Centrale Bank van Aruba

The Financial Sector Supervision Report 2012

July 2013

CENTRALE BANK VAN ARUBA

July 22, 2013

The Minister of Finance, Telecommunication,
Utilities and Energy
Mr. ing. M.E. de Meza
L.G. Smith Boulevard 76
Oranjestad
Aruba

LMG/lcw/1.331/SUP/16564

Re: 2012 Report on Financial Sector Supervision

Dear Minister,

With reference to our letter of June 27, 2013 on captioned subject, I hereby submit, pursuant to article 50 of the State Ordinance on the Supervision of the Credit System, article 28 of the State Ordinance on the Supervision of the Insurance Business, article 23 of the State Ordinance Company Pension Funds, article 30 of the State Ordinance on the Supervision of Money Transfer Companies, article 29 of the State Ordinance on the Supervision of Trust Service Providers, article 52 of the AML/CFT State Ordinance and article 16, paragraph 2, of the Sanction State Ordinance 2006, "The Financial Sector Supervision Report 2012".

This report provides an outline of the supervisory tasks carried out by the Centrale Bank van Aruba (CBA) for the year ended December 31, 2012, which will also be available on CBA's website.

Sincerely yours,

Jeanette R. Semeleer
President

c.c. Chairman Board of Supervisory Directors CBA

Preface

Pursuant to the sectoral supervisory state ordinances, the AML/CFT State Ordinance and the Sanction State Ordinance 2006[1], the Centrale Bank van Aruba (CBA) must submit a report each year to the Minister of Finance on the implementation of the different supervisory state ordinances including the ordinances in the areas of AML/CFT and sanction regulations. Via these yearly publications, the CBA complies with this requirement. Concurrently, these reports inform the public of recent developments in the financial sector and in the regulatory and supervisory landscape as well as activities undertaken by the CBA in the areas of prudential and integrity supervision in the year under review.

Up to and including the reporting year 2009, the CBA included this mandated report in its Annual Report. For the years 2010 and 2011, this report formed part of the respective annual reports on Economic and Financial Developments. As of the reporting year 2012, the CBA will publish separate annual reports on financial sector supervision.

[1] Namely, article 50 of the SOSCS, article 28 of the SOSIB, article 23 of the SOCPF, article 30 of the SOSMTC, article 29 of the SOSTSP, article 52 of the AML/CFT State Ordinance, and article 16, paragraph 2, of the Sanction State Ordinance 2006.

List of abbreviations

AFM	Autoriteit Financiële Markten (the Dutch Authority Financial Markets)
Afl.	Aruban florin
ALLP	Allocated loan loss provision
AML/CFT	Anti-money laundering and combating financing of terrorism
APFA	Stichting Algemeen Pensioenfonds Aruba (the civil servants pension fund)
AZV	Algemene Ziektekostenverzekering (the general health insurance)
Basel Committee	Basel Committee on Banking Supervision
BCPs	Core Principles for Effective Banking Supervision (Basel Core Principles)
CBA	Centrale Bank van Aruba (the Central Bank of Aruba)
CBCS	Centrale Bank van Curaçao en St. Maarten (the Central Bank of Curaçao and St. Maarten)
CGBS	Caribbean Group of Banking Supervisors
DNB	De Nederlandsche Bank N.V. (the Dutch Central Bank)
DNFBPs	Designated Non-Financial Businesses and Professions
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
CFATF	Caribbean Financial Action Task Force
FIU	Financial Intelligence Unit (*Meldpunt Ongebruikelijke Transacties*)
GIFCS	Group of International Finance Centre Supervisors
GIICS	Group of International Insurance Centre Supervisors
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
ICRG	International Cooperation and Review Group
IMF	International Monetary Fund
ISD	Integrity Supervision Department
MOU	Memorandum of Understanding
NRA	National Risk Assessment
NRFIs	Non-Regulated Financial Institutions
OM	Openbaar Ministerie (the Public Prosecutor's Office)
PSD	Prudential Supervision Department
SDQHIC	State Decree Qualifying Holding Insurance Companies
SOCPF	State Ordinance on Company Pension Funds
SOSCS	State Ordinance on the Supervision of the Credit System
SOSIB	State Ordinance on the Supervision of the Insurance Business
SOSMTC	State Ordinance on the Supervision of Money Transfer Companies
SOSTSP	State Ordinance on the Supervision of Trust Service Providers
Stichting IFEA	Stichting Institute of Financial Education Aruba
SVB	Sociale Verzekeringsbank (the social security bank)

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1 Introduction

The CBA is the sole supervisory authority in Aruba with respect to the financial sector. The CBA's supervision aims primarily at maintaining the soundness and integrity of the financial system, thereby safeguarding the interests of depositors, policyholders, and other creditors of the financial institutions. In this respect, the CBA, pursuant to the sectoral supervisory state ordinances, is responsible for the regulation and supervision of the credit system, insurance companies, company pension funds, money transfer companies, and trust service providers.

In addition, the CBA is entrusted with the execution of the anti-money laundering and combating financing of terrorism (AML/CFT) State Ordinance and the Sanction State Ordinance 2006. Subsequently, the CBA also has AML/CFT oversight responsibility over those sectors subject to the AML/CFT Ordinance and Sanction State Ordinance 2006. Besides banks and bank-like institutions, life insurance companies, money transfer companies and trust service providers, the following sectors are also supervised for AML/CFT purposes:

- nonregulated financial institutions (NRFIs), i.e., insurance intermediaries, investment companies, and investment brokers; and,
- designated nonfinancial businesses and professions (DNFBPs), i.e., lawyers, civil notaries, tax advisors, accountants, jewelers, real estate brokers, and casinos.

In the area of supervision, the CBA strives to maintain a high level of compliance with international supervisory standards and international best practices. The expansion of the supervisory scope and the broadening of the supervisory mandate resulting from the various legislative changes in past years underscore the need for an effective and efficient execution of the supervisory tasks. As stated in the CBA's "Report 2011 Economic and Financial Developments", the CBA had, subsequent to the increased supervisory challenges, adapted its supervisory approach in the following areas: (a) implementation of a risk-based supervisory framework, (b) variety in the supervisory techniques (supervisory "toolkit"), (c) effective application of its enforcement instruments, and (d) enhancement of the mechanisms that support cooperation and information exchange with foreign supervisors and other (national and international) agencies relevant for the execution of the supervisory tasks of the CBA:

a. Risk-based supervision

Following the steps taken in 2011 to ensure the implementation of an adequate framework for risk-based supervision, in 2012 the CBA made significant effort in this area and is now on the verge of implementing a structured risk-based supervisory approach. The CBA acquired

an automated risk tool, which, with assistance from a consultant, was further developed and tailored to fit the CBA's wishes. Mid-2013, the CBA also requested banks, life insurers, money transfer companies, and trust service providers to submit information for this purpose. To that end, various meetings were held. The structured risk-based approach will be rolled out for prudential supervision purposes, as well as for AML/CFT supervision with respect to supervised financial institutions, nonregulated financial businesses and nonfinancial businesses. With risk-based supervision, the CBA strives to implement a methodology to identify, analyze, and weigh the risks associated with the institutions under its supervision, and to use this information as the basis for its yearly supervisory planning cycle. The risk tool will enable the CBA to allocate its scarce resources in an effective and efficient manner to the institutions under its supervision.

b. Supervisory "toolkit"

The CBA strengthened its supervisory "toolkit" in 2011 with: (1) the introduction of an on-site manual (for internal use), (2) themed on-site examinations, (3) additional off-site monitoring tools, (4) increased frequency of off-site meetings with supervisory boards or comparable bodies, compliance officers, internal auditors, etc., (5) strengthened integrity and suitability testing procedures, including the introduction of a revised personal questionnaire that (prospective) key persons at institutions under CBA's supervision must fill out.

In 2012, the CBA upgraded its internal procedures with the implementation of the 'On-site Procedures Manual', which was established at the end of 2011. This manual contains a practical and uniform framework of procedures, tasks and responsibilities, and timeframes. In addition, the CBA has effectively applied tailored supervisory techniques: one size does not fit all. On-site examinations have become more focused, and the CBA has further intensified its dialogue with the institutions under its supervision.

c. Enforcement

The CBA issued its enforcement policy in September 2011. The enforcement policy and the decisions of when and how to act are based on the following five key principles:

(1) The supervisory approach and enforcement actions of the CBA aim to achieve compliant behavior in institutions under its supervision.
(2) The actions depend on the content and nature of the rules and principles concerned.
(3) The CBA will in any case act as soon as it becomes aware of a violation of the relevant laws and regulations (noncompliant behavior will not be tolerated).
(4) The CBA will act in an effective manner aimed at stopping the noncompliant behavior and ensuring that the noncompliant supervised institution takes appropriate corrective and remedial measures.

(5) In its decision-making processes, the CBA is bound by general principles of proper administration ("algemene beginselen van behoorlijk bestuur"), which include the principles of proportionality and equality, as well as the balancing of interests.

Furthermore, the enforcement policy contains key objective factors that guide the CBA in its enforcement decisions. In 2012, it has effectively applied the enforcement instruments at its disposal in its decision-making, taking into account the mentioned enforcement policy.

d. Cooperation and information exchange

The CBA continued to foster national and international cooperation during 2012. On a national level, it consulted regularly with stakeholders and met with the supervised institutions and their representative bodies on several occasions, while important steps were taken to enhance the information exchange between the CBA and local authorities. On the international level, the CBA met with the supervisors of the Kingdom of The Netherlands and assisted the CFATF in its assessment of the progress made by Suriname in complying with the FATF Recommencations. In addition, legislative changes were enacted to enhance, *inter alia*, the possibilities for information exchange by the CBA with foreign supervisors.

The structure of this report is as follows. In paragraph 2 the major changes in the legislative and regulatory framework are discussed. Paragraph 3 describes international developments relevant for the institutions under the supervision of the CBA. National and international cooperation are elaborated in paragraph 4. Paragraphs 5 and 6 focus on the major activities undertaken in 2012 in the areas of prudential supervision and integrity supervision, while the sectoral financial developments are covered in paragraph 7.

2 Major changes in the legislative and regulatory framework

2.1 Amending State Ordinance

In December 2011, the CBA submitted a proposal to amend the SOSCS, the SOSIB, the SOSMTC, and the SOSTSP to the Minister of Finance with the purpose to strengthen and harmonize the sectoral supervisory state ordinances and also extend the scope of the SOSCS to electronic money institutions and the scope of the SOSTSP to trust companies that provide trust services to companies active on the Aruban market. In the course of 2012, this proposal was discussed with the Directorate of Legislation and Legal Affairs of the Government of Aruba on several occasions. In November 2012, a presentation was given to the Parliamentary Committee on financial and economic matters ("Vaste Staten Commissie Financiële en Economische Aangelegenheden") on the main features of the proposed ordinance. On January 1, 2013, the State Ordinance Amending the Sectoral Supervisory State

Ordinances (*Landsverordening herziening sectorale toezichtwetgeving*, AB 2012 no. 55) (Amending State Ordinance) was enacted.

The most important modifications included in the Amending State Ordinance are summarized below.

a. Strengthening of the integrity and suitability criteria

The Amending State Ordinance harmonizes and strengthens the integrity and suitability criteria for executive and supervisory directors of supervised institutions and the integrity criteria for holders of qualifying holdings in supervised institutions. The integrity of executive and supervisory directors of supervised institutions and persons or institutions holding qualifying holdings in a supervised institutions must be beyond doubt, while the suitability of executive and supervisory directors must be sufficient, individually and collectively, to fulfill these functions.

In connection with the enactment of the Amending State Ordinance, the CBA also issued a revised Personal Questionnaire to be completed by the prospective candidate and submitted by the applicant, the latter being the supervised institution or the (intended) holder of a qualifying holding.

Box 1: Overview of integrity and suitability criteria

The integrity and suitability requirements must be complied with on an ongoing basis. The CBA can conduct a re-assessment if it deems it necessary. A person's integrity is tested by the CBA on the basis of facts, circumstances, and antecedents evidencing whether or not a person's behavior is in accordance with the sound fulfillment and execution of the function concerned. When assessing the integrity of a person, the CBA takes the following antecedents, among others, into account: criminal, financial (personal and business-related), supervisory, and tax-related antecedents. When assessing a person's suitability, the CBA assesses a person's knowledge, skills, and professional conduct. Suitability testing takes into account (i) the person's position, (ii) the nature, scope, complexity, and risk profile of the financial institution; and (iii) the composition and functioning of the respective executive or supervisory body as a whole. The latter item means that the knowledge and skills of the person concerned are reviewed in conjunction with those of the other members of the respective executive or supervisory body.

b. Sound business operations

In the SOSCS, SOSIB, SOSMTC, and SOSTSP, an uniform requirement to ensure sound business operations has been introduced. Financial institutions must implement adequate

policies, procedures, and measures and organize their activities in a way that ensures sound business operations. Sound business operations include, among other things,:

- preventing conflicts of interest;
- preventing money laundering and financing of terrorism;
- complying with the AML/CFT State Ordinance and other AML/CFT laws and regulations;
- preventing any direct or indirect involvement in criminal offences or other violations of the law by the institution or its employees;
- preventing involvement with clients or other business relationships that may affect trust in the supervised institution; and
- preventing any acts contrary to generally accepted standards in a way that might affect trust in the supervised institution.

Thus, a supervised institution must ensure an ethical business culture and promote ethical behavior within the organization. On the basis of an integrity risk assessment, the institution must establish adequate policies, and implement such policies in its business processes via policies, procedures, and measures. A supervised institution must establish clear policies, procedures, and measures to control integrity risks that it is exposed to.

c. Administrative sanctions

Also, the enforcement stipulations in the SOSCS, SOSIB, SOSMTC, and SOSTSP were enhanced and brought in line with the AML/CFT State Ordinance. The maximum administrative fine has been increased from Afl. 250,000 to Afl. 1,000,000 per violation. On June 1, 2013, the State Decree regarding the principles for administrative enforcement of the sectoral supervisory state ordinances (*Landsbesluit grondslagen bestuurlijke handhaving sectorale toezichtwetgeving*, AB 2013 no. 31) has been enacted. This state decree sets rules with regard to the basis for determining the amount of the penalty charge order and administrative fine. The provisions of the sectoral supervisory state ordinances (including the SOCPF) are arranged in two categories with the corresponding base amounts (minimum and maximum amounts). Furthermore, the Amending State Ordinance requires the CBA to issue a policy document containing guidelines for the imposition of administrative sanctions (i.e., a penalty charge order or administrative fine). In compliance herewith, on February 18, 2013, the CBA issued a revised enforcement policy. Finally, the Amending State Ordinance introduced the possibility of imposing administrative sanctions on individuals that carry responsibility for violation of the legislative or regulatory requirements. This means that an administrative sanction also can be imposed on, among others, an executive or supervisory director. To hold such person liable, it may be sufficient that the person was aware of the violation and in a position to intervene but failed to do so.

d. International cooperation and exchanging information

With the enactment of the Amending State Ordinance, the prospects for cooperation and information exchange with foreign supervisors were enhanced, *inter alia,* by introducing the possibility of starting an investigation at a supervised institution at the request of a foreign supervisor. Moreover, when conducting such an investigation, the CBA may be accompanied by an officer of the requesting foreign supervisory institution.

e. Article 48 of the SOSCS

With the enactment of the Amending State Ordinance, article 48 of the SOSCS also was revised. According to article 48, paragraph 1 of the SOSCS, the following activities are prohibited in the course of conducting a business, unless a dispensation from the CBA is obtained:

a. to attract, obtain, or have the disposal of, whether or not on the due date, repayable funds from the public, which funds are, in total or for each individual attraction, below an amount determined by Ministerial regulation (currently Afl. 1,000,000);
b. to grant credits or other forms of financing to the public; and,
c. to act as an intermediary in these cases.

In addition to improved wording of the provision, the phrase "approaching the public" (see point a. above) was deleted. To protect the interests of consumers, the legislators confirmed that the elements of the provision deserve a broad interpretation. In accordance with the CBA's policy toward this end, the prohibition to grant credits also includes pawn activities or similar services. The phrase "other forms of financing" was added to clarify that the prohibition also covers activities such as financial leasing, operational leasing, and factoring with right of recourse. The CBA may grant a dispensation from this prohibition if, in its opinion, the interests that the SOSCS seeks to protect are adequately safeguarded by other means. The CBA can set restrictions, stipulations, and conditions to a dispensation.

2.2 State Ordinance on the General Pension

On January 1, 2012, the State Ordinance on the General Pension (*Landsverordening algemeen pensioen*, AB 2011, no. 85) came into effect.[2] In accordance with article 2 of the State Ordinance on the General Pension, each employer must enter into a pension arrangement for its employees with a life insurer possessing a license as mentioned in article 5 of the SOSIB or with a company pension fund as defined in article 1 of the SOCPF. In connection with the introduction of this mandatory pension arrangement, some amendments were made to

[2] Reference is made to CBA's "Report 2011 Economic and Financial Developments" for more detailed information.

strengthen the SOCPF and the SOSIB. The main changes to the SOCPF are the introduction of fit and proper criteria for "key persons", the requirement to have sound and controlled business operations, and the possibility for the CBA to impose administrative sanctions against a company pension fund and/or its board members in case of non-compliance with the stipulations of the SOCPF or the regulations issued by the CBA pursuant to this ordinance. With respect to the SOSIB, the required solvency margin for life insurers, as mentioned in article 14, paragraph 1, of the SOSIB, is increased gradually over a period of 4 years, starting January 1, 2012, by 1 percentage point each year, bringing this margin to 5 percent as of January 1, 2013.

2.3 Pawnshops

In 2011 the CBA decided to reintroduce the regulation of pawnshops. In accordance with article 48, paragraph 3 of the SOSCS, the granting of credits or other forms of financing to the public in the course of a business is prohibited without a dispensation from the CBA. In 2012, the CBA implemented a dispensation policy for pawnshops operating in Aruba and issued guidelines on the conduct of the business of pawnshops / compra y benta companies. Pawnshops already active in Aruba as of April 1, 2012, were granted a transitional period of one year (that ended on March 31, 2013) to effectuate policies, processes and systems that would enable them to meet the conditions of the dispensation policy and to submit a dispensation request. Up to including June 2013, the CBA has received 5 dispensation requests. Pawnshops that did not file a dispensation request are no longer allowed to conduct pawn activities as of March 31, 2013.

Pawnshops also must comply with the CBA's Directive on the publication of effective interest rate on consumer loans. This directive sets requirements in the area of consumer loan advertisements, as well as the information to be included in the loan agreement with the client. Pawnshops also must comply with the AML/CFT State Ordinance and the Sanction State Ordinance 2006.

2.4 State Decree on passing on of supervision costs

On December 29, 2012, the State Decree on passing on of supervision costs to the trust service providers (*Landsbesluit doorberekening toezichtkosten trustkantoren*) (AB 2012 no. 60) came into effect. The amount of the supervision costs for the trust sector was set at Afl. 100,000 with a minimum of Afl. 2,500 per trust service provider. In accordance with this state decree, the supervision cost charges will be distributed among the trust service providers based upon the number of companies for which they provide trust services.

