



A broad overview of the main developments in the supervisory landscape

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Outline of Presentation

- Mission and supervisory objectives
- Supervision departments
- Legal framework
- Supervisory approach
- Main supervisory activities
- Legislative proposals in the pipeline
- Major regulatory changes 2018-2019
- Supervisory agenda 2020 and beyond
- Highlights financial sector

Mission and supervisory objectives

Mission

“To maintain the confidence in the financial system of Aruba by promoting the (financial) soundness and integrity of the supervised sectors and institutions.”

Objectives

“To prevent financial institutions from taking excessive risks that could harm the interests of depositors, policyholders, and other creditors.”

“Maintain stability, soundness, and integrity of the financial system.”

Supervision departments

Prudential Supervision Department

- Financial soundness (prudential requirements: solvency, liquidity)
- Sound corporate governance and risk management procedures
- Credit institutions, electronic money institutions, insurance companies, and company pension funds

Integrity Supervision Department (2011)

- Integrity Supervision over the financial institutions
- AML/CFT oversight over all financial institutions and DNFBPs
- Trust service providers, money transfer companies, pawn shops, and insurance brokers

Enforcement, Market Entry and Legal Advisory (2017)

- Enforcement measures
- Licenses and dispensations
- Advising on and drafting of new or amendments to existing supervisory legislation, interpretation of the supervisory laws and regulations, and judicial proceedings regarding supervisory issues or enforcement measures

Legal framework

Sectoral Supervisory State Ordinances

State Ordinance on the Supervision of the Credit System (SOSCS)

State Ordinance on the Supervision of the Insurance Business (SOSIB)

State Decree on the Supervision of Insurance Brokers (SDSIB)

State Decree Captive Insurance Companies

State Ordinance on Company Pension Funds (SOCPF)

State Ordinance Supervision Money Transfer Companies (SOSMTC)

State Ordinance on the Supervision of Trust Service Providers (SOSTSP)

State Ordinance on the Supervision of the Securities Business (SOSSB)

(effective January 1, 2017)

AML/CFT

AML/CFT State Ordinance

Sanctions State Decrees

Supervised entities

Sectoral state ordinances:

- Credit institutions:
 - Commercial banks: 5
 - International bank: 1
 - Bank-like institutions: 3
 - Credit unions: 2
- Insurance companies:
 - Life insurers: 6
 - Non-life insurers: 12
 - Captive insurers: 4
- Insurance brokers: 16
- Company pension funds: 8 (incl. APFA)

AML/CFT Framework

- Financial institutions:
 - Credit institutions: 11
 - Life insurers: 6
 - Company pension funds: 8
 - Money transfer companies: 3
 - Insurance brokers: 16
- Designated non-financial businesses and professions: 400+

(including accountants, lawyers, notaries, pawn shops, real estate agents, tax advisors, trust company service providers, casino's and dealers in high-value goods)

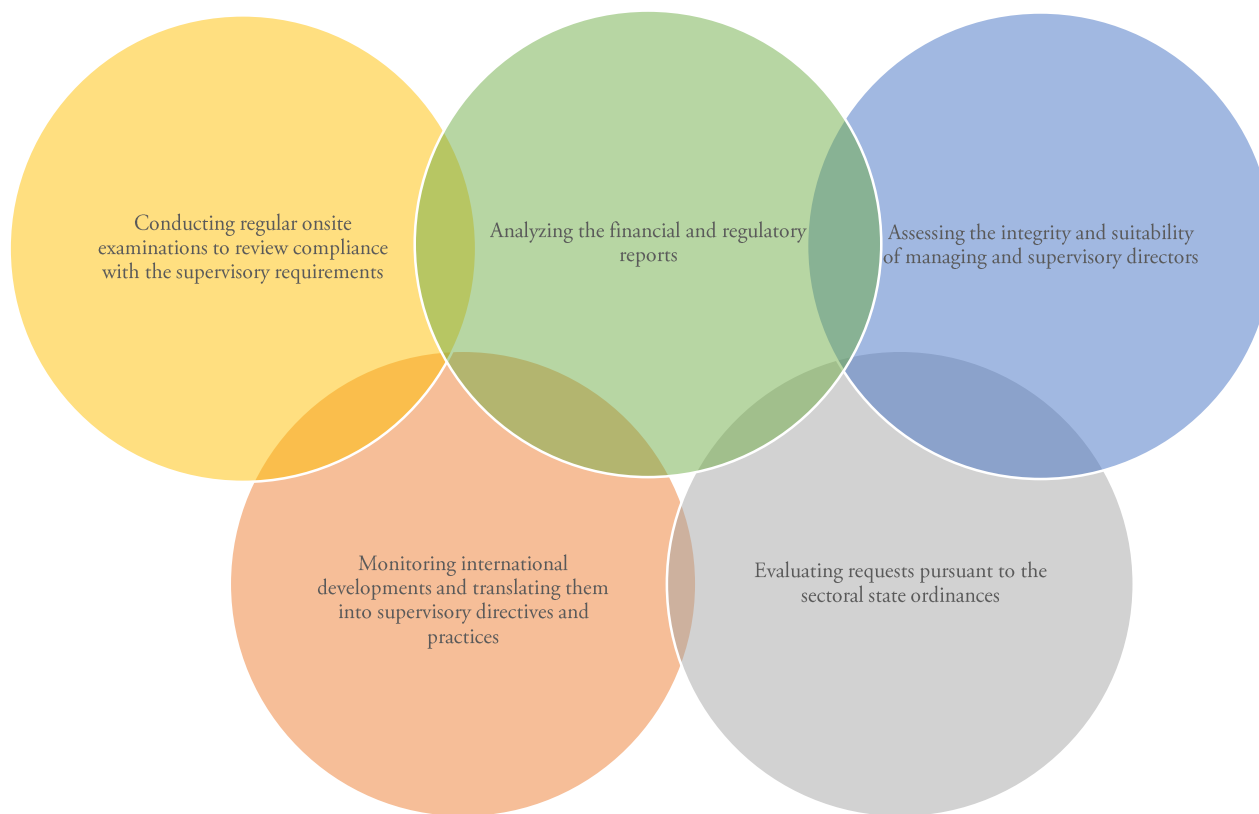
- CBA is authorized to:
 - Request information
 - Inspect books and records and make copies
 - Enter offices (on-site examination)
- Supervised institutions must:
 - Grant all cooperation requested
- CBA must issue a report each year to the Minister of Finance on the implementation of the different supervisory state ordinances, the so-called “Financial Sector Supervision Report”.

