CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN
CENTRALE BANK
VOORHEEN DE CURAÇAOSCHE BANK
OPGERICHT 1828

# NEW STYLE OF SUPERVISION

Focused and Intrusive

## SCALE AND SCOPE SUPERVISION

The *Centrale Bank van Curaçao en Sint Maarten* (CBCS) supervises all financial institutions active in the financial sector in Curaçao and Sint Maarten. This not only includes credit institutions, insurance companies and pension funds, but also money transfer companies, trust service providers, asset managers, investment funds and the stock exchange. In addition, the CBCS also supervises insurance brokers and consumer lenders. As of the end of 2020, the CBCS had 442 institutions under its supervision.

| Type of institution | total # |
| --- | --- |
| Credit institutions | 60 |
| Lenders | 35 |
| Money transfer companies | 5 |
| Insurance companies | 50 |
| Insurance brokers | 59 |
| Pension funds | 12 |
| Trust service providers | 83 |
| Exempted trust service providers | 97 |
| Asset managers | 10 |
| Securities brokers | 6 |
| Investment funds | 13 |
| Administrators investment funds | 11 |
| Stock exchanges | 1 |
| **Total** | **442** |

The supervision is aimed at promoting financial soundness and the proper handling of customers. The CBCS also ensures that institutions comply with their obligations related to the prevention of money laundering and terrorist financing through the financial sector in the countries concerned.

The CBCS has conducted a review of the way its supervision is organized and, as a result, will be implementing changes in the coming years.

## FOCUSED AND INTRUSIVE

The main adjustments are aimed at producing a more focused and intrusive style of supervision - "focused" in the sense that it should quickly lead to identifying the main issues or shortcomings at the institution(s) affected, allowing the CBCS to take targeted action before any actual harm ensues, and "intrusive" in the sense that we will be prompt and decisive in our interventions, and will continue to press for improvements until they are implemented. Intrusive also means that the CBCS will take increasingly severe supervisory action when institutions take too long to correct matters. However, in doing so, we will act consistently, paying special care to convey our expectations with clarity through consultations, practical guidance and policy statements. As a result, we will be more predictable in our actions and open to feedback as a learning organization.

The aim of these changes is to bring deficient institutions back into compliance as quickly as possible, minimizing any negative impact on individual customers and society as a whole.

## PROPORTIONATE SUPERVISION

Our supervision will be *proportionate*, meaning that we will take into account the supervised institutions' nature, size and complexity. We are aware that, especially in smaller institutions, internal governance and risk management are often still a work in process and that expertise is scarce on the island. That is why, in addition to using formal reports and signals, and investigations by third parties such as the external auditor, we do much investigations on our own into the supervision of such institutions. Our ambition is to raise the institutions' governance and risk management to a higher level, so that these may be increasingly relied upon for supervision purposes. Nevertheless, we are aware that this will be a long-term process.

## FOCUS ON SIGNIFICANT INSTITUTIONS

The level of supervision applied varies in intensity from one institution to another. The more significant an institution is to society, the more intensively it is supervised. The reason for this is that when a highly significant institution suffers harm, the negative impact on society is higher compared to other institutions. The indicators we use in determining an institution's significance include its size, market share and number of customers, the products it offers and its relevance to the local financial infrastructure. With highly significant institutions, there is also the risk of their being too big to fail. The negative social impact that would ensue if such an institution were to fail would be such as to warrant all efforts to prevent it from happening. That is why we continuously monitor such institutions, keeping track of their current risks. Less significant institutions are subject to progressively less intensive supervision, albeit still sufficient for the CBCS to determine compliance with regulatory requirements.

## RISKIER INSTITUTIONS PRIORITIZED

We will also be focusing more on riskier institutions. This is because such entities are at an increased risk of harm, issues and legal shortcomings. All risks that could have a material impact on the institution's operations are included. In addition to identifying the various risks to which an institution is exposed, we also want to establish the extent to which the institution itself is sufficiently aware of and manages these risks, taking appropriate measures to cover them so as to prevent harm. With this in mind, we need to monitor the institution's risk profile on an ongoing basis.

