CENTRALE BANK
CURAÇAO & SINT MAARTEN

2025

FINANCIAL STABILITY REPORT

Safeguarding stability amid global uncertainty

Financial Stability Report

Spring Edition 2025

The CBCS publishes the Financial Stability Report for the monetary union of Curaçao and Sint Maarten, which provides an overview of recent macro-financial developments and risks, the performance of the three main financial sectors—local banking, insurance, and pension funds—and policies, projects, and reforms aimed at enhancing financial stability. Safeguarding and promoting financial stability is an integral part of the CBCS's mandate.

Financial Stability Report | May 2025 | Financial Stability Division

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Preface

One of the core responsibilities of the *Centrale Bank van Curaçao en Sint Maarten* (CBCS) is to promote financial stability in the monetary union of Curaçao and Sint Maarten. Financial stability is defined as a condition in which the financial system is well-functioning and supportive of the economy, while resilient enough to absorb and recover from financial shocks.

The CBCS exercises its financial stability responsibility by identifying, monitoring, and communicating about risks that affect the financial system. The CBCS also advises and decides on actions needed to reduce risks to overall systemic stability. The assessment of risks is conducted on a regular basis by the CBCS's Financial Stability Division (FSD). The FSD uses data obtained from reporting by financial institutions in the monetary union, and from consultations and engagements with financial institutions and other relevant stakeholders.

The FSD aims to identify and address the main threats as early as possible, by:

i. Maintaining an Early Warning Monitoring System.
ii. Conducting macroprudential oversight such as stress tests and interconnectedness and contagion analysis.
iii. Developing, introducing, and advising on macroprudential policy instruments and coordinating risk-mitigation measures to reduce vulnerabilities and imbalances in the financial system.
iv. Enhancing preparedness of the CBCS in the face of possible financial crises.
v. Providing solicited and unsolicited advice on financial stability issues to the governments of Curaçao and Sint Maarten.
vi. Conducting and publishing (scientific) research.

The primary channel for communicating the findings of the CBCS on financial stability risks is our annual publication of the Financial Stability Report (FSR) for the monetary union of Curaçao and Sint Maarten. The FSR presents an overview of recent macro-financial developments and risks, the performance of the three main financial sectors—local banking, insurance, and pension funds—and policies, projects, and reforms aimed at enhancing financial stability.

In the current report, the analysis of local banks covers the year 2024, while the analysis of insurance institutions and pension funds pertains to the year 2023. According to current legislation, insurance institutions and pension funds must submit their data within six months after the end of the reporting year. As a result, most of the data are received after the CBCS has published the FSR. However, where possible, the analyses of insurance institutions and pension funds were supported by 2024 survey data. In the Outlook Chapter of the report, expectations for the year 2025 are provided for the financial sector. The most important index we use for our financial stability analysis is the Aggregate Financial Stability Index (AFSI). The AFSI is a composite index measuring financial stability by combining domestic and global macro-financial indicators and indicators pertaining to the local banking sector[1].

1 See Ooft and Thijn-Baank (March 2024), for the methodology used to construct this index.

Foreword

Starting in the first quarter of 2025, the world has experienced a remarkable shift in geopolitics and trade leading to historically high levels of uncertainty. We have entered a period of global economic realignment, driven largely by the Trump administration's trade policies, which sparked a reset in international arrangements across nations. The operating environment for corporations is no longer purely economic, as traditional trade negotiations and reliable supply chains are being eroded. Geopolitical intelligence has emerged as perhaps the primary factor influencing corporate and investment strategies.

Curaçao and Sint Maarten are poised to face upcoming challenges and potential ripple effects, including reduced disposable income, weakened domestic demand, and slower economic growth. Disruptions to global supply chains, rising inflation, financial market volatility, and the risk of a recession in our main trading partners are certain to affect our small, open economies. These effects could materialize in the course of 2025 and are likely to negatively impact US tourism to both Curaçao and Sint Maarten and increase import prices and inflation.

The financial sector delivered a solid performance in 2024 and the outlook remains cautiously positive in response to the evolving global context. Capital buffers have increased and economic growth in Curaçao and Sint Maarten is expected to remain positive—albeit lower than anticipated at the beginning of the year when the US economy was expected to continue its soft landing.

Financial institutions are encouraged to closely monitor geopolitical risks and build up resilience. Banks should consider adjusting capital buffers and closely monitoring credit and market risks. Institutional investors should actively manage their investment portfolio and re-evaluate their strategy to manage market risk. Higher geopolitical and trade tensions might hurt stock market valuations and rising borrowing costs might trigger further pressure on US bond valuations.

In these times of extreme global uncertainty, financial institutions in Curaçao and Sint Maarten should look for ways to increase their resilience. Climate and cyber risks also demand continued vigilance from the sector. This Financial Stability Report is an effort to assist institutions in managing these and other risks by identifying possible channels of impact and quantifying exposures and stress scenarios. As we navigate this period of heightened uncertainty, it is essential for financial institutions in Curaçao and Sint Maarten to remain proactive and forward-thinking to ensure long-term stability and resilience in an increasingly complex global landscape.

Richard Doornbosch
President

Executive Summary

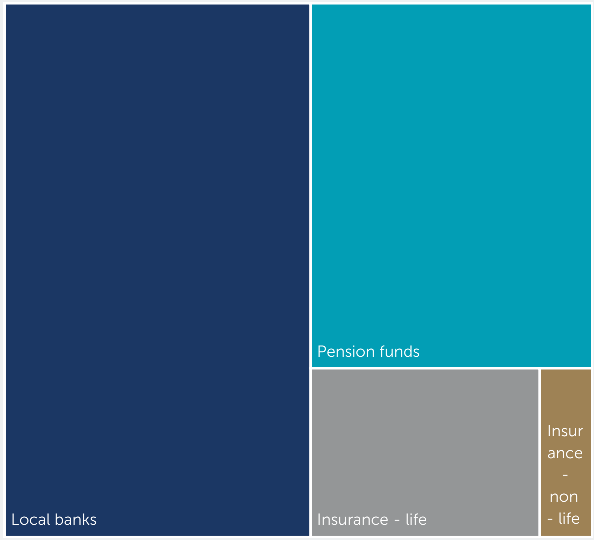
The Financial Stability Report (FSR) for the monetary union of Curaçao and Sint Maarten (from here on "the monetary union") presents an overview of recent macro-financial developments and risks, the performance of the financial sectors, and policies related to financial stability. Promoting financial stability is an integral part of the mandate of the CBCS.

Financial sector overview

The FSR covers 47[2] local financial institutions: banks, insurance institutions, and pension funds, which constitute the three most substantial sub-sectors of the monetary union's financial sector in terms of their impact on financial stability (figure I). The local banking sector holds the largest share of assets, followed by pension funds and insurance institutions (figure II). As of December 2024, the total assets of these financial institutions were estimated at Cg 28.1 billion, or 300.6 percent of the monetary union's gross domestic product (GDP).

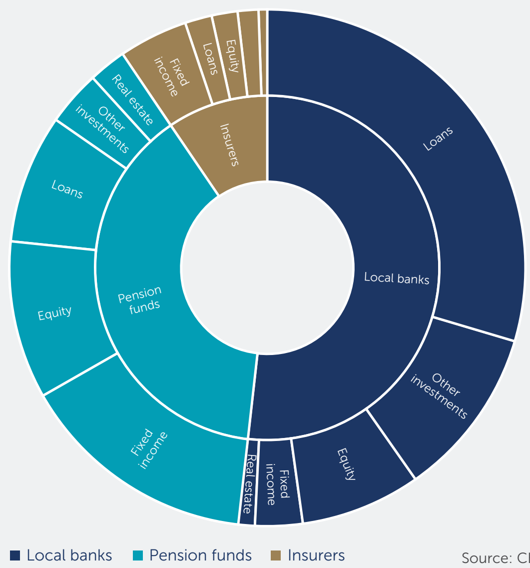
The financial sector remained on a solid standing during 2024, in spite of increasing geopolitical unrest and the rising prospect of economic turbulence in the main trading partners of Curaçao and Sint Maarten. In line with GDP growth, the total assets of the local financial sector are estimated to have increased by 2.4 percent in 2024, driven by tourism-fueled activity in real estate, construction, and hospitality alongside strong financial market performance.

Figure I:
Total Assets



Source: CBCS.

Figure II:
Financial Institutions' Assets



Source: CBCS.

2 Compared to the FSR 2024, the number of institutions covered decreased by one, as a local bank ceased operations in 2024. The scope of the CBCS's financial stability oversight is currently under review.

The Aggregate Financial Stability Index (AFSI), which underpins the solidity of the financial system, showed further improvement across several indicators during 2024. Principally, the macroeconomic environment showed notable improvement throughout the previous year, keeping the AFSI well above the financial stability early warning benchmark.

Macro-financial risks

Geopolitical risk remained the principal financial stability risk in the monetary union during 2024. Increasing macroeconomic risks from abroad can potentially transmit to the financial sectors in Curaçao and Sint Maarten, either directly or indirectly, through several channels. Geopolitical risk can affect key tourism markets, whereby rising commodity prices and trade wars may impact domestic inflation and trade deficits. Ensuing pressures on construction and real estate development could induce credit risks for local financial institutions. Fixed-income assets delivered a strong year in 2024, particularly in short-duration exposures. Even though global inflation had cooled, investors remained concerned about its long-term persistence. Prospects of inflation triggered by US trade policies and a possible economic downturn in major economies highlight the need to keep sufficient safeguards in place.

Simultaneously, cyber risk is amplified by technological advances in Artificial Intelligence (AI). Continued threats of cyber attacks, paired with the ongoing need for specific expertise to mitigate and address cyber risk, challenge the resilience of the financial sector in the monetary union.

Climate change continues to pose long-term and hard-to-predict risk to financial stability. Financial institutions in the monetary union report climate risk awareness while most hire external expertise to address climate risk. Across the financial sectors, significant data gaps remain to be addressed. The CBCS intensified its collaboration with regional and international partnerships to include climate risk in the supervisory framework.

Local banks

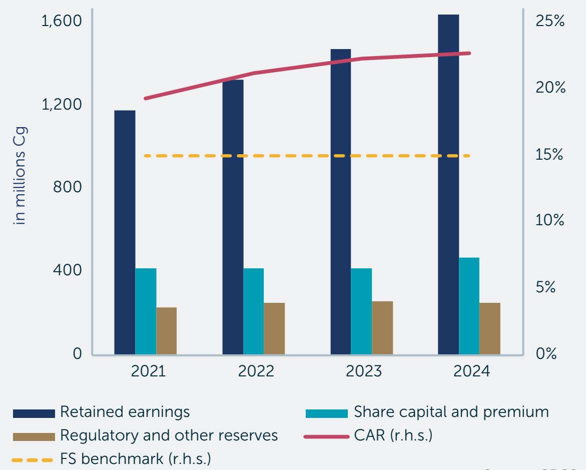
Exposure to risks in capital adequacy, asset quality, liquidity, and market sensitivity remained stable, while risk exposure related to earnings and profitability decreased. In 2024, total assets of the local banks grew to Cg 14.6 billion, which is equivalent to 156.4 percent of the monetary union's GDP. The sector's capital adequacy ratio (CAR) further improved in 2024, rising from 22.3 percent to 22.7 percent, with all banks maintaining a CAR above the supervisory requirement of 10.5 percent. The retained earnings are the main contributor to the rise in the CAR (figure III). Asset quality in the banking sector improved, with nonperforming loans (NPLs) declining by 8.8 percent in 2024. This drop in NPLs was driven by loans being transferred abroad, written off, paid off, auctioned off, or restructured. Economic growth in 2024 may have helped improve debtor payment behavior. Nonetheless, credit risk remains a concern, as the largest portion of total NPLs still consists of loans overdue for more than 180 days.

Banks' profitability and liquidity strengthened in 2024. Return on Assets (ROA) reached 2.0 percent. The rise in net income was mostly due to higher fees and commissions income, investment returns from security holdings at the group level, and net interest income, along with reduced operational expenses and lower loan loss provisions. The improvement in liquid assets was supported by an increase in qualifying time deposits and government bonds. Banks also increased the interest rates on deposits to attract funding to expand lending.

The banking sector experienced negative credit growth in 2024 (-3.0 percent) compared to previous years, with commercial loans declining by 7.3 percent due to one bank ceasing its operations that year (table I). However, excluding this bank from the analysis, total outstanding loans increased by 2.8 percent for the banking sector, with commercial loans growing by only 0.8 percent and household loans by 6.3 percent (table IA). Loan growth in the monetary union was primarily driven by increased lending in Curaçao, mostly through household and commercial mortgages. However, this growth lagged behind GDP growth in 2024. The increase in household mortgages was attributed to higher demand and rising real estate prices, with non-residents paying above market asking prices. In contrast, the banking sector in Sint Maarten was primarily impacted by slower growth in commercial loans.

“Although asset quality improved, credit risk remains a concern, as the largest portion of total NPLs still consists of loans overdue for more than 180 days.”

Figure III:
Contributors of Capital



Source: CBCS.

Table I: Local Banks Lending Monetary Union

	2022	2023	2024
Total credit growth	3.2%	3.5%	-3.0%
Commercial credit growth	4.7%	4.0%	-7.3%
Household credit growth	1.7%	3.0%	3.0%

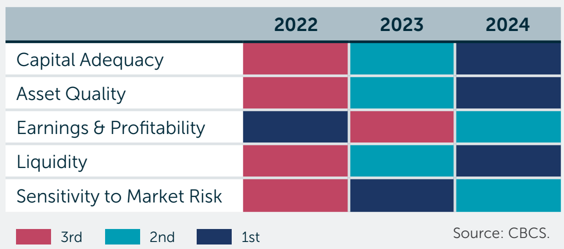
Source: CBCS.

Table IA: Local Banks Lending Monetary Union

	2022	2023	2024
Total credit growth	3.5%	3.7%	2.8%
Commercial credit growth	5.2%	4.5%	0.8%
Household credit growth	1.8%	3.1%	6.3%

Note: The data exclude a bank that ceased operations in 2024. Source: CBCS.

Figure IV:
Heatmap Local Banks



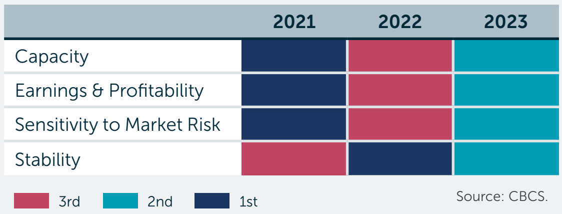
Source: CBCS.