2.5 Draft State Ordinance on the supervision of the investment business

In 2012, the CBA continued with the drafting of a legislative proposal to regulate the investment business. In this process, the CBA also received technical assistance from the Dutch Ministry of Finance and the Dutch Authority Financial Markets ("AFM"). In June of 2013, a draft law has been submitted to the Minister of Finance for his approval.

3 International developments

As part of its continuous effort to achieve a high level of compliance with international supervisory standards and international best practices, the CBA took special notice of international developments in the areas of banking and insurance supervision, AML/CFT, and foreign tax legislations in 2012.

3.1 Revised Basel core principles

During the 17th International Conference of Banking Supervisors in Istanbul, Turkey, in September 2012, banking supervisors and central bankers representing more than 100 countries endorsed the revised Core principles for effective banking supervision (Basel core principles) (BCPs) issued by the Basel Committee on Banking Supervision. These core principles are considered the global standard for sound prudential regulation and supervision of banks. The revision took stock of several key trends and developments that emerged during the last few years of market turmoil, namely:

- The need for greater supervisory intensity and adequate resources to deal effectively with systemically important banks.
- The importance of applying a system-wide, macro perspective to the microprudential supervision of banks to assist in identifying, analyzing, and taking pre-emptive action to address systemic risk.
- The increasing focus on effective crisis management, recovery, and resolution measures in reducing both the probability and the impact of a bank failure.
- The importance of sound supervisory practices in the areas of corporate governance, disclosure, and transparency to foster public confidence and a safe and sound banking system.[3]

In view of the significant changes made to the BCPs, the CBA is planning to conduct a self-assessment in 2014 to evaluate its level of compliance with the revised BCPs and to draft a plan of action to address identified gaps.

[3] Source: Bank for International Settlements.

3.2 Revised Insurance core principles

Following the issuance of the revised Insurance Core Principles (ICPs) in October 2011, which provides a globally accepted framework for the supervision of the insurance business[4], the International Association of Insurance Supervisors (IAIS) again published an amendment in October 2012. The latter concerned the revision of ICP 9 'Supervisory review and reporting'[5], adopted at the Annual General Meeting of the IAIS, held in Washington, D.C., U.S.A., on October 12, 2012. According to the revised ICP 9, an insurance supervisor must have an integrated, risk-based system of supervision in place that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, the quality and effectiveness of its Board and Senior Management, and compliance with legislation and supervisory requirements.

3.3 FATF

In February 2012, the FATF standards were updated to strengthen global safeguards and to further protect the integrity of the financial system by providing governments with stronger tools to take action against serious crime. The FATF's nine Special Recommendations on terrorist financing have been integrated fully within the forty Recommendations, reflecting both the fact that terrorist financing is a long-standing concern, and the close connections between anti-money laundering measures and measures to counter the financing of terrorism.

The revision of the Recommendations aims to achieve a balance: on the one hand, the requirements have been specifically strengthened in areas which are at higher risk or where implementation could be enhanced. The requirements have been expanded to deal with new threats such as the financing of proliferation of weapons of mass destruction, and to be clearer on transparency requirements and tougher on corruption. On the other hand, they also are better targeted. The risk-based approach will allow financial institutions and other designated sectors to apply their resources more efficiently by focusing on higher risk areas, while having more flexibility to apply simplified measures in low-risk areas.

The FATF will begin a new round of evaluations in 2013 and will focus more intensively on assessing how effectively countries have implemented the Standards. The CBA intends to conduct a self-assessment in 2014 to determine whether the current legislative and regulatory framework as well as its supervisory practices meet the revised FATF standards.

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[4] Includes reinsurance business and captives.

[5] Source: IAIS Insurance Core Principles, Standards, Guidance and Assessment Methodology.

Box 2: Overview of key changes to the FATF Recommendations

- The risk-based approach to implementing AML/CFT measures has been clarified. A well-implemented risk-based approach helps countries adopt effective and appropriate systems commensurate with the risks they face.
- The requirements to ensure timely access to adequate and accurate information on the beneficial ownership and control of companies, trusts, and other legal persons or legal arrangements have been strengthened and clarified. Measures to improve transparency, implemented on a global basis, will make it harder for criminals and terrorists to conceal their activities.
- Tax offenses have been made predicate offenses for money laundering.
- The role and functions of law enforcement and the Financial Intelligence Unit (FIU) (*Meldpunt Ongebruikelijke Transacties*) have been clarified, including the range of investigative techniques and powers that should be available to them, e.g., to obtain and analyze financial information about a suspected criminal's accounts and transactions.
- The definition of politically exposed persons (PEPs) has been broadened to include domestic PEPs and PEPs from international organizations.
- The transparency of wire transfers has been enhanced, namely, the required information which must accompany wire transfer now also includes beneficiary information in addition to originator information.
- A new standard has been added concerning the implementation of targeted financial sanctions related to the proliferation of weapons of mass destruction called for by the UN Security Council.
- The scope and application for international cooperation between authorities have been strengthened. This to increase the effectiveness of the exchange of information for investigative, supervisory, and prosecutorial proposes.

3.4 Foreign Account Tax Compliance Act

On March 18, 2010, the final version of the U.S. Foreign Account Tax Compliance Act of 2009 (FATCA) became law as part of the Hiring Incentives to Restore Employment (HIRE) Act. The Internal Revenue Service (IRS) and the U.S. Treasury Department are the two government departments responsible for the implementation of FATCA.

FATCA is considered an important development in the American efforts to combat tax evasion by U.S. persons and American companies holding investments in offshore accounts. With the implementation of FATCA, the U.S. government seeks to gather information about assets held by U.S. persons and American companies at financial institutions overseas, and if applicable, to levy taxes on these assets.

FATCA focuses on two target groups, namely: (1) U.S. persons liable to pay taxes in the United States, and who hold financial assets outside the United States or make use of banking services through a non-U.S. bank account, and (2) foreign financial institutions (FFI) with U.S. clients. To comply with FATCA and provide the IRS directly with the required information, FFIs must enter into an agreement with the IRS by June 30, 2013.

An FFI may agree to report certain information about its account holders by registering as FATCA compliant. An FFI that has registered to be FATCA compliant and that has been issued a global intermediary identification number (GIIN) will appear on a published FFI List. An FFI that has registered as FATCA compliant will be required on a yearly basis to identify its U.S. clients and provide their personal information, their tax identification number, and their bank account number, including balance, directly to the IRS.

Failure to comply with FATCA and, therefore, not meeting with the reporting requirements, can have serious consequences. If a registered FFI does not comply with the FATCA requirements, it can be sanctioned with a 'withholding tax' of 30 percent. This means that on all payments of its U.S. clients from the United States to the noncomplying FFIs, 30 percent will be deducted from the withholdable payments. These payments include, among other things, interest, dividend, rent, wages, premiums, annuities, compensations, fees, and other types of fixed annual or periodic benefits, profits, or income. In the situation wherein a complying FFI must make a payment to a noncomplying FFI, the complying FFI also is required to withhold 30 percent on these payments.

Considering the significant impact the FATCA regulations may have on financial institutions operating in or from Aruba, the CBA will continue to closely monitor developments in this area.

3.5 Basel III

The capital and liquidity requirements of the Basel III, a comprehensive set of reform measures developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision, and risk management of the banking sector[6], were endorsed by the G20 Leaders at the November 2010 Summit in Seoul[7] and subsequently revised in June 2011 and January 2013, respectively. The requirements aim at improving the banking sector's ability to absorb shocks (arising from financial and economic stress, whatever the source), improve risk management and governance, and strengthen banks' transparency and

[7] Published in December 2010.

disclosures (promoting a more resilient banking sector). It was globally agreed to set a starting date for the implementation of Basel III on January 1, 2013, and to phase in arrangements (ending in 2019) for implementation of the new requirements in the areas of solvency and liquidity. According to the Basel Committee, a full, timely, and consistent implementation of Basel III is fundamental to raising the resilience of the global banking system, maintaining market confidence, and providing a level playing field. While the CBA is still in the process of moving towards full implementation of Basel II envisaged around end-2016 in 2014, it will evaluate whether certain elements of Basel III can already be implemented and whether legislative changes to this aim are necessary.

4. National and international cooperation

4.1 National cooperation

During 2012, the CBA had regular consultations with government agencies and sectoral and occupational organizations. Its most important partners, particularly regarding integrity supervision and enforcement, are the FIU, the Public Prosecutor's Office ("*Openbaar Ministerie*" or *OM*), and various law enforcement agencies. Following the signing of a Memorandum of Understanding (MoU) with the FIU in 2011, the CBA entered into a MoU with the Public Prosecutors' office on May 12, 2012. In addition to setting procedures for information exchange, the MoU also establishes guidelines in the event of a concurrence of administrative and criminal enforcement possibilities. With due regard to the universal "*ne bis in idem-principle,"*, i.e., a person cannot be punished twice for the same act, it is necessary for parties to decide which enforcement route would be followed in these cases. The CBA holds periodic bilateral meetings with the FIU (at least every quarter) and the OM (at least three times a year).

Furthermore, as project leader the CBA actively participated in Aruba's National Risk Assessment (NRA) project conducted in 2012 in the area of money laundering and terrorist financing. Valuable assistance in carrying out the NRA assessment also was received from the Dutch Central Bank. Various meetings were held with key agencies, while the CBA hosted plenary sessions with all participants in September 2012. On December 12, 2012, the NRA draft report was submitted to the AML/CFT Strategy Group, and was approved on May, 30, 2013.

By Ministerial Order, the Minister of Finance allowed the Tax Department, as of February 21, 2012, to provide the CBA with information relevant to the integrity testing of (prospective) directors and shareholders of financial institutions and trust service providers under the

CBA's supervision. This Order enables the CBA to obtain information on the tax history and possible current tax issues concerning these persons.

In 2012, the CBA also held meetings with the Aruban Bankers' Association (ABA) and the Insurance Association of Aruba (IAA) to discuss various integrity and prudential supervisory matters. It was agreed recently to establish bilateral committees to further deliberate on the FATCA requirements (see also point d under paragraph 3), as well as on the introduction of a local credit information bureau.

Furthermore, the CBA met separately with the management of each credit institution in the so-called bilateral meetings to discuss matters related to credit development, nonperforming loans, and annual budgets, as well as the results of the stress tests performed on each bank. In 2011, a joint working group consisting of representatives of both the ABA and the CBA was established to provide advice on the introduction of a deposit insurance scheme for the domestic commercial banking sector. Up to recently, the joint working group met several times to debate on the modalities of an Aruban deposit insurance scheme. An MoU on this subject is expected to be signed shortly between the CBA and the ABA.

4.2 International cooperation

With respect to international cooperation, subject to certain conditions being met, the sectoral supervisory laws provide the CBA with the possibility of supplying data or information to foreign supervisory authorities. In 2012, the CBA received four formal information requests from foreign supervisory authorities. The CBA responded to all these requests.

As of January 1, 2013, the possibilities for cooperation and information exchange with foreign supervisors were enhanced with the enactment of the Amending State Ordinance, *inter alia,* by introducing a potentiality for starting an investigation at a supervised institution at the request of a foreign supervisory authority. When conducting such investigations, the CBA may allow officers of the foreign supervisory authority to participate with the investigation.

In 2012, the CBA continued its intensive cooperation with the supervisory authorities in the Kingdom of the Netherlands. Specifically, the CBA met regularly with its overseas counterparts within the Kingdom of the Netherlands and participated in a seminar hosted by the Central Bank of Curaçao and Sint Maarten (CBCS). The main subjects discussed during the seminar were sound corporate governance and conduct of business supervision. Also, in 2012 the supervisory authorities in the Kingdom of The Netherlands conducted their first

supervisory college. The purpose of supervisory colleges is to ensure effective and efficient supervision through information-sharing on financial institutions for which there is a joint responsibility.

The Joint Working Group on Integrity Issues, consisting of the supervisory authorities within the Kingdom of The Netherlands, met twice during 2012. The objective of this joint working group, established in 2011, is to enhance and harmonize, as far as possible, laws, regulations, and the supervisory approaches in the area of integrity supervision. In October 2012, the group presented its mutual recommendations on the laws and regulations concerning, *inter alia,* sound conduct of business, AML/CFT, and integrity and suitability tests.

The goal of the Joint Working Group on Conduct of Business Supervision, consisting of the supervisory authorities within the Kingdom of The Netherlands and installed in 2012, is to enhance and harmonize, as far as possible, laws, regulations, and the supervisory approaches in the area of conduct of business supervision. Conduct of business 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 2012, this working group met once face-to-face. In early 2013, it finalized its analysis of 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 respective frameworks.

Finally, the CBA assisted the CFATF in its assessment of the progress made by Suriname to address the deficiencies found during CFAFT's last mutual evaluation with respect to the 40 + 9 FATF recommendations. On the basis of the outcomes of the High Level Mission conducted by the CFATF ICRG to Suriname in February 2012, it was considered important to have a Dutch-speaking member assist the CFATF in its review process of Suriname, also with respect to its laws. As a result, Aruba was approached and agreed to offer its assistance, which consisted of reviewing and following up on the implementation of Suriname's Action Plan, including review of new and revised legislation with regard to the Key and Core FATF Recommendations pertaining to the preventive measures. Aruba has already submitted two reports to the CFATF (at the November 2012 CFATF Plenary and at the May 2013 CFATF Plenary) regarding Suriname's progress.

5 Prudential supervision

In 2012, the CBA's prudential supervision was focused mainly on overseeing compliance with the prudential ratios and sound corporate governance practices, thereby promoting sound

development of the financial institutions under its supervision. Overall, all the supervised institutions complied with the prudential requirements set by the CBA except for two company pension funds and the civil servants' pension fund (APFA). The coverage ratio of APFA since January 1, 2011, when it was placed under the supervision of the CBA, has been far below the minimum requirement of 100 percent. Additionally, two company pension funds also saw their coverage ratio fall below the minimum requirement in 2012, mainly as a result of the global financial crisis in combination with the application of stricter mortality tables. The CBA approved the recovery plan of APFA and that of the respective company pension funds, and to ensure compliance with these approved plans it closely monitors the financial developments at these institutions. PSD issued on one occasion a notification pursuant to section 20, paragraph 1, of the SOSCS.

The PSD conducted six targeted on-site examinations in the areas of corporate governance, quality of loan portfolio, admissibility of assets, financial reporting, and development of the coverage ratios vis-à-vis the approved recovery plans. The on-site examinations were executed at three credit institutions, one insurance company, and two (company) pension funds.

As part of its off-site surveillance, the PSD undertook several activities, *inter alia,* analysis of the financial reports submitted by the supervised institutions, the fit and proper testing of key persons at the supervised institutions, the processing of various requests for approval pursuant to the sectoral supervisory laws, as well as providing advice related to foreign exchange license requests of financial institutions supervised by the CBA. Also, the PSD held bilateral meetings with the supervised institutions and the representative organizations on various supervisory matters, participated in technical meetings of the College of Supervisors of the Kingdom of the Netherlands and in the Joint Working Group Deposit Insurance Scheme.

In 2012, the PSD carried out stress tests on the domestic commercial banking sector to assess its resilience to various potential shocks emanating from credit risk, liquidity risk, interest rate risk, and foreign exchange risk. The results of these tests indicate that the domestic commercial banking sector is resilient to potential adverse developments in credit conditions and liquidity levels, and is less vulnerable to interest rate risk and foreign exchange shocks. The commercial banks were informed during the bilateral meetings held in November/ December of 2012 that, in the near future, they will be required to conduct their own stress testing exercise. To this end, the CBA intends to issue a policy paper on stress testing in early 2014.

The strengthening of the sectoral supervisory state ordinances, as well as the broadening of the supervisory scope to electronic money institutions underscore the importance of having, among other things, adequately trained and experienced staff. In 2012, two senior policy advisors were added to PSD's staff bringing it to 9 staff members at year-end 2012. They received internal as well as external training to further enhance their skills and knowledge in the supervisory area.

In addition to several internal trainings focused on risk-based supervision-related matters (e.g., root-cause analysis and intervention strategies), examination skills, and effective reporting, the prudential supervision team also attended a number of external trainings and seminars provided by, among others, the Aruban foundation for financial education, the so-called Stichting IFEA, the Dutch Central Bank, and the Federal Reserve System in the areas of financial reporting, pension supervision, AML/CFT, and Electronic Banking and Technology Risk Supervision.

Finally, the PSD also attended annual meetings and conferences of the Caribbean Group of Banking Supervisors (CGBS), the Group of International Finance Centre Supervisors (GIFCS)[8], the Group of International Insurance Centre Supervisors (GIICS,[9], and the International Association of Insurance Supervisors (IAIS) held in 2012. Several topics related to the central theme of 'Regional supervisory imperatives in an evolving financial services landscape' were discussed during the XXX Annual Conference of the CGBS held in Guyana in May 2012, e.g., supervision on new governance structures, systemically important financial institutions and electronic money, financial inclusion, and financial consumer protection. During the Plenary Meeting of GIFCS held in Istanbul in September 2012, the revised BCPs and the Financial Sector Assessment Program (FSAP) conducted by the IMF[10] were discussed. At the Annual General Meeting of GIICS in Washington, D.C., in October 2012, participants discussed, among other things, the recent developments within the IAIS and ways to enhance GIICS' contribution to the work performed by the IAIS. Last, the program of the 19th annual conference of the IAIS held in Washington, D.C., U.S.A., in October 2012, included panels on ComFrame[11], developing tomorrow's front-line supervisors, financial inclusion, financial stability, improving consumer protection, and longevity risk.

[8] Formerly: Offshore Group of Banking Supervisors (OGBS).
[9] Formerly: Offshore Group of Insurance Supervisors (OGIS).
[10] The FSAP is a comprehensive and in-depth analysis of a country's financial sector.
[11] ComFrame stands for the 'Common Framework for the Supervision of Internationally Active Insurance Groups'. It comprises a set of international supervisory requirements focusing on the effective group-wide supervision of internationally active insurance groups.

Annex 5 to this report contains a broad overview of the supervisory activities carried out by the PSD in 2012.

6 Integrity supervision

As of June 2011, the CBA became responsible for overseeing compliance with the provisions laid down in the AML/CFT State Ordinance for all financial service providers, including the financial service providers not yet regulated for prudential purposes (NRFIs), such as insurance brokers, investment businesses, electronic stock exchanges, as well as the non-financial businesses and professions (DNFBPs), such as casinos, high value dealers, legal practitioners, and accountants.

In view of this expanded supervisory mandate, several steps have been taken to continue to ensure efficient and effective supervision. In the first place, in 2012, ISD welcomed an additional staff member. Its staff consists of 8 dedicated AML/CFT specialists at the end of June 2013. Second, all supervisory staff received ongoing AML/CFT training. In November 2012, they attended an AML/CFT training organized by the Stichting IFEA. They also attended several conferences, including the “Financial Investigation Conference” in Curaçao, a specialized training in Las Vegas on casino auditing, and a training organized by the CFATF on the revised FATF recommendations.

During 2012, ISD staff also received extensive internal training on, *inter alia*, risk-based supervision (root cause analysis and intervention strategies), examination skills, and effective reporting. The Dutch Central Bank facilitated some of these trainings.

