CENTRALE BANK VAN ARUBA

**PRESS RELEASE**

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Today the Centrale Bank van Aruba (CBA) publishes its FINANCIAL SECTOR SUPERVISION REPORT 2016.

In this legally mandated report, the CBA, as the sole supervisory authority of the financial sector in Aruba, provides an overview of the main activities carried out, and the principal policy decisions taken in implementing the supervisory ordinances, including the laws to prevent and combat money laundering and terrorist financing, during 2016. The report also describes the main actions the CBA undertook to further strengthen the legislative and regulatory framework. In addition, it outlines the recent developments in the international supervisory architecture, as well as the most salient developments in the domestic financial sector.

As in previous years, the CBA's core supervisory activities in 2016 consisted of periodic onsite examinations conducted at the supervised institutions to assess key risks and compliance with the prevailing laws and regulations, and ongoing offsite surveillance. The latter includes reviewing the mandatory periodic financial and regulatory reports that the supervised institutions file at the CBA and the bilateral meetings held with the supervised institutions. If and where deemed necessary, the CBA applied its supervisory toolkit to enforce compliance with the prevailing laws and regulations. In cases where the CBA identifies a situation of non-compliance with the supervisory laws and regulations, formal measures have been taken. The decision to apply formal measures depends among other things on the seriousness of the case. In 2016, seven (7) formal measures were taken in connection with breaches for non-compliance with provisions laid down in the applicable laws and regulations.

The CBA implements a risk-based approach, thereby allocating the largest part of its supervisory resources to the institutions with the highest risk profile (based on the CBA's own risk assessment). This approach, together with the CBA's strict enforcement policy and its ongoing commitment to comply with the highest standards and best practices in the area of financial sector regulation and supervision, has been instrumental in maintaining a very solid and reputable financial sector in Aruba.

The financial sector supervision report clearly shows that also in 2016 the domestic financial sector remained robust, profitable, and highly resilient to external shocks. The aggregated prudential ratios of the supervised sectors stayed within sound ranges. The nonperforming loans ratio of the commercial banking sector continued its declining path, reaching 4.4 percent at end-2016, down from 4.7 percent in 2015. Furthermore, the stress tests conducted on the domestic banking sector demonstrate that this sector's risk-weighted capital ratio and prudential liquidity ratio, amounting to 27.9 percent and 30.6 percent, respectively, at end-2016, are more than adequate to absorb significant external shocks.

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With a view to further strengthen the AML/CFT framework and to prepare for the upcoming assessment by the Caribbean Financial Action Task Force (CFATF) in 2021, the CBA conducted a gap analysis vis-à-vis the 2012 FATF recommendations that fall within its domain to identify any shortcomings and to establish a plan of action to address the established shortcomings. The exercise revealed some weaknesses that need to be addressed. The CBA also carried out a gap analysis vis-à-vis the Trust Companies Service Providers (TCSPs) Standards issued by the Group of International Finance Centre Supervisors (GIFCS) to determine possible areas needing improvement with respect to the CBA's supervisory regime for the TCSPs. The analysis revealed no significant deficiencies.

The broadening of the supervisory net also continued in 2016 with the enactment of the State Ordinance on the Supervision of the Securities Business. In addition, some other legislative proposals that will also expand the CBA's supervisory mandate in the area of market conduct are in the pipeline. Below follows a brief overview of the major developments in the legislative framework.

1. *Securities Business*

The State Ordinance on the Supervision of the Securities Business entered into force on January 1, 2017. This ordinance introduces a licensing obligation for securities brokers, portfolio managers, collective investment schemes, and operators of a stock exchange and ongoing supervision of the mentioned parties. Furthermore, the ordinance includes provisions that impose a prospectus obligation for the issuance of securities and also prohibits and punishes market abuse (insider trading and market manipulation).

2. *Consumer Credit*

The final draft to regulate consumer credit was submitted to the Minister of Finance and Government Organization in June 2016. Important objectives of this proposed law are to ensure that consumers receive sufficient information before entering into a consumer loan agreement, to place a cap on the lending rates on consumer loans, and to prevent overcrediting.

3. *Deposit Insurance Scheme (DIS)*

Upon the request of the Minister of Finance and Government Organization, following a motion passed by the Parliament of Aruba in 2014, the CBA drafted a legislative proposal introducing a deposit insurance scheme. This proposal was presented to the Minister of Finance and Government Organization on August 27, 2015. In May 2017, in response to the comments received from the Department of Legislation and Legal Affairs, a completely revised proposal was submitted to the Minister of Finance and Government Organization, including a draft state decree covering the modalities of the deposit insurance scheme.

4. *Money exchange offices*

In July 2016, the CBA presented a legislative proposal to the Minister of Finance and Government Organization to extend the scope of the State Ordinance on Money Transfer Companies to money exchange offices ("geldwisselkantoren"). At present, these activities are regulated



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under the State Ordinance on Foreign Exchange Transactions, which does not provide sufficient tools to effectively regulate money exchange offices. For that reason, the CBA over the years has applied a very restrictive admission policy allowing only the commercial banks to undertake money exchange activities. Meanwhile, the revised state ordinance has been enacted and is expected to enter into force soon.

In 2016, the CBA continued its efforts to strengthen the regulatory framework by issuing new or revised guidelines. In line with the global Basel III standards issued by the Basel Committee on Banking Supervision, requiring higher capital and liquidity buffers, the CBA decided to increase the minimum risk-weighted solvency ratio from 14 percent to 16 percent, effective January 1, 2017. Furthermore, enhanced reporting requirements were introduced for insurance companies and pension funds.

To be able to comply adequately with the expanding mandate, the CBA will continue to invest in highly qualified staff and training. Note also that as of January 1, 2017, a separate department was established, entrusted with market entry, enforcement, and legal support on supervisory matters. In addition, further streamlining and automation of key processes are underway to increase the efficiency and effectiveness of supervision.

The strict and consistent enforcement of the supervisory and AML/CFT laws and regulations by the CBA over the years has contributed to maintaining a stable, reputable, and healthy financial system in Aruba. Notwithstanding the aforementioned, no room exists for complacency. As the last global financial crisis clearly showed, supervisory challenges can arise overnight. Therefore, the CBA stands ready to respond quickly and effectively to supervisory challenges that may arise.

The FINANCIAL SECTOR SUPERVISION REPORT 2016 is available on the website of the CBA www.cbaruba.org as from today.

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