FINANCIAL SECTOR SUPERVISION REPORT 2020

Centrale Bank van Aruba

Cover design: “The wings of the pelican”. The carrying wings of the pelican, able to react quickly and with precision to new circumstances. Illustrating the challenges of a small Island economy in fluctuating times.

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

PREFACE

We hereby present the Financial Sector Supervision Report 2020 prepared by the Centrale Bank van Aruba (CBA). This is the ninth of these reports, which started in 2012. The purpose of the report is twofold. First, the report complies with the legal requirement for the CBA to 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] Second, this report provides stakeholders and the general public with useful information on the prime activities of the CBA in the field of prudential and integrity supervision, the enforcement thereof, and the changes in the international and domestic regulatory and supervisory landscape, as well as a brief analysis of the main developments in the financial sector during 2020. In this report, we focused mainly on the developments in the financial sector that took place in 2020, a year dominated by the COVID-19 pandemic and its immense negative impact on the economy of Aruba.

Similar to governments in other countries, the Government of Aruba (GOA) had to undertake draconian measures to reduce the risk of a widespread outbreak of the virus. In consideration of the potential huge effect of these actions on the economy and the financial sector, the CBA acted swiftly to implement several measures in the monetary, prudential, and foreign exchange domains to quickly increase the commercial banks' free liquidity and loss-absorption capacity, and at the same time to protect the international reserves.

An additional goal of the actions taken by the CBA to combat the economic effects of COVID-19 was to ensure that the commercial banks would be able to continue lending under stressed conditions, thereby mitigating the risks of the economy coming to a complete standstill. The commercial banks have weathered the COVID-19 pandemic remarkably well so far. Despite the considerable losses incurred due to the significant provisions the commercial banks had to establish against the (potential) losses on their loan portfolio, the banks, on aggregate, remained profitable while the ample capital and liquidity buffers stayed at a satisfactory level. However, at the time of writing this report, much uncertainty still exists on the ultimate impact of the COVID-19 pandemic on the Aruban economy if a prolonged and deeper-than-expected economic downturn occurs and the subsequent effects on the financial sector for the current and the coming years.

In 2020, the CBA conducted stress tests to assess the possible effect of the pandemic on the capital and liquidity of the commercial banks under some high-stress scenarios. The results showed that this effect may be very significant in the different scenarios conducted. However, the ample capital and liquidity buffers and the temporary softening of the prudential requirements provide the banks with more than sufficient room to weather this unprecedented economic storm. The COVID-19 pandemic has shown clearly the importance of having large capital and liquidity buffers in place to navigate through unprecedented times experiencing now. Paragraph 3.2.1 provides further details on the measures the CBA took in connection with the COVID-19 pandemic in 2020.

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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
ACAMS	Association of Certified Anti-Money Laundering Specialists
ACSS	Association of Certified Sanctions Specialists
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 Handbook	Handbook for the Prevention and Detection of Money Laundering and 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
ASD	Annual Statistical Digest
CAR	Capital Adequacy Ratio
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBCS	Centrale Bank van Curaçao en Sint Maarten (the Central Bank of Curaçao and Sint Maarten)
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CGBS	Caribbean Group of Banking Supervisors
DNB	De Nederlandsche Bank N.V. (The Dutch Central Bank)
DNFBPs	Designated Non-Financial Businesses and Professions
EML	Enforcement, Market Entry & Legal Advisory Department
FATF	Financial Action Task Force
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
GOA	Government of Aruba
IAA	Insurance Association of Aruba
IAIS	International Association of Insurance Supervisors
ICBS	International Conference of Banking Supervisors
IMF	International Monetary Fund
ISD	Integrity Supervision Department
Ltd	Loan-to-deposit ratio
MLCO	Money Laundering Compliance Officer
MLRO	Money Laundering Reporting Officer
ML/TF	Money Laundering and Terrorist Financing
MoU	Memorandum of Understanding
(M)MoU	Multilateral MoU
NRA	National ML/TF Risk Assessment
PEP	Politically Exposed Person
PLR	Prudential Liquidity Ratio
PSD	Prudential Supervision Department
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
TSPs	Trust Service Providers
VA	Virtual Assets
VASP	Virtual Assets Service Providers
WB	World Bank

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Chapter 1

The supervisory mandate and achievements in 2020 at a glance

The CBA is the sole supervisory authority 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 (TSPs), 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., TSPs, lawyers, civil notaries, tax advisors, accountants, jewelers, car dealers, real estate brokers, and casinos.

In 2016, the CBA launched 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 have been set out 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).

[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.

Figure 1.2 illustrates the components related to Strategic objective II.

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

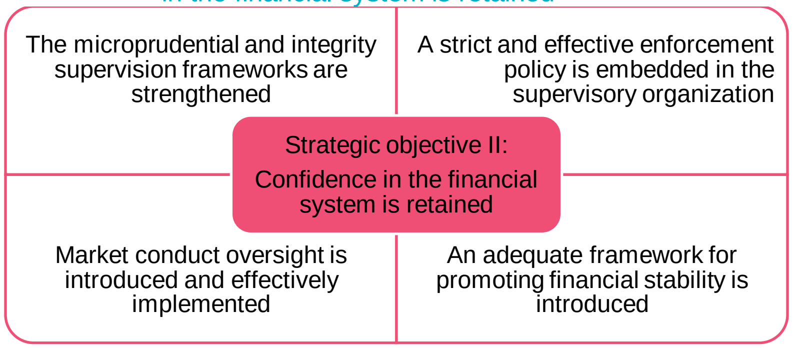


Figure 1.3 highlights the most important achievements in 2020 in the areas of prudential supervision, integrity supervision, and enforcement, market entry and legal advisory, which contribute to the accomplishment of Strategic objective **II**.

Figure 1.3: Overview of the major achievements in key supervisory areas in 2020

Prudential Supervision

- Conducted 11 (remote) onsite examinations primarily in the areas of corporate governance, risk management and controls, as well as the assessments on the impact of the COVID-19 pandemic on the loan portfolio, the provisioning, solvency, and liquidity of the commercial banks;
- Executed stress tests on the commercial banking sector to assess the potential impact of the COVID-19 pandemic under different scenarios;
- Held panel sessions to discuss the assigned internal risk ratings of each credit institution, insurance company, and company pension fund.

Integrity Supervision

- Conducted 19 (remote) AML/CFT onsite examinations;
- Organized two information sessions for financial institutions and DNFBPs;
- Coordinated the National ML/TF Risk Assessment (NRA);
- Implemented a revised AML/CFT Handbook;
- Undertook preparatory work in connection with the upcoming Caribbean Financial Action Task Force (CFATF) evaluation.

Enforcement, Market Entry and Legal Advisory

- Issued 14 dispensations to insurance brokers to conduct brokerage services for insurance companies not established in Aruba;
- Granted dispensations to three persons to act as sales agents for an insurance company established in Aruba;
- Imposed 12 formal measures: eight administrative fines, three directions, and one penalty charge order;
- Initiated the drafting of a proposal to harmonize the sectoral supervision ordinances.

Chapter 2

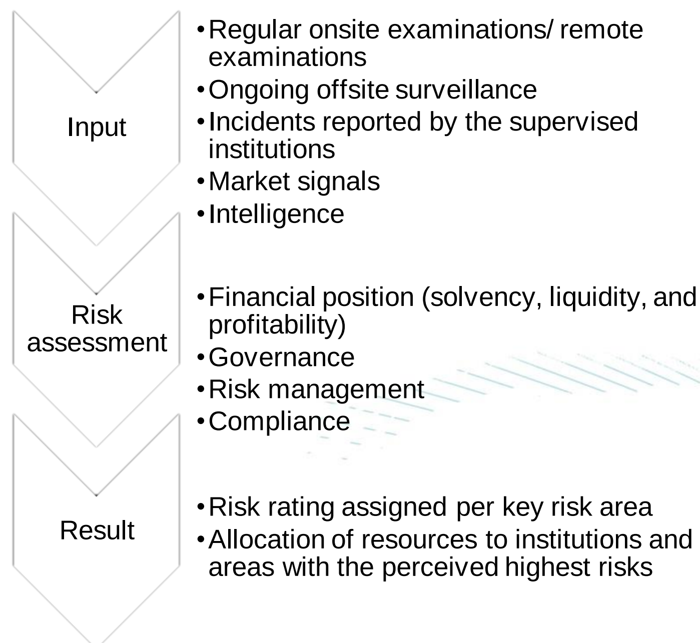
Supervisory approach

Over the years, the CBA has shifted from a compliance-oriented approach to a risk-based supervisory approach, thereby allocating its 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.

In 2017, the CBA established a risk-based supervision framework for the credit institutions, insurance companies, and company pension funds (see Figure 2.1). Since 2019 panel sessions have been held internally to discuss the results of the risk assessments performed and approve the internal risk ratings allocated to key risk areas (inter alia, financial position, governance, risk management and internal controls, 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 as identified by these risk assessments.

In 2020, the regular examinations at the supervised financial institutions were performed remotely. The Prudential Supervision Department (PSD) conducted 11 targeted remote examinations in 2020: four at credit institutions, six at insurance companies, and one at an insurance broker. Also, the ongoing offsite surveillance continued, including the desk review of the required periodic financial and regulatory reports filed by the supervised entities. The regular examinations and ongoing offsite surveillance form the main pillars through which the CBA executes its oversight and serve as the primary source of information to feed the risk-based supervisory framework. The remote examinations and offsite activities performed were key to maintaining a close watch on the financial and nonfinancial developments at the supervised institutions, their ongoing compliance with the relevant laws and regulations, the quality of their governance, risk management and internal controls, and, if necessary, taking measures to enforce compliance or implementing swiftly needed improvements in the assessed areas.

Figure 2.1 Key components of the risk-based supervision framework



As part of its AML/CFT supervision, the CBA conducted 19 remote examinations in 2020: 7 at financial institutions and 12 at DNFBPs. The selection of the institutions for the remote examinations was driven mainly by the results of the risk assessments performed on a sectoral or individual level.

Two (virtual) AML/CFT information sessions were held by the CBA during 2020: one for an accountants and tax consultants firm and the other for the representative organization of car dealers. The information sessions focused on transaction monitoring (accountants and tax advisors) and Customer Due Diligence (CDD) (car dealers).

To further enhance the risk-based approach in the area of AML/CFT, the CBA sent questionnaires to the supervised DNFBPs in 2020. The main objective was to obtain up-to-date and detailed information on the AML/CFT framework in place at the different DNFBP subsectors and to obtain a general view on the level of compliance at the different DNFBP subsectors. The responses were analyzed and, subsequently, feedback was given to the sectors. Additionally, the CBA used the information obtained for its AML/CFT risk-based approach.

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 by also investing in ongoing training in all relevant areas. Such trainings are key for maintaining high-quality oversight of the supervised institutions and keeping abreast of relevant developments. Due to the COVID-19 pandemic, most of the trainings and courses attended in 2020 were virtual or via webinars.

In the past few years, more attention has been given to IT Supervision. The CBA considers cyber-crime one of the main risks financial institutions are exposed to. While managing cyber security risks is first and foremost each financial institution’s own responsibility, the IT Supervision unit within the CBA monitors cyber threats that could affect the financial sector. This unit promotes awareness amongst the financial institutions on IT risks (including cyber risks) and also oversees that the financial institutions, in particular, the commercial banks given their provision of critical services, comply with the different guidelines issued by the CBA in this area, including the guidelines contained in the policy papers “Technology Risk Management”, “Business Continuity Management”, and “Outsourcing Arrangements”.

In August 2020, the Financial Stability Institute (FSI) issued a paper offering its insights on policy implementation with respect to the regulation of FinTech financing. Currently, the amount of credit provided by FinTech is still relatively small; however, given the fast pace of technological innovation in the financial services industry, FinTech has the potential to have a major disruptive impact on the global financial sector. The paper recommends that supervisory authorities assess whether their regulatory framework is adequate or needs to be adjusted for FinTech activities. The CBA intends to draft in the near future a vision document on technological innovation in the financial services industry of Aruba, and its possible impact on the way supervision is carried out. The CBA will continue seeking ways to reap the benefits provided by technological innovation in carrying out its supervisory tasks in the most effective and efficient manner possible.

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Chapter 3

Major changes in the legislative and regulatory framework

The CBA underscores the importance of keeping abreast of the ongoing changes in the international regulatory and supervisory landscape to ensure continued compliance with the standards set by the international standard-setting bodies in the areas of regulation and supervision. Below is an overview of the major changes made or proposed to the legislative and regulatory framework in Aruba, with a view to enhancing and strengthening this framework.

3.1 LEGISLATIVE FRAMEWORK

3.1.1 STATE ORDINANCE ON CONSUMER CREDIT

In June 2016, a final draft proposal to regulate consumer credit was submitted to the Minister of Finance. 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 still in the initial stages of the legislative process. It remains important that this legislative proposal is treated with high urgency to protect consumers against unfair and predatory lending practices taking place mainly outside the regulated financial sector.

