CENTRALE BANK VAN ARUBA

PRESS RELEASE

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Today the Centrale Bank van Aruba (CBA) publishes its FINANCIAL SECTOR SUPERVISION REPORT 2017.

The CBA is the sole supervisory authority of the financial sector in Aruba. In this legally mandated report, the CBA provides an overview of the main activities it carried out and the principal policy decisions it took in 2017 to implement the supervisory ordinances, including the laws to prevent and combat money laundering and terrorist financing. The report also describes the main actions the CBA took to further strengthen the legislative and regulatory framework. In addition, the report 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 2017 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. Offsite surveillance 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 applies its supervisory toolkit to enforce compliance with the prevailing laws and regulations. If the CBA identifies a situation of noncompliance with the supervisory laws and regulations, formal measures are considered. The decision to apply formal measures depends, among other things, on the seriousness of the case. In 2017, twelve (12) formal measures were taken: an administrative fine was imposed in nine (9) cases, and formal directives were issued to remedy the identified deficiencies in three (3) cases.

The CBA implements a risk-based approach, whereby it allocates 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 conducive for maintaining a very solid and reputable financial sector in Aruba.

The financial sector supervision report also shows clearly that in 2017 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 loan ratio of the commercial banking sector was kept within acceptable ranges, standing at 4.0 percent at end-2017. 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 30.7 percent and 28.6 percent, respectively, at end-2017 are more than adequate to absorb significant external shocks.

With a view to further strengthening the AML/CFT framework and preparing for the upcoming assessment by the Caribbean Financial Action Task Force (CFATF) in 2020, the CBA conducted a gap analysis vis-à-vis the 2012 FATF recommendations that fall within its domain to identify any shortcomings and established a plan of action to address the defined shortcomings. The exercise revealed some weaknesses that need to be addressed, partly through the strengthening and broadening of the AML/CFT State Ordinance and related laws and regulations in this area.

The broadening of the supervisory net also continued in 2017 with the enactment of the State Ordinance on the Supervision of the Securities Business and the amendment to the State Ordinance on Money Transfer Companies extending the scope to money exchange offices. In addition, some other legislative proposals that also will expand the CBA's supervisory mandate in the area of market conduct are in the legislative pipeline, including but not limited to a legislative proposal to regulate consumer credit and a proposal to introduce a deposit insurance scheme.

In 2017, as in previous years, the CBA continued its efforts to strengthen the regulatory framework by issuing new or revised guidelines. Below follows a brief overview of the main changes made or initiated in 2017 with regard to the regulatory framework.

1. *Increase of the minimum solvency requirement for credit institutions*

As of January 1, 2017, the CBA increased the minimum solvency requirement for banks from 14 percent to 16 percent. This increase was considered necessary in light of the one-sided economy of Aruba, as well as the Basel III standards issued by the Basel Committee on Banking Supervision setting higher capital and liquidity requirements for banks.

2. *Increase of the minimum prudential liquidity ratio for credit institutions*

In line with the Basel III standards, the decision was made by the CBA to gradually increase the minimum prudential liquidity ratio from 15 percent to 20 percent over a period of three years, starting January 1, 2018.

3. *Publication of a policy paper on Technology Risk Management for Credit Institutions*

In December 2017, the CBA issued for consultation a draft policy paper on technology risk management for credit institutions. This policy paper sets out risk management principles and best practice standards on the management of technology risks. The final policy paper was released in March 2018 and entered into force on July 1, 2018, with a transitional period of twelve (12) months to comply with this policy guideline.

4. *Issuance of a cross-sectoral policy paper on Risk Management for Outsourcing Arrangements*

In July 2017, a draft cross-sectoral policy paper on risk management for outsourcing arrangements was distributed for consultation. This draft 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 the materiality of, the outsourcing arrangements. The final policy paper was issued in March 2018 and became effective on July 1, 2018, with a transitional period of twelve (12) months.

To conclude, the strict and consistent enforcement of the supervisory and AML/CFT laws and regulations over the years has contributed to maintaining a stable, reputable, and healthy financial system in Aruba. Also, much work has been done to strengthen the financial sector supervision architecture, also with a view to meeting on an ongoing basis the international standards in the area of financial sector supervision.

The FINANCIAL SECTOR SUPERVISION REPORT 2017 is available on the website of the CBA www.cbaruba.org as from today.