In addition to implementing the on-site procedures manual established in 2011, ISD enhanced its AML/CFT supervision work program, including a separate section on transaction monitoring. In 2012, ISD also dedicated significant resources to further enhance its policies and procedures concerning the effective and efficient execution of integrity and suitability tests.

In 2012, ISD carried out thirteen focused on-site examinations: four examinations at banks, four examinations at trust service providers, one examination at a life insurer, three examinations at money transfer companies, and one examination at a DNFBP. The on-site examinations focused mainly on the following topics: (1) the institution’s governance and policies and controls to combat money laundering and terrorist financing, (2) the adequacy

of the institution's monitoring systems to identify unusual and higher risk activities and transactions, (3) the adequacy of reporting procedures; and (4) the institution's compliance with transitional provisions regarding existing clients laid down in article 2 of the Enactment State Ordinance for the Prevention and Combating of Money Laundering and Terrorist Financing (AB 2011 no. 29) (Enactment State Ordinance).

On four occasions, formal measures, the so-called penalty charge orders, were imposed as a result of deficiencies noted during on-site examinations.

More particularly, in 2012, preparatory work was undertaken to conduct AML/CFT supervision of the new target groups (NRFIs and DNFBPs). Taking into account the transitional provisions embedded in the AML/CFT State Ordinance, the supervisory approach of the CBA focused on registration and providing guidance and awareness building. Several meetings were held in 2012 with representatives from the various supervised sectors (e.g., Casinos Association and Aruba Bar Association). Moreover, the CBA met with and otherwise approached (via telephone or letters) individual supervised entities. In November 2012, the CBA rolled out an information program in collaboration with the Stichting IFEA, the FIU, and the consultancy firm Philip Sidney, geared at, *inter al*ia, NRFIs, legal practitioners, and casinos. The CBA's main approach in 2013 with regard to increasing awareness is conducting Q&A sessions and ongoing dialogue with these sectors.

In addition, various actions were undertaken to strengthen the overall AML/CFT framework as a response to the recommendations in the FATF Mutual Evaluation Report of October 14, 2009. See Box 3 for a chronological overview of the main achievements in 2012 in the legislative and regulatory areas aimed at addressing the shortcomings identified in the MER.

Annex 5 to this report contains a broad overview of the supervisory activities carried out by the ISD in 2012.

Box 3: Overview of main achievements in 2012 regarding the implementation of the recommendations laid down in the MER regarding the AML/CFT framework.

In 2012 the CBA continued to contribute to the implementation of the FATF recommendations in connection with the third mutual evaluation report (the MER) adopted on October 14, 2009, that fall within the scope of its mandate, *inter alia*:

1. Legislation:

- Regulation verification documents AML/CFT State Ordinance (*Regeling verificatie documenten LWTF*, AB 2012, no. 11). Effective date February 29, 2012.
- Revised Sanction State Decree (Sanctiebesluit bestrijding terrorisme en terrorisme financiering, AB 2010, no. 27 and AB 2012, no. 36). Effective date October 17, 2012. Amendments reflect the latest developments with regard to the Consolidated List for Al Qaeda and the Taliban. The changes also further enhance the relevant operational framework by means of the installment of a National Sanctions Committee that will assist the Minister of Justice in the establishment and all subsequent modifications of the Freezing List.
- State Ordinance amending the sectoral Supervisory State Ordinances (*Landsverordening herziening sectorale toezichtwetgeving*, AB 2012 no. 55) (Amending State Ordinance). Effective date: January 1, 2013.

2. Pending legislation:

- With the assistance of the Dutch Ministry of Finance and the Dutch Authority Financial Markets ("AFM"), the CBA produced a legislative proposal to regulate the investment business. On June 7, 2013, the CBA submitted the final draft to the Minister of Finance.

3. AML/CFT regulation/policy papers/guidance issued by the CBA:

- A reporting form in relation to the Sanctions State Decree was designed and further written guidance on the reporting procedure was issued (May 2012);
- Questions & Answers document containing 50 frequently asked questions on AML/CFT (September 2012).

Aruba's current status at the FATF:

The FATF Plenary recognized the significant progress Aruba had made in the last few years introducing new laws and regulations and implementing other measures. At its June 2011 plenary meeting in Mexico, the FATF had decided to remove Aruba from the enhanced reporting regime imposed during the Plenary Meeting of October 2009. Aruba will now report back to the FATF in October 2013 with a view toward its removal from the follow-up process.

7 Sectoral developments

The following sections describe in brief the main financial developments in the various sectors supervised by the CBA. Section 2 covers the banking sector, while section 3 comprises the money transfer companies. Section 4 relates to the insurance sector, which is composed of insurance companies, company pension funds, the Civil Servants Pension Fund (APFA), the Social Security Bank (SVB), and the General Health Insurance (AZV). Although SVB and AZV do not fall under the CBA's supervision, their financials are also briefly discussed in view of their important role in the Aruban economy. A list of the financial institutions supervised by the CBA at the end of December 2012 is provided in Annex 2; Annex 3 contains an overview of the changes in the registers of the supervised institutions and shareholdings for the year 2012. Annex 4 describes the supervisory activities carried out in 2012 by the Prudential Supervision Department and the Integrity Supervision Department.

7.1 Banking sector

7.1.1 Supervised banking institutions

As shown in Table 1, the number of banking institutions supervised by the CBA remained at 11 at the end of 2012.

Table 1: Number of supervised institutions within the banking sector
(End of period)

	2008	2009	2010	2011	2012
1. Total	10	11	11	11	11
2. Commercial banks	4	4	4	4	4
3. Offshore banks	2	2	2	2	2
4. Bank-like institutions	3	3	3	3	3
a. Mortgage banks	1	1	1	1	1
b. Other specialized financial institutions	2	2	2	2	2
5. Credit unions	1	2	2	2	2

Source: CBA.

7.1.2 Commercial banks

The four commercial banks currently operating in Aruba are subsidiaries of, respectively, Maduro & Curiel's Bank N.V., Orco Bank International N.V., RBC Royal Bank N.V., and Banco di Caribe N.V. These (parent) banks are all established in Curaçao. Therefore, all four commercial banks operating in Aruba are also supervised on a consolidated basis by the CBCS.

Table 2 shows that with the exception of the year 2011, the combined balance sheet total of the four commercial banks expanded over the past five years. The balance sheet total of Afl. 4,726.7 at end-2012 is equivalent to 103.8 percent of the estimated GDP for 2012, clearly indicating the importance of the commercial banking sector in the Aruban economy.

Table 2: Balance sheet of the commercial banks
(End of period in Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total assets	4,181.7	4,305.6	4,388.7	4,324.3	4,726.7
a. Cash & due from banks	1,347.4	1,469.8	1,391.6	1,218.3	1,411.2
b. Investments	114.0	154.0	274.7	304.8	344.9
c. Loans	2,522.9	2,502.0	2,527.1	2,609.5	2,712.1
- Commercial [2]	1,093.1	1,045.2	1,042.7	1,081.0	1,158.0
- Individuals [3]	1,429.8	1,456.8	1,484.4	1,528.5	1,554.1
- Government	0.0	0.0	0.0	0.0	0.0
d. Other assets	197.4	179.8	195.3	191.7	258.5
2. Total capital and liabilities	4,181.7	4,305.6	4,388.7	4,324.3	4,726.7
a. Deposits	3,505.9	3,595.3	3,664.7	3,519.6	3,820.8
- Demand	1,447.3	1,619.7	1,474.0	1,588.6	1,842.7
- Time	1,213.7	1,059.8	1,216.3	930.7	957.8
- Savings	844.9	915.8	974.4	1,000.3	1,020.3
b. Other liabilities	160.6	154.7	170.6	209.9	272.8
c. Capital and reserves [4]	515.2	555.6	553.4	594.8	633.1

Source: CBA; commercial banks.

1 Preliminary figures.
2 Corrected for allocated loan loss provisions.
3 Corrected for unearned income.
4 Including unallocated loan loss provisions.

On the asset side, the combined cash and due from banks contracted during 2009-2011, but rose sharply in 2012 to Afl. 1,411.2 million. The rise in cash and due from banks of Afl. 192.9 million (15.8 percent) in 2012 was associated mainly with higher amounts held at the CBA in time deposits and current accounts (Afl. 258.5 million), partially offset by a reduction in time deposits and demand deposits held at foreign banks of Afl. 45.3 million and Afl. 22.3 million, respectively. Loans outstanding augmented during the period 2008-2012, with the exception of the year 2009 when the amount dropped slightly to Afl. 2,502.0 million. The upsurge in loans outstanding was mainly the result of expansions of Afl. 124.3 million (8.7 percent) and Afl. 64.9 million (5.9 percent) in loans to individuals and commercial loans, respectively, during the period 2008-2012. The aggregated investment portfolio has been on the rebound since the drop in 2008. The Afl. 40.1 million (13.2 percent) expansion in the combined investment portfolio from 2011 to 2012 was attributed largely to increases in government bond holdings.

On the liability side, the combined deposits showed an increasing trend during the period 2008-2012, except for the year 2011 when they dropped to Afl. 3,519.6 million. The decrease in 2011 was

caused primarily by a plunge in time deposits of Afl. 285.6 million (23.5 percent), partially offset by a rise in demand deposits of Afl. 114.6 million (7.8 percent). In 2012, the combined deposits expanded by Afl. 301.2 million (8.6 percent), due mainly to growth in demand deposits of Afl. 254.1 million (16.0 percent). The other liabilities grew from Afl. 160.6 million in 2008 to Afl. 272.8 million in 2012. The rise in other liabilities of Afl. 62.9 million (29.9 percent) in 2012 compared to 2011 was associated with increases in accounts payables and taxes payables of Afl. 59.2 million (76.4 percent) and Afl. 9.3 million (36.8 percent), respectively, and was partially offset by a decrease in other payables of Afl. 10.4 million (19.8 percent). Capital and reserves trended upwards over the past five years amounting to Afl. 633.1 million at the end of 2012.

As can be seen in Table 3, the combined net income (after taxes) of the commercial banks had been quite volatile, peaking at Afl. 99.0 million in 2011. Total income fell in 2009, but started to improve in 2010 reaching Afl. 327.9 million in 2012, owing to expansions predominantly in net interest income. Furthermore, the total expenses rose from Afl. 190.7 million in 2008 to Afl. 210.6 million at the end of 2012. This increase was related mainly to higher salaries and employee benefits and additions to the loan loss provisions.

Table 3: Income statement of the commercial banks
(In Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total income	302.5	295.3	300.5	304.1	327.9
a. Net interest income	191.8	187.2	195.6	202.1	220.4
b. Operating income	110.7	108.1	104.9	102.0	107.5
2. Total expenses	190.7	194.7	200.6	193.9	210.6
a. Salaries & employee benefits	84.7	83.0	87.6	94.0	96.0
b. Additions to the loan loss provisions	13.8	22.9	22.2	13.6	21.5
c. Other expenses	92.2	88.8	90.8	86.3	93.1
3. Net income before extraordinary items and taxes	111.8	100.6	99.9	110.2	117.3
4. Net income before taxes	116.6	103.3	102.5	115.7	126.7
5. Taxes	27.7	28.9	27.4	16.7	35.0
6. Net income	88.9	74.4	75.1	99.0	91.7

Source: CBA; commercial banks.

1 Preliminary figures.

After peaking in 2011 at 2.4 percent, the return on assets (after taxes) totaled 2.1 percentage points in 2012. The return on equity (after taxes) ratio abated during 2009-2010, rebounded in 2011, and then declined slightly to 19.0 percent at the end of 2012, mainly due to a decrease in net income (after tax) (numerator) of Afl. 7.3 million (7.4 percent) combined with a growth in the average shareholders' equity of Afl. 27.7 million (6.1 percent) in 2012 compared to 2011. On the other hand, the net interest income to gross income ratio showed an upward trend, rising from 62.4 percent in 2008 to 65.4 in 2012. The ratio of noninterest expenses to gross income

increased by 4.8 percentage points to 72.8 percent in 2012 when compared to 2011, due to a rise in noninterest expenses (i.e. salaries and employee benefits).

The various macroprudential ratios show that the commercial banking sector remained sound and profitable over the past five years (Table 4). As of January 1, 2010, the minimum risk-weighted capital asset ratio and the minimum prudential liquidity ratio were increased by the CBA from 12 percent to 14 percent and from 12 percent to 15 percent, respectively, reflecting the CBA's view of the importance of banks having sufficient buffers to absorb (unforeseen) losses and to deal with significant and sudden cash withdrawals. The decision to raise the aforementioned ratios also must be viewed in the context of the lessons learned from the recent global financial crisis.

Table 4: Core set of macroprudential indicators of the commercial banks
(End of period in percentages)

	2008	2009	2010	2011	2012 [1]
1. Capital adequacy					
a. Risk-weighted capital asset ratio = regulatory capital ratio *Regulatory capital to risk-weighted assets*	14.7	17.8	18.5	18.9	19.6
b. Tier 1 capital ratio	8.3	10.6	11.3	11.9	12.0
2. Asset quality					
a. Nonperforming loans to gross loans	6.9	7.9	10.7	8.2	7.0
b. Nonperforming loans (net of ALLP) to gross loans [2]	3.9	4.5	6.9	4.6	3.5
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	28.5	27.4	40.9	27.1	19.3
d. Large loans to regulatory capital [3]	98.8	77.1	68.6	70.0	83.7
3. Earnings and profitability					
a. Return on assets (after taxes)	2.3	1.8	1.8	2.4	2.1
b. Return on equity (after taxes)	24.7	17.4	16.8	21.7	19.0
c. Net interest income to gross income	62.4	62.8	64.5	65.3	65.4
d. Noninterest expenses to gross income	71.1	75.0	75.2	68.0	72.8
4. Liquidity					
a. Loans to deposits ratio	69.4	67.1	66.5	71.0	68.0
b. Prudential liquidity ratio	34.7	30.1	28.6	26.1	28.3
c. Liquid assets to short-term liabilities	88.7	71.5	75.6	62.5	62.9
5. Sensitivity to market risk					
a. Interest rate margin [4]	7.5	7.2	8.4	7.4	7.0

Source: CBA; commercial banks.

1 Preliminary figures.
2 ALLP: allocated loan loss provision.
3 Large loans: all loans or lines of credit in excess of 15 percent of the institution's test capital.
4 Weighted averages related to new loans granted and new deposits during the indicated period.

The banks' aggregated risk-weighted capital asset ratio moved up from 14.7 percent at end-December 2008 to 19.6 percent at end-December 2012. These percentages were well above the required minimum of 12 percent (applicable up to and including 2009) and 14 percent (applicable as of 2010) due to the sharp increase in the aggregated regulatory capital of Afl. 145.7 million or 40.1 percent. The asset quality of the commercial bank loans improved substantially during 2011 and 2012. This improvement is evidenced by a decrease of 3.7 percentage points in the nonperforming loans to gross loans ratio in 2012 when compared to 2010 when the nonperforming loans ratio topped at 10.7 percent. The decrease of Afl. 86.9 million in the nonperforming loans during the period 2011-2012 resulted mainly from debt restructuring.

The development of the nonperforming loans ratio since 2008 is depicted in charts 1 and 2. Overall, the commercial banks have established sufficient provisions against nonperforming loans, while maintaining adequate buffers to absorb additional (unforeseen) losses. The commercial banks' resilience is also stress-tested annually. The outcome of these stress tests show that the commercial banks can absorb significant external shocks.

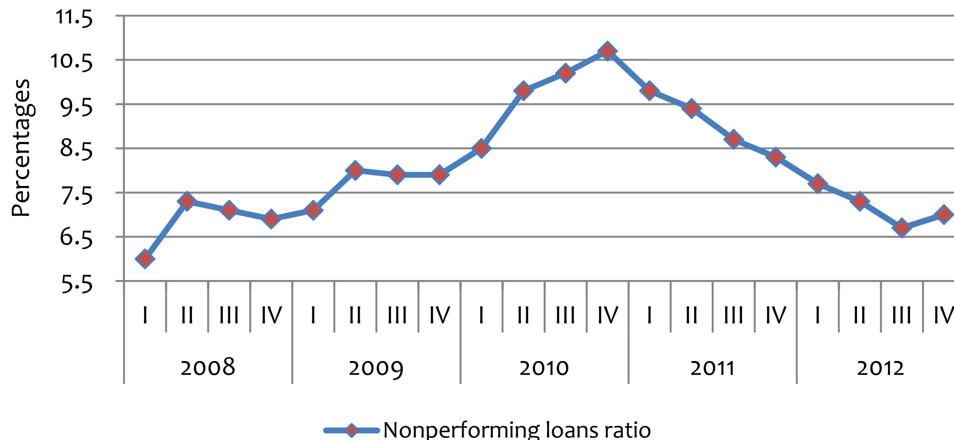


Chart 1: The nonperforming loans ratio showed an increasing trend during 2008-2010, and a sharp recovery in 2011-2012.

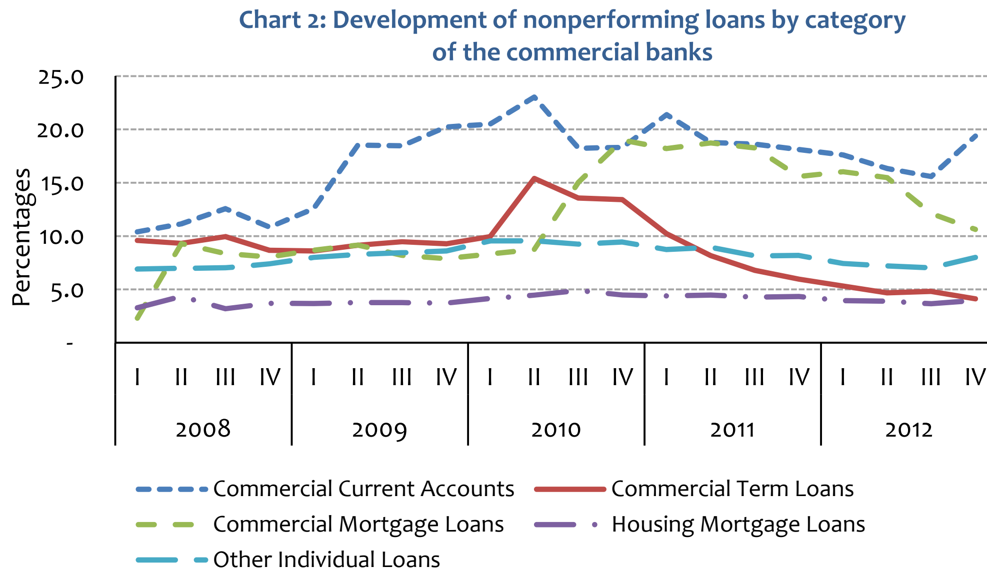


Chart 2: As shown in Chart 2, the increases in nonperforming loans occurred largely in the commercial current accounts and commercial mortgage loans categories.