Supervisory approach

- Shift from compliance-oriented to risk-based supervisory approach
 - Thorough (root-cause) analysis and persistent supervision (revised on-site manual/work program/skill training)
 - Focus on the fostering of sound practices in the areas of governance, risk management, and compliance
- Highly qualified staff and ongoing investment in training:
 - Prudential Supervision: 8
 - Integrity Supervision: 9
 - Enforcement: 3



Main supervisory activities



Legislative proposals in the pipeline



Proposals

- To regulate consumer credit (also outside the supervised sectors)
- To introduce a deposit insurance scheme
- To enhance the AML/CFT Ordinance to meet the 2012 FATF standards

Major regulatory changes 2018 - 2019

2018

- I. Strengthening of the policy rule on banking license and admission requirements for credit institutions
- II. Increase of the minimum prudential liquidity requirement for credit institutions from 15% to 16%
- III. Revision of actuarial guidelines for company pension funds
- IV. Introduction of a policy paper on Technology Risk Management
- V. Introduction of a policy paper on Outsourcing Arrangements
- VI. Implementation of the big data analytics and warehousing environment – FAME (Forecasting, Analytics, Modelling Environment)

Major regulatory changes (cont'd)

2019

- I. Revision of calculation of solvency margin for insurance companies (balance affiliated companies > 5% of investments must be deducted)
- II. Increase of the minimum prudential liquidity requirement for credit institutions from 16% to 18%
- III. Revised directives on the publication of the audited annual financial statements for credit institutions and insurance companies
- IV. Revised directive on the publication of the effective interest rate on consumer credit for credit institutions
- V. Directive on the appointment of a certifying actuary
- VI. Revised directive on the appointment of an external accountant (details in next slide).

Major regulatory changes (cont'd)

Revised directive on the appointment of an external accountant – Main changes:

- Paragraph on independence
- Completion of “Questionnaire External Auditor (EA)”:
 - Includes required information and documents to be submitted together with a request (e.g., summary of quality review process and resume of the quality review partner)
 - Section 1 to be completed by the applicant (other sections to be completed by the proposed EA)
 - Section 2: Personal details
 - Section 3: Experience
 - Section 4: Quality review process
 - Section 5: Business related financial antecedents
 - Section 6: Other antecedents
 - Section 7: Miscellaneous questions
 - Section 8: Checklist information and documents
 - Section 9: Declaration (to be signed by the applicant and the proposed EA)

Some highlights of the agenda for 2020 and beyond in the area of prudential supervision

- Implementation Basel II, pillar I (via NCoA)
- Implementation of main elements Basel II, pillars II and III
- Fintech/Regulatory sandbox (technological innovation)
- Cybersecurity/ Technology Risk Management
- Strengthening of the governance guidelines (“gedrag en cultuur”)
- Strengthening of the liquidity guidelines for credit institutions (Basel III)
- Issuance of the investment guidelines for insurers and pension funds
- Issuance of actuarial guidelines for life insurers.
- Enhancing of the stress testing model
- Climate change and sustainability

Highlights financial sector

Commercial banks

The commercial banks' aggregated balance sheet total amounted to Afl. 5,737.8 million at year-end 2018, equivalent to 100.1 percent of Aruba's 2018 Gross Domestic Product (GDP) as estimated by the CBA.