3.1.2 DEPOSIT INSURANCE SCHEME

In May 2017, a revised legislative proposal for the introduction of a deposit insurance scheme for the domestic commercial banking sector in Aruba was submitted by the CBA to the Minister of Finance. This legislative proposal currently is being reviewed by the legislative department of the GOA. The implementation of a deposit insurance scheme will help protect small depositors as well as help preserve trust in the banking system, thereby contributing to financial stability. A swift introduction of a Deposit Insurance Scheme is envisaged as part of the conditions attached by the Netherlands to provide (further) liquidity support in connection with the economic impact of the COVID-19 pandemic on Aruba.

3.1.3 AML/CFT STATE ORDINANCE

Following the gap analysis conducted vis-à-vis the 2012 Financial Action Task Force (FATF) Standards, the CBA drafted a legislative proposal to address the identified, mostly technical, deficiencies in the AML/CFT State Ordinance. This proposal was submitted to the Minister of Finance in August 2018. Based partly upon this proposal, a draft revised AML/CFT State Ordinance was sent to the Advisory Council in 2020. Subsequently, with due regard to the comments made by the Advisory Council, a somewhat revised draft was presented to Parliament for its review and approval. Implementing this proposal as quickly as possible is extremely important, particularly in light of the upcoming CFATF evaluation.

3.1.4 HARMONIZATION OF THE SECTORAL SUPERVISION LEGISLATION

In 2019, the CBA began a project to harmonize and strengthen the sectoral supervision legislation, i.e., the State Ordinance on the Supervision of the Credit System (SOSCS), the State Ordinance on the Supervision of the Insurance Business (SOSIB), and the State Ordinance on Company Pension Funds (SOCPF). The main purposes of this project are to harmonize the sectoral supervisory Ordinances, which will benefit the proper execution of these Ordinances, update them on the basis of the latest international standards, as well as resolve some of the issues encountered with the execution of these Ordinances due to ambiguities in the current Ordinances. This project is expected to be completed end-2022.

3.1.5 DRAFT STATE DECREE ON SUPERVISORY COSTS DNFBPs

In 2019, the CBA submitted a legislative proposal on the passing on of the supervisory costs related to the execution of the AML/CFT State Ordinance on DNFBPs to the Minister of Finance. Meanwhile, this state decree was discussed in the Advisory Council. After taking into account the advice of the Advisory Council, the CBA sent the draft state decree to the DNFBPs for consultation in September 2020. The comments received are currently being processed.

3.2 REGULATORY FRAMEWORK

3.2.1 PRUDENTIAL LIQUIDITY RATIO AND RISK-WEIGHTED SOLVENCY RATIO FOR CREDIT INSTITUTIONS

In response to the adverse economic and financial developments resulting from the COVID-19 pandemic, the CBA temporarily eased the capital and liquidity requirements applicable to the credit institutions to ensure that the supervised commercial banks can continue their lending activities under stressed conditions. These prudential relief measures went into effect as of March 17, 2020. Reference is made to Table 3.1 below for an overview of the adjusted solvency and liquidity requirements.

Table 3.1: Changes to the prudential requirements in connection with COVID-19

Prudential requirements as of	January 1, 2020	March 17, 2020
CAR[3]	minimum 16 percent	minimum 14 percent
PLR[4]	minimum 18 percent	minimum 15 percent
Ltd[5]	maximum 80 percent	maximum 85 percent

Furthermore, in March 2020 and April 2020, the CBA loosened its monetary policy stance by lowering the reserve requirement applicable to the commercial banks in two phases from 12 percent to 7 percent, thereby injecting approximately Afl. 183 million of free liquidity into the commercial banking sector.

In addition, the CBA amended the regulatory treatment for performing loans that were restructured or for which a general moratorium applied in connection with the COVID-19 pandemic. As of the reporting month of March 2020, the commercial banks were allowed to exclude the period that the moratorium was in effect from the number of days past due for all loans that were restructured or for which a general moratorium applied. Meanwhile, the moratoria had elapsed, and major provisions have been formed against the loans that became nonperforming. However, the ample capital buffers have proven to be more than sufficient to absorb the associated losses incurred by the banks.

Also, the CBA conducted two stress tests to assess the impact of the COVID-19 pandemic on the commercial banking sector under different high-stress scenarios in 2020. The results of both stress-tests show that, while the impact of the COVID-19 pandemic may be very significant, the capital and liquidity buffers of the commercial banks

3 Capital Adequacy Ratio
4 Prudential Liquidity Ratio
5 Loan-to-deposit Ratio

provide ample room to weather this unprecedented economic storm. Furthermore, the COVID-19 pandemic has demonstrated clearly the importance of having high capital and liquidity buffers in place for "black swan" events[6] like the current one, taking into account the one-sided economy of Aruba, which is highly dependent on tourism.

3.2.2 LIMIT ON DEPOSITS HELD AT PARENT OR AFFILIATED ENTITIES

In December 2019, the CBA informed the Aruban Bankers' Association (ABA) of its intention to impose a limit on intragroup deposits to cap the amount that the banks are allowed to maintain at their parent bank or affiliated entities. After consulting with the ABA in 2020, a limit of 10 percent of the sum of Tier 1 + Tier 2[7] capital was set. Any amount above this limit must be deducted from a bank's Tier 1 capital and its available liquidity as of January 1, 2021.

3.2.3 REVISED HANDBOOK FOR THE PREVENTION AND DETECTION OF MONEY LAUNDERING AND FINANCING OF TERRORISM

On January 1, 2020, the revised "Handbook for the Prevention and Detection of Money Laundering and Financing of Terrorism (AML/CFT Handbook)" came into effect. The previous AML/CFT Handbook dated from 2012 and needed updating to capture the latest (inter)national developments and best practices. Also, the scope of the revised AML/CFT Handbook was broadened and now also applies to DNFBPs, as defined in article 1 of the AML/CFT State Ordinance. The main changes include an (overall) more risk-based approach vis-à-vis the requirements of the AML/CFT State Ordinance, detailed guidelines on how to conduct a Business Risk Assessment, additional guidelines with respect to funds transfers, sanctions, terrorist financing, and proliferation financing. The revised AML/CFT Handbook now includes specific risk indicators by sector. Another important change is that, henceforth, the Money Laundering Compliance Officer (MLCO) must be based in Aruba.

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[6] In economic literature, a "black swan" event refers to an unexpected event with a major financial and/or economic impact not foreseen or predicted to actually materialize. It is also widely referred to as the "tail-risk".

[7] Tier 1 capital, also known as the core capital, consists of shareholders' equity and the undistributed profits, while Tier 2 capital, also known as the supplementary capital, consists of the net result of the period, revaluation reserves, the unallocated loan loss provision, and subordinated debt with a remaining maturity of 5 years or more.

Chapter 4

International developments

This chapter describes some significant international developments in 2020 that are considered relevant for Aruba's legislative and regulatory framework.

4.1 INTERNATIONAL MONETARY FUND (IMF): POLICY STEPS TO ADDRESS THE COVID-19 CRISIS

In March 2020, the IMF published a policy paper on steps to address the COVID-19 pandemic. The paper focuses on the monitoring, containing, and mitigating of the effects of the corona virus. Timely and decisive actions by health authorities, central banks, and fiscal, regulatory, and supervisory authorities can help contain the virus outbreak and offset the economic impact of the pandemic. The policy paper encourages central banks to support demand and confidence by preventing a tightening of financial conditions, lowering borrowing costs for households and firms, and ensuring market liquidity. Regulatory and supervisory responses must aim to preserve financial stability and banking system soundness while sustaining economic activity. As previously noted, the CBA has taken swift measures in, amongst other areas, the prudential domain to maintain financial stability.

4.2 INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS (IAIS): USE OF BIG DATA ANALYTICS IN INSURANCE

In February 2020, the IAIS published a paper on issues encountered by insurers as a result of digitalization. Said paper focuses on the use of algorithms and advanced analytics capabilities by insurers to make decisions based on patterns, trends, linkages, and the availability to insurers of new data sources, collectively referred to as "big data analytics". This paper emphasizes the importance of privacy, data protection, and related matters while collecting, using, and processing data. Although the use of big data analytics in the Aruban insurance sector is limited, the CBA finds it important to monitor the developments in this area more closely in the coming years, also with a view to assessing the possibility of using big data technology in its supervisory approach.

4.3 FSI: FINANCIAL TECHNOLOGY (FINTECH)

In August 2020, the FSI issued a paper "Regulating FinTech financing: digital banks and FinTech platforms". The paper explores whether the existing regulatory frameworks are adequate in view of the existing and (potential) upcoming new technology-based business models such as digital banking and crowdfunding platforms in relation to consumer protection, financial stability, and market integrity. The amount of credit provided by FinTech companies is still relatively small; however, given the fast pace of change in technological innovation, FinTech already is disrupting the existing business models within the global financial sector. The CBA will soon draft a vision document on FinTech, with due regard to the disruptive impact FinTech may have on the Aruban financial sector, as well as the supervisory implications of this impact.

4.4 FATF: 'VIRTUAL ASSETS RED FLAG INDICATORS FOR MONEY LAUNDERING AND TERRORIST FINANCING'

In September 2020, the FATF issued its report "Virtual Assets Red Flag Indicators for Money Laundering and Terrorist Financing". This report complemented the interpretive note (issued in June 2019) to Recommendation 15, clarifying how the FATF requirements should be applied in relation to virtual assets (VA) and virtual assets service providers (VASP). The 2020 report identifies red flag indicators that help detect whether VA are possibly used for criminal activity. The objectives of the report are to (i) help the private sector detect and report suspicious transactions, and (ii) provide useful information for financial intelligence units, law enforcement agencies, prosecutors, and regulators to analyze suspicious transaction reports and monitor compliance with AML/CFT controls.

The CBA underscores the importance of having a supervisory framework in place to mitigate the risks associated with VA activities and VASP. With the expected imminent implementation of the legislative proposal to amend the AML/CFT Ordinance, a solid framework will be established to supervise VA and VASP activities for AML/CFT purposes.

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Chapter 5

National and international cooperation

5.1 NATIONAL COOPERATION

In 2020, the CBA continued its periodic meetings (virtually) 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 2020, two bilateral meetings were held between the CBA and the FIU and one 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. Based on the universal “ne bis in idem-principle”, a person cannot be punished twice for the same offence. In these cases, a decision must be taken as to which enforcement route to follow.

In 2020, the Aruban AML/CFT Steering Group met once to discuss AML/CFT-related matters. This group 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 the execution of the laws and regulations in this area.

In 2020, the CBA continued its periodic meetings with the representative organizations of the commercial banks and the insurance companies, i.e., the ABA and the Insurance Association of Aruba (IAA), respectively. In these meetings, relevant supervisory topics, including the NRA, also were discussed.

Furthermore, the CBA met separately with the management of each commercial bank during the periodic bilateral meetings held in June and December 2020 to discuss, inter alia, economic and financial market developments, credit growth, financial projections, as well as the results of the stress tests conducted by the CBA (see also paragraph 6.1).

5.2 INTERNATIONAL COOPERATION

The CBA meets regularly with its counterparts within the Kingdom of the Netherlands, namely, De Nederlandsche Bank N.V. (DNB) and the Centrale Bank van Curaçao en Sint Maarten (CBCS). The Technical Committee of the financial supervisors normally meets three times per year; however, due to the COVID-19 pandemic, no meetings were held in 2020. The CBA’s participation in these meetings is based upon the MoU signed between the parties involved. Annex 4 provides a complete list of the MoUs signed with foreign supervisors.

In 2020, the CBA received nine information requests from foreign supervisory authorities, all of which were responded to within a period of three weeks.

5.3 INTERNATIONAL SUPERVISORY GROUPS

The CBA is a member of various international supervisory groups and participated in different meetings held virtually by these groups throughout 2020:

- Plenary meetings of the Group of International Finance Centre Supervisors (GIFCS)
- Members’ Assembly and XXXVIII Annual Conference of the Caribbean Group of Banking Supervisors (CGBS) (hosted by the CBA)
- Plenary meeting of the FATF
- Several meetings organized by the Group of International Insurance Centre Supervisors (GIICS)
- XXIII Annual Assembly and XV High-level Meeting of the Association of Supervisors of Banks of the Americas (ASBA)
- Plenary meetings of the CFATF

- International Conference of Banking Supervisors (ICBS).

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

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Chapter 6

Prudential supervision

The PSD, with ten full-time staff members at end-2020, is responsible for monitoring the financial soundness of supervised financial institutions, in particular, the 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 assessments of proposed management and supervisory directors), and regular (remote) examinations. In general, with a few exceptions, the supervised institutions remained in compliance with the CBA's prudential requirements during 2020.

