

Future Strategies for the Curaçao International Financial Sector

Address by Drs. A.G. Romero, Executive Director, Bank van de Nederlandse Antillen, presented at the seminar on "Future Strategies for the Curaçao International Financial Sector August 25, 2006

Distinguished participants,

Good afternoon. I would like to welcome you and express my appreciation to the Curaçao Financial Services Association (CIFA) for its initiative in organizing this seminar with the central theme "Future Strategies for the Curaçao International Financial Sector." I welcome the opportunity to address you on this important subject, which I consider fundamental to the further strengthening of our financial sector, in particular, and our economy, in general. I am particularly thankful to address a group of individuals that, I believe, collectively agrees on the critical need to continuously improve our business practices in an effort to improve our competitive position globally with the ultimate objective of becoming more attractive as an international financial center.

In a world characterized by fierce competition, dramatic changes, and innovations, businesses operating in the financial services sector and regulators of these businesses should constantly strive to remain abreast of local and international developments in the financial services sector and to discover ways of undertaking their responsibilities more efficiently and effectively. It is in this context that our Bank applauds the efforts of the Curaçao Financial Services Association to continuously provide a venue for its members and other market participants to discuss plans and strategies for the future and to share ideas and experiences as we try to further enhance our financial services sector.

The timing of this seminar is, needless to say, very crucial. We are meeting at a time when the eyes of the world are ever more focused on the international financial centers. International organizations, standard setting bodies, policymakers, legislators, and international media alike are intensively observing the activities of institutions and regulators operating in the international financial centers. The risks that our financial sector is exposed to, particularly the reputational risk, highlight our mutual dependence. It is imperative that we promote a regime that fosters high standards of governance and integrity at all times. In doing so, we help to promote the confidence of the international public in our jurisdiction.

As an international financial center, our jurisdiction depends to a great extent on the proper functioning of our financial system. Our Bank has always been very active in promoting of financial stability and minimizing systemic risk through sound and prudential supervision. With the supervision of credit institutions, insurance companies, insurance brokers, pension funds, investment institutions, administrators, and trust service providers entrusted to it, our Bank is constantly striving for ways to strengthen the Netherlands Antillean financial sector by enhancing the quality of our supervision to promote sound macroeconomic developments. Accordingly, we promote high standards of integrity, competency, governance, and business conduct amongst all our supervised institutions and individuals. While our Bank believes that there is no substitute for good regulation since it commands a premium and preserves reputation and stability, we are also aware that overregulation will impair the ability of our jurisdiction to maintain a competitive position as an international financial sector. Therefore, a proper balance must be reached between the adequacy and effectiveness of rules and regulations, on the one hand, and the underlying risks that our financial sector is exposed to, on the other hand.

To strike this balance, our Bank believes that the supervision exerted by the Bank must be complemented by continuous information-sharing between the Bank and the sector. Thus, we welcome and value the constructive, on-going dialogues between the Curaçao International Financial Services Association and the Bank. Through these dialogues, we strive to create a conducive pro-business environment that fosters sensitivity to the needs of the financial sector, while at the same time enables the Bank to enforce prudential safeguards to protect the integrity of our financial sector.

The Bank has always been a strong advocate of engaging the sector in the formulation of rules and regulations, which further enhances our supervisory approach. The valuable contributions of the various Technical Working Committees (consisting of members of the Bank and the Curaçao International Financial Services Association) instituted in the past, illustrate the importance and effectiveness of cooperation between the supervisory authority and the sector.

Not only is cooperation between the private sector and our Bank vitally important for the further development of our jurisdiction as an international financial center, but the involvement of the government also is of key importance. The government should continue its efforts, in coordination with the private sector and our Bank, to maintain and enhance

the status of the Netherlands Antilles as an international financial center. These efforts should be concentrated on reforming the fiscal and legal infrastructure of the financial industry to adapt to the constantly changing environment of the international business community. The constantly changing environment requires that legislation be introduced and, when needed, adapted in a timely manner by the legislators.