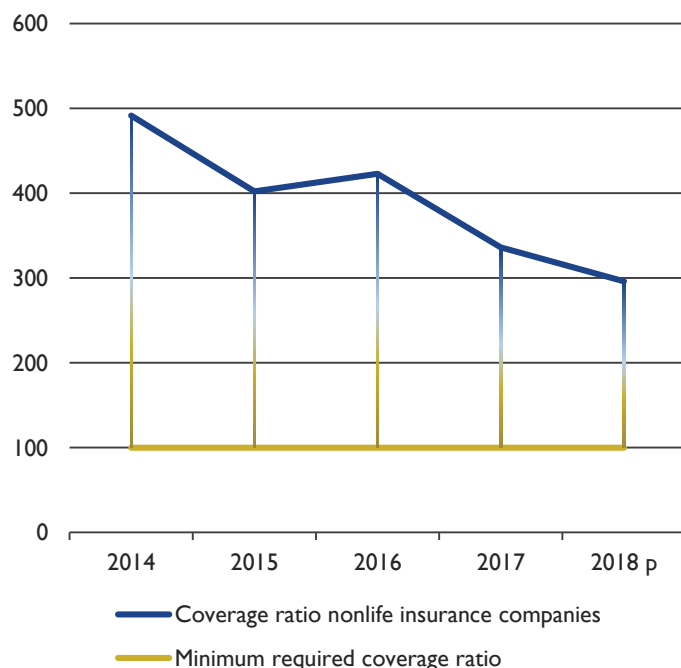
Financial soundness indicators	<u>2017</u>	<u>2018p</u>
Regulatory capital (Tier I + Tier II) to risk-weighted assets	30.3%	32.2%
Nonperforming loans to gross loans	4.0%	3.9%
Return on equity (before taxes)	15.7%	12.8%
Liquid assets to total assets ratio	28.6%	29.8%

p = preliminary figures

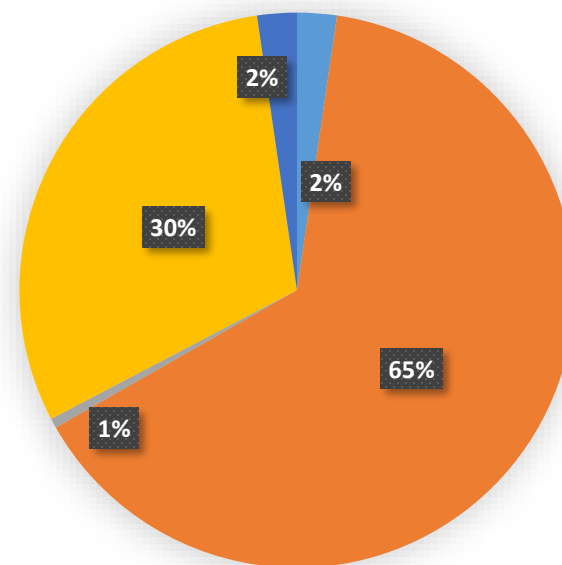
Non-life insurance companies

The combined assets of the non-life insurance sector as per the end of 2018 equaled 5.6 percent of Aruba's 2018 GDP, as estimated by the CBA.

Coverage ratio (%)