Note: The colors indicate the relative performance of indicators over the past three years.

Insurance Institutions

After a challenging year in 2022 due to the negative performance of financial markets, the life insurance sector made a significant recovery in 2023[3]. The aggregate balance sheet for both life and non-life insurers amounted to 49 percent of the monetary union's GDP. Profitability improved for both life and non-life insurers in 2023, while preliminary data suggest a continued upward trend in 2024, supported by strong investment performance. At the same time, solvency improved for life insurers while slightly decreasing for non-life insurers. Nonetheless, preliminary solvency data show a rising trend for both sectors in 2024.

Figure V:
Heatmap Life Insurance Institutions

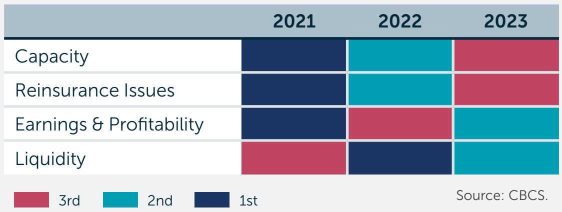


Source: CBCS.

Note: The colors indicate the relative performance of indicators over the past three years.

Life insurers are strongly dependent on the performance of global financial markets. In 2023, life insurers increased their exposure to mortgage loans (up 16 percent), bonds and fixed-income securities (up 8 percent), and equities (up 23 percent), reflecting improved financial market conditions and a strategic reallocation amid limited local investment alternatives.

Figure VI:
Heatmap Non-Life Insurance Institutions



Source: CBCS.

Note: The colors indicate the relative performance of indicators over the past three years.

Non-life insurers continued to face rising reinsurance fees and tighter conditions, pressuring their retention rate. In 2023, non-life insurers ceded 43.3 percent of gross written premium (GWP) as reinsurance capacity in the Caribbean region, including the monetary union, declined due to climate risks. Inflation-driven claims, especially in the motor and property categories, pushed the combined ratio up to 89.6 percent. A 22.3 percent decrease in GWP further reduced the penetration rate and strained underwriting profitability. Despite these challenges, solvency remained strong.

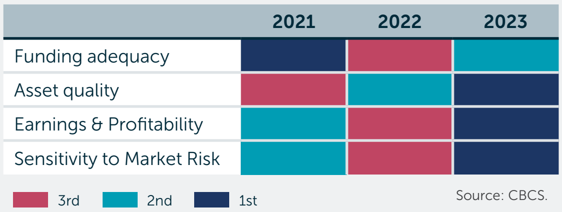
3 The insurance sector assessment is based on 2023 data. According to current legislation, insurance institutions must submit their data within six months after the end of the reporting year. As a result, most of the data are received after the CBCS has published the FSR. However, where possible, the analyses of insurance institutions were supported by 2024 survey data.

Pension funds

The monetary union's pension fund sector experienced a solid 2023[4]. This sector's total assets amounted to 106 percent of the monetary union's GDP. The sector's aggregate funding ratio increased to 107 percent in 2023, due to significant investment gains in global financial markets. Preliminary figures for 2024 signal a further increase in the funding ratio. Exposure to risks in market sensitivity, funding adequacy, and earnings and profitability all improved compared to 2022, while risk exposure regarding asset quality stayed constant.

The pension fund sector is vulnerable to increased market volatility and asset price corrections, particularly in the US financial markets due to its large holdings of equities and bonds in this region. Pension funds sought stability amid market uncertainty by increasing their bond holdings and lowering their share in equity (the so-called "flight to quality" phenomenon). The declining maturity degree, measured by the ratio of contributors to pension funds compared to non-contributors, creates an increasing reliance on investment income to sustain benefit payments and requires a low-risk investment strategy to ensure that pension funds can effectively meet their obligations. In addition, the aging population continues to pose several challenges for the pension fund sector. Moreover, adequate valuation assumptions are crucial to ensure that pension funds can meet their long-term obligations and limit longevity risk.

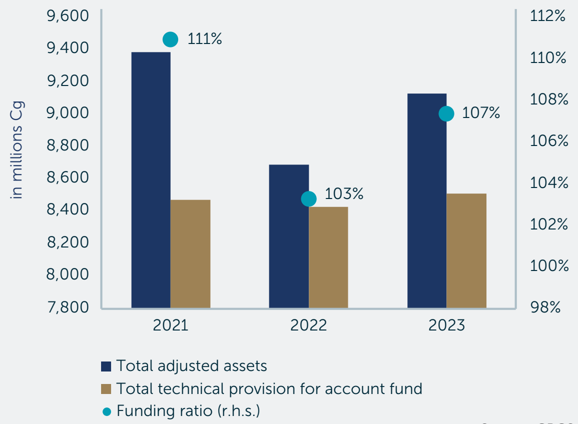
Figure VII:
Heatmap Pension Funds



Source: CBCS.

Note: The colors indicate the relative performance of indicators over the past three years.

Figure VIII:
Funding Ratio Pension Funds



Source: CBCS.

4 The pension fund sector assessment is based on 2023 data. According to current legislation, pension funds must submit their data within six months after the end of the reporting year. As a result, most of the data are received after the CBCS has published the FSR. However, where possible, the analyses of pension funds were supported by 2024 survey data.

Promoting a resilient financial system

Safeguarding stability of the financial system in the monetary union is a core statutory responsibility of the CBCS. The macroprudential framework, consisting of policies, preventive and forward-looking instruments, and measures, is directed at enhancing the resilience of financial institutions and mitigating risk. The FSD monitors and analyzes the system to identify imbalances, vulnerabilities, and threats as early as possible, advising on appropriate policy actions when necessary.

The Early Warning Monitoring System (EWMS) is an essential component of the financial stability toolkit to analyze and identify risks early and enable system-wide supervision. The EWMS is improved continuously, leveraging innovative technology and data science. In 2024, the FSD in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC) developed a new stress testing tool aimed at evaluating bank solvency under various macroeconomic scenarios. At the same time, web-scraping tools enabled us to acquire data on real estate developments, offering insights into the housing sentiment in the monetary union. For the banking sector, the FSD is assessing macroprudential instruments such as a releasable capital buffer.

The FSD made progress on several research and strategic initiatives to further advance financial stability in the monetary union. The FSD published several notes and fact sheets addressing key topics. In addition, the Financial Sector Strategic Review (FSSR) research project was launched in October 2024. This project aims to contribute to a future-proof financial sector, bringing continuity to financial services while supporting the real economies of Curaçao and Sint Maarten. Furthermore, the FSD contributed to the CBCS's crisis management framework by advancing on the Deposit Guarantee Scheme (DGS) legislation for Curaçao and Sint Maarten and preparing a technical assistance mission conducted by the IMF. This mission is focused on advising on the establishment of a Financial Stability Committee (FSC) to enable consultation and coordination between the CBCS and the governments of the monetary union. The goal is to identify and discuss systemic risks and to agree on policies and actions to mitigate those risks.

Looking ahead

Throughout the current geopolitical and global trade uncertainty, which poses major risks to the financial stability outlook, the CBCS remains cautiously optimistic as to the outlook for local banks. Even though capital buffers and liquidity are solid, and profitability and asset quality are improving, banks should continue to monitor credit risk and profitability in light of increased loan loss provisions and reduced credit demand.

The outlook for the life and the non-life insurers in 2025 is stable, in the face of fluctuating interest rates, stock market dynamics, and global trade developments. Life insurers' solvency and profitability recovered well in 2023 and this trend is expected to continue in 2024. Non-life insurers also performed well, though global trends in reinsurance risk require continuous vigilance.

The outlook for the pension fund sector remains stable as a result of the sector's ongoing efforts to manage risks effectively. Increased global market turbulence in the global financial markets presents a significant risk to investments. However, pension funds in the monetary union remain resilient due to continued adaptation of strategies and operations amid rising geopolitical, demographic, and technological risks.

CHAPTER 1

1 Risk Assessment

Global developments impacting financial stability

With mounting political and economic insecurity amplified by global trade tensions, geopolitical risk intensified as the most significant threat to the global economic landscape[5]. While Russia's war in Ukraine and the armed conflict in the Middle East rage on into 2025, governments worldwide increasingly expressed concern about the destabilizing effects for logistics, cybersecurity, trade, energy, and financial markets. The risk of a United States (US)-China trade war materialized early in 2025. The introduction of broad trade tariffs by the second Trump administration is foreseen to induce severe disruption in international trade. The Trump administration's irregular and frequent changes in trade policies drove levels of uncertainty that resembled the Covid-19 crisis, amplifying volatility in financial markets and threatening to undercut global economic growth.

Geopolitical risk and global trade uncertainty pose major risks to the financial stability outlook. As a possible result of the US tariffs, the CBCS expects rising inflation and a slowdown in economic growth for Curaçao and Sint Maarten. The prospect of a recession in the main trading partners may impact especially the tourism sector, a key economic pillar for the financial sector.

5 WEF, 2025.

Other major international developments that increasingly threaten financial stability in the monetary union are cyber risk and climate risk. While resources and expertise to protect their operations remain constrained, financial institutions in the Caribbean region increasingly come under attack from cybercriminals going into 2025[6]. Aside from the risk of cyberattacks remaining acute, climate risk concerns increased early in 2025 as climate models predict an active hurricane season for 2025. Therefore, climate risk endures as a top risk to financial stability for the monetary union in 2025[7].

6 Sookram, 2025.

7 Colorado State University, 2025.

Summary of main risks

Geopolitical risk remains at the top of the risk agenda

Escalating geopolitical risk affecting the main trading partners of Curaçao and Sint Maarten remains the principal financial stability risk in 2025 and 2026. Expected aggravated tensions and trade conflicts could raise inflationary pressures and hamper tourism flows, potentially slowing economic growth, reducing revenue streams, and inhibiting spending power. Tourism continued to grow as a major industry for Curaçao in 2024. While other sources of income linger, the dominance of tourism consolidated Curaçao and Sint Maarten's exposure to a highly volatile international environment.

Global financial market volatility increased amid rising trade tensions

Sustained growth, a stable labor market, and consistent interest rate cuts by the US Federal Reserve initially prompted optimism about a soft landing of the US economy. Going into 2025, the positive trend reversed as trade wars and rapid US policy shifts are inducing new financial market volatility. These developments amplify market risks for domestic institutional investors.

Cyber risk continues to exacerbate most financial institutions' risk concerns

Cyber risk remains high to financial system stability around the world. Globally, financial institutions are among the top three of attacked sectors. The ongoing digital transformation within the financial sector has created both opportunities and challenges for financial institutions operating in Curaçao and Sint Maarten. In particular, the increasing reliance on third-party providers, cloud services, and emerging technologies such as Artificial Intelligence (AI) has heightened the sector's exposure to a wide array of cyber threats.

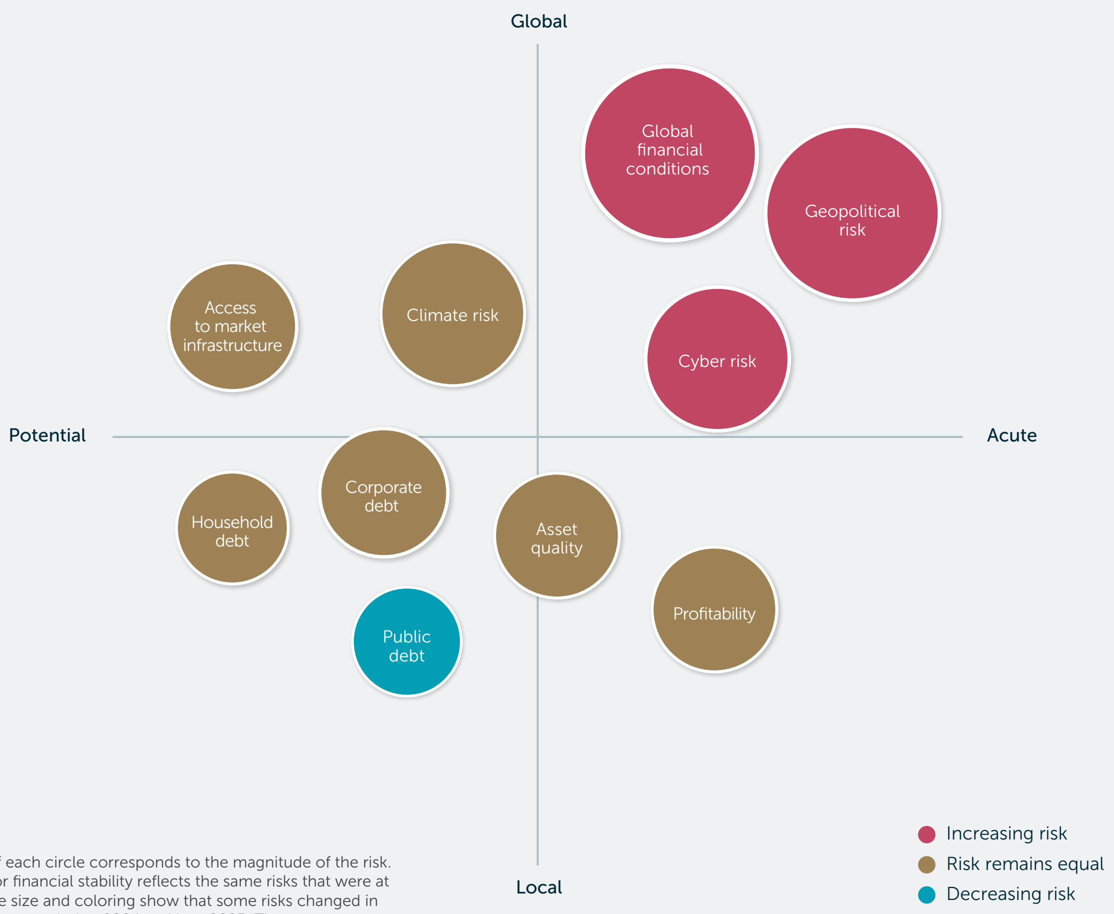
Climate risk remains significant while local awareness improves

Extreme weather events and critical changes to climate systems continue to pose long-term risk to financial stability. Financial institutions in the monetary union are reportedly aware of the impact of climate risk on the stability of the financial system. The CBCS collaborates with national, regional, and international partners to include climate risk in the supervisory framework, looking at reporting mechanisms and climate stress tests.