The banks' aggregated prudential liquidity ratio (PLR) indicated a decreasing trend during the period 2008-2011, and then increased slightly by 2.2 percentage points to 28.3 percent in 2012. The aforementioned decrease is associated mostly with the CBA's introduction of the Reserve Requirement (a monetary policy instrument which replaced the monetary cash reserve requirement) on July 1, 2009. As of that date, the amounts held under this arrangement at the CBA are no longer included in the calculation of the PLR. Overall, the banks' aggregated PLR dropped from 34.7 percent at the end of 2008 to 28.3 percent at end-December 2012, but was still far above the required minimum of 15 percent. After peaking in 2011 at 71.0 percent, the loans to deposits ratio dropped slightly to 68.0 percent at the end of 2012, remaining well below the maximum of 80 percent.

Because of the oligopolistic market structure as well as the small scale of the domestic banking sector, interest rates in Aruba are relatively high compared to those in the advanced economies. The weighted average interest rate margin on new loans registered a record high of 8.4 percent in 2010, followed by declines in 2011 (7.4 percent) and 2012 (7.0 percent).

7.1.3 Offshore banks

In 2012, the number of offshore banks registered in Aruba remained unchanged at two. One of the offshore banks is a local entity affiliated with Citibank and, thus, falls under the consolidated supervision of the U.S. supervisory authorities.

During the period 2008-2011, the aggregated balance sheet total of the offshore banks incurred a consistent downward trend, dropping to Afl. 219.1 million at the end of 2011, but soared to Afl. 254.7 million in 2012 (Table 5). The mentioned upsurge of Afl. 35.6 million (16.2 percent) in total assets reported at the end of 2012 was attributed mainly to expansions in both loans outstanding and cash and due from banks of Afl. 60.2 million (99.3 percent) and Afl. 58.5 million (307.9 percent), respectively, and was partially offset by a drop of Afl. 59.2 million (67.6 percent) in other assets. The notable contraction in the aggregated balance sheet total from 2008 to 2011 was mostly the result of drops in holdings of cash and due from banks of Afl. 274.8 million (93.5 percent) and the investment portfolio of Afl. 131.5 million (71.7 percent), following the discontinuation of activities of one offshore bank in 2009. The marked increase in other assets in 2009 reflected for the most part upsurges in accounts receivable and prepayments related to adjustments in cross-currency swaps and foreign exchange transactions. From 2010 to 2012, the other assets showed a decreasing trend, also reflecting the reduced activities of the offshore banking sector.

Table 5: Balance sheet of the offshore banks
(End of period in Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total assets	606.4	556.2	402.8	219.1	254.7
a. Cash & due from banks	293.8	67.6	19.1	19.0	77.5
b. Investments	183.4	52.4	69.3	51.9	28.0
c. Loans [2]	110.3	97.7	102.3	60.6	120.8
d. Other assets	18.9	338.5	212.1	87.6	28.4
2. Capital and liabilities	606.4	556.2	402.8	219.1	254.7
a. Deposits	365.6	180.9	210.8	57.9	59.4
- Demand	133.3	12.1	3.8	12.5	25.5
- Time	232.3	168.8	207.0	45.4	33.9
b. Other liabilities	23.7	30.5	27.9	27.3	35.6
c. Capital and reserves [3]	217.1	344.8	164.1	133.9	159.7
3. Risk-weighted capital asset ratio (percentage) [4] *Regulatory capital to risk-weighted assets*	31.8	29.7	24.9	46.6	70.5

Source: CBA; offshore banks.

1 Preliminary figures.
2 Corrected for allocated loan loss provisions.
3 Including unallocated loan loss provisions.
4 The calculation of the risk-weighted capital asset ratio cannot be derived from Table 5.

On the liability side, deposits fell by Afl. 306.2 million or 83.8 percent, over the five-year period covering 2008-2012 as a direct result of the discontinued activities of one of the offshore banks in 2009. Capital and reserves contracted by Afl. 57.4 million or 26.4 percent from 2008 to 2012. The notable drop in capital and reserves at the end of 2010 was predominantly associated with net losses incurred in 2010. The incidental increase in capital and reserves at the end of December 2009 was related mostly to the capitalization of a newly licensed offshore bank.

Over the past five years, the aggregated risk-weighted capital asset ratio of the offshore banks showed an upward movement. It rose from 31.8 percent in 2008 to 70.5 percent in 2012, due largely to a lower decline in regulatory capital of Afl. 82.1 million or 37.8 percent over the period compared to the drop in the risk-weighted assets of Afl. 491.7 million or 72.0 percent. The contraction of the regulatory capital over the past five-year period was mainly related to the sizeable net loss in 2010, which was partially offset by an increase in paid-in capital related to the capitalization of a newly licensed offshore bank in 2009. The global financial crisis has clearly demonstrated the need for banking institutions to have sufficient capital buffers in place to absorb unforeseen losses. With that in mind, the CBA also decided to increase the minimum risk-weighted capital asset ratio for the offshore banks from 12 percent to 14 percent as of April 1, 2010.

As shown in Table 6, the profitability of the two offshore banks was volatile over the past five years. They reported a net income of Afl. 80.1 million in 2012 compared to a net loss of Afl. 10.7 million in 2008, while in 2010 the offshore banks reported a record net loss of Afl. 179.2 million. Over the years 2008-2012, the total income of the offshore banks also fluctuated sharply, mostly because of a highly volatile operating income related to restatements of foreign exchange transactions and market-to-market adjustments on cross-currency swap transactions. In 2012, net income soared to Afl. 80.1 million (87.1 percent), due primarily to a significant rise in extraordinary income of Afl. 31.8 million or 44.7 percent related to realized gains from the sale of trading securities. The combined total expenses also showed an erratic pattern over the past five years. The significant increase in general expenses in 2009 of Afl. 88.2 million was due to fair value adjustments.

Table 6: Income statement of the offshore banks
(In Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total income	-5.6	113.4	-200.1	21.5	17.1
a. Net interest margin	53.1	50.4	17.4	11.8	11.1
b. Operating income	-58.7	63.0	-217.5	9.7	6.0
2. Total expenses	7.0	98.4	3.9	18.9	7.8
a. General expenses	8.9	97.1	4.7	21.0	9.0
b. Additions to (release of) the loan provision	-1.9	1.3	-0.8	-2.1	-1.2
3. Net income before extraordinary items and taxes	-12.6	15.0	-204.0	2.6	9.3
4. Net income before taxes	-10.7	20.7	-179.2	42.0	80.4
5. Taxes	0.0	0.0	0.0	-0.8	0.3
6. Net income	-10.7	20.7	-179.2	42.8	80.1

Source: CBA; offshore banks.

1 Preliminary figures.

7.1.4 Bank-like institutions

This subsector consists of Fundacion Cas pa Comunidad Arubano (FCCA), AIB Bank N.V., and Island Finance Aruba N.V. These institutions are engaged predominantly in mortgage lending to individuals, financing of social housing projects, long-term project financing, and/or granting of personal loans for consumptive and home improvement purposes. These activities are financed mostly by attracting funds from their parent company, other (local) financial institutions, and/or institutional investors.

Table 7 denotes the fluctuations in the aggregated balance sheet total of the bank-like institutions over the past five years. At the end of 2012 these institutions reported total assets of Afl. 674.4 million, a decline of Afl. 14.9 million (2.2 percent) compared to 2008, which reflects a contraction in loans outstanding of Afl. 64.6 million (13.0 percent), in part offset by expansions in other assets and cash and due from banks of Afl. 28.8 million (23.1 percent) and Afl. 24.6 million (56.3 percent), respectively. The decline in loans outstanding in 2012 was related particularly to the restructuring of one institution's commercial loan portfolio.

Table 7: Balance sheet of the bank-like institutions

(End of period in Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total assets	689.3	709.0	689.7	710.4	674.4
a. Cash & due from banks	43.7	59.1	47.0	39.1	68.3
b. Investments	25.6	24.9	24.1	55.1	21.9
c. Loans	495.5	486.2	469.2	469.2	430.9
- Commercial [2]	167.1	162.3	150.1	151.0	112.3
- Individuals [3]	328.4	323.9	319.1	318.2	318.6
d. Other assets	124.5	138.8	149.4	147.0	153.3
2. Total capital and liabilities	689.3	709.0	689.7	710.4	674.4
a. Deposits	0.0	0.0	0.0	0.0	0.0
b. Borrowings	404.8	401.3	371.2	377.1	325.7
- Commercial	328.7	322.8	282.7	257.5	236.1
Individuals	6.5	6.9	6.9	7.0	7.0
- Government	69.6	71.6	81.6	112.6	82.6
c. Other liabilities	35.0	37.2	31.4	32.5	31.3
d. Capital and reserves [4]	249.5	270.5	287.1	300.8	317.4

Source: CBA; bank-like institutions.

1 Preliminary figures.
2 Corrected for allocated loan loss provisions.
3 Corrected for unearned income.
4 Including unallocated loan loss provisions.

The significant contraction of Afl. 33.2 million (60.3 percent) in the combined investment portfolio reported at the end of 2012, compared to that reported at the end of 2011, was attributed largely to a decrease of Afl. 30.0 million (57.8 percent) in government bond holdings. The marked Afl. 29.2 million (74.7 percent) growth in the combined cash and due from banks from 2011 to the end of 2012 was associated mostly with increases in demand deposits and time deposits of these bank-like institutions at commercial banks of Afl. 18.6 million and Afl. 10.5 million, respectively. Over the five-year period covering 2008-2012, the expansion in other assets reflected for the most part upsurges in accounts receivable and prepayments.

On the liability side, capital and reserves showed a consistent upward trend, rising from Afl. 249.5 million in 2008 to Afl. 317.4 million in 2012, associated largely with additions from net income to the reserves. On the other hand, borrowings shrank by Afl. 79.1 million (19.5 percent) from 2008 to 2012. The drop in borrowings was due mostly to an Afl. 92.6 million (28.2 percent) reduction in commercial borrowings, offset in part by a rise in government borrowings of Afl. 13.0 million (18.7 percent).

The bank-like institutions operated with aggregated positive net results from 2008 to 2012 (Table 8). The expansion of Afl. 24.8 million (47.0 percent) in total income over the period 2008-2012 was attributed largely to increases in both net interest income and operating income of Afl. 13.2 million (35.5 percent) and Afl. 11.6 million (74.4 percent), respectively. On the other hand, total expenses rose from Afl. 37.9 million in 2008 to Afl. 61.7 million at the end of 2012. During the period 2008-2011, the increase in total expenses was caused mainly by upswings in other expenses and salaries and employee benefits, with the exception of the year 2012. In 2012, the growth in total expenses was caused mostly by an Afl. 15.1 million (269.6 percent) upsurge Afl. 15.1 million (269.6 percent) in loan loss provisions compared to 2011.

Table 8: Income statement of the bank-like institutions

(In Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total income	52.8	61.3	59.5	60.3	77.6
a. Net interest income	37.2	40.1	39.6	41.3	50.4
b. Operating income	15.6	21.2	19.9	19.0	27.2
2. Total expenses	37.9	41.4	45.2	46.7	61.7
a. Salaries & employee benefits	14.2	15.7	15.3	17.9	18.1
b. Additions to the loan loss provisions	7.1	8.3	11.7	5.6	20.7
c. Other expenses	16.6	17.4	18.2	23.2	22.9
3. Net income before extraordinary items and taxes	14.9	19.9	14.3	13.5	15.9
4. Net income before taxes	15.6	21.9	16.6	14.8	15.9
5. Taxes	1.8	1.9	0.5	0.5	0.0
6. Net income	13.8	20.0	16.1	14.3	15.9

Source: CBA; bank-like institutions.

1 Preliminary figures.

The various macroprudential indicators indicate that overall, the bank-like institutions sector was sound and profitable during the period 2008-2012 (Table 9). The global financial crisis has clearly demonstrated the need for banking institutions to have sufficient capital and liquidity buffers in place to absorb unforeseen losses in their loan and investment portfolios and to deal with unexpected cash withdrawals. With that in mind, the CBA also decided to increase the minimum risk-weighted capital asset ratio for bank-like institutions from 12 percent to 14 percent as of April 1, 2010.

The aggregated risk-weighted capital asset ratio applicable for these institutions exhibited an increasing trend, rising from 47.5 percent in 2008 to 61.2 percent in 2012, remaining far above the minimum requirement of 14 percent. This growth was attributed largely to an Afl. 67.4 million or 27.6 percent surge in the aggregate regulatory capital (numerator) stemming from additions of net income to the reserves. On the other hand, the asset quality of the bank-like institutions' sector deteriorated during 2008-2010, as evidenced by the sharp increase in the nonperforming loans ratios. Although the asset quality of the loans of the bank-like institutions reported a slight improvement over the past two years, as evidenced by a decrease of 4.3 percentage points in the nonperforming loans to gross loans ratio at end-December 2012 compared to end-December 2010, the nonperforming loans ratios remained at a very high level. The development in the nonperforming loans ratio of the bank-like institutions is depicted in charts 3 and 4.

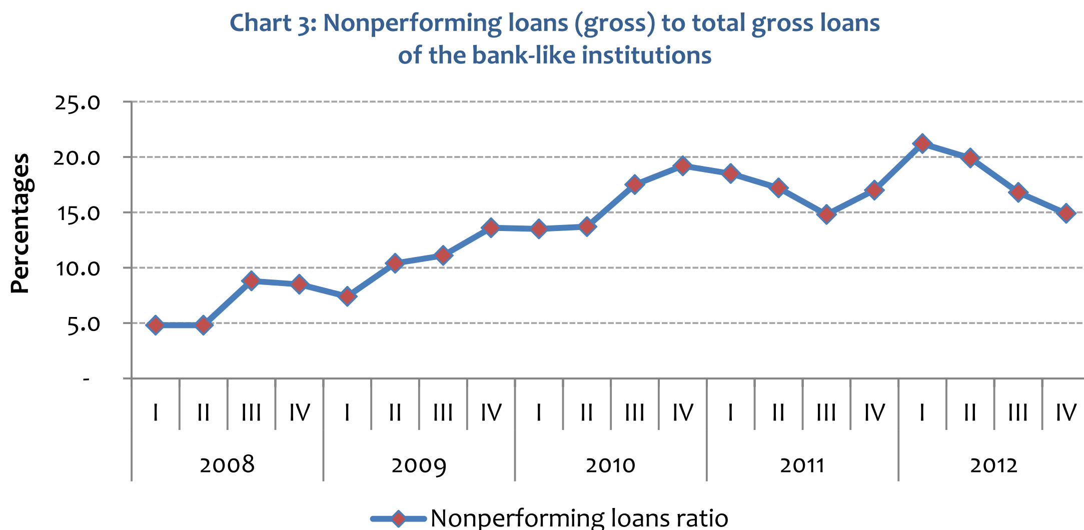


Chart 3: The nonperforming loans (gross) to gross loans ratio dropped from 19.2 percent in 2010 to 14.9 percent at the end of 2012 as a result of a larger percentage decline in nonperforming loans compared to the percentage drop in total gross loans.

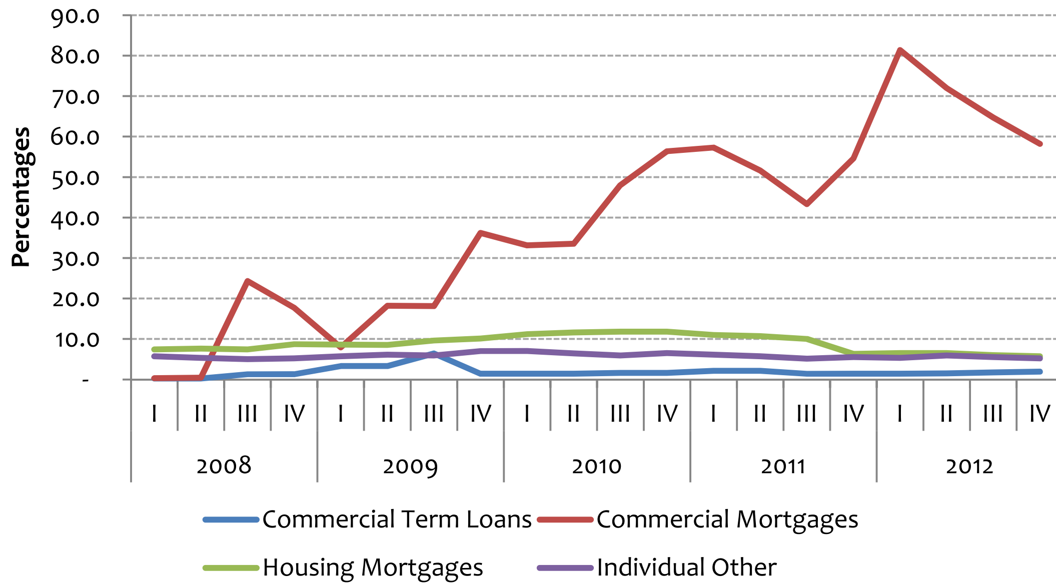


Chart 4: The growth in the nonperforming loans (gross) to gross loans ratio of the bank-like institutions sector from 2008-2012 was due mainly to sharp increases in the nonperforming loans in the commercial mortgages category.

As outlined in Table 9, the bank-like institutions have historically reported low return on equity (after taxes) ratios, substantially lower than the commercial banking sector. However, maximization of shareholders' value, in general, is not the prime objective of the institutions operating in this market segment. Also, some institutions in this segment maintain very high equity levels, thereby depressing the return on equity ratio.

Table 9: Core set of macroprudential indicators of the bank-like institutions
(End of period in percentages)

	2008	2009	2010	2011	2012 [1]
1. Capital adequacy					
a. Risk-weighted capital asset ratio = regulatory capital ratio *Regulatory capital to risk-weighted assets*	47.5	47.7	51.5	55.3	61.2
b. Tier 1 capital ratio	41.0	40.2	44.9	49.0	54.6
2. Asset quality					
a. Nonperforming loans to gross loans	8.5	13.6	19.2	15.8	14.9
b. Nonperforming loans (net of ALLP) to gross loans [2]	6.9	10.9	15.2	11.3	9.9
c. Nonperforming loans (net of ALLP) to regulatory capital [2]	15.4	21.4	27.1	18.8	14.5
3. Earnings and profitability					
a. Return on assets (after taxes)	2.1	3.0	2.4	2.1	2.4
b. Return on equity (after taxes)	6.2	8.4	6.2	5.2	5.5
c. Interest margin to gross income	69.5	63.2	64.1	67.1	64.9
d. Noninterest expenses to gross income	74.1	68.4	74.0	76.7	79.5

Source: CBA; bank-like institutions.

1 Preliminary figures.
2 ALLP: allocated loan loss provision.

The net interest income to gross income ratio declined from 69.5 percent in 2008 to 64.9 percent in 2012 due to a larger increase in the gross income of Afl. 24.2 million (45.2 percent) compared to the expansion in the interest margin of Afl. 13.2 million (35.5 percent) at the end of 2012. The noninterest expenses to gross income ratio fluctuated during 2008-2012, associated largely with the sharp fluctuations in the additions to the loan loss provisions during these years.

