

Opening Address by the Minister of Finance, Economic affairs and Culture, the Honorable Mrs. Xiomara Ruiz Maduro, on the occasion of the XXXVII Annual Conference of the Caribbean Group of Banking Supervisors held in Aruba on June 13 - 14, 2019

Madam Chair of the CGBS,
Distinguished speakers and delegates,
Executive Management and staff of the CBA,
Ladies and gentlemen,

It gives me great pleasure to welcome you to the XXXVII (37th) Annual Conference of the Caribbean Group of Banking Supervisors hosted by the Central Bank of Aruba, which has as a central theme: “The Modern Supervisor: Retooling Supervisory Approaches in a Dynamic Financial Environment”. An excellent theme in my opinion in view of the very rapid changes in the financial industry and the regulatory and supervisory challenges these changes bring with them.

Let me start by providing you with some general information on Aruba and its economy as well as our legal and regulatory framework with respect to the financial sector. Thereafter, I will share with you my reflections on some of the topics that will be discussed today and tomorrow.

Aruba is situated near the coast of Venezuela and has about 110,000 inhabitants. Dutch and Papiamentu are the official languages, while English and Spanish are spoken widely. On January 1, 1986 Aruba obtained its “Status Aparte”. As a result, Aruba became an autonomous country within the Dutch Kingdom.

Aruba enjoys one of the highest GDP per capita in the Region and has a very stable political and economic climate. The Aruban florin

is pegged firmly to the US dollar, the currency of our main trading partner, against a fixed exchange rate of Afl. 1.79. This currency peg has served Aruba extremely well and is also the cornerstone of the Central Bank of Aruba's monetary policy.

With the closing of the oil refinery a few years ago, our economy has become even more dependent on tourism. About 87 percent of the economy depends directly or indirectly on tourism, while most of our tourists originate from the USA. Therefore, our economy is highly dependent on the economic developments in the USA. The closing of the oil refinery has renewed a sense of urgency to broaden our economic base. With this in mind, the Government of Aruba - with input from the private sector - has identified possible new growth pillars to reduce the dependency of our economy on basically one single sector, that sector being the tourism industry.

The Central Bank of Aruba, established in 1986, is the designated authority for supervising the financial sector and overseeing compliance with the AML/CFT laws and regulations that encompasses not only financial institutions, but also the so-called designated non-financial businesses and professions (DNFBP's). At present, the Central Bank of Aruba is entrusted with the supervision of banks, insurers, company pension funds, trust companies, money transfer companies, and investment companies. The DNFBP sector comprises around 400+ companies, including but not limited to casinos, real estate brokers, jewelers, car dealers, notaries, lawyers, tax advisors and accountants. In its relatively short existence, the Centrale Bank van Aruba has been able to establish an excellent track-record and maintain a very sound and stable financial sector. A reputation confirmed in the recently issued Article IV consultation report of the IMF on Aruba, that was released early this month, in which the following is stated: "Banks remain sound and liquid under a solid supervisory and regulatory framework."

Let me now move on to sharing my reflections with you on some of the topics included on the agenda.

As you all know, the digitization of the banking industry is moving at a very fast pace globally and will continue to reshape this industry. New players, bringing new technologies and innovations in products and distribution channels to the table, especially in the payments area, will sooner or later also disrupt the traditional banking structures in our markets. The use of internet and mobile banking also are on the rise in this region, perhaps at a slower pace than in the more advanced economies, but they surely are getting more traction. Also from a cost perspective, banks are intensifying their efforts to move their clients away from their physical environment to their virtual banking space.

Interestingly, in this regard, the commercial banks in Aruba decided last year to abandon cheques completely, mainly because they considered this payment instrument inefficient and too costly. Also noteworthy is to remark that the CBA is working jointly with the commercial banks to modernize the payments system in Aruba. My Government fully supports this initiative, which also forms part of the overarching aim of the Government of Aruba to move to E-Government in the years ahead.

