CENTRALE BANK VAN ARUBA

FINANCIAL SECTOR SUPERVISION REPORT 2018

Cover design: “De bezige bij”, the busy bee representing the importance of a balanced and sustainable environment conducive to economic growth.

The full text of this report is available on the CBA website.

Preface

The Centrale Bank van Aruba (CBA) must submit a report each year to the Minister of Finance on the execution of the different supervisory state ordinances, including the ordinances in the areas of Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT)[1]. The CBA complies with this requirement via this yearly publication. Concurrently, this report informs all stakeholders of the main activities the CBA undertook during the year in the field of prudential and integrity supervision, the enforcement thereof, and the changes in the international and domestic regulatory and supervisory landscape. It also provides an analysis of the developments in the financial sector during the reporting year.

As of the reporting year 2012, the CBA publishes separate annual reports related to its oversight of the Aruban financial sector.

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[1] In compliance with article 50 of the State Ordinance on the Supervision of the Credit System (AB 1998 no. 16), article 28 of the State Ordinance on the Supervision of the Insurance Business (AB 2000 no. 82), article 23 of the State Ordinance on Company Pension Funds (AB 1998 no. GT 17), article 30 of the State Ordinance on the Supervision of Money Transfer Companies (AB 2003 no. 60), article 29 of the State Ordinance on the Supervision of Trust Service Providers (AB 2009 no. 13), article 112 of the State Ordinance on the Supervision of the Securities Business (AB 2016 no. 53), and article 52 of the State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AB 2011 no. 28).

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List of abbreviations

ABA	Aruban Bankers' Association
Afl.	Aruban florin
AFM	Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets)
ALLP	Allocated loan loss provision
AML/CFT	Anti-Money Laundering and Combating 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)
ASBA	Association of Supervisors of Banks of the Americas
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBCS	Centrale Bank van Curaçao en St. Maarten (the Central Bank of Curaçao and St. Maarten)
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CGBS	Caribbean Group of Banking Supervisors
COA	Chart of Accounts
DNB	De Nederlandsche Bank N.V. (the Dutch Central Bank)
DNFBPs	Designated Non-Financial Businesses and Professions
FAME	Forecasting, Analytics, Modelling Environment
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation
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
IAA	Insurance Association of Aruba
IAIS	International Association of Insurance Supervisors
ICBS	International Conference of Banking Supervisors

IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISD	Integrity Supervision Department
MFSCG	Monetary and Financial Statistics Compilation Guide
MoU	Memorandum of Understanding
(M)MoU	Multilateral MoU
NRA	AML/CFT Risk assessment
PLR	Prudential Liquidity Ratio
PSD	Prudential Supervision Department
OAS	Organization of American States
OCC	US Comptroller of the Currency
OECD	Organization for Economic Co-operation and Development
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 Transfer Companies
SOSSB	State Ordinance on the Supervision of the Securities Business
SOSTSP	State Ordinance on the Supervision of Trust Service Providers
TFS	Targeted Financial Sanctions
UNSCRs	United Nations Security Council Resolutions
WMD	Weapons of mass destruction

Contents

Chapter 1.

The supervisory mandate and achievements in 2018 at a glance

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The CBA is the sole supervisory authority in Aruba with respect to the financial sector. In executing its supervisory task, the CBA seeks to safeguard confidence in the financial system by promoting (financial) soundness and integrity of the supervised sectors and institutions. The CBA, pursuant to the sectoral supervisory state ordinances, is responsible for the regulation and supervision of the credit institutions, insurance companies, insurance brokers, company pension funds, money transfer companies, trust service providers, and the securities business.

In addition, the CBA is entrusted with overseeing compliance with the State Ordinance on the Prevention and Combating of Money Laundering and Terrorist Financing (AB 2011 no. 28) (AML/CFT State Ordinance) and the Sanction State Ordinance 2006 (AB 2007 no. 24). The AML/CFT oversight includes, besides the financial institutions, the so-called Designated Non-Financial Businesses and Professions (DNFBPs), i.e., lawyers, civil notaries, tax advisors, accountants, jewelers, car dealers, real estate brokers, and casinos.

In 2016, the CBA designed its strategic plan called "Bela Yen: Nos Plan Strategico 2016-2020" (Bela Yen)[2]. Bela Yen sets the strategic priorities for the years 2016 – 2020, thereby also giving direction to the supervisory agenda.

The following three main ambitions were established in Bela Yen:

1. The CBA is recognized as a prominent central bank in the region.
2. The CBA executes its tasks in an efficient and result-oriented manner.
3. The CBA is an attractive organization for top talents.

These three main ambitions form the basis of the 11 strategic objectives formulated in Bela Yen (see Figure 1.1).

BELA YEN

[2] "Bela Yen" is a saying in Papiamento meaning "full steam ahead".

Figure: 1.1 Bela Yen: Main ambitions and their strategic objectives

1

The CBA is recognized as a prominent central bank in the region

I. Trust in the florin is maintained.

II. Confidence in the financial system is retained.

III. The safety, reliability, and efficiency of the payments system are increased to the level chosen by us in accordance with best practices.

IV. Economic intelligence is of high quality, timely, independent, and reliable.

V. A knowledge institute for financial stability and economic resilience is created.

2

The CBA executes its tasks in an efficient and result-oriented manner

VI. Our financial position is strengthened.

VII. Effective internal and external communication is accomplished.

VIII. The provision of information, including the management information system, is strengthened through digital transformation.

IX. We operate optimally by applying an adequate governance model.

X. Our other services are strengthened (both internally and externally).

3

The CBA is an attractive organization for top talents

XI. A (strategic) human resource management policy is implemented and embedded across the organization in an effective and innovative manner.

Strategic objective II "Confidence in the financial system is retained", is particularly important to the CBA's mandate in the area of financial sector oversight. Reference is made to Figure 1.2 for the components related to Strategic objective II.

Figure 1.3 highlights the most important achievements in 2018 in the areas of prudential supervision, integrity supervision, market entry, and supervisory enforcement, which contribute to the accomplishment of the mentioned strategic objective.

Figure 1.2: Components of Strategic objective II. Confidence in the financial system is retained

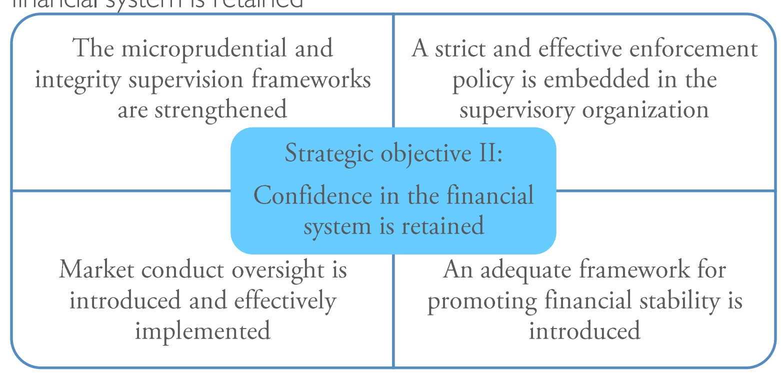

Figure 1.3: Overview of the major achievements in key supervisory areas in 2018

Prudential Supervision

- Implementation of a framework for risk-based supervision for credit institutions, insurance companies, and company pension funds;
- Increase of the minimum required Prudential Liquidity Ratio (PLR) for the commercial banks from 15 to 16 percent as of January 1, 2018;
- Strengthening of the guidelines for insurance companies for the calculation of the solvency margin;
- Release of a policy paper on outsourcing arrangements;
- Issuance of a revised directive on the publication of the effective interest rate;
- Issuance of a revised directive on the publication of the audited annual financial statements;
- Issuance of a directive on the appointment of a certifying actuary;
- Issuance of a draft directive on the provisioning for general risk.

Integrity Supervision

- Coordination of the National AML/CFT Risk Assessment (NRA);
- Conduct of 25 AML/CFT onsite examinations;
- Organizing of 6 information sessions for financial institutions and DNFBPs;
- Issuance of a revised directive on multipurpose prepaid money cards;
- Strengthening of the AML/CFT risk-based approach;
- Issuance of a comprehensive proposal for the amendment of the AML/CFT State Ordinance;
- Contributing to the international assessment of Aruba by the Organization for Economic Co-operation and Development (OECD)'s Global forum on transparency and exchange of information for tax purposes.
- Provision of technical assistance to the Financial Intelligence Unit (FIU) -Surinam.

Market Entry and Enforcement

- Implementation of a revised policy rule on the licensing and admission requirements of credit institutions;
- Strengthening of the policy rule on the licensing and admission requirements of insurance companies;
- Intensifying of the enforcement of the supervisory laws and regulations, as evidenced by a sharp increase in the number of administrative fines and other enforcement measures imposed by the CBA.

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Chapter 2.

Supervisory approach

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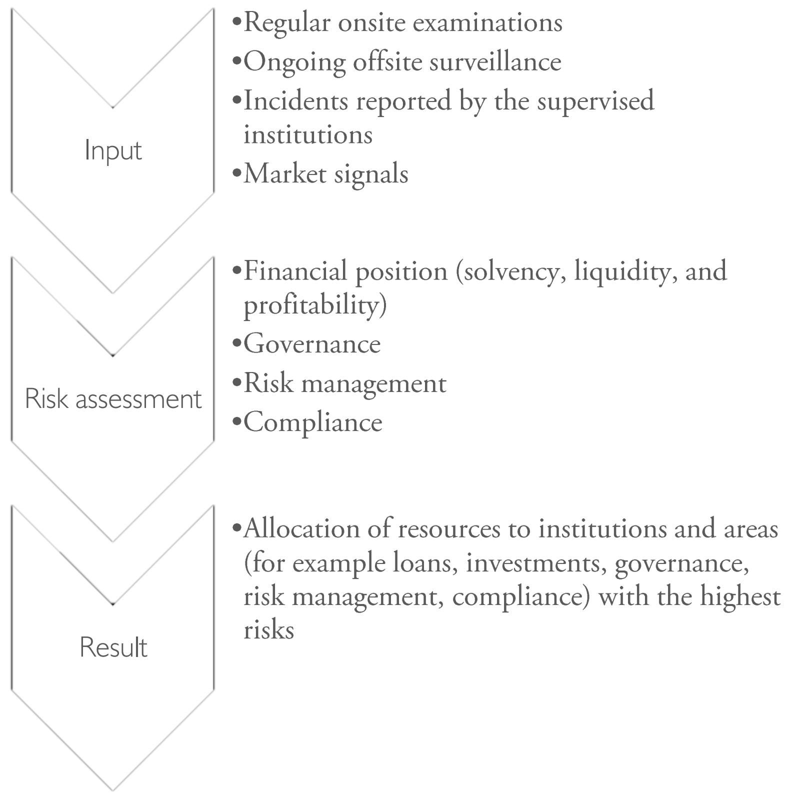
Over the years, the CBA has shifted its approach from a compliance-oriented to a risk-based supervisory approach, thereby allocating the supervisory resources to institutions and areas with the highest risks. As part of the risk-based supervisory framework, the CBA strives to address the "root cause" of problems rather than treat the symptoms. Using this approach, the CBA aims for persistent and intrusive supervision conducted effectively and efficiently.

In 2017, the CBA established a risk-based supervision framework for credit institutions, insurance companies, and company pension funds (see Figure 2.1). During 2018, three panel sessions were held to discuss the assessment and internal risk ratings of key risk areas (inter alia, financial position, governance, risk management, and compliance) of the institutions concerned. 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.

The regular onsite examinations at the supervised financial institutions, as well as the ongoing offsite surveillance, which includes the desk-review of the required periodic financial and regulatory reports filed by the supervised entities, are the main pillars through which the CBA executes its oversight. These onsite examinations together with the ongoing offsite surveillance serve as the primary source of information to feed the risk-based supervisory framework. The onsite and offsite activities are key to maintaining a close watch on the financial and nonfinancial developments at the supervised institutions, assessing their ongoing compliance with the relevant laws and regulations, and, if and where deemed necessary, taking appropriate measures to enforce compliance.

Figure 2.1 Key components of the risk-based supervision framework



To further enhance the effectiveness of its AML/CFT supervision, the CBA increased the number of AML/CFT onsite examinations to twenty-five in 2018, up from seventeen in 2017. Both financial institutions (2018: 6) and DNFBPs (2018: 19) were visited. The selection of institutions for the onsite examinations was driven mainly by (sector-) specific integrity risks, which the CBA identified through its risk-based approach.

Six AML/CFT information sessions were organized by the CBA during 2018 for the following sectors: banks, trust service providers, jewelers, car dealers, casinos, and notaries. The objective of these information sessions was to create a higher degree of awareness of, among other things, the AML/CFT requirements and recent developments. The FIU and the Public Prosecutor's Office also made presentations during these information sessions.

To further enhance the AML/CFT risk-based approach, the CBA sent out a comprehensive digital AML/CFT questionnaire to the commercial banks, with the objective of obtaining detailed information on their AML/CFT framework, client portfolio, and Customer Due Diligence (CDD) measures in place.