Access to key market infrastructure remains a challenge

Data on de-risking by correspondent banks indicate a stabilization during the past two years. However, rising reinsurance premiums and tightening of reinsurance conditions in regions such as the Caribbean—which are disproportionately impacted by physical climate risk—continue to exacerbate vulnerabilities within the local non-life insurance market.

Figure 1.1:
Financial Stability Risk Map for the Monetary Union



Note: The size of each circle corresponds to the magnitude of the risk. The risk matrix for financial stability reflects the same risks that were at play last year. The size and coloring show that some risks changed in intensity and acuteness during 2024 and into 2025. The most significant risks to financial stability are geopolitical risk and global financial conditions, followed by cyber risk. De-risking risk has been included into access to market infrastructure risk.

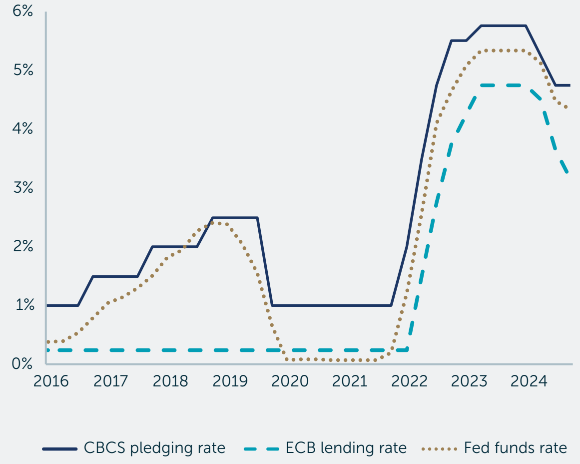
Source: CBCS.

Geopolitical risk remains pivotal

Geopolitical risk prevailed at the top of the risk agenda worldwide, as tensions and cross-border conflicts in Europe and the Middle East continued to escalate. The disruption in the Red Sea and Northern European shipping routes continued, threatening to reignite inflation tied to supply chains and commodities. Reignited inflation may have a dampening effect on economic growth in the large economies, signalling a higher global recession risk. Following the deglobalization trend seen in recent years, the 2024 presidential elections in the United States of America (USA) announced trade distorting measures such as tariffs, which contributed to market volatility and trade uncertainty. Trade wars between the largest economies, initiated by the USA, could exacerbate geopolitical tensions further[8], while economic gains worldwide come under pressure from rising prices and disrupted trade flows. These developments contribute to an exceedingly complex and dynamic geopolitical environment. On the positive side, central bank policy rates lowered, inflation stabilized, and monetary easing improved lending (figure 1.2).

"Geopolitical risk remains pivotal as foreign tensions, trade tariffs, and rising inflation amplify vulnerabilities for Curaçao and Sint Maarten."

Figure 1.2:
Policy Rates



Sources: CBCS, ECB, and FED.

The largely foreign risks are potentially transmitted to the financial sector in Curaçao and Sint Maarten, either directly or indirectly, through several channels. As the welfare of smaller and developing economies is seen as strongly tied to the largest advanced economies, the effects of heightened geopolitical risk elsewhere can exacerbate local vulnerabilities and affect the financial system in the monetary union[9]. Most notably tourism, having solidified its position as the number one economic sector for the financial system in 2024, can be negatively impacted by geopolitical risk in key source markets. Moreover, rising commodity prices and trade wars may severely impact domestic inflation.

Global trade uncertainty poses risks to financial stability. As of 2025, US tariff policies under the second Trump administration are contributing to growing global economic uncertainty[10]. The

8 WEF, 2025.

9 World Bank Group, 2025.
10 Financial Times, 2024.

introduction of new trade tariffs has disrupted international trade creating uncertainty and volatility in financial markets. This instability in global markets affects small, open economies like those in the monetary union, where tourism, trade, and investment rely heavily on external conditions. As global trade tensions rise, these developments could reduce investment, increase financial risks, and slow down economic growth in the region. While US inflation remains above the US Fed's 2-percent target, analysts predict a recession may start in the second or third quarter of 2025. If the US Fed decides to raise interest rates, this can lead to higher borrowing costs for foreign investors, possibly leading to reduced investment in the Caribbean. Global growth forecasts, particularly in emerging markets, were revised downward as well, making investors and policymakers more cautious.

For Curaçao and Sint Maarten's economies, the CBCS expects slower economic growth and rising inflation as possible consequences of the US tariffs. According to the CBCS's latest estimates, economic growth in the monetary union gathered pace in 2024. However, in a pessimistic scenario of a full-blown global trade war, estimated economic growth in 2025 could slow down from 3.2 to 2.6 percent in Curaçao, and from 2.6 to 1.8 percent in Sint Maarten.

Rising international prices can also adversely affect hospitality, construction activities, and real estate development, inducing credit risks for local financial institutions. As prices of imported goods rise, inflation could accelerate from 2.3 to 3.5 percent in Curaçao and from 2.1 to 3.1 percent for Sint Maarten, affecting consumers' purchasing power directly. As the Caribbean guilder of Curaçao and Sint Maarten is pegged to the US dollar at a fixed exchange rate, local interest rates typically follow the movements of the US monetary policy to safeguard currency stability and prevent capital outflow[11]. In periods of heightened global uncertainty, foreign investors can exercise caution, which can reduce investment flows into small, open economies, such as Curaçao and Sint Maarten. While the US dollar continues to serve as the principal global reserve currency, its long-standing dominance is increasingly being challenged by a combination of geopolitical developments, shifts in global trade patterns, and the gradual emergence of alternative financial systems[12]. Nevertheless, a stronger euro can potentially mitigate some of these negative effects by boosting EU tourism and investment in the region.

Global financial markets remain volatile amid rising trade tensions

In 2024, the USA continued to drive the global economic expansion, supported by robust growth and a relatively stable labor market[13]. The Standard & Poor's (S&P) 500 index increased by almost 24 percent, driven by investor confidence and optimism about a soft landing of the economy (figure 1.4). The US Fed, having kept rates at elevated levels for an extended period, cut rates by a total of 100 basis points by the last quarter of 2024. This reduction came in response to cooling inflation and stabilization in the labor market[14]. Other major central banks, including the European Central Bank (ECB), eased monetary policies as well to support stability. In October 2024, the ECB lowered its deposit facility rate to 3.25 percent to boost growth as inflation showed signs of easing. Meanwhile, the Bank of Japan raised its short-term rate at the beginning of 2025 to 0.5 percent, aiming for its

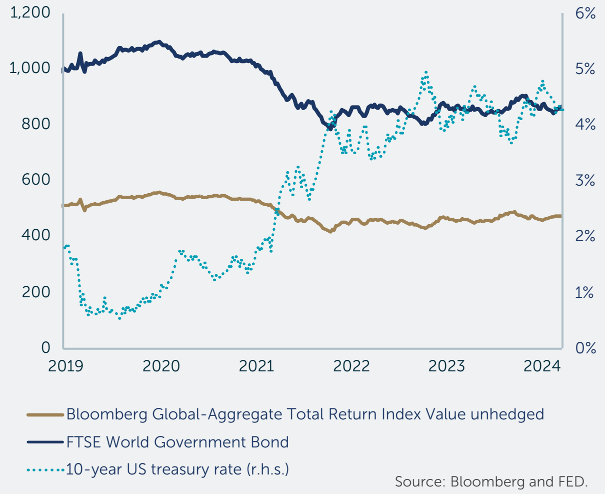
11 CBCS, April 2025.
12 Reuters, April 2025.
13 Forbes, March 2025.
14 J.P. Morgan, December 2024.

2 percent inflation target, remaining an outlier in policy[15].

The shift toward interest-rate cuts during 2024 had a noticeable effect on fixed-income markets. Fixed income assets delivered a strong year, particularly in short-duration exposures, which benefited from the policy shift. Short-term bonds saw increased demand as investors sought to capitalize on the decreasing rate environment. Long-term bonds struggled amid US fiscal deficit concerns and slower but persistent inflation, while the lack of a major economic slowdown added pressure. Even though global inflation had cooled, investors remained concerned about its long-term persistence. Amid fluctuating inflation expectations, geopolitical tensions, and increased uncertainty, investors turned to gold as a safer alternative to long-duration US bonds[16].

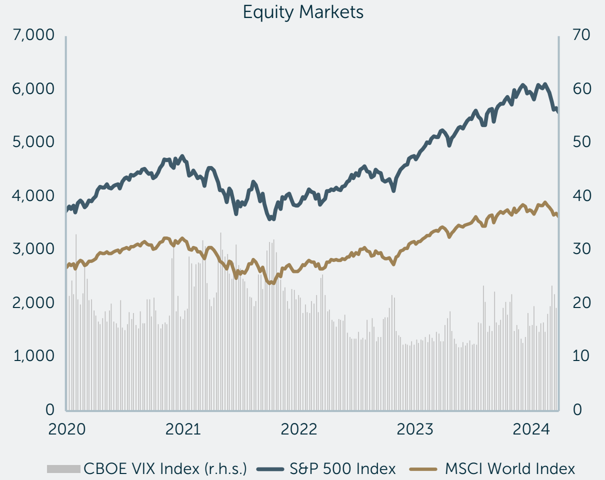
Looking ahead in 2025, rising uncertainty will affect trade and global markets, while subdued sentiment is emanating from escalating tariff exchanges between trading nations[17]. Global financial markets saw turbulence early in 2025, and the US-driven tariff war induced new financial stability risks. Shortly after the Trump administration took office in 2025, it intensified tariffs on multiple regions and goods, which caused turmoil in global financial and commodity markets. In response, Canada, China, and the EU imposed retaliatory tariffs. The tariff war causes downside risk for global trade. In response to the ongoing uncertainty, key indices such as S&P 500 and Nasdaq index plummeted, with multiple trillions of equity wiped out in April 2025. European and Asian markets also hit multi-month lows. Moreover,

Figure 1.3:
Bond Markets



Source: Bloomberg and FED.

Figure 1.4:
Equity Markets



Source: Bloomberg.

15 Reuters, January 2025.

16 Armstrong Fleming & Moore, December 2024.

17 Bloomberg Economics Global Trade Policy Uncertainty Index topped 10 on March 31st, 2025, exceeding the previous high of 9.48 set earlier this month. During Trump's previous term in office, the number peaked at 4.58.

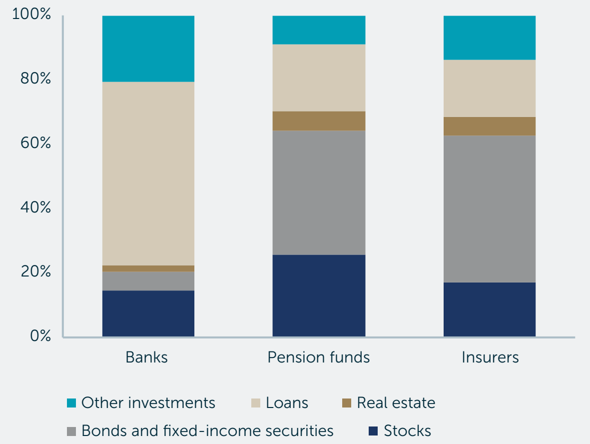
US bond yields and shares in major companies and sectors (such as technology and manufacturing) dipped following the escalating tariff measures in 2025.

At the time of writing this report, multiple sources indicate that the US tariff policies contribute to an increasingly negative economic outlook. Among others, Goldman Sachs suggests that US tariffs will cause severe economic disruption, increased costs, and a potentially weakened US dollar. Heightened volatility and downward sentiment in global equity and bond markets increase uncertainty for domestic institutional investors, which have around 60 percent of their assets invested in stocks, bonds, and other fixed-income securities (figure 1.5). A looming asset price correction, along with declining bond yields, could impede domestic institutional investors' profitability[18].

Rapid technological advancements amplify cyber risk

Globally, supervisory authorities, including those in the Caribbean region, have identified cyber risk as a major priority. The risk of cyberattacks is viewed as increasingly acute, while financial institutions in Curaçao and Sint Maarten continue to build up their business continuity management practices to protect their operations. As developments in the field of Artificial Intelligence (AI) made large strides during 2024, the risks posed by cybercrime have also expanded, affecting financial institutions globally at disproportionate rates. According to the World Bank Blogs, Latin America and the Caribbean have reported a 25 percent annual increase in disclosed cyber incidents, the fastest growing percentage over the past decade, worldwide. Despite this surge in cyber threats, the region remains one of the least protected, with an average score of 10.2 out of 20 on the World Bank scale[19]. To address these concerns, the CBCS is working on a supervisory framework that will address cyber risk using a balanced approach. In 2025, the CBCS will issue Provisions and Guidelines for Cyber Security.

Figure 1.5:
Financial Sector's Assets Composition



Source: CBCS.

Critical infrastructure, such as energy and water, and services such as banking and healthcare, rely more than ever on digital technologies to guarantee their continuous operations. Cyber threats affecting the Caribbean, including Curaçao and Sint Maarten, are largely driven by vulnerabilities in the supply chain. Financial institutions are heavily dependent on external vendors for software, hardware, and cloud-based infrastructure to meet the demands of their automation architectures. This dependency introduces significant cybersecurity risks, and the impact of cybersecurity incidents can be substantial.

18 Tax Foundation, April 2025.

19 World Bank, 2024.

While financial institutions increase their cyber resilience to withstand attacks and protect their operations and clients, the costs involved have grown in tandem. According to financial institutions in the monetary union, this increase in cost represents an additional operational risk. Consequently, cyber risk can impact financial stability through multiple channels. The financial sectors in Curaçao and Sint Maarten face an ongoing challenge in maintaining cyber resilience as they remain highly dependent on externally sourced expertise and service providers. At the same time, the International Monetary Fund (IMF) recommends encouraging financial institutions to benefit from the potential uses of AI while acknowledging its risks[20].