7.2 Money transfer companies

At the end of 2012, the number of registered money transfer companies remained at four. Furthermore, MoneyGram possesses an exemption under section 10 of the SOSMTC to conduct money transfer activities via Caribbean Mercantile Bank N.V. and Global Access Corporation N.V., while Western Union also is exempted under the same provision to conduct money transfer activities via Post Aruba N.V.

Following a peak of Afl. 121.0 million in 2008, the total outgoing transfers decreased consistently during the period 2009-2011, but rose slightly by Afl. 1.1 million (1.0 percent) from 2011 to the end of 2012 (Table 10). Overall, the amount of outgoing transfers executed by the money transfer companies fell by Afl. 13.1 million (10.8 percent) over the five years, dropping from Afl. 121.0 million in 2008 to Afl. 107.9 million in 2012. The main reason for these transfers to abroad is the provision of 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 immigrants and foreign workers, predominantly from Latin America.

Table 10: Outgoing money transfers by countries of destination
(End of period in Afl. thousands)

	2008	2009	2010	2011	2012 [1]
1. Total	121,011.6	118,673.6	109,079.1	106,827.1	107,886.6
2. Colombia	64,189.9	60,271.1	54,303.6	52,157.2	52,937.2
3. Dominican Republic	17,455.2	18,253.1	16,458.4	17,057.8	16,755.1
4. Philippines	6,641.7	6,634.9	6,694.5	6,671.2	6,973.2
5. Peru	5,339.4	5,062.1	4,818.1	4,812.6	4,508.6
6. Haiti	4,756.0	4,736.4	4,867.0	4,603.2	4,659.5
7. Other	22,629.4	23,716.0	21,937.5	21,525.1	22,053.0

Source: CBA; money transfer companies.

1 Preliminary figures.

Over the period 2008-2012, the number of outgoing transfers dropped by roughly 13,000, from approximately 274,000 in 2008 to about 261,000 in 2012. Colombia remained the major destination of the funds transferred abroad via money transfer companies, although its share declined from 53 percent in 2008 to 49 percent in 2012 (Chart 5).

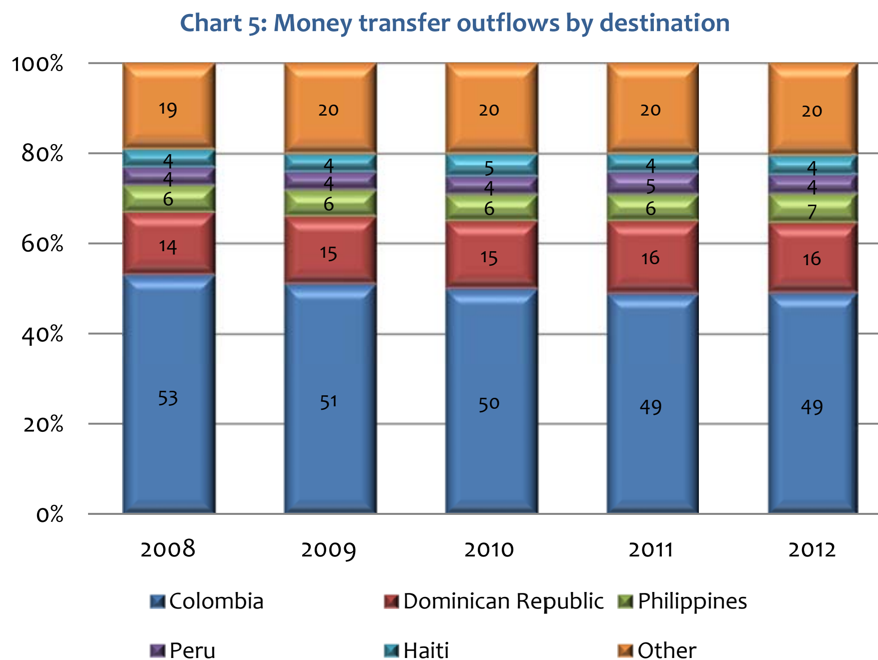


Chart 5: Illustrates the number of money transfer outflows from 2008-2012 by destination.

The amount of the incoming money transfers grew by Afl. 3.2 million (18.2 percent) to Afl. 20.6 million during the period 2008-2011, subsequently receding to Afl. 18.5 million in 2012 (Table 11). The corresponding number of transfers also increased from approximately 20,000 in 2008 to around 23,000 in 2012 (Chart 6). As can be seen in Chart 6, the incoming transfers originated mainly from the Netherlands and the United States.

Table 11: Incoming money transfers by countries of origin
(End of period in Afl. thousands)

	2008	2009	2010	2011	2012 [1]
1. Total	17,418.1	16,351.2	18,398.4	20,582.2	18,472.2
2. Netherlands	6,807.6	6,187.2	6,225.7	8,168.5	5,805.9
3. United States	3,636.0	3,323.9	3,879.8	3,585.9	3,572.8
4. Colombia	1,005.7	1,040.0	1,719.5	1,821.4	1,800.3
5. Netherlands Antilles [2]	916.0	892.6	989.0	1,224.7	1,270.4
6. Spain	691.7	551.5	533.5	510.0	378.7
7. Other	4,361.1	4,356.0	5,050.9	5,271.7	5,644.1

Source: CBA; money transfers companies.

1 Preliminary figures.
2 Since October 2010, the Netherlands Antilles has ceased to exist. Beginning in 2011, this item comprises Curaçao, Sint Maarten, and the BES islands.

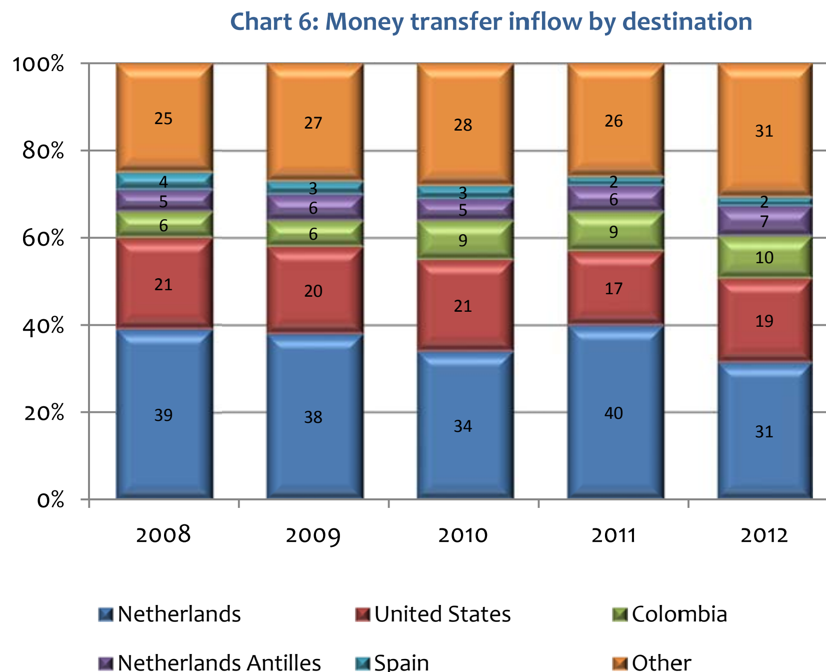


Chart 6: Illustrates the number of incoming money transfers by country of origin during 2008-2012.

7.3 Trust service providers

Since the enactment of the State Ordinance on the Supervision of Trust Service Providers (SOSTSP) in 2009, the Centrale Bank van Aruba (CBA) has licensed 16 Trust Service Providers (TSPs). In 2012, two (2) licensed TSPs decided to cease their operations and requested that the CBA revoke their licenses. Most of the licensed TSPs are subsidiaries of Curacao-based trust companies. A survey conducted by the CBA found that the TSPs serviced 1,088 companies as at January 1, 2011.

7.4 Insurance sector

7.4.1 Supervised institutions

The global financial crisis, which intensified in late 2008 and early 2009, had only a limited impact on the financial position of the supervised insurance companies and company pension funds in Aruba. This limited impact was due mainly to the relatively low levels of foreign investments held by these institutions, but also related in part to the 40-60 percent investment rule established by the CBA. This investment rule sets limits on the foreign investments that institutional investors (including insurance companies and company pension funds) may hold.

Nevertheless, some company pension funds incurred significant losses on their foreign investment portfolios due to the global financial crises. Also some company pension funds started to apply more strict mortality tables. The result of this all was that the coverage ratio of three of the supervised company pension funds fell below the minimum requirement of 100 percent in 2008. These pension funds had to submit recovery plans to the CBA delineating how they would address the shortfall within a reasonable period of time. At the end of 2012, the coverage ratio of two company pension funds and the APFA were not in compliance with the minimum required coverage ratio set by the CBA. Consequently, these three pension funds had to re-submit recovery plans to the CBA.

The number of supervised nonlife and life insurance companies, captive insurance companies, and company pension funds increased by 1 to 34 in 2012 (Table 12).

Table 12: Number of supervised institutions within the insurance sector
(End of period)

	2008	2009	2010	2011	2012
1. Total	35	35	34	33	34
2. Nonlife insurance companies	13	13	13	12	12
3. Life insurance companies	7	7	7	6	7
4. Captive insurance companies	4	4	4	4	4
5. Company pension funds [1]	11	11	10	11	11

Source: CBA.

1 As of January 1, 2011, also including APFA.

7.4.2 The nonlife insurance sector

Over the period 2008 to 2011, the aggregated balance sheet total of the nonlife insurance companies expanded steadily, resulting in total assets amounting to Afl. 272.2 million at the end of 2011, despite a slight decrease of Afl. 2.1 million (1.0 percent) in 2008 when compared to 2007 (Table 13).The total assets of this sector are equivalent to 6.0 percent of the GDP for the year 2011. Compared to the end of 2007, total assets grew by Afl. 54.4 million (25.0 percent), attributed predominantly to increases in the combined investment portfolio, amounts due from affiliated companies, and current assets of Afl. 40.4 million (28.7 percent), Afl. 7.0 million (29.9 percent), and Afl. 4.5 million (8.7 percent), respectively. In 2011, the total assets of the nonlife insurers increased by Afl. 24.5 million (9.9 percent) compared to 2010, due largely to a rise in the combined investment portfolio of Afl. 22.4 million (14.1 percent). On the liability side, amounts due to affiliated companies and current liabilities grew by Afl. 47.7 million (65.9 percent) and Afl. 6.1 million (58.1 percent), respectively, for the period 2007-2011. After the plunge in 2008, capital and reserves improved to Afl. 79.0 million at the end of 2011, mainly the result of higher additions from net income to the general reserves. The contraction of Afl. 25.4 million in the capital and reserves in 2008 was due largely to dividend payments and transfers of profits to the parent companies concerned.

Table 13: Balance sheet of the nonlife insurance companies
(End of period in Afl. million)

	2007	2008	2009	2010	2011
1. Total assets	217.7	215.6	236.8	247.7	272.2
a. Investments	140.6	124.3	137.1	158.6	181.0
b. Fixed assets	1.5	2.7	3.0	3.5	3.7
c. Due from affiliated companies	23.4	32.6	34.1	30.0	30.4
d. Current assets	52.0	56.0	62.6	55.6	56.5
e. Intangible assets	0.2	0.0	0.0	0.0	0.6
2. Total capital and liabilities	217.7	215.6	236.8	247.7	272.2
a. Technical provisions	54.8	68.4	68.2	59.4	56.4
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Due to affiliated companies	72.4	81.1	99.3	113.1	120.1
d. Current liabilities	10.5	11.5	11.3	12.1	16.7
e. Capital and reserves	80.0	54.6	58.0	63.1	79.0

Source: CBA; nonlife insurance companies.

Table 14 shows that the upsurge in the combined investment portfolio in 2011 compared to 2007 was due mainly to rises in bond holdings and time deposits of Afl. 32.3 million or 46.5 percent and Afl. 15.8 million or 28.9 percent, respectively. After the drop in 2008, which occurred chiefly because of a decline in the value of some bonds held by the nonlife insurers ensuing from the global financial crises, bond holdings increased to Afl. 101.7 million at the end of 2011. On the other hand, time deposits dropped by Afl. 7.6 million (9.7 percent) in 2011 compared to 2010, after recording steady increases during the period 2007-2010.

Table 14: Investments of the nonlife insurance companies
(End of period in Afl. million)

	2007	2008	2009	2010	2011
1. Total	140.6	124.3	137.1	158.6	181.0
2. Shares	0.5	0.4	0.4	0.4	0.4
3. Bonds	69.4	57.2	62.4	72.1	101.7
4. Time deposits	54.6	62.4	69.9	78.0	70.4
5. Loans	13.9	4.3	4.4	8.1	8.5
6. Other investments	2.2	0.0	0.0	0.0	0.0

Source: CBA; nonlife insurance companies.

As displayed in Table 15, net income (before taxes) of the nonlife insurance companies has been quite volatile over the last five years, peaking at Afl. 17.0 million in 2011. During 2007-2011, the total income of the nonlife insurance companies demonstrated an upward trend, reaching Afl. 77.3 million in 2011, mainly the result of increases in net earned premiums (see Chart 7).

Table 15: Income statement of the nonlife insurance companies

(In Afl. million)

	2007	2008	2009	2010	2011
1. Total income	65.4	69.3	75.6	77.2	77.3
a. Net premiums	55.5	61.7	68.4	70.6	71.2
b. Investment income	7.1	7.8	9.0	7.8	7.5
c. Other income	2.8	-0.2	-1.8	-1.2	-1.4
2. Total expenses	56.3	64.5	66.7	63.8	60.3
a. Net claims (including changes in technical provisions)	24.8	29.8	29.4	25.2	23.1
b. Commissions	12.8	13.6	14.0	15.3	15.5
c. Management expenses	18.4	21.0	23.4	23.3	21.7
d. Extraordinary items	0.0	0.0	0.0	0.0	0.0
e. Policyholders' dividends	0.0	0.0	0.0	0.0	0.0
f. Other expenses	0.3	0.1	-0.1	0.0	0.0
3. Net income before taxes	9.1	4.8	8.9	13.4	17.0
4. Taxes	2.0	2.1	0.9	1.6	2.5
5. Net income	7.1	2.7	8.0	11.8	14.5

Source: CBA; nonlife insurance companies.

On the other hand, total expenses saw a steady growth during the period 2007-2009, and then decreased in 2010 and 2011. In particular, net claims (including changes in technical provisions) peaked in 2008 and 2009, reflecting primarily a higher claim incidence, mostly in the motor vehicle category (Chart 7). Commissions trended upwards over the past five years reaching Afl. 15.5 million at the end of 2011, while management expenses grew in the period 2007-2010 but declined in 2011. In 2011, net income before taxes rose by Afl. 3.6 million (26.9 percent) compared to 2010, largely attributed to a slight increase of Afl. 0.6 million (0.8 percent) in net premiums accompanied by drops of Afl. 2.1 million (8.3 percent) in net claims (including changes in technical provisions) and Afl. 1.6 million (6.9 percent) in management expenses.

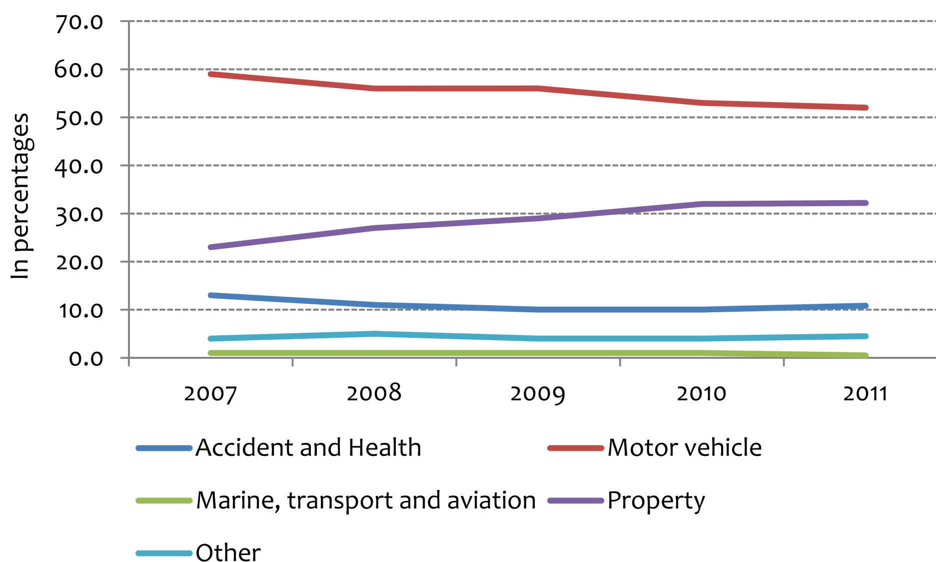


Chart 7: Illustrates that the main income sources of the nonlife insurance companies were net premiums received from motor vehicle insurance and property insurance during the period 2007-2011.

As shown in Table 16, the liquidity ratio of the nonlife insurance companies declined somewhat from 23.9 percent in 2007 to 20.8 percent in 2011, peaking at 26.4 percent in 2009. The return on investment ratio hovered between 5.3 percent and 6.9 percent during the period 2007-2010, but declined to 4.4 percent in 2011 due mainly to an increase in average invested assets of Afl. 21.9 million (14.8 percent).

Table 16: Financial ratios of the nonlife insurance companies
(End of period in percentages)

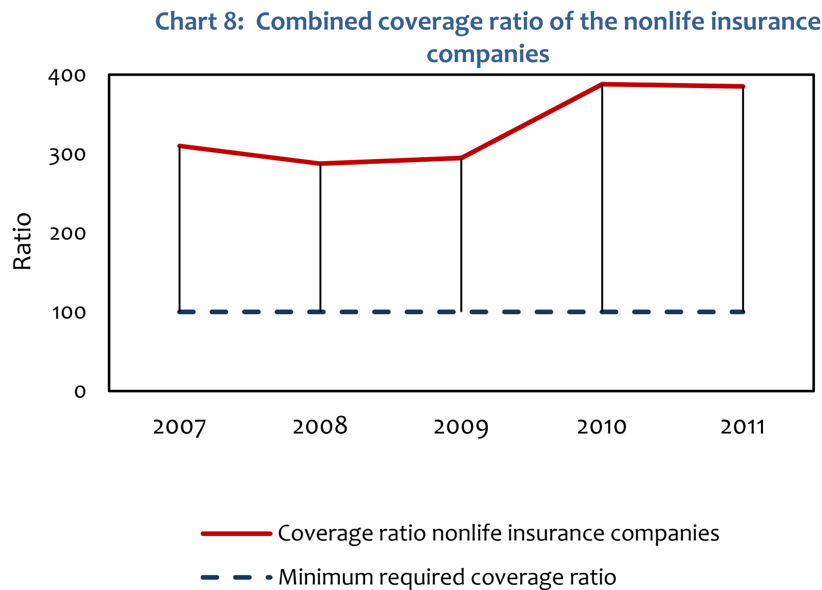
	2007	2008	2009	2010	2011
1. Liquidity ratio *Current assets to total assets*	23.9	26.0	26.4	22.4	20.8
2. Return on investments ratio *Investment income to average invested assets*	5.5	5.9	6.9	5.3	4.4
3. Coverage ratio [1] *Weighted assets less borrowings to technical provisions*	309.9	287.4	294.6	387.5	383.4

Source: CBA; nonlife insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 13.

