FINANCIAL SECTOR SUPERVISION REPORT 2016

CENTRALE BANK VAN ARUBA

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June 19, 2017

The Minister of Finance and Government Organization
Mr. A.R. Bermudez
L.G. Smith Boulevard 76
Oranjestad
Aruba

LMG/lcw/2.4/SUP/26148

Re: Financial Sector Supervision Report 2016

His Excellency,

The Centrale Bank van Aruba (CBA) hereby submits five copies of the Financial Sector Supervision Report 2016. This report provides a broad overview of the activities carried out by the CBA during 2016 in implementing the sectoral supervisory state ordinances and the AML/CFT State Ordinance as well as the work undertaken to strengthen the legislative and regulatory framework in the area of financial sector supervision and AML/CFT oversight[1]. It includes an overview of recent developments in the international supervisory and regulatory architecture as well as an analysis of the developments in the financial sector.

The Financial Sector Supervision Report 2016 will be available soon on the CBA's website.

Sincerely yours,

Jeanette R. Semeleer
President

c.c. Board of Supervisory Directors CBA

[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), and article 52 of the State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AB 2011 no. 28).

J.E. Irausquin Boulevard 8 P.O. Box 18 Oranjestad Aruba Tel. nr.: (297) 5252-100 Fax nr.: (297) 5252-101
E-mail: cbaua@setarnet.aw Website: www.cbaruba.org

Preface

The Centrale Bank van Aruba (CBA) must submit a report to the Minister of Finance each year 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]. The CBA complies with this requirement via this yearly publication. Concurrently, this report informs all stakeholders of the main activities the CBA undertook in the areas of prudential and integrity supervision and the changes in the regulatory and supervisory landscape. It also provides an analysis of the developments in the financial sector in 2016.

As of the reporting year 2012, the CBA publishes separate annual reports on financial sector supervision.

[1] Namely, 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), and article 52 of the State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AB 2011 no. 28).

List of abbreviations

ABA	Aruban Bankers' Association
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 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
Basel Committee	Basel Committee on Banking Supervision
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBCS	Centrale Bank van Curaçao en St. Maarten (Central Bank of Curaçao and St. Maarten)
CFATF	Caribbean Financial Action Task Force
CGBS	Caribbean Group of Banking Supervisors
CoA	Chart of Accounts
DNB	De Nederlandsche Bank N.V. (the Dutch Central Bank)
DNFBPs	Designated Non-Financial Businesses and Professions
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit (*Meldpunt Ongebruikelijke Transacties*)
FSB	Financial Stability Board
GDP	Gross Domestic Product
GIFCS	Group of International Finance Centre Supervisors
GIICS	Group of International Insurance Centre Supervisors
IAA	Insurance Association of Aruba
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISD	Integrity Supervision Department
MFSCG	Monetary and Financial Statistics Compilation Guide
MoU	Memorandum of Understanding
MoU	Memorandum of Understanding
(M)MoU	Multilateral MoU
MVTS	Money or Value Transfer Services
NBA	Nederlandse Beroepsorganisatie voor Accountants (The professional body for accountants in the Netherlands)
PEPs	Politically Exposed Persons
PLR	Prudential Liquidity Ratio
PPO	Public Prosecutor's Office (*Openbaar Ministerie*)

PSD	Prudential Supervision Department
PVL	Pension State Ordinance Civil Servants (*Pensioenverordening Landsdienaren*)
SDCIC	State Decree on Captive Insurance Companies
SDSIB	State Decree on the Supervision of Insurance Brokers
SOCPF	State Ordinance on Company Pension Funds
SOFET	State Ordinance Foreign Exchange Transactions
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
TCSPs	Trust Companies Service Providers
UBOs	Ultimate Beneficial Owners

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1. Introduction

The CBA is the sole supervisory authority in Aruba with respect to the financial sector. In executing its supervisory task, it seeks to safeguard confidence in the financial system by promoting (financial) soundness and integrity of the supervised institutions. In order to be able to respond in an effective and proactive way to the constant changes in the external environment, the global regulatory and supervisory landscape, the CBA has set up a strategic plan for the years 2016-2020 called "Bela Yen". The core tasks of the CBA, as laid down in the Central Bank Ordinance (AB 1991 no. GT 32), including its financial sector oversight role, were used as the main point of departure for the design of this plan. The plan reflects the strategic ambitions of the CBA with the overarching objective of enhancing and strengthening the different policy areas within its domain, as well as the way it strives to achieve these ambitions.

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, and, as of January 1, 2017, the securities business (see also Annexes 1, 2, and 3). On said date, the State Ordinance on the Supervision of the Securities Business (AB 2016 no. 53) (SOSSB) entered into force. This ordinance provides the CBA with a solid legal framework to supervise the securities market as well as the parties active in this market. Reference is made to paragraph 4.1.1 for further information on the SOSSB.

In addition, the CBA is entrusted with executing the State Ordinance for 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. 27). Subsequently, it also has AML/CFT oversight responsibility over all institutions that fall under the scope of the AML/CFT State Ordinance and the Sanction Decree Combat Terrorism and Terrorism Financing. This oversight includes, besides the financial institutions, the so-called Designated Non-Financial Businesses and Professions (DNFBPs), i.e., lawyers, civil notaries, tax advisors, accountants, jewelers, car dealers, real estate brokers, and casinos.

This report consists of 9 chapters. Chapter 2 sets out the CBA's supervisory strategy, while chapter 3 highlights the supervisory approach and enforcement policy applied by the CBA. Major changes in the legislative and regulatory framework are discussed in chapter 4. In chapter 5 an overview of some significant international developments in the areas of prudential and integrity supervision and AML/CFT is provided. Chapter 6 presents the activities carried out in promoting national and international cooperation with various stakeholders. The major activities undertaken in the areas of prudential and integrity supervision, respectively, are elaborated in chapters 7 and 8. Chapter 9 discusses developments in the key financial and prudential data of the supervised sectors.

As can be concluded from this report, the CBA continued its efforts in 2016 to widen the supervisory net through legislative proposals, as well as to strengthen further the regulatory and supervisory framework by drafting and issuing new or revised directives and/ or policy papers and by further refining its risk-based supervisory approach in conjunction with a strict enforcement policy. Moreover, the report clearly shows that the financial sector remained very solid, profitable, and highly resilient to external shocks.

The CBA has an excellent track record in contributing towards maintaining a solid and reputable financial sector. Nonetheless, decisively remaining vigilant and responding quickly to issues that arise that may hamper the safety and soundness of Aruba's financial sector are of paramount importance.

2. Supervisory strategy

The CBA's strategic plan "Bela Yen: Nos Plan Strategico 2016-2020" (Bela Yen[2]) has been designed to set a strategic agenda for the years ahead, in which the main ambitions and policy objectives have been prioritized. With this in mind, the CBA established the following three main ambitions:

- The CBA is recognized as a prominent central bank in the region.
- The CBA executes its tasks in an efficient and result-oriented manner.
- The CBA is an attractive organization for top talents.

To achieve the mentioned ambitions, the CBA has set a number of strategic objectives for each of these three ambitions (see Figure 2.1).

The strategic objective "confidence in the financial system is retained" (II) is particularly important to the CBA's mandate in the area of financial sector oversight. The CBA strives to meet this strategic objective through the following:

1. The microprudential and integrity supervision frameworks are strengthened.
2. A strict and effective enforcement policy is embedded in the supervisory organization.
3. Market conduct oversight is introduced and effectively implemented.
4. An adequate framework for promoting financial stability is introduced.

The most important achievements in 2016 with respect to the above objective were:

- The self-assessments undertaken or underway of the legislative, regulatory, and supervisory framework against the current relevant international standards with the aim to identify which areas of the framework need further strengthening.
- The drafting of a legislative proposal to regulate consumer credit (also outside the supervised sectors).
- The drafting of a legislative proposal for the introduction of a deposit insurance scheme.
- The drafting of a legislative proposal to expand the supervisory scope of the State Ordinance on the Supervision of Money Transfer Companies (AB 2003 no. 60) (SOSMTC) to money exchange offices.
- The revision of the actuarial guidelines for company pension funds.
- Strengthening of the risk-weighted solvency ratio for banks from 14 percent to 16 percent.

Furthermore, as part of its strategy to improve economic intelligence (strategic objective IV, see Figure 2.1), the CBA started with a big data warehousing and analytics project in 2016. The project, entitled FAME – Forecasting, Analytics, Modelling Environment – encompasses the enterprise-wide integration and digitization of data compilation and data analytics for developing evidence-based macro-economic and prudential policies. Set to be launched on January 1, 2018, the digital platform will streamline existing data processing and analytics across the data value chain, encompassing external reporters (including the supervised institutions), in order to provide economic intelligence efficiently, reliably and instantly.

[2] "Bela Yen" is a saying in Papiamento meaning "full steam ahead".

Figure: 2.1 Bela Yen: Main ambitions and their strategic objectives

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
I. Trust in the florin is maintained.	VI. Our financial position is strengthened.	XI. A (strategic) human resource management policy is implemented and embedded across the organization in an effective and innovative manner.
II. Confidence in the financial system is retained.	VII. An effective internal and external communication is accomplished.	
III. The safety, reliability, and efficiency of the payments system are increased to the level chosen by us in accordance with best practices.	VIII. The provision of information, including the management information system, is strengthened through digital transformation.	
IV. Economic intelligence is of high quality, timely, independent, and reliable.	IX. We operate optimally by applying an adequate governance model.	
V. A knowledge institute for financial stability and economic resilience is created.	X. Our other services are strengthened (both internally and externally).	

3. Supervisory approach and enforcement

3.1 Supervisory approach

Over the years, the CBA has shifted its approach from a compliance-oriented to a risk-based supervisory approach, thereby allocating the supervisory resources to institutions with the highest risk profiles. As part of the risk-based supervisory framework, the CBA focuses on the main risks and, based on a "root cause" analysis, strives to address the "root cause" of problems rather than treat the symptoms. Using this approach, the CBA aims for persistent and intrusive supervision conducted effectively and efficiently. It also places increased emphasis on the existence of sound policies and procedures in the areas of governance, risk management, and compliance.

The regular onsite examinations at the supervised institutions and the ongoing offsite surveillance, which includes the desk-review of the required weekly, monthly, quarterly, and yearly financial reports filed by the supervised entities, form the main pillars through which the CBA's oversight is executed. These supervisory activities are key to maintain a close watch on the financial and nonfinancial developments at the institutions supervised and to assess ongoing compliance with the relevant laws and regulations and, if and where considered necessary, take measures to enforce compliance.

The CBA recognizes the need to keep abreast of ongoing changes in the international regulatory landscape to ensure continued compliance with the standards set by the international standard-setting bodies in this area. In this regard, it is currently drafting, in close cooperation with the Centrale Bank van Curaçao en St. Maarten (CBCS), the Chart of Accounts (CoA) manual for the supervised credit institutions. The CoA is based on the basic concepts and principles of, inter alia, the Monetary and Financial Statistics Compilation Guide (MFSCG) issued by the International Monetary Fund (IMF) in 2008[3], as well as the International Financial Reporting Standards (IFRS) and Pillar I of the Basel II standards. In Pillar I the minimum capital charges for credit, operational, and market risk are calculated.

Notwithstanding its excellent track record in maintaining a safe and sound financial system, the CBA is fully aware that no room exists for complacency. As the recent global financial crisis clearly showed, supervisory challenges can arise overnight. Although Aruba's financial sector has remained very solid and resilient to external shocks over the years, the CBA stands ready to respond quickly and effectively to supervisory threats that may arise. It also keeps a close eye on preventing risks from building up in the system over time with the chance of spilling over to other sectors, thereby affecting the complete financial sector or the economy as a whole.

In consideration of the increasing complexity of supervision and regulation and the environment in which financial institutions operate, the CBA strives to maintain a highly qualified staff at all times by also investing in the training on an ongoing basis. This is key to maintain a high quality of the oversight exercised by the CBA over the supervised institutions.

As in previous years, the CBA's staff attended several conferences in the areas of financial sector supervision and AML/CFT oversight. Annex 4 includes further details of the conferences attended throughout 2016.

[3] The MFSCG is an accompaniment to the Monetary and Financial Statistics Manual issued by the IMF in 2000.

Staff members of the supervision departments also attended several trainings where the following topics were discussed: financial stability, stress testing, banking resolution frameworks, Basel III accord, risk-focused supervision and risk assessment, operational risk in the banking sector, pension fund supervision, IT supervision, integrity and suitability testing of key persons, financial fraud, AML/CFT, and financial consumer protection.

3.2 Enforcement

Also in 2016, the CBA continued its strict oversight of the supervised institutions to ensure their compliance with the supervisory laws and regulations. In cases where the CBA identifies a situation of noncompliance with the supervisory laws and regulations, formal or informal measures have been taken. The decision to apply formal or informal measures depends among other things on the seriousness of the case. See Box 3.1 for an overview of the CBA's formal enforcement measures. Its enforcement policy can be found on its website: www.cbaruba.org.

Some enforcement measures can be taken by the CBA before a violation of the supervisory laws and regulations has been committed by a supervised institution. Thus, for example, depending on the circumstances, the CBA is authorized, to issue a directive and to appoint a silent receiver for a credit institution or an insurer if the CBA sees signs of a development that jeopardizes or could jeopardize the solvency or also, in the case of a credit institution, the liquidity of the institution.

In 2016, the CBA took the following measures against some financial institutions for noncompliance with the requirements in or pursuant to the sectoral state ordinances.

One life and two general insurance companies received an administrative fine for failing to comply with the regulatory reporting requirements pursuant to articles 11 and 12 of the State Ordinance on the Supervision of the Insurance Business (AB 2000 no. 82) (SOSIB), while one general insurance company was fined for noncompliance with the mentioned articles and for not complying with a direction issued by the CBA pursuant to article 15 of the SOSIB.

In 2016, one trust service provider received an administrative fine for noncompliance with articles 3, 7, 26, 46, and 48 of the AML/CFT State Ordinance.

Box 3.1: Formal enforcement measures

The following formal measures, depending on the nature and seriousness of the breaches found, can be considered:

- Issuing a directive, whether or not accompanied by publication;
- Imposing a penalty charge order and/or administrative fine, whether or not accompanied by publication;
- Declaring that an auditor or actuary is no longer authorized to certify the annual filings (including the annual report) of a credit institution, an insurance company, or a money transfer company;
- Appointing a silent receiver in the case of a credit institution, an insurance company, or a company pension fund;
- Filing of 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, it is also possible to report a case to the Public Prosecutor's Office, where grounds exist for doing so.

Finally, on two occasions, the CBA, pursuant to article 15 of the SOSIB, issued formal directives to a general insurance company and a captive insurance company for not continuously complying with the requirements with respect to the ethical conduct of their business (article 14d of the SOSIB) and the requirement to have at least one managing director for the conduct of the day-to-day business (article 5 of the State Decree on Captive Insurance Companies (AB 2002 no. 50) (SDCIC) and article 7 of the SOSIB).

The enforcement actions taken over the last three years in the area of prudential and integrity supervision are shown in Table 3.1. The administrative sanctions imposed in 2016 are further detailed in Annex 5.

