



Lignum Vitae - "Tree of life"

The Risk & Regulatory Forum (TRRF)

TOWARDS A NEW REGULATORY FRAMEWORK FOR MONEY TRANSFER COMPANIES

Speech by R.J. Ridderstap

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On the occasion of the official inauguration of the new office building of Union Caribe Holding N.V.,

Distinguished guests, ladies and gentlemen,

On behalf of the Centrale Bank van Aruba (the Bank) I thank the management of Union Caribe Holding N.V. for the invitation to speak to you on the occasion of the official inauguration of its office building. Also, I would like to take this opportunity to congratulate the shareholders, management and employees with this event.

This afternoon I will elaborate on the operational guidelines issued for money transfer companies by the Bank in anticipation of a law that will bring these companies under its effective supervision. Also, I will briefly touch on relevant international developments and their effects on this sector. At the end of my speech, a few observations on the introduction of the law will be made. But, let me first give you some background information.

Aruba was confronted with several economic setbacks during the nineteen eighties. Tourism from Venezuela crumbled as a result of the devaluation of the Bolivar, while, following a crisis in the oil market, the Exxon oil refinery, which was at that time the mainstay of our economy, discontinued its local operations. These developments induced a large shrinkage in domestic production, and unemployment surged despite relatively massive emigration to especially the Netherlands.

To revitalize the economy, the government granted tax incentives and loan guarantees to investors, particularly in the tourism sector. This resulted in large inflows of external capital. Unemployment was virtually eliminated and many foreign workers, especially from Latin America and the Caribbean, immigrated to Aruba. These individuals had difficulties in finding their way to the traditional commercial banks. On their turn, the banks were not always prepared to offer the specific money transfer services requested.

Consequently, the number of entities registered at the Chamber of Commerce and Industry engaged in money transfer, courier, telecommunication and related services, increased steadily. This growth has been a cause for concern, also because the activities of these companies were (if not mainly, then at least partly) executed through informal channels, while it appeared that subject sector could also be misused for illicit activities if left unsupervised.



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Also it should be noted that the Financial Action Task Force, in its 1999 evaluation report on Aruba, stated that activities of the money transfer companies may facilitate illicit transactions. To address these concerns, the government issued a Ministerial Decree on May 19, 1999, which requires these companies to report unusual transactions to the Financial Intelligence Unit. This was considered a first step in the right direction, but by far insufficient as an effective supervisory instrument.

In view of the aforementioned concerns, the Bank conducted a quick scan survey during the latter part of 1999 to get an overall view of the magnitude and composition of the transactions effectuated by these entities. During the survey the Bank noted that, even though many of the entities were registered as money transfer companies at the Chamber of Commerce and Industry, a large part was not active as such or discontinued their money transfer activities in the meantime. Hence, the number of companies actively involved in such activities was smaller than originally assumed, while only a few relatively large companies dominated the sector.

However, the survey results confirmed the need for the Bank to issue guidelines for money transfer companies with respect to the way they should organize and conduct their business to ensure compliance with the foreign exchange regulations, foster adequate administrative and anti-money laundering internal controls and procedures, as well as to maintain the integrity of the sector. These guidelines are to a large extent based on other laws. Furthermore, the Bank decided to publish a list of the companies that comply with its guidelines on a voluntarily basis. Compliance is tested marginally via limited scope examinations. I can inform you that so far three relatively large companies have qualified for placement on the list.

The policy of the Bank has clearly generated results. Even so, the swift introduction of a law to regulate the money transfer companies remains necessary in view of the following. First, the size of the sector appears to grow further. Second, the need for effective supervision clearly increased after the September 11 events in the USA, also because the Financial Action Task Force has issued eight additional special recommendations on combating the financing of terrorism, which, inter alia, deal with the licensing and supervisory aspects of money transfer companies, as well as with wire transfers. As part of the Dutch Kingdom, Aruba must swiftly implement these recommendations.

As mentioned earlier, the guidelines issued to money transfer companies are partly of a voluntary basis. With the enactment of the State Ordinance on the Supervision of the Money Transfer Companies these guidelines will acquire a more specific and comprehensive legal basis. The draft State Ordinance on the Supervision of Money Transfer Companies is presently in the final phase of the legislative process, and may become effective soon. The Bank will be entrusted with the execution of this ordinance.

Let me now discuss some highlights of the draft. All money transfer companies must fully comply with the admission requirements established by law before they can be



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registered/licensed by the Bank. These requirements, as are the present guidelines, are focused mainly on solvency, integrity, management and administrative organization aspects. Each company will be required to provide the Bank periodically with detailed financial information and its audited annual report. Additionally, to protect its clients, a bank guarantee should be obtained related to the size of the business of the company.

To conclude, although the guidelines issued by the Bank have stimulated improvements with respect to the functioning of money transfer companies, there is still a long way to go to enhance efficiency, reliability, and integrity in this sector. Therefore, the introduction of a supervisory law for money transfer companies is indispensable.

I thank you for your attention.

The opinions expressed in this article are those of the author and does not purport to the opinion of any organization or group to which he/she may be associated. Rudolf J. Ridderstap is a Senior Examiner of the Supervision Department of the Centrale Bank van Aruba. For comments on this article he may be contacted at – r.j.ridderstap@cbaruba.org