CENTRALE BANK VAN ARUBA

PRESS RELEASE

IN 2021, THE STRONG ARUBAN ECONOMIC RECOVERY ECHOED IN THE PERFORMANCE OF ARUBA'S FINANCIAL SECTOR

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Today the Centrale Bank van Aruba (CBA) publishes its FINANCIAL SECTOR SUPERVISION REPORT 2021.

This year's Financial Sector Supervision Report is the tenth annual edition, and provides an overview of the most important developments in the supervisory and regulatory landscape in 2021, as well as of the financial performance of Aruba's financial sector in 2021, also vis-à-vis the prudential requirements in the areas of solvency and liquidity.

Aruba's financial sector continued to show resiliency during the COVID-19 pandemic

In the wake of an unprecedented decline in economic activities in 2020, due to the COVID-19 pandemic, the year 2021 can be characterized as a year of strong economic recovery. Although the pandemic is still ongoing, the Aruban economy is expected to continue to recover in 2022 and return to pre-COVID-19 output level by 2023. The banking sector withstood the challenges of the pandemic remarkably well, and remained highly solid and robust. The ample capital and liquidity buffers, in combination with the relief measures of the CBA in the monetary and prudential domains, have helped the banks to weather this storm, and to continue their lending activities uninterrupted. The latter was critical to preventing a deeper economic impact from the COVID-19 pandemic, and played a key role in Aruba's swift economic recovery.

Despite the ongoing economic recovery, downside risks have increased considerably, due to the war in Ukraine and the ensuing sharp rises in the prices of gas and oil, putting additional pressure on an already relatively high inflationary pace, related to global supply shortages and higher transportation prices. This adverse development also may affect the banking sector in Aruba, as both companies and individuals are negatively impacted by the steep rise in inflation, through, e.g., increased costs of doing business, reduced profitability, and purchasing power. This, on its turn, may bear upon the quality of banks' loan portfolios, resulting in an increase in nonperforming loans and the loan loss provisions that need to be formed against these loans. The CBA will continue to closely monitor the developments in this area.

Ample capital and liquidity buffers

The ample capital and liquidity buffers accumulated over the years, as well as the CBA's strict oversight, have been instrumental in maintaining a solid and reputable financial sector. A sound and solid financial sector is an essential pre-condition for economic growth and financial stability, also considering that the financial sector's assets have meanwhile reached approximately Afl 13.6 billion (equivalent to USD 7.6 billion) at end-2021, which is more than twice the size of Aruba's 2021 gross domestic product, as estimated by the CBA.

Although the commercial banking sector has in meantime discontinued the COVID-19 related support measures (primarily loan moratoria) to its clients, the nonperforming loan ratio of this sector declined from 5.0 percent at the end of 2020 to 4.7 percent at end-2021, evidencing the strong economic recovery. Also, the financial performance of the commercial banking sector bounced back in 2021, even above prepandemic levels, while the capital and liquidity buffers reached record highs, thereby remaining far above the required minimum levels. Additionally, the insurance and pension fund sectors continued to comply with the minimum required coverage ratio, and, thus, their ability to meet their future insurance and pension obligations stayed intact. The COVID-19 pandemic has undeniably shown the importance of banks and other financial institutions having ample capital and liquidity buffers in place to navigate through unprecedented times like these.

Successful closure of the CFATF mutual evaluation of Aruba's AML/CFT framework

During August 31, 2021 to September 10, 2021, the Caribbean Financial Action Task Force (CFATF) visited Aruba to assess in detail the level of compliance with the Financial Action Task Force (FATF) 40 Recommendations and the level of effectiveness of Aruba's AML/CFT framework. From March 1, 2022 until March 8, 2022, virtual face-to-face meetings were held to discuss the second draft of the mutual evaluation report (MER). Early April 2022, the CFATF shared the final draft MER with Aruba. This final draft was discussed on June 2, 2022, during the virtual CFATF Plenary meeting. The results are positive and demonstrate a high level of compliance with the FATF standards, both in terms of technical compliance and effectiveness. On July 14, 2022, the final report was published by the CFATF on its website (Fourth Round Mutual Evaluation Report of Aruba (cfatf-gafic.org)).