Climate risk remains a high-impact risk to the financial system

Extreme weather events and critical changes to climate systems are among the top long-term global risks, indicating a mounting urgency to address this risk[21]. In 2024, the world experienced record-breaking heat for the second year in a row, while participation and pledges to address climate risk grew to major levels. While some countries, such as China, were speeding up their renewable energy targets, the USA initiated a hard pivot away from the Paris Climate Agreement, reverting to a fossil-intensive energy policy[22]. In the Caribbean region, and specifically for small island nations, the effects of climate change remain potentially devastating. Between 2000 and 2023, this region experienced 793 climatic events, whereby tropical storms accounted for 50.6 percent of these events. Expert estimates put damages as a result of climatic events at a breathtaking USD 181.3 billion[23].

Looking ahead, climate risk continues to pose a significant threat to the monetary union's financial stability. Climate models show that inhabitants in the Caribbean region may expect an active hurricane season in 2025, posing heightened risk for extreme weather events impacting especially Sint Maarten. Apart from climatic trends, proposed budget cuts by the Trump administration to the US' National Oceanic and Atmospheric Administration[24] could endanger hurricane monitoring services in the Caribbean region and stifle resilience in the face of increasing physical climate risk.

The unpredictable risks to the environment, economies, and wellbeing can transmit directly to banks and insurance institutions in the form of higher underwriting costs, reduced profitability, and increased vulnerabilities in credit portfolios[25]. In 2024, the CBCS surveyed banks, pension funds, and insurance institutions to collect baseline data and assess how they manage climate risk. Of the responding institutions, 76 percent ranked climate risk low to medium low on their risk management agenda. Few responding institutions gave an estimate of assets that are (potentially) exposed to climate risk. Most financial institutions consider certain geographical locations, such as coastal areas, as more sensitive to climate risk. Around 17 percent of financial institutions say they take climate risk into account in their stress testing framework. Those that monitor climate risks tend to hire specific expertise externally. As yet, significant data gaps must be addressed. Given the high economic dependence on tourism and the disproportionate sensitivity of

20 IMF, 2024.
21 WEF, 2025.
22 Bloomberg News, January 2025.
23 Central Bank of Barbados, 2023.
24 NPR, April 2025.
25 Bank for International Settlements, 2020.

this sector to climate change, it is increasingly urgent that financial institutions adequately equip and prepare for future financial challenges arising from climate change. At the same time, the CBCS works on improving data, guidelines, and policies to support the financial sector in tackling climate change.

Access to global reinsurance and correspondent banking services remains a vulnerability

Correspondent bank de-risking has somewhat stabilized, but rising reinsurance costs and service withdrawals heighten risks in local non-life insurance markets. The CBCS's annual survey among banks shows that the trend of de-risking by correspondent banks has stabilized in the monetary union between 2022 and 2023. Nevertheless, financial institutions warn that de-risking persists as a vulnerability to financial stability. The Caribbean Financial Action Task Force (CFATF) onsite examinations were conducted for Curaçao and Sint Maarten separately in 2024, and the countries are reaching the final stages of the CFATF Mutual Evaluation Assessment process. The CFATF Mutual Evaluation Report of respectively Curaçao and Sint Maarten will be discussed in 2025 for adoption. Furthermore, the CBCS and the national supervisory authorities participated in an IMF mission to evaluate data tools for monitoring cross-border transactions in the monetary union. The main findings included a satisfactory evaluation of the available tools and data collection and analysis by the CBCS. The existing data framework and analysis contribute to the AML/CFT supervision and monitoring tasks of the CBCS.

While reinsurance enhances the financial resilience of insurance institutions, the costs increased for regions that are prone to physical climate risk, such as the Caribbean[26]. For the monetary union, the average annual increase in reinsurance prices was approximately 11 percent over the past five years, impacting Sint Maarten more severely than Curaçao. In 2024, the CBCS studied reinsurance risk, upon indications from the financial sector in the monetary union and in other jurisdictions in the Caribbean that rising reinsurance premiums and conditions may point towards emerging systemic risk. The results of the study were published in a note in March 2025 and are summarized in box 3.1 in chapter 3 of this FSR. Overall, the findings affirm previously reported concerns of sharply rising reinsurance fees and tighter reinsurance conditions. At the same time, the local insurance sector depends on a limited selection of large, internationally renowned reinsurers to cover some of their risk. After five consecutive years, insured losses worldwide again surpassed USD 100 billion by the third quarter of 2024[27]. This underlies an increased risk to the local non-life insurance sector, affecting especially property insurance. There is no indication that reinsurance prices will stabilize in the coming years, considering the growing climate risk in our region.

26 Moody's, 2023.
27 AON, 2024.

Domestic economic and fiscal conditions

Despite increasing geopolitical risk during 2024 and the rising prospect of economic turbulence in the main trading partners of Curaçao and Sint Maarten, macroeconomic and macro-financial indicators in the monetary union continued to improve during 2024. The economy of Curaçao expanded by 5.5 percent in 2024, up from the previous year's 4.2 percent real GDP growth. Sint Maarten's growth slowed in 2024, noting 3.5 percent, compared to 3.8 percent in 2023.

The economies of Curaçao and Sint Maarten continued to grow during 2024 on the back of the booming, highly volatile tourism industry. The substantial expansion in tourism led to economic growth surpassing earlier projections, with tourist arrivals breaking previous records. For the financial system, this meant that the risk of exposure to a highly volatile economic activity increased simultaneously. However, efforts to diversify the economies are becoming increasingly urgent in light of the precarious predictions for global economic growth and the potential consequences for international tourism.

Domestic fiscal conditions improved in 2024, while the resolution of Ennia eased concerns. Following several years of uncertainty about refinancing the substantial Covid-related loans of both Curaçao and Sint Maarten, a more favorable interest was decided upon in 2024 as a result of the final solution for the Ennia case. Curaçao, Sint Maarten, and the CBCS signed an accord to establish and finance a resolution fund to safeguard the interests of Ennia's policyholders. Starting in 2027 and continuing for a duration of 30 years, Curaçao and Sint Maarten will contribute Cg 30 million and approximately Cg 2.1 million per annum, respectively, to the fund. Additionally, the CBCS has committed to an annual profit distribution of Cg 15 million to the countries, which will be allocated to the fund. This distribution is scheduled to begin in 2025 and will continue for a period of 50 years. The public debt-to-GDP ratio for Curaçao improved in 2024, while it slightly deteriorated for Sint Maarten. The debt burden for both Curaçao (64 percent) and Sint Maarten (44.2 percent) stayed below the 70 percent ceiling in 2024[28].

The financial cycle

The financial sector[29] in the monetary union remained on a solid standing in 2024. The value of total assets increased by an estimated 2.4 percent in 2024 on the back of tourism-powered activities in real estate, construction, and hospitality combined with strong financial market performance. However, vulnerability to external shocks, such as extreme climate events, remains an ongoing yet highly unpredictable risk for the financial sector in the monetary union, especially in Sint Maarten.

Aggregate Financial Stability Index

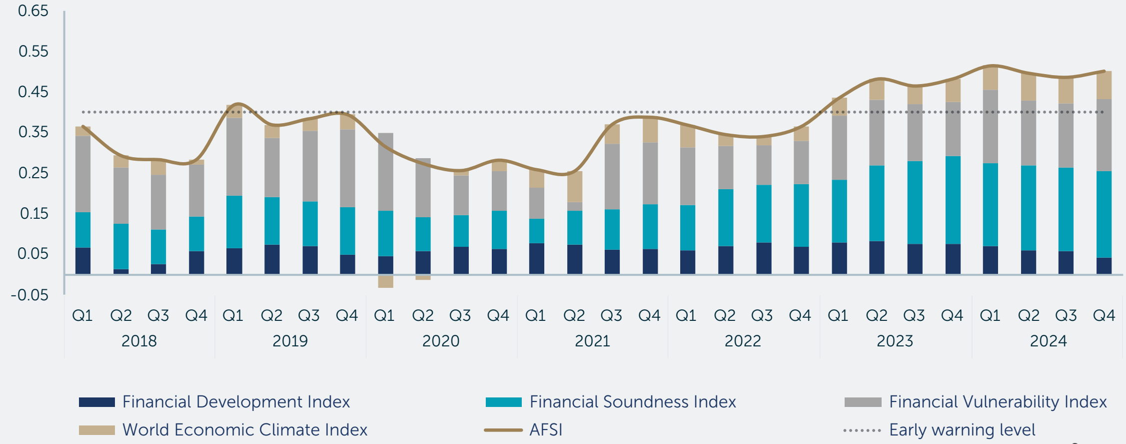
The Aggregate Financial Stability Index (AFSI) for Curaçao and Sint Maarten continued to reflect a stable and resilient financial system. This stability is underpinned by sustained economic growth, particularly in the tourism sector, and proactive policy measures implemented by the CBCS. The resilience of the financial system in 2024 is evident in the upward trend of the AFSI, which remained largely above the financial stability early warning benchmark[30], driven by increases in three of the four sub-indices

28 IMF, September 2024.

29 The financial sector comprises insurance institutions, pension funds, and local banks.

30 The CBCS has set the early warning benchmark at 0.4 based on historical calibration of the index.

Figure 1.6:
Aggregate Financial Stability Index



Source: CBCS.

(figure 1.6). The Financial Vulnerability subindex rose on the back of favorable macroeconomic conditions. The World Economic Climate subindex also improved because of strong global markets in 2024, reflecting broad investor confidence and resilient global growth despite inflationary pressures. Moreover, the Financial Soundness subindex benefited from local banks' solid capital positions, stable asset quality, and ample liquidity. Conversely, the Financial Development subindex declined, primarily due to a decrease in credit growth for the monetary union.

Credit-to-GDP Gap

The credit-to-GDP gap provides insights into the financial cycle, measuring the deviation of private sector credit-to-GDP from its long-term trend. Positive gaps are related to periods of financial booms, while negative gaps suggest that credit growth is moderate and below levels typically associated with financial booms. In other words, a negative gap indicates that there is room for additional credit growth without creating financial imbalances.

The negative credit growth relative to nominal economic growth in 2024 resulted in a negative credit gap (-4.9 percent) (figure 1.7). Total credit extended by the financial sector to households and businesses contracted by 1.4 percent in 2024, falling short of nominal GDP growth (7.8 percent), which was driven by strong activity in tourism and construction. The contraction in credit extension was mostly due to the transfer of loans abroad related to the closure of a bank in Curaçao. However, mortgage lending to households and businesses rose by 2.7 percent, or Cg 143.9 million, in 2024.

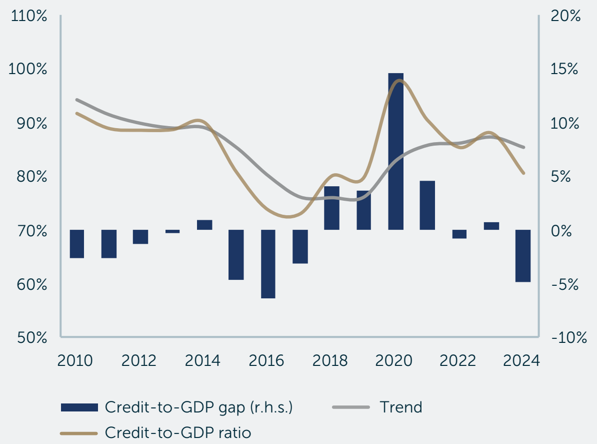
Excluding the bank that ceased operations, total credit extended to households and businesses grew by 3.8 percent, still below the nominal GDP growth of 7.8 percent. As a result, the credit-to-GDP gap remained negative but narrowed to -1.1 percent. The increase in credit extension was largely driven by mortgage lending to both households and businesses, which rose by 4.9 percent, equivalent to Cg 252.3 million in 2024.

Household and commercial real estate lending

The CBCS closely monitors commercial real estate (CRE) loans, as these loans theoretically pose a significant financial stability risk if they become nonperforming. Because CRE borrowers tend to have less incentive to avoid default than residential borrowers, these commercial exposures carry a comparatively higher default risk. In addition, CRE loans tend to be procyclical and relatively large, potentially exposing banks to higher credit risk. Commercial mortgages in the monetary union are mostly used to purchase real estate. In 2024, CRE loans with banks amounted to 17.1 percent of the monetary union's GDP (figure 1.8), which is comparable with the shares in Europe (12 percent) and the USA (18 percent)[31].

31 IMF, 2023b

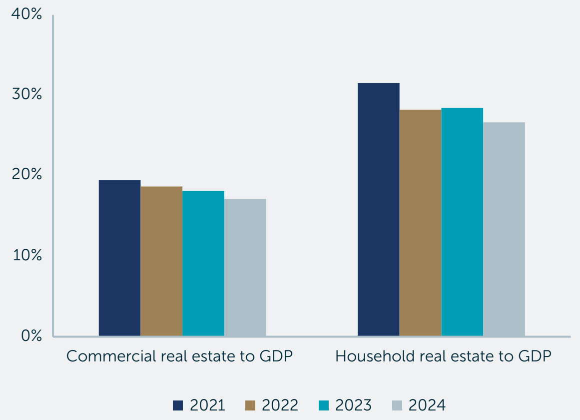
Figure 1.7:
Credit-to-GDP Gap



Note: The credit gap is calculated using the one-sided Hodrick-Prescott (HP) filter. The one-sided HP filter is a real-time estimation of the HP filter, in which the observed credit gap series are decomposed into a cyclical and a trend component. The smoothing parameter was set at 100.

Source: CBCS.

Figure 1.8:
Household and Commercial Real Estate to GDP

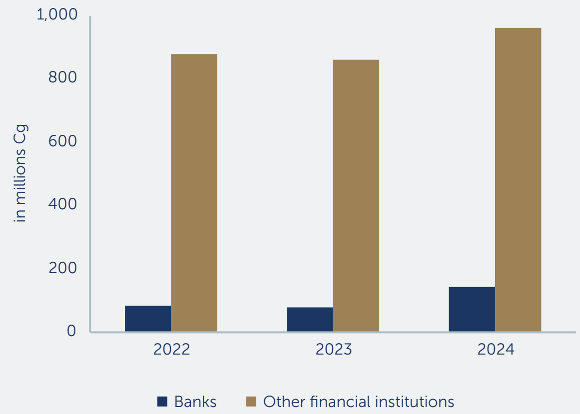


Source: CBCS.

Interconnectedness

The CBCS conducts network analysis to assess whether the connections between local financial institutions may present a risk to financial stability, defined as interconnectedness risk. Across markets, interconnectedness manifests itself in different ways, and institutions can be connected directly or indirectly through a broad range of financial activities. A high degree of interconnectedness can intensify the effects of shocks while facilitating contagion in the event of failure of a financial institution.