Table 3.1: Enforcement actions 2014-2016 (End of period)

	2014				2015				2016			
	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines	Normative conversations	Formal directives	Penalty charge orders	Administrative fines
Sector												
Credit institutions	1	-	2	2	-	1	-	1	-	-	-	-
Pawnshops	-	-	-	-	-	-	-	-	-	-	-	-
Life insurers	1	-	1	1	-	2	-	1	-	-	-	1
General insurers	-	1	-	-	-	1	-	3	-	1	-	3
Captive insurers	-	-	-	-	-	-	-	-	-	1		
Money transfer companies	1	-	-	-	-	-	-	-	-	-	-	-
Trust service providers	3	-	-	4	-	-	-	-	-	-	-	1
DNFBPs	1	-	-	1	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	1	1				
Total enforcement actions	**7**	**1**	**3**	**8**	**-**	**4**	**1**	**6**	**-**	**2**	**-**	**5**

4. Major changes in the legislative and regulatory framework

In the effort to enhance and strengthen the regulatory mandate, changes have been made or proposed to the legislative and regulatory framework. This chapter includes an overview of the major changes made or proposed.

4.1 Legislative framework

4.1.1 State Ordinance on the Supervision of the Securities Business

The State Ordinance on the Supervision of the Securities Business ("Landsverordening toezicht effectenverkeer") (AB 2016 no. 53) (SOSSB) was approved by Parliament in September 2016 and entered into force on January 1, 2017.

The SOSSB introduces licensing requirements and ongoing supervision on securities brokers, portfolio managers, collective investment schemes, and operators of a stock exchange. Moreover, the SOSSB includes, inter alia, a prospectus obligation for the issuance of securities and a market abuse prohibition.

As of January 1, 2017, it is prohibited to conduct the business of a securities broker, asset manager, investment institution, and a manager of an investment fund or stock exchange in or from Aruba without a license from the CBA. Institutions and or businesses already active prior to January 1, 2017, have a transition period of one (1) year to apply for a license.

Credit institutions and insurance companies possessing a license from the CBA, pursuant to the State Ordinance on the Supervision of the Credit System (AB1998 no. 16) (SOSCS) or the SOSIB, respectively, and already active as a securities broker or asset manager, were required only to notify the CBA hereof by March 31, 2017, at the latest.

With the implementation of the SOSSB, some amendments also were made to the sectoral supervisory state ordinances. See Box 4.1 for an overview of the most significant amendments to the state ordinances regulating the supervision of the credit system, insurance business, and company pension funds.

4.1.2 State Ordinance on Consumer Credit

In 2015, the CBA started drafting a legislative proposal to regulate consumer credit. The final draft was submitted to the Minister of Finance and Government Organization in June 2016. The main objectives of this proposal are to (1) ensure that consumers receive sufficient information before entering into a consumer loan agreement; (2) place a cap on the interest rates that lenders are allowed to charge to consumers; and (3) prevent over-crediting.

4.1.3 Amendment of the State Ordinance on the Supervision of Money Transfer Companies

On July 13, 2016, the CBA submitted a legislative proposal to the Minister of Finance and Government Organization to amend the SOSMTC. The main objectives of the proposal are to broaden the supervisory scope of this ordinance to money exchange offices ("geldwisselkantoren") and thereby bring this type of activity under a strict supervisory regime. The State Ordinance Foreign Exchange

Transactions (AB 1990 no. GT 6) (SOFET), the ordinance under which the money exchange offices are currently regulated, does not provide sufficient tools to effectively supervise these institutions. In light of that fact, it has been the CBA's long-standing policy to apply a very restrictive admission policy with regard to money exchange offices. So far, pursuant to article 10 of the SOFET, only commercial banks have been provided licenses to conduct this activity.

Box 4.1 Most significant amendments made to the SOSCS, SOSIB, and State Ordinance on Company Pension Funds (AB 1998 no. GT 17) (SOCPF) with the implementation of the SOSSB:

- Change of the definition of external auditor. Henceforth, only auditors registered at the "Nederlandse Beroepsorganisatie voor Accountants" (NBA), the professional body for accountants in the Netherlands, are allowed to certify the annual financial statements of supervised credit institutions, insurers, and company pension funds.
- The introduction of a legal requirement in the SOSCS and the SOSIB to have sound corporate governance policies in place.
- The introduction of a legal requirement in the SOSCS and the SOSIB to have written policies and procedures on complaints' handling in place.
- The introduction of a legal requirement in the SOCPF to object to the appointment of the external auditor of a company pension fund if the CBA believes that the auditor does not provide or no longer provides the necessary guarantees that he can fulfill his task properly in relation to a company pension fund. The latter implies that, as of January 1, 2017, company pension funds must also obtain CBA's written approval for a change in external auditor.

4.1.4 Deposit insurance scheme

On January 16, 2014, the Parliament of Aruba passed a motion in which the Minister of Finance and Government Organization was asked to present a legislative proposal for the introduction of a deposit insurance scheme to the Parliament of Aruba. Upon request of the Minister of Finance and Government Organization, the CBA drafted a legislative proposal, which was submitted to the Minister of Finance and Government Organization on August 27, 2015. Based upon the comments received from the Department of Legislation and Legal Affairs ("Directie Wetgeving en Juridische Zaken"), the CBA extended the Explanatory Memorandum pertaining to the legislative proposal and also drafted a State Decree containing general measures and accompanying Explanatory Note, which describes, among other things, the modalities of the deposit insurance scheme. The modalities include the type of deposits covered by the scheme and also to what extent (the maximum coverage), the financing of the scheme, and the procedures to follow if the scheme is called upon. The tasks and responsibilities of the foundation entrusted with the execution of the scheme also are laid down in the mentioned state decree. The revised legislative proposal was submitted to the Minister of Finance and Government Organization on May 5, 2017.

4.2 Regulatory framework

4.2.1 Increase minimum solvency requirement for credit institutions

In line with the Basel III standards, setting higher capital and liquidity requirements for banks, and also in view of the heavy vigilance on one economic sector in 2016, the CBA decided, after consultation with the Aruban Bankers' Association (ABA), to increase the minimum solvency requirement for credit institutions from 14 percent to 16 percent, effective January 1, 2017.

4.2.2 Enhanced quarterly reporting requirements for insurance companies and company pension funds

To monitor the developments at the insurance companies and company pension funds more closely, in 2016 the CBA introduced enhanced reporting requirements for these institutions. As of the second quarter of 2016, insurance companies and company pension funds also must file their quarterly balance sheet and income statement and provide a detailed breakdown of their investments as of the end of each quarter. Further, based on an assessment undertaken in 2016 on the quality of the quarterly coverage test reports, the CBA issued in October 2016 further guidance on the calculation of the coverage ratio, defined as the available assets–minus a buffer for possible downward adjustments in the investment portfolio–to cover the technical provisions.

4.2.3 Revised actuarial guidelines for company pension funds

On November 7, 2016, a revised draft of the actuarial guidelines for company pension funds was issued by the CBA for final consultation. Important revisions concern the mortality table to be used for calculating the technical provisions and the inclusion of minimum conditions that recovery plans must meet. Company pension funds whose coverage ratio falls below the minimum requirement of 100 percent are required to submit a recovery plan to the CBA for its approval. The final actuarial guidelines for company pension funds were issued in June 2017 and will enter into force on January 1, 2018.

5. International developments

With the aim to comply with the international standards on supervision of the financial system, the CBA closely monitors relevant international developments. This chapter provides an overview of some of the most significant international developments that also are considered relevant for Aruba's legislative and supervisory framework in the areas of financial sector supervision and AML/CFT oversight.

5.1 Basel III Accord

The Basel III Accord (Basel III) is a comprehensive set of reform measures that build on and enhance the regulatory framework set out under Basel II and Basel 2.5. Basel III aims to strengthen the resilience of the global banking sector. Among other things, Basel III sets higher capital requirements and introduces global liquidity standards with a view to preventing a reoccurrence of the global financial crisis that started in 2007 and peaked in 2008 with the collapse of Lehman Brothers in the United States. This crisis is considered the most severe financial crisis the world had witnessed since the economic depression in the 1930s that started with the collapse of the stock exchange market in the United States. The CBA intends to increase the minimum prudential liquidity ratio, which currently stands at 15 percent, to 20 percent. A proposal to this end has been submitted to the ABA.

5.2 Basel Committee: 'Guidelines Prudential treatment of problem assets—definitions of non-performing exposures and forbearance'

The Basel Committee on Banking Supervision (Basel Committee) issued a consultation paper for the prudential treatment of problem assets in April 2016 titled 'Prudential treatment of problem assets—definitions of non-performing exposures and forbearance', providing definitions for two important measures of asset quality, namely, 'non-performing exposures' and 'forbearance'[4]. This paper intends to promote harmonization in the measurement and application of 'non-performing exposures' and 'forbearance', thereby fostering consistency in supervisory reporting. The final guidance paper was released in April 2017. The CBA will consider the matters brought forward in this paper when reviewing its regulations on the treatment of non-performing loans and other assets.

5.3 International Association of Insurance Supervisors (IAIS): 'Issues Paper on Cyber Risk to the Insurance Sector'

Cybersecurity is a growing concern across all sectors of the global economy, including the insurance industry. For insurers, cybersecurity incidents can harm their ability to conduct business, compromise the protection of commercial and personal data, and undermine confidence in the sector. The IAIS has noted that the level of awareness of cyber threats and cybersecurity within the insurance sector, as well as supervisory approaches to combat the risks, appear to vary across jurisdictions. These factors prompted the IAIS to consider the area of cybersecurity in the insurance sector, including the involvement of

[4] Also often referred to as restructuring.

insurance supervisors in assessing and promoting the mitigation of cyber risk. Subsequently, in August 2016, the IAIS issued a paper which focuses on the mitigation of cyber risks. The objective of the paper is to raise awareness among insurers and supervisors of the challenges presented by cyber risk, including current and contemplated supervisory approaches for addressing these risks. The CBA considers the issue of cyber risk as highly relevant to, most important, the banking and insurance sector. It closely monitors developments in the area of cyber security, also taking stock of the high-profile hacking incidents currently taking place around the globe. The CBA intends to issue a high-level consultative policy paper for banks and insurance companies in the area of cyber risk in the next year.

5.4 Financial Stability Board (FSB): 'Guidance on Arrangements to Support Operational Continuity in Resolution'

In August 2016, the FSB published a paper titled 'Guidance on Arrangements to Support Operational Continuity in Resolution'. This paper aims to assist supervisory and resolution authorities evaluate whether firms subject to resolution planning requirements have appropriate arrangements to support operational continuity if the firm enters into resolution. Operational continuity refers to the means of ensuring or supporting continuity of critical shared services necessary to maintain the provision or facilitate the orderly wind -down of a firm's critical functions in resolution. The guidance paper sets out arrangements to support the continuity of those services in resolution, including legal, contractual, and governance frameworks, resourcing, management information systems, and financial resources. The establishment of a resolution regime is considered instrumental to foster financial stability. The CBA is currently looking into the feasibility of introducing such a regime for the domestic banking and insurance sectors in Aruba.

5.5 Financial Action Task Force (FATF): Reports, guidance, and best practices

5.5.1 'Guidance for a Risk-Based Approach for Money or Value Transfer Services'

In February 2016, the FATF issued a guidance paper addressing the risk based approach for the Money or Value Transfer Services (MVTS) sector. This guidance paper intends to assist countries and their competent authorities, as well as the practitioners in the MVTS sector and in the banking sector that have or are considering MVTS-providers as customers, in applying a risk-based approach to MVTS. The risk-based approach, the cornerstone of the FATF standards, requires that measures taken to combat ML/TF are commensurate with the (perceived) risks. The CBA applies a risk-based approach for all sectors supervised, including the MVTS sector and, will consider the fine-tuning of its approach based upon this guidance paper.

5.5.2 'Consolidated FATF Standards on Information Sharing'

In June 2016, the FATF issued a report on information sharing. These requirements are set out in 25 of the FATF's 40 Recommendations and impact 7 immediate outcomes of the FATF Methodology for assessing effectiveness. In this report, the FATF has grouped the relevant sections on information sharing from the existing FATF recommendations into one compilation. The compilation helps clarify what the FATF recommendations require in terms of the types of information that should be shared, including the types of information that competent authorities are required to make publicly available, the circumstances in which such information should be shared, and the protections and safeguards that should apply to information-sharing and information-exchange agreements. Effectively sharing information concerning possible cases of abuse of the financial system with relevant authorities is one of the cornerstones of an effective AML/CFT system. The CBA shares on both a national and international level information with relevant authorities. This report offers the CBA a benchmark to review its standing practices against the (best) practices mentioned in this report.

5.5.3 'Guidance on Correspondent Banking Services'

In recent years, financial institutions increasingly have decided to avoid, rather than to manage, possible money laundering or terrorist financing risks by terminating business relationships with entire regions or classes of customers. This so-called 'de-risking' practice has negatively impacted correspondent banking. De-risking poses the danger of driving both illicit markets and financial exclusion. The FATF issued a guidance paper in October 2016 elaborating on the FATF's requirements in the context of correspondent banking services. Many jurisdictions in the Caribbean region have been affected, and concern is increasing that the economies of many of the jurisdictions in this region will be heavily impacted. Note in this regard that some jurisdictions in the region also are heavily dependent on the inflow of money transfers originating from their nationals living abroad to support their families. Many of the correspondent banks in the United States will not provide services via their correspondent account to MVTS. Also casinos are under increased scrutiny. Other high-risk business also may be excluded in the future from conducting transactions in U.S. dollars via the correspondent accounts of the respondent banks in the Caribbean.

It is evident that the financial services industry in the Caribbean cannot survive without correspondent banking relationships and neither can their economies. So far, Aruba has not been impacted on a scale seen in some other jurisdictions in this region by the de-risking practices of the correspondent banks in the United States. However, in this regard, it is of utmost importance to maintain a high level of compliance with the international standards and best practices.

With a view to further strengthen the AML/CFT framework and to prepare for the upcoming assessment by the Caribbean Financial Action Task Force (CFATF) in 2021, the CBA conducted a gap analysis vis-à-vis the 2012 FATF recommendations that fall within its domain to identify any shortcomings and to establish a plan of action to address the identified shortcomings. The exercise revealed some areas that need further improvement, inter alia, by further strengthening the laws, regulations, and practices in this area. The CBA also conducted a gap analysis vis-à-vis the Group of International Finance Centre Supervisors (GIFCS) Trust Companies Service Providers (TCSPs) Standards to identify possible areas that need improvement with respect to its supervisory regime on the TCSPs. The analysis revealed no major deficiencies.

6. National and international cooperation

6.1 National cooperation

In 2016, the CBA continued its meetings with relevant government agencies, as well as with sectoral organizations to discuss topics of mutual interest. Its most important partners with respect to integrity supervision and enforcement are the Financial Intelligence Unit ("Meldpunt Ongebruikelijke Transacties") (FIU) and the Public Prosecutor's Office ("Openbaar Ministerie") (PPO). The Integrity Supervision Department (ISD) and the FIU met three times, while the ISD and the PPO met twice. The cornerstone for these periodic meetings is the Memoranda of Understanding with the FIU (signed in 2011) and the PPO (signed in 2012). In addition to setting procedures for information exchange, the Memorandum of Understanding (MoU) with the PPO contains guidelines in the event of a concurrence of administrative and criminal offences. Because of the universal "ne bis in idem-principle," i.e., a person cannot be punished twice for the same act, the parties in these cases must decide which enforcement route to follow.

6.2 International cooperation

The sectoral supervisory laws authorize the CBA, provided that certain conditions are met, to exchange information with other (foreign) supervisory authorities. Reference is made to Annex 6 for a list of the MoUs signed in the area of supervision.

During 2016, the CBA received seven information requests from foreign supervisory authorities. It responded to all of these requests. Furthermore, on two occasions, it requested and received information from foreign supervisors.

The CBA meets regularly with its counterparts within the Kingdom of the Netherlands, namely, De Nederlandsche Bank N.V. (DNB), the Authority for the Financial Markets ("Autoriteit Financiële Markten") (AFM), and the CBCS. The Technical Committee of the Supervisory authorities of the Kingdom of the Netherlands met three times in 2016.