## RISK-BASED SUPERVISION

Our internal processes have been redesigned with that in mind. While in the past, they used to be more reactive, focusing on compliance and identified shortcomings, they are now more proactive and risk based.

The internal processes involved are data collection, risk identification, risk assessment, risk mitigation, and intervention and enforcement.

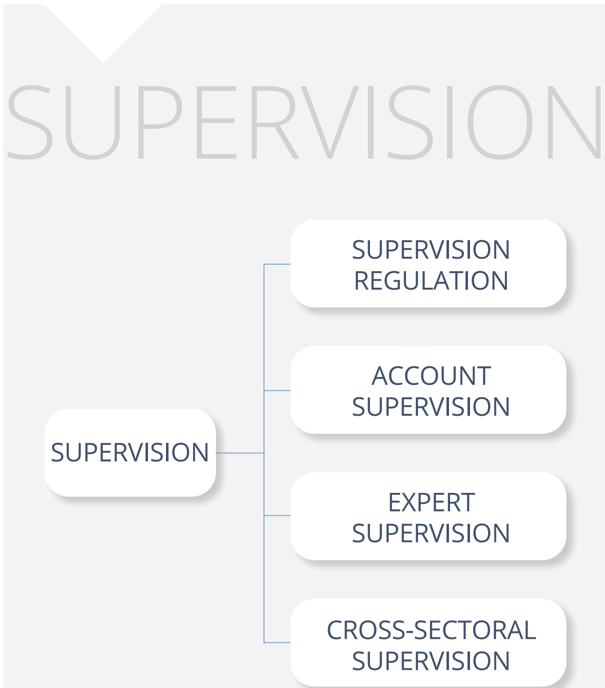
RISK BASED SUPERVISION

Data collection includes the collection of data, facts, and specifics about an institution's condition. We use this information to determine the nature and extent of the risks being faced by the institution and to assess whether the institution itself has taken appropriate measures to manage those risks. If, in our view, the measures taken are unsatisfactory, we will initiate a risk-mitigation process, urging the institution to take measures to reduce its risks or improve its management of the risks in question. If the institution does not comply (in good time), we will move on to formal intervention and enforcement, applying our supervisory instruments to persuade it to take corrective action, for instance, by instructing it to cease certain activities or take certain measures.

Our aim is to intervene before actual problems and/or harm occur. Risk identification at the institutional level is performed by experts in one or more of the risk areas. This allows for the Supervision organization as a whole to pick up and act on signals faster. Interventions are systematic and centrally coordinated, enabling us to shift priorities faster and allocate resources where they are needed most. However, to accomplish this, the CBCS must understand the existing risks in the entire financial sector under its supervision and be able to make decisions based thereon. This requires a consistent approach and a common language for all areas of the financial sector. Quick response-times require that decision-making lines be kept short. To this end, our work is done mostly on a project-by-project basis.

## ORGANIZATIONAL RESTRUCTURING

To facilitate this, the New Style of Supervision is structured as follows. First, there is the Supervision Regulation Sector, which serves as an important pillar for the continuous development and improvement of our supervision practices. Next, there is Account Supervision, which focuses on relationship management with individual institutions and on individual interventions. Then there is Expert Supervision, with experts who work at identifying and analyzing risks and shortcomings at the supervised institutions. Lastly, there is Cross-Sectoral Supervision, which handles the aspects of supervision that are similar across all institutions regardless of their type, thereby promoting consistency in supervisory activities common to multiple institution types.




