7**	**4**	**1**	**8**	**0**	**0**	**8**

Annex 12
Supervisory costs passed on in 2023

Pursuant to the respective state decrees[45], the CBA charges the supervised sectors for (part) of the supervisory costs incurred. The supervisory costs passed on per state ordinance and to the different sectors in 2023 are as follows:

Total supervisory costs charged for the execution of the:	Supervisory costs passed on in 2023	
Sectoral state ordinances	Afl.	1,590,000
AML/CFT State Ordinance	Afl.	509,250
Total	Afl.	2,099,250

Sectors	Supervisory costs passed on in 2023	
Credit institutions	Afl.	800,000
Insurers	Afl.	300,000
Captives	Afl.	30,000
Insurance brokers	Afl.	55,000
Company pension funds	Afl.	155,000
Money transaction companies	Afl.	150,000
Trust service providers[46]	Afl.	100,000
Total	Afl.	1,590,000

[45] Pursuant to, respectively, the State Decree on the charging of supervision costs to the credit institutions (AB 2011 no. 4), the State Decree on the charging of supervision costs to insurance companies (AB 2006 no. 3), the State Decree on Captive Insurance Companies (AB 2002 no. 50), the State Decree on the charging of supervision costs to insurance brokers (AB 2018 no. 53), the State Decree on the charging of supervision costs to company pension funds (AB 2010 no. 86), the State Decree on the charging of supervision costs to money transaction companies (AB 2007 no. 18), and the State Decree on the charging of supervision costs to trust service providers (AB 2012 no. 60).

[46] Despite being a DNFBP, the charging of supervision costs to the TSPs is based on the State Decree on the charging of supervision costs to trust service providers (AB 2021 no.60)

DNFBPs: Designated non-financial service providers[47]	Supervisory costs passed on in 2023	
Casinos	Afl.	82,500
Real Estate companies	Afl.	218,250
Jewelers	Afl.	23,250
Car & Vessel Dealers	Afl.	12,000
Law firms	Afl.	56,250
Accountants	Afl.	55,500
Tax Advisors	Afl.	51,000
Notaries	Afl.	8,250
Arts & Antiquities	Afl.	2,250
Total	Afl.	509,250

[47] The State Decree on the allocation of supervision costs to non-financial service providers AML/CFT State Ordinance entered into force on January 1, 2023.

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