1. Introduction

Since the establishment of the Financial Stability Forum by the G-7 countries in February 1999, the attention on offshore financial centers has revived, due to concerns about their implications for international stability, integrity, and cross-border fiscal competition. In the ensuing discussions Aruba is often labeled as a significant offshore jurisdiction, where little or no attempt is made to adhere to acceptable supervisory and tax standards.

In this article I will briefly deal with the question if and to what extent the indicated perceptions are correct. However, first a few basic facts about Aruba. This small Caribbean island (77 square miles) is located near the coast of Venezuela and has about 100,000 inhabitants. The labor force is relatively well educated. Papiamento is the native language, while Dutch is the official one. English and Spanish are also widely spoken. The transportation and communication facilities to the rest of the world are well organized.

On January 1, 1986 Aruba obtained the status of autonomous country within the Kingdom of the Netherlands. The institutional and political systems are based on the principles of the Dutch parliamentary democracy. The Governor, as the representative of H.M. the Queen, is the head of state. Aruba’s geographic location, as well as the stable social-economic, judicial, and political conditions are attractive to foreign investors.

The economy is mainly tourism-driven. About one million tourists (of which 300,000 cruise passengers) are welcomed annually. Most visitors are from the United States, which is Aruba’s major trading partner. The domestic product amounts to approximately US$ 1.8 billion, and the GDP per capita of US$ 19,000 is one of the highest in the region. In recent years, growth rates have stabilized at around 3 percent. Inflation is roughly in line with that of the US, while unemployment is very low.

The local currency, the florin, is issued by the Centrale Bank van Aruba ("the Bank"). It is pegged to the dollar at an exchange rate of AFL 1.79. Aruba’s international reserves are currently equivalent to an ample 5 months of merchandise imports (excluding oil for refinery-related activities). Six relatively small onshore commercial banks (with an aggregated balance sheet totaling US$ 2.2 billion as per the end of 1999), and a few specialized financial institutions are operating on the island.

The Government shows some interest in developing the offshore sector as a mean to diversify the economy. So far, the results of these endeavors are very modest due to the fierce competition of other jurisdictions, the negative publicity, and institutional and legal constraints. To cope with these problems, the Aruban Financial Center was established in 1996 and a High Commissioner appointed. He, inter alia, supplies international financial service providers with information on Aruba, and acts as an advisor to the Government. His aim is to attract high quality financial institutions, in particular mutual funds, captive insurance, finance, leasing, and e-commerce businesses. Simultaneously, the process of implementing the required legislation and regulations has been accelerated.
2. Credit institutions

Presently, there are only two offshore banks registered in Aruba. Their balance-sheet total amounts to US$ 1.9 billion. Both are affiliated with the Citibank (established in the US), and are subject to consolidated supervision by the relevant authorities in that country. The offshore banking sector is negligible by international standards. Illustrative is that IMF estimates indicate that cross-border assets of selected offshore banks reached a level of US$ 4.6 trillion at the end of June 1999. Thus, Aruba’s share in these assets is negligible.

In May 1998, a new State Ordinance on the supervision of the credit system was enacted. This ordinance, which is largely based on the corresponding Dutch act, meets international standards set by the Basle Committee on banking supervision and provides the Bank with a solid legal basis for supervising both domestic and offshore credit institutions. Periodic onsite examinations and continuous offsite surveillance are conducted to monitor compliance with supervisory laws and regulations. During an onsite examination important risk areas are evaluated.

3. Non-credit institutions

Besides the two banks, there are some 5,000 other offshore entities registered in Aruba. The majority of these entities has the legal status of an "Aruba Exempt Company" (AEC), a zero-tax vehicle. There is also a 3 percent-tax vehicle, the so-called “Offshore N.V.” In response to international concerns, in particular that of the OECD, the Minister of Finance has recently declared that he is prepared to, in principle, gradually eliminate any harmful tax practices, including discrimination between residents and nonresidents.