The CBA also continued to participate actively in both national and international AML/CFT meetings, for example, with the FIU, Public Prosecutor's Office ("Openbaar Ministerie"), "Recherche Samenwerkingsteam" (special police force) or "RST", Caribbean Financial Action Task Force (CFATF), Group of International Finance Centre Supervisors (GIFCS), and the financial sector supervisors and FIUs within the Kingdom of the Netherlands on AML/CFT and related matters. Furthermore, the CBA provided technical assistance to FIU-Suriname in the area of AML/CFT oversight with respect to DNFBPs.

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 at all times by also investing in ongoing training in the areas of financial sector supervision and AML/CFT. Such trainings are key to maintaining high quality oversight by the CBA of the supervised institutions and keeping abreast of developments relevant to these institutions.

With due observance of the technological innovations in the financial services industry ("FinTech")[3] and the shift in

[3] FinTech: technology-enabled innovation in financial services (Financial Stability Board (FSB) 2017).

supervisory approaches driven by "RegTech" and "SupTech"[4], the CBA will continue to closely monitor the developments in this area.

On January 1, 2018, the CBA launched its big data warehousing and analytics framework called "FAME"[5]. With the launch of FAME, the supervised financial institutions under the scope of the FAME project began filing their regulatory reports through the web portal designed for this purpose. The digital submission of the regulatory reports contributes to a more effective and efficient processing and analysis of the financial reports filed by the supervised institutions and also supports the CBA's supervisory oversight over the financial sector, as FAME provides ample opportunities for data queries and "big data" analysis.

[4] RegTech (for financial institutions) and SupTech (for supervisors and regulators): the use of technologies to solve regulatory and compliance requirements more effectively and efficiently (Institute for International Finance (IIF) 2016).

[5] FAME is short for "Forecasting, Analytics, Modelling Environment".

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Chapter 3.

Major changes in the legislative and regulatory framework

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The CBA recognizes the need to keep abreast of the ongoing changes in the international regulatory landscape to ensure continued compliance with the standards set by the international standard-setting bodies in this area. Below is an overview of the major changes made or proposed to the legislative and regulatory framework, with a view to enhancing and strengthening this framework.

3.1 Legislative framework

3.1.1 AML/CFT State Ordinance

Following the gap-analysis conducted vis-à-vis the 2012 Financial Action Task Force (FATF) Standards, in 2018, the CBA drafted a legislative proposal to address the identified, mostly technical, deficiencies. This proposal was submitted to the Government of Aruba in August 2018, and is still under consideration. It is of utmost importance, also in light of the upcoming CFATF-evaluation in 2020, that this proposal enters the legislative process as quickly as possible.

3.1.2 State Ordinance on Consumer Credit

In June 2016, a final draft proposal to regulate consumer credit was submitted to the Government of Aruba. The main objectives of this proposal are to (i) ensure that consumers receive sufficient information before entering into a consumer loan agreement; (ii) place a cap on the interest rates that lenders are allowed to charge to consumers; and (iii) prevent over-crediting. This proposal is now in the legislative process. It is expected that the draft ordinance will be submitted to Parliament before year-end 2019.

3.1.3 State Decree on the Charging of Supervision Costs to the Insurance Brokers

On August 9, 2018, the State Decree on the charging of supervision costs to insurance brokers went into effect.

3.2 Regulatory framework

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

As of January 1, 2018, a revised policy rule on license and admission requirements for credit institutions operating in or from Aruba came into force. Under this revised policy rule, only financial institutions with solid financial strength and reputation, subject to comprehensive and effective consolidated supervision, are allowed to have a major shareholding in a credit institution established in Aruba. If in the CBA’s opinion, the condition of comprehensive and effective consolidated supervision by the (ultimate) home country supervisor(s) is no longer met, or if the CBA has significant doubts about the adequacy of the solvency of the parent company, then the shares in the Aruban credit institution must be transferred to a (pure) holding company. This action is designed to prevent any negative spill-over effects on the Aruban credit institution. The implementation of this revised policy rule is in the preliminary stages.

3.2.2 Revised policy rule on insurance license and admission requirements for insurance companies

In 2018, the CBA drafted a revised policy rule on license and admission requirements for insurance companies operating in or from Aruba, which is still in the consulting phase. The aim of this revised policy rule for insurance companies is the same as for banks (see paragraph 3.2.1).

3.2.3 Policy paper 'Technology Risk Management' for credit institutions

In December 2017, the CBA issued a draft policy paper 'Technology Risk Management' to the credit institutions for consultation. The advancement of information technology has brought about rapid changes in the way businesses and operations are conducted in the banking industry. In consideration of the ensuing risks, the CBA has set out high-level risk management principles and best practice standards on the management of technology risks. The final policy paper on technology risk management was issued in March 2018 and became effective on July 1, 2018, with a transition period of twelve months to comply with the principles and standards set out in this paper.

3.2.4 Policy paper 'Outsourcing Arrangements' for all financial institutions supervised by the CBA

In July 2017, the CBA distributed for consultation a draft policy paper on outsourcing arrangements for credit institutions, insurance companies, company pension funds, and investment companies under the supervision of the CBA. This policy paper contains a set of standards on sound practices on risk management for outsourcing arrangements. The extent and degree to which an institution implements these standards should be commensurate with the nature of the risks in and materiality of the outsourcing arrangement. The institutions have some room to deviate from the requirements laid down in this policy paper if, for example, the small size of an institution or the low complexity of activities so warrants. The final policy paper on outsourcing arrangements was released in March 2018 and became effective on July 1, 2018, with a transition period of twelve months to comply.

3.2.5 Chart of Accounts (COA) for credit institutions

In close cooperation with the Centrale Bank van Curaçao en St. Maarten (CBCS), the CBA drafted a new regulatory and monetary reporting format (the COA) for the supervised credit institutions. The COA is based on the basic concepts and principles of, inter alia, the Monetary and Financial Statistics Compilation Guide (MFSCG) issued by the International

Monetary Fund (IMF) in 2008[6], as well as the International Financial Reporting Standards (IFRS) and Pillar I of the Basel II capital standards. Pillar 1 defines the minimum capital charges for credit, operational, and market risk. A draft of the COA was sent to the banks in September 2017. Based upon the comments received from the commercial banks, the CBA issued a revised version in September 2018. Unfortunately, the implementation of the COA has encountered delay as a result of the outcome of the penetration testing on the COA system. Consequently, the introduction date for the COA system has been postponed till further notice.

3.2.6 Directive 'General Risk Provisioning' for credit institutions

Under the new COA, the commercial banks must apply IFRS 9[7] when calculating the loan loss provisions. In view of the more forward-looking character of IFRS 9, in November 2018, the CBA issued a revised draft directive III.4 "General Risk Provisioning" for consultation, which in due time will replace the current directive III.4 "Loan Loss Provisioning". The provision for general risk aims at providing coverage against the general risks a credit institution is exposed to, directly or indirectly, through its banking activities. The provision for general risk must be formed against unforeseen events, as in the case of severe distress of the economy or the banking sector or significant problems faced by an individual credit institution due to, among other things, "force majeure" situations. "Force majeure" can be described as "risks beyond the reasonable control of a party" (e.g., natural disasters). Said directive will become effective on the same date the COA goes into effect.

3.2.7 Revised directives on the publication of the audited annual financial statements

In line with international standards on disclosure of financial information, the CBA issued two separate revised directives on the publication of the audited annual financial statements for, respectively, credit institutions and insurance companies, for consultation in December 2017. The revised directives require that banks and insurance companies publish, among other things, their certified annual reports on their website. After receiving the comments of the Aruban Bankers' Association (ABA) and the Insurance Association of Aruba (IAA), the CBA issued revised drafts of said directives for consultation in October 2018. The final directives on the publication of the audited financial statements were released in January 2019. As of the reporting year 2019, credit institutions and insurance companies must comply with these revised directives.

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[6] The MFSCG is an accompaniment to the Monetary and Financial Statistics Manual issued by the IMF in 2000.

[7] IFRS 9 "Financial Instruments" has replaced IAS 39 "Financial Instruments: Recognition and Measurement".

3.2.8 Revised directive on the publication of the effective interest rate on consumer credit

In consideration of the methodology applied in other parts of the Dutch Kingdom and also the European Commission directive for the calculation of the effective interest rate, the CBA decided to amend the existing directive on the publication of the Effective Interest Rate on Consumer Credit. After consulting with the ABA, the CBA issued the final version in April 2019. The method and assumptions applied for the calculation of the effective interest rate are based on directives on consumer credit agreements issued by the European Commission. In this regard, the directive now also includes a definition of the total cost of the credit to the consumer. The revised directive will enter into force on July 1, 2019.

3.2.9 Increase minimum prudential liquidity ratio for credit institutions

The maintenance of a sound and efficient financial system requires banks to hold sufficient liquid funds to absorb liquidity shocks. The Aruban banking system is highly concentrated, which makes its institutions, and the system as a whole, more vulnerable to liquidity shocks. In view of this vulnerability and in line with the Basel III standards issued by the Basel Committee on Banking Supervision (BCBS), the CBA decided, after consulting with the ABA, to increase the minimum PLR gradually from 15 percent to 20 percent and also to raise the liquidity charge on undisbursed loan funds and other commitments in the liquidity testing sheet gradually from 10 percent to 20 percent as of January 1, 2018 (see Table 3.1).

Table 3.1: Changes to the PLR and the liquidity charge on undisbursed loan fund and other commitments

Effective date	Minimum PLR	Liquidity charge on undisbursed loan funds and other commitments
January 1, 2018	16 percent	10 percent (unchanged)
January 1, 2019	18 percent	15 percent
January 1, 2020	20 percent	20 percent

Early 2019, a request was received from the ABA to postpone the increase of the PLR from 18 percent to 20 percent with a year. This request is currently under consideration.

3.2.10 Revised guidelines on the solvency margin for insurance companies

High (intercompany) current account receivables may entail an undesired concentration risk. In July 2018, the CBA issued for consultation revised guidelines on the calculation for the solvency margin of insurance companies by capping the outstanding intercompany current account receivables at a maximum of 5 percent of the total outstanding investments. According to the revision, the amount of intercompany account receivables exceeding a maximum of 5 percent of total investments must be deducted from shareholders' equity when calculating the solvency margin requirement. The revised guidelines on the calculation of the solvency margin will go into effect on July 1, 2019.

3.2.11 Directive on the appointment of a certifying actuary

In accordance with article 15a, paragraph 1, of the State Ordinance on the Supervision of the Insurance Business (SOSIB), prior written approval from the CBA must be obtained to appoint or change the certifying actuary. To this end, and by virtue of article 10 of the SOSIB and also in accordance with the Insurance Core Principles issued by the International Association of Insurance Supervisors (IAIS), in 2018 the CBA drafted a directive on the appointment of a certifying actuary. After consulting with the IAA, this directive entered into force in February 2019.

3.2.12 Revised directive on the issuance of multipurpose prepaid money cards

In consideration of the continued digitalization within the banking sector and the discontinuation of the use of bank checks, which often were used for salary payments, the CBA decided to amend its directive on multipurpose prepaid money cards. The amendment included an increase of the value limit of the prepaid cards for salary payment purposes to non-accountholders. After consulting with the ABA, the final version was issued in June 2018.

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Chapter 4.

International developments

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To comply with international standards, the CBA closely monitors international developments in the fields of financial sector supervision and AML/CFT oversight. This chapter provides an overview of some significant international developments observed in 2018 that are considered relevant for Aruba's legislative and regulatory framework.

4.1 BCBS: 'Stress testing principles'

In October 2018, the BCBS issued a paper 'Stress testing principles' that replaces the 'Principles for sound stress testing practices and supervision' published in May 2009. Stress testing forms a critical part of the risk management performed by the banks and is also a core tool used by banking supervisors and macroprudential authorities to assess the resiliency of individual banks as well as the banking sector as a whole. The principles contain guidelines for setting up a robust stress testing framework. The CBA is considering issuing a policy paper on this topic and will take into account the mentioned principles when drafting such a paper.

4.2 BCBS: 'Sound Practices: Implications of fintech developments for banks and bank supervisors'

In February 2018, the BCBS released a paper on the implications of fintech on the financial sector titled 'Sound practices: Implications of fintech developments for banks and bank supervisors'. The BCBS emphasized that the impact of technology-driven developments on banks is uncertain. However, an in-depth analysis of the impact of a set of scenarios leads to the finding that banks increasingly will encounter challenges to preserving their current business models as a consequence of the changes in technology and customer expectations. The CBA will continue to monitor the effects that new technologies may have on the viability of the current business models applied by banks and other financial institutions in Aruba. Note that the banks in Aruba, also to reduce their costs, are striving to move their clients away from their physical into their digital banking (internet and mobile banking) space. This process is expected to continue in the coming years. The banking landscape, especially in the area of payments, most likely will change dramatically in the near future, as already can be witnessed in highly developed countries.