Furthermore, the CBA participated in three meetings of the Joint Working Group on Integrity Issues, consisting of representatives of the supervisory authorities within the Kingdom of the Netherlands. The FIUs within the Kingdom of the Netherlands attended two of these meetings. These meetings were of an extraordinary nature because issues, such as unusual transaction reporting of supervised institutions, and identification and monitoring of Politically Exposed Persons (PEPs) were amply discussed. The group will continue to monitor progress and exchange knowledge regarding the broad area of integrity supervision.

The CBA is also a member of the Joint Working Group on Market Conduct, installed in 2012 by the supervisory authorities within the Dutch Kingdom to enhance and harmonize, as far as possible, laws, regulations, and supervisory approaches in the area of market conduct. Market conduct supervision aims at orderly and transparent financial market processes, integrity of relations between market players, and due care in the provision of services to clients. In 2016, the working group continued to list and analyze the legal and regulatory frameworks in place in the different jurisdictions within the Kingdom of the Netherlands and prepared a report with recommendations to upgrade the existing frameworks in the Dutch Caribbean. In Aruba, market conduct supervision is still in the initial stages.

In October 2016, the CBA organized, in close cooperation with the DNB, the AFM, and the CBCS, a seminar for financial institutions operating in the Dutch Caribbean. The theme of the seminar was "*Promoting the Integrity of Financial Institutions operating* *in the Caribbean part of the Kingdom of the Netherlands*". More than 150 participants, among them staff members from financial institutions established in Aruba, the BES islands, Curaçao, and Sint Maarten, attended this seminar. The topics discussed included incident reporting, whistleblower policy, recent developments in the regulatory legislation, and the enforcement policy of the CBA. The FIUs of Aruba, Curaçao, and Sint Maarten addressed the topic of the reporting behavior of financial institutions within the Kingdom. This seminar aimed to promote the integrity of the financial sector in the Dutch Caribbean and to raise awareness within the financial sector about this theme.

The CBA also continued to provide assistance to the CFATF in 2016 with regard to assessing Suriname's progress in addressing the deficiencies found during the CFATF's last mutual evaluation vis-à-vis the FATF recommendations.

The CBA is a member of various international groups of supervisors and participated in different meetings held by these groups throughout 2016:

- Plenary meetings of the Group of International Finance Centre Supervisors (GIFCS),
- Annual General Meeting and XXXIV Annual Conference and a Members' meeting of the Caribbean Group of Banking Supervisors (CGBS),
- Working Group and Annual General Meeting of the Group of International Insurance Centre Supervisors (GIICS), and
- XI High-level Meeting and XIX Annual Assembly Meeting of the Association of Supervisors of Banks of the Americas (ASBA).

See Annex 7 for some of the topics discussed during these meetings.

Finally, the CBA participated in questionnaires, surveys, and other information requests in the area of supervision received from multilateral organizations and supervisory bodies.

7. Prudential supervision

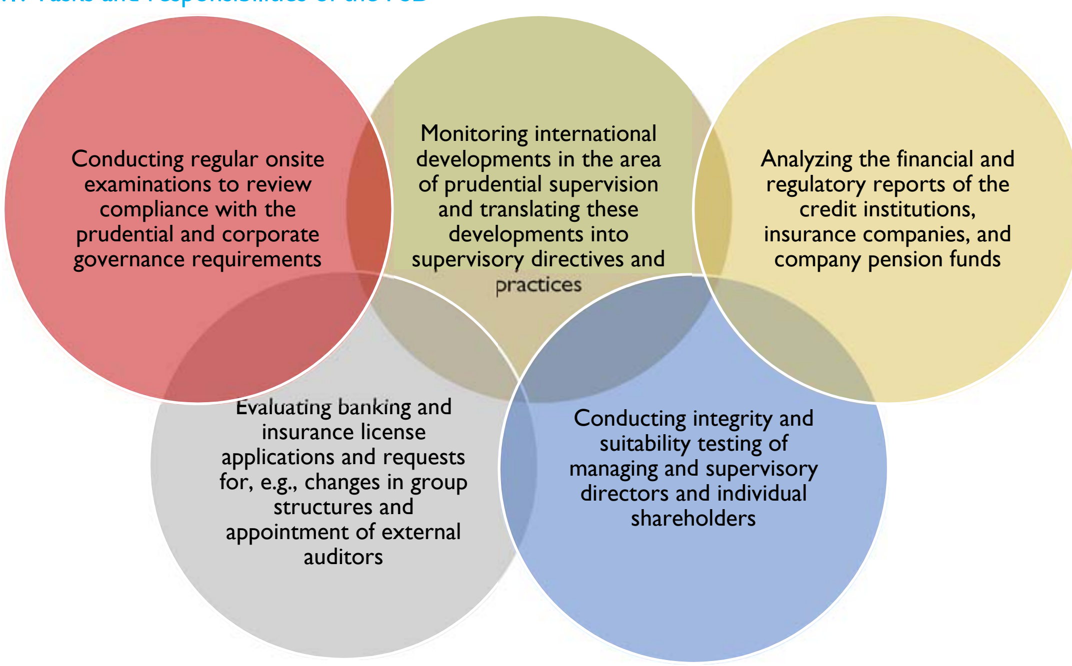
The Prudential Supervision Department (PSD), consisting at year-end 2016 of nine full-time staff members, is responsible for the proper monitoring of the financial soundness of supervised financial institutions, in particular, credit institutions, insurance companies, and company pension funds. It monitors international developments in the area of prudential supervision and, insofar as relevant for Aruba, translates these developments into supervisory policy directives and policy papers. The department monitors compliance with the supervisory laws and regulations through ongoing offsite surveillance and the conduct of regular onsite examinations. The primary tasks and responsibilities of the PSD are presented in Figure 7.1. This chapter elaborates on the activities carried out by the PSD in 2016.

In general, the supervised institutions remained in compliance with the CBA's prudential requirements during 2016. At year-end 2016, besides Stichting Algemeen Pensioenfonds Aruba (the Civil Servants Pension Fund, APFA), one company pension fund reported a coverage ratio below the minimum requirement of 100 percent. The CBA continues to monitor closely these institutions' financial developments and their progress vis-à-vis their recovery plans. Refer to Chapter 9 for details on sectoral financial developments.

7.1 Offsite surveillance

In 2016, as part of its offsite surveillance, the PSD undertook several activities including, among other things, analysis of the financial and regulatory returns submitted by the supervised institutions, follow up on the corporate governance assessment initiated in 2015, and monitoring of developments at the supervised institutions in liquidation.

Figure 7.1: Tasks and responsibilities of the PSD



The PSD also processed several requests for approval pursuant to the various sectoral supervisory laws, mainly pursuant to article 48 of the SOSCS, article 27b of the SOSIB, and petitions for changes in qualifying holding and external auditor of the credit institutions and insurance companies (see also Annex 8). On several occasions, the PSD provided advice to the CBA's legal department related to foreign exchange license requests of financial institutions supervised by the CBA.

Box 7.1: Qredits

On December 13, 2016, and in accordance with section 48, paragraph 3, of the SOSCS, the CBA granted an exemption to Stichting Qredits Microfinanciering Nederland to grant credit, through a branch, to the public of Aruba. Stichting Qredits Microfinanciering Nederland was included in the CBA's registry in January 2017.

In 2016, the CBA received thirteen requests related to the appointment of a key person from the credit institutions, thirteen requests from the insurance companies, and seven from the company pension funds (see also Annex 9).

The CBA continued to conduct its stress testing exercise on the domestic commercial banking sector. The assumptions used in the stress testing exercise in 2016 were different from those used in 2015. For example, the proportional percentage increases in nonperforming loans and provisioning used were much higher than in 2015. Despite the much higher shocks applied in the stress testing model in 2016, the aggregated results show that the commercial banking sector remains highly resilient to potential adverse developments in credit conditions and, albeit to a lesser degree, in liquidity levels. The results of the exercise conducted in 2016 were communicated to the commercial banks during the bilateral meetings held at the end of 2016.

7.2 Onsite examinations

The PSD conducted eight targeted onsite examinations during 2016, namely, at two credit institutions and six insurance companies. The CBA assessed compliance with its policy papers on corporate governance at two credit institutions and four insurance companies. During the onsite visit at one of these insurance companies, the CBA also undertook an in-depth review of the financial position of the subject insurance company. In addition, at two insurance companies, the CBA assessed the admissibility of assets and the quality of the prudential returns. Table 7.1 provides an overview of the onsite examinations conducted by the PSD.

Table 7.1: Onsite examinations by PSD 2014-2016 (End of period)

	2014	2015	2016
Sector			
Credit institutions	1	2	2
Life insurance companies	1	-	3
General insurance companies	4	2	3
Company pension funds	2	2	-
Total onsite examinations	**8**	**6**	**8**

In one case, formal measures were taken for non-compliance with the stipulations laid down in the supervisory state ordinances and the regulations pursuant to these supervisory laws.

7.3 Periodic meetings with supervised institutions

During 2016, the CBA held 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. Apart from relevant local and international developments (i.e., correspondent banking), the following matters related to prudential supervision were discussed during the meetings held in 2016: (a) the CBA's intention to require all credit institutions and insurance companies to publish their annual report on their website in line with international standards on disclosure of financial information, (b) the increase of the solvency requirement for credit institutions from 14 to 16 percent[5], (c) the revised quarterly filings for insurance companies[6], and (d) the draft SOSSB.

Furthermore, the CBA met separately with the management of each commercial bank during the periodic bilateral meetings to discuss matters related to market developments, credit growth, development in the nonperforming loans, and financial performance vis-à-vis the budget.

7.4 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 view of the more challenging environment in which financial institutions operate and the more complex supervisory architecture in recent years, it has become necessary to attract and retain highly qualified staff and to charge a larger part of the supervisory costs to the sectors supervised. The CBA intends to start drafting a legislative proposal relevant to this effort in the second part of 2017.

[5] See paragraph 4.2.1.

[6] See paragraph 4.2.2.

8. Integrity supervision

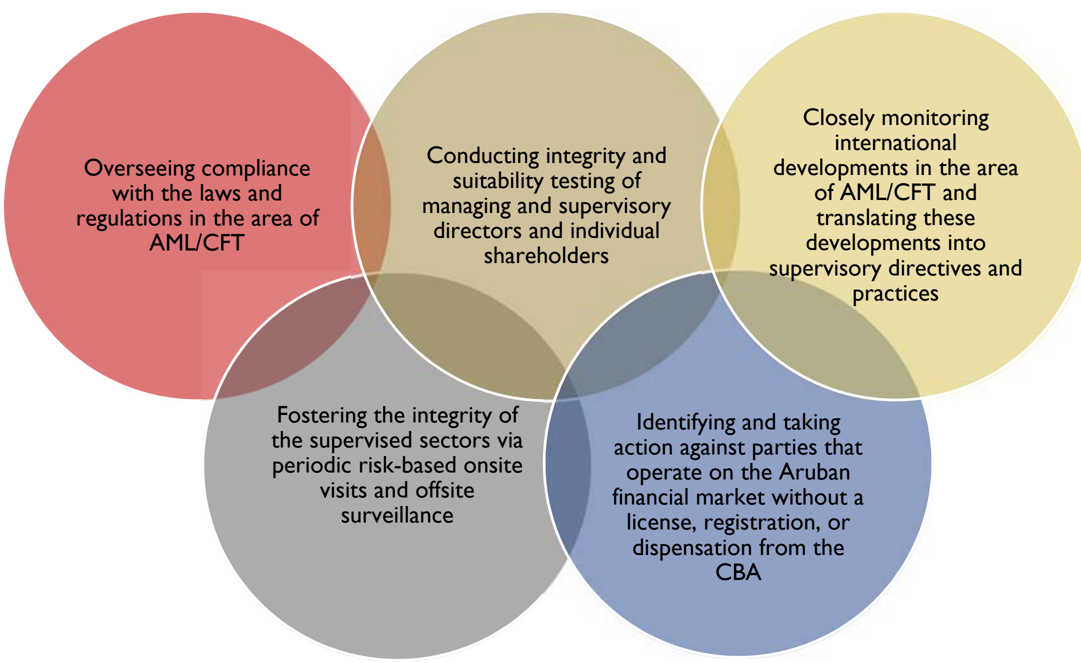
The integrity of the supervised sectors and institutions is essential to maintaining confidence in the financial system of Aruba. Therefore, Integrity supervision is a key pillar of the CBA's supervision. Breaches of the law, (unwillingly) facilitating unlawful activity, and other unethical behavior can result in enforcement actions, including monetary penalties, civil liability claims, and reputational damage. Integrity risk management is also of paramount importance for the financial soundness of supervised institutions.

In view of the expanded supervisory mandate in the area of integrity supervision, ISD's focus in 2016 remained on fostering the supervised institutions' compliance with the integrity-related requirements via the issuance of guidance papers and directives, information sessions, and onsite visits and offsite surveillance.

8.1 Offsite surveillance

As part of its offsite surveillance, the ISD undertook several activities. It sent questionnaires to the commercial banks inquiring about their procedures with regard to casinos in their portfolio to assess the risks surrounding the casino sector. ISD also approached accountants, tax advisors, and trust service providers in the latter part of 2016 via a questionnaire to inquire about any links to the "Panama Papers". The information received from the mentioned questionnaires formed the basis for ISD's off- and on-site surveillance for 2017. In 2016, the ISD continued to allocate resources to the processing of the license applications of insurance brokers and the dispensation requests of insurance sales agents.

Figure 8.1 Tasks and responsibilities of ISD



Furthermore, the ISD processed license requests of money transfer companies and various requests pursuant to the sectoral supervisory laws (including but not limited to changes in shareholding structure). In the course of 2016, the CBA received four requests related to the appointment of a key person from trust service providers, five requests from money transfer companies, and eleven requests from insurance brokers in relation to their license application (see Annex 9).

8.2 Onsite examinations

In 2016, the ISD carried out eight focused onsite examinations: two examinations at a credit institution, one at a trust service provider, one at a life insurer, one at a pension fund, and three at casinos (see also Table 8.1).

The onsite examinations at one credit institution, the life insurer, pension fund, and casinos focused mainly on the following topics: (1) compliance with the AML/CFT State Ordinance, and (2) transaction monitoring and unusual transaction reporting. The onsite examinations at the trust company and another credit institution were special investigations focused on incident reporting.

The main findings related to the subject onsite examinations were in the area of transaction monitoring and unusual transaction reporting.

In one case, a formal measure was taken following the result of an onsite examination.

8.3 Periodic meetings with supervised institutions

During the periodic meetings held between the ABA, the IAA and the CBA in 2016 (see also paragraph 7.3 above), discussions also were held on matters related to integrity supervision, namely, the State Ordinance on Consumer Credit, and the Basel Committee's Guidelines 'Sound management of risks related to money laundering and financing of terrorism'.

Additionally, the ISD held meetings with the supervised institutions to discuss various supervisory matters, some of which were integrity related such as the de-risking phenomena and, unusual transaction reporting. Furthermore, the ISD held a meeting in the area of AML/CFT with the managers and compliance officers of the commercial banks regarding "de-risking" that has affected many countries in the Caribbean. It also met with the directors of the life insurance companies to discuss the unusual transaction reporting behavior by this sector.