Figure 1.9:
Interconnectedness as Measured by Deposits



Source: CBCS.

Interbank exposures and exposures of other financial institutions at local banks both saw a significant increase in 2024. Interbank exposures increased from Cg 79.3 million in 2023 to Cg 143.5 million in 2024, partially driven by a reclassification of credit unions (figure 1.9). At the same time, other financial institutions had Cg 962.9 million in time, savings, and demand deposits at local banks in 2024, an increase compared to 2023, when they held Cg 860.8 million.

Institutional investors have indicated that most demand deposits represent excess liquidity, as they are awaiting more favorable investment opportunities. Large deposits are an important source of funding for banks while at the same time they pose a liquidity risk, as these deposits can be retrieved at any time. Therefore, deposits of institutional investors at banks should be monitored closely. The CBCS will continue conducting research into such interconnectedness risk in the monetary union.

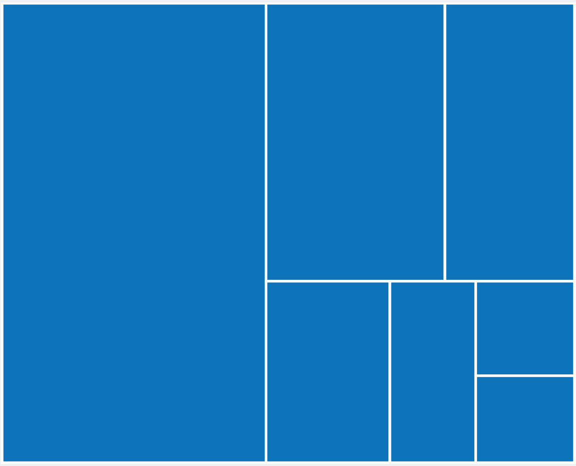
CHAPTER 2

2 Local Banks

Overview

The three largest banks[32] accounted for 78.6 percent of the local banking sector's total assets in 2024. Seven banks currently operate in the monetary union, accounting for 52 percent of the local financial sector's total assets. Within the monetary union, the sector is considered fragmented with one dominant player. The structure of the local banking sector is shown in figure 2.1, with the relative size of each bank indicated by total assets. Banks' total assets were Cg 14.6 billion in 2024, representing 156.4 percent of the monetary union's GDP. The aggregate balance sheet and income statement of the local banking sector are presented in appendix tables 2.1 and 2.2.

Figure 2.1:
Overview of Local Banks

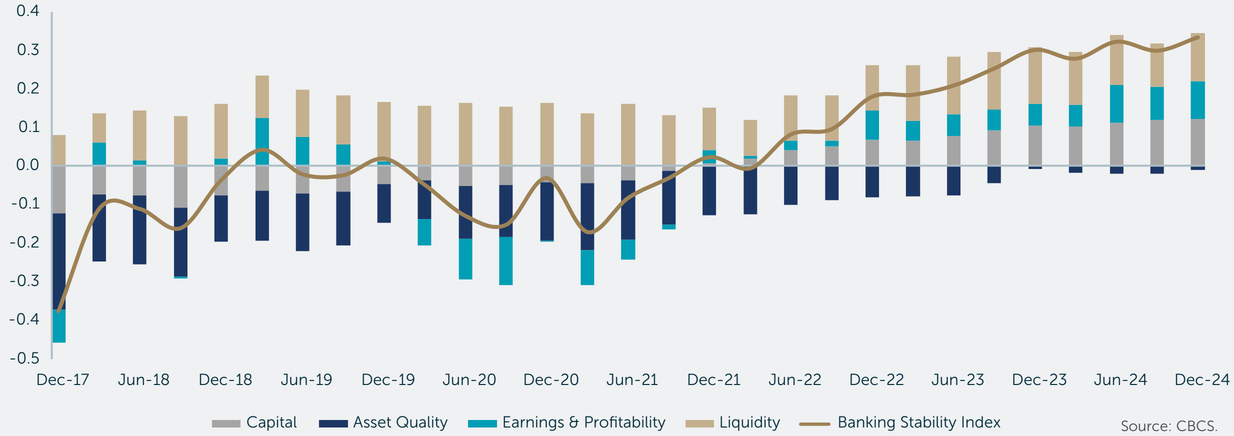


Source: CBCS.

The Banking Stability Index (BSI) continued to improve in 2024 (figure 2.2). The BSI, a key component of the CBCS's early warning framework, offers insights into the financial stability of the banking sector and helps identify potential vulnerabilities. The BSI consists of four indices: capital, asset quality, earnings and profitability, and liquidity. These indices are equally weighted and comprise of eight indicators in total. The improvement in the BSI in 2024 was driven by increases in all indices.

32 Banks in this chapter refer to local banks in the monetary union.

Figure 2.2:
Banking Stability Index



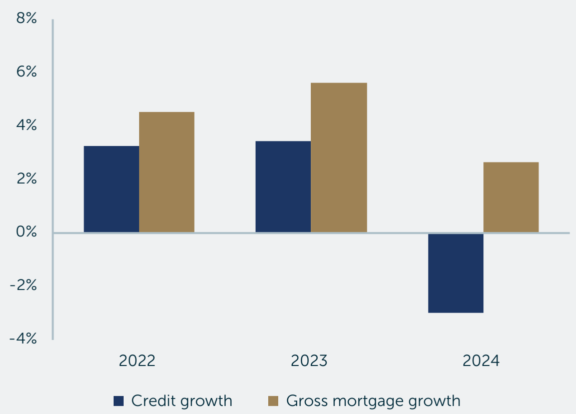
Source: CBCS.

Lending

Total outstanding loans[33] decreased by 3.0 percent to Cg 6.7 billion in 2024, down from Cg 6.9 billion in 2023, as a bank ceased its operations during that year.[34] The decline in total outstanding loans was driven by a 7.3 percent decrease in term loans, especially commercial term loans, while household loans increased by 3.0 percent. Despite the overall contraction in total outstanding loans, gross mortgages across all sectors increased by 2.6 percent in 2024 (figure 2.3).

Excluding the bank that ceased operations from the analysis, total outstanding loans for the banking sector increased by 2.8 percent or Cg 179.9 million. This increase was mainly driven by a rise in household loans (Cg 179.4 million or 6.3 percent), while commercial loans rose by Cg 27.1 million or 0.8 percent.

Figure 2.3:
Credit Growth vs Gross Mortgage Growth



Source: CBCS.

33 Total outstanding loans include all categories of loans, namely mortgages, term loans, current account overdraft, finance leases, and other loans.

34 According to the COA manual, mortgages reported in the COA include only loans secured by a mortgage where the outstanding loan balance does not exceed 70 percent of the appraised value by an independent appraiser. Therefore, the data in this section were derived from the newly created Gross Mortgage Schedule.

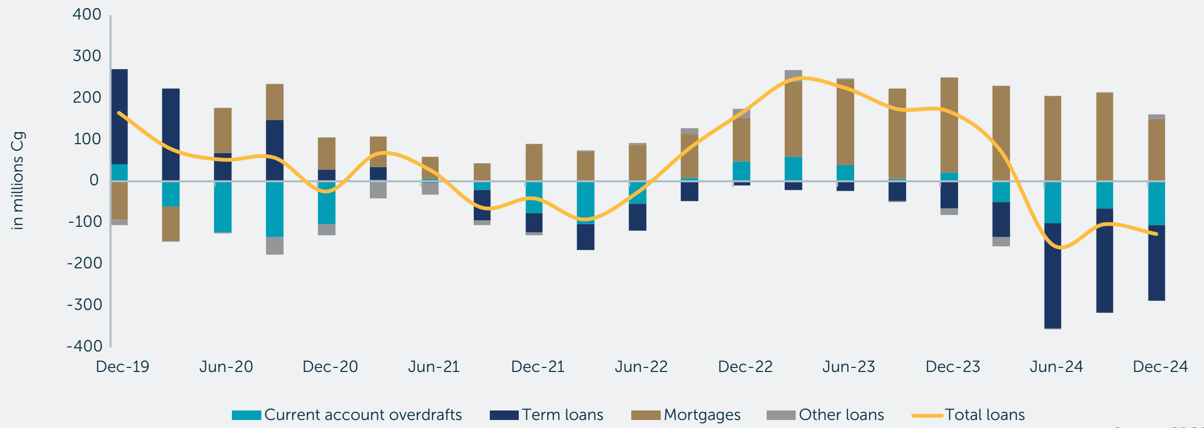
Curaçao and Sint Maarten compared

Total outstanding loans declined by Cg 127.5 million, or 2.5 percent, for Curaçao in 2024. This decline was largely caused by term loans, particularly commercial term loans, due to the closure of a bank (figure 2.4). Mortgages, on the other hand, experienced growth in 2024.

Excluding the bank that ceased operations from the analysis, total outstanding loans in Curaçao increased by Cg 259.2 million (5.6 percent). This increase was primarily related to growth in household and commercial mortgage lending (figure 2.4A).

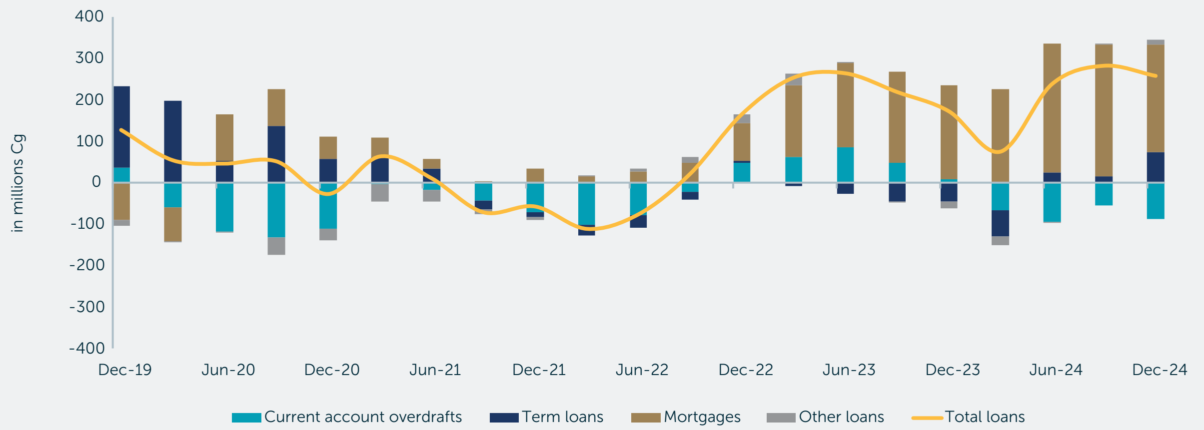
According to the Curaçao Bankers Association (CBA), the surge in household mortgages was primarily driven by increasing demand and rising residential property prices, as many non-resident clients reportedly pay significantly more than current market asking prices. Most banks in Curaçao also reported an increase in commercial mortgages, specifically due to growing investment opportunities in sectors such as utilities, tourism, and infrastructure.

Figure 2.4:
Drivers of Credit Growth - Curaçao (y-o-y change)



Source: CBCS.

Figure 2.4A:
Drivers of Credit Growth - Curaçao (y-o-y change)

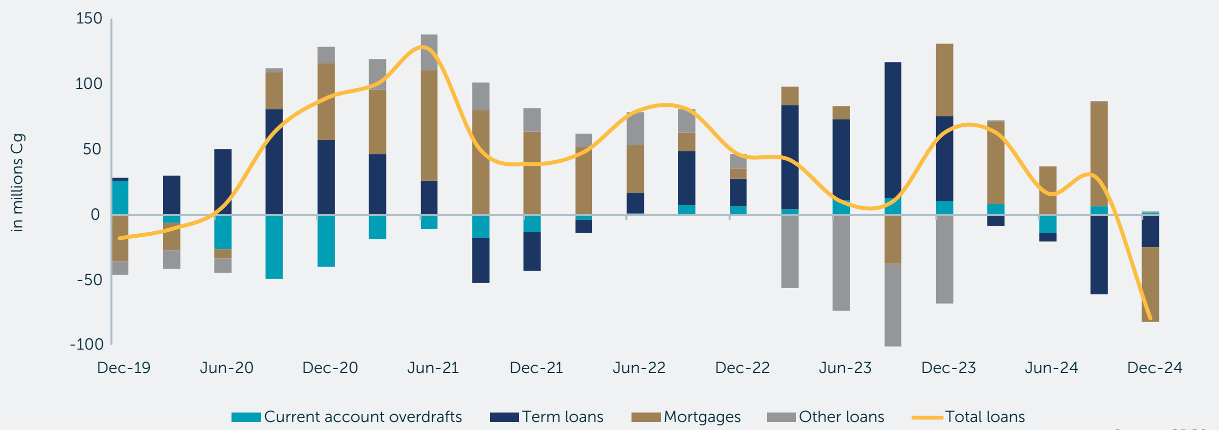


Note: The data exclude a bank that ceased operations in 2024.

Source: CBCS.

Total outstanding loans decreased by Cg 79.3 million, or 4.2 percent, for Sint Maarten in 2024 due to a decline in commercial mortgages and commercial term loans. This decline was mainly attributed to the transfer of loans from a branch office to its head office abroad, the completion of a major reconstruction project, and a slowdown in loan growth across other banks (figure 2.5). However, household mortgages increased, driven by a rise in mortgages granted to non-resident clients, while residents faced challenges in purchasing real estate due to rising property prices, which limited their ability to secure mortgages. According to the Sint Maarten Bankers Association (SMBA), affordable housing is essential for the residents of Sint Maarten. One proposed solution to address this issue is the establishment of a Mortgage Guarantee Fund for residents. By offering a government-backed guarantee for a portion of the mortgage, the fund would help reduce credit risk for banks and encourage more favorable lending conditions for borrowers.

Figure 2.5:
Drivers of Credit Growth - Sint Maarten (y-o-y change)



Source: CBCS.