*At its core, the New Style of Supervision focuses on the timely identification of risks at supervised institutions, thus allowing for action to be taken when necessary.*

## DATA QUALITY IS KEY

This adjusted supervisory approach incorporates a variety of methods and techniques. To identify risks and possible shortcomings, the CBCS uses supervisory reports, questionnaires, external auditor reports and opinions, supervisory and assessment interview outcomes, its own on-site investigations and investigations conducted by third parties on its behalf, among other things. While these methods will continue to be used under the New Style of Supervision, wherever possible, the CBCS will be making increased use of the institution's own management and control information, as that will allow for a more efficient process of supervision. A precondition for this is the availability of quality data. The focus in risk based supervision on the measures taken by the institution on an ongoing basis to identify, monitor and control its risks will inevitably lead to improvements in data quality, considering that the institution will be using that same data as part of its own operations for its sound decision making. Many institutions still have room for improvement in this regard. We therefore distinguish between institutions that have their operations and risk management in order and those where that is not yet fully the case. With the former, we rely more heavily on the institution's own management information and with the latter, mostly on data collected by the CBCS itself and information obtained from third parties.

## A FOCUS ON RISK IDENTIFICATION

At its core, the New Style of Supervision focuses on the timely identification of risks at supervised institutions, thus allowing for action to be taken when necessary. Doing this well requires in-depth knowledge and experience of the risks affecting the individual institutions. The experts involved are clustered within the Expert Supervision Sector and organized into different teams, each focusing on a specific risk area. These areas are separated into financial and non-financial risks, and the non-financial risks are in turn subdivided into risks managed through *soft vs. hard controls*[1]. Collectively, the experts possess an in-depth understanding of the risks that may arise at a supervised institution. In principle, these experts are deployed in all parts of the financial sector, which, in view of the limited local availability of specialized expertise, contributes to a more efficient use of resources.

To identify risks, the Expert Supervision Sector conducts a variety of risk-identification investigations. These are mainly carried out at multiple institutions in connection with a specific risk area or issue, such as investment risk management. An investigation may also target one specific issue present at one institution,

[1] Soft controls are aimed at changing the behavior of those who work within an organization, so as to run parallel to the organization's interests. With hard controls, the behavioral change is effected through mandatory rules imposed by the organization.

with a view to obtaining more clarity on the issue or for other fact-finding purposes. Also, comprehensive investigations are conducted at single institutions to analyze the risks of its organization as a whole. These investigations are more commonly conducted at institutions that are smaller in size and less significant.

In addition to investigations, the Expert Supervision Sector performs ongoing analyses applying various methods and techniques. These analyses include signal reports, self-assessments and peer-group analyses, stress tests and early warning systems. For example, Expert Supervision uses periodic supervisory reports to conduct standard peer-group analyses and convey signals to Account Supervision if developments at an institution deviate negatively from those at its peers. These types of analyses, together with the results of investigations and surveys, provide risk scores for individual risk areas, which are used by the Account Supervision Sector to update the institution's risk profile and initiate intervention when necessary.

## TIMELY INTERVENTION

The Account Supervision Sector has two main purposes: On the one hand, it serves as the point of contact with the supervised institution and, on the other hand, it adequately monitors the institutions' risk profiles and initiates supervisory measures when a supervised institution faces any significant risk. The Account Supervision Sector must therefore be well acquainted with the institution, its business and the sector in which it operates, while also having a broad interest in and knowledge of the risks that financial institutions in specific sectors may face. While the know-how present in this Sector is less in-depth than that of the Expert Supervision Sector, it is sufficient for this Sector to resolve first-line questions and seek targeted advice from Expert Supervision, which in turn can conduct more in-depth investigations.

The Account Supervision Sector is organized according to portfolios of supervised institutions. Similar institutions with similar business models and risk profiles are clustered together as much as possible, and institutions within the same group and sector are assigned to the same supervisory team's portfolio. If a group operates in multiple sectors, the account supervisor that supervises the most significant part of the group will act as lead supervisor, define the risk profile for the group as a whole and take the lead in relationship management at the group level. In Account Supervision the most resources are allocated in relative terms for the most significant institutions. Moreover, the focus there is on intervention and enforcement at the institutions which, according to their updated risk profile, have the highest risk scores.