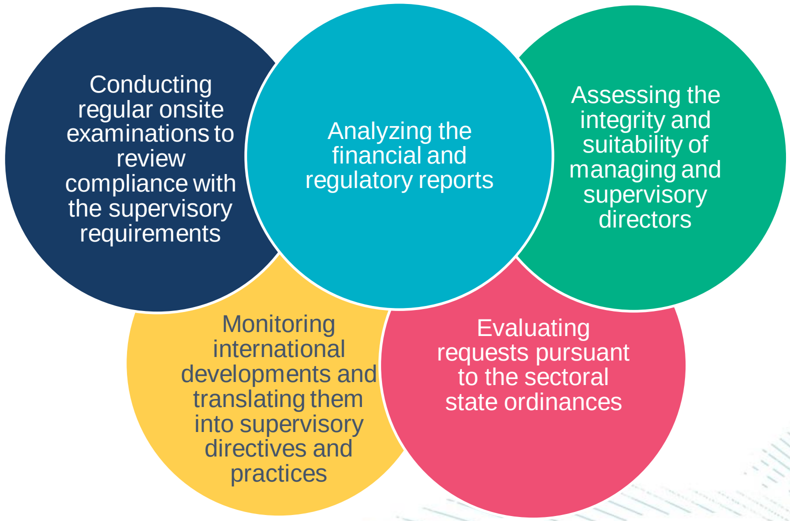
The PSD closely follows international developments in the area of prudential supervision and, insofar as relevant for Aruba, translates these developments into supervisory directives or policy papers. To this end, in 2020, the staff members of the PSD attended several trainings in the area of banking, insurance, and, in particular, on the impact of the COVID-19 pandemic on the financial sector.

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

6.1 OFFSITE SURVEILLANCE

In 2020, as part of its offsite surveillance, the PSD undertook several activities including, inter alia, the analysis of the financial and regulatory reports submitted by the supervised institutions and the evaluation of requests received for approval pursuant to the various sectoral supervisory laws. The latter requests relate mainly to the appointment of key persons and changes of external auditors and actuaries.

Figure 6.1: Tasks and responsibilities of the PSD



In 2020, the PSD received six new requests associated with the appointment of a key person from credit institutions, twenty-one new requests from insurance companies, and six new requests from company pension funds (see also Annex 7).

The CBA also received eight new petitions for a change of external auditor: one from a credit institution, four from insurance companies, two from company pension funds, and one from an insurance broker (see also Table 6.1).

Table 6.1: Petitions for a change in external auditor in 2020

Sector	Credit institutions	Insurance companies	Company pension funds	Insurance brokers	Total
Pending as of January 1, 2020	1	-	1	-	2
New requests	1	4	2	1	8
Withdrawn requests	-	-	-	-	0
Rejected requests	-	-	-	-	0
Approved	1	2	3	1	7
Pending as of December 31, 2020	1	2	-	-	3

In addition, the CBA also received two new petitions for a change in certifying actuary from two company pension funds (see also Table 6.2).

Table 6.2: Petitions for a change in certifying actuary in 2020

Sector	Life insurance companies	Company pension funds	Total
Pending as of January 1, 2020	1	-	1
New requests	-	2	2
Withdrawn requests	-	-	0
Rejected requests	-	-	0
Approved	1	2	3
Pending as of December 31, 2020	0	0	0

In 2020, the CBA decided to adjust its yearly stress-testing exercise on the domestic commercial banking sector in view of the potential risks arising from the COVID-19 pandemic. The banks' resilience was tested against severe shocks as a result of an assumed increase in nonperforming loans. The results show that the impact of the pandemic may be very significant; however, the ample capital and liquidity buffers provide the banks with sufficient room to weather this unprecedented economic storm.

6.2 REMOTE EXAMINATIONS

The PSD conducted eleven targeted remote examinations during 2020, namely, at four credit institutions, six insurance companies, and one insurance broker. At three commercial banks the CBA carried out a thematic review of the banks' decision-making process and reporting of the restructured loans in connection with the COVID-19 pandemic. At one commercial bank, the CBA focused on the bank's risk management process and internal controls. At four insurance companies, the CBA reviewed the adequacy of the corporate governance framework, and at two insurance companies, the CBA centered on reinsurance and the adequacy of the assets to cover the technical provisions. At the insurance broker, the level of compliance with the CBA's directive on Sound Business Operations was assessed.

Table 6.3 provides an overview of the (remote) examinations conducted by the PSD over 2018-2020.

Table 6.3: Remote examinations conducted by PSD in 2018-2020

Sector	2018	2019	2020
Credit institutions	3	3	4
Life insurance companies	2	3	3
Nonlife insurance companies	3	3	3
Company pension funds	1	2	-
Insurance brokers	-	-	1
Total	9	11	11

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 10 contains a breakdown of the supervision costs passed on to the different sectors supervised by the CBA in 2020.

Chapter 7

Integrity supervision

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. At year-end 2020, the Integrity Supervision Department (ISD) consisted of eight full-time staff members. The primary tasks and responsibilities of the ISD are depicted in Figure 7.1.

The ISD continued its efforts to foster compliance via remote examinations and offsite surveillance despite the challenges brought forward by the COVID-19 pandemic. To keep abreast of international developments, its staff attended several virtual trainings in the areas of AML/CFT, e.g., the certification courses of the Association of Certified Sanctions Specialists (ACSS). Furthermore, staff members participated in a number of virtual AML/CFT trainings and conferences organized by the Association of Certified Anti-Money Laundering Specialists (ACAMS) in the areas of, amongst others, cryptocurrency and Trade Based Money Laundering.

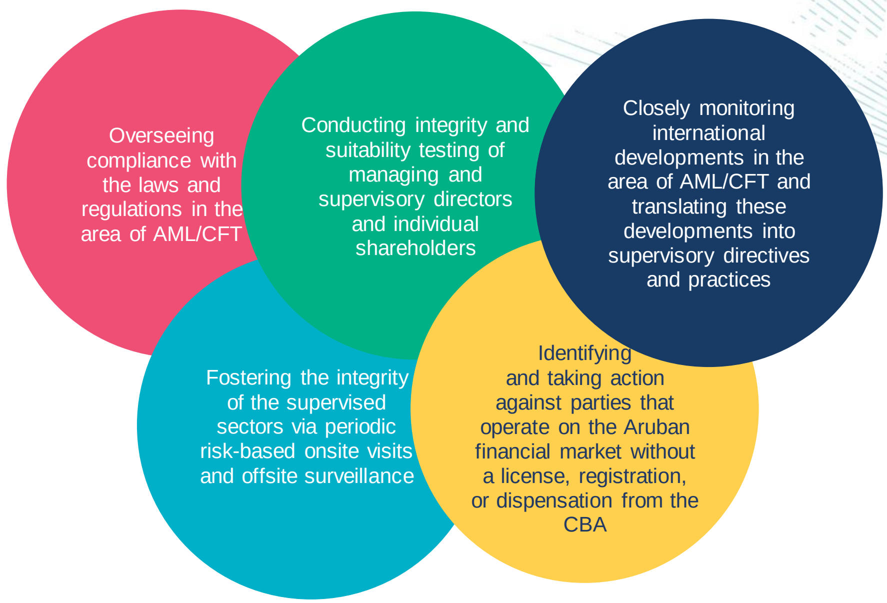
7.1 OFFSITE SURVEILLANCE

In 2020, the ISD undertook several activities as part of its offsite surveillance. In the first quarter of 2020, a follow-up AML/CFT survey was carried out among accountants, car dealers, real estate agents, jewelers, and tax advisors on the key requirements of the AML/CFT legislation. These requirements include conducting a Money Laundering and Terrorist Financing (ML/TF) risk assessment, having AML/CFT policies and procedures in place, appointing an MLCO and a Money Laundering Reporting Officer (MLRO), organizing AML/CFT training programs for staff members, and CDD. The survey was organized to assess any improvement in the aforementioned sectors' AML/CFT frameworks compared to the results of the 2019 survey, which revealed a low level of compliance with the statutory and regulatory requirements of the AML/CFT legislation.

Analysis of data from the 2020 questionnaire demonstrated significant improvements. The key results were communicated by letter to the respective DNFBPs (by sector). The data gathered through the survey provided the CBA with valuable information, which, inter alia, also feeds the CBA's AML/CFT risk-based approach.

Furthermore, in 2020, the CBA began projects on the topics of Terrorist Financing, Human Trafficking, and Politically Exposed Persons (PEP). For the Terrorist Financing and Human Trafficking projects, questionnaires were sent to the commercial banks and money transfer companies. For the PEP project, only the commercial banks were surveyed. These projects will be continued in 2021.

Figure 7.1: Primary tasks and responsibilities of the ISD



7.2 REMOTE EXAMINATIONS

ISD conducted nineteen (remote) examinations in 2020: seven examinations were performed at financial institutions, namely, three commercial banks, one life insurance company, one insurance broker, one pawnshop, and one money transfer company. 12 examinations were conducted at DNFBPs: one lawyer, one casino, six car dealers, one jeweler, and three real estate companies (see also Table 7.1).

Table 7.1: Remote examinations conducted by ISD in 2018-2020

Sector	2018	2019	2020
Credit institutions	4	6	3
Life insurance companies	-	-	1
Insurance brokers	-	-	1
Company pension funds	-	-	-
Pawnshops	-	-	1
Money transfer companies	2	-	1
Trust service providers	2	3	0
DNFBPs	17	13	12
Total	25	22	19

Based on ISD's AML/CFT risk-based approach and the areas of concern identified, the remote examinations in 2020 focused, inter alia, on ongoing monitoring, unusual transaction reporting, and CDD.

The remote examinations revealed multiple breaches of the AML/CFT State Ordinance with respect to, among other things, CDD (including transaction monitoring) and the (timely) reporting of unusual transactions to the FIU. Also detected were breaches of the SOSIB, the State Decree on the Supervision of Insurance Brokers (SDSIB), and the Directive on Sound Business Operations. A comprehensive overview of the breaches identified is provided in Annex 8. The findings of the onsite examinations are communicated in writing to the institutions. Institutions are given a reasonable timeframe to take remedial actions. In case of more severe findings, formal measures are taken (see Chapter 8).

7.3 INFORMATION SESSIONS HELD FOR SUPERVISED INSTITUTIONS

Two (virtual) AML/CFT information sessions were held by the CBA during 2020, one for an accountant firm and one for the representative organization of car dealers. The information sessions were organized in response to the firms' requests for guidance on specific topics.

Table 7.2 provides an overview of the topics discussed during the information sessions held in 2020.

Table 7.2: Information sessions 2020

Month	Topics discussed	Sector
October	Transaction monitoring	Accountants and Tax Consultants
December	Customer Due Diligence	Car Dealers

7.4 NATIONAL ML/TF RISK ASSESSMENT

To obtain a better understanding of the ML/TF risks faced at a national level and also in compliance with the FATF Standards, an NRA was started in October 2018. This NRA is based on a methodology and tool developed by the World Bank (WB). The model enables countries to identify the main drivers of ML/TF risks. It provides a methodological process, based on the understanding of the causal relationships among money laundering risk factors and variables relating to the regulatory, institutional, and economic environment. The tool comprises nine interrelated modules. These modules are built on "input variables", which represent factors related to ML/TF threats and vulnerabilities. ‘Threats’ go into the scale and characteristics of the proceeds of crime or financing of terrorism in the country. ‘Vulnerabilities’ cover weaknesses or gaps in a country’s defenses against money laundering and terrorist financing. Threats and vulnerabilities may exist at the national or the sector level.

The modules in the WB’s tool make it possible to assess ML/TF risks. The tool is centered around seven modules that focus on the money laundering risk assessment, plus a module to assess the risk of terrorism financing and a module to measure the risks of financial inclusion products. Taken together, these nine modules provide a systematic approach to analyze a country’s ML/TF threats and vulnerabilities.

In Aruba’s case, the NRA was completed by five different working groups: (1) threats; (2) vulnerabilities; (3) banking; (4) other financial institutions; and (5) DNFBPs. The CBA not only acted as the project leader and coordinator for the NRA, but it also chaired two of the working groups: (1) banking, and (2) other financial institutions. Additionally, the CBA participated in the three other working groups.

During 2020, the CBA coordinated the drafting of the NRA report of findings. In December 2020, the final report was presented to the Prime Minister for approval, which was done on February 19, 2021. A summary of the NRA report was published by the GOA on March 23, 2021, and also can be found on the website of the CBA. Aruba will use the results of the NRA to enhance its AML/CFT framework.

7.5 PASSING ON OF THE SUPERVISORY COSTS

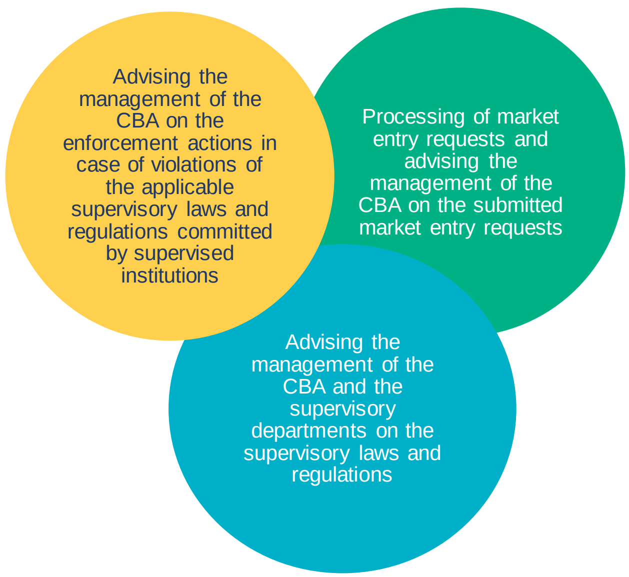
Pursuant to the various sectoral state ordinances and state decrees, the CBA may pass on the incurred supervision costs, in full or in part, to the supervised entities. Annex 10 contains a breakdown of the supervision costs passed on to the different sectors supervised by the CBA in 2020.