An example of legislation demonstrating the joint effort of the government and the private sector is the so-called "New Fiscal Framework" that was enacted a few years ago. This framework entails an upgrade and modernization of the tax legislation of the Netherlands Antilles in line with the OECD (Organization of Economic and Cooperative Developments) guidelines. The average profit tax rate has been decreased, profits of nonresidents and foreign permanent establishments are tax exempt for 95%, and a dividend withholding tax on profit distributions has been introduced. Our Civil Code also was revised in 2004 in line with international standards, including standards related to good governance.

Although there has been some progress toward making our jurisdiction more attractive as an international financial sector, I am sure you would all agree with me that there is still much more room for improvement in this area.

Let me outline five broad areas that I consider the prerequisites for success for an international financial center to attract quality business and to maintain its reputation of pursuing high standards and integrity:

- (1) Economic and political stability: To succeed as an international financial center, the international financial community must be able to rely on the stability of the economy and the government. Economic and political instability often adversely affect business continuity.
- (2) Favorable fiscal and legal infrastructure: As noted, it is imperative that the fiscal and legal infrastructure of the financial industry continuously reform itself to adapt to the constantly changing environment of the international business community. Relevant legislation should be introduced and adapted in a timely manner as needed.
- (3) An efficient and experienced financial community: The success of an international financial center is to a great extent dependent on the competence of its professionals operating in the sector. These professionals must be able to carry out the necessary operations with skill.
- (4) Good communication and support services: This prerequisite is particularly important so that market information can be quickly and efficiently transmitted to participants.
- (5) A sound regulatory framework: This regulatory framework should support economic development and growth, financial stability, and protect investors and depositors. The regulatory framework also should be responsive to the changing financial environment.

Several forces are influencing financial services industries around the world. Perhaps the most dominant is the remarkable advances in financial engineering and innovation, which have dramatically altered the way in which financial services providers operate. It is broadly expected that the pace of innovation will increase further in the years to come as financial markets increasingly integrate the use of new technologies into the world economy.

A second major driver of change is the growing complexity of large financial institutions. This complexity is a combination of increased size driven significantly by industry consolidation and by the creation of more sophisticated financial instruments.

A third major change is the continued blurring of lines between financial products and financial industries. As more and more financial products are being developed to fit the personal financial needs of the consumers, the blurring of financial products is only intensifying.

The financial and technological advances alluded to also pose significant challenges to the financial service providers, as they work to appropriately calibrate their business activities to the challenges of the innovations in their operations. These institutions should nonetheless implement policies and practices that conform to the scope and complexity of their activities.

Conclusion

To conclude, I would like to say that the constantly evolving environment of the international financial community implies that financial service providers and regulators alike must promote sound and prudent business practices that constantly anticipate and adapt to the changes in the international financial industry. While the external environment is not within our control, the strategic policies are. I believe that the selection and effective application of the right

policies enable financial institutions and service providers to capitalize on the opportunities and help them to overwhelm disadvantages arising from size and resource constraints.

Competition in the financial sector has become so intense that if we as a jurisdiction want to maintain a competitive position in the international financial community, we must be able to predict and monitor closely the changes in the international financial industry and take the necessary actions in a timely manner.

It is in this perspective that I am convinced that this seminar on “Future Strategies for the Curaçao International Financial Sector” will help us to identify and capitalize the opportunities to improve our competitive position globally. Sharing our experiences enables us to learn from each other as we strive to make our jurisdiction a more attractive international financial center. By working together, we can help bring about the reforms that are needed in our financial sector, reforms that will benefit all of us.

I am sure that this seminar will in the end produce helpful blueprints for action. I hope that you will find this seminar fruitful. Once again, I wish to thank the Curaçao International Financial Services Association for its initiative in hosting this seminar.