## COLLABORATION ESSENTIAL

Within the supervisory process, the Expert Supervision Sector handles risk identification while the Account Supervision Sector handles risk assessment and mitigation. A risk-identification investigation by the Expert Supervision Sector can be initiated based on signals received from Account Supervision. However, Expert Supervision can also recommend such an investigation on its own initiative. After all, experts are responsible to know the risks present at the supervised institutions and to assign these institutions a risk score based on facts and findings obtained from investigations, reports, etc. Account Supervision uses these scores to update the institutions' risk profiles. Account Supervision supplements the input it receives from the Expert Supervision Sector with its own observations, to then assess the risks in context and initiate intervention measures, as necessary. Given that the responsibility for risk identification lies with the experts, Account Supervision does not usually need to participate from start to finish in an investigation being conducted by the Expert Supervision Sector, but only during the intake and the starting phase, and again at the end during the reporting phase. In turn, the experts do not need to participate in Account Supervision's interventions on an ongoing basis, but only at set times, such as when an institution's correction plan is being assessed.

## COLLABORATION SUPERVISION AND RESOLUTION

Supervision aims to ensure that an institution operates within the requirements of the law. Any temporary failure in this regard will result in an intervention by the CBCS to ensure that the institution returns to compliance and can continue pursuing its business. Depending upon the severity and complexity of problems that arise, specific expertise from Resolution might be utilized. In as far necessary, Resolution could also become in charge, for instance in case an institution is being placed under emergency regulation.

## POLICY IN A LEARNING ORGANIZATION

The *Supervision Regulation Sector* is responsible for legislative and policy-related tasks. Since more focus will be laid upon risk-based supervision in the coming years and this department is the one responsible for drafting the necessary legislation and regulations, this Sector will be pivotal in bringing about the New Style of Supervision. Because *Supervision Regulation* operates within the Supervision organization, day-to-day supervision problems, and experiences gained from supervisory practice, reach the policy staff more easily. This is key to be able to operate as a learning organization. Within Supervision, we can thus quickly share knowledge on what does and does not work in practice, and Supervision Regulation can incorporate this shared knowledge in its own policy work.

*The Supervision Regulation Sector is responsible for legislative and policy-related tasks.*

## CROSS-SECTORAL SUPERVISION PROMOTES CONSISTENCY

The *Cross-Sectoral Supervision Sector* focuses on the supervisory activities that, in principle, are conducted in a similar manner, independently of the supervised institution's sector. Cross-Sectoral Supervision thus plays an important role in promoting consistency of supervision across sectors. One such supervisory activity is the licensing process, including the handling of dispensation requests. When a new national ordinance brings a new group of institutions or individuals under the Bank's supervision, Cross-Sectoral Supervision coordinates the licensing process. In doing so, this Sector works closely with the Account Supervision Sector, which contributes the sector-specific expertise and afterwards handles the ongoing supervision of the new institution. Specifically, this could involve payment institutions, electronic money institutions and cryptocurrency issuers, for which the corresponding national ordinances are currently in their final stages. Other examples include overseeing the voluntary revocation of licenses, conducting fit-and-proper tests for policymakers, co-policymakers and shareholders, exercising the right to object with respect to auditors, and advising on supervisory measures taken by Account Supervision when a formal intervention in ongoing supervision is warranted. The measures could include an instruction, a fine or penalty, or a supervisory measure.

## AN AGILE REGULATOR

The organizational chart is shown below. In the chosen structure, new risk areas and new institutions can be added with ease. There are four sectors in total, each headed by a Sector Manager. The Account Supervision and Expert Supervision Sectors consist of three departments each. The Deputy Director Supervision heads the Supervision organization as a whole. The chart also shows the various focus areas for each sector and department.

# ORGANIZATIONAL CHART