Chapter 8

Enforcement, Market Entry, and Legal Advisory

The Enforcement, Market Entry, & Legal Advisory Department (EML) consists of three staff members. EML works closely with the PSD and ISD on enforcement and market entry matters; it monitors international standards and best practices in the area of enforcement and market entry and, insofar as these are relevant for Aruba, translates its findings into policy proposals. In addition, EML also fulfills the role of internal legal adviser to the CBA in the field of supervision and enforcement in particular. The primary tasks and responsibilities of EML are presented in Figure 8.1. This chapter elaborates on the activities carried out by EML in 2020.

Figure 8.1: Primary tasks and responsibilities of EML



8.1 ENFORCEMENT

In 2020, 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 identifies a situation of noncompliance with the applicable supervisory laws and regulations, informal (a normative conversation or a written warning) or formal measures are considered. The decision whether to apply informal or formal measures depends, amongst other things, on the seriousness of the case. The CBA's enforcement policy can be found on its website: www.cbaruba.org.

The formal measures that the CBA can take include the following:

- issuing a formal direction;
- imposing a penalty charge order and/or an administrative fine;
- declaring that an auditor or actuary is no longer authorized to certify the annual filings of a credit institution, an insurance company, a money transfer company, or a company pension fund;
- appointing a silent receiver in the case of a credit institution, an insurance company, or a company pension fund;
- filing 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;
- requesting the Court of First Instance to appoint an administrator in the case of a company pension fund; and
- Revoking the license or cancelling the registration.

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

Annex 9 provides an overview of the number of formal measures taken per (sub)sector during the period 2018-2020 for noncompliance with the sectoral supervisory State Ordinances or the AML/CFT State Ordinance.

8.2 MARKET ENTRY

Companies wishing to enter Aruba's financial market require permission to do so via a license or registration. They can submit a request to the CBA. The EML department then checks on the basis of the application whether all entry requirements have been met and the license can be granted or whether the registration can take place. In 2020, the CBA received and processed the following requests in the area of market entry:

- 14 petitions from insurance brokers for an exemption to act as intermediaries for insurance contracts with foreign insurance companies not in the possession of a license from the CBA; and
- 3 petitions for a dispensation to act as an insurance sales agent.

Furthermore, the CBA received four petitions from casinos to be registered as a money exchange company in 2020. By December 31, 2020, these were all still in process. The CBA also obtained requests concerning a change in the qualifying holding of one insurance company and one credit institution (see Annex 6).

Furthermore, the licenses of one insurance company (AIG Insurance), one credit institution (Citibank Aruba), and one insurance broker (Windward Insurance Solutions) were withdrawn upon their request, while the registration of one money exchange service provider (Global Exchange Aruba) was cancelled (as the company concerned did not become active after being registered), and the dispensations of one sales agent and one pawnshop were withdrawn upon their request. Reference is made to Table 8.1.

Table 8.1 Revoked licenses, cancelled registrations, and withdrawn dispensations in 2020

	Register	Registration cancelled	License revoked	Dispensation withdrawn
Global Exchange Aruba N.V.	Money Transaction Company	January 30	-	-
Citibank Aruba N.V.	Credit Institution	-	February 7	-
Aruba AIG Insurance N.V.	Insurance Company	-	February 12	-
Ms. Lydia Ramirez Velasco Pena	Sales Agent	-	-	March 24
Windward Insurance Solutions N.V.	Insurance Broker	-	April 1	-
't Juwelenhuisje N.V.	Pawnshop	-	-	April 21

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Chapter 9

Key financial developments

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

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

Number of supervised institutions within the banking sector	2018	2019	2020
Total	11	11	10
Commercial banks	5	5	5
International banks	1	1	0
Bank-like institutions	3	3	3
Credit unions	2	2	2

Number of supervised institutions within the insurance sector	2018	2019	2020
Total	22	22	21
Nonlife insurance companies	12	12	11
Life insurance companies	6	6	6
Captive insurance companies	4	4	4

Number of supervised institutions within the pension fund sector	2018	2019	2020
Company pension funds[8]	8	8	8

Source: CBA.

9.1 BANKING SECTOR

As depicted in Table 9.1, the number of credit institutions supervised by the CBA decreased to ten at year-end 2020. In 2019, the shareholder of Citibank Aruba N.V. decided to cease its activities in Aruba. On February 7, 2020, the CBA revoked Citibank Aruba N.V.'s license.

9.1.1 COMMERCIAL BANKS

9.1.1.1 AGGREGATED BALANCE SHEET, TOTAL OUTSTANDING LOANS, AND TOTAL DEPOSITS

In 2020, the commercial banks' loan portfolio shrank by 1.4 percent, while the outstanding deposits incurred a slight expansion of 0.3 percent.

AGGREGATED BALANCE SHEET TOTAL

The commercial banks' aggregated balance sheet total amounted to Afl. 6,094.5 million at year-end 2020, equivalent to 137.7 percent of Aruba's 2020 Gross Domestic Product (GDP) as estimated by the CBA. This percentage illustrates the significant size of the banking sector compared to the size of the Aruban economy.

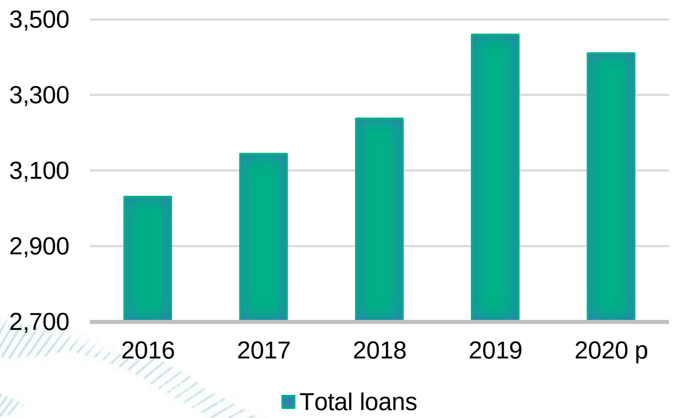
AGGREGATED OUTSTANDING LOANS

In 2020, the aggregated outstanding loans contracted slightly, i.e., by Afl. 48.3 million or 1.4 percent, for the first time in the last five years compared to 2019, and stood at Afl. 3,410.9 million at year-end 2020 (see Chart 9.1). This decline was reflected mostly in a decrease in the corporate

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

loans, compensated somewhat by a modest growth in the loans to individuals.

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



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

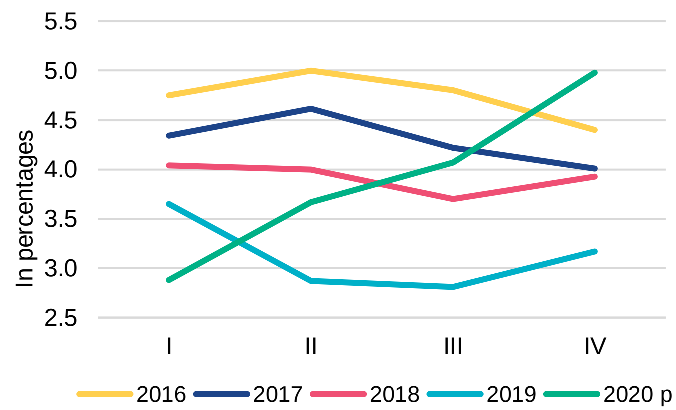
AGGREGATED TOTAL DEPOSITS

The aggregated total deposits increased during the last five years by Afl. 509.0 million or 11.6 percent to Afl. 4,884.6 million at end-2020. In 2020, the total deposits of the commercial banks showed a marginal increase of Afl. 16.2 million or 0.3 percent compared to 2019.

QUALITY OF LOAN PORTFOLIO

As illustrated in Chart 9.2 and Table 9.2, the downward trend in the nonperforming loans ratio of the commercial banks during 2016-2019 came to a halt in 2020 due to the impairment of loans as businesses where shut down for a prolonged period to mitigate the risk of further COVID-19 contagion. The nonperforming loans-to-gross loans ratio expanded by 1.8 percentage points to 5.0 percent at the end of 2020, but remained within acceptable levels. The mentioned expansion, in combination with the significant provisions that had to be formed against the (potential) losses on the loan portfolio, led to marked losses in 2020. In this regard, reference is made to the paragraph “profitability” under section 9.1.1.2 “Key ratios”.

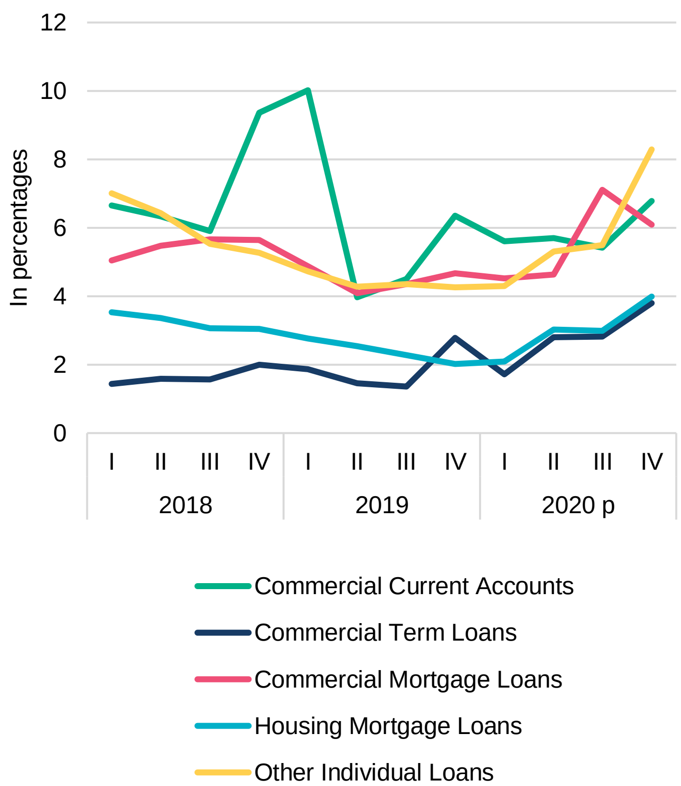
Chart 9.2: Development of the nonperforming loans (gross) to total gross loans of the commercial banks (at end of period)



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

Chart 9.3 shows that in all loan categories, the nonperforming loans-to-gross loans ratio worsened; the other individual loans and commercial mortgages segments showed a steeper increase compared to the other loan categories. The sharp drop in the nonperforming commercial current accounts’ segment during the second quarter of 2019 was related mainly to one large current account returning to performing status again.

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



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

9.1.1.2 Key ratios

CAPITAL ADEQUACY

The commercial banks' aggregated risk-weighted capital adequacy ratio grew by 2.2 percentage points to 33.2 percent at end-2020, which is more than twice as high as the required minimum of 14.0 percent.

Table 9.2 and Chart 9.4 show that the commercial banks' aggregated risk-weighted capital adequacy ratio was on an upward trajectory during 2016-2020, with the exception of 2019, when it decreased slightly by 1.1 percentage points to 31.0 percent. The increase in 2020 was the result of a decrease in risk-weighted assets (denominator) of 4.3 percent and a growth of 2.4 percent in total regulatory capital (numerator). The latter growth was due largely to the addition of the 2020 net result to retained earnings. The commercial banks' resilience against significant external shocks, including the effects of the COVID-19 pandemic, was stress-tested by the CBA. The outcome of these stress tests shows that the impact of COVID-19 can be substantial. However, the commercial banks have been able to weather the economic storm, given the significant capital buffers they have accumulated over the years.