Financial soundness indicators

While the banking sector experienced a positive year in 2024, exposures to risks related to asset quality, liquidity, capital adequacy, and market sensitivity all remained stable. Thirteen FSIs are used to assess and monitor potential vulnerabilities and risks of the banking sector that could impact financial stability (appendix tables 2.3-2.5). These indicators are grouped into five categories, which are visualized in a cobweb (figure 2.6). Risk exposure concerning capital adequacy remained stable because, although banks maintained solid capital positions, the possible underestimation of loan loss provisions combined with dividend payouts could place pressure on capital levels. Similarly, liquidity risk remained stable because, while banks held liquidity well above the supervisory threshold, the possibility of unexpected large withdrawals may pose liquidity challenges. Asset quality risk also remained stable: while NPLs decreased, about 80 percent of the remaining NPLs were more than 180 days overdue, indicating that credit risk remains a concern. Risk exposure to market sensitivity remained stable, reflected by a slight reduction in vulnerability to foreign exchange risk. In contrast, risk exposure related to earnings and profitability decreased, supported by growth in other income components, such as fees and commissions income and investment returns, along with reduced operational expenses and lower loan loss provisions.

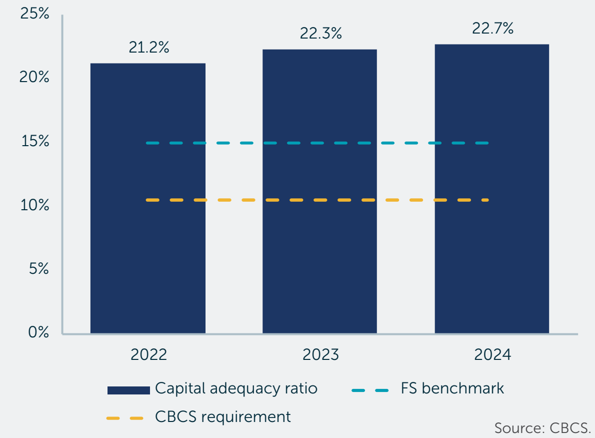
Figure 2.6:
Local Banks Financial Soundness

Source: CBCS.

Capital adequacy

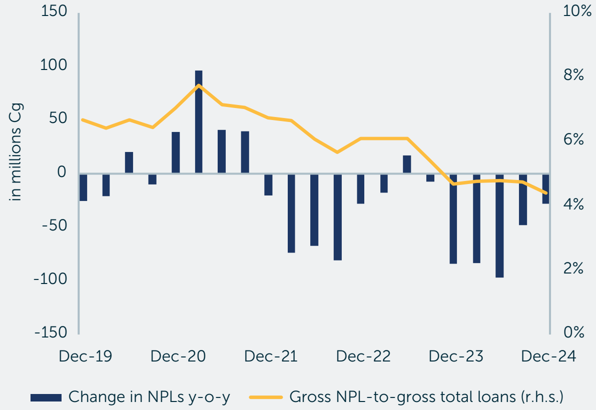
By the end of 2024, banks maintained strong capital positions[35], with all banks reporting a CAR above the CBCS's regulatory minimum, primarily driven by retained earnings. This continued strengthening of capital enhanced their ability to absorb potential losses and effectively manage risks. The Capital Adequacy Ratio (CAR) of banks further improved in 2024, rising from 22.3 percent in 2023 to 22.7 percent in the monetary union. This is well above both the CBCS's minimum regulatory requirement of 10.5 percent and the financial stability early warning benchmark of 15 percent (figure 2.7). The quality of regulatory capital, as measured by Tier 1 capital-to-total regulatory capital, also improved, rising by 1.3 percentage points to 94.1 percent at the end of 2024. However, the CBCS continues to closely monitor the development of nonperforming loans and their potential impact on capital. The capital adjustment stress test results also indicated that loan loss provisions may be underestimated, which could weaken the sector's capital position. Additionally, dividend payouts could place further pressure on the CAR.

Figure 2.7:
Capital Adequacy Ratio



Source: CBCS.

Figure 2.8:
NPLs Developments

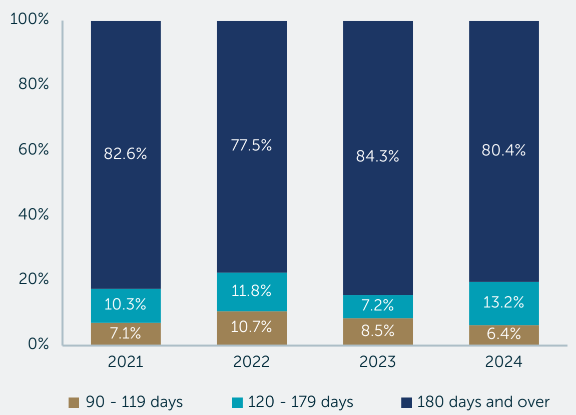


Source: CBCS.

Asset quality

Asset quality in the banking sector improved in 2024, but credit risk remains a concern, as the largest portion of total NPLs still consists of loans overdue for more than 180 days. The continued downward trend in the gross NPLs-to-total gross loans ratio, which reached 4.4 percent in 2024, reflects a strengthening of asset quality in the banking sector (figure 2.8). NPLs fell by 8.8 percent in 2024, driven by a reduction in loans overdue for more than 180 days (figure 2.9). Some of these loans were

Figure 2.9:
Nonperforming Loans

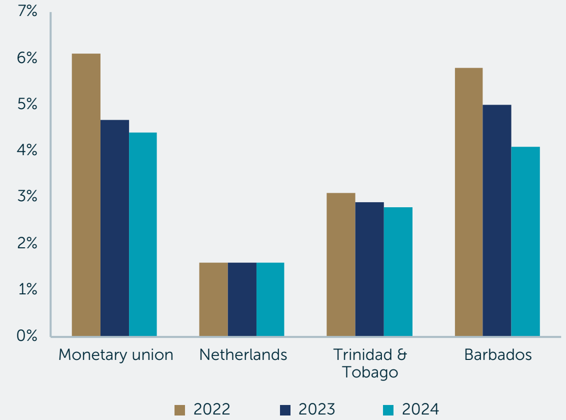


Source: CBCS.

35 The Capital adequacy section excludes branches of foreign banks.

transferred abroad, written off, paid off, auctioned, or restructured, indicating banks' efforts to enhance the quality of their loan portfolios, as such loans carry higher risks. Economic growth in the monetary union may also have improved the borrowers' debt repayment capacity. Despite the improvement in asset quality, the CBCS remains cautious, as credit risk continues to be higher relative to other jurisdictions and CBCS benchmarks (figure 2.10).

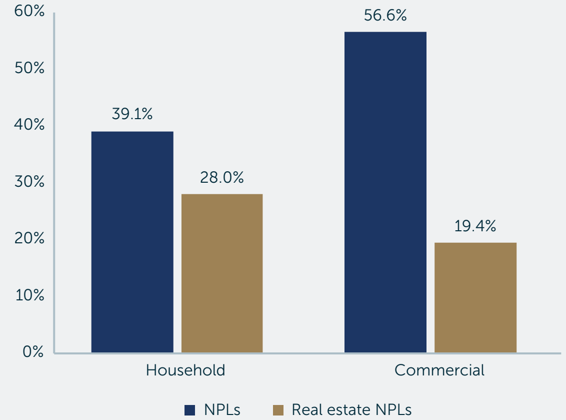
Figure 2.10:
NPLs-to-Total Gross Loans



Source: CBCS.

The decline in NPLs was observed across both household and commercial loans, with the latter contributing the most to the reduction (Cg 26.5 million, or 9.0 percent) at the end of 2024. Commercial loans appear to be riskier, as nonperforming commercial loans accounted for 56.6 percent of total NPLs, compared to 39.1 percent for household loans, even though the outstanding amount of commercial loans is nearly equal to that of household loans (figure 2.11). While loans secured by real estate are generally considered less risky, only 19.4 percent of commercial NPLs are backed by real estate, in contrast to household NPLs, which are more frequently secured by such collateral. This lower level of real estate collateral makes commercial NPLs more vulnerable to losses.

Figure 2.11:
Household and Commercial NPLs-to-Total NPLs



Source: CBCS.

The decline in NPLs, combined with an increase in specific provisions for loan losses (SPLs), led to a 10 percent rise in the NPL coverage ratio, which reached 58.5 percent in 2024. This ratio is a key indicator of a bank's ability to absorb potential loan defaults through provisions and reserves. Given that the IMF sets a benchmark of 50 percent, the current level suggests that the banking sector is aligned with international standards. However, the capital adjustment stress test indicates that provisions may be understated, given the high share of NPLs overdue by more than 180 days, loans that typically require higher provisioning. The potential need for additional SPLs could pose a challenge, as banks may struggle to respond effectively in the event of a sudden downturn.

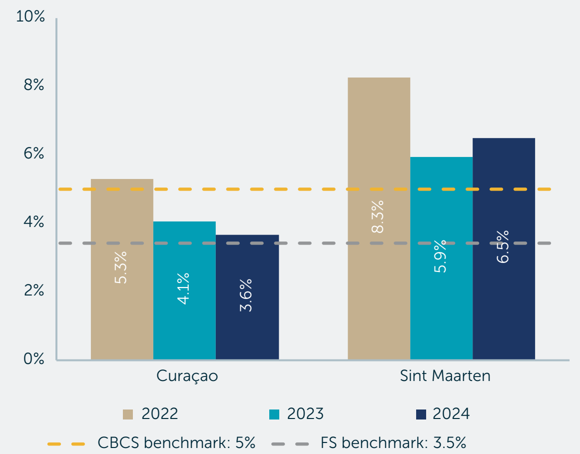
The increased demand for household real estate within the monetary union, along with a declining trend in NPLs, suggests an improvement in asset quality. However, several factors could potentially undermine this positive trend. The anticipated rise in living expenses due to higher international tariffs in 2025, combined with escalating property prices and slower growth in commercial real estate, may negatively impact asset quality. These challenges could strain borrowers' ability to service loans, especially in the face of higher living costs and reduced economic growth.

Curaçao and Sint Maarten compared

While asset quality improved for the banking sector in Curaçao, it deteriorated slightly in Sint Maarten (figure 2.12). In Curaçao, a decline in NPLs of Cg 25.5 million (-12.3 percent) was observed, primarily driven by write-offs totaling Cg 18.8 million in the loss category (loans more than 180 days past due). Sint Maarten saw a decrease in NPLs in the loss category but an increase in the doubtful category (loans past due between 120 and 179 days). The reduction in the loss category is largely attributed to loans being transferred abroad, paid off, or reclassified as doubtful. NPLs increased by Cg 4.9 million (4.4 percent) for the banking sector in Sint Maarten.

Banks are advised to closely monitor their overall loan portfolios, with particular attention to problematic commercial and household loans. With clients' purchasing power potentially diminishing due to rising tariffs and increasing real estate prices,

Figure 2.12:
Gross NPL to Total Loans



Source: CBCS.

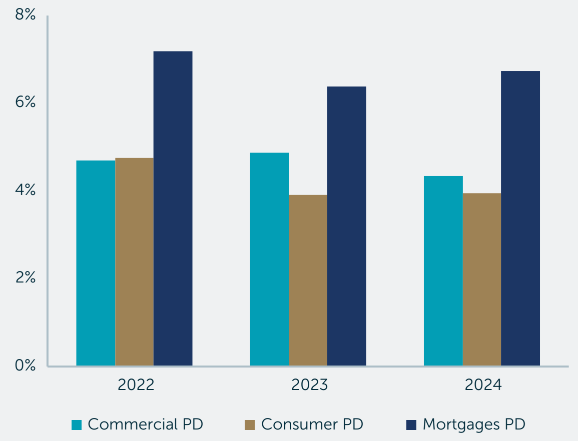
the performance of the loan portfolios may be negatively impacted.

Probability of Default and Loss Given Default

Forward-looking approaches are essential to recognize credit losses within the banking system at an early stage. While the NPL ratio provides useful insights, it remains a lagging indicator reflecting past economic conditions. Therefore, the CBCS continues to focus on forward-looking indicators such as Probability of Default (PD) and Loss Given Default (LGD) developments.

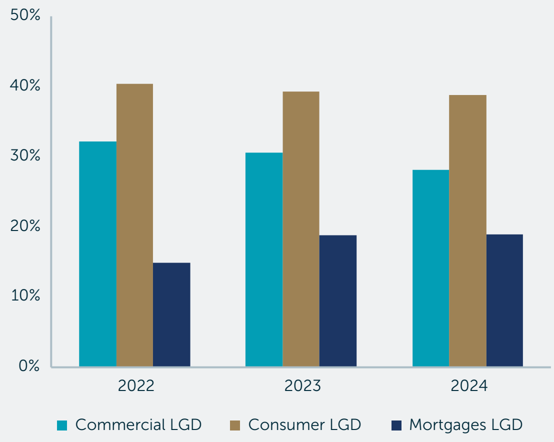
The weighted average PD for household and commercial mortgages and consumer loans increased slightly from 2023 to 2024, consistent with rising geopolitical risks observed during that period, which could affect the economy of the monetary union (figure 2.13)[36]. Despite this slight deterioration in asset quality, banks are anticipating a high recovery rate for most of their loans, specifically mortgages, in the event of default, as measured by the LGD. This indicates that while the risk of default has risen, banks believe they will still be able to recover a significant portion of their loan exposures (figure 2.14).

Figure 2.13:
Probality of Default



Source: CBCS.

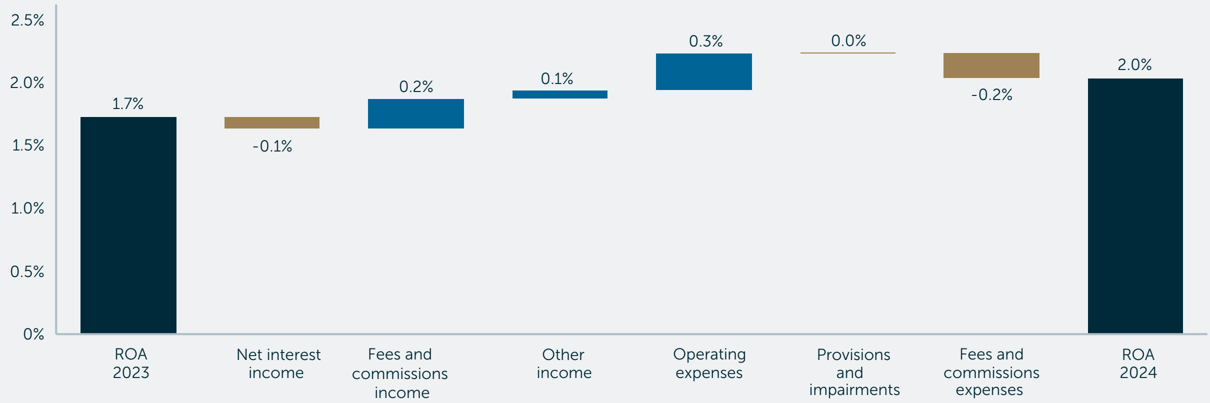
Figure 2.14:
Loss Given Default



Source: CBCS.