It seems more realistic today than 5 years ago to assume that banks in the current form will disappear in the maybe not so distant future as new players, technologies and innovations make the traditional banking structures highly inefficient and, thus, costly. The concept of full service physical branches likely will disappear. The traditional banks coping with legacy systems have a huge competitive disadvantage compared to the “new kids on the block”. The fintech companies as well as the big tech companies like Apple, Google, and Alibaba are providing electronic instant payment services through internet and mobile phone apps at very

low cost outcompeting the traditional banks. The new players, new technologies, and the swift innovations in payment and other banking services require an appropriate regulatory and supervisory response with the overarching goal of maintaining a safe and sound financial system.

As regulators and supervisors you are faced with the necessity of re-tooling supervisory approaches to deal with the many challenges arising from the dynamic environment. In this regard, and rightly so, the conference agenda gives ample attention to the topic of cybersecurity. It is worth mentioning that in 2018 the Central Bank of Aruba issued a policy paper in the area of technology risk management for banks, which also touches on the topic of cybersecurity and that the Central Bank of Aruba also has plans to strengthen its IT-oversight. The hiring of additional IT-specialists is underway in this regard. Notwithstanding the difficulty of finding and retaining highly qualified staff in in this area, it is a road we as supervisors have to follow to manage the ever increasing IT- and cyber security risks we face. We as a region are not immune to cybercrime. The banks in our Region will have to continue to invest in the security of their IT systems to protect themselves and their clients using their electronic banking services against cybercrime. It is also imperative that banks have contingency plans in place to resume operations as quickly as possible if hit for example by a DDOS attack or malware. These contingency plans should be tested regularly to ensure that they work if a calamity occurs.

Another major challenge that we face as a Region is to comply on an ongoing basis with the AML/CFT standards issued by the FATF. Compliance with the FATF standards is also necessary to mitigate the risk of being “de-risked”. 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. The loss of correspondent banking relationships in this Region has been one of the highest according to the IMF publications in this area. The perception of some correspondent banks is that the laws and regulations in our Region are more lax than for example in the United States or Europe and that they are not enforced appropriately. This perception is certainly not accurate for Aruba. Although the loss of correspondent bank relations is not much of an issue for the Aruban banks so far, the Central Bank of Aruba is closely monitoring the developments in this area. It also must be mentioned in this regard that the AML/CFT laws and regulations in Aruba are very strict and broadly meet the FATF standards, although in some areas improvement is necessary and work is being undertaken to address this need. Furthermore, the Central Bank of Aruba applies a zero tolerance policy when serious breaches are found at the institutions supervised for AML/CFT during the onsite examinations carried out by the Central Bank of Aruba. Significant penalties are imposed in such cases. Aruba's strict AML/CFT laws and regulations together with the very strict enforcement of these laws and regulations have undoubtedly played a role in preventing banks in Aruba being de-risked. Note also that most of the banks in Aruba are subsidiaries or branches of large international Canadian banks.

I would now like to offer some concluding remarks.

I have reviewed your busy agenda and must compliment you. The topics chosen are very relevant and timely and will undoubtedly lead to interesting discussions. Meetings like these are instrumental in keeping abreast of the developments that are taking place in the international and regional financial architecture and the global regulatory and supervisory landscape, exchanging ideas and views on important supervisory topics, gaining a deeper understanding of the sometimes very complex standards issued by the international standard-setting bodies like the Basel Committee on Banking

Supervision, and, very important, coming up with proposals to translate these standards in laws and regulations that fit our jurisdictions.

It is important for us as a region that we continue the dialogue with the standard-setting bodies and that we create a better understanding of our financial markets and the way we regulate and supervise them. In this respect, the Caribbean Group of Banking Supervisors should continue to play a leading role in bringing the Caribbean perspective under the attention of the different international forums.

I wish you all a very fruitful meeting and sincerely hope that you will have a chance to join the sightseeing tour organized by the Centrale Bank van Aruba on Saturday and enjoy our first class hospitality.

Aruba, June 13, 2019