Conversely, the coverage ratio of the nonlife insurance companies has been quite erratic, recording a low of 287.4 percent in 2008 and a record high of 387.5 percent in 2010. All in all, the coverage ratio of the nonlife insurance companies remained significantly above the minimum requirement of 100 percent during 2007-2011 (Chart 8). The hike in the combined

coverage ratio with 92.8 percentage points in 2010 was mainly the result of growth in the weighted assets to cover technical provisions (numerator) of Afl. 29.4 million, compounded by a decrease in the aggregated technical provisions (denominator) of Afl. 8.8 million.



7.4.3 The life insurance sector

In 2011, the aggregated balance sheet total of the life insurance companies amounted to Afl. 842.5 million (equivalent to 18.5 percent of the 2011 GDP) following a consistent rising trend during the period 2007-2011 (Table 17). The significant expansion in total assets of Afl. 292.4 million (53.2 percent) over the past five years was mainly the result of upsurges in investments, current assets, and due from affiliated companies of Afl. 204.5 million (44.8 percent), Afl. 56.9 million (87.4 percent), and Afl. 34.3 million (171.5 percent), respectively. The marked decrease of Afl. 53.2 million (53.0 percent) in current assets from 2008 to 2009 was caused largely by changes in uncollected premiums due to a one-time single premium contract concluded in 2008. The upsurge in current assets of Afl. 68.9 million (146.3 percent) in 2010 compared to 2009 was the result of an increase in cash on hand and at banks. The amplification in the aggregate amounts due from affiliated companies in 2009 compared to 2008 was related mainly to capital contribution receivables as a result of some corporate restructurings that took place in 2009.

Table 17: Balance sheet of the life insurance companies
(End of period in Afl. million)

	2007	2008	2009	2010	2011
1. Total assets	550.1	618.1	708.2	789.8	842.5
a. Investments	456.8	489.7	583.2	619.3	661.3
b. Fixed assets	8.2	5.8	5.2	4.6	4.9
c. Due from affiliated companies	20.0	22.3	72.7	49.9	54.3
d. Current assets	65.1	100.3	47.1	116.0	122.0
2. Total capital and liabilities	550.1	618.1	708.2	789.8	842.5
a. Technical provisions	444.3	500.6	531.4	586.6	631.2
b. Long-term liabilities	0.8	1.1	1.0	1.0	1.0
c. Due to affiliated companies	6.5	16.8	17.7	38.1	36.3
d. Current liabilities	23.4	30.4	43.8	39.3	38.1
e. Capital and reserves	75.1	69.2	114.3	124.8	135.9

Source: CBA; life insurance companies.

On the liability side, technical provisions, capital and reserves, and amounts due to affiliated companies rose by Afl. 186.9 million (42.1 percent), Afl. 60.8 million (81.0 percent), and Afl. 29.8 million (458.5 percent), respectively, over the period 2007-2011. The growth in capital and reserves in 2009 compared to 2008 also was related mainly to the mentioned corporate restructurings in 2009, reflecting increases in paid-in capital as well as additions from net income to the general reserves. The expansion in the amounts due to affiliated companies was the result of intercompany transactions concluded.

In 2011, the total assets of the life insurance companies surged by Afl. 52.7 million (6.7 percent) compared to 2010, mostly related to an expansion of Afl. 42.0 million (6.8 percent) in investments, accompanied by increases in cash on hand and at banks of Afl. 4.6 million (5.7 percent) and investment income due of Afl. 4.5 million (25.7 percent). Furthermore, technical provisions and capital and reserves also rose by Afl. 44.6 million (7.6 percent) and Afl. 11.1 million (8.9 percent), respectively.

The substantial increase in the combined investment portfolio from 2007 to 2011 was due largely to expansions in bond holdings, mortgage loans, and time deposits of Afl. 123.4 million (49.8 percent), Afl. 37.7 million (51.9 percent), and Afl. 26.4 million (36.4 percent), respectively (Table 18).

Table 18: Investments of the life insurance companies
(End of period in Afl. million)

	2007	2008	2009	2010	2011
1. Total	456.8	489.7	583.2	619.3	661.3
2. Shares	2.8	2.1	5.0	22.6	22.9
3. Bonds	247.6	250.1	316.1	327.1	371.0
4. Real estate	10.3	10.1	0.1	0.1	0.2
5. Time deposits	72.6	93.7	119.2	115.1	99.0
6. Mortgage loans	72.6	89.7	97.7	102.8	110.3
7. Other loans	50.9	44.0	45.1	51.6	57.9

Source: CBA; life insurance companies.

The two main income sources of the life insurance companies are net premiums and investment income (Table 19). Over the past five years, investment income went up by Afl. 13.9 million (47.4 percent), while net premiums dropped by Afl. 5.7 million (6.4 percent). As shown in Table 19, the net income (before taxes) of the life insurance companies fluctuated between Afl. 12.0 million and Afl. 26.9 million from 2007-2011, with the highest net income (before taxes) reported in 2009.

Table 19: Income statement of the life insurance companies
(In Afl. million)

	2007	2008	2009	2010	2011
1. Total income	122.1	135.9	117.9	133.4	128.6
a. Net premiums	88.8	101.8	75.3	91.1	83.1
b. Investment income	29.3	31.2	37.4	39.7	43.2
c. Other income	4.0	2.9	5.2	2.6	2.3
2. Total expenses	103.0	123.9	91.0	120.6	105.6
a. Net claims	38.4	30.4	39.9	38.8	37.2
b. Change in technical provisions	41.0	65.5	25.9	52.6	44.8
c. Commissions	4.9	4.9	4.5	4.0	3.6
d. Management expenses	14.3	16.9	17.8	17.9	15.6
e. Extraordinary items	0.0	0.0	0.0	-0.3	0.2
f. Policyholders' dividends	3.5	3.4	2.0	1.4	2.0
g. Other expenses	0.9	2.8	0.9	6.2	2.2
3. Net income before taxes	19.1	12.0	26.9	12.8	23.0
4. Taxes	2.8	1.9	1.0	2.0	0.6
5. Net income	16.3	10.1	25.9	10.8	22.4

Source: CBA; life insurance companies.

At the end of 2011, the life insurance companies reported a combined net income (before taxes) of Afl. 23.0 million, an increase of Afl. 3.9 million (20.4 percent) compared to 2007. The volatility in net premiums earned and change in technical provisions in 2009 also was related to a one-

time single premium contract concluded in 2008. Total expenses grew slightly by Afl. 2.6 million (2.5 percent) over the period 2007-2011, with significant spikes noted in 2008 and 2010 due mainly to higher additions to technical provisions. The increase in net income (before taxes) of Afl. 10.2 million (79.7 percent) in 2011 compared to 2010 was related largely to a decline in additions to technical provisions of Afl. 7.8 million (14.8 percent) and a surge in investment income of Afl. 3.5 million (8.8 percent).

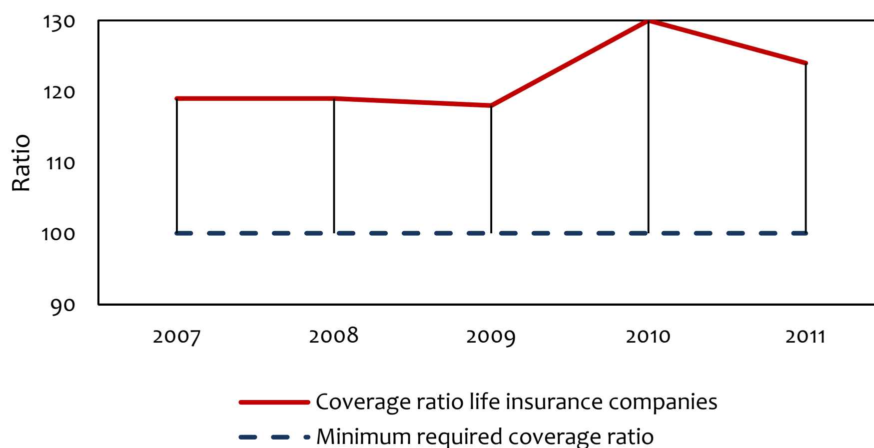
In 2011, the life insurance companies reported a combined liquidity ratio of 14.5 percent, a 2.7 percentage point increase over 2007 (Table 20). Notwithstanding this increase, this ratio was very volatile over the years 2007-2010. The substantial fall in the liquidity ratio from 2008 to 2009 was mainly the result of an Afl. 53.2 million decrease in current assets in 2009. The return on investments remained practically unchanged over the five-year period, amounting to 6.8 percent in 2011. On the other hand, the coverage ratio shrank from 129.8 percent in 2010 to 123.8 percent in 2011. This drop was due primarily to a larger growth in aggregated technical provisions (denominator) of Afl. 54.3 million, compared to the increase in weighted assets to cover technical provisions (numerator) of Afl. 33.0 million. All in all, the combined coverage ratio of the life insurers remained well above the minimum requirement of 100 percent during the years 2007-2011 (Chart 9).

Table 20: Financial ratios of the life insurance companies
(End of period in percentages)

	2007	2008	2009	2010	2011
1. Liquidity ratio *Current assets to total assets*	11.8	16.2	6.7	14.7	14.5
2. Return on investments ratio *Investment income to average invested assets*	6.9	6.6	7.0	6.6	6.8
3. Coverage ratio [1] *Weighted assets less borrowings to technical provisions*	119.4	118.6	117.5	129.8	123.8

Source: CBA; life insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 17.



7.4.4 The captive insurance sector

During the period from 2008 to 2011, the aggregated balance sheet total of the captive insurance companies showed an overall increase of Afl. 19.8 million (43.3 percent) (Table 21). The expansion in total assets was associated with rises in due from affiliated companies, current assets, and investments of Afl. 8.8 million (111.3 percent), Afl. 6.2 million (54.4 percent), and Afl. 4.7 million (17.9 percent), respectively. On the liability side, capital and reserves, technical provisions, and current liabilities rose by Afl. 14.5 million (42.2 percent), Afl. 2.8 million (72.5 percent), and Afl. 2.6 million (37.1 percent), respectively, over the period 2008-2011. The growth in capital and reserves was related mainly to additions from net income to the general reserves.

Table 21: Balance sheet of the captive insurance companies
(End of period in Afl. million)

	2008	2009	2010	2011
1. Total assets	45.7	52.2	59.3	65.5
a. Investments	26.3	28.2	28.9	31.0
b. Fixed assets	0.0	0.0	0.0	0.1
c. Due from affiliated companies	8.0	12.2	14.5	16.8
d. Current assets	11.4	11.8	15.9	17.6
2. Total capital and liabilities	45.7	52.2	59.3	65.5
a. Technical provisions	4.0	6.0	6.2	6.8
b. Long-term liabilities	0.0	0.0	0.0	0.0
c. Due to affiliated companies	0.3	0.2	0.4	0.2
d. Current liabilities	7.0	6.7	9.3	9.6
e. Capital and reserves	34.4	39.3	43.4	48.9

Source: CBA; captive insurance companies.

In 2011, the total assets of the captive insurance companies surged by Afl. 6.2 million (10.5 percent) compared to 2010 because of an expansion of Afl. 2.3 million (15.9 percent) in due from affiliated companies, accompanied by increases in investments of Afl. 2.1 million (7.3 percent) and current assets of Afl. 1.7 million (10.7 percent). Furthermore, capital and reserves and technical provisions also rose by Afl. 5.5 million (12.7 percent) and Afl. 0.6 million (9.7 percent), respectively.

The increase of Afl. 4.7 million in the combined investment portfolio from 2008 to 2011 was due to expansions in bond holdings and time deposits of Afl. 2.7 million and Afl. 2.0 million, respectively (Table 22).

Table 22: Investments of the captive insurance companies
(End of period in Afl. million)

	2008	2009	2010	2011
1. Total	26.3	28.2	28.9	31.0
2. Shares	0.0	0.0	0.0	0.0
3. Bonds	0.0	0.0	0.7	2.7
4. Time deposits	26.3	28.2	28.2	28.3

Source: CBA; captive insurance companies.

The captive insurance companies operated with positive aggregated net results from 2008 to 2011 (Table 23). They reported a net income (before taxes) of Afl. 15.0 million at the end of 2011 compared to a net income (before taxes) of Afl. 14.5 million in 2008. Over the years 2008-2011, total income declined slightly from Afl. 24.6 million to Afl. 24.3 million. On the other hand, total expenses fell from Afl. 10.1 million in 2008 to Afl. 9.3 million at the end of 2011. This decrease was caused by drops of Afl. 2.0 million (51.3 percent) in management expenses and Afl. 0.3 million (14.3 percent) in commissions, partially offset by surges of Afl. 1.0 million (23.8 percent) in net claims and Afl. 0.5 million (500.0 percent) in technical provisions.

Table 23: Income statement of the captive insurance companies
(In Afl. million)

	2008	2009	2010	2011
1. Total income	24.6	24.7	24.5	24.3
a. Net premiums	23.1	23.1	23.1	22.9
b. Investment income	1.5	1.6	1.4	1.4
c. Other income	0.0	0.0	0.0	0.0
2. Total expenses	10.1	9.0	8.5	9.3
a. Net claims	4.2	4.0	4.2	5.2
b. Change in technical provisions	-0.1	0.8	0.5	0.4
c. Commissions	2.1	2.1	1.9	1.8
d. Management expenses	3.9	2.1	1.9	1.9
e. Extraordinary items	0.0	0.0	0.0	0.0
f. Policyholders' dividends	0.0	0.0	0.0	0.0
g. Other expenses	0.0	0.0	0.0	0.0
3. Net income before taxes	14.5	15.7	16.0	15.0
4. Taxes	1.8	2.5	2.1	1.8
5. Net income	12.7	13.2	13.9	13.2

Source: CBA; captive insurance companies.

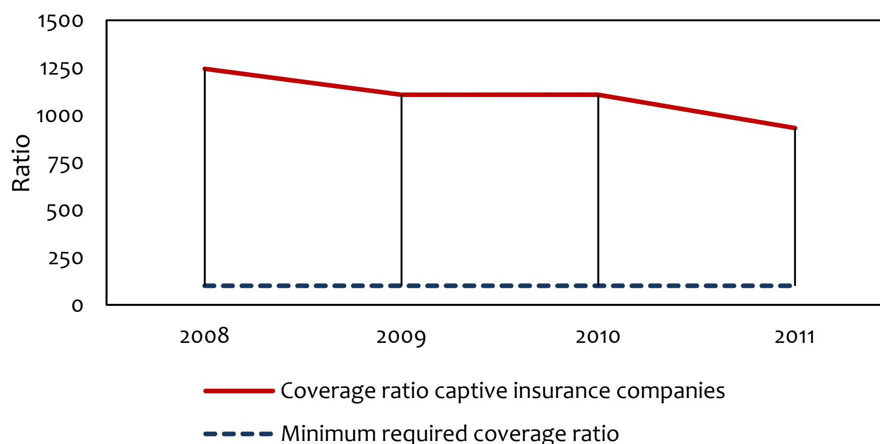
The liquidity ratio improved from 24.7 percent in 2008 to 26.9 percent in 2011 (Table 24). The return on investments ratio remained fairly stable during the period 2009-2011, amounting to 5.0 percent in 2011, after peaking at 5.9 percent in 2009. Conversely, the coverage ratio of the captive insurance companies decreased from 1,244.1 percent in 2008 to 931.9 percent in 2011, remaining far above the minimum requirement of 100 percent (Chart 10). The drop in the combined coverage ratio of 312.2 percentage points during the years 2008-2011 was mainly the result of an upsurge in aggregated technical provisions (denominator) of Afl. 4.1 million (151.9 percent), partially offset by an increase of Afl. 29.8 million (87.9 percent) in weighted assets to cover technical provisions (denominator).

Table 24: Financial ratios of the captive insurance companies
(End of period in percentages)

	2008	2009	2010	2011
1. Liquidity ratio *Current assets to total assets*	24.7	22.4	26.8	26.9
2. Return on investments ratio *Investment income to average invested assets*	n/a[2]	5.9	4.9	5.0
3. Coverage ratio [1] *Weighted assets less borrowings to technical provisions*	1,244.1	1,107.2	1,108.1	931.9

Source: CBA; captive insurance companies.

1 The calculation of the coverage ratio cannot be derived from Table 21.
2 Return on investments ratio cannot be calculated for 2008, since aggregated figures of the captive insurance companies is not available for 2007.



7.4.5 The company pension funds

In the period 2008-2011, the total assets of the supervised company pension funds (excluding the Lago Annuity Foundation, whose pension obligations are covered by a guarantee from the Exxon Mobil Corporation), expanded following a decline in 2007-2008 (Table 25). The balance sheet total of the company pension funds rose from Afl. 215.1 million in 2008 to Afl. 273.8 million at the end of 2011, reflecting an upsurge in the combined investments portfolio of Afl. 18.9 million (7.9 percent). The noticeable contraction of Afl. 39.7 million (15.6 percent) in total assets reported at the end of 2008 reflected for the most part falls in the combined investments of the company pension funds due to the plunge in stock prices ensuing from the global financial crisis, mirroring decreases of Afl. 13.2 million (21.0 percent) in shares and Afl. 10.3 million (12.0 percent) in bonds. Furthermore, time deposits went down by Afl. 19.5 million (53.7 percent) in 2008, following the transfer of the pension plan assets of a company pension fund to a local life insurance company. Since 2009, the company pension funds have reported a steady growth in their investments portfolio as global financial market conditions started to improve. On the liability side, technical provisions rose by Afl. 31.0 million (14.3 percent) over the period of 2007-2011, while capital and reserves registered a decrease of Afl. 11.9 million (32.9 percent) due to the aggregate net losses incurred by the company pension funds over the past five years.

Table 25: Balance sheet of the company pension funds
(End of period in Afl. million)

	2007	2008	2009	2010	2011
1. Total assets	254.8	215.1	240.9	263.4	273.8
a. Investments	238.7	197.8	221.3	230.6	257.6
b. Fixed assets	0.0	0.0	0.0	0.0	0.0
c. Current assets	16.1	17.3	19.6	32.8	16.2
2. Capital and liabilities	254.8	215.1	240.9	263.4	273.8
a. Technical provisions	216.4	193.5	209.0	224.2	247.4
b. Long-term liabilities	0.2	0.2	0.2	0.1	0.1
c. Current liabilities	2.0	3.6	2.0	1.6	2.0
d. Capital and reserves	36.2	17.8	29.7	37.5	24.3

Source: CBA; company pension funds.

In 2011, the total assets of the company pension funds rose by Afl. 10.4 million (3.9 percent) to Afl. 273.8 million, mainly the result of an Afl. 27.0 million (11.7 percent) expansion of the combined investments, offset in part by a contraction of Afl. 16.6 million (50.6 percent) in cash on hand and holdings at banks of Afl. 16.6 million (50.6 percent) compared to 2010. On the other hand, technical provisions increased by Afl. 23.2 million (10.3 percent), while capital and reserves dropped by Afl. 13.2 million (35.2 percent) due to the net loss of Afl. 13.2 million incurred in 2011.