36 Data were obtained from PD and LGD questionnaires sent to banks.

Figure 2.15:
Breakdown of the Change in ROA

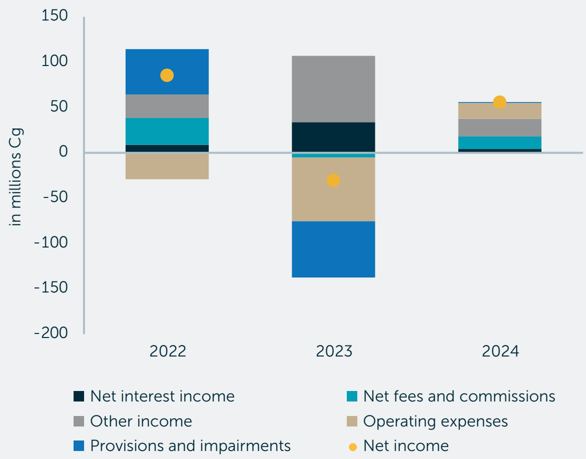


Source: CBCS.

Earnings and Profitability

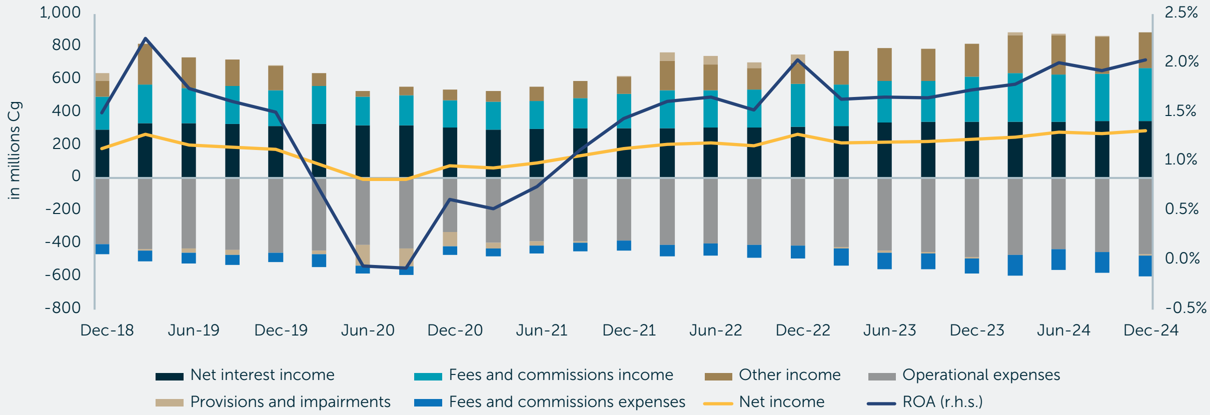
The banking sector experienced a moderate increase in profitability in 2024. Return on Assets (ROA) rose by 0.3 percentage points, from 1.7 percent in 2023 to 2.0 percent in 2024 (figure 2.15). This increase was caused by a growth in fees and commissions income, investment returns from securities holdings on group level, and net interest income, alongside a reduction in operational expenses and loan loss provisions (figure 2.16). Net interest income increased marginally by 1.1 percent in 2024, mainly due to higher interest income on foreign currency deposits and investments, which benefited from higher global rates. In addition, some banks experienced lower operational costs (figure 2.17).

Figure 2.16:
Drivers of Net Income



Source: CBCS.

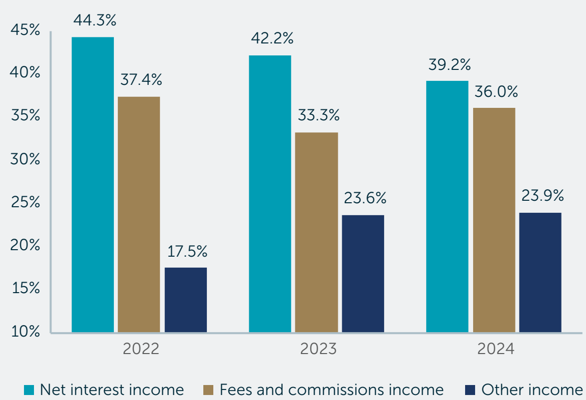
Figure 2.17:
Drivers of Net Income (y-o-y)



Source: CBCS.

Banks are shifting their reliance on income from traditional interest income to fees and commissions income and investment income (figure 2.18). By the end of December 2024, the net interest income-to-gross income ratio stood at 39.2 percent. The slower growth in net interest income was mainly due to lower lending rates, slower loan growth[37], higher deposit rates, and an increase in deposit value. However, banks were able to remain profitable, thanks to higher income from fees and commissions and investments.

Figure 2.18:
Net Interest Income, Fees and Commissions Income, and Other Income to Gross Income



Source: CBCS.

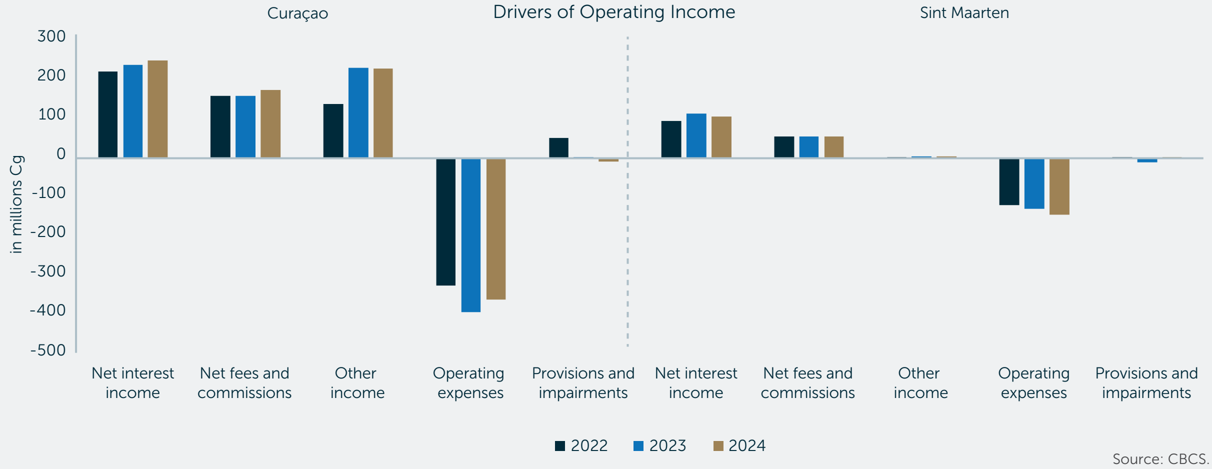
Estimates from the capital adjustment stress test suggest that loan loss provisions may be underestimated. Taking into consideration the nature of the loan portfolio and existing vulnerabilities in the macro-financial environment, increasing these provisions could negatively impact operating income.

Curaçao and Sint Maarten compared

The increase in ROA for the monetary union was primarily driven by the improved profitability of banks in Curaçao. Higher fees and commissions, along with higher net interest income from Curaçao

37 Excluding one local bank which ceased operations.

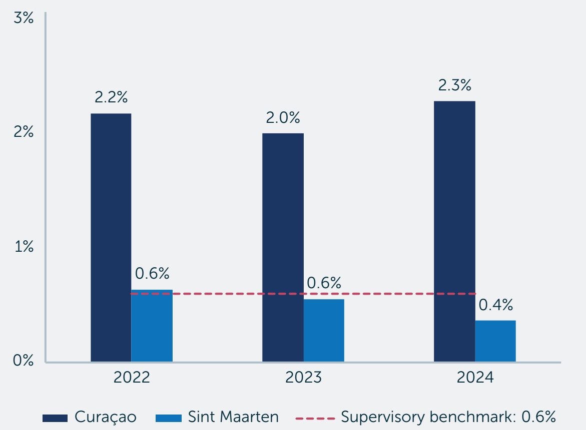
Figure 2.19:
Drivers of Operating Income



Source: CBCS.

operations, contributed to a Cg 54.5 million (25.0 percent) rise in profits in 2024. In contrast, profits in Sint Maarten fell by Cg 19.7 million (-61.9 percent), as the increase in net interest income was offset by a rise in operating expenses between 2023 and 2024 (figures 2.19 and 2.20). According to the SMBA, rising funding (deposit) rates and stabilizing loan demand limited the growth in net interest income. However, looking forward, the profitability of the banks in Sint Maarten may continue under pressure due to higher living costs, limited loan demand, and the increase in deposit interest rates.

Figure 2.20:
Return on Assets

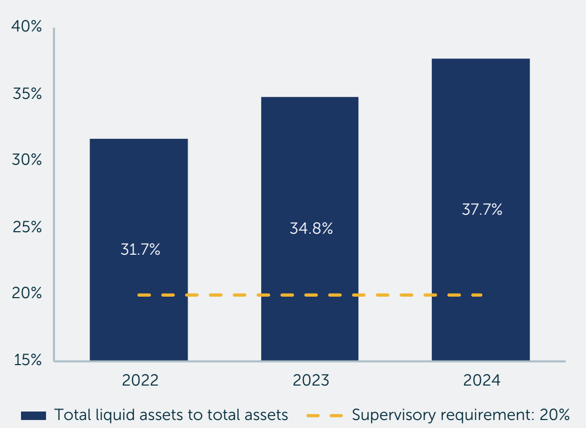


Source: CBCS.

Liquidity

The banking sector in the monetary union continued to maintain adequate liquidity in 2024. Liquidity ratios in the banking sector continued to improve in 2024, with all banks maintaining liquid assets-to-total assets well above the minimum supervisory benchmark of 20 percent (figures 2.21 and 2.22)[38]. The higher ratio at the end of 2024 was mainly driven by a significant increase in liquid assets,

Figure 2.21:
Total Liquid Assets to Total Assets



Source: CBCS.

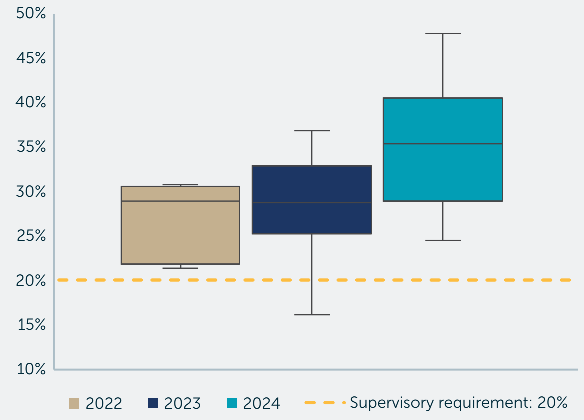
38 Figure 2.22 shows the minimum value, the second quartile (25th percentage), the medium value (50th percentage), the third quartile (75th percentage), and the maximum value (100th percentage), while outliers have been excluded.

particularly qualifying time deposits and government bonds, resulting from a rise in deposits from other financial institutions, public corporations, and households. Liquid assets totaled Cg 5.5 billion at the end of 2024, marking an increase of 14.1 percent compared to 2023. The stronger liquidity position signals that banks are better equipped to meet short-term obligations, reflecting enhanced stability within the sector.

Although the overall liquidity ratio has improved, the CBCS remains cautious and continues to monitor the potential impact of large deposit withdrawals, which could present liquidity challenges. At the end of December 2024, the banking sector's liquid assets to short-term liabilities ratio stood at 53.9 percent, indicating possible liquidity vulnerabilities. This ratio gauges the sector's ability to meet short-term fund withdrawals (particularly those due within 3 months) using available liquid assets. A higher ratio (closer to 100 percent) signals a stronger liquidity position and greater resilience when facing sudden short-term demands.

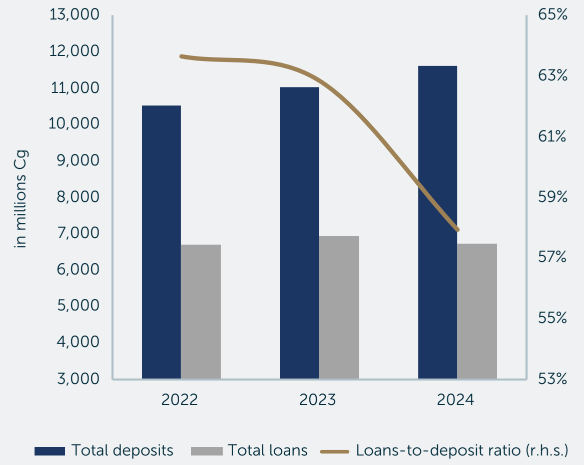
Total deposits rose by 5.2 percent in 2024, reaching Cg 11.6 billion, largely driven by the merger of an international bank with a local bank and the transfer of deposits from pension funds and other financial institutions from the CBCS to banks. In addition, some banks continued to raise interest rates on deposits in 2024 to attract funding to expand their loan activities. The loan-to-deposit ratio (LDR) declined further by the end of December 2024, as deposits increased while loans decreased (figure 2.23).

Figure 2.22:
Liquid Assets to Total Assets



Source: CBCS.

Figure 2.23:
Total Loans vs. Total Deposits



Source: CBCS.

Excess liquidity

Figure 2.24 shows a slight decline in excess liquidity within the monetary union, dropping by 4.4 percent to Cg 412.8 million in 2024. This decline is mainly related to the purchase of certificates of deposits (CDs), an increase in the reserve requirement amount, and the withdrawal of dollar balances at the CBCS. In 2024, the sale of CDs rose by Cg 60.6 million (28.0 percent). Longer-term CDs (26 and 52 weeks) and US dollar-denominated CDs were offered to encourage bank investments. However, by the end of the year, there were no new purchases of US dollar-denominated CDs by banks, and only a few banks opted for CDs with longer maturity. Banks may have opted to buy CDs with a shorter maturity since CDs with a maturity greater than three months are not considered liquid assets.