Important amendments to the AML/CFT State Ordinance

Following the gap analysis conducted vis-à-vis the 2012 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 in part on this proposal, a draft amended AML/CFT State Ordinance was sent by the government of Aruba to the Advisory Council in 2020. Subsequently, with due regard to the comments made by the Advisory Council, a revised draft was presented to the Parliament of Aruba for its review and approval. On August 19, 2021, the Parliament of Aruba approved the amended AML/CFT State Ordinance, which entered into force on September 8, 2021.

Introduction State Ordinance Consumer Credit

In June 2016, a draft proposal to regulate consumer credit was submitted to the Minister of Finance. The main objectives are to (i) ensure that consumers receive sufficient information before entering into a consumer loan agreement, to (ii) place a limit on the interest rates that lenders are allowed to charge to consumers, and to (iii) prevent over-crediting. The Government of Aruba submitted a revised draft to the Parliament of Aruba for approval on December 7, 2021. This draft state ordinance was discussed in Parliament on March 23, 2022, but its treatment was postponed as the government of Aruba wanted to amend certain sections of the draft. Following these amendments, on June 3, 2022, the revised draft was approved by Parliament.

Implementation deposit insurance scheme

In May 2017, a (revised) legislative proposal for the introduction of a deposit insurance scheme (DIS) for the domestic commercial banking sector was submitted by the CBA to the Minister of Finance. The implementation of a DIS will help protect small depositors as well as help preserve trust in the banking system, thereby contributing to financial stability. The legal basis to introduce a DIS was adopted by the Parliament of Aruba in December 2021 through an amendment of the State Ordinance on the Supervision of the Credit System (AB 1998 no.16). Currently, the draft state decree regulating the DIS is in the legislative process. A foundation, to be incorporated by the CBA, will be tasked with the management of the guarantee fund. The required preparatory work has already commenced.

Compliance with the Basel Core Principles for Effective Banking Supervision
As part of its ongoing efforts to meet the international standards in the supervisory and regulatory domains, an extensive self-assessment was undertaken by the CBA in 2020/2021 to evaluate the degree of compliance with the revised Basel Core Principles (BCPs) for Effective Banking Supervision. The outcome of the self-assessment indicates a high level of compliance against these Core Principles. A plan of action has been drafted to address the identified shortcomings on short term, which are mainly related to the absence of some policy papers in the area of operational risk management.

The increasing importance of Cyber Security & IT Supervision
In consideration of the increased cyber security risks, the CBA will step up its oversight efforts in this area. The existence and effectiveness of proper Information Technology (IT) (security) related policies, procedures, and measures at the supervised institutions are critical to ensure safe and sound operations. The policy papers issued by the CBA in the areas of technology risk management, business continuity management, and outsourcing arrangements form the benchmark against which the IT (security) policies, procedures, and measures in place at the supervised financial institutions are assessed by the CBA, through its offsite surveillance (inter alia through surveys and interviews with key persons within the supervised financial institutions) and onsite examinations.

Data-driven supervision
One of the six strategic pillars of the CBA's strategic plan "Dilanti Biento" is digital transformation. The goal of this pillar is to outline how to transform the CBA's processes and services to be delivered digitally with the focus on increased efficiency, effectiveness, transparency, and (data) analytical capabilities. In order to transform into a more data-driven organization, including data-driven supervision, the application of innovative technology, such as big data, artificial intelligence, and suptech, is essential. However, also taking into consideration capacity and budgetary constraints, the implementation of these new technologies is expected to take place over a relatively longer timespan.

To conclude, also in 2021 the financial sector under the supervision of the CBA remained highly solid and reputable, thanks to the ample solvency and liquidity buffers and the CBA's strict oversight. Nevertheless, the CBA remains vigilant of any adverse developments with the purpose to keep the financial sector sound and reputable, thereby contributing to maintaining financial stability.

The FINANCIAL SECTOR SUPERVISION REPORT 2021 is available on the website of the CBA www.cbaruba.org as of today.