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

	2016	2017	2018	2019	2020p
Capital adequacy					
Regulatory capital (Tier I capital) to risk-weighted assets	19.6	22.4	24.4	24.6	27.5
Regulatory capital (Tier I + Tier II capital) to risk-weighted assets	28.1	30.3	32.1	31.0	33.2
Asset quality					
Nonperforming loans to gross loans	4.4	4.0	3.9	3.2	5.0
Nonperforming loans (net of ALLP[1]) to gross loans	1.5	1.5	1.5	0.9	1.1
Nonperforming loans (net of ALLP) to regulatory capital	5.8	5.4	4.9	3.0	3.8
Profitability					
Return on assets (before taxes)	2.7	2.3	2.1	1.7	0.4
Return on equity (before taxes)	19.6	15.7	13.1	10.6	2.6
Interest margin to gross income	58.6	57.2	55.5	56.0	63.3
Noninterest expenses to gross income	72.0	76.5	77.2	81.9	94.0
Interest rate margin [2)]	6.0	5.1	5.2	4.4	4.7
Liquidity					
Loan-to-deposit ratio	66.2	68.2	68.1	68.4	66.8
Liquid assets to total assets [3)]	30.6	28.6	29.8	29.3	33.7

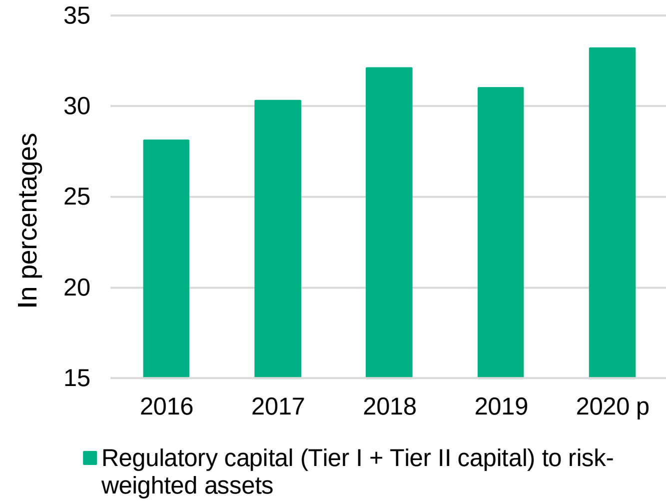
Source: CBA: commercial banks; p= preliminary figures.

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 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

Return on assets (before taxes) show a steady decline, dropping by 1.0 percentage point during the period 2016-2019 to 1.7 percent. In 2020, this ratio shrank again, i.e., by 1.3 percentage points to 0.4 percent. This accelerated decline in 2020 was mostly due to the contraction in (i) fees & commissions, (ii) net revenue from foreign exchange, and (iii) a surge in additional loan loss provisions to cover potential losses in connection with the COVID-19 pandemic, compensated in part by a drop in the general expenses.

The return on equity of the commercial banking sector has also been on a downward path since 2016, recording the sharpest drop in 2020 (Table 9.2). This was mainly the result of the significant additions to the loan loss provisions to cover potential losses in connection with the COVID-19 pandemic.

Another noteworthy development is the marked rise of the interest margin-to-gross income ratio in 2020. This ratio reached 63.3 percent at year-end 2020, a 7.3 percentage points surge when compared to 2019. This increase was attributed to a larger decline in gross income of Afl. 70.1 million or 17.2 percent compared to a drop in net interest income of Afl. 14.6 million or 6.4 percent. The drop in gross income stemmed partly from the fall in interest income and other income components, such as fees and commissions and income from net foreign exchange. The noninterest expenses to gross income ranged between 72.0 percent and 81.9 percent in 2016-2019 and skyrocketed to 94.0 percent in 2020. The surge in 2020 compared to 2019 was due to a fall-off in gross income of 17.2 percent which was partially mitigated by a decrease in noninterest expenses of Afl. 16.7 million or 5.0 percent.

LIQUIDITY

Per year-end 2020, the PLR (liquid assets to total assets) stood at 33.7 percent, remaining far above the required minimum of 15.0 percent.

Table 9.2 shows that the PLR of the commercial banks remained solid and strong during 2016-2019 and surged by 4.4 percentage points to 33.7 percent at year-end 2020. The latter was mainly the result of the temporary relief of the monetary and prudential measures, which provided the commercial banks with additional free liquidity to continue their lending activities (including loan moratoriums). The commercial banks' aggregated loan-to-deposit ratio rose from 66.2 in 2016 to 68.2 percent in 2017 and stayed close to that range till the end of 2019. Subsequently, the commercial banks' aggregated loan-to-deposit ratio slightly dropped to 66.8 percent in 2020. This decline was due mostly to the contraction in total net loans of Afl. 48.3 million, associated largely with the substantial increase of an Afl. 59.3 million in total loan loss provisions of the commercial banks and the modest pick-up of Afl. 16.2 million in deposits at year-end 2020.

9.1.2 BANK-LIKE INSTITUTIONS

9.1.2.1 AGGREGATED BALANCE SHEET TOTAL

The bank-like institutions' aggregated balance sheet total was Afl. 828.8 million at year-end 2020, equivalent to 18.7 percent of Aruba's 2020 GDP, as estimated by the CBA.

End-2020, the bank-like institutions' aggregated balance sheet total grew by Afl. 23.2 million or 2.9 percent to Afl. 828.8 million when compared to end-2019.

9.1.2.2 KEY RATIOS

ASSET QUALITY

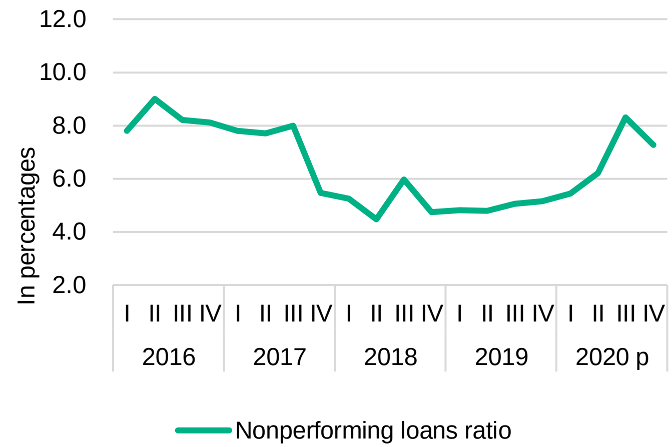
Table 9.3 and Chart 9.5 illustrate that the nonperforming loans-to-gross loans ratio depict an overall improvement during 2016-2019, mainly caused by the restructuring of some nonperforming loans and write-offs of some legacy loans, combined with stricter loan monitoring and loan collection. Subsequently, the nonperforming loans-to-gross loans ratio widened by 2.2 percentage points to 7.3 percent at year-end 2020, highlighting once again the impact of the COVID-19 pandemic on the performance of the loan portfolios.

Table 9.3: Financial soundness indicators of the bank-like institutions on an aggregated basis (at end of period and in percentages)

	2016	2017	2018	2019	2020p
Capital adequacy					
Regulatory capital (Tier I capital) to risk-weighted assets	63.6	59.2	56.6	51.4	55.6
Regulatory capital (Tier I + Tier II capital) to risk-weighted assets	71.0	66.6	63.4	58.1	60.2
Asset quality					
Nonperforming loans to gross loans	8.1	5.5	4.7	5.1	7.3
Nonperforming loans (net of ALLP) to gross loans	5.5	4.6	3.7	4.0	5.6
Nonperforming loans (net of ALLP) to regulatory capital	6.2	5.5	4.2	4.7	6.3
Profitability					
Return on assets (before taxes)	4.2	4.2	3.6	4.0	1.0
Return on equity (before taxes)	7.0	7.3	6.6	7.2	1.9
Interest margin to gross income	61.2	62.5	62.6	61.5	67.9
Noninterest expenses to gross income	69.1	68.5	67.4	65.7	88.6

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

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



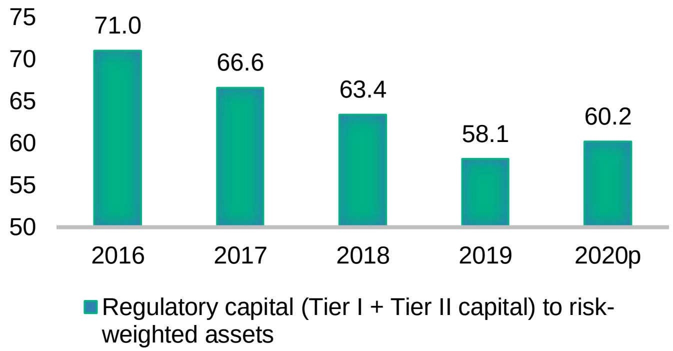
Source: CBA: bank-like institutions; p= preliminary figures.

CAPITAL ADEQUACY

The aggregated regulatory capital-to-risk-weighted assets ratio of the bank-like institutions stayed solid at 60.2 percent at year-end 2020.

Table 9.3 and Chart 9.6 indicate that, after peaking at 71.0 percent in 2016, the aggregated regulatory capital (Tier I + Tier II capital) to risk-weighted assets' ratio of the bank-like institutions was on a downward path up to and including 2019, but picked up again and reached 60.2 percent in 2020. The primary reason for the increase in 2020 was a growth in capital and reserves (numerator of this ratio), which is the result of the allocation of the 2020 net result of Afl. 8.0 million to retained earnings and a small decrease in risk-weighted assets of Afl. 2.0 million or 0.3 percent.

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



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

PROFITABILITY

As depicted in Table 9.3, return on assets (before taxes) did not experience much movement during 2016-2019, hovering around 4.0 percent. However, this ratio fell significantly, i.e., by 3.0 percentage points to 1.0 percent at year-end 2020. This drop was due largely to the marked decline in net income before taxes of Afl. 21.8 million or 72.4 percent, owing to contractions in all income components and sizable additions to loan loss provisions. Return on equity (before taxes) showed a similar trend over the last five years. At year-end 2020, the return on equity (before taxes) stood at 1.9 percent, a plunge of 5.3 percentage points compared to year-end 2019. This was also due primarily to the decrease in net result (before taxes). The interest margin to gross income grew by 6.4 percentage points, i.e., from 61.5 percent in 2019 to 67.9 percent in 2020, largely ascribed to a 12.7 percent shrinkage in gross income (the denominator of this ratio). Gross income contracted as all income categories declined. The noninterest expenses-to-gross income ratio soared by 22.9 percentage points to 88.6 percent in 2020 compared to 2019, due predominantly to a surge of 17.7 percent in noninterest expenses, mostly associated with additions in the amount of Afl. 16.0 million to the loan loss provisions.

9.2 MONEY TRANSFER COMPANIES

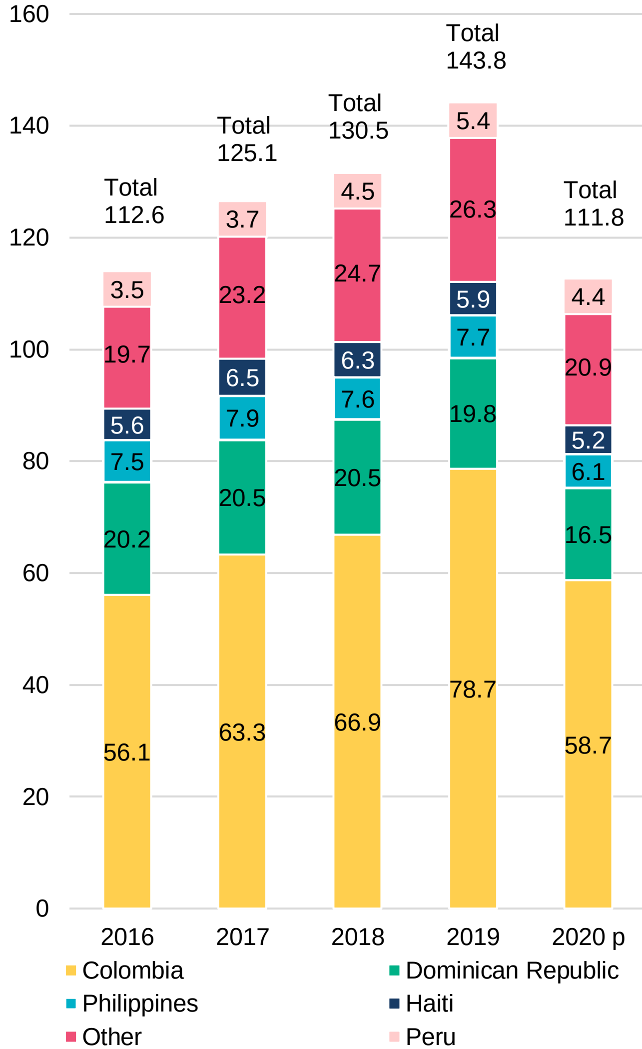
At the end of 2020, three money transfer companies were registered in Aruba.

9.2.1 OUTGOING MONEY TRANSFERS

The total amount of outgoing money transfers decreased by Afl. 32.0 million from Afl. 143.8 million in 2019 to Afl. 111.8 million in 2020.

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. The amount of outgoing money transfers exhibited an increasing trend in the period of 2016 to 2019. In 2020, a decrease in outgoing transfers of approximately 22.3 percent was noted mainly owing to decreased economic activities with a direct impact on employment and other labor and salary related measures as a result of the COVID-19 pandemic. In 2020, Colombia remained the main destination for outgoing money transfers with a share of approximately 52.5 percent (equal to Afl. 58.7 million) of the total transfers in 2020 (Chart 9.7).