The growth in investments of Afl. 18.9 million (7.9 percent) during the period 2007-2011 resulted mainly because of increases in bond holdings, other investments, and mortgage loans of Afl. 30.5 million (35.5 percent), Afl. 8.5 million (30.0 percent), and Afl. 6.1 million (38.6 percent), respectively, and was partially offset by a Afl. 28.3 million (78.0 percent) decrease in time deposits (Table 26).

Table 26: Investments of the company pension funds
(End of period in Afl. million)

	2007	2008	2009	2010	2011
1. Total	238.7	197.8	221.3	230.6	257.6
2. Shares	62.9	49.7	55.0	65.3	61.4
3. Bonds	85.8	75.5	89.9	97.7	116.3
4. Real estate	9.6	10.3	13.0	13.3	13.2
5. Time deposits	36.3	16.8	18.3	15.7	8.0
6. Mortgage loans	15.8	16.2	17.9	18.4	21.9
7. Other investments	28.3	29.3	27.2	20.2	36.8

Source: CBA; company pension funds.

As reflected in Table 27, the two principal income sources of the company pension funds are premium income and investment income. The combined net result of the company pension funds was very volatile over the five past years, reporting significant losses in 2008 and 2011 of Afl. 18.2 million and Afl. 13.2 million, respectively. The notable losses incurred in 2008 and 2011 were due largely to drops in investment income of Afl. 34.5 million (213.0 percent) and Afl. 13.9 million (71.6 percent), respectively. The drop in 2008 was caused by the global financial crisis, while the fall in 2011 was due mainly to the persisting low interest rate environment, in particular in the U.S. financial markets. On the other hand, total expenses of the company pension funds decreased sharply in 2008, but grew consistently thereafter. The contraction in total expenses in 2008 was due mainly to a decline in additions to technical provisions of Afl. 18.2 million (84.7 percent). At the end of 2011, total expenses of the company pension funds rose by Afl. 9.4 million (37.3 percent) when compared to 2010, as a result of an Afl. 7.8 million (51.0 percent) surge in additions to technical provisions.

Table 27: Income statement of the company pension funds

(In Afl. million)

	2007	2008	2009	2010	2011
1. Total income	29.1	-5.6	37.2	34.0	21.4
a. Premium income	12.4	12.7	13.5	14.6	15.9
b. Investment income	16.2	-18.3	23.7	19.4	5.5
c. Other income	0.5	0.0	0.0	0.0	0.0
2. Total expenses	30.3	12.6	25.3	26.3	34.6
a. Change in technical provisions	21.5	3.3	15.4	15.3	23.1
b. Pension benefits paid	6.2	6.8	7.2	7.8	8.5
c. Reinsurance net	0.6	0.4	0.7	0.3	0.3
d. Management expenses	2.0	1.8	1.8	2.0	2.4
e. Other expenses	0.0	0.3	0.2	0.9	0.3
3. Net result	-1.2	-18.2	11.9	7.7	-13.2

Source: CBA; company pension funds.

The liquidity ratio of the supervised company pension funds illustrated a consistent upward trend during the period 2007-2010, resulting in a liquidity ratio of 12.5 percent at the end of 2010. However, this ratio plummeted to 5.9 percent in 2011 (Table 28). This fall in the liquidity ratio in 2011 when compared to 2010 was mainly the result of an Afl. 16.6 million decrease in current assets. On the other hand, the return on investments fluctuated over the past five years, hovering between -8.4 percent and 11.3 percent, due mostly to the volatility in the investment income of the company pension funds. The decrease in the return of investments ratio of 6.3 percentage points in 2011 when compared to 2010 was due largely to a decrease in the investment income of Afl. 13.9 million (71.6 percent), compounded by an increase in the average invested assets of Afl. 18.1 million (8.0 percent).

Table 28: Financial ratios of the company pension funds

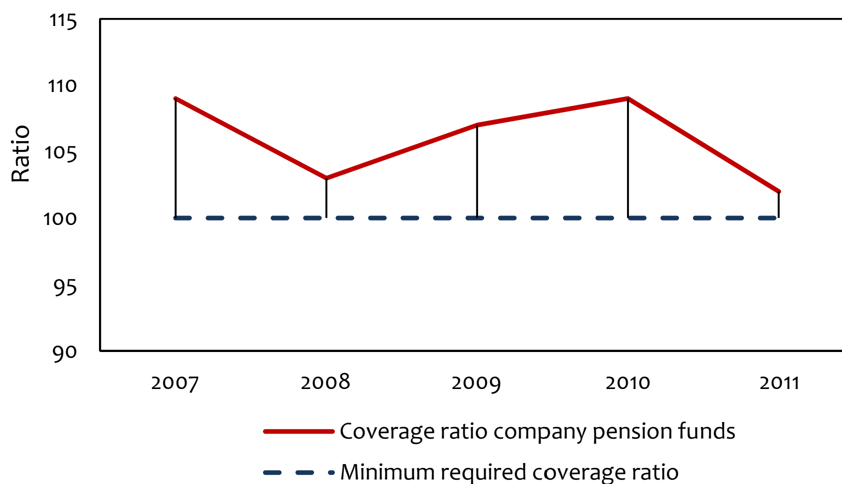
(End of period in percentages)

	2007	2008	2009	2010	2011
1. Liquidity ratio	6.3	8.0	8.1	12.5	5.9
Current assets to total assets					
2. Return on investments ratio	7.1	-8.4	11.3	8.6	2.3
Investment income to average invested assets					
3. Coverage ratio 1)	109.0	103.0	107.0	109.0	101.5
Investments & cash minus volatility cushion to technical provisions					

Source: CBA; company pension funds.

1) The calculation of the coverage ratio cannot be derived from Table 25.

Chart 11 shows the development of the combined coverage ratio of the company pension funds over the period 2007-2011. Overall, the combined coverage ratio remained above the minimum of 100 percent and showed a stable pattern, except for the notable plunge in 2011. The significant drop in the combined coverage ratio of 7.5 percentage points in 2011 was due to larger additions to technical provisions of Afl. 23.2 million (10.3 percent) compared to the growth in investments and cash minus volatility cushion of Afl. 6.6 million (2.5 percent).



Moreover, in 2010 the Stichting Pensioenfonds N.V. Aruba Bank and the Stichting Pensioenfonds RBTT Bank Aruba II were in liquidation. Meanwhile, these pension funds transferred their pension obligations to life insurance companies in Aruba. Until the liquidation process has been finalized, these pension funds remain under the CBA's supervision.

7.4.6 The Civil Servants Pension Fund (APFA)

In January 2005, the State Ordinance on the Privatization of the Civil Servants Pension Fund (AB 2005, No. 2) was enacted. This Ordinance became effective on May 1, 2005. As part of the privatization process, the 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, while the 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, the needed reforms to the so-called 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, and effective January 1, 2011, the participants in the PVL pension scheme were transferred to a more sober pension scheme (the so-called NPR 2011 pension scheme). Furthermore, 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 remains active.

As of January 1, 2011, the APFA, which manages both the NPR 2011 and NPR 2005 pension schemes, falls under the supervision of the CBA. Prior to this date, the 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 July 20, 2012, this proposed recovery plan was approved by the CBA.

In the period 2008-2012, the balance sheet total of APFA displayed a rising trend, with the exception of the year 2011, when it shrank by Afl. 7.3 million to Afl. 1,939.3 million (Table 29). Total assets rose from Afl. 1,491.6 million in 2008 to Afl. 2,087.8 million in 2012 (equivalent to 45.8 percent of the estimated GDP for 2012), reflecting upsurges in both investments and current assets of Afl. 590.7 million (42.0 percent) and Afl. 8.8 million (13.0 percent), respectively.

Table 29: Balance sheet of the APFA
(End of period in Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total assets	1,491.6	1,705.3	1,946.6	1,939.3	2,087.8
a. Investments	1,407.0	1,554.8	1,746.4	1,820.9	1,997.7
b. Fixed assets	17.0	18.0	18.1	14.6	13.7
c. Current assets	67.6	132.5	182.1	103.8	76.4
2. Capital and liabilities	1,491.6	1,705.3	1,946.6	1,939.3	2,087.8
a. Technical provisions	2,176.6	2,285.5	2,379.2	2,421.1	2,514.5
b. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
c. Current liabilities	6.1	5.5	6.7	7.3	7.7
d. Capital and reserves	-691.1	-585.7	-439.3	-489.1	-434.4

Source: CBA; APFA.

1 Preliminary figures.

The growth in investments during the period 2008-2012 was attributable mainly to increases in the holdings of bonds and treasury bills, other investments, and mortgage loans of, respectively, Afl. 604.7 million (269.8 percent), Afl. 94.8 million (22.4 percent), and Afl. 72.6 million (43.0 percent), which were partially offset by a decrease of Afl. 194.1 million (57.3 percent) in shares and convertible bonds (Table 30). At the end of 2012, foreign investments amounted to Afl. 624.1 million or 31.2 percent of the APFA's total investment portfolio (end-2011: Afl. 562.7 million or 30.9 percent).

Table 30: Investments of the APFA
(End of period in Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total	1,407.0	1,554.8	1,746.4	1820.8	1,997.7
2. Shares and convertible bonds	338.5	393.6	547.0	435.8	144.4
3. Bonds and treasury bills	224.1	320.6	236.0	437.5	828.8
4. Real estate	21.4	24.1	24.1	28.4	50.1
5. Time deposits	230.1	204.4	353.8	235.5	214.0
6. Mortgage loans	168.8	191.3	200.7	231.1	241.4
7. Other investments	424.1	420.8	384.7	452.5	519.0

Source: CBA; APFA.

1 Preliminary figures.

On the liability side, technical provisions rose further by Afl. 337.9 million (15.5 percent) to Afl. 2,514.5 million at the end of 2012 compared to the end of 2008. On balance, the fund's negative equity fell from Afl. 691.1 million in 2008 to Afl. 434.4 million in 2012, due mainly to the positive net results recorded in the years 2009, 2010, and 2012. The significant negative equity amount recorded in 2008 was caused by the substantial loss incurred in 2008, due to significant lowering

of the actuarial discount rate from 7.0 percent to 5.5 percent and the substantial losses the APFA incurred on its foreign investment portfolio as a result of the global financial crises.

In 2012, APFA's total assets expanded by Afl. 148.5 million (7.7 percent) compared to 2011, resulting from an upsurge in investments of Afl. 176.8 million (9.7 percent) and a decrease in current assets of Afl. 27.5 million (26.5 percent). Furthermore, technical provisions soared by Afl. 93.4 million (3.9 percent), while capital and reserves improved by Afl. 54.7 million (11.2 percent) as a result of the 2012's net profit.

The profitability of APFA was very unstable during the period 2008-2012, peaking at Afl. 146.4 million in 2010, after posting a record high net loss of Afl. 658.2 million in 2008 (Table 31). The notable positive results in 2009 and 2010 were associated mainly with improvements in investment and premium income as global financial market conditions started to improve.

Table 31: Income statement of the APFA
(In Afl. million)

	2008	2009	2010	2011	2012 [1]
1. Total income	-37.8	287.5	322.4	82.4	245.7
a. Premium income	91.2	122.5	189.4	43.4	119.7
b. Investment income	-129.0	165.0	133.0	39.0	126.0
2. Total expenses	620.5	182.1	176.0	132.4	191.1
a. Change in technical provisions	551.6	108.9	93.7	42.1	93.4
b. Pension benefits paid	61.8	66.7	73.4	81.9	86.9
c. Management expenses	7.1	6.5	8.9	8.4	10.8
3. Net result	-658.3	105.4	146.4	-50.0	54.6

Source: CBA; APFA.

1 Preliminary figures.

APFA recorded a net profit of Afl. 54.6 million in 2012, an improvement of Afl. 104.6 million (209.2 percent) over 2011. This increase was mainly associated with expansions in premium and investment income of Afl. 76.3 million (175.9 percent) and Afl. 87.0 million (223.1 percent), respectively. On the other hand, additions to technical provisions also increased by Afl. 51.3 million (121.9 percent) in 2012 compared to 2011. The additions to technical provisions were significantly lower in 2011, due to a major adjustment of the actuarial provisions related to the transition to the NPR 2011 pension scheme.

The return on investments ratio varied significantly during the period 2008-2012 mainly because of the volatility in investment income; it hovered between a high of 11.1 percent in 2009 and a low of -9.1 percent in 2008 (Table 32). On the other hand, the liquidity ratio declined somewhat

from 4.5 percent in 2008 to 3.7 percent in 2012, while peaking at 9.4 percent in 2010, largely because of upsurges in APFA's liquid assets. The coverage ratio saw an increasing trend in the last five years, rising from 58.6 percent in 2008 to 77.1 percent in 2012, still far below the minimum required coverage ratio of 100 percent set by the CBA (Chart 12). Although the coverage ratio displayed steady improvements since 2008, the underfunding of APFA remains substantial and worrisome. Despite the encouraging measures already taken, a further retrenchment of the government pension plans must take place to improve their sustainability, including but not limited to a significant increase in the pension age, commensurate with the trend in most advanced countries.

Table 32: Financial ratios of the APFA
(End of period)

	2008	2009	2010	2011	2012 [1)]
1. Liquidity ratio *Current assets to total assets*	4.5	7.8	9.4	5.4	3.7
2. Return on investments ratio *Investment income to average invested assets*	-9.1	11.1	8.1	2.2	6.6
3. Coverage ratio 2) *Investments & cash minus volatility cushion to technical provisions*	58.6	63.1	69.5	70.7	77.1

Source: CBA; APFA.

1) Preliminary figures.
2) The calculation of the coverage ratio cannot be derived from Table 29.

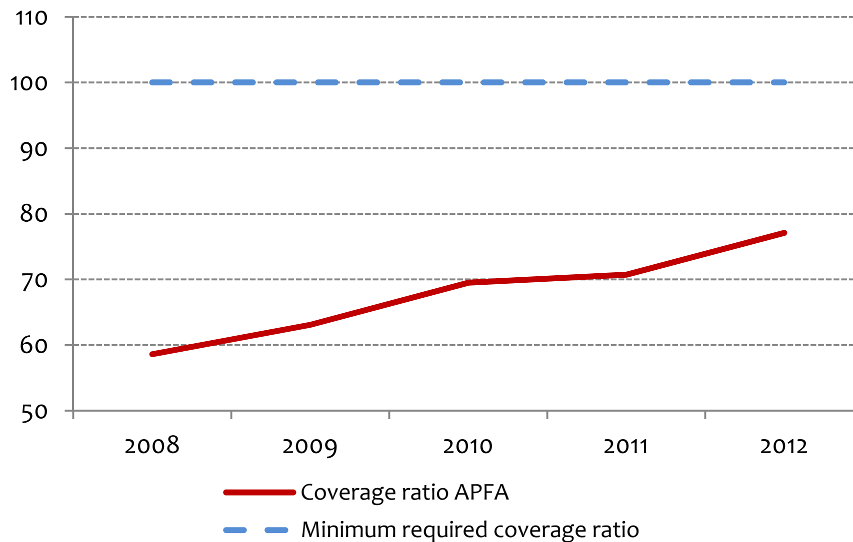


Chart 12: Development of the coverage ratio of the APFA over the five-year period 2008-2012.

7.4.7 The Social Security Bank (SVB)

The SVB is responsible for the execution of the following state ordinances:

- State Ordinance on Sickness Insurance (ZV);
- State Ordinance on Accident Insurance (OV);
- State Ordinance on Cessantia (Cessantia);
- State Ordinance on the General Old Age Pension Fund (AOV); and
- State Ordinance on the General Widowers and Orphans Insurance (AWW).

The ZV, OV, and Cessantia are employee insurance schemes, while the AOV and the AWW are general pension schemes. Furthermore, the SVB is entrusted with the management of the so-called "Schommelfonds ZV/OV" and the "Schommelfonds AOV/AWW". In addition, as of July 1, 2007, the SVB took over the tasks of the occupational health services (BGD).

The consolidated balance sheet of the SVB amounted to Afl. 194.5 million (equivalent to 4.3 percent of GDP) in 2011, a decrease of Afl. 83.0 million (29.9 percent) compared to 2007 (Table 33). This notable contraction in total assets in 2011 was mainly the result of a decline in investments of Afl. 97.2 million (49.7 percent) compared to the end of 2007, offset by increases in fixed assets and current assets of Afl. 8.7 million (17.7 percent) and Afl. 5.5 million (16.6 percent), respectively. On the liability side, capital and reserves declined by Afl. 85.3 million (32.2 percent) from 2007 to 2011, mainly the result of net losses incurred during the period 2009-2011.

Table 33: Aggregated balance sheet of the SVB
(End-of-period figures in Afl. million)

	2007	2008	2009	2010	2011
1. Total Assets	277.7	283.3	280.8	232.6	194.5
a. Investments	195.5	213.3	181.2	147.0	98.3
b. Fixed assets	49.1	51.3	53.5	55.8	57.7
c. Current assets	33.1	18.7	46.1	29.8	38.5
2. Total capital and liabilities	277.7	283.3	280.8	232.6	194.5
a. Current liabilities	12.4	11.0	16.7	14.5	14.5
b. Capital and reserves	265.3	272.3	264.1	218.1	180.0

Source: CBA; SVB.

In 2011, the SVB reported total assets of Afl. 194.5 million, an Afl. 38.1 (16.4 percent) decrease compared to 2010. The main causes for this development are related to declines in investments and capital and reserves of Afl. 48.7 million (33.1 percent) and Afl. 38.1 million (17.5 percent), respectively. The downturn in capital and reserves is attributable to the net loss of Afl. 37.9 million incurred in 2011. As can be derived from Table 34, the fall-off in the

investment portfolio in 2011 reflected drops in time deposits, loans, and bond holdings of Afl. 43.2 million (60.3 percent), Afl. 3.6 million (14.0 percent), and Afl. 1.9 million (3.8 percent), respectively.

Table 34: Investments of the SVB
(End-of-period figures in Afl. million)

	2007	2008	2009	2010	2011
1. Total	195.5	213.3	181.2	147.0	98.3
2. Loans	36.5	39.6	38.1	25.6	22.0
3. Shares	0.1	0.1	0.1	0.1	0.1
4. Bonds	63.7	63.9	50.5	49.6	47.7
5. Time deposits	95.2	109.7	92.5	71.7	28.5

Source: CBA; SVB.

The net financial result of the SVB varied over the period 2007-2011, with a record net loss of Afl. 46.0 million in 2010 (Table 35). The negative result in 2010 was due mainly to a sharp Afl. 24.8 million (11.2 percent) decrease in the premium income compared to 2009. The retained AOV premiums pertaining to December 2010 were received and recorded by the SVB in fiscal year 2011 in accordance with its cash-based accounting system, thereby causing a notable decline in premium income at the end of 2010. The net loss of Afl. 37.9 million recorded in 2011 was associated mainly with a growth in claims paid out of Afl. 17.1 million (7.1 percent), despite a surge in premium income of Afl. 27.1 million (13.7 percent) stemming from the effects of its cash-based system.