4.3 IAIS: 'Issues Paper on Increasing Digitalization in Insurance and its potential impact on consumer outcomes'

In November 2018, the IAIS published a paper on the transformation of the insurance business due to digitalization. The IAIS referred to, among other things, artificial intelligence, robo-advisors, and distributed ledger technology, all of which may play a role in this process, from the design of products and the underwriting and pricing process to the marketing and distribution of these products to customers. This paper discusses the impact of different types of digitalization in the insurance value chain, as well as for customers and the supervisory authority. In more detail, this paper focuses on (i) product design (nature of insurance coverage), (ii) marketing and promotions (providing timely, clear, accurate, and not misleading information to customers), (iii) availability of more customer-related data (Big Data and enhanced digital deployment tools), (iv) the use of social media, (v) emerging sales methods (e.g., robo-advice and price comparison websites), (vi) presentation and disclosure of information, and (vii) impact on supervisors in light of Insurance Core Principle 19 on Conduct of Business. It is expected that also the insurance industry in Aruba will move into this direction.

4.4 FATF: 'Guidance on counter proliferation financing'

In February 2018, the FATF issued a guidance paper on countering proliferation financing. Recommendation 7 of the FATF Standards requires countries to implement proliferation financing-related Targeted Financial Sanctions (TFS) under United Nations Security Council Resolutions (UNSCRs or resolutions). Furthermore, recommendation 2 of the FATF Standards requires countries to put in place effective national cooperation and, where appropriate, coordination mechanisms to combat the financing of proliferation of weapons of mass destruction (WMD). In this regard, this FATF Guidance aims to give nonbinding guidance to facilitate both public and private sector stakeholders in understanding and implementing these obligations. It is highly important that also Aruba implements a robust legal framework to counter proliferation financing.

Chapter 5.

National and international cooperation

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5.1 National cooperation

In 2018, the CBA continued its periodic meetings with the Financial Intelligence Unit ("Meldpunt Ongebruikelijke Transacties") (FIU) and the Public Prosecutor's Office ("Openbaar Ministerie") to discuss topics of mutual interest with respect to integrity matters. In the year under review, three bilateral meetings were held between the CBA and the FIU, and two bilateral meetings were held between the CBA and the Public Prosecutor's Office. The basis for these periodic meetings is the Memoranda of Understanding (MoU) with the FIU (signed in 2011) and the Public Prosecutor's Office (signed in 2012). In addition to setting procedures for information exchange, the MoU with the Public Prosecutor's Office contains guidelines in the event of a concurrence of administrative and criminal offences. Because of the universal "ne bis in idem-principle," i.e., a person cannot be punished twice for the same act, the parties in these cases must decide which enforcement route to follow. In addition to the mentioned periodic meetings with the Public Prosecutor's Office and the FIU, the CBA also held three meetings with the "Recherche Samenwerkingsteam" (special police force) or "RST". The objective of these meetings was, among other things, to share knowledge and enhance the cooperation and exchange of information. In 2018, the Aruban AML/CFT Steering Group, which is chaired by the Prime Minister and consists of the main government agencies and public organizations involved in the design of the AML/CFT architecture and execution of the laws and regulations in this area, met multiple times to discuss AML/CFT-related matters.

Also in 2018, the CBA continued its periodic meetings with the representative organizations of the commercial banks and the insurance companies, i.e., the ABA and the IAA, respectively. In these meetings, relevant supervisory topics, such as the National AML/CFT Risk Assessment, were discussed, as well as the intended changes to the regulatory and supervisory framework.

Furthermore, the CBA met separately with the management of each commercial bank during the periodic bilateral meetings held in May/June 2018 and November/December 2018 to discuss, inter alia, economic and financial market developments, their credit growth, financial projections, as well as the results of the yearly stress testing exercise conducted by the CBA (see also paragraph 6.1).

5.2 International cooperation

In 2018, the CBA received thirteen information requests from foreign supervisory authorities, of which ten were responded to within a two-week period. Two requests were responded to within a period of approximately one month, and in one case it took about six weeks to respond due to the broad scope of the request. On two occasions, the CBA also requested and received information from foreign supervisors.

The CBA meets regularly with its counterparts within the Kingdom of the Netherlands, namely, De Nederlandsche Bank N.V. (DNB), the Authority for the Financial Markets (“Autoriteit Financiële Markten”) (AFM), and the CBCS. The Technical Committee of the financial supervisors within the Kingdom of the Netherlands met three times in 2018. The CBA participated in two of these meetings, based upon the MoU signed between the parties involved. Annex 4 provides a complete list of the (M)MoUs signed in the area of supervision.

The CBA participated in two meetings of the Joint Working Group on Integrity Issues, consisting of representatives of the financial supervisors within the Kingdom of the Netherlands. The FIUs within the Kingdom of the Netherlands also attended both meetings. During these meetings, issues such as trade-based money laundering, crypto currency, and criminal networks, were thoroughly discussed from an AML/CFT point of view.

Upon the request of the Organization of American States (OAS), the CBA provided technical assistance to the FIU-Suriname with the aim to contribute in enhancing Suriname’s AML/CFT Framework and risk-based approach. Furthermore, the CBA attended two plenary meetings organized by the CFATF.

5.3 International supervisory groups

The CBA is a member of various international supervisory groups and participated in different meetings held by these groups throughout 2018:

- Plenary meetings of the Group of International Finance Centre Supervisors (GIFCS),
- XXXVI Annual Conference of the Caribbean Group of Banking Supervisors (CGBS),
- Annual Seminar and Annual General Meeting of the Group of International Insurance Centre Supervisors (GIICS).
- XXI Annual Assembly Meeting of the Association of Supervisors of Banks of the Americas (ASBA).
- XIII High-level Meeting of ASBA, the Basel Committee on Banking Supervision (BCBS), and the Financial Stability Institute.
- XXV International Association of Insurance Supervisors (IAIS) Annual Conference.
- The Bank for International Settlements (BIS) XX International Conference of Banking Supervisors (ICBS).

See Annex 5 for an overview of the main topics discussed during these meetings.

Chapter 6.

Prudential supervision

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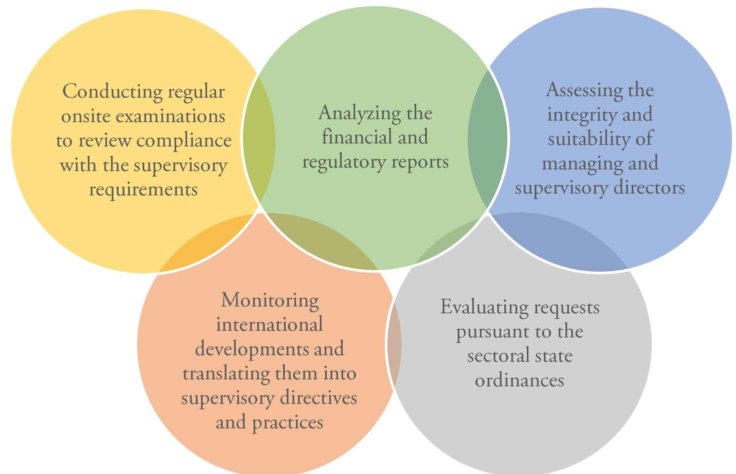
The Prudential Supervision Department (PSD), consisting of nine full-time staff members at end-2018, is responsible for monitoring the financial soundness of supervised financial institutions, in particular, credit institutions, insurance companies, and company pension funds.

The department also assesses compliance with the supervisory laws and regulations through ongoing offsite surveillance (including the conduct of integrity and suitability assessment of proposed management and supervisory directors), and regular onsite examinations. In general, with a few exceptions, the supervised institutions remained in compliance with the CBA's prudential requirements during 2018.

The PSD closely follows the 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, staff members of the PSD attended several trainings in the area of banking, insurance, and international accounting standards, and in August 2018 the CBA hosted a Banking Crisis and Resolution Course conducted by instructors from the Federal Deposit Insurance Corporation (FDIC), and facilitated by the Association of Supervisors of Banks of the Americas (ASBA).

The primary tasks and responsibilities of the PSD are presented in Figure 6.1.

Figure 6.1: Tasks and responsibilities of the PSD



6.1 Offsite surveillance

In 2018, as part of its offsite surveillance, the PSD undertook several activities including, inter alia, analysis of the financial and regulatory reports submitted by the supervised institutions and evaluation of several requests for approval pursuant to the various sectoral supervisory laws. The latter requests relate mainly to the appointment of key persons or a change of external auditor.

In 2018, eleven new requests associated with the appointment of a key person from credit institutions, thirty-two requests from insurance companies, and nine requests from company pension funds were received (see also Annex 7). The CBA also processed twelve petitions for a change of external auditor: three requests from credit institutions, eight from insurance companies, and one from a company pension fund.

As in previous years, in 2018, the CBA ran its yearly stress testing exercise on the domestic commercial banking sector. The banks' resilience was tested against severe shocks with respect to, among other things, their exposure to specific sectors, their large exposures, and their liquidity position. The results show that the commercial banking sector remained highly resilient to adverse scenarios. The results of the exercise were communicated to the commercial banks during the bilateral meetings held with them in November/December 2018.

6.2 Onsite examinations

The PSD conducted nine targeted onsite examinations during 2018, namely, at three credit institutions, five insurance companies, and one company pension fund. The focus of the examinations carried out at the credit institutions and insurance companies was the quality of their assets and compliance with the CBA's policy papers on corporate governance. The examination directed at the company pension fund also was focused on the quality of the assets, in particular, the investments portfolio. Table 6.1 provides an overview of the onsite examinations conducted by the PSD over 2016-2018.

6.3 Passing on of the supervisory costs

Pursuant to the various sectoral state ordinances and state decrees, the CBA may pass on the incurred supervision costs, in full or in part, to the supervised entities. Annex 9 contains a breakdown of the supervision costs passed on to the different sectors supervised by the CBA.

Table 6.1: Onsite examinations conducted by PSD in 2016-2018

	2016	2017	2018
Sector			
Credit institutions	2	2	3
Life insurance companies	3	2	2
General insurance companies	3	1	3
Company pension funds	-	3	1
Total	8	8	9

Chapter 7.

Integrity supervision

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Integrity supervision is a key pillar of the CBA's supervision and is aimed at the overarching goal of maintaining confidence in the financial system. Breaches of the law, facilitating unlawful activity, and other unethical behavior can result in enforcement actions, including fines, civil liability claims, and reputational damage. Therefore, integrity risk management is of paramount importance to financial institutions. At year-end 2018, the Integrity Supervision Department (ISD) consisted of eight full-time staff members. The primary tasks and responsibilities of the ISD are presented in Figure 7.1.

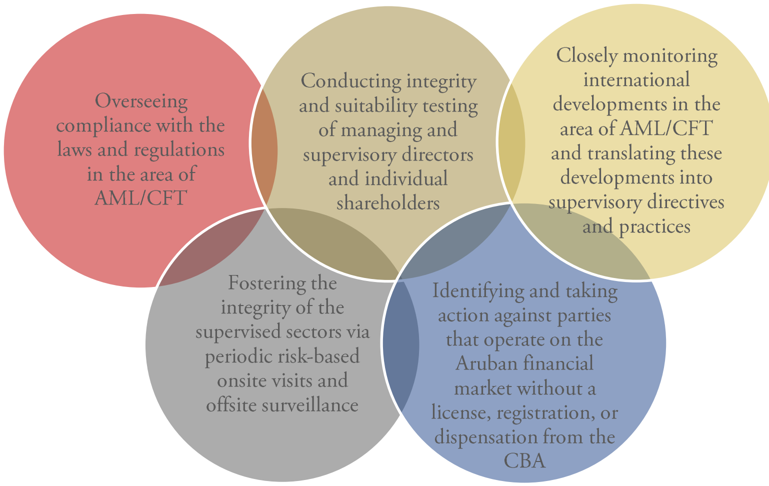
The ISD continued its efforts to foster compliance via information sessions, onsite visits, and offsite surveillance. To keep abreast of international developments, its staff members attended several trainings in the areas of AML/CFT including a CFATF pre-assessment training in Curaçao that provided fruitful insights on how to prepare for the AML/CFT 4th round assessment by the CFATF. Furthermore, they participated in the international AML/CFT training organized by the US Comptroller of the Currency (OCC) and an ASBA training in Miami in the area of de-risking[8].

7.1 Offsite surveillance

In 2018, the CBA undertook several activities as part of its offsite surveillance. It sent out, among other things, a comprehensive survey to the commercial banks to obtain a better insight regarding the inherent risks and AML/CFT framework of the commercial banks. The data gathered through the survey also provided the CBA with valuable information for the National AML/CFT Risk Assessment (NRA) that is currently being conducted. Furthermore, the CBA sent out letters to the real estate agents, jewelers, and car dealers to increase their awareness about relevant and important ML/TF issues with the aim to improve compliance. These were based on an in-depth analysis of the results from the survey, as well as information gathered during the information sessions held throughout the year.

[8] De-risking is defined by the FATF as the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF's risk-based approach.

Figure 7.1: Primary tasks and responsibilities of the ISD



7.2 Onsite examinations

The number of AML/CFT onsite examinations carried out by the ISD continued to increase in 2018. A total of twenty-five onsite examinations were conducted: four at credit institutions, two at trust service providers, two at money transfer companies, and seventeen at the DNFBPs, namely, three lawyers, two casinos, two jewelers, two notaries, four accountants, two car dealers, and two real estate companies (see also Table 7.1).