The AEC was introduced in 1988. In essence, it has the same features as the well-known International Business Corporation (IBC). The AEC is equally subject to liberal administrative procedures, but is not allowed to operate as a credit institution. The direct contribution of these entities to Aruba’s gross domestic product and government revenue is marginal (both below one percent).

Offshore vehicles are created for nonresidents for tax and estate planning, and investment activities. A few internationally active banks use the AEC as an administrative unit for intercompany financial transactions. Statistics published in the BIS Quarterly Review of February 2000, indicate that less than 0.003 percent of the outstanding international debt securities originates from offshore group finance vehicles established in Aruba.

Initiatives are under way to improve the supervisory framework for the non-bank sectors. On short-term, a State Ordinance on the supervision of insurance companies will be implemented. This ordinance will provide the Bank with tools to adequately supervise domestic and offshore insurance companies. Presently, only resident life insurance companies are supervised on the basis of a gentlemen’s agreement.

Furthermore, the State Ordinance on the supervision of trust companies is currently in the legislative process. The High Commissioner will be responsible for its execution. Under the new
law, these companies will be brought under a licensing system and will have to comply with the ensuing requirements. If there is a need, onsite examinations may be conducted. Moreover, annual statements should be prepared by an external auditor with a CPA- (or Dutch equivalent Registeraccountant) degree, basically stating that the trust companies have kept complete records of their clients (including the ultimate beneficiary owners) and that sound know-your customer policies are implemented. Non-compliance herewith may lead to withdrawal of the license.

4. Maintaining integrity of the financial system

In the forthcoming law on the supervision of trust companies, integrity aspects will prevail in contrast to the law applicable to credit institutions where prudential considerations are more dominant. During onsite examinations, the Bank tests compliance with its anti-money laundering directives, as well as with the State Ordinances on reporting unusual transactions and on identification for rendering financial services, which are largely based on the corresponding Dutch acts. Inter alia, commercial banks and money transaction companies are presently also required to report unusual and suspicious transactions to a special reporting center established in 1997, the so-called “Meldpunt Ongebruikelijke Transacties” (MOT). In general, the anti-money laundering controls in the banking sector are satisfactory.

In line with recommendations of the Financial Actions Task Force on money laundering (FATF), soon effective supervisory arrangements will be implemented with respect to certain vulnerable non-bank sectors, i.e., the insurance, the offshore and the free-zone sectors. Furthermore, the State Ordinance on the import and export of cash has recently been approved by Parliament. According to this ordinance, all persons entering or leaving Aruba should declare cash in excess of US$ 10,000 at the Customs. Non-compliance herewith may lead to criminal prosecution.

5. Concluding remarks

The wide-spread perception, referred to in the introduction of this article, that Aruba is a significant offshore center, where little or no attempt is made to adhere to international supervisory and tax standards, is over-simplified. Only two US-based offshore banks are registered in this country, which are supervised by the Bank, as well as, on a consolidated basis, by their home country authorities. In addition, there are 5,000 other vehicles, which are established on the island mainly for tax purposes. Overall, the importance of Aruba’s offshore sector is currently relatively insignificant, both in terms of its contribution to the gross domestic product and to government revenue, as well as in relation to the magnitude of worldwide financial flows.

In recent years decisive progress has been made to implement laws to comply with international supervisory and integrity standards. For the banking sector such laws are already in place and the actual supervision on these institutions is well organized. Initiatives are under way to also adequately supervise vulnerable non-bank sectors. In this respect, soon three milestones will be reached, i.e., the implementing of laws on the supervision of insurance companies and that of trust companies, and on the obligation to declare im-and export of cash exceeding US$ 10,000 at the Customs. Furthermore, the Government recently announced that it is committed to gradually eliminate internationally harmful tax practices and tax discrimination between residents and nonresidents.
In conclusion, it may be stated that, despite the current rather small size of the offshore sector in Aruba, the authorities have been paying much attention to enhance supervisory and regulatory arrangements. This is done to maintain financial stability and integrity, to foster fair cross-border competition, and to improve the country’s reputation abroad. Aruba’s policy is focussed on stimulating reputable and high quality businesses, in accordance with the generally accepted codes of conduct and best practices.

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