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



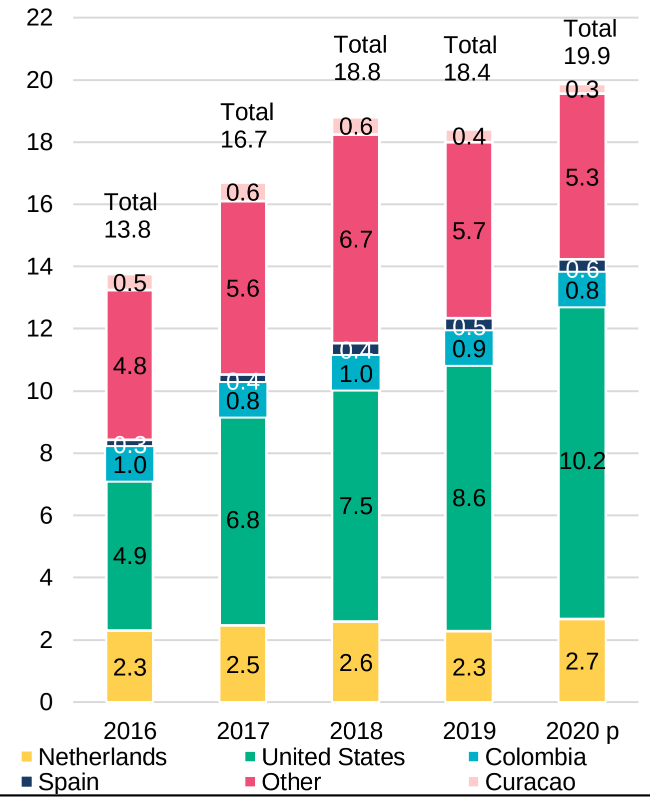
Source: CBA: money transfer companies; p= preliminary figures.

9.2.2 INCOMING MONEY TRANSFERS

The total amount of incoming money transfers increased to Afl. 19.9 million in 2020, up from Afl. 18.4 million in 2019.

The incoming transfers originated mainly from the United States. (Chart 9.8).

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



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

9.3 INSURANCE COMPANIES

The number of insurance companies (including nonlife and life (captive) insurance companies) supervised by the CBA declined by one to twenty one at year-end 2020. On February 12, 2020, Aruba AIG Insurance Company N.V.'s license was revoked upon its own request.

9.3.1 NONLIFE INSURANCE COMPANIES

9.3.1.1 AGGREGATED BALANCE SHEET TOTAL AND NET PREMIUM PER INDEMNITY LINE

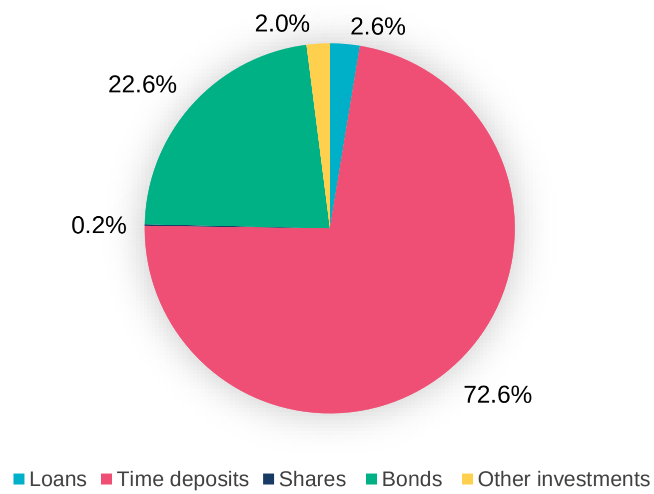
The combined assets of the nonlife insurance sector at the end of 2020 equaled 7.0 percent of Aruba's 2020 GDP, as estimated by the CBA.

AGGREGATED BALANCE SHEET TOTAL

The nonlife insurance companies' aggregated balance sheet total shrank by Afl. 5.1 million or 1.6 percent from Afl. 313.9 million at year-end 2019 to Afl. 308.8 million at year-end 2020. This contraction was due primarily to a decrease of Afl. 33.4 million or 22.5 percent in current assets, offset in part by an expansion of Afl. 23.9 million or 16.0 percent in investments. The decline in current assets was related mostly to lower receivables from reinsurers.

Total investments of the nonlife insurance companies amounted to Afl. 173.2 million at year-end 2020 compared to Afl. 149.3 million at year-end 2019. The majority of the nonlife insurance companies' investment portfolio is held locally, as only Afl. 1.7 million or 1.0 percent of the investments were kept abroad at end-2020. Chart 9.9 displays the composition of the investments at year-end 2020.

Chart 9.9: Investments of the nonlife insurance companies at year-end 2020

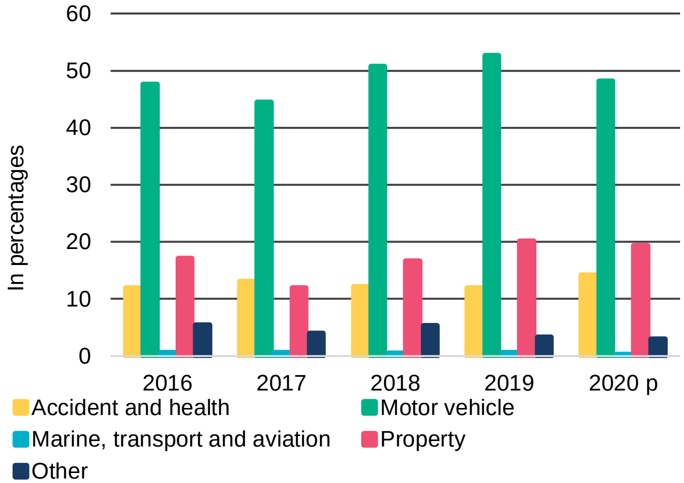


Source: CBA: nonlife insurance companies (preliminary figures).

NET PREMIUM PER INDEMNITY LINE

The net premiums received from motor vehicle insurance, followed by property insurance and accident and health insurance remained the main sources of income of the nonlife insurance companies in 2020 (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 9.4: Financial soundness indicators of the nonlife insurance companies on an aggregated basis (at end of period and in percentages)

Ratios	2016	2017	2018	2019	2020p
Coverage ratio[1]	423.0	336.1	303.3	320.6	329.0
Return on investment ratio[2]	4.7	4.4	3.4	3.6	3.2
Liquidity ratio[3]	31.7	33.4	50.5	47.3	37.3

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

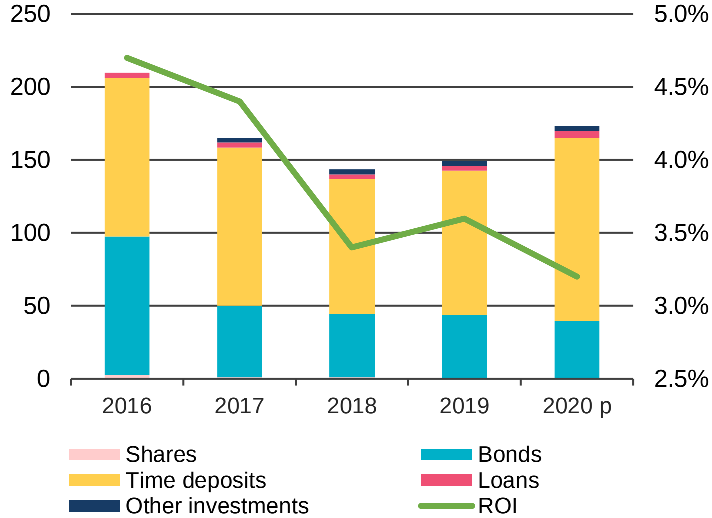
The coverage ratio of the nonlife insurance sector increased by 8.4 percentage points to 329.0 percent at end-2020, remaining far above the regulatory minimum requirement of 100 percent.

Table 9.4 shows that the coverage ratio of the nonlife insurance sector shrank significantly during 2016-2018, largely as a consequence of a decline in government bonds in 2017, while a more stringent calculation method of the coverage ratio as of January 1, 2018 was responsible for the drop in 2018. The improvements noted in the coverage ratio in 2019 and 2020 of, respectively, 17.3 percentage points and 8.4 percentage points were brought about primarily by the contraction in the technical provisions (denominator of this ratio).

RETURN ON INVESTMENT RATIO

The return on investment ratio followed a path of steady decline in the period 2016 through 2020, except in 2019 where a 0.2 percentage point gain was recorded. Chart 9.11 illustrates the development of this ratio over the period 2016-2020.

Chart 9.11: Return on investment ratio (at end of period)



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

LIQUIDITY RATIO

Table 9.4 shows that the liquidity ratio of the nonlife insurance companies amounted to 50.5 percent at the end of 2018, a substantial gain of 17.1 percentage points compared to end-2017. This was mainly thanks to significantly higher outstanding receivables from reinsurers. Subsequently, in 2019 and 2020, the liquidity ratio declined by 3.2 percentage points and 10.0 percentage points, respectively. The marked drop in 2020 was mostly related to the decrease in receivables from reinsurers.

9.3.2 LIFE INSURANCE COMPANIES

The combined assets of the life insurance sector at end-2020 equaled 34.8 percent of Aruba's 2020 GDP, as estimated by the CBA.

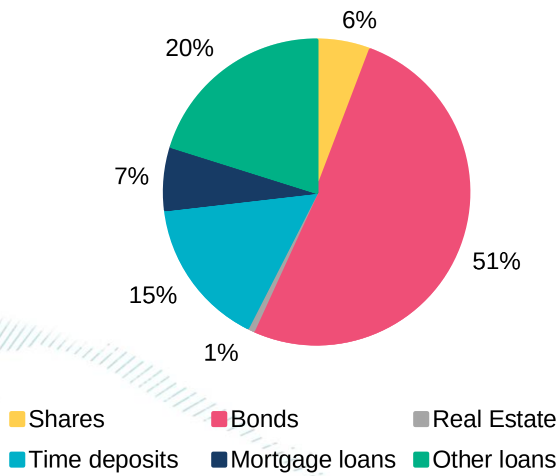
9.3.2.1 AGGREGATED BALANCE SHEET TOTAL

Over the past five years, the aggregated balance sheet total of the life insurance companies rose from Afl. 1,226.0 million at end-2016 to Afl. 1,539.2 million at end-2020, i.e., equivalent to Afl. 313.2 million or 25.6 percent. The growth in total assets over the past five years was mainly the result of an expansion in investments of Afl. 370.6 million or 38.2 percent from Afl. 971.2 million at end-2016 to Afl. 1,341.8 million at year-end 2020. Chart 9.12 reflects the composition of the investments at year-end 2020, and shows that a little more than half of the investment portfolio consisted of bonds. Technical provisions also exhibited a steady upward trend over the past five years, rising by Afl. 310.7 million or 31.4 percent from Afl. 990.1 million at end-2016 to Afl. 1,300.8 million at end-2020.

With the exception of 2018, capital and reserves grew continuously during 2016-2020, revealing an increase from Afl. 139.8 million in 2016 to Afl. 174.8 million in 2020. This growth of Afl. 35.0 million or 25.0 percent was due largely to positive net results added to capital and reserves, partly mitigated by dividend distributions (except for the year 2020). The decline in 2018 was chiefly attributed to sizable dividend distributions.

The share of foreign investments in the investment portfolio of the life insurance companies was Afl. 282.9 million or 21.1 percent at year-end 2020.

Chart 9.12: Investments of the life insurance companies at year-end 2020



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

9.3.2.2 KEY RATIOS

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

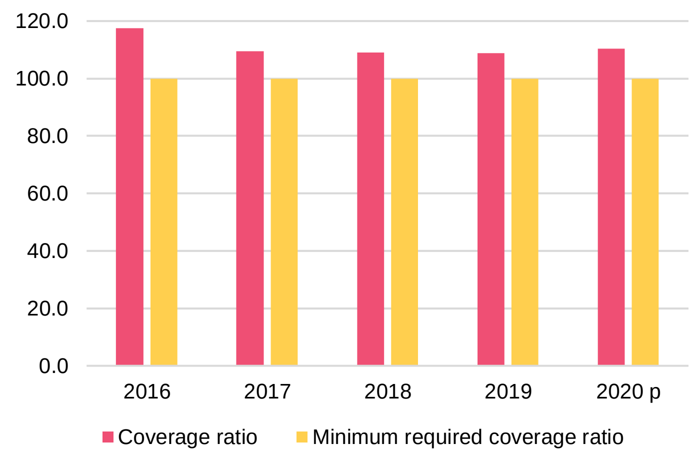
Ratios	2016	2017	2018	2019	2020p
Coverage ratio[1]	117.6	109.5	109.0	108.9	110.4
Return on investment ratio[2]	5.8	5.1	4.5	5.2	4.8
Liquidity ratio[3]	18.1	18.0	17.2	8.8	11.4

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 Table 9.5 and Chart 9.13, the coverage ratio expanded by 1.5 percentage points to 110.4 percent in 2020 when compared to 2019, and it remained above the minimum requirement of 100.0 percent. This expansion was due to a higher increase in total weighted assets of Afl. 89.3 million or 6.6 percent compared to the rise in technical provisions of Afl. 62.6 million or 5.1 percent. The marked drop of 8.1 percentage points in 2017 was mostly because of a higher rise in technical provisions (Afl. 83.8 million or 8.5 percent) compared to the growth in total assets (Afl. 51.8 million or 4.2 percent) in 2017.