Table 35: Aggregated income statement of the SVB[1]
(In Afl. million)

	2007	2008	2009	2010	2011
1. Total income	223.6	247.2	241.9	215.2	240.4
a. Premium income	203.9	227.1	222.2	197.4	224.5
b. Other income	19.7	20.1	19.7	17.8	15.9
2. Total expenses	218.7	240.3	250.2	261.2	278.3
a. Claims paid	202.8	223.4	233.6	242.4	259.5
b. Interest expenses	4.5	4.6	4.3	4.5	4.6
c. Administrative expenses	11.4	12.3	12.3	14.3	14.2
3. Net result	4.9	6.9	-8.3	-46.0	-37.9

Source: CBA; SVB.

1 Prepared on a cash-basis.

It is imperative that swift measures, including increasing the pension age, are taken to halt the depletion of reserves of the SVB and to reverse the negative results.

7.4.8 The General Health Insurance (AZV)

Over the five-year period from 2008 to 2012, the balance sheet total of the AZV showed an overall increase of Afl. 18.8 million (45.4 percent) amounting to Afl. 60.2 million at the end of 2012 (Table 36). The balance sheet total as per end-2012 is equivalent to 1.3 percent of the estimated GDP for 2012. The expansion in the total assets was associated mainly with a rise in current assets of Afl. 20.4 million (53.7 percent) in 2012 compared to 2008, caused primarily by increases in liquid assets. On the liability side, the current liabilities also rose by Afl. 18.8 million (45.4 percent) in 2012 when compared to 2008. The AZV does not maintain capital and reserves because its financial deficits are by law covered by the Aruban government.

In 2012, AZV's total assets amounted to Afl. 60.2 million, an Afl. 3.4 million (6.0 percent) increase compared to 2011. The increase was due mainly to upsurges in liquid assets and receivables from the Aruban government of Afl. 7.3 million (28.3 percent) and Afl. 1.1 million (19.3 percent), respectively, partially offset by a drop in premium receivables of Afl. 5.1 million (23.7 percent). On the liability side, AZV's short-term liabilities also grew by Afl. 3.3 million (6.0 percent).

Table 36: Balance sheet of the AZV
(End-of-period figures in Afl. million)

	2008	2009	2010	2011	2012
1. Total Assets	41.4	49.6	52.0	56.9	60.2
a. Fixed assets	3.4	2.3	2.2	2.3	1.8
b. Current assets	38.0	47.3	49.8	54.6	58.4
2. Total liabilities	41.4	49.6	52.0	56.9	60.2
a. Long-term liabilities	0.0	0.0	0.0	0.0	0.0
b. Current liabilities	41.4	49.6	52.0	56.9	60.2

Source: CBA; AZV.

The AZV has consistently posted negative results over the past five years (Table 37), caused mainly by higher health care expenses when compared to total income. Total income rose from Afl. 298.6 million in 2008 to Afl. 367.2 million in 2012, due mainly to an upsurge of Afl. 71.9 million (40.3 percent) in premium income. The expansion in premium income was predominantly attributed to an increase in the premium rate from 9.5 percent to 11.5 percent in 2011 compounded by an increase in the minimum wage as of January 2012.

On a positive note, the net losses of AZV have been decreasing over the past five years. For the year 2012, AZV reported a net loss of Afl. 2.7 million, an improvement of Afl. 5.0 million (64.8 percent) compared to the net loss in 2011. This improvement was due mainly to an upsurge in premium income of Afl. 14.2 million (6.0 percent) and other income of Afl. 1.3 million (1.1 percent). On the other hand, the health care expenses also expanded in 2012 by Afl. 10.6 million (3.1 percent).

Table 37: Income statement of AZV
(In Afl. million)

	2008	2009	2010	2011	2012
1. Total income	298.6	308.8	332.6	351.7	367.2
a. Premium income	178.2	182.8	186.4	235.9	250.1
b. Other income	120.4	126.0	146.2	115.8	117.1
2. Total expenses	318.5	336.8	348.7	359.4	369.9
a. Health expenses	300.8	317.7	330.6	342.7	353.3
b. Interest expenses	0.1	0.0	0.0	0.0	-0.1
c. Administrative expenses	17.6	19.1	18.1	16.7	16.7
3. Net result	-19.9	-28.0	-16.1	-7.7	-2.7

Source: CBA; AZV.

Considering the expected continuing aging of the Aruban population, the AZV scheme should be reformed further to improve its sustainability. Introducing consumer co-payments should be considered as part of a package of measures to halt the ever-increasing health care costs.

Annex 1: Overview of the supervisory and AML/CFT laws whose execution is entrusted to the CBA

Table A: Supervisory and AML/CFT Laws[12]

	Law	Reference
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 Ordinance on the Supervision of Money Transfer Companies (SOSMTC)	AB 2003 no. 60
5.	State Ordinance on the Supervision of Trust Service Providers (SOSTSP)	AB 2009 no. 13
6.	State Ordinance on the Prevention and Combating of Money Laundering and Terrorism Financing (AML/CFT State Ordinance)	AB 2011 no. 28
7.	Sanction State Ordinance 2006	AB 2007 no. 27

Source: CBA.

[12] Excluding the subsidiary legislation giving effect to certain provisions contained in these ordinances.

Annex 2: Financial institutions supervised by the CBA (December 31, 2012)

1. Banking sector[13]

1.1 Commercial banks

Aruba Bank N.V.

Banco di Caribe (Aruba) N.V.

Caribbean Mercantile Bank N.V.

RBC Royal Bank (Aruba) N.V.

1.2 Offshore banks

Citibank Aruba N.V.

BBA Bank N.V.

1.3 Mortgage banks

Fundacion Cas pa Comunidad Arubano (FCCA)

1.4 Credit unions

Coöperatieve Spaar- en Kredietvereniging Douane Aruba

Cooperativa di Ahorro y Prestamo Aruba (CAPA)

1.5 Finance companies

Island Finance Aruba N.V.

1.6 Other financial institutions

AIB Bank N.V.

2. Money transfer sector[14]

2.1 Money transfer companies

G.F.P. International N.V.

Global Access Corporation N.V.

Post Aruba N.V.

Union Caribe N.V.

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[13] Supervision by virtue of the State Ordinance on the Supervision of the Credit System (AB 1998 no. 16).

[14] Supervision by virtue of the State Ordinance on the Supervision of Money Transfer Companies (AB 2003 no. 60).

3.Trust sector[15]

3.1 Trust service providers

AMTR N.V.
ANT Management (Aruba) N.V.
Aruba International Trust Company N.V.
Arulex Trust Services N.V.
Ascor Trust (Aruba) N.V.
ATC Trustees (Aruba) N.V.
C.M.S. Corporate Management Services N.V.
C.T.F. (Aruba) N.V.
Curado Trust (Aruba) N.V.
Euro Trust International N.V.
IMC International Management & Trust Company N.V.
Nazca Services N.V.
Orangefield Trust (Aruba) N.V.
United Trust Management (Aruba) UTM N.V.

4. Institutional investors' sector

4.1 Company Pension Funds[16]

Lago Annuity Foundation
Stichting Algemeen Pensioenfonds Aruba (APFA)
Stichting Bedrijfspensioenfonds Aruba
Stichting Fondo di Pensioen di Trahadornan di Empresanan y Fundacionnan Publico
Stichting Pensioenfonds Caribbean Mercantile Bank N.V.
Stichting Pensioenfonds Havenwerkers Aruba
Stichting Pensioenfonds META Bedrijven Aruba
Stichting Pensioenfonds N.V. Aruba Bank[17]
Sitchting Pensioenfonds RBTT Bank Aruba I
Stichting Pensioenfonds RBTT Bank Aruba II[17]
Stichting Pensioenfonds Tourist Sector Aruba

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[15] Supervision by virtue of the State Ordinance on the Supervision of Trust Service Providers (AB 2009 no. 13).
[16] Supervision by virtue of the State Ordinance on Company Pension Funds (AB 1998 no. GT 17).
[17] In liquidation.

5. Insurance Companies[18]

5.1 Life insurance companies

American Bankers Life Assurance Company of Florida Limited, Agency
American Life Insurance Company, Aruba Branch[19]
British-American Insurance Company (Aruba) N.V.[19]
Ennia Caribe Leven (Aruba) N.V.
Fatum Life Aruba N.V.
Pan-American Life Insurance Company of Aruba V.B.A.
Sagicor Life Aruba N.V.[19]

5.2. Captive insurance companies

Bancarib Real Insurance Aruba N.V.
Fides Rae Insurance Company N.V.
MCB Risk Insurance N.V.
Mondis Manufactures Insurance Company N.V.

[18] Supervision by virtue of the State Ordinance on the Supervision of the Insurance Business (AB 2000 no. 82).

[19] Pursuant to Section IX of the Implementation Ordinance on the State Ordinance on the Supervision of the Insurance Business (AB 2001 no. 91). Subject insurance companies also are allowed to conduct nonlife insurance business in the indemnity group accident and health insurance".

5.3 Nonlife (general) insurance companies

	Accident & health	Motor vehicle	Maritime, transport, & aviation	Fire & other property	Other indemnity
Chartis Aruba Insurance Company N.V.	X	X	X	X	X
Bupa Insurance Company, Agency	X				
Elvira Verzekeringen N.V.					X
Ennia Caribe Schade (Aruba) N.V.	X	X	X	X	X
Fatum General Insurance Aruba N.V.	X	X	X	X	X
NAGICO Aruba N.V.	X	X	X	X	X
Netherlands Antilles & Aruba Assurance Company (NA&A) N.V.	X	X	X	X	X
Royal & Sun Alliance Insurance (Antilles) N.V.; Aruba Branch	X	X	X	X	X
Stichting Fondo Nacional di Garantia pa Vivienda					X
The New India Assurance Co. Ltd.; Aruba Branch	X	X	X	X	X
TRESTON Insurance Company (Aruba) N.V.	X	X	X	X	X
United Insurance Company N.V.	X	X	X	X	X

Source: CBA.

Annex 3: Changes in the registers of supervised institutions and shareholding

Banking sector

- On October 17, 2012, and in accordance with section 17, paragraphs 1 and 2 of the SOSCS, the CBA granted a declaration of no objection to Messrs. Leopoldo E. Castillo-Bozo and Gabriel A. Castillo-Bozo to increase their participation in the share capital of Corporación Castillo Betrán Aruba N.V., which holds 90 percent of the shares in BBA Bank N.V., from 50 percent to 62.2 percent and from 25 percent to 37.2 percent, respectively.

Insurance sector

- On February 29, 2012, and in accordance with section 1, paragraph 1 of the State Decree Qualifying Holding Insurance Companies (SDQHIC), the CBA granted permission to Chartis International LLC to acquire a 100 percent qualifying holding in Chartis Aruba Insurance Company N.V. via Chartis Latin America LLC. Furthermore, on the same date, and in accordance with section 22, paragraph 1 of the SOSIB, the CBA granted permission to American Home Assurance Company Ltd. - Aruba branch to transfer the rights and obligations from the nonlife insurance portfolio to Chartis Aruba Insurance Company N.V.
- On September 26, 2012, and in accordance with section 5, paragraph 2 of the SOSIB, the CBA licensed Pan-American Life Insurance Company of Aruba V.B.A. to conduct the life insurance business as referred to in section 1 of the SOSIB. Furthermore, on the same date, and in accordance with section 22, paragraph 1 of the SOSIB, the CBA gave permission to American Life Insurance Company - Aruba branch to transfer the rights and obligations from the life insurance portfolio to Pan-American Life Insurance Company of Aruba V.B.A.

Trust sector

- On January 20, 2012, and in accordance with section 18, paragraph 1, of the SOSTSP, the CBA, revoked the license of Premier Management Partners (Aruba), upon its request, to conduct the business of a trust service provider as referred to in section 4, paragraph 1, of the SOSTSP.
- On July 2, 2012, and in accordance with section 18, paragraph 1, of the SOSTSP, the CBA, revoked the license of Van Lanschot (Aruba) Management Company N.V., upon its request, to conduct the business of a trust service provider as referred to in section 4, paragraph 1, of the SOSTSP.

Annex 4: Integrity and suitability testing

Integrity and suitability testing 2012						
Sector	**Received requests**	**Withdrawn requests**	**Rejected requests**	**Approved**	**Conditionally approved**	**Pending**
Banking sector	15	1	-	6	1	7
Insurance companies	33	1	1	26	3	2
Company pension funds	10	-	-	4	3	3
Money transfer companies	4	-	-	4	-	-
Trust service providers	-	-	-	-	-	-

Source: CBA.

Annex 5: Supervisory activities

As of January 1, 2011, the former *Integrity Unit* became a separate department within the CBA. The decision to split the Supervision Department into a Prudential Supervision Department (PSD) and an Integrity Supervision Department (ISD) was motivated by the increasing size and complexity of the CBA's oversight in the broad area of integrity supervision, including the prevention and combating of money laundering and financing of terrorism, thereby requiring specialized personnel.

Tasks

The main tasks of the PSD are (1) to monitor the financial soundness of the institutions that attract funds from the public; (2) to evaluate various requests for approval emanating from the different supervisory laws, such as changes in group structure, changes in business plans, and new license requests; (3) to conduct integrity and suitability testing on an ongoing basis of managing and supervising directors as well as individual shareholders (SOSCS, SOSIB, SOCPF); (4) to conduct regular on-site examinations in the areas of corporate governance, asset quality, and prudential requirements; (5) to conduct periodic stress tests on the banking sector; and (6) to monitor international developments in the area of prudential supervision and to translate these into supervisory policy directives and policy papers, and to incorporate them in the CBA's supervisory practices. Reference is made to Box 1 for an overview of the main supervisory activities of the PSD in 2012.

The main tasks of the ISD are (1) to oversee compliance with the laws and regulations in the area of AML/CFT; (2) to conduct on an ongoing basis integrity and suitability testing of managing and supervisory directors, as well as individual shareholders (SOSTSP, SOSMTC); (3) to identify and take action against parties that operate on the Aruban financial market without a license, registration, or dispensation from the CBA; and (4) to closely monitor international developments in the area of AML/CFT, including the translation of these developments into supervisory directives and practices. In addition, the ISD is entrusted with the execution of the state ordinances that are primarily focused on maintaining a high level of integrity of the financial system (SOSTSP, SOSMTC). In the ordinances with dual objectives, the PSD has the lead but works closely with ISD if the issues are related to AML/CFT. Reference is made to Box 2 for an overview of the main supervisory activities of the ISD in 2012.

Box 1: Overview of the main supervisory activities of the PSD in 2012

In 2012, the PSD undertook among other things the following activities:

a. On-site examinations

In 2012, the PSD conducted six targeted on-site examinations in the areas of corporate governance, quality of loan portfolio, admissibility of assets, financial reporting, and compliance with the approved recovery plan. The on-site examinations were conducted at three credit institutions, one insurance company, and two company pension funds.

b. Off-site surveillance

The off-site surveillance encompassed, *inter alia*, the following activities:

. Held bilateral meetings with the supervised institutions and the representative organizations on various supervisory matters.

. Analyzed and followed-up on periodic filings from the banking sector, insurance companies, and company pension funds and reported to the management of the CBA on the findings.

. Conducted stress testing on the domestic banking sector.

. Processed various requests for approval pursuant to the sectoral supervisory laws as well as provided advice related to foreign exchange license requests of financial institutions supervised by the CBA.

. Filled out questionnaires, surveys, and other information requests in the area of prudential supervision.

. Participated in assessments of international rating agencies.

. Participated in technical meetings of the College of Supervisors of the Kingdom of the Netherlands.

c. Enforcement measures

The PSD issued on one occasion a notification pursuant to section 20, paragraph 1, of the SOSCS.

d. Legislation and policy development

. Participated in the joint working group Deposit Insurance Scheme.

. Assisted in the drafting of the dispensation policy and guidelines for pawnshops.

. Provided guidance and information to the company pension funds and the insurance sector of relevant changes pursuant to the State Ordinance on the General Pension.

e. Other

In January 2012, PSD together with ISD held an information session for pawnshops.

Box 2: Overview of the main supervisory activities of the ISD in 2012

In 2012, the ISD undertook among other things the following activities:

a. On-site examinations

ISD carried out 13 focused on-site examinations: four examinations at banks, four examinations at trust service providers, one examination at a life insurer, three examinations at money transfer companies, and one examination at a DNFBP.

b. Off-site activities

. Held bilateral meetings with the supervised institutions and the representative organizations to discuss various supervisory matters.
. Analyzed and followed up on periodic filings from money transfer companies and trust service providers.
. Processed various requests for approval pursuant to the sectoral supervisory laws.
. Participated in assessments of international rating agencies.
. Participated in technical meetings of the College of Supervisors of the Kingdom of the Netherlands.

c. Enforcement measures

On four occasions, formal measures, the so-called penalty charge orders, were imposedas a result of deficiencies noted during on-site examinations.

d. Legislation

The following laws and regulations were drafted in consultation with the Directorate of Legislation and Legal Affairs of the Government of Aruba:
. Regulation verification documents AML/CFT State Ordinance (Regeling verificatie documenten LWTF, AB 2012 no. 11).
. Revised Sanction State Decree (Sanctiebesluit bestrijding terrorisme en terrorisme financiering, AB 2010 no. 27, and AB 2012 no. 36). Amendments reflect the latest developments with regard to the Consolidated List for Al Qaeda and the Taliban. The changes also further enhance the relevant operational framework by installing a National Sanctions Committee that will assist the Minister of Justice in the establishment and all subsequent modifications of the Freezing List.
. State Ordinance amending the sectoral Supervisory State Ordinances (Landsverordening herziening sectorale toezichtwetgeving, AB 2012 no. 55) (Amending State Ordinance).

e. Policy development/guidance

The following documents were completed:
. Dispensation policy and guidelines for pawnshops.
. A reporting form in relation to the Sanctions State Decree and further written guidance on the reporting procedure.
. Q&A on the AML/CFT State Ordinance.

f. Other

. In January 2012 ISD held an information session for trust service providers.

. In January 2012 ISD together with PSD held an information session for pawnshops.

. In August 2012 ISD held a presentation at the Association of Aruban Compliance Officers.

. During the period November 5-8, 2012, ISD held various information sessions in cooperation with the Stichting IFEA and the FIU for the benefit of, among others, legal practitioners, NRFIs, casinos, and pension funds.

. ISD drafted a Memorandum of Understanding with the Public Prosecutor's Office.

. ISD participated in two working groups established by the supervisory authorities in the Kingdom of the Netherlands.

. ISD contributed to the organization of a seminar for the benefit of the supervisory authorities of the Kingdom of the Netherlands, hosted by the CBCS.

Annex 6: Supervisory costs passed on in 2012

The CBA charges, pursuant to the respective state decrees[20], in part the sectors supervised for the supervision costs incurred. The supervisory costs passed on in 2012 to the different sectors are specified below.

Banks	Afl. 800,000
Insurers	Afl. 300,000
Company pension funds	Afl. 75,000
Money transfer companies	Afl. 150,000
Total	Afl. 1,325,000

Starting 2013, also the trust companies will be charged for the supervisory costs incurred. In accordance with the passing on of supervision costs to trust companies, that came into effect on December 28, 2012, the amount that will be charged is Afl. 100,000.

[20] 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 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).