Investments

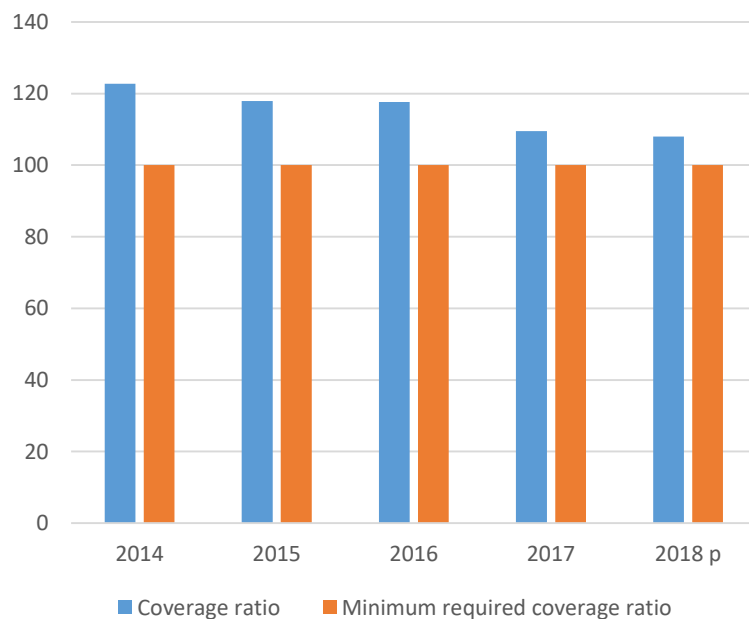


Loans Time deposits Shares Bonds Other investments

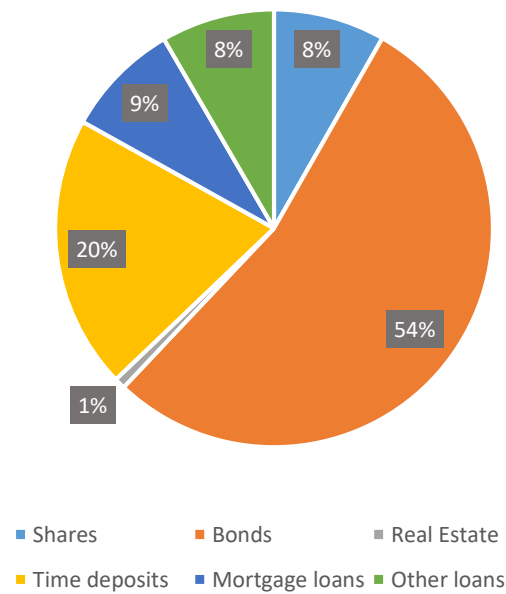
Life insurance companies

The combined assets of the life insurance sector at end-2018 equaled 23.7 percent of Aruba's 2018 GDP, as estimated by the CBA.

Coverage ratio (%)



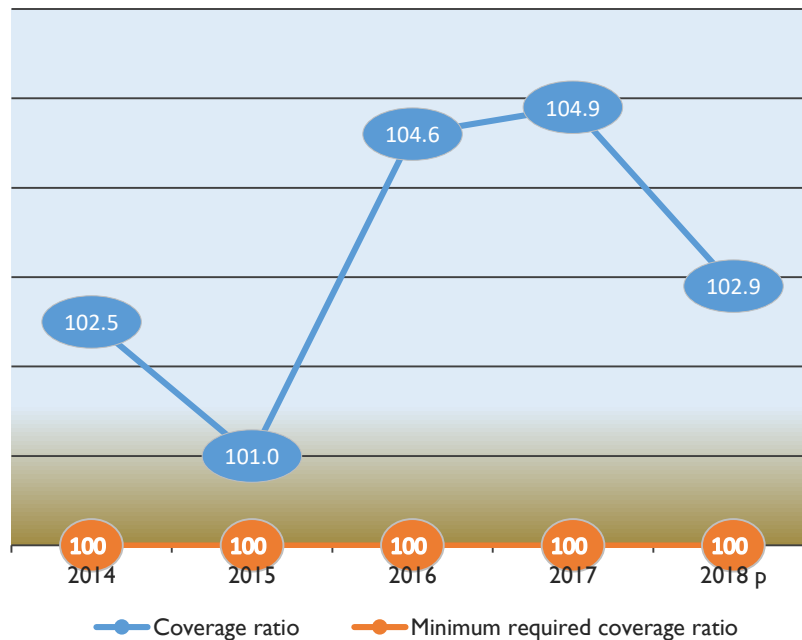
Investments



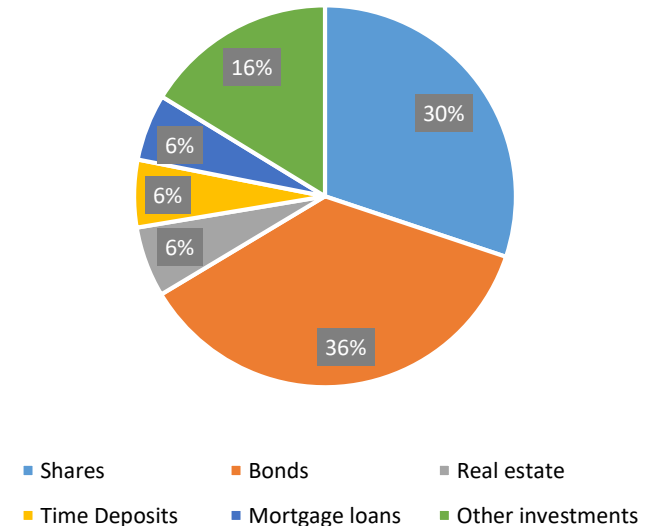
Company pension funds (excl. APFA)

The combined assets of the company pension funds at end-2018 equaled 8.6 percent of Aruba's 2018 GDP, as estimated by the CBA.

Coverage ratio (%)



Investments





"Great is the art of
beginning, but greater
the art is of ending."

- Henry Wadsworth Longfellow

Thank you!