Table 7.1: Onsite examinations conducted by ISD in 2016-2018

	2016	2017	2018
Sector			
Credit institutions	2	8	4
Life insurance companies	1	-	-
Company pension funds	1	-	-
Money transfer companies	-	-	2
Trust service providers	1	5	2
DNFBPs	3	4	17
Total	8	17	25

The onsite examinations implemented focused on specific risks, such as transaction monitoring, unusual transaction reporting, and customer due diligence. These have been identified by the CBA as high-risk areas for virtually all institutions supervised under the AML/CFT State Ordinance.

Based on the onsite examinations, multiple breaches of the AML/CFT State Ordinance were identified with respect to, among other things, customer due diligence (including transaction monitoring) and the (timely) reporting of unusual transactions to the FIU Aruba. Furthermore, some DNFBPs did not undertake proper AML/CFT risk assessment and/or failed to establish AML/CFT policies and procedures based upon such a risk assessment. A comprehensive overview of the breaches established is provided in Annex 8. The findings of the onsite examination were typically communicated both verbally and in writing to the institutions, whereupon a reasonable timeframe was given to the institution to take remedial actions. In case of more severe findings, such as nonreporting or late reporting to the FIU Aruba, formal measures were imposed (see Chapter 8).

7.3 Information sessions held for supervised institutions

In 2018, ISD organized six information sessions, one each for the following sectors: trust companies, commercial banks, car dealers, jewelers, notaries, and casinos. During these sessions, AML/CFT-related topics such as business risk assessment, AML/CFT training, transaction monitoring, customer due diligence/know your customer, and unusual transaction reporting, were discussed. The information session held for the trust sector covered the topics of transaction monitoring and complex group structures. The FIU also actively participated in the sessions directed to the DNFBPs by giving a presentation on the unusual transaction reporting requirements.

7.4 National AML/CFT Risk Assessment

To get a better understanding of the AML/CFT risks faced at a national level and also in compliance with the FATF Standards, in 2018 a National AML/CFT Risk Assessment (NRA) has been started up. This is the second NRA Aruba is conducting; the first one was in 2011/2012. The NRA is coordinated by the CBA and carried out in cooperation with the World Bank. The methodology developed by the World Bank is being applied. The NRA is divided into five different working groups, dealing with specific issues: (1) threats; (2) vulnerabilities; (3) banking; (4) other financial institutions, and (5) DNFBPs.

To kick off the NRA, in October 2018, the CBA organized a 3-day session for all relevant stakeholders of both the public and the private sectors. During the workshop, the stakeholders were trained in how to apply the World Bank's methodology and execute the AML/CFT NRA.

The CBA is not only the project leader and coordinator for the NRA, but also chairman of two of the working groups: (1) banking, and (2) other financial institutions, and additionally it participates in three working groups.

The finalization of the NRA is planned around October/November of 2019. The (results of the) NRA also will be of the utmost value for the upcoming CFATF assessment of Aruba in 2020, as well as for the further enhancement of Aruba's AML/CFT framework.

7.5 Passing on of the supervisory costs

Reference is made to Annex 9, which lists the amounts passed on per sector by the CBA to cover part of the supervisory costs incurred.

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Chapter 8.

Enforcement, Market Entry, and Legal Advisory

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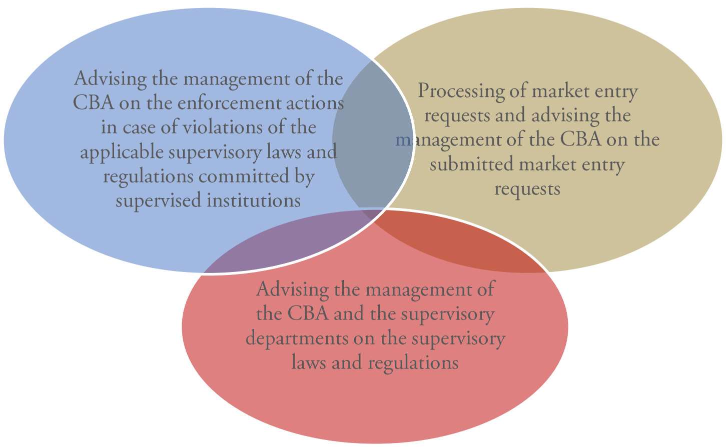
The Enforcement, Market Entry, and Legal Advisory Department (EML) is a relatively new department, established on January 1, 2017. At year-end 2018, EML consisted of two full-time staff members. It works closely with the PSD and ISD on enforcement and market entry matters, and monitors international developments in the area of enforcement and market entry and insofar relevant for Aruba, and translates these into policy proposals. The primary tasks and responsibilities of EML are presented in Figure 8.1. This chapter elaborates on the activities carried out by EML in 2018.

Figure 8.1: Primary tasks and responsibilities of EML



8.1 Enforcement

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 identified a situation of noncompliance with the applicable supervisory laws and regulations, the EML advised formal or informal measures (normative conversation or a written warning), and in many cases these were formally taken. The decision to apply formal or informal measures depends, among other things, on the seriousness of the case. The CBA's enforcement policy can be found on its website: www.cbaruba.org.

Below an overview of the formal measures that the CBA can take:

- Issue a formal directive, whether or not accompanied by publication thereof;
- Impose a penalty charge order and/or administrative fine, whether or not accompanied by publication thereof;
- Declare that an auditor or actuary is no longer authorized to certify the annual filings (including the annual report) of a credit institution, an insurance company, a money transfer company, or a company pension fund;
- Appoint a silent receiver in the case of a credit institution, an insurance company, or a company pension fund;
- File a request to the Court of First Instance to apply the emergency regulations and to appoint one or more administrators in the case of a credit institution or insurance company;
- Request the Court of First Instance to appoint an administrator in the case of a company pension fund; and
- Revoke the license or cancel the registration.

In addition, the CBA can also report a punishable breach to the Public Prosecutor's Office ("Openbaar Ministerie"), if sufficient grounds exist to do so.

Table 8.1 provides an overview of the number and type of enforcement measures taken in the period 2016-2018 per (sub) sector.

8.2 Market Entry

In 2018 the CBA received nine petitions for an exemption pursuant to article 27b of the SOSIB to act as an intermediary for an insurance contract with foreign insurance companies not in the possession of a license of the CBA. One company filed a petition to be registered in the registry of money transfer companies, which was approved early 2019. One credit institution lodged a petition to amend the conditions attached to its license, which was approved in May 2019. Furthermore, in 2018 the CBA processed two requests for a change in the qualifying holding (see Annex 6).

Table 8.1: Imposed measures 2016 – 2018 (End of period)

	2016				2017				2018			
	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines
Sector												
Credit institutions	-	-	-	1	-	-	-	1	-	1	-	5
Pawnshops	-	-	-	-	-	-	-	-	-	-	-	-
Life insurers	-	-	-	1	-	1	-	1	-	2	-	1
General insurers	-	1	-	3	-	1	-	-	-	1	-	7
Captive insurers	-	1	-	-	-	-	-	-	-	-	-	-
Money transfer companies	-	-	-	-	-	-	-	-	-	-	-	-
Trust service providers	-	-	-	-	-	-	-	4	-	1	2	-
DNFBPs:												
- Casinos	-	-	-	-	-	1	-	2	-	-	-	1
- Other	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	1	1	-	-	-	1	-	-	-	-
Total enforcement actions	-	2	1	6	-	3	-	9	-	5	2	14

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Chapter 9.

Key financial developments

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This chapter describes the key financial developments in the financial sector comprising banks, money transfer companies, insurance companies, and pension funds. Detailed financial data on these sectors also can be found in the Annual Statistical Digest published by the CBA.

Table 9.1: Number of supervised institutions (at end of period)

Number of supervised institutions within the banking sector			
	2016	2017	2018
Total	12	11	11
Commercial banks	6	5	5
International banks	1	1	1
Bank-like institutions	3	3	3
Credit unions	2	2	2
Number of supervised institutions within the insurance sector			
	2016	2017	2018
Total	22	22	22
Nonlife insurance companies	12	12	12
Life insurance companies	6	6	6
Captive insurance companies	4	4	4
Number of supervised institutions within the pension fund sector			
	2016	2017	2018
Company pension funds[9]	10	10	8

Source: CBA.

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

9.1 Banking sector

As depicted in Table 9.1, the number of credit institutions supervised by the CBA remained unchanged at eleven at year-end 2018.

9.1.1 Commercial banks

9.1.1.1 Aggregated balance sheet total and outstanding loans

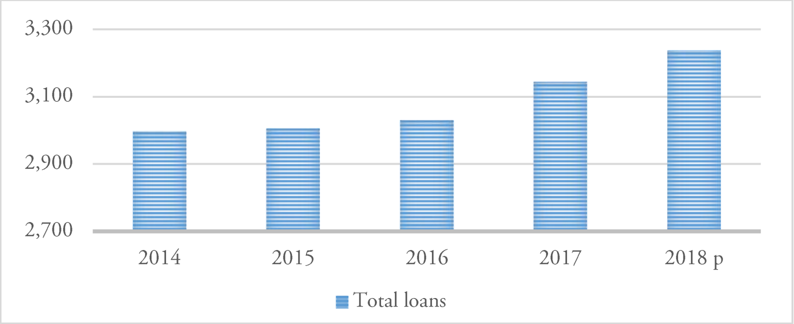
Aggregated balance sheet total

The commercial banks' aggregated balance sheet total amounted to Afl. 5,737.8 million at year-end 2018, equivalent to 100.1 percent of Aruba's 2018 Gross Domestic Product (GDP) as estimated by the CBA, reflecting the significant size of the banking sector compared to the size of the Aruban economy.

Aggregated outstanding loans

The aggregated outstanding loans continued to grow in 2018, increasing by Afl. 92.5 million or 2.9 percent, from Afl. 3,144.4 million in 2017 to Afl. 3,236.9 million in 2018 (see Chart 9.1). The growth was mostly in consumer loans.

Chart 9.1: Development in aggregated outstanding loans of the commercial banks in Afl. million (at end of period)

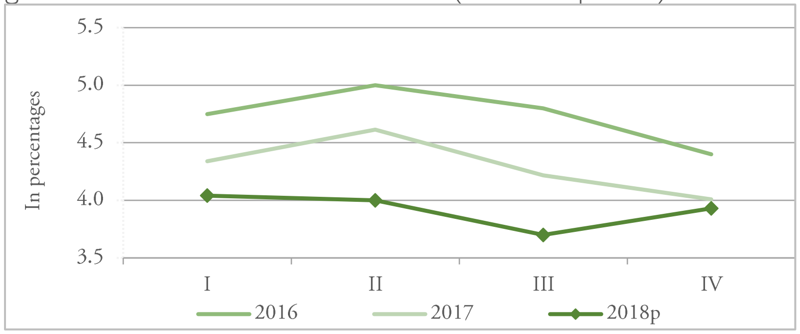


Source: CBA: commercial banks; p= preliminary figures.

Quality of loan portfolio

As illustrated in Chart 9.2, the quality of the commercial banks' loan portfolio improved significantly over the past three years. The nonperforming loans-to-gross loans ratio shrank from 6.3 percent in 2014 to 3.9 percent at the end of 2018. This decrease was mainly the result of the restructuring and the write-off of some nonperforming loans in 2015 and 2016.

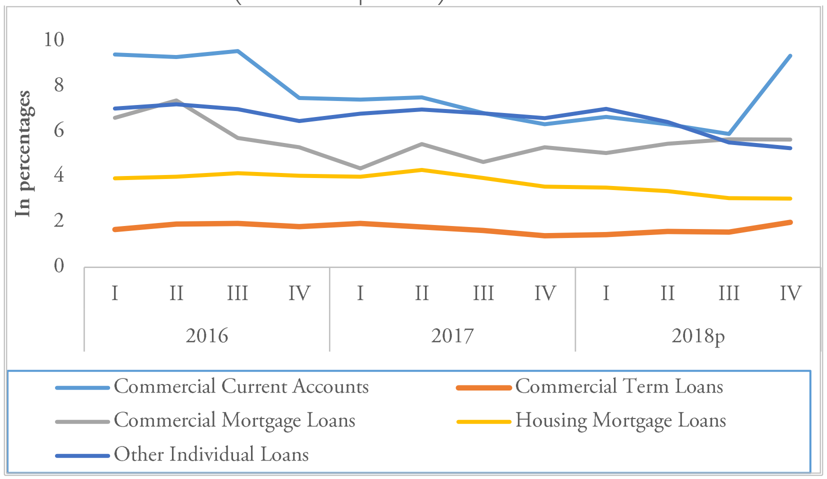
Chart 9.2: Development of nonperforming loans (gross) to total gross loans of the commercial banks (at end of period)



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

Chart 9.3 reveals that, with the exception of the commercial current account category, the nonperforming loans within the different loan categories remained stable. During the fourth quarter of 2018, the nonperforming loans in the commercial current account segment increased significantly, the result mainly of one large current account that became nonperforming in the fourth quarter of 2018.

Chart 9.3: Development of nonperforming loans by category of the commercial banks (at end of period)



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

Also noteworthy is that the commercial banks' nonperforming loan ratio is relatively low compared to other jurisdictions in the Caribbean basin. Together with the strict credit risk and loan loss provisioning regulations, the prudent loan underwriting policies and the sound credit risk management practices applied by the commercial banks contributed to the relatively low nonperforming loan ratio of the Aruban commercial banking sector.