Table 8.1: Onsite examinations by ISD 2014-2016
(End of period)

	2014	2015	2016
Sector			
Credit institutions	3	1	2
Pawnshop	-	1	-
Life insurance companies	2	-	1
General insurance companies	1	-	-
Company pension fund	-	-	1
Money transfer companies	-	2	-
Trust service providers	2	1	1
DNFBPs	1	1	3
Total onsite examinations	**9**	**6**	**8**

8.4 Passing on of the supervisory costs

Reference is made to paragraph 7.4 in which the subject matter is discussed. As noted in said paragraph, in the latter part of 2017, the CBA intends to draft a proposal to significantly increase the supervision costs passed on to the sectors supervised.

9. Sectoral financial analysis

The CBA is responsible for, among other things, the supervision of credit institutions, insurance companies (including life and nonlife insurance companies, captive insurance companies, and insurance brokers), money transfer companies, trust service providers, and company pension funds. This chapter describes the key financial developments in these sectors. Detailed financial data on the banking, insurance, and pension fund sectors also can be found in the Annual Statistical Digest published by the CBA.

9.1 Credit institutions

As depicted in Table 9.1, the number of credit institutions supervised by the CBA remained unchanged at 12 at year-end 2016. FirstCaribbean International Bank (Cayman) Limited Aruba branch became operational during the third quarter of 2016, while BBA Bank N.V. ceased its operations in 2016.

Table 9.1: Number of supervised institutions within the banking sector (at end of period)

	2014	2015	2016
Total	12	12	12
Commercial banks	5	6	6
International banks	2	1	1
Bank-like institutions	3	3	3
Credit unions	2	2	2

Source: CBA.

9.1.1 Commercial banks

9.1.1.1 Key figures

Balance sheet

As illustrated in Table 9.2, the commercial banks' aggregated balance sheet total amounted to Afl. 5,405.8 million at year-end 2016, equivalent to 113.2 percent of Aruba's 2016 estimated Gross Domestic Product (GDP). During the period 2012-2014, aggregated outstanding loans increased by, respectively, Afl. 172.9 million or 6.4 percent in 2013 and Afl. 116.5 million or 4.0 percent in 2014. In the following two years, aggregated outstanding loans remained quite flat, recording modest growths of, respectively, Afl. 8.0 million or 0.3 percent in 2015 and Afl. 19.8 million or 0.7 percent in 2016. Aggregated deposits decreased slightly by Afl. 8.0 million or 0.2 percent in 2013, moving thereafter in an upward trend for the period 2014-2016, rising by, respectively, Afl. 99.8 million or 2.6 percent in 2014, Afl. 207.1 million or 5.3 percent in 2015 and Afl. 263.2 million or 6.4 percent in 2016. The consistent upward trend in aggregated deposits over these years, combined with the rather modest growth in aggregated outstanding loans as of year-end 2015, may be the result of subdued economic activities. The sharp upswing in deposits as of 2014 impacted the loans-to-deposits ratios significantly, which fell from 73.6 percent at year-end 2014 to 66.1 percent at year-end 2016 (see also Table 9.3). During the period 2012-2016, capital and reserves expanded by, respectively, Afl. 80.3 million or 13.9 percent in 2013, Afl. 63.0 million or 9.6 percent in 2014, Afl. 64.8 million or 9.0 percent in 2015, and Afl. 76.3 million or 9.7 percent in 2016. These increases were associated primarily with additions from net income to the reserves, offset partly by dividend distributions.

Profit and Loss

During 2016 the commercial banking sector remained financially solid and highly profitable.

Table 9.2 shows that the total income of the banking sector consists of two components; namely, net interest income and operating income. In the period 2012-2016, growth in total income slowed significantly, reaching Afl. 0.4 million or 0.1 percent in 2016, down from a peak of Afl. 10.8 million or 3.2 percent in 2013, while operating income (fees and commissions) recorded persistent increases up to and including 2015. Net interest income showed a slight gain of Afl. 2.4 million or 1.1 percent in 2013, followed by drops of, respectively Afl. 2.6 million or 1.2 percent in 2014 and Afl. 7.3 million or 3.4 percent in 2015, and then slightly strengthening again by Afl. 2 million or 1.0 percent in 2016.

Operating income, on the other hand, grew steadily in the period 2012-2015, while in 2016 a minor decrease of Afl. 2.0 million or 1.0 percent was registered. Over the past five years, operating expenses increased by, respectively, Afl. 7.5 million or 3.6 percent in 2013, Afl. 11.0 million or 5.2 percent in 2014, Afl. 3.0 million or 1.3 percent in 2015, and Afl. 4.0 million or 1.8 percent in 2016. The significant slowdown in growth of operating expenses in the past two years evidenced the banks' increased focus on streamlining their business activities and further automating their banking processes. Net income before taxes increased by Afl. 3.3 million or 2.4 percent in 2013, dropped by Afl. 7.4 million or 5.3 percent in 2014, and continued to rise in 2015-2016 by, respectively, Afl. 0.2 million or 0.2 percent in 2015 and Afl. 3.2 million or 2.4 percent in 2016. The 2014 drop in net income before taxes was due mainly to a larger increase of Afl. 11.0 million in operating expenses compared to a growth of Afl. 4.5 million in total income. The increase in net income of Afl. 3.2 million or 2.4 percent in 2016 is associated with a lower addition to the loan loss provisions in 2016 (Afl. 0.3 million) compared to 2015 (Afl. 8.5 million), offset partly by an increase of Afl. 3.5 million in other expenses in 2016 when compared to 2015. Note also that the interest rates on loans shrank further over the last few years and are expected to continue their declining path, especially in the commercial loans and residential mortgage segments, where the competition has intensified.

Table 9.2: Selected aggregated balance sheet and profit and loss figures of the commercial banks (in Afl. million)

Balance sheet					
End of period	2012	2013	2014	2015	2016 p
1. Total assets	4,639.0	4,720.2	4,866.5	5,096.7	5,405.8
2. Total loans:	2,708.0	2,880.9	2,997.4	3,005.4	3,025.2
a. Commercial 1)	1,151.2	1,246.9	1,292.6	1,226.8	1,224.5
b. Individuals 2)	1,556.8	1,634.0	1,704.8	1,767.4	1,800.7
c. Government	-	-	-	11.2	-
3. Capital and reserves 3)	576.6	656.9	719.9	784.7	861.0
4. Total deposits:	3,812.3	3,804.3	3,904.1	4,111.2	4,374.4
a. Demand	1,834.2	1,729.0	1,770.0	2,017.3	2,234.8
b. Time	957.8	1,031.4	1,093.6	1,079.6	1,084.9
c. Savings	1,020.3	1,043.9	1,040.5	1,014.3	1,054.7
Profit and Loss	2012	2013	2014	2015	2016 p
1. Net interest income	218.1	220.5	217.9	210.6	212.6
2. Operating income	123.8	132.2	139.3	153.0	151.4
3. Total income	341.9	352.7	357.2	363.6	364.0
4. Operating expenses	206.2	213.7	224.7	227.7	231.7
5. Additions to loan loss provisions	9.6	4.3	4.5	8.5	0.3
6. Total expenses	215.8	218.0	229.2	236.2	232.0
7. Net income before taxes 4)	135.5	138.8	131.4	131.6	134.8

Source: CBA: commercial banks.
1) Corrected for allocated loan loss provisions (ALLP).
2) Corrected for unearned income.
3) Including general (unallocated) reserves.
4) Net income before taxes cannot be derived from the items listed above only, as other items (i.e. extraordinary income and expenses must also be taken into account.
p = preliminary figures.

9.1.1.2 Key ratios

Capital adequacy

The commercial banks' aggregated risk-weighted capital ratio moved up to 27.9 percent at the end of December 2016 compared to 19.4 percent at the end of December 2012.

Table 9.3 shows that the commercial banks' aggregated capital to risk-weighted assets ratio stayed well above the required minimum of 14 percent during the past five years. This ratio moved up to 27.9 percent at year-end 2016, from 26.0 percent in 2015, due mainly to the continued increase in the commercial banks' capital and reserves. The CBA raised the minimum capital adequacy ratio to 16 percent as of January 1, 2017, predominantly in consideration of the heavy dependence of the Aruban economy on one sector and the ensuing risks for banks, as well as in response to the international trend of maintaining higher capital buffers as a result of the Basel III accord. This accord aims at improving the resilience of the banking sector by setting higher minimum capital and liquidity standards. As in the previous years, the commercial banks' resilience was stress-tested by the CBA in 2016. The outcome of these stress tests shows that the commercial banks continue to be able to absorb significant external shocks.

The outcome of the 2016 stress tests shows that the commercial banks continue to be able to absorb significant external shocks.

Asset quality

As depicted in Chart 1, the quality of the commercial banks' loan portfolio improved significantly during the last five years, as the nonperforming loans-to-gross loans ratio shrank from 7.0 percent at the end of 2012 to 4.4 percent at the end of 2016. This decrease was due mostly to the restructuring and the write-off of some nonperforming loans. Chart 2 shows that the decrease in nonperforming loans occurred chiefly in the commercial current account and commercial mortgage loan categories.

Chart 1: Nonperforming loans (gross) to total gross loans of the commercial banks (in percentages)

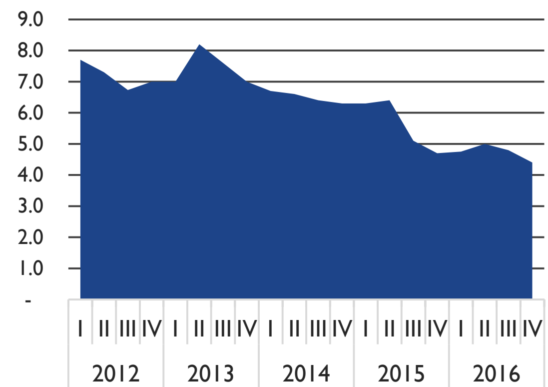
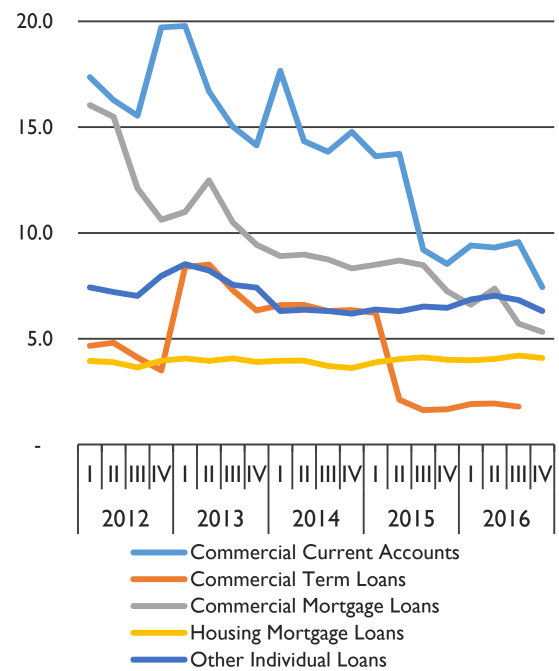


Chart 2: Development of non- performing loans by category of the commercial banks (in percentages per each category)



Profitability

As indicated in Table 9.3, return on assets (before taxes) showed a contractionary trend during the period 2012-2016, and equaled, respectively, 3.1 percent in both 2012 and 2013, 2.8 percent in 2014, and 2.7 percent both in 2015 and 2016. In this period, return on equity (before taxes) also shrank, declining from, respectively, 30.4 percent in 2012, to 28.0 percent in 2013, 23.3 percent in 2014, 21.4 percent in 2015 and 19.6 percent in 2016. The main reason behind these drops is that capital and reserves kept increasing during the last five years. Non-interest expenses to gross income hovered between 71.3 percent and 73.2 percent during 2012-2016. In this same period, the interest rate margin, except in 2015, recorded decreases of, respectively, 0.5 percentage point in 2013 and 1.3 percentage points in 2014, and 0.2 percentage point in 2016. The observed contractions in the interest rate margin indicate intensified competition between the banks (especially in the commercial loans and residential mortgages segments), albeit remaining relatively high when compared to interest rate margins in more advanced economies.

Liquidity

As shown in Table 9.3, the prudential liquidity ratio (liquid assets to total assets) of the commercial banks strengthened further to 30.6 percent in 2016, remaining far above the required minimum of 15 percent. After peaking in 2014 at 73.6 percent, the commercial banks' aggregated loans-to-deposits ratio continued to slide from 69.9 percent in 2015 to 66.1 percent in 2016, due to significant increases in the deposits held by the commercial banks.

The prudential liquidity ratio remained high and reached a level of 30.6 percent at end-2016.

Sensitivity to market risk

Following a sharp drop in 2013, the ratio of net foreign assets to regulatory capital showed a steady increase, as the annual growth in net foreign assets outperformed that in regulatory capital. Subsequently, this ratio stood at 44.9 percent at end-2016, approximately the same level as at year-end 2012 (44.8 percent).

Table 9.3: Financial soundness indicators of the commercial banks on an aggregated basis (at end of period)

	2012	2013	2014	2015	2016 p
Capital adequacy					
1. Regulatory capital (Tier I) to risk-weighted assets	11.8%	14.7%	15.3%	17.6%	19.4%
2. Regulatory capital (Tier I + II) to risk-weighted assets (min. 14%)	19.4%	22.7%	23.3%	26.0%	27.9%
Asset quality					
1. Nonperforming loans to gross loans	7.0%	7.0%	6.3%	4.7%	4.4%
2. Nonperforming loans (net of ALLP) to gross loans	3.4%	3.7%	3.2%	1.6%	1.3%
3. Nonperforming loans (net of ALLP) to regulatory capital	19.2%	18.3%	14.7%	6.8%	5.1%
Profitability					
1. Return on assets (before taxes)	3.1%	3.1%	2.8%	2.7%	2.7%
2. Return on equity (before taxes)	30.4%	28.0%	23.3%	21.4%	19.6%
3. Interest margin to gross income	62.1%	61.8%	60.4%	57.3%	58.0%
4. Noninterest expenses to gross income	71.3%	71.8%	72.0%	73.2%	71.7%
5. Interest rate margin 2)	7.5%	7.0%	5.7%	6.1%	5.9%
Liquidity					
1. Loans to deposits ratio (max. 80%)	68.2%	72.9%	73.6%	69.9%	66.1%
2. Liquid assets to total assets ratio 3) (min. 15%)	27.6%	24.3%	24.1%	27.3%	30.6%
Sensitivity to market risk					
1. Net foreign assets to regulatory capital	44.8%	25.3%	26.5%	36.1%	44.9%

Source: CBA: commercial banks.
l) 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 Prudential Liquidity Ratio (PLR).
p = preliminary figures.

9.1.2 International banks

In 2015, the number of international banks registered in Aruba contracted to one. BBA Bank N.V. was granted a domestic banking license on August 27, 2015, intending to commence its domestic banking activities in 2016. However, in April 2016, it decided to fully cease its operations. Since BBA Bank N.V. did not commence its domestic banking activities but continued to operate as an international bank, its figures were included in the aggregated financial information of the international banks.

9.1.2.1 Key figures

Balance sheet

As illustrated in Table 9.4, the aggregated balance sheet total of the international banks grew steadily during the period 2012-2014 by, respectively, Afl. 35.4 million or 13.9 percent in 2013 and Afl. 36.8 million or 12.7 percent in 2014, but shrank thereafter considerably by, respectively, Afl. 178.0 million or 54.4 percent in 2015 and Afl. 90.1 million or 60.5 percent in 2016. The significant drops, as of 2014, are registered mainly in the categories cash & due from banks and loans. Cash & due from banks plummeted by, respectively, Afl. 110.1 million or 55.0 percent in 2015 and Afl. 38.9 million or 43.2 percent in 2016, while loans dropped by Afl. 98.3 million or 93.4 percent from Afl. 105.3 million in 2014 to 7.0 million in 2016. These sharp declines are attributable principally to the depressed economic situation in Venezuela, which has significantly impacted the operations of one of the international banks in Aruba.