Chart 9.13: Combined coverage ratio of the life insurance companies (at end of period and in percentages)

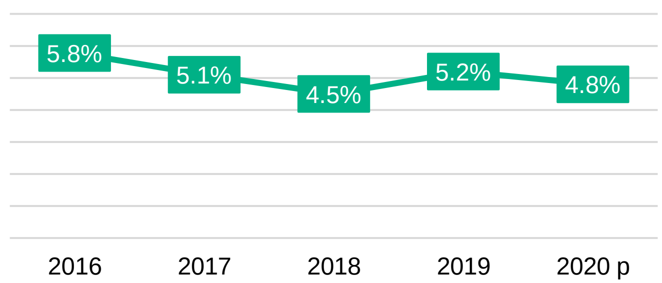


Source: CBA: life insurance companies; p= preliminary figures.

RETURN ON INVESTMENT RATIO

The return on investment ratio displayed a downward trend during the period 2016-2018, i.e., from 5.8 percent in 2016 to 4.5 percent in 2018. In 2019, this ratio rose to 5.2 percent, but declined again to 4.8 percent in 2020. The overall decline in 2020 compared to 2016 was due to the larger growth in investments of Afl. 370.6 million or 38.2 percent compared to the rise in investment income of Afl. 10.4 million or 19.6 percent. The increase to 5.2 percent in 2019, when compared to 2018, was largely attributed to a surge in investment income of Afl. 14.7 million or 30.8 percent.

Chart 9.14: Return on investment ratio (at end of period)



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

LIQUIDITY RATIO

Table 9.5 shows that during the period 2016-2018, the liquidity ratio moved between 17.2 percent and 18.1 percent. In 2019, the liquidity ratio dropped significantly by 8.4 percentage points to 8.8 percent, reflecting an Afl. 108.2 million or 46.2 percent contraction in current assets. This contraction is the result of a marked expansion in the investment portfolio of the life insurance companies. The liquidity ratio picked up again in 2020 to 11.4 percent compared to 2019, due mostly to an expansion in current assets of Afl. 49.7 million or 39.4 percent.

PROFITABILITY

Over the last five years, the net income before taxes of the life insurance companies fluctuated between a low of Afl. 8.1 million in 2018 and a peak of Afl. 17.9 million in 2019. The lowest level in net income before taxes that was reached in 2018, was largely related to the rise in total expenses, being net claims in particular. The peak in 2019 was associated mostly with an increase in investment income. In 2020, the net income before taxes equaled Afl. 16.9 million. The reason for this decline of Afl. 1.0 million or 5.6 percent in 2020, when compared to 2019, was the contraction in total income of Afl. 14.1 million or 7.0 percent, largely compensated by the significant shrinkage in total expenses, i.e., by Afl. 13.1 million or 7.1 percent.

9.4 COMPANY PENSION FUNDS[9]

The number of company pension funds (including APFA) supervised by the CBA remained at 8 at year-end 2020.

9.4.1 AGGREGATED BALANCE SHEET TOTAL, TECHNICAL PROVISIONS, AND CAPITAL AND RESERVES

The combined assets of the company pension funds equaled 13.6 percent of Aruba's 2020 GDP, as estimated by the CBA.

AGGREGATED BALANCE SHEET TOTAL

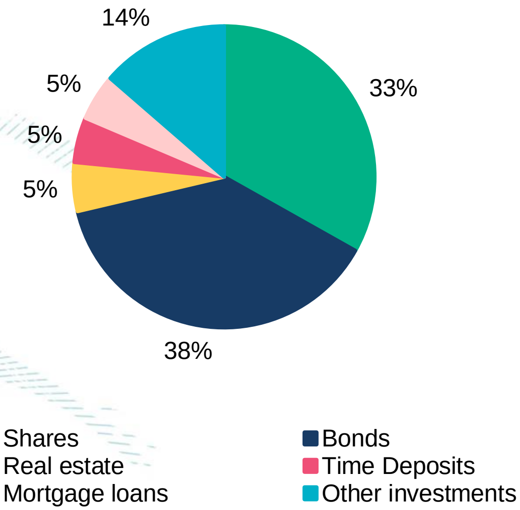
The aggregated balance sheet total of the six company pension funds (excluding APFA and the Lago Annuity Foundation which pension obligations are covered by a guarantee), expanded by Afl. 176.7 million or 41.6 percent

[9] Note that the developments in this section do not include the Civil Servants Pension Fund (APFA).

from Afl. 424.7 million in 2016 to Afl. 601.4 million in 2020, equivalent to 13.6 percent of Aruba's 2020 GDP, as estimated by the CBA. The mentioned increase stems largely from the growth in investments of Afl. 180.4 million or 46.0 percent.

Afl. 215.1 million or 37.6 percent of the investments of the six company pension funds were held in foreign assets in 2020. Chart 9.15 displays the composition of the investments at year-end 2020.

Chart 9.15: Investments of the company pension funds at year-end 2020



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

TECHNICAL PROVISIONS

Over the past five years, technical provisions grew continuously, expanding by Afl. 136.4 million or 36.8 percent from Afl. 370.3 million at year-end 2016 to Afl. 506.7 million at end-2020. This increase reflects in part the use of more up-to-date mortality tables, as well as an increase in the number of participants in these funds (see Table 9.6).

Table 9.6: Number of participants in the six company pension funds (at end of period)

	2016	2017	2018	2019	2020p
Participants	6,964	7,378	7,566	7,548	7,558
Inactive participants	5,154	5,687	6,480	7,264	7,852
Pensioners	698	663	900	969	1,016
Total	12,816	13,728	14,946	15,781	16,426

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

CAPITAL AND RESERVES

With the exception of 2018, capital and reserves of the company pension funds showed solid growth during 2016-2020, rising from Afl. 52.2 million in 2016 to Afl. 90.8 million in 2020. The drop of Afl. 16.8 million or 24.2 percent in 2018, when compared to 2017, was caused by a significant decline of Afl. 32.9 million or 89.9 percent in investment income. Despite the COVID-19 pandemic in 2020, capital and reserves rose by Afl. 17.2 million or 23.4 percent from Afl. 73.6 million at year-end 2019 to Afl. 90.8 million at end-2020, due largely to the aggregated positive net result.

Table 9.7: Financial soundness indicators of the company pension funds on an aggregated basis (at end of period and in percentages)

Ratios	2016	2017	2018	2019	2020p
Coverage ratio[1]	104.6	104.9	102.3	105.3	107.2
Return on investment ratio[2]	9.4	8.7	0.8	9.7	6.8

Source: CBA: company pension funds; p= preliminary figures.
1) Weighted assets less current liabilities to technical provisions.
2) Investment income to average invested assets.

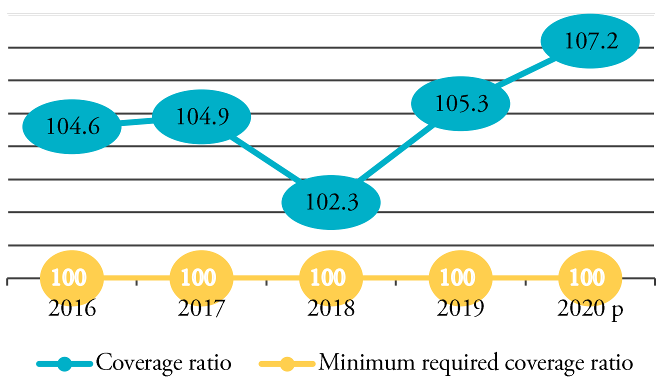
9.4.2 KEY RATIOS

COVERAGE RATIO

The aggregated coverage ratio of the company pension funds' sector rose by 1.9 percentage points to 107.2 percent in 2020, remaining above the minimum requirement of 100.0 percent.

In 2018, the coverage ratio stayed slightly above the required minimum of 100.0 percent (see Table 9.7 and Chart 9.16). In 2019, the coverage ratio strengthened by 3.0 percentage points to 105.3 percent, and in 2020, even further, i.e., by 1.9 percentage points to 107.2 percent. This increase was mainly because the assets to cover technical provisions grew at a stronger pace than the company pension funds' technical provisions. Reference is made to section 9.4.1 for more details on the technical provisions.

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



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

RETURN ON INVESTMENT RATIO

Investment income of the company pensions funds was impacted by the COVID-19 pandemic; it declined by Afl. 9.5 million or 20.4 percent at year-end 2020 compared to year-end 2019, resulting in the contraction of 2.9 percentage points in the return on investment ratio, i.e., from 9.7 percent in 2019 to 6.8 percent in 2020.

9.5 CIVIL SERVANTS PENSION FUND (APFA)

At end-2020, the net coverage ratio (including a buffer for possible losses on the investment portfolio) of APFA stood at 105.8 percent, thereby also complying with the CBA's minimum net coverage ratio of 100.0 percent.

9.5.1 BALANCE SHEET TOTAL, TECHNICAL PROVISIONS, AND CAPITAL AND RESERVES

The total assets of APFA amounted to Afl. 3,189.5 million at year-end 2020, equivalent to 72.1 percent of Aruba's 2020 GDP, as estimated by the CBA.

APFA's balance sheet total expanded considerably during the period 2016-2020, rising from Afl. 2,666.3 million at end-2016 to Afl. 3,189.5 million at end-2020. The main reason for this expansion is the Afl. 505.7 million robust growth in APFA's investment portfolio during this period. At the end of 2020, Afl. 1,355.0 million or 44.0 percent of APFA's investments were held in foreign assets.

The fund's capital and reserves grew continuously during 2016-2020, with the exception of the year 2018 when they declined by Afl. 21.5 million or 10.1 percent. The Afl. 95.5 million or 25.9 percent increase in 2020, when compared to 2019, was due to the positive net result of Afl. 95.5 million.

During the period 2016-2020, technical provisions rose steadily, i.e., by Afl. 152.5 million or 6.0 percent to Afl. 2,699.4 million at end-2020.

As shown in Table 9.8, the number of participants of APFA declined by 15 in 2020, while the number of inactive participants and pensioners increased by 139 and 73, respectively.

Table 9.8: Number of APFA participants (at end of period)

	2016	2017	2018	2019	2020p
Participants	6,715	6,827	7,045	7,014	6,999
Former participants	746	823	928	1,080	1,219
Pensioners	4,027	4,052	4,100	4,166	4,239

Source: CBA: APFA; p= preliminary figures.

9.5.2 KEY RATIOS

COVERAGE RATIO

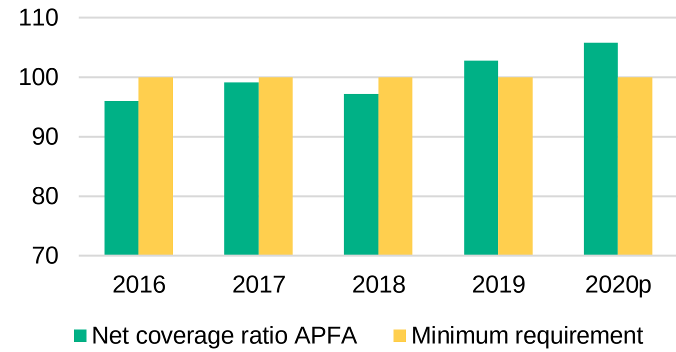
Table 9.9 and Chart 9.17 depict the overall recovery path of APFA's coverage ratio in the last five years. In 2017, APFA's coverage ratio (99.1 percent) showed improvement as it almost reached the 100.0 percent minimum requirement; but it experienced a setback in 2018 by dropping to 97.2 percent. Subsequently, said ratio rebounded significantly as it stood at 102.8 percent in 2019. Despite the COVID-19 pandemic, APFA's coverage ratio continued to improve, as it rose further to 105.8 percent at the end of 2020. The gain in 2020 was because of the stronger growth of 4.8 percent in the assets to cover technical provisions compared to the rise of 1.8 percent in the technical provisions.

Table 9.9: Financial soundness indicators of APFA (at end of period and in percentages)

Ratios	2016	2017	2018	2019	2020p
Coverage ratio[1]	96.0	99.1	97.2	102.8	105.8
Return on investment ratio[2]	5.8	7.5	2.5	9.7	6.9

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 9.9 indicates that the return on investment ratio in 2019 stood at its highest level in the past five years, and equaled 9.7 percent, i.e., 7.2 percentage points higher than in 2018. This substantial improvement was associated mostly with the record-high yield on the foreign investment portfolio and the shares portfolio in particular, which sky-rocketed by 27.0 percent in 2019. In 2020, the return on investment ratio declined by 2.8 percentage points to 6.9 percent, due largely to the contraction in investment income of Afl. 67.6 million or 24.7 percent. This result was mostly associated with the international investment portfolio, which did not perform as strong as in 2019.