9.1.1.2 Key ratios

Table 9.2 and Chart 9.4 show that the commercial banks' aggregated risk-weighted capital adequacy ratio remained on a growth path, and, at the end of December 2018, was twice as high as the required minimum of 16.0 percent. As in previous years, the commercial banks' resilience against significant external shocks was also stress-tested by the CBA in 2018. The outcome of these stress tests clearly indicated that the commercial banks continued to be able to absorb significant external shocks without their prudential liquidity and solvency ratios falling below the minimum required levels set by the CBA.

Capital adequacy

The commercial banks' aggregated risk-weighted capital adequacy ratio moved up from 23.3 percent at end-2014 to 32.2 percent at end-2018.

Table 9.2: Financial soundness indicators of the commercial banks on an aggregated basis (at end of period and in percentages)

	2014	2015	2016	2017	2018p
Capital adequacy					
Regulatory capital (Tier I capital) to risk-weighted assets	15.3	17.6	19.6	22.4	24.6
Regulatory capital (Tier I + Tier II capital) to risk-weighted assets	23.3	26.0	28.1	30.3	32.2
Asset quality					
Nonperforming loans to gross loans	6.3	4.7	4.4	4.0	3.9
Nonperforming loans (net of ALLP[1]) to gross loans	3.2	1.6	1.5	1.5	1.8
Nonperforming loans (net of ALLP) to regulatory capital	14.7	6.8	5.8	5.4	5.8
Profitability					
Return on assets (before taxes)	2.8	2.7	2.7	2.3	2.0
Return on equity (before taxes)	23.3	21.4	19.6	15.7	12.8
Interest margin to gross income	60.4	57.3	58.6	57.2	55.5
Noninterest expenses to gross income	72.0	73.2	72.0	76.5	78.0
Interest rate margin [2)]	5.7	6.1	5.9	4.6	4.9
Liquidity					
Loans to deposits ratio	73.6	69.9	66.2	68.2	68.4
Liquid assets to total assets [3)]	24.1	27.3	30.6	28.6	29.8

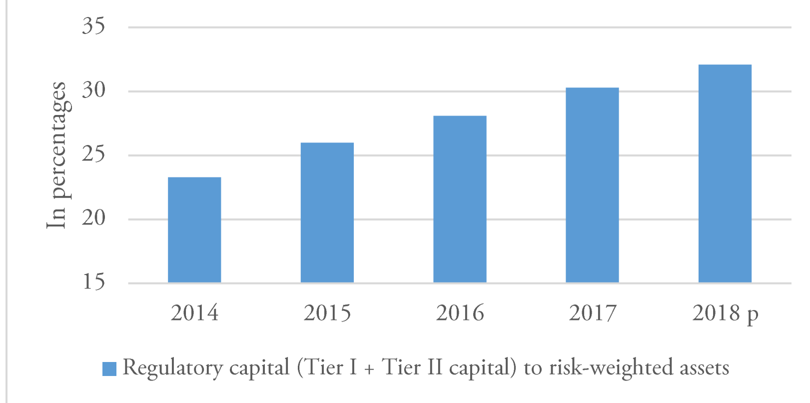
Source: CBA: commercial banks; p= preliminary figures.

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 Prudential Liquidity Ratio (PLR).

Chart 9.4: Development of the aggregated risk-weighted capital asset ratio (at end of period)



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

Profitability

Although the profitability of the commercial banking sector continued its downward path, the profitability measured vis-à-vis the total size of the banking assets and equity remained within very acceptable ranges. Return on assets (before taxes) declined during the period 2014-2018 from 2.8 percent to 2.0 percent (Table 9.2). The decrease of 0.8 percentage point over the past five years occurred mainly because, except for 2018, the aggregated balance sheet total of the commercial banks grew faster than the rise in the aggregated profit before taxes of the commercial banks. Return on equity (before taxes) also exhibited a falling trend over the last five years, from 23.3 percent in 2014 to 12.9 percent in 2018. The main reason for this drop is that capital and reserves rose at a very fast pace during these years. Another important profitability indicator, non-interest expenses to gross income, hovered between 72.0 percent and 78.0 percent during 2014-2018. Note that most banks are in the process of reducing their costs by moving their clients towards digital banking. The closure of branches is expected to continue.

Liquidity

Per year-end 2018, the Prudential Liquidity Ratio (PLR) (liquid assets to total assets) stood at 29.8 percent, remaining far above the required minimum of 16.0 percent.

Table 9.2 shows that the PLR (liquid assets to total assets) of the commercial banks fluctuated between 24.1 percent and 30.6 percent during the last five years. Per year-end 2018, the PLR equaled 29.8 percent, staying far above the required minimum of 16.0 percent (effective January 1, 2018). The commercial banks' aggregated loans-to-deposits ratio fell from 73.6 percent in 2014 to 68.4 percent in 2018, due to a sharper increase in deposits (Afl. 639.8 million or 16.4 percent) compared to the rise in the outstanding loans (Afl. 239.5 million or 8.0 percent) during this period.

9.1.2 Bank-like institutions

9.1.2.1 Aggregated balance sheet total

The bank-like institutions' aggregated balance sheet total was Afl. 740.3 million at year-end 2018, equivalent to 12.9 percent of Aruba's 2018 GDP, as estimated by the CBA.

The bank-like institutions' aggregated balance sheet total remained virtually the same at end-2018 compared to end-2017 at Afl. 740.3 million.

9.1.2.2 Key ratios

Asset quality

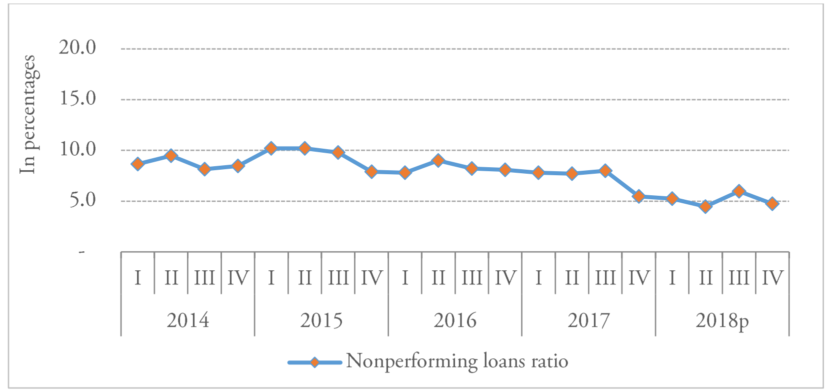
Table 9.4 and Chart 9.5 illustrate that, over the last five years, the nonperforming loans-to-gross loans ratio declined sharply from 8.5 percent at the end of 2014 to 4.7 percent at the end of 2018. This positive trend was mainly the result of loan restructuring and write-offs of some legacy loans, combined with stricter loan monitoring and loan collection.

Table 9.4: Financial soundness indicators of the bank-like institutions on an aggregated basis (at end of period and in percentages)

	2014	2015	2016	2017	2018p
Capital adequacy					
Regulatory capital (Tier I capital) to risk-weighted assets	55.3	58.8	63.6	59.2	58.6
Regulatory capital (Tier I + Tier II capital) to risk-weighted assets	62.6	66.4	71.0	66.6	65.4
Asset quality					
Nonperforming loans to gross loans	8.5	7.9	8.1	5.5	4.7
Nonperforming loans (net of ALLP) to gross loans	6.9	6.2	5.5	4.6	4.0
Nonperforming loans (net of ALLP) to regulatory capital	8.3	6.8	6.2	5.5	4.4
Profitability					
Return on assets (before taxes)	4.2	4.7	4.2	4.2	3.4
Return on equity (before taxes)	8.0	8.4	7.0	7.3	6.1
Interest margin to gross income	62.8	61.0	61.2	62.5	63.7
Noninterest expenses to gross income	66.3	65.2	69.1	68.5	68.2

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

Chart 9.5: Development of nonperforming loans (gross) to total gross loans of the bank-like institutions (at end of period)



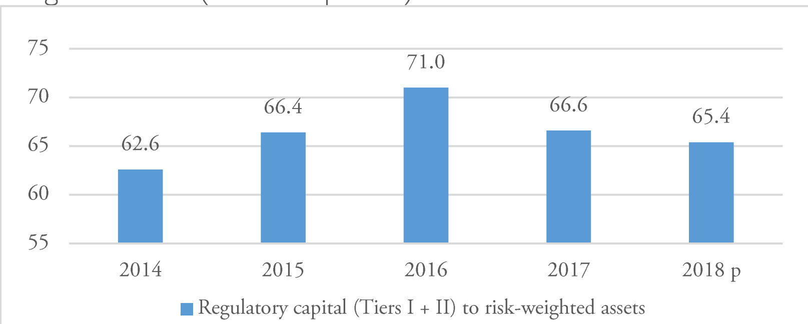
Source: CBA: bank-like institutions; p= preliminary figures.

Capital adequacy

The aggregated regulatory capital to risk-weighted assets ratio remained robust at 65.4 percent at year-end 2018.

Table 9.4 and Chart 9.6 illustrate that, in the period 2014-2018, the aggregated regulatory capital (Tier I + Tier II capital) to risk-weighted assets ratio of the bank-like institutions peaked in 2016 at 71.0 percent, declined to 66.6 percent at end-2017, and then continued to drop to 65.4 percent at year-end 2018, but remained far above the minimum of 16.0 percent during these five years. The primary reason for the declines in 2017 and 2018 was a higher increase in the risk-weighted assets (denominator of this ratio) compared to the increase in capital and reserves (numerator of the capital adequacy ratio).

Chart 9.6: Regulatory capital (Tier I + Tier II capital) to risk-weighted assets (at end of period)



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

Profitability

As depicted in Table 9.4, return on equity (before taxes) fell substantially and stood at 6.1 percent at year-end 2018 compared to 7.3 percent at year-end 2017. This decrease was due mainly to a contraction of net income before taxes of Afl 4.2 million or 14.7 percent in 2018 compared to 2017 and an increase in the capital and reserve by Afl. 23.7 million or 5.8 percent. The interest margin to gross income grew by 1.2 percentage points from 62.5 percent in 2017 to 63.7 percent in 2018. The noninterest expenses-to-gross income ratio fell by 0.3 percentage point in 2018 compared to 2017. Furthermore, over the last five years, operating expenses showed an upward trend, resulting in declining profits before taxes.

9.2 Money transfer companies

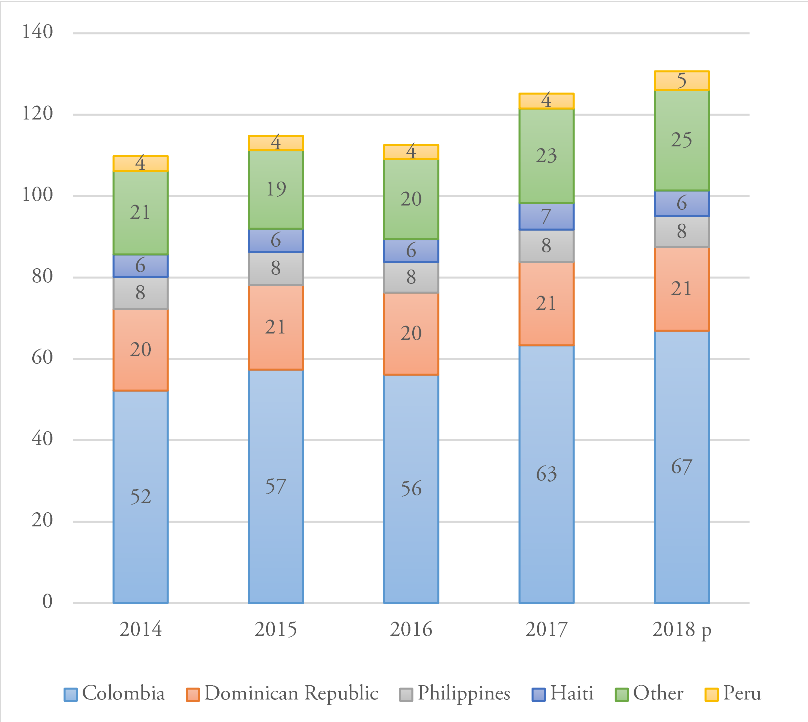
At the end of 2018, three money transfer companies were registered in Aruba.

9.2.1 Outgoing money transfers

The total amount of outgoing money transfers executed in 2018 increased from Afl. 125.2 million in 2017 to Afl. 130.7 million in 2018.