Profit and Loss

Table 9.4 indicates that the net result before taxes of the international banks was quite volatile during the period 2012-2016. This net result, except in 2014, registered sharp declines of, respectively, Afl. 74.6 million or 93.0 percent in 2013, Afl. 10.1 million or 80.2 percent in 2015, and Afl. 15.0 million or 600.0 percent in 2016. The significant drop, when comparing 2016 to 2015, was due mainly to a decline in operating income of Afl. 4.7 million or 313.3 percent and a higher release in the loan loss provisions (Afl. 8.1 million) in 2015.

9.1.2.1 Key ratios

The risk-weighted assets ratio of the international banking sector more than quadrupled in the period 2012-2016.

The international banks' aggregated capital to risk-weighted assets ratio more than quadrupled from 70.4 percent in 2012 to 294.4 percent in 2016, far above the required minimum of 14 percent. The marked increase in this ratio in 2016 was due primarily to a sharp decline in the risk-weighted assets.

Table 9.4: Selected aggregated balance sheet and profit and loss figures of the international banks (in Afl. million)

Balance Sheet					
End of period	2012	2013	2014	2015	2016 p
1. Total assets	254.8	290.2	327.0	149.0	58.9
2. Cash & due from banks	78.2	36.8	200.2	90.1	51.2
3. Loans 1)	120.5	171.2	105.3	47.4	7.0
4. Capital and reserves 2)	159.4	93.8	102.1	62.1	49.2
5. Total deposits	59.8	75.3	199.4	85.8	8.7
a. Demand	25.9	28.7	27.1	18.6	-
b. Time	33.9	46.6	172.3	67.2	8.7
Profit and Loss	2012	2013	2014	2015	2016 p
1. Net interest income	9.7	7.9	9.6	5.3	5.0
2. Operating income	5.9	12.2	2.0	1.5	-3.2
3. Operating expenses	9.1	13.5	12.8	15.1	17.2
4. Additions to (release in) loan loss provisions	-1.2	4.9	1.4	-8.1	-0.1
5. Net result before taxes 4)	80.2	5.6	12.6	2.5	-12.5
Risk-weighted capital asset ratio (%) 3)	70.4%	34.4%	60.3%	53.7%	294.4%

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

1) Corrected for allocated loan loss provisions; 2) Corrected for unearned income; 3) Including general (unallocated) reserves; 4) Net result before taxes cannot be derived from the items listed above only, as other items (i.e. extraordinary income and expenses must also be taken into account.

9.1.3 Bank-like institutions

The number of supervised bank-like institutions remained the same in 2016.

9.1.3.1 Key figures

Balance sheet

Table 9.5 shows that the bank-like institutions' aggregated balance sheet total amounted to Afl. 624.8 million at year-end 2016, equivalent to 13.1 percent of Aruba's 2016 estimated GDP. During the period 2012-2016, except in 2014, the aggregated balance sheet total registered drops of, respectively, Afl. 13.8 million or 2.0 percent in 2013, Afl. 12.0 million or 1.8 percent in 2015, and Afl. 39.1 million or 5.9 percent in 2016. The pronounced decline in the aggregated balance sheet total in 2016 is attributable mainly to other assets, which fell by Afl. 45.2 million or 24.8 percent to Afl. 137.0 million in 2016, due to the settlement of an outstanding amount receivable from the government of Aruba in the fourth quarter of 2016. Following considerable decreases in 2013 and 2015, total loans recovered significantly in 2016 to Afl. 430.1 million at end-2016, approximately the same level as at end-2012 (Afl. 431.1 million). Capital and reserves showed a consistent upward trend, rising from Afl. 322.3 million at end-2012 to Afl. 394.8 million at end-2016, associated mostly with additions from net income to the reserves.

Profit and loss

As illustrated in Table 9.5, during the period 2012-2016, net income before taxes fluctuated between Afl. 20.9 million and Afl. 31.6 million. In 2016, net income stood at Afl. 26.2 million. The main reason behind the decline of Afl. 4.5 million or 14.7 percent in net income before taxes in 2016, when compared to 2015, is the higher addition to the loan loss provisions in 2016 (Afl. 7.0 million), compared to Afl. 3.9 million in 2015.

Table 9.5: Selected aggregated balance sheet and profit and loss figures of the bank-like institutions (in Afl. million)

Balance sheet					
End of period	2012	2013	2014	2015	2016 p
1. Total assets	683.3	669.5	675.9	663.9	624.8
2. Total loans	431.1	412.5	419.9	406.3	430.1
a. Commercial 1)	112.5	100.5	99.3	80.7	88.5
b. Individual 2)	318.6	312.0	317.9	322.9	338.9
c. Government	-	-	2.7	2.7	2.7
3. Other assets	162.0	170.8	173.9	182.2	137.0
4. Capital and reserves 3)	322.3	350.1	368.7	377.4	394.8
5. Total borrowings	325.7	277.1	257.4	245.2	199.5
a. Commercial	236.1	206.8	192.5	184.2	185.7
b. Individual	7.0	5.5	0.1	0.1	-
c. Government	82.6	64.8	64.8	60.9	13.8
Profit and Loss	2012	2013	2014	2015	2016 p
1. Net interest income	50.4	42.7	44.5	46.0	46.8
2. Operating income	27.1	21.8	20.8	21.6	21.6
3. Operating expenses	40.8	39.6	39.6	40.8	42.6
4. Additions to (release in) loan loss provisions	20.6	-2.0	3.7	3.9	7.0
5. Net income before taxes	20.9	31.6	27.5	30.7	26.2

Source: CBA: bank-like institutions.
l) Corrected for allocated loan loss provisions (ALLP).
2) Corrected for unearned income.
3) Including general (unallocated) reserves.
4) Net income before taxes cannot be derived from the items listed above only, as other items (i.e. extraordinary income and expenses must also be taken into account.
p = preliminary figures.

9.1.3.2 Key ratios

Capital adequacy

As shown in Table 9.6, in the period 2012-2016, the aggregated regulatory capital (Tier I + II) to risk-weighted assets ratio of the bank-like institutions strengthened markedly, moving upward from 60.2 percent at year-end 2012 to 71.0 percent at year-end 2016. The noted gain in 2016 is due primarily to an increase of Afl. 17.4 million or 4.6 percent in capital and reserves (numerator of the capital adequacy ratio) in 2016 when compared to 2015, combined with a contraction of Afl. 39.1 million or 5.9 percent in total assets at end-2016 when compared to end-2015, directly impacting the risk-weighted assets (denominator of this ratio).

Asset quality

As illustrated in Chart 3, the asset quality of this sector showed significant improvement over the past five years. Its nonperforming loans-to-gross loans ratio fell from 14.9 percent in 2012 to 8.1 percent in 2016, which is equivalent to 6.8 percentage points.

The asset quality of the bank-like institutions' sector showed a significant improvement over the period 2012-2016.

Profitability

Table 9.6 reveals that return on equity (before taxes) dropped from 8.4 percent in 2015 to 6.8 percent in 2016, mainly because of a decrease in net income before taxes.

Chart 3: Nonperforming loans (gross) to total gross loans of the bank-like institutions (in percentages)

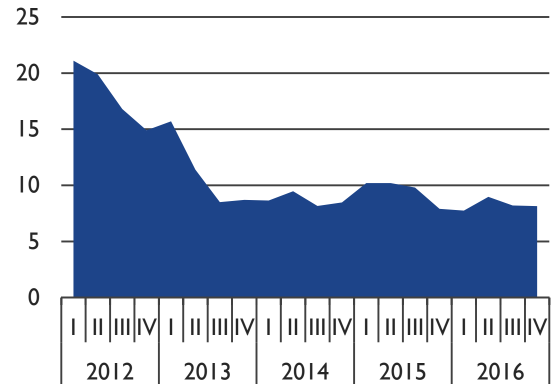


Table 9.6: Financial soundness indicators of the bank-like institutions on an aggregated basis (at end of period)

	2012	2013	2014	2015	2016 p
Capital adequacy					
1. Regulatory capital (Tier I) to risk-weighted assets	53.2%	52.4%	55.3%	58.8%	63.6%
2. Regulatory capital (Tier I + II) to risk-weighted assets (min. 14%)	60.2%	60.5%	62.6%	66.4%	71.0%
Asset quality					
1. Nonperforming loans to gross loans	14.9%	8.7%	8.5%	7.9%	8.1%
2. Nonperforming loans (net of ALLP) to gross loans	9.9%	6.6%	6.9%	6.2%	5.5%
3. Nonperforming loans (net of ALLP) to regulatory capital	14.5%	8.3%	8.3%	6.8%	6.2%
Profitability					
1. Return on assets (before taxes)	3.1%	4.8%	4.2%	4.7%	4.1%
2. Return on equity (before taxes)	7.1%	9.9%	8.0%	8.4%	6.8%
3. Interest margin to gross income	61.3%	61.7%	62.8%	61.0%	61.8%
4. Noninterest expenses to gross income	77.5%	59.7%	66.3%	65.2%	69.9%

Source: CBA: bank-like institutions.
I) ALLP= allocated loan loss provision.
p = preliminary figures.

9.2 Money transfer companies

At the end of 2016, three money transfer companies were registered in Aruba. In May 2016, Mack's Exchange Services V.B.A. was registered as an agent conducting money transfer activities for Western Union. In the latter part of 2016, Post Aruba N.V. stopped acting as an agent of Western Union. Furthermore, in 2016 Western Union was granted a dispensation under section 10 of the SOSMTC to conduct money transfer activities via Mack's Exchange V.B.A.

The total amount of outgoing money transfers executed through the money transfer sector decreased in 2016.

According to Table 9.7, outgoing transfers executed by the money transfer companies shrank by Afl. 2.2 million or 1.9 percent to Afl. 112.6 million at end-2016, after steady growth in the previous three years. One of the main reasons for making transfers to abroad is to provide financial support to relatives in the countries of origin of the foreign workers residing in Aruba. A substantial part of Aruba's labor force consists of foreign workers, predominantly from South America. Over the period 2012-2016, the number of outgoing transfers exhibited an increasing trend, with the exception of the year 2014. In 2016, the number of outgoing transfers rose by roughly 9,200 to approximately 289,600 compared to 2015. This means that for 2016, on average, a smaller amount per transfer should have taken place. For the fifth consecutive year, Colombia remained the main destination for outgoing money transfers, with a share of approximately 50.0 percent of the total transfers in 2016 (Chart 4).

Chart 4: Money transfer outflows by destination

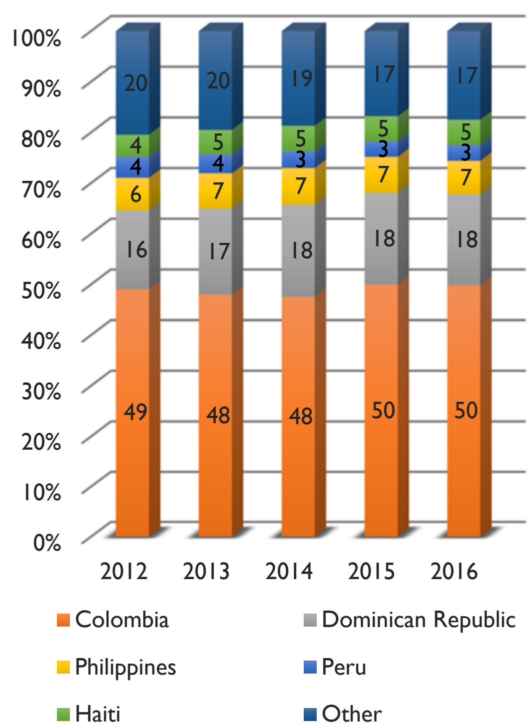


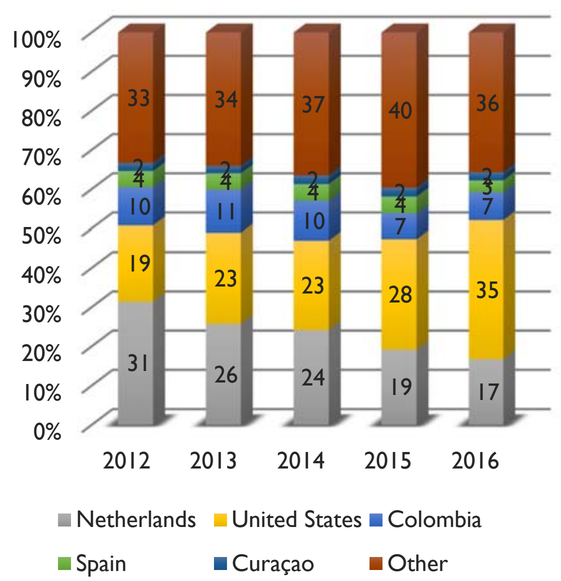
Table 9.7: Outgoing money transfers by countries of destination (at end of period in Afl. thousand)

	2012	2013	2014	2015	2016 p
1. Total	107,887	109,000	109,823	114,764	112,576
2. Colombia	52,937	52,290	52,201	57,351	56,112
3. Dominican Republic	16,755	18,497	19,994	20,781	20,157
4. Philippines	6,973	7,636	7,963	8,165	7,503
5. Peru	4,509	4,088	3,659	3,500	3,510
6. Haiti	4,660	5,222	5,506	5,693	5,619
7. Other	22,053	21,267	20,500	19,274	19,675

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

As shown in Table 9.8, the amount of the incoming money transfers decreased steadily during 2012-2016, declining from Afl. 18.5 million in 2012 to Afl. 13.7 million in 2016. However, the corresponding number of transfers increased slightly in 2016, from approximately 19,800 in 2015 to around 20,700 in 2016. The incoming transfers originated mainly from the Netherlands and the United States (Chart 5), where it should be noted that in the past two years, the United States' share markedly surpassed that of the Netherlands.

Chart 5: Money transfer inflows by origin



9.3 Trust service providers

9.3.1 Licensed trust service providers

At the beginning of 2016, 13 trust service providers were included in the CBA's register of licensed trust service providers.

9.3.2 Trust services provided

The trust service providers lend management services to their clients and often act as registered agents providing domicile to their clients.

9.3.3 Client portfolio

During the period June 2015 through June 2016, the trust sector experienced a slight decrease in the number of clients serviced from 661 in 2015 to 616 in 2016.

9.3.4 Lines of business serviced

The activities of the companies serviced by the trust service providers are mainly in the area of aircraft ownership and registration, investment business, and real estate. The aircraft ownership and registration business remains one of the most important lines of business in which the client companies of the trust service providers operate. These client companies choose to domicile in Aruba because of its excellent standing in aircraft registration.

9.3.5 Ultimate beneficial owners ("UBOs")

The majority of the UBOs of the client companies serviced by the trust service providers reside in Latin America, Europe, and the United States.

Table 9.8: Incoming money transfers by countries of origin (at end of period in Afl. thousand)

	2012	2013	2014	2015	2016 p
Total	18,472	17,091	15,857	13,780	13,748
1. Netherlands	5,806	4,402	3,833	2,643	2,303
2. United States	3,573	3,966	3,614	3,877	4,863
3. Colombia	1,800	1,872	1,606	910	979
4. Curaçao	761	707	664	578	410
5. Spain	379	315	349	306	288
6. Other	6,153	5,829	5,791	5,466	4,905

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

9.4 Insurance companies

Table 9.9: Number of supervised institutions within the insurance sector (at end of period)

	2014	2015	2016
Total	23	32	38
Nonlife insurance companies	12	12	12
Life insurance companies	7	6	6
Captive insurance companies	4	4	4
Insurance brokers	-	10	16

Source: CBA.