Annexes

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, 2020)

In alphabetical order

1. BANKING SECTOR[10]
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 MORTGAGE BANKS
1. Fundacion Cas pa Comunidad Arubano (FCCA)

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

1.5 OTHER FINANCIAL INSTITUTIONS
1. AIB Bank N.V.
2. Island Finance Aruba N.V.

2. MONEY TRANSFER SECTOR[11]
2.1 MONEY TRANSFER COMPANIES
1. Mack’s Exchange Services V.B.A.
2. Post Aruba N.V.
3. Union Caribe N.V.

[10] Supervision by virtue of the SOSCS.
[11] Supervision by virtue of the SOSMTC.

3. TRUST SECTOR[12]

3.1 TRUST SERVICE PROVIDERS

1. AMTR N.V.
2. Arulex Trust Services N.V.
3. C.T.F. (Aruba) N.V.
4. Curado Trust (Aruba) N.V.[13]
5. Euro Trust International N.V.
6. IMC International Management & Trust Company N.V.
7. Intima Management N.V.
8. Orangefield (Aruba) N.V.
9. Standard Trust Company N.V.
10. United Trust Management (Aruba) UTM N.V.

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 (FPEF)
5. Stichting Pensioenfonds Caribbean Mercantile Bank
6. Stichting Pensioenfonds Havenwerkers Aruba
7. Stichting Pensioenfonds META Bedrijven Aruba
8. Stichting Pensioenfonds Tourist Sector Aruba (PFTSA)

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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[12] Supervision by virtue of the SOSTSP.
[13] No longer active.
[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. Best Doctors Insurance V.B.A.[16]	•				
2. Bupa Insurance Company, Aruba Agency	•				
3. Elvira Verzekeringen N.V.					•
4. Ennia Caribe Schade (Aruba) N.V.	•	•	•	•	•
5. Fatum General Insurance Aruba N.V.	•	•	•	•	•
6. Massy United Insurance Company N.V.	•	•	•	•	•
7. NAGICO Aruba N.V.	•	•	•	•	•
8. Netherlands Antilles & Aruba Assurance Company (NA&A) N.V.	•	•	•	•	•
9. Stichting Fondo Nacional di Garantia pa Vivienda					•
10. The New India Assurance Co. Ltd., Aruba Branch	•	•	•	•	•
11. TRESTON Insurance Company (Aruba) N.V.[17]	•	•	•	•	•

Source: CBA.

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.

[16] In liquidation.
[17] In liquidation.
[18] Supervision by virtue of the SOSIB and SDCIC.
[19] Supervision by virtue of the SDSIB.

7. Framo Insurances N.V.
8. Jai Mahalaxmi Enterprises N.V.
9. Lyder Insurance Consultants N.V.
10. Pentagon Investment & Consultancy N.V.
11. Seguros Geerman N.V.
12. Turtle Island Insurance Broker N.V. Dba Aruba Insurance Brokers
13. Verdant Insurance and Management Company Group N.V.
14. Worldwide Insurance Agency N.V.

Annex 3
Financial institutions or persons in possession of a dispensation (December 31, 2020)

PAWNSHOPS

1. 't Juwelenhuisje N.V.[20]
2. Compra y Venta El Triunfo N.V.
3. Estrella America N.V.

FINANCE COMPANIES

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

FINANCIAL INSTITUTIONS IN POSSESSION OF A DISPENSATION AS MEANT IN ARTICLE 10, PARAGRAPH 1 OF THE SOSMTC

MONEY TRANSFER COMPANIES

1. MoneyGram International Inc.[21]
2. Western Union Financial Services International Inc.[22]

SECURITIES BROKERS IN POSSESSION OF A DISPENSATION AS MEANT IN ARTICLE 4, PARAGRAPH 2 OF THE SOSSB

1. Aruba Bank N.V.
2. Banco di Caribe (Aruba) N.V.
3. Caribbean Mercantile Bank N.V.

[20] Dispensation withdrawn on April 21, 2020.
[21] For conducting money transfer activities through Union Caribe N.V.
[22] For conducting money transfer activities through Post Aruba N.V. and Mack's Exchange Services V.B.A.

LICENSED CREDIT INSTITUTIONS THAT REGISTERED AS AN INSURANCE BROKER AS MEANT IN ARTICLE 2, PARAGRAPH 3 OF THE STATE DECREE ON THE SUPERVISION OF INSURANCE BROKERS

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. Fundacion Cas pa Comunidad Arubano
6. Island Finance Aruba N.V.
7. RBC Royal Bank (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. G.M. Daal
2. Mrs. B. Franke-Trumpie
3. Mrs. M.D.D. Geerman
4. Mr. J.W. Isenia
5. Mr. J.W.P.J. Kaan
6. Mrs. T.D. Kelly-Hernandez
7. Mr. J.A.M. Lomans
8. Mr. R.W. van der Meulen
9. Mr. E.G. Schwengle
10. Mr. R. Seraus

PAN-AMERICAN LIFE INSURANCE COMPANY OF ARUBA V.B.A.:

1. Mrs. Alli-Martijn
2. Mrs. L. Kelly
3. Mrs. M. de La Cruz Mateo-Abreu Knight
4. Mr. J.R. Martina
5. Mrs. J.M. Pesqueira
6. Mrs. M.N.R. Tromp
7. Mr. J.J.E. Vermeulen
8. Mr. E.E. Werleman

SAGICOR LIFE ARUBA N.V.:

1. Mrs. F. Bernier Corbacho
2. Mrs. D.A. Dormoy
3. Mrs. L.R. Faustin

4. Mrs. O.A. Inocencia
5. Mrs. A.R. Koolman
6. Mrs. B.S. van Loon-Kadir
7. Mrs. N.C. Marques Hidalgo
8. Mr. F.C. Martina
9. Mrs. M.V. Peters
10. Mrs. S.J.G. Velthuizen
11. Mrs. B.I. Wolff-Croes

(LEGAL) 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 entered into by the CBA

Supervisory authority	Scope	Year signed
CBCS	Exchange of information regarding banks	1998
CBCS	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
FIU 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
DNB	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
GIFCS	Cooperation and information exchange	2019[23]

[23] Agreed upon in 2016.

Annex 5
Virtual meetings of international supervisory bodies attended in 2020

This annex provides an overview of the virtual meetings attended in 2020 by the CBA's supervisory staff in the areas of financial sector supervision and AML/CFT oversight.

Supervisory group/institution	Main topics discussed
GIFCS Plenary meetings (April and October)	▪ Response to Covid-19 outbreak ▪ Results of the Cayman Islands' and BVI's TCSP evaluation ▪ FATF Strategic Review
CGBS Members' Assembly and XXXVIII Annual Conference (July)	▪ Consolidated Supervision ▪ Regional MOU ▪ Regional Crisis Management Plan ▪ Loan Classification and provisioning harmonization ▪ Climate Risk and Green Financing ▪ Cyber Risk
FATF Plenary meeting (October)	▪ Impact of Covid-19 on FATF Mutual Evaluation and follow-up processes ▪ Digital transformation ▪ Policy Development work ▪ ML/TF risks, trends, methods, and operational issues ▪ The Global FATF/FSRB Network
GIICS Annual Seminar and Annual General Meeting (AGM) (June).	▪ Forbearance around regulatory returns ▪ Regulatory oversight of firms most affected by Covid-19 ▪ Captive loan-backs
ASBA XXIII Annual Assembly and XIV High-level Meeting (September/October) - "Regional Public and Private Policy Dialogue Banking Sector"	▪ The future of Banking: Challenges after Covid-19 ▪ Doing Digital: Where do we go after Covid-19 ▪ Collaborative Solutions to prevent banking fraud ▪ Post-Covid-19 economy
CFATF Plenary meetings (December)	▪ Mutual evaluation report of St. Lucia ▪ Adoption of Amendments to the CFATF Procedures for the Fourth Round of AML/CFT Mutual Evaluations
ICBS (September)	▪ Supervisory response to the global pandemic ▪ Future of banking supervision

Annex 6
Changes in the shareholding of supervised institutions in 2020

CREDIT INSTITUTIONS

- On October 2, 2020, pursuant to article 17, paragraph 1, of the SOSCS, the CBA granted permission to Stichting Pensioenfonds Havenwerkers Aruba to increase its qualifying holding in AIB Bank N.V. to 14.67 percent.

LIFE INSURANCE COMPANIES

- On February 7, 2020, pursuant to article 14a, paragraph 1, of the SOSIB, the CBA granted permission to Alignvest Acquisition II Corporation (Alignvest/New Sagicor) for the acquisition of the shares of Sagicor Financial Corporation Limited. As a result of said acquisition, the former corporation gained a qualifying holding of 100.0 percent in Sagicor Life Aruba N.V.

Annex 7
Integrity and suitability testing conducted in 2020

This annex provides an overview of the integrity and suitability testing conducted in 2020.

Sector	Credit institutions	Insurance companies	Company pension funds	Money transfer companies	Trust service providers	Insurance brokers	Total
Pending as of January 1, 2020	4	8	4	3	1	-	20
New requests	6	21	6	1	2	-	36
Reassessments	-	-	-	-	-	-	-
Withdrawn requests	1	13	-	1	-	-	15
Rejected requests	-	-	-	-	-	-	-
Approved	2	-	-	3	3	-	8
Conditionally approved	3	12	5	-	-	-	20
Pending as of December 31, 2020	4	4	5	-	-	-	13

Annex 8
Type of breaches identified in 2020 during the AML/CFT onsite examinations

Sector	Breaches of the AML/CFT State Ordinance	Areas
	Financial institutions	
Pawnshops	Chapter 2, Articles 26, and 46 of the AML/CFT State Ordinance	* Customer due diligence * The reporting of unusual transactions * Procedures and measures
Money Transfer Companies	Chapter 2, Articles 26, and 46 of the AML/CFT State Ordinance	* Customer due diligence * The reporting of unusual transactions * Procedures and measures
Life Insurance Companies	Article 14d of the SOSIB and § 3 of the Directive on Sound Business Operations	* Ethical business conduct
Insurance Brokers	Article 4 of the SDSIB, Article 14d of the SOSIB and § 3 of the Directive on Sound Business Operations	* Ethical business conduct
	DNFBPs	
Law Firms	Chapter 2, Articles 26, and 46 of the AML/CFT State Ordinance	* Customer due diligence * The reporting of unusual transactions * Procedures and measures
Car Dealers	Chapter 2, Articles 26, 35, 46, 47 and 50, of the AML/CFT State Ordinance	* Customer due diligence * The reporting of unusual transactions * Supervision by the CBA * Procedures and measures * Appointment of an MLCO/MLRO * Registration requirement
Jewelers	Chapter 2, Articles 33, 46, and 47 of the AML/CFT State Ordinance	* Customer due diligence * Recordkeeping * The reporting of unusual transactions * Appointment of an MLCO/MLRO
Real Estate	Chapter 2, Articles 26, and 46 of the AML/CFT State Ordinance	* Customer due diligence * The reporting of unusual transactions

		* Procedures and measures
Casinos	Chapter 2, Articles 26, 46, and 47 of the AML/CFT State Ordinance	* Customer due diligence * The reporting of unusual transactions * Procedures and measures * Appointment of an MLCO/MLRO

Annex 9 Number of formal measures imposed per sector for noncompliance with the sectoral supervisory state ordinances or the AML/CFT state ordinance

End of period	2018			2019			2020		
Sector	Formal Directions	Penalty charge orders	Administrative fines	Formal Directions	Penalty charge orders	Administrative fines	Formal Directions	Penalty charge orders	Administrative fines
Credit institutions	1	-	4	2	-	1	2	-	2
Pawnshops	-	-	-	-	-	-	-	-	-
Life insurers	1	-	1	-	-	-	1	-	-
General insurers	1	-	6	-	-	-	-	-	-
Captive insurers	-	-	-	-	-	-	-	-	-
Money transfer companies	-	-	-	-	-	-	-	-	-
Trust service providers	1	1	1	-	1	1	-	-	-
DNFBPs:									
▪ Casinos	-	-	1	-	-	2	-	-	2
▪ Lawyers	-	-	-	-	-	2	-	-	-
▪ Real estate	-	-	-	-	-	3	-	1	1
▪ Notaries	-	-	-	-	-	-	-	-	1
▪ Tax consultants	-	-	-	-	-	-	-	-	1
▪ Accountants	-	-	-	-	-	-	-	-	1
▪ Others	-	-	-	-	-	-	-	-	-
Total enforcement actions	4	1	13	2	1	9	3	1	8

Annex 10
Supervisory costs passed on in 2020

Pursuant to the respective state decrees,[24] the CBA charges the sectors supervised for part of the supervision costs incurred. The supervisory costs passed on to the different sectors in 2020 are shown below:

Sectors	Supervisory costs passed on in 2020	
Credit institutions	Afl.	800,000
Insurers	Afl.	300,000
Captives	Afl.	30,000
Insurance brokers	Afl.	55,000
Company pension funds	Afl.	155,000
Money transfer companies	Afl.	150,000
Trust service providers	Afl.	100,000
Total	Afl.	1,590,000

[24] 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).

CENTRALE BANK VAN ARUBA

J.E. Irausquin Blvd 8, Oranjestad, Aruba
Phone: +297 525 2100
www.cbaruba.org