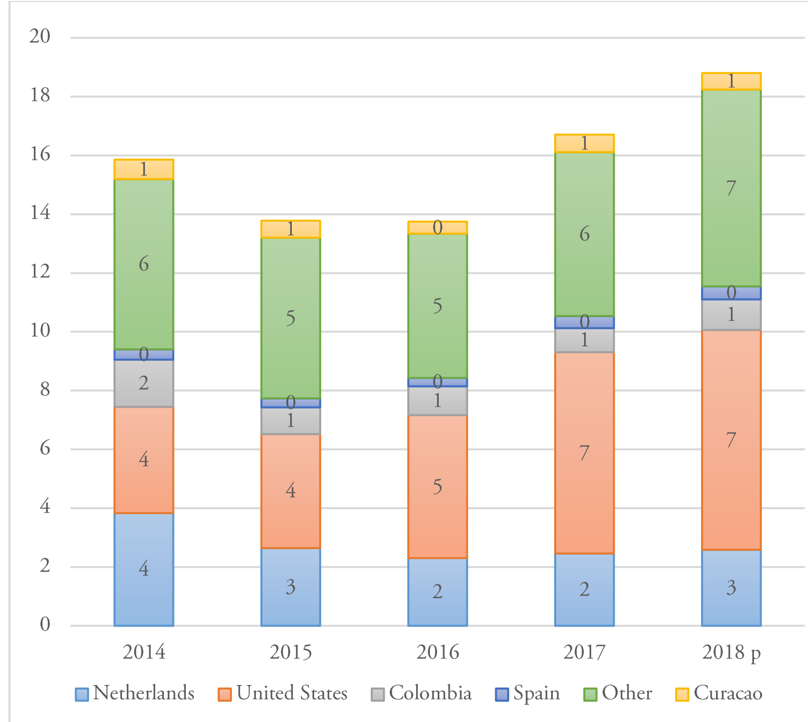
A substantial part of Aruba's labor force consists of foreign workers, predominantly from South America. Many foreign workers transfer a part of the income they generate in Aruba to relatives in the countries of their origin. Over the period 2014-2018, the number of outgoing money transfers exhibited an increasing trend. From 2017 to 2018, the number of outgoing transfers rose by 19,350 or 6.1 percent to 338,231. Colombia remained the main destination for outgoing money transfers with a share of approximately 51.2 percent of the total transfers in 2018 (Chart 9.7).

Chart 9.7: Outgoing money transfers by countries of destination in Afl. million



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

Chart 9.8: Incoming money transfers by countries of origin in Afl. million



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

9.2.2 Incoming money transfers

The total amount of incoming money transfers executed in 2018 increased from Afl. 16.7 million in 2017 to Afl.18.8 million in 2018.

The incoming transfers originated mainly from the United States and the Netherlands (Chart 9.8). Since 2015, the United States' share continued to increase.

9.3 Insurance companies

The number of insurance companies (including nonlife and life insurance companies) supervised by the CBA remained unchanged at 22 at year-end 2018.

9.3.1 Nonlife insurance companies

9.3.1.1 Aggregated balance sheet total and net premium per indemnity line

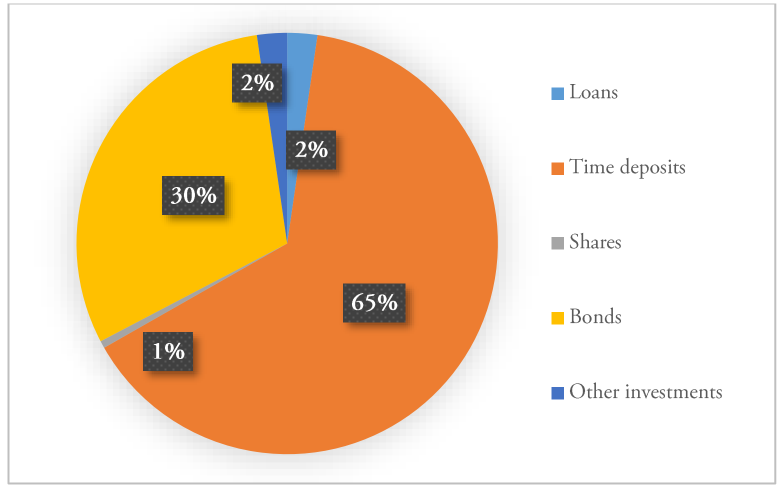
Aggregated balance sheet total

The combined assets of the nonlife insurance sector as per the end of 2018 equaled 5.6 percent of Aruba's 2018 GDP, as estimated by the CBA.

A rise of Afl. 25.0 million or 8.5 percent in the aggregated balance sheet total was registered at year-end 2018 compared to 2017, due primarily to an expansion of Afl. 62.3 million or 63.2 percent in current assets, offset in part by a drop in investments and due from affiliated companies of, respectively, Afl. 21.8 million or 13.2 percent and Afl. 15.3 million or 53.3 percent. The hike in current assets was mostly caused by a significant rise in the amounts receivable from reinsurers at year-end 2018 compared to 2017, mainly the result of increased outstanding claims on reinsurers in connection with the damages caused by Hurricane Irma in Saint Martin.

Afl. 1.1 million or 0.7 percent of the investments held by the nonlife insurance companies was foreign at end-2018. Chart 9.9 displays the composition of the investments at year-end 2018.

Chart 9.9: Investments of the nonlife insurance companies at year-end 2018

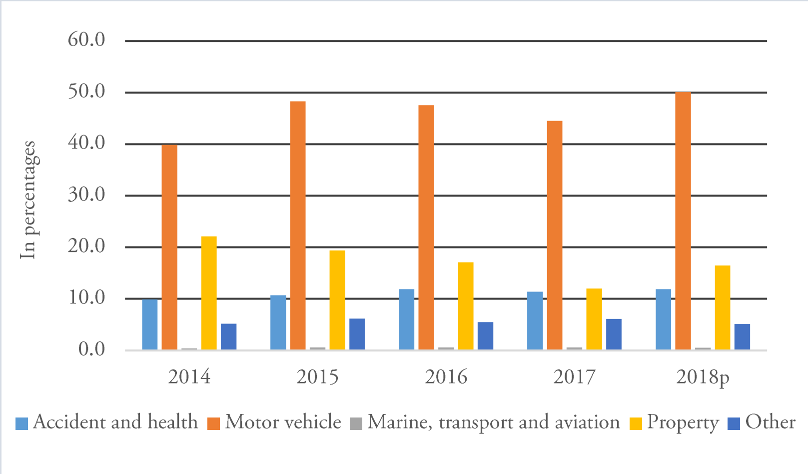


Source: CBA: nonlife insurance companies (preliminary figures).

Net premium per indemnity line

The net premiums received from motor vehicle insurance and property insurance remained the main source of income of the nonlife insurance companies in 2018 (Chart 9.10).

Chart 9.10: Net earned premium by indemnity line



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

9.3.1.2 Key ratios

Table 9.5: Financial soundness indicators of the nonlife insurance companies on an aggregated basis (at end of period and in percentages)

Ratios	2014	2015	2016	2017	2018p
Coverage ratio[1]	491.6	402.0	423.0	336.1	296.1
Return on investment ratio[2]	4.5	4.4	4.7	4.4	3.4
Liquidity ratio[3]	26.9	24.7	31.7	33.4	50.2

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.

Coverage ratio

The coverage ratio of the nonlife insurance sector notably declined from 423.0 percent in 2016, to 336.1 percent in 2017, and to 296.1 percent in 2018, but remained far above the minimum of 100 percent.

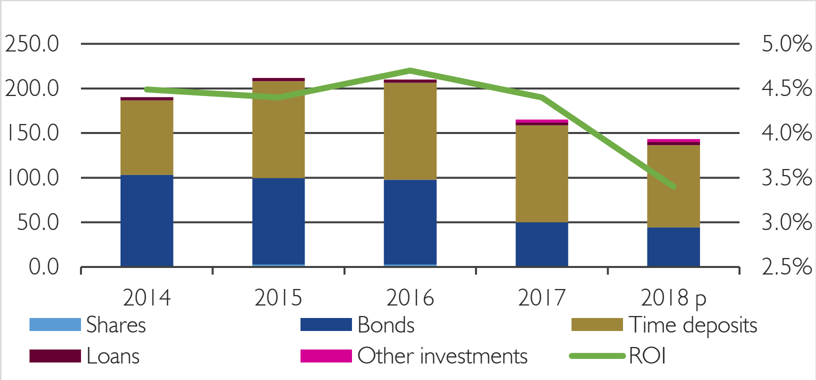
Table 9.5 shows that the coverage ratio of the nonlife insurance sector stayed far above the minimum requirement of 100 percent, but dropped significantly over the last two years. In 2016, a notable decrease in government bonds was registered, combined with a comparable decline in the affiliated companies payable. In 2018, this ratio equaled 296.1 percent, falling by 40 percentage points compared to end-2017. The reason for this drop is the more stringent method that insurers must apply to calculate their coverage ratio, starting January 1, 2018.

Return on investment ratio

The return on investment ratio dropped by 1.0 percentage point to 3.4 percent in 2018 when compared to 2017.

Chart 9.11 illustrates a downward trend in this ratio over the past two years.

Chart 9.11: Return on investment ratio



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

Liquidity ratio

Table 9.5 depicts the substantial increase in the liquidity ratio of the nonlife insurance companies by 16.8 percentage points to 50.2 percent at the end of 2018 compared to end-2017. This was due mainly to significantly higher outstanding receivables from reinsurers. As noted previously, this was predominantly associated to the outstanding claims on reinsurers related to Hurricane Irma in Saint Martin.

9.3.2 Life insurance companies

The combined assets of the life insurance sector at end-2018 equaled 23.7 percent of Aruba's 2018 GDP, as estimated by the CBA.

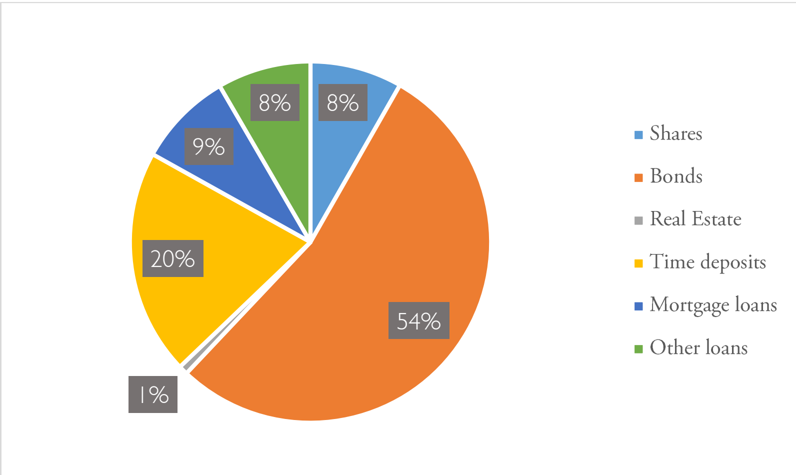
9.3.2.1 Aggregated balance sheet total

Over the past five years, the aggregated balance sheet total of the life insurance companies rose by Afl. 250.8 million or 22.7 percent to Afl. 1,355.8 million at end-2018, equivalent to 23.7 percent of Aruba's 2018 GDP, as estimated by the CBA. The growth in total assets over the past five years was mainly the result of an expansion in investments of Afl. 273.0 million or 32.4 percent to Afl. 1,116.5 million at year-end 2018. Chart 9.12 reflects the composition of the investments at year-end 2018. Technical provisions also showed an upward trend over the past five years, rising by Afl. 319.5 million or 38.3 percent from Afl. 843.6 million at end-2014 to Afl. 1,154.1 million at end-2018.

With the exception of 2017, capital and reserves demonstrated a downward trend, decreasing from Afl. 191.4 million in 2014 to Afl. 161.0 million in 2016 and to Afl. 132.6 million in 2018. The mentioned decrease was largely due to dividend distributions, repayment of equity, and losses incurred.

The share of foreign investments in the investment portfolio of the life insurance companies was 17.9 percent or Afl. 199.4 million at year-end 2018.

Chart 9.12: Investments of the life insurance companies at year-end 2018



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

9.3.2.2 Key ratios

Table 9.6: Financial soundness indicators of the life insurance companies on an aggregated basis (at end of period and in percentages)

Ratios	2014	2015	2016	2017	2018p
Coverage ratio[1]	122.7	117.9	117.6	109.5	108.0
Return on investment ratio[2]	6.7	4.8	5.8	5.1	4.5
Liquidity ratio[3]	11.4	19.4	18.1	18.0	16.1

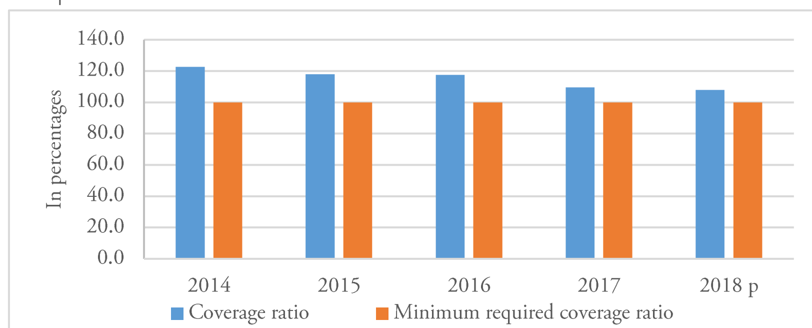
Source: CBA: life insurance companies; p= preliminary figures.

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.

Coverage ratio

As illustrated in Chart 9.13, the coverage ratio continued its downward path in 2018, but remained above the minimum of 100 percent. The drop of 8.1 percentage points in 2017 was mostly because of a higher increase in technical provisions (Afl. 83.8 million or 8.5 percent), compared to the rise in total assets (Afl. 51.8 million or 4.2 percent).