9.4.1 Nonlife insurance companies

In 2016, Aruba AIG Insurance Company N.V. decided to cease its operations.

9.4.1.1 Key figures

Balance sheet

The combined assets of the nonlife insurance sector equals 7.2 percent of Aruba's 2016 estimated GDP.

As depicted in Table 9.10, the aggregated balance sheet total of the nonlife insurance companies amounted to Afl. 341.8 million at year-end 2016, equivalent to 7.2 percent of Aruba's 2016 estimated GDP. Except in 2016, when a decline of Afl. 7.3 million or 2.1 percent was recorded, the aggregated balance sheet total of this sector grew steadily over the period 2012-2015 by, respectively, Afl. 17.9 million or 6.1 percent in 2013, Afl. 22.1 million or 7.2 percent in 2014 and Afl. 17.7 million or 5.3 percent in 2015.

After a decrease of Afl. 9.5 million or 5.0 percent in 2013, the investments of the nonlife insurance companies continued their upward path during 2014 and 2015 and grew by, respectively, Afl. 10.9 million or 6.1 percent in 2014 and Afl. 21.5 million or 11.3 percent in 2015. In 2016, a minor drop of Afl. 2.1 million or 1.0 percent was recorded. Chart 6 and Table 9.11 show the composition of the investments, respectively, as at year-end 2016 and for the period 2012-2016. Technical provisions remained quite stable over the past five years, while capital and reserves, after following an upward trend during the period 2012-2015, decreased by Afl. 11.8 million or 13.1 percent at end-2016 compared to end-2015. This decrease is associated mainly with dividend distributions and a decrease in the paid-in capital to settle foreign intercompany receivables.

Chart 6: Investments of the nonlife insurance companies at year-end 2016

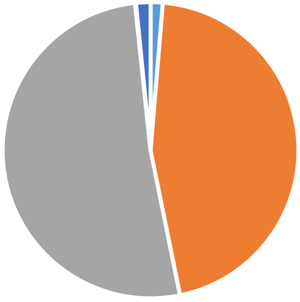


Table 9.10: Selected aggregated balance sheet and profit and loss figures of the nonlife insurance companies (in Afl. million)

Balance Sheet					
End of period	2012	2013	2014	2015	2016 p
1. Total assets	291.4	309.3	331.4	349.1	341.8
2. Investments	188.9	179.4	190.3	211.8	209.7
3. Capital and reserves	79.7	81.8	87.8	89.8	78.0
4. Technical provisions	61.8	58.5	59.5	68.2	68.5
5. Due to affiliated companies	129.7	148.4	164.6	166.4	173.6
Profit and Loss	2012	2013	2014	2015	2016 p
1. Total income	81.2	81.3	85.7	93.2	82.8
2. Net premiums	74.6	74.4	77.5	85.2	75.5
3. Net claims	36.1	26.3	22.5	34.2	32.1
4. Net income before taxes	5.9	14.8	19.3	10.8	8.4

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

Table 9.11: Investments of the nonlife insurance companies on an aggregated basis (in Afl. million)

Investments	2012	2013	2014	2015	2016 p
1. Shares	0.4	0.5	0.5	2.7	2.8
2. Bonds	101.3	101.5	102.5	96.8	95.3
3. Time deposits	80.2	71.7	83.5	108.6	108.0
4. Loans	7.0	5.7	3.8	3.7	0.2
5. Other investments	-	-	-	-	3.4
Total	188.9	179.4	190.3	211.8	209.7

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

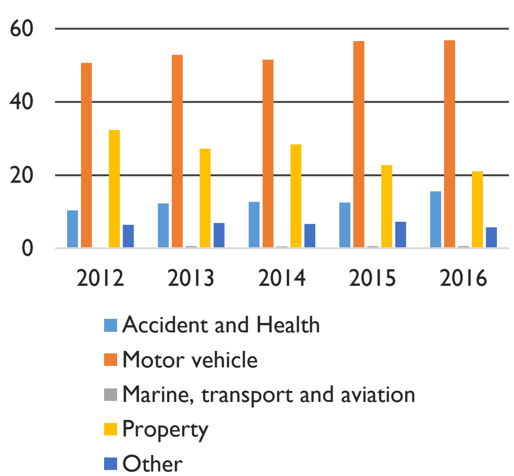
Profit and Loss

The aggregated net income before taxes of the nonlife insurance companies was quite volatile over the past five years. During the period 2012-2014, net income before taxes rose by, respectively, Afl. 8.9 million or 150.9 perent in 2013 and Afl. 4.5 million or 30.4 percent in 2014, while during the years 2015 and 2016, net income before taxes declined by, respectively, Afl. 8.5 million or 44.0 percent in 2015 and Afl. 2.4 million or 22.2 percent in 2016. Table 9.10 illustrates that the variation in net claims was mainly responsible for the fluctuations in net income before taxes over the last five years.

Net premium per indemnity line

As displayed in Chart 7, the net premiums received from motor vehicle insurance and property insurance remained the main source of income of the nonlife insurance companies in 2016.

Chart 7: Net earned premium by indemnity line (in percentages)



9.4.1.2 Key ratios

Coverage ratio

The coverage ratio of the nonlife insurance sector continued to climb steadily, reaching 441 percent in 2016.

Chart 8 and Table 9.12 depict that the coverage ratio of the nonlife insurance sector remained far above the minimum requirement of 100 percent. Subsequently, this ratio stood at 440.8 percent at end-2016, recording a sharp increase of 38.8 percentage points when compared to end-2015.

Chart 8: Combined coverage ratio of the nonlife insurance companies

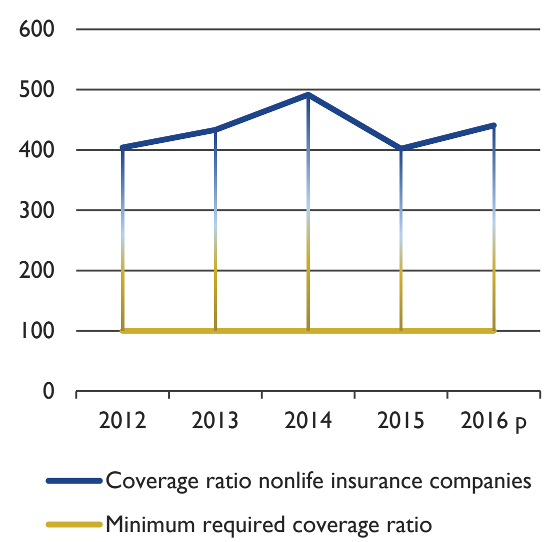


Table 9.12: Financial soundness indicators of the nonlife insurance companies on an aggregated basis (at end of period)

Ratios	2012	2013	2014	2015	2016 p
1. Liquidity ratio	23.6%	26.4%	26.9%	24.7%	29.8%
2. Return on investments ratio	4.4%	4.4%	4.5%	4.4%	4.0%
3. Coverage ratio	404.2%	433.3%	491.6%	402.0%	440.8%

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

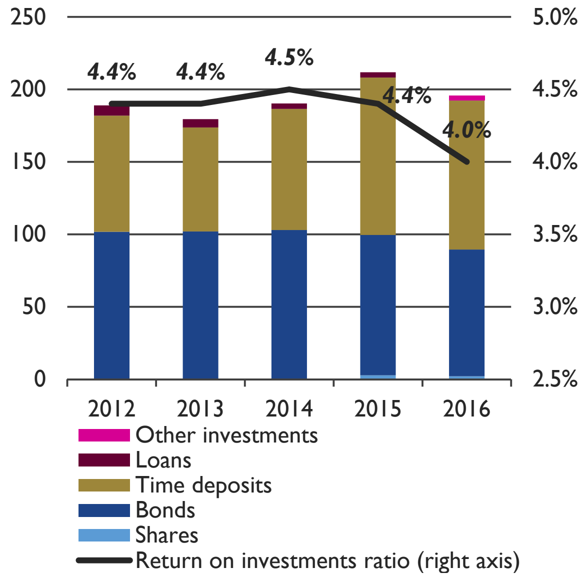
Liquidity ratio

With the exception of 2015, the liquidity ratio of the nonlife insurance companies moved upwards during the past 5 years, equaling 29.8 percent at the end of 2016. The combined gain in 2016, when compared to 2015, jointly with the contraction in the return on investments ratio, may have been caused in part by subdued (domestic) investment opportunities in 2016.

Return on investment ratio

The return on investment ratio dropped by 0.4 percentage point to 4.0 percent in 2016 when compared to 2015. Chart 9 depicts that this ratio remained quite stable during the years 2012-2015.

Chart 9: Return on investments ratio



9.4.2 Life insurance companies

9.4.2.1 Key figures

Balance sheet

The combined assets of the life insurance sector equal 25.5 percent of Aruba's 2016 estimated GDP.

As shown in Table 9.13, in line with the sharp ascension during the previous five years, the aggregated balance sheet total of the life insurance companies widened by Afl. 50.9 million or 4.4 percent to Afl. 1,217.0 million at end-2016. This balance sheet total is equivalent to 25.5 percent of Aruba's 2016 estimated GDP. The expansion in total assets over the past five years was mainly the result of upsurges in investments. In 2013 and 2015, rather modest growth rates were recorded of, respectively, Afl. 0.8 million or 0.1 percent in 2013 and Afl. 19.6 million or 2.3 percent in 2015, while in the years 2014 and 2016 hikes were noted of, respectively, Afl. 146.6 million or 21.0 percent and Afl. 100.7 million or 11.7 percent. Chart 10 and Table 9.14 illustrate the composition of the investments, respectively, as at year-end 2016 and for the period 2012-2016. On the liability side, technical provisions also showed a consistent upward trend over the past five years, rising by Afl. 273.4 million or 38.3 percent from Afl. 713.3 million at end-2012 to Afl. 986.7 million at end-2016.

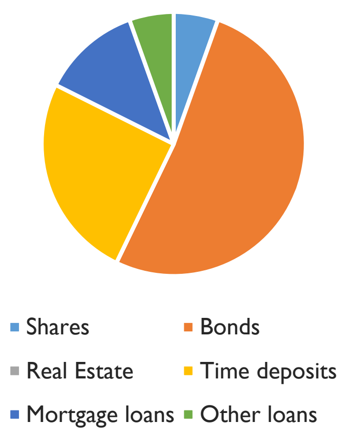
Capital and reserves exhibited quite a bit of volatility during the period 2012-2016, peaking at Afl. 191.4 million in 2014, and dropping to the lowest level in 2016 (Afl. 142.6 million). This sharp decline in capital and reserves in 2016, when compared to 2015 and 2014, relates mainly to dividend distributions and a decrease in the paid-in capital at one life insurance company.

Table 9.13: Selected aggregated balance sheet and profit and loss figures of the life insurance companies (in Afl. million)

Balance Sheet					
End of period	2012	2013	2014	2015	2016 p
1. Total assets	978.1	1,024.1	1,105.0	1,166.1	1,217.0
2. Investments	696.1	696.9	843.5	863.1	963.8
3. Capital and reserves	151.8	179.4	191.4	161.0	142.6
4. Technical provisions	713.3	764.0	834.6	908.2	986.7
Profit and Loss	2012	2013	2014	2015	2016 p
1. Net premiums	114.7	110.7	111.9	116.8	123.9
2. Investment income	44.2	40.5	51.5	41.1	52.8
3. Net claims	34.1	48.5	44.9	48.7	49.9
4. Change in technical provisions	80.3	47.6	70.1	74.1	78.3
5. Total expenses	139.3	125.0	145.4	157.7	163.6
6. Net income before taxes	21.7	30.3	22.7	4.4	14.5

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

Chart 10: Investments of the life insurance companies at year-end 2016



Profit and Loss

Movements in the aggregated net income before taxes of the life insurance companies were quite erratic, hovering between Afl. 4.4 million and Afl. 30.3 million over the past five years. The significant increase of Afl. 10.0 million or 229.6 percent in net income before taxes in 2016, when compared to 2015, is due primarily to a rise of Afl. 11.7 million or 28.5 percent in investment income, while total expenses grew by only Afl. 5.9 million or 3.7 percent in 2016, when compared to 2015. The gain in investment income can be allocated in part to the significant upsurge in investments of Afl. 100.7 million in 2016, when compared to 2015.

Table 9.14: Investments of the life insurance companies on an aggregated basis (in Afl. million)

Investments	2012	2013	2014	2015	2016 p
1. Shares	23.9	26.5	41.6	44.6	52.6
2. Bonds	394.5	439.3	478.0	472.2	498.3
3. Real estate	0.2	0.2	3.3	0.1	0.1
4. Time deposits	100.7	52.6	142.0	167.9	243.1
5. Mortgage loans	114.3	117.4	120.1	122.8	117.2
6. Other loans	62.5	60.9	58.5	55.5	52.5
Total	696.1	696.9	843.5	863.1	963.8

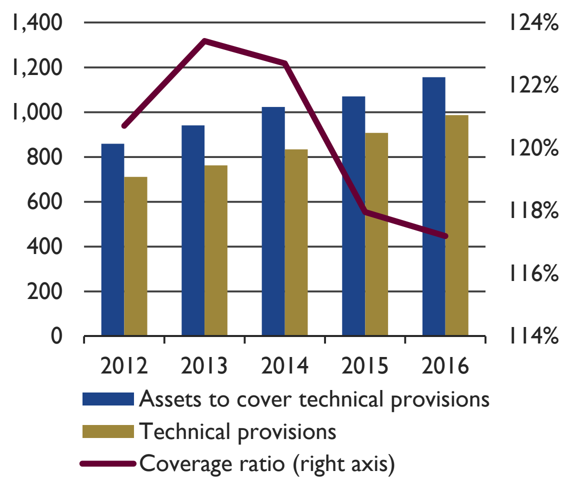
Source: CBA: nonlife insurance companies.
p = preliminary figures.

9.4.2.2 Key ratios

Coverage ratio

The coverage ratio expanded in 2013 by 2.7 percentage points and, subsequently followed a downward path, contracting by, respectively, 0.7 percentage point in 2014, 4.7 percentage points in 2015, and 0.8 percentage point in 2016, still remaining well above the minimum requirement of 100 percent, as illustrated in Chart 11.

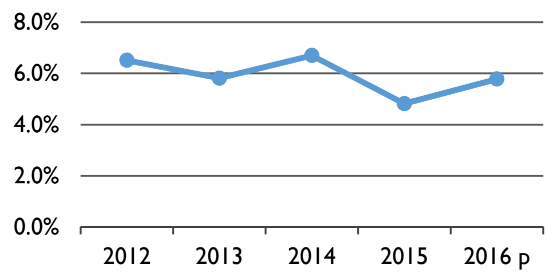
Chart 11: Development of the coverage ratio of the life insurance companies



Return on investments ratio

As shown in Chart 12 and Table 9.15, the return on investments ratio fluctuated up and down during the period 2012-2016 and recorded a lowest level of 4.8 percent in 2015 and a peak of 6.7 percent in 2014. Subsequently, this ratio stood at 5.8 percent in 2016.

Chart 12. Return on investments ratio



Liquidity ratio

As indicated in Table 9.15, the liquidity ratio fluctuated between 11.4 percent in 2014 and 20.4 percent in 2013. In 2016, the liquidity ratio remained at a high level of 18.2 percent.

Table 9.15: Financial soundness indicators of the life insurance companies on an aggregated basis (at end of period)

Ratios	2012	2013	2014	2015	2016 p
1. Liquidity ratio	17.6%	20.4%	11.4%	19.4%	18.2%
2. Return on investments ratio	6.5%	5.8%	6.7%	4.8%	5.8%
3. Coverage ratio	120.7%	123.4%	122.7%	118.0%	117.2%

Source: CBA: life insurance companies.
P = preliminary figures.

9.5 The company pension funds[7]

9.5.1 Key figures

At the end of 2016, the coverage ratio of one company pension fund and that of APFA was still below the minimum requirement of 100 percent.

Balance sheet

Table 9.16 reveals that the total aggregated assets of the company pension funds (excluding Lago Annuity Foundation whose pension obligations are covered by a guarantee from the Exxon Mobil Corporation) were rising throughout the past five years. The balance sheet total of these funds rose by Afl. 121.1 million or 40.1 percent from Afl. 301.9 million at year-end 2012 to Afl. 423.0 million at year-end 2016. The considerable improvement in 2016 reflected mainly a strong growth of Afl. 133.8 million or 52.3 percent in the combined investment portfolio when compared to 2015. As shown in Table 9.17, the increase in investments during the period 2012-2016 was attributed mainly to shares and bond holdings. Shares jumped by Afl. 53.4 million or 73.2 percent

[7] Please note that the developments in this section do not include the Civil Servants Pension Fund (APFA).

from Afl. 73.0 million in 2012 to Afl. 126.4 million in 2016, and bond holdings by Afl. 38.6 million or 38.6 percent from Afl. 99.9 million in 2012 to Afl. 138.5 million in 2016. Table 9.17 and Chart 13 display the composition of the investments, respectively, for the period 2012-2016 and as at year-end 2016.

Over the past five years, technical provisions grew steadily, rising by Afl. 98.8 million or 36.7 percent from Afl. 269.4 million at end-2012 to Afl. 368.2 million at end-2016. Except in 2015, capital and reserves also continued their upward trend, growing by Afl. 22.3 million or 72.6 percent from Afl. 30.7 million at end-2012 to Afl. 53.0 million at end-2016.

Chart 13: Investments of the company pension funds at year-end 2016

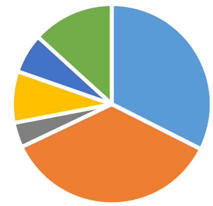


Table 9.16: Selected aggregated balance sheet and profit and loss figures of the company pension funds (in Afl. million)

Balance Sheet					
End of period	2012	2013	2014	2015	2016 p
1. Total assets	301.9	332.0	356.8	376.7	423.0
2. Investments	256.0	297.7	326.7	352.8	389.8
3. Capital and reserves	30.7	32.7	33.7	33.6	53.0
4. Technical provisions	269.4	296.9	321.4	341.5	368.2
Profit and Loss	2012	2013	2014	2015	2016 p
1. Premium income	18.5	20.5	22.5	24.9	17.3
2. Investment income	21.8	23.3	16.1	8.1	30.4
3. Change in technical provisions	22.1	27.5	24.7	20.3	17.2
4. Total expenses	33.9	41.6	37.6	33.2	29.5
5. Net result	6.4	2.2	1.0	-0.2	18.3

Table 9.17: Investments of the company pension funds on an aggregated basis (in Afl. million)

Investments	2012	2013	2014	2015	2016 p
1. Shares	73.0	92.5	94.8	93.5	126.4
2. Bonds	99.9	115.5	131.7	148.1	138.5
3. Real estate	13.1	13.8	15.0	15.8	15.7
4. Time deposits	10.9	6.7	7.8	16.0	32.5
5. Mortgage loans	23.0	23.5	23.9	24.2	25.0
6. Other investments	36.1	45.7	53.5	55.2	51.7
Total	256.0	297.7	326.7	352.8	389.8

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

Profit and Loss

As shown in Table 9.16, the aggregated net result of the company pension funds was rather volatile over the past five years. During the period 2012-2015, net results recorded a downward movement and equaled, respectively, Afl. 6.4 million in 2012, Afl. 2.2 million in 2013, Afl. 1.0 million in 2014, and even registered a slight loss of Afl. 0.2 million in 2015. In 2016, a positive result of Afl. 18.3 million was recorded. The notable gain in 2016 was due mainly to an increase of Afl. 22.3 million or 275.3 percent in investment income in 2016 compared to 2015.

9.5.2 Key ratios

Coverage ratio

The coverage ratio of the company pension funds' sector remained slightly above the minimum requirement of 100 percent.

Chart 14 and Table 9.18 show that the coverage ratio was quite stable during the years 2012 and 2013 and, subsequently, contracted to 102.5 percent in 2014. As of 2015, the coverage ratio strengthened to 105.0 percent and remained at the same level in 2016 where a marginal improvement was recorded (105.2 percent). The latter (slight improvement?) occurred primarily because the assets to cover technical provisions of the company pension funds increased at a higher pace than those of the technical provisions.

Return on investments ratio

Income before taxes equaled Afl. 18.3 million in 2016, due mostly to a higher investment income when compared to 2015. Consequently, the return on investments ratio rose by 5.8 percentage points from 2.4 percent in 2015 to 8.2 percent in 2016.

Liquidity ratio

As illustrated in Table 9.18, the liquidity ratio of the company pension funds was quite unsteady over the years 2012-2016. The increase of 1.5 percentage points in the liquidity ratio in 2016, when compared to 2015, was mainly the result of a gain in total assets (Afl. 46.3 million).

Chart 14: Development of the coverage ratio of the company pension funds

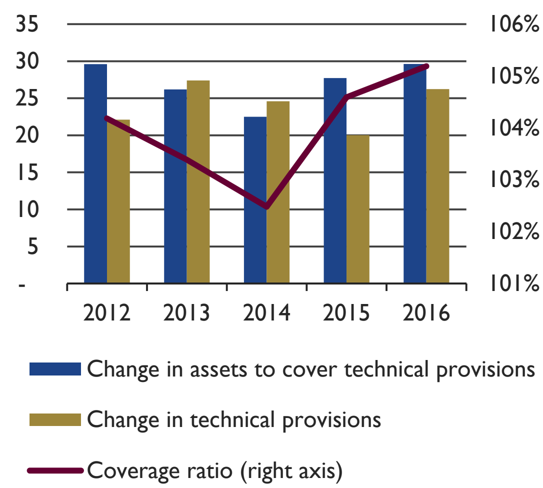


Table 9.18: Financial soundness indicators of the company pension funds on an aggregated basis (at end of period)

Ratios	2012	2013	2014	2015	2016 p
1. Liquidity ratio	15.2%	10.3%	8.4%	6.3%	7.8%
2. Return on investments ratio	8.5%	8.4%	5.2%	2.4%	8.2%
3. Coverage ratio	104.2%	104.5%	102.5%	105.0%	105.2%

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

9.6 The Civil Servants Pension Fund (APFA)

The State Ordinance on the Privatization of the Civil Servants Pension Fund (AB 2005 No. 2) was enacted in January 2005 and became effective on May 1, 2005. As part of the privatization process, APFA was converted into a foundation on April 29, 2005. In addition, a new pension scheme (the so-called NPR 2005 pension scheme) based on average income was introduced for all new participants in May 2005. Existing participants remained in the so-called "Pensioenverordening Landsdienaren" (PVL) pension scheme. In August 2010, the Aruban government entered into a series of social dialogues with the relevant stakeholders to discuss, among other things, reforms in the PVL pension scheme to restore its financial viability. After reaching a consensus, the PVL pension scheme was abolished by State Decree of December 27, 2010. Effective January 1, 2011, participants in the PVL pension scheme were transferred to a more sober pension scheme (the NPR 2011 pension scheme). Participants in the NPR 2005 pension scheme with no relationship to the PVL pension scheme were allowed to remain in the NPR

2005 pension scheme and were not transferred to the NPR 2011 pension scheme. Consequently, although most participants in the NPR 2005 pension scheme were transferred to the NPR 2011 pension scheme, the NPR 2005 pension remained active. With the introduction of the NPR 2011 pension scheme, the retirement age was increased from 55 years to 60 years.

As of January 1, 2011, APFA falls under the supervision of the CBA. Prior to this date, APFA was under the supervision of the Minister of Finance. In view of its significant negative equity position, APFA had to submit a recovery plan to the CBA delineating how the shortfall would be addressed within the agreed-upon timeframe. On October 5, 2012, this proposed recovery plan was approved by the CBA.

In 2013, the Aruban government initiated meetings with relevant stakeholders to further discuss the retrenchment of the NPR 2011 pension scheme. In May 2014, the Aruban government reached an agreement with the relevant stakeholders that the NPR 2011 would be revoked retrospectively as of January 1, 2014, and be replaced with a new pension scheme (NPR 2014). Subsequently, the participants in the NPR 2011 pension scheme were transferred to the NPR 2014 pension scheme, while the NPR 2005 pension remained active. With the introduction of the NPR 2014 pension scheme, the retirement age will increase gradually from 60 to 65. Following the rise of the retirement age and a one-time additional contribution from employers, APFA's gross coverage ratio reached 100 percent. At end-2016, the net coverage ratio (including a buffer for possible losses on the investment portfolio) was 96.0 percent, still below the required minimum of 100 percent. A revised recovery plan for the NPR 2014 was approved by the CBA on July 27, 2016. Effective January 1, 2015, the NPR 2005 pension was incorporated in the NPR 2014. Consequently, the NPR 2005 pension scheme was abolished.

9.6.1 Key figures

Balance sheet

The total assets of APFA as at year-end 2016 amounted to Afl. 2,666.3 million, equivalent to 55.9 percent of Aruba's 2016 estimated GDP.

As shown in Table 9.19, APFA's balance sheet total displayed an upward trend, rising from Afl. 2,091.3 million at year-end 2012 to Afl. 2,666.3 million at year-end 2016, equivalent to 55.9 percent of the estimated GDP for 2016. This marked improvement is due mainly to expansions in APFA's investments portfolio. In 2016, investments rose by Afl. 78.5 million or 3.2 percent to Afl. 2,574.3 million compared to 2015, due mostly to increases in time deposits, shares and convertible bonds, and real estate of, respectively, Afl. 42.4 million or 20.5 percent, 20.0 million or 6.1 percent, and Afl. 14.4 million or 19.7 percent. On the liability side, technical provisions rose by Afl. 65.5 million or 2.6 percent in 2016 compared to 2015. The negative equity recorded prior to the year 2014 originated in 2008 due to a significant loss incurred due to the substantial lowering of the actuarial discount rate from 7.0 percent to 5.5 percent, combined with the adjustment of the life expectancy tables and the notable losses APFA incurred on its foreign investment portfolio as a result of the global financial crisis. The fund's equity improved considerably by end-2014 to a positive Afl. 71.6 million by end-2014, up from a negative Afl. 462.3 million in 2013. This improvement was mostly because of the release of Afl. 247.3 million (9.2 percent) in the technical provisions, and a one-time additional contribution of Afl. 184.4 million from the employers. The release in technical provisions in 2014 was the result of the pension reforms that took place that year.

Profit and Loss

The profitablity of APFA was highly inconstant during the past five years. As indicated in Table 9.19, APFA reported a record net result of Afl. 534.0 million in 2014, mainly as a result of the pension reform that year. This conduced to a sharp reduction in the technical provisions.

Table 9.19: Selected balance sheet and profit and loss figures of APFA (in Afl. million)

Balance sheet					
End of period	2012	2013	2014	2015	2016 p
1. Total assets	2,091.3	2,242.5	2,530.1	2,571.4	2,666.3
2. Investments	2,005.4	2,138.6	2,413.4	2,495.8	2,574.3
3. Capital and reserves	-463.9	-462.3	71.6	80.0	108.4
4. Technical provisions	2,547.0	2,698.5	2,451.2	2,481.4	2,546.9
Profit and Loss	2012	2013	2014	2015	2016 p
1. Premium income	124.6	133.2	75.9	64.8	69.0
2. Investment income	124.2	103.5	139.3	94.0	145.3
3. Change in technical provisions	125.9	151.5	-247.3	30.3	65.6
4. Total expenses	223.7	235.0	-134.4	149.9	186.5
5. Net result	25.1	1.7	534.0	8.9	28.5

Table 9.20: Investments of APFA (in Afl. million)

Investments	2012	2013	2014	2015	2016 p
1.Shares and convertible bonds	143.7	283.2	307.0	327.8	347.8
2. Bonds and treasury bills	826.2	842.2	885.9	903.3	906.2
3. Real estate	50.0	50.0	69.8	73.0	87.4
4. Time deposits	225.5	234.8	167.7	207.1	249.5
5. Mortgage loans	241.3	237.7	229.0	233.6	239.0
6. Other investments	518.7	490.7	754.0	751.0	744.4
Total	2,005.4	2,138.6	2,413.4	2,495.8	2,574.3

Source: CBA: APFA
p = preliminary figures

9.6.2 Key ratios

Coverage ratio

Table 9.21 and Chart 15 depict APFA's coverage ratio, which moved up from 76.0 percent in 2012 to 96.0 percent in 2016, primarily the result of the mentioned pension reforms. The coverage ratio at end-2016 (96.0 percent) improved slightly compared to end-2015 (95.4 percent).

APFA's net coverage ratio remained below the required minimum of 100 percent.

Return on investments ratio

As shown in Table 9.21, the return on the investments ratio stood at 5.8 percent at the end of 2016, 2.0 percentage points higher than in 2015, due mainly to a strong growth of Afl. 51.3 million or 54.6 percent in investment income.

Liquidity ratio

The liquidity ratio grew to 3.0 percent in 2016 up from 2.5 percent in 2015, as current assets did not rise at the same rate as total assets.

Chart 15: Development net coverage ratio of APFA (in percentages)

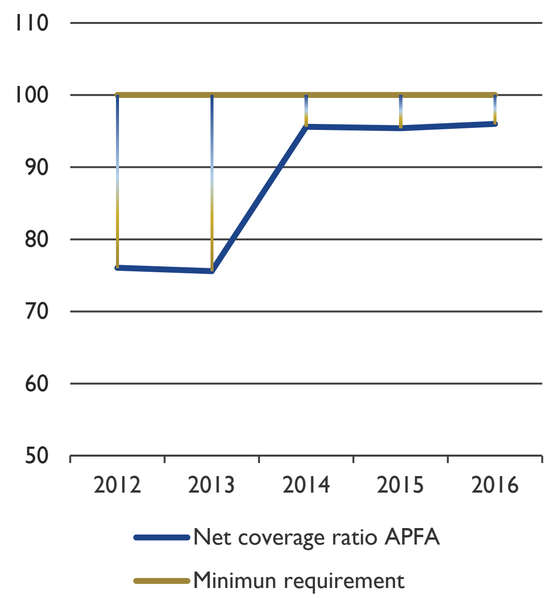


Table 9.21: Financial soundness indicators of APFA (at end of period)

Ratios	2012	2013	2014	2015	2016 p
Liquidity ratio	3.5%	4.1%	4.1%	2.5%	3.0%
Return on investments ratio	6.5%	5.0%	6.3%	3.8%	5.8%
Coverage ratio	76.0%	75.6%	95.6%	95.4%	96.0%

Source: CBA: APFA
p = preliminary figures

Annexes

Annex 1. Overview of the supervisory and AML/CFT laws for which execution is entrusted to the CBA

1.	State Ordinance on the Supervision of the Credit System (SOSCS)	AB 1998 no. 16
2.	State Ordinance on Company Pension Funds (SOCPF)	AB 1998 no. GT 17
3.	State Ordinance on the Supervision of the Insurance Business (SOSIB)	AB 2000 no. 82
4.	State Decree on Captive Insurance Companies (SDCIC)	AB 2002 no. 50
5.	State Ordinance on the Supervision of Money Transfer Companies (SOSMTC)	AB 2003 no. 60
6.	Sanction State Ordinance 2006	AB 2007 no. 27
7.	State Ordinance on the Supervision of Trust Service Providers (SOSTSP)	AB 2009 no. 13
8.	State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AML/CFT State Ordinance)	AB 2011 no. 28
9.	State Decree on the Supervision of Insurance Brokers (SDSIB)	AB 2014 no. 6
10.	State Ordinance on the Supervision of the Securities Business (SOSSB)	AB 2016 no. 53

Excluding the subsidiary legislation enacting certain provisions contained in these ordinances.