Chart 9.13: Combined coverage ratio of the life insurance companies

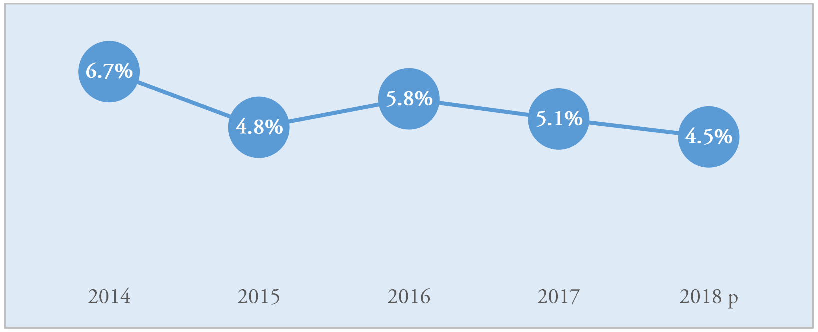


Source: CBA: life insurance companies; p= preliminary figures.

Return on investment ratio

The return on investment ratio displayed a downward trend during the period 2016-2018, equaling 5.8 percent in 2016, 5.1 percent in 2017, and 4.5 percent in 2018 (see Table 9.6 and Chart 9.14). During the same period, investment income also plummeted, dropping from Afl. 53.1 million in 2016, to Afl. 51.1 million in 2017 and Afl. 47.8 million in 2018. Investments grew from Afl. 971.2 million in 2016 to Afl. 1,016.7 million in 2017 and Afl. 1,116.5 million in 2018.

Chart 9.14: Return on investment ratio



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

Liquidity ratio

Table 9.6 reveals that during the period 2014-2018, the liquidity ratio hovered between 11.4 percent and 19.4 percent. In 2018, the liquidity ratio was 16.1 percent.

Profitability

Over the last five years, the net income before taxes of the life insurance companies was quite volatile. In 2018 the net income before taxes equaled Afl. 6.7 million compared to Afl. 10.1 million in 2017. The main reason for the volatility was the fluctuations in investment income and net claims.

9.4 Company pension funds[10]

The number of company pension funds (including APFA) supervised by the CBA decreased by two to eight at year-end 2018 compared to ten at year-end 2017.

As of January 1, 2008, the Board of Stichting Pensioenfonds I RBTT Bank Aruba N.V. (PF I) decided to transfer all rights and obligations of the fund to a life insurance company. Since that date, PF I has been dormant. As of 2005, all rights and obligations of Stichting Pensioenfonds II RBTT Bank Aruba N.V. (PF II) were transferred to a life insurance company. Since then, PF II also remained inactive. Both PF I and PF II were removed from the register of pension funds as of February 5, 2018.

9.4.1 Aggregated balance sheet total, technical provisions, and capital and reserves

The combined assets of the company pension funds at end-2018 equaled 8.6 percent of Aruba's 2018 GDP, as estimated by the CBA.

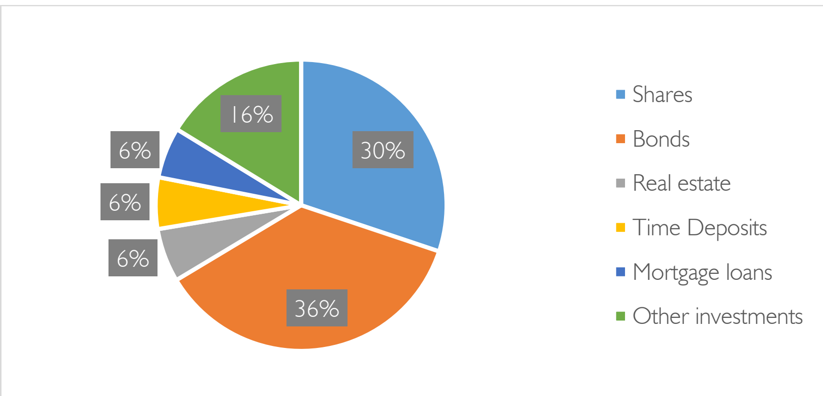
[10] Please note that the developments in this section do not include the Civil Servants Pension Fund (APFA).

Aggregated balance sheet total

The aggregated balance sheet total of the six company pension funds (excluding APFA and Lago Annuity Foundation, whose pension obligations are covered by a guarantee) expanded from Afl. 356.8 million in 2014 to Afl. 492.8 million in 2018, equivalent to 8.6 percent of Aruba's 2018 GDP, as estimated by the CBA.

Afl. 156.4 million or 34.9 percent of the investments held by the six company pension funds was foreign in 2018. Chart 9.15 displays the composition of the investments at year-end 2018.

Chart 9.15: Investments of the company pension funds at year-end 2018



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

Technical provisions

Over the past five years, technical provisions grew substantially, expanding by Afl. 112.9 million or 35.1 percent from Afl. 321.4 million at end-2014 to Afl. 434.3 million at end-2018, reflecting in part an increase in the number of participants in these funds (see Table 9.7), as well as the application of more up-to-date mortality tables.

Table 9.7: Number of participants in the six company pension funds (per year-end)

	2014	2015	2016	2017	2018p
Participants	6,843	6,851	6,964	7,378	7,614
Former participants	3,412	4,365	5,154	5,699	6,442
Pensioners	617	671	698	732	839

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

Capital and reserves

Capital and reserves of the company pension funds followed their upward path during the period 2014-2017, rising from Afl. 33.7 million in 2014 to Afl. 69.5 million in 2017, only to subsequently decrease to Afl. 55.7 million in 2018. The latter was caused by a significant drop of Afl. 29.0 million or 79.2 percent in investment income, combined with a gain of Afl 11.2 million in expenses and additions to the technical provision of Afl. 7.2 million when compared to 2017.

9.4.2 Key ratios

Coverage ratio

The aggregated coverage ratio of the company pension funds' sector remained only a few percentage points above the minimum requirement of 100 percent during the period 2014-2018.

Over the past five years, the coverage ratio remained only slightly above the required minimum of 100 percent (see Table 9.8 and Chart 9.16). The 2018 decline of 2.0 percentage points occurred primarily because the assets to cover technical provisions of the company pension funds grew at a slower pace than the technical provisions.

Table 9.8: Financial soundness indicators of the company pension funds on an aggregated basis (at end of period and in percentages)

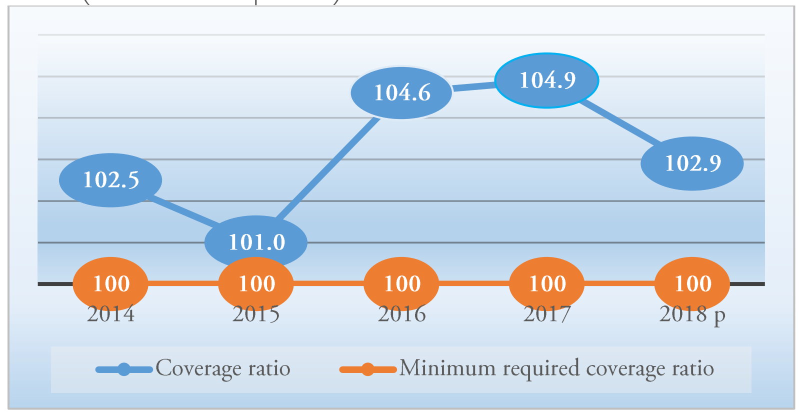
Ratios	2014	2015	2016	2017	2018p
Coverage ratio[1]	102.5	101.0	104.6	104.9	102.9
Return on investment ratio[2]	5.2	2.4	9.5	8.7	1.7

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

1) Weighted assets less current liabilities to technical provisions.

2) Investment income to average invested assets.

Chart 9.16: Aggregated coverage ratio of the company pension funds (at the end of period)



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

Return on investment ratio

Investments declined by Afl. 5.5 million or 1.2 percent at year-end 2018 when compared to year-end 2017, while investment income dropped markedly by Afl. 29.0 million or 79.2 percentage points in 2018 compared to 2017. The result was a sharp fall-off of 7.0 percentage points in the return on investment ratio from 8.7 percent in 2017 to 1.7 percent in 2018.

9.5 Civil Servants Pension Fund (APFA)

At end-2018, the net coverage ratio (including a buffer for possible losses on the investment portfolio) of APFA was 97.2 percent, i.e., 2.8 percentage points below the required minimum of 100 percent.

9.5.1 Balance sheet total, technical provisions, and capital and reserves

The total assets of APFA equaled Afl. 2,822.4 million at year-end 2018, equivalent to 49.2 percent of Aruba's 2018 GDP, as estimated by the CBA.

APFA's balance sheet total grew substantially during the period 2014-2018, rising by Afl. 292.3 million or 11.6 percentage points from Afl. 2,530.1 million at end-2014 to Afl. 2,822.4 million at end-2018. This increase is mainly the result of surges in APFA's investment portfolio, which climbed from Afl. 2,413.4 million in 2014 to Afl. 2,719.7 million in 2018. Afl. 1,051.8 million or 38.7 percent of the investments held by APFA is foreign.

The fund's capital and reserves showed a notable increase of Afl. 213.4 million in the period 2014-2017, following a pronounced decline of Afl. 21.5 million or 10.0 percent in 2018. This was mostly because of the marked drop in investment income by Afl. 129.2 million or 66.0 percent in 2018 compared to 2017. The considerable drop in investment income is related to unrealized losses on foreign investments of Afl. 66.8 million.

During the period 2014-2018, technical provisions moved upward by Afl. 167.0 million or 6.8 percent from Afl. 2,451.2 million at end-2014 to Afl. 2,618.2 million at end-2018, reflecting partly an increase in the number of participants in these funds (see Table 9.9), as well as the application of more up-to-date mortality tables.

Table 9.9: Number of APFA participants (per year-end)

	2014	2015	2016	2017	2018p
Participants	6,518	6,636	6,715	6,827	7,045
Former participants	360	492	746	823	928
Pensioners	3,974	3,961	4,027	4,052	4,100

Source: CBA: APFA; p= preliminary figures.

9.5.2 Key ratios

Coverage ratio

Table 9.10 and Chart 9.17 depict the steady increase in APFA's coverage ratio over the past five years, from 95.6 percent in 2014 to 99.1 percent in 2017 and then the significant drop in 2018 to 97.2 percent.

Table 9.10: Financial soundness indicators of APFA (at end of period and in percentages)

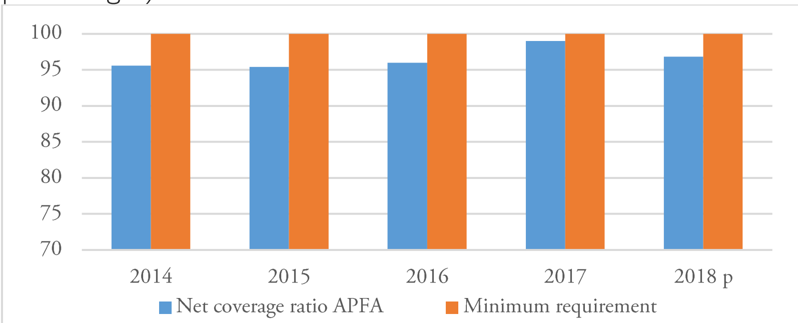
Ratios	2014	2015	2016	2017	2018p
Coverage ratio[1]	95.6	95.4	96.0	99.1	97.2
Return on investment ratio[2]	6.3	3.8	5.8	7.5	2.4

Source: CBA: APFA; p= preliminary figures.

1) Weighted assets less current liabilities to technical provisions.

2) Investment income to average invested assets.

Chart 9.17: Net coverage ratio of APFA (at end of period and in percentages)



Source: CBA: APFA; p= preliminary figures.

Return on investment ratio

Table 9.10 indicate that the return on investment ratio in 2018 stood at its lowest level in the past five years, and equaled 2.4 percent, 5.1 percentage points lower than in 2017. This was mostly associated with the significant drop of Afl. 129.2 million or 66.0 percent in investment income, resulting from a sharp drop in return from 10.6 percent in 2017 to -3.1 percent in 2018 on the foreign investment portfolio. Negative results on the foreign investment portfolio were mainly realized on the shares for which the return equaled 21.5 percent in 2017 compared to -9 percent in 2018.

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Annexes

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Annex 1.
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 Transfer Companies (SOSMTC)	AB 2003 no. 60
Sanction 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 Terrorism Financing	AB 2010 no. 27
State Ordinance on the Prevention and Combating of Money Laundering and Terrorism 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 putting into effect certain provisions contained in these ordinances.

Annex 2.
Financial institutions supervised by the CBA (December 31, 2018)

In alphabetical order

1. Banking sector[11]

1.1 Commercial banks

1. Aruba Bank N.V.
2. Banco di Caribe (Aruba) N.V.
3. Caribbean Mercantile Bank N.V.
4. FirstCaribbean International Bank (Cayman) Limited, Aruba Branch
5. RBC Royal Bank (Aruba) N.V.

1.2 International banks

1. Citibank Aruba N.V.

1.3 Mortgage banks

1. Fundacion Cas pa Comunidad Arubano (FCCA)

1.4 Credit unions

1. Cooperativa di Ahorro y Prestamo Aruba
2. Coöperatieve Spaar- en Kredietvereniging Douane Aruba

[11] Supervision by virtue of the SOSCS.

1.5 Other financial institutions

1. AIB Bank N.V.
2. Island Finance Aruba N.V.

2. Money transfer sector[12]

2.1 Money transfer companies

1. Mack's Exchange Services V.B.A.
2. Union Caribe N.V.
3. Post Aruba N.V.

3. Trust sector[13]

3.1 Trust service providers

1. AMTR N.V.
2. Arulex Trust Services N.V.
3. Ascor Trust (Aruba) N.V.
4. C.T.F. (Aruba) N.V.
5. Curado Trust (Aruba) N.V.
6. Euro Trust International N.V.
7. IMC International Management & Trust Company N.V.
8. Intima Management N.V.
9. Orangefield (Aruba) N.V.
10. SGG Management (Aruba) N.V.
11. Standard Trust Company N.V.
12. United Trust Management (Aruba) UTM N.V.

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[12] Supervision by virtue of the SOSMTC.

[13] Supervision by virtue of the SOSTSP.

4. Institutional investors' sector

4.1 Company Pension Funds[14]

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

5. Insurance companies[15]

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.

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[14] Supervision by virtue of the SOCPF.
[15] 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. Aruba AIG Insurance Company N.V.[16]	•	•	•	•	•
2. Best Doctors Insurance V.B.A.	•				
3. Bupa Insurance Company, Aruba Agency	•				
4. Elvira Verzekeringen N.V.					•
5. Ennia Caribe Schade (Aruba) N.V.	•	•	•	•	•
6. Fatum General Insurance Aruba N.V.	•	•	•	•	•
7. Massy United Insurance Company N.V.	•	•	•	•	•
8. NAGICO Aruba N.V.	•	•	•	•	•
9. Netherlands Antilles & Aruba Assurance Company (NA&A) N.V.	•	•	•	•	•
10. Stichting Fondo Nacional di Garantia pa Vivienda					•
11. The New India Assurance Co. Ltd., Aruba Branch	•	•	•	•	•
12. TRESTON Insurance Company (Aruba) N.V.[17]	•	•	•	•	•

Source: CBA.

[16] In liquidation.
[17] In liquidation.

5.3 Captive insurance companies[18]

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

5.4 Insurance Brokers[19]

1. AON Aruba N.V.
2. Aresta Aruba N.V.
3. Assurantie Service Centrum Aruba A.S.C.A. N.V.
4. Boogaard Assurantiën N.V.
5. De L'Isle & Sons Insurance Brokers N.V.
6. EFS Equidad Financial Services N.V.
7. Framo Insurances N.V.
8. Jai Mahalaxmi Enterprises N.V.
9. Lyder Insurance Consultants N.V.
10. Nos Seguro N.V.
11. Pentagon Investment & Consultancy N.V.
12. Seguros Geerman N.V.
13. Turtle Island Insurance Broker N.V.
14. Verdant Insurance and Management Company Group N.V.
15. Windward Insurance Solutions N.V.
16. Worldwide Insurance Agency N.V.

[18] Supervision by virtue of the SOSIB and SDCIC.
[19] Supervision by virtue of the SDSIB.

Annex 3. Financial institutions or persons in possession of a dispensation (December 31, 2018)

Financial institutions in possession of a dispensation as meant in article 48, paragraph 3 of the SOSCS

Pawnshops

1. ‘t Juwelenhuisje N.V.
2. Estrella America N.V.
3. Compra y Venta El Triunfo N.V.

Finance companies

1. Mack’s Total Finance V.B.A.
2. Volkskredietbank van Aruba
3. Qredits Microfinanciering Nederland

Financial institutions in possession of a dispensation as meant in article 10, paragraph 1 of the SOSMTC

Money transfer companies

1. MoneyGram International Inc.[20]
2. Western Union Financial Services International Inc.[21]

[20] For conducting money transfer activities through Union Caribe N.V.

[21] For conducting money transfer activities through Post Aruba N.V. and Mack’s Exchange Services V.B.A.

Insurance brokers in possession of a dispensation as meant in article 4, paragraph 2 of the SOSIB

1. Aruba Bank N.V.
2. Banco di Caribe (Aruba) N.V.
3. Caribbean Mercantile Bank N.V.
4. RBC Royal Bank (Aruba) N.V.
5. FirstCaribbean International Bank (Cayman) Limited – Aruba Branch
6. Fundacion Cas pa ComUnidad Arubano (FCCA)
7. Island Finance 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. Mr. J.W. Isenia
2. Mrs. T.D. Kelly-Hernandez
3. Mr. G.M. Daal
4. Mr. J.A.M. Lomans
5. Mrs. M.D.D. Geerman
6. Mr. J.W.P.J. Kaan
7. Mr. F.J. Gonzalez
8. Mr. R. Seraus

Pan-American Life Insurance Company of Aruba V.B.A.:

1. Mrs. Alli-Martijn
2. Mr. J.R. Martina
3. Mrs. L. Kelly
4. Mrs. A.R. Cordero-Murray
5. Mrs. B.R. Simileer
6. Mrs. J.M. Pesqueira

7. Mrs. M.N.R. Tromp
8. Mr. G.S. Lacle
9. Mr. E.E. Werleman
10. Mrs. A.S. Hernandez
11. Mr. J.J.E. Vermeulen
12. Mrs. R.L.R.A. Martijn
13. Mr. J.G. de Cuba
14. Mr. C.L. Bermudez-Romero
15. Mrs. C.R. Kock
16. Mr. K.E. Croes
17. Mr. J.R. Brete

Sagicor Life Aruba N.V.:

1. Mrs. D. A. Dormoy
2. Mrs. L. R. Faustin
3. Mrs. F. Bernier Corbacho
4. Mrs. A. R. Koolman
5. Mrs. B. I. Wolff-Croes
6. Mrs. N. C. Marques Hidalgo
7. Mr. F.C. Martina

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)MoUs signed by the CBA

Supervisory authority	Scope	Year signed
Centrale Bank van Curaçao en Sint Maarten	Exchange of information regarding banks	1998
Centrale Bank van Curaçao en Sint Maarten	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
Financial Intelligence Unit 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 to facilitate and meet requirements for effective supervision of the financial sectors and financial markets in the Dutch Kingdom	2011/2012
De Nederlandsche Bank N.V.	Cooperation and exchange of information in the area of supervision of banks, insurance companies, trust service providers, and money transfer companies	2014
Netherlands Authority for the Financial Markets (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

Annex 5.
Meetings of international supervisory bodies attended in 2018

This annex provides an overview of the meetings the CBA's supervisory staff attended in 2018 in the areas of financial sector supervision and AML/CFT oversight.

Supervisory group/ institution	Main topics discussed
Group of International Finance Centre Supervisors (GIFCS) Plenary meetings (April and November)	▪ Trust and Company Service Providers Standard ▪ Mutual GIFCS-assessments ▪ AML/CFT-challenges ▪ FinTech developments and implications for supervision
Caribbean Group of Banking Supervisors (CGBS) XXXVI Annual Conference (May/June) "The evolving financial landscape: the supervisory response"	▪ Banking Revolution: challenges for the supervisor ▪ Current/ emerging issues in banking supervision ▪ Subject matters experts; what role should they play? ▪ Enhancements in supervisory methodologies
Group of International Insurance Centre Supervisors (GIICS) Annual Seminar and Annual General Meeting (May)	▪ Data governance ▪ Solvency II ▪ Group supervision ▪ Innovation in the insurance industry
Association of Supervisors of Banks of the Americas (ASBA) XXI Annual Assembly Meeting and **ASBA-BCBS-FSI** XIII High-level meeting (October/November)	▪ Basel III ▪ Early supervisory intervention and challenges of implementing the resolution framework ▪ FinTech activities and dealing with cybersecurity issues ▪ SupTech developments and AML applications ▪ Climate change and financial stability implications
International Association of Insurance Supervisors (IAIS) XXV Annual Conference (November)	▪ IAIS Major Projects update ▪ Brave New World of Big Data and Artificial Intelligence ▪ Climate Risk and Natural Catastrophes
Bank for International Settlements (BIS) XX International Conference of Banking Supervisors (November)	▪ How well have we learnt from the financial crisis ▪ The regulatory landscape – ten years from the financial crisis ▪ Future-proofing regulation and supervision ▪ Navigating post-Basel III banking system
Caribbean Financial Action Task Force (CFATF) Plenary meeting (May and October)	▪ Adoption of mutual evaluation reports Antigua and Barbuda, and Cayman Islands ▪ Plenary discussions of follow-up reports 4th round of mutual evaluations ▪ AML/CFT developments (including FATF papers)

Annex 6.
Change in the shareholding of supervised institutions in 2018

Credit institutions

In accordance with article 17, paragraph 1, of the SOSCS, the CBA granted permission for the following change in shareholding:

- On October 23, 2018, the CBA granted permission to Stichting Pensioenfonds Havenwerkers to increase its holding of a qualifying holding in AIB Bank N.V. to 14.54 percent.

Insurance sector

In accordance with article 14a, paragraph 1, of the SOSIB, the CBA granted permission for the following change in shareholding:

- On October 23, 2018, the CBA granted permission to Pescara Holding N.V. to acquire a qualifying holding of 50 percent in Framo Insurances N.V.

Annex 7.
Integrity and suitability testing conducted in 2018

This annex provides an overview of the integrity and suitability testing conducted by the supervision departments in 2018.

Sector	Credit institutions	Insurance companies	Company pension funds	Money transfer companies	Trust service providers	Insurance brokers	Total
Pending as of January 1, 2018	**4**	**11**	**5**	**1**	**2**	**-**	**23**
New requests	11	32	9	5	1	-	58
Reassessments	-	-	-	-	-	-	-
Withdrawn requests	1	11	3	-	-	-	15
Rejected requests	-	-	-	-	-	-	-
Approved	1	11	1	-	1	-	14
Conditionally approved	7	9	6	-	-	-	22
Assessment ceased	-	3	-	-	1	-	4
Pending as of December 31, 2018	**6**	**9**	**4**	**6**	**1**	**-**	**26**

Annex 8.

Type of breaches identified in 2018 during the AML/CFT onsite examinations

Sector	Breaches of the AML/CFT State Ordinance	Areas
Financial institutions		
Credit institutions	Articles 3, 26, and 46 of the AML/CFT State Ordinance	* Costumer due diligence * The reporting of unusual transactions * Procedures and measures
Money transfer companies	Articles 3, 6, 11, 12, 26, and 46 of the AML/CFT State Ordinance	* Costumer due diligence * The reporting of unusual transactions * Procedures and measures
DNFBPs		
Trust service providers	Articles 3, 5, 6, 7, 8, 11, 12, 26 , 46, and 47 of the AML/CFT State Ordinance Article 8 of the SOSTSP	* Costumer due diligence * The reporting of unusual transactions * Procedures and measures * Recording of information
Law Firms	Articles 3, 5, 6, 8, 11, 26, and 46 of the AML/CFT State Ordinance	* Costumer due diligence * The reporting of unusual transactions * Procedures and measures
Car Dealers	Article 46 of the AML/CFT State Ordinance	* Procedures and measures
Jewelers	Article 46 of the AML/CFT State Ordinance	* Procedures and measures
Accountants	Articles 3, 5, 6, 10, 11, 26, and 46 of the AML/CFT State Ordinance	* Costumer due diligence * The reporting of unusual transactions * Procedures and measures
Notaries	Articles 3, 6, 26, and 46 of the AML/CFT State Ordinance	* Costumer due diligence * The reporting of unusual transactions * Procedures and measures
Real Estate	Articles 3, 6, 8, 11, 26, and 46 of the AML/CFT State Ordinance	* Costumer due diligence * The reporting of unusual transactions * Procedures and measures
Casinos	Articles 26 and 46 of the AML/CFT State Ordinance	* The reporting of unusual transactions * Procedures and measures

Annex 9.
Supervisory costs passed on in 2018

Pursuant to the respective state decrees[22], the CBA charges the sectors supervised for part of the supervision costs incurred. The supervisory costs passed on to the different sectors in 2018 are as follows:

Sectors:	Supervisory costs passed on in 2018	
Credit institutions	Afl.	800,000
Insurers	Afl.	300,000
Captives	Afl.	30,000
Insurance brokers[23]	Afl.	18,333
Company pension funds	Afl.	155,000
Money transfer companies	Afl.	150,000
Trust service providers	Afl.	100,000
Total	**Afl.**	**1,553,333**

[22] 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 the insurance companies (AB 2006 no. 3), the State Decree on the charging of supervision costs to the Captive Insurance Companies (AB 2002 no. 50), the State Decree on the charging of supervision costs to the trust service providers (AB 2012 no. 60), the Ministerial Regulation on the charging of supervision costs to the company pension funds (AB 2010 no. 86), and the State Decree on the charging of supervision costs to the money transfer companies (AB 2007 no. 18).

[23] For the year 2018, the amount charged to insurance brokers was calculated on a pro rata basis (4/12), as the State Decree on the charging of supervision costs to the insurance brokers (AB 2018 no.53) went into effect in August 2018.

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