Annex 2. Financial institutions supervised by the CBA as of December 31, 2016

1. Banking sector[8]

1.1 Commercial banks	1.3 Mortgage banks
Aruba Bank N.V.	Fundacion Cas pa Comunidad Arubano (FCCA)
Banco di Caribe (Aruba) N.V.	
Caribbean Mercantile Bank N.V.	**1.4 Credit unions**
RBC Royal Bank (Aruba) N.V.	Cooperativa di Ahorro y Prestamo Aruba
FirstCaribbean International Bank (Cayman) Limited, Aruba Branch	Coöperatieve Spaar- en Kredietvereniging Douane Aruba
BBA Bank N.V.[9]	
	1.5 Other financial institutions
1.2 International banks	AIB Bank N.V.
Citibank Aruba N.V.	Island Finance Aruba N.V.

2. Money transfer sector[10]

2.1 Money transfer companies	
Union Caribe N.V.	Mack's Exchange Services V.B.A.
Post Aruba N.V.	

3. Trust sector[11]

3.1 Trust service providers	
AMTR N.V.	IMC International Management & Trust Company N.V.
Aruba International Trust Company N.V.	Intima Management N.V.
Arulex Trust Services N.V.	Orangefield (Aruba) N.V.
Ascor Trust (Aruba) N.V.	SGG Management (Aruba) N.V.
C.T.F. (Aruba) N.V.	Standard Trust Company N.V.
Curado Trust (Aruba) N.V.	United Trust Management (Aruba) UTM N.V.
Euro Trust International N.V.	

8 Supervision by virtue of the SOSC.
9 In liquidation.
10 Supervision by virtue of the SOSMT.
11 Supervision by virtue of the SOSTSP.

4. Institutional investors' sector

4.1 Company Pension Funds[12]	
Lago Annuity Foundation	Stichting Pensioenfonds Havenwerkers Aruba
Stichting Algemeen Pensioenfonds Aruba (APFA)	Stichting Pensioenfonds META Bedrijven Aruba
Stichting Bedrijfspensioenfonds Aruba	Stichting Pensioenfonds RBTT Bank Aruba
Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico	Stichting Pensioenfonds RBTT Bank Aruba II[13]
Stichting Pensioenfonds Caribbean Mercantile Bank N.V.	Stichting Pensioenfonds Tourist Sector Aruba

5. Insurance companies[14]

5.1 Life insurance companies	5.2 Captive insurance companies
American Bankers Life Assurance Company of Florida Limited, Agency	Bancarib Real Insurance Aruba N.V.
Ennia Caribe Leven (Aruba) N.V.	Fides Rae Insurance Company N.V.
Fatum Life Aruba N.V.	MCB Risk Insurance N.V.
Nagico Life Insurance (Aruba) N.V.	Mondis Manufacturers Insurance Company N.V.
Pan-American Life Insurance Company of Aruba V.B.A.	
Sagicor Life Aruba N.V.	

5.3 Insurance brokers[15]

Turtle Island Insurance Broker N.V.	Boogaard Assurantiën N.V.
Worldwide Insurance Agency N.V.	Windward Insurance Solutions N.V.
Verdant Insurance and Management Company Group N.V.	Nos Seguro N.V.
AON Aruba N.V.	EFS Esquidad Financial Services N.V.
Assurantie Service Centrum Aruba A.S.C.A. N.V.	Jai Mahalaxmi Enterprises N.V.
De L'Isle & Sons Insurance Brokers N.V.	Lyder Insurance Consultants N.V.
Seguros Geerman N.V.	Framo Insurances N.V.

[12] Supervision by virtue of the SOCPF.
[13] The Stichting Pensioenfonds RBTT Bank Aruba II is in liquidation. Meanwhile, the pension fund transferred its pension obligations to a life insurance company in Aruba.
[14] Supervision by virtue of the SOSIB.
[15] Supervision by virtue of the SDSIB.

5.4 Nonlife (general) insurance companies

	Accident & health	Motor vehicle	Maritime, transport, & aviation	Fire & other property	Other indemnity
Aruba AIG Insurance Company N.V.[15]	•	•	•	•	•
Best Doctors Insurance V.B.A.	•				
Bupa Insurance Company, Agency	•				
Elvira Verzekeringen N.V.					•
Ennia Caribe Schade (Aruba) N.V.	•	•	•	•	•
Fatum General Insurance Aruba N.V.	•	•	•	•	•
NAGICO Aruba N.V.	•	•	•	•	•
Netherlands Antilles & Aruba Assurance Company (NA&A) N.V.	•	•	•	•	•
Massy United Insurance Company N.V.	•	•	•	•	•
Stichting Fondo Nacional di Garantia pa Vivienda					•
The New India Assurance Co. Ltd., Aruba Branch	•	•	•	•	•
TRESTON Insurance Company (Aruba) N.V.[16]	•	•	•	•	•

Source: CBA.

[16] In liquidation.

Annex 3. Financial institutions or persons in possession of a dispensation as of December 31, 2016[17]

Financial institutions in possession of a dispensation as meant in section 48, paragraph 3 of the SOSCS

- **Pawnshops**
  't Juwelenhuisje N.V.
  Estrella America N.V.
  Compra y Venta El Triunfo N.V.

- **Finance companies**[18]
  H.J. Ruiz N.V.
  Volkskredietbank van Aruba

Financial institutions in possession of a dispensation as meant in section 10, paragraph 1 of the SOSMTC

- **Money transfer companies**
  MoneyGram International Inc.[19]
  Western Union Financial Services International Inc.[20]

Persons in possession of a dispensation as meant in section 4, paragraph 2 of the SOSIB to operate as an insurance agent for the insurance companies listed below:

Fatum Life Aruba N.V. and Fatum General Insurance Aruba N.V.:

Mr. J.W. Isenia	Mrs. M.D.D. Geerman
Mrs. T.D. Kelly-Hernandez	Mr. J.W.P.J. Kaan
Mr. G.M. Daal	Mr. F.J. Gonzalez
Mr. J.A.M. Lomans	Mr. R. Seraus

PanAmerican Life Insurance Company of Aruba V.B.A.:

Mrs. Alli-Martijn	Mr. E.E. Werleman
Mr. J.R. Martina	Mrs. A.S. Hernanzez
Mrs. L. Kelly	Mr. J.J.E. Vermeulen
Mrs. A.R. Cordero-Murray	Mrs. R.L.R.A. Martijn
Mrs. B.R. Simileer	Mr. J.G. de Cuba
Mrs. J.M. Pesqueira	Mr. C.L. Bermudez-Romero
Mrs. M.N.R. Tromp	Mrs. C.R. Kock
Mr. G.S. Lacle	Mr. K.E. Croes
Mr. J.R. Brete	

[17] The CBA's oversight is limited to overseeing compliance with the conditions under which these institutions were exempted.
[18] On December 13, 2016, and in accordance with section 48, paragraph 3, of the SOSCS, the CBA granted an exemption to Stichting Qredits Microfinanciering Nederland to grant credit, through a branch, to the public of Aruba. Stichting Qredits Microfinanciering Nederland was included in the CBA's register in January 2017.
[19] For conducting money transfer activities through Union Caribe N.V.
[20] For conducting money transfer activities through Post Aruba N.V. and Mack's Exchange Services V.B.A.

Sagicor Life Aruba N.V.:

Mrs. D.A. Dormoy
Mrs. L.R. Faustin
Mrs. F. Bernier Corbacho
Mrs. A.R. Koolman
Mrs. B.I. Wolff-Croes
Mrs. N.C. Marquez Hidalgo

Insurance brokers exempted from the prohibition as meant in section 2, paragraph 2, subsection b of the SDSIB

Aruba Bank N.V.
Caribbean Mercantile Bank N.V.
Banco di Caribe (Aruba) N.V.
RBC Royal Bank (Aruba) N.V.
Fundacion Cas pa ComUnidad Arubano (FCCA)
Island Finance Aruba N.V.
FirstCaribbean International Bank (Cayman) Limited – Aruba Branch

Annex 4. Conferences attended in 2016

This annex provides an overview of the conferences attended by the CBA's supervisory staff in 2016 in the areas of financial sector supervision and AML/CFT oversight[21].

Period	Event	Fruitful insights were provided on the following topics, among others
March	Caribbean Basin Anti-Money Laundering & Financial Crimes Conference by ComplianceAid (Miami, US)	Money laundering trends and typologies, impact of terrorism threat in the Caribbean, and mitigating risk of correspondent banking.
April	US Caribbean Public-Private Dialogue on Correspondent Banking by the US Department of Treasury (Jamaica)	Global trends in correspondent banking and potential drivers, current and emerging illicit finance risks in the Caribbean.
November	Money Laundering Enforcement Conference of the American Bankers Association (Washington, DC, US)	Pros and cons of model risk governance from data mining to cognitive analysis, and Interaction monitoring.
November/December	International Conference of Banking Supervisors (ICBS) (Chile)	Standardized approach for credit risk, supervisory conduct and culture in banks, 'The Basel global standards – the regulatory framework for the coming years', and 'Sustainable/ Prudential banking for financial stability'.

[21] See paragraph 3.1 for the trainings attended by the supervisory staff in 2016.

Annex 5. Overview of administrative sanctions imposed in 2016

Enforcement actions in the area of prudential supervision	Penalty charge orders	Administrative fines	Breaches
Credit institutions	-	-	-
Insurers			
Life insurers	-	Afl. 100,000	Articles 11 and 12 of the SOSIB
General insurers	-	Afl. 640,000	Articles 11, 12, 13, and 15, paragraph 2 of the SOSIB
Captive insurers	-	-	-
Company pension funds	-	-	-
Other	-	-	-
Total		**Afl. 740,000**	

Enforcement actions in the area of integrity supervision	Penalty charge orders	Administrative fines	Breaches
Credit institutions	-	-	-
Life insurers	-	-	-
General insurers	-	-	-
Money transfer companies	-	-	-
Trust service providers	-	Afl. 100,000	Articles 3, 7, 26, 46, and 48 of the AML/CFT State Ordinance
DNFBPs	-	-	-
Total		**Afl. 100,000**	

Annex 6. (M)MoUs signed by the CBA

Supervisory authority	Scope	Year signed
Centrale Bank van Curaçao en Sint Maarten	Exchange of information regarding banks	1998
Centrale Bank van Curaçao en Sint Maarten	Exchange of information regarding insurance companies	2003
Multilateral between Regional Regulatory Authorities	Exchange of information and cooperation and consultation for adequate supervision of financial institutions	2011
Financial Intelligence Unit 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
De Nederlandsche Bank N.V.	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

Annex 7. Meetings of international supervisory groups attended in 2016

This annex provides an overview of the meetings the CBA's supervisory staff attended in 2016 in the areas of financial sector supervision and AML/CFT oversight[22].

Supervisory group/ institution	Event	Discussions were held on the following topics, among others
Group of International Finance Centre Supervisors (GIFCS)	Plenary meetings (April and November)	GIFCS' Standard on the Regulation of Trust and Company Service Providers, National Risk Assessments and strategy for countering the financing of terrorism, corporate governance, FinTech, Basel III and "de-risking".
Caribbean Group of Banking Supervisors (CGBS)	Annual General Meeting and XXXIV Annual Conference "Demystifying Emerging Risks: Game Changer for Banking Supervisors" (May) and Members' meeting (November)	Resolution planning, IFRS 9, Regional interconnectedness and Financial stability, Mitigating risks in banking supervision, and "de-risking".
Group of International Insurance Centre Supervisors (GIICS)	Working Group and Annual General Meeting (June)	Corporate governance research in insurance, current trends in the global captive market, and credit ratings and insurance.
Association of Supervisors of Banks of the Americas (ASBA)	XI High-level Meeting and XIX Annual Assembly Meeting	Financial technology and cybersecurity in the banking industry, the resolution of large banks, and the supervision on bank governance and culture.

[22] See paragraph 3.1 for the trainings attended by the supervisory staff in 2016.

Annex 8. Change in the shareholding of supervised institutions in 2016

I. Banking sector

In accordance with section 17, paragraph 1 of the SOSCS, the CBA granted permission for the following changes in shareholding:

- On January 22, 2016, the CBA granted permission to Irving Place Capital Partners III SPV, L.P. for the acquisition of a qualifying holding of 96 percent of the shares in Island Finance (Aruba) N.V. through Irving Place Capital/Caribbean Financial Group L.P.

- On November 10, 2016, the CBA granted permission to Stichting Algemeen Pensioenfonds Aruba and Stichting Pensioenfonds Havenwerkers Aruba for the acquisition and holding of a qualifying holding of, respectively, 35.41 percent and 14.12 percent of the shares in AIB Bank N.V.

II. Insurance sector

In accordance with section 14a, paragraph 1 of the SOSIB, the CBA granted permission for the following changes in shareholding:

- On May 4, 2016, the CBA granted permission to National Commercial Bank Jamaica Limited for the acquisition of a qualifying holding of 29.99 percent in Guardian Holdings Limited (GHL) and, consequently, a qualifying holding of 29.99 percent as well in Fatum Life Aruba N.V., Fatum General Insurance Aruba N.V., and Elvira Verzekeringen N.V.

- On May 30, 2016, the CBA granted permission to Peak Reinsurance Company Limited for the acquisition and holding of a qualifying holding of 50 percent in Nagico Aruba N.V. and Nagico Life Insurance (Aruba) N.V.

In accordance with section 4, paragraph 4 of the SDSIB in conjunction with section 14a, paragraph 1 of the SOSIB, the CBA granted permission for the following change in shareholding:

- On May 4, 2016, the CBA gave permission to National Commercial Bank Jamaica Limited for the acquisition of a qualifying holding of 29.99 percent in Guardian Holdings Limited (GHL) and, consequently, a qualifying holding of 29.99 percent as well in Boogaard Assurantiën N.V.

Annex 9. Integrity and suitability testing conducted in 2016

Integrity and suitability testing 2016

Sector	Credit institutions	Insurance companies	Company pension funds	Money transfer companies	Trust service providers	Insurance brokers
Pending as of January 1, 2016	**6**	**20**	**4**	**14**	**1**	**14**
New requests	13	13	7	5	4	11
Reassessments	-	-	-	-	-	-
Withdrawn requests	2	1	-	2	-	-
Rejected requests	-	-	-	-	-	-
Approved	6	5	2	10	4	18
Conditionally approved	3	10	7	-	-	-
Assessment ceased	3	1	-	-	-	-
Pending as of December 31, 2016	**5**	**16**	**2**	**7**	**1**	**7**

Annex 10. Supervisory costs passed on in 2016

Pursuant to the respective state decrees[23], the CBA charges the sectors supervised for a portion of the supervision costs incurred. The supervisory costs passed on to the different sectors in 2016 are as follows:

Sectors:		Supervisory costs passed on in 2016
Credit institutions	Afl.	800,000
Insurers	Afl.	300,000
Captives	Afl.	30,000
Company pension funds	Afl.	155,000
Money transfer companies	Afl.	150,000
Trust service providers	Afl.	100,000
Total	**Afl.**	**1,535,000**

[23] 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 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).

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