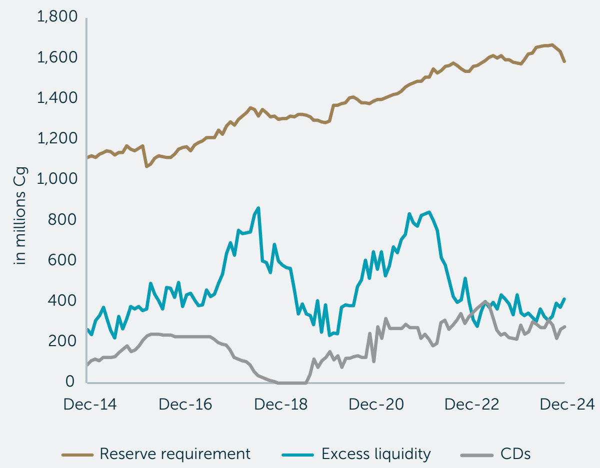
Reserve requirement

The CBCS adjusted its monetary policy of absorbing excess liquidity, by lowering its reserve requirement percentage from 19.0 percent to 18.5 percent in 2024. The amount of the reserve requirement, however, grew slightly by Cg 6.5 million, reaching Cg 1,583.4 million in 2024, primarily due to a rise in resident deposits (figure 2.24).

■ Sensitivity to market risk

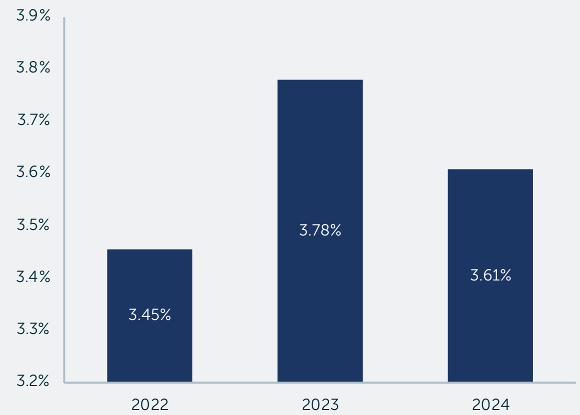
In 2024, the net interest margin (NIM) declined slightly to 3.6 percent for the monetary union (figure 2.25). This decline was driven by an increase in earning assets, particularly time deposits, and only minimal growth in net interest income, as lending rates fell while funding rates rose, together with a faster expansion in deposit value. The narrowing of the interest rate spread contributed to slower growth in net interest income for the banking sector. The banks, however, have indicated that they expect

Figure 2.24:
Excess Liquidity, Reserve Requirement, and CDs



Source: CBCS.

Figure 2.25:
Net Interest Margin



Source: CBCS.

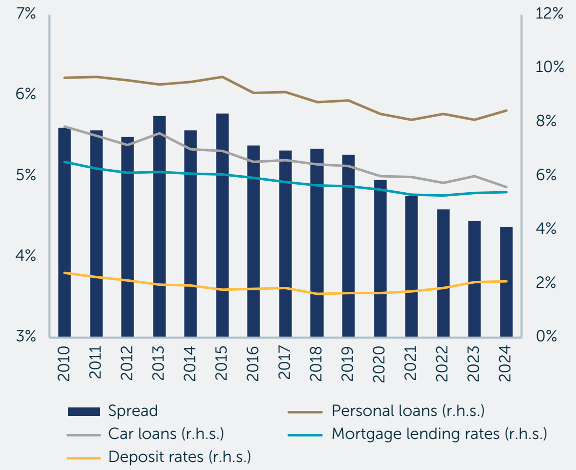
deposit rates to continue rising, as competition from higher-rate jurisdictions remains. The main concern is that lending rates may not keep up, potentially affecting the NIM and the profitability of banks.

The banking sector's net open position in the foreign exchange-to-capital ratio showed a lower exposure to foreign exchange risk[39] in 2024. The ratio declined from 2.0 percent to 1.8 percent in 2024. Of the total exposure in foreign currencies, 97.3 percent is in USD and 1.5 percent in euros. Worth mentioning is that exposure to the USD is excluded when calculating the net open position in the foreign exchange-to-capital ratio, as the Caribbean guilder is pegged to the USD at a fixed exchange rate.

Interest rate spread Curaçao and Sint Maarten compared

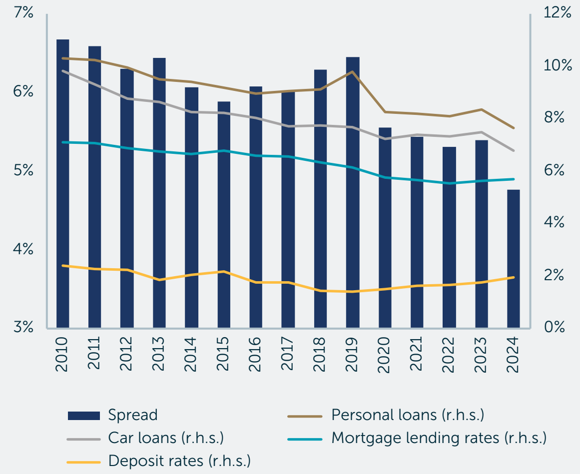
In 2024, the interest rate spread[40] continued to narrow for both Curaçao and Sint Maarten. The decline in the interest rate spread for Curaçao was minimal, as the rise in deposit rates were offset by an increase in mortgage and personal lending rates while the car loan rates decreased (figure 2.26). In contrast, Sint Maarten saw a sharper decline in the interest rate spread, driven by declining personal and car loan rates alongside higher deposit rates (figure 2.27).

Figure 2.26:
Interest Rates Developments Curaçao



Source: CBCS.

Figure 2.27:
Interest Rates Developments Sint Maarten



Source: CBCS.

39 International limits are between 20 percent to 30 percent (see Hofstetter, López, and Urrutia, 2018).

40 The interest rate spread is the deviation between banks' unweighted deposit and lending rates.

Stress Testing

Stress testing plays a critical role in maintaining financial stability. It is an essential tool for the CBCS to determine the financial sectors' resilience and identify potential weaknesses that could destabilize the economy[41].

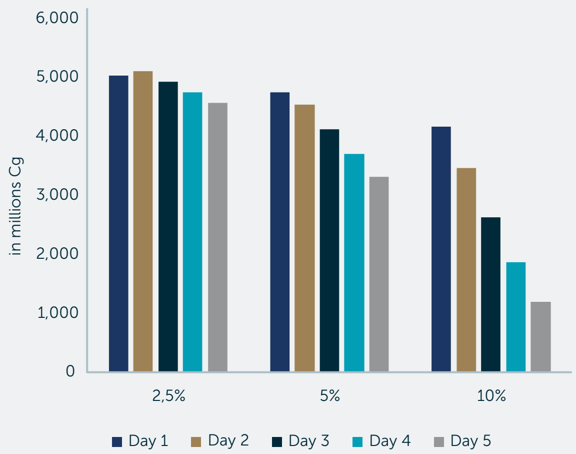
Liquidity stress test

A liquidity stress test evaluates whether banks can maintain adequate liquidity when confronted with market or financial shocks.

Deposit run-off

The deposit run-off stress test showed that the banking sector remained resilient under all scenarios, maintaining adequate liquidity without the need for support. The test evaluated the ability of banks to maintain sufficient liquidity by simulating deposit run-off scenarios over a five-day horizon. The stress test included three scenarios: a baseline scenario (2.5 percent daily deposit run-off), a moderate scenario (5 percent daily deposit run-off), and a severe scenario (10 percent daily deposit run-off). Figure 2.28 illustrates the results of the deposit run-off stress test for the monetary union. The bars represent the daily cash outflow for each scenario. A positive bar indicates that liquidity support was not needed, while a bar below the zero line signifies the need for such support. The banking sector as a whole remained resilient under all scenarios, with no need for system-wide liquidity assistance. However, the stress test results showed differences between individual institutions that require monitoring. By applying the stress test tool, the CBCS gains valuable forward-looking information to help monitor financial institutions and shape our macroprudential policy.

Figure 2.28:
Deposit Run-Off



Source: CBCS.

41 Liquidity stress tests are performed on banks within the monetary union, while capital stress tests exclude branches from foreign banks.

Large deposit withdrawal

The large deposit withdrawal stress test revealed that the banking sector remained compliant with liquidity requirements, even under the severe scenario. The test simulated the withdrawal of large deposits across three scenarios to assess the impact on banks' liquidity positions and liquid assets (appendix table 2.6). The stress test considered three scenarios: a baseline scenario (withdrawal of the largest deposit), a moderate scenario (withdrawal of the three largest deposits), and a severe scenario (withdrawal of the five largest deposits). Under the baseline scenario, the liquid assets-to-total assets ratio declined to 33.9 percent, remaining well above the CBCS minimum requirement of 20 percent. Under the moderate scenario, the ratio fell further to 31.4 percent. Even under the severe scenario, the banking sector maintained compliance, with the ratio at 30.1 percent.

Liquidity risk and foreign investments

The combined deposit run-off and market value shock stress test demonstrated that the banking sector as a system remained resilient, maintaining a liquidity ratio above the 100 percent benchmark under all scenarios. The simulation assessed whether banks are sufficiently resilient to absorb simultaneous deposit run-off and market value shocks (appendix table 2.7). The stress test included three scenarios: a baseline scenario (a 5 percent deposit run-off combined with a decline in the value of marketable securities and treasury bonds—first by 10 percent, then by 30 percent), a moderate scenario (a 10 percent deposit run-off combined with the same market value decline as in the baseline), and a severe scenario (a 20 percent deposit run-off with the same market value decline). Across all three scenarios, the banking sector maintained a liquidity ratio above 100 percent, despite the decline in the value of marketable securities and treasury bonds. Overall, the results suggested that a drop in the value of these assets had a limited effect on banks' liquidity positions.

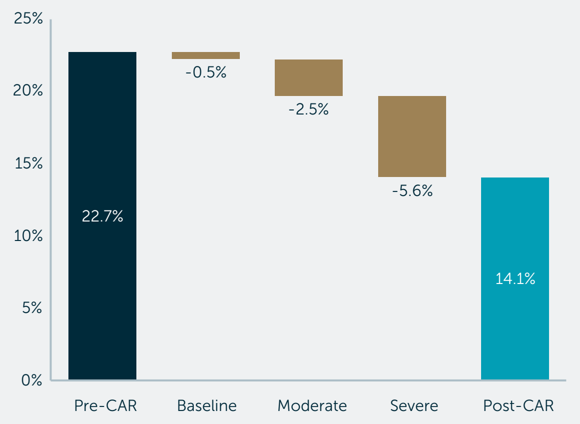
Capital stress test

A capital stress test evaluates whether banks can maintain adequate capital in the face of adverse credit and economic shocks.

Capital adjustment

Simulating a capital adjustment stress test across three scenarios indicated that the banking sector remained adequately capitalized overall even under the severe scenario (figure 2.29 and appendix table 2.8). The stress test consisted of three scenarios: a baseline scenario (the current level of provisioning was assessed against reported nonperforming loans), a moderate scenario (10 percent of performing loans became nonperforming), and a severe scenario (30 percent of performing loans became nonperforming). Under the baseline scenario, the banking sector appeared under-provisioned by Cg 40.4 million. After accounting for this shortfall, the revised CAR

Figure 2.29:
Capital Adjustment Stress Test



Source: CBCS.

stood at 22.2 percent, which was still well above the supervisory threshold of 10.5 percent. Under the moderate scenario, the CAR declined to 19.7 percent, remaining above the threshold, although the banking sector was under-provisioned by Cg 301.6 million. Under the severe scenario, the CAR dropped further to 14.1 percent, remaining above the threshold, while the sector was under-provisioned by Cg 904.7 million.

Large exposure

Simulating a large exposure stress test across three scenarios suggested that the banking sector remained adequately capitalized overall, even at full provisioning under the severe scenario (appendix table 2.9). The stress test contained three scenarios: a baseline scenario (the single largest loan became delinquent), a moderate scenario (the three largest loans became delinquent), and a severe scenario (the five largest loans became delinquent). In each case, provisioning levels of 10, 50, 80, and 100 percent were applied to assess the impact on the banks' CAR. Under the baseline scenario, the banking sector maintained a CAR at 20.7 percent, above the supervisory capital requirement, even when provisioning levels reached 100 percent. Under the moderate scenario, provisioning up to 100 percent did not breach the regulatory threshold at 16.7 percent. Under the severe scenario, the overall banking sector still passed the stress test based on a CAR of 15.1 percent with 100 percent provisioning.

CHAPTER 2 - Box 1:The property price index for Sint Maarten: a preliminary analysis of the development of the real estate market in relation to financial stability

The relationship between developments in the real estate sector and the soundness of financial institutions has gained global interest over the last decade. The real estate sector, consisting of both residential and commercial properties, has historically been a source of vulnerability and financial crises[42]. Banks and financial intermediaries are increasingly exposed to this sector through the financing of a wide range of properties[43]. Within the monetary union, the share of mortgages on properties in total outstanding loans is significant, accounting for 64.4 percent as of December 2024[44]. This high exposure has made research and analysis of the real estate sector a priority for the CBCS. To perform a preliminary analysis of property transactions, the CBCS used data provided by the Land Registry (*Kadaster*) of Sint Maarten to construct a 12-month moving average Property Price Index (PPI) for Sint Maarten. This box presents the PPI model and discusses some of the preliminary findings on property transactions in Sint Maarten.

The Property Price Index

he PPI for Sint Maarten covers (land) parcels and apartment rights. It measures the development of property prices by comparing the average price in the base year 2016 with the average price in month t, calculated as follows:

$$PPI_t = \left(\frac{Average\ Property\ Price\ Index\ in\ Month\ t}{Average\ \ Property\ Price\ Index\ in\ Base\ Year\ 2016}\right)$$

where:

- PPI_t represents the Property Price Index for month t.
- The average property price in the base year (2016) is set at 100.

To adjust for inflation and more accurately reflect the real growth of the property prices, the Real PPI is calculated as follows:

$$Real\ PPI_t = \left(\frac{PPI_t}{CPI_t}\right)$$

where:

- CPI_t represents the Consumer Price Index for month t, representing the inflation rate for the same period.

42 Zhu, 2014.

43 Andaloussi, Biljanovska, and De Stefania, 2024.

44 According to the Chart of Accounts (COA) manual, mortgages reported in the COA include only loans secured by a mortgage where the outstanding loan balance does not exceed 70 percent of the appraised value by an independent appraiser. Therefore, the data in this section were derived from the newly created Gross Mortgage Schedule.

To mitigate short-term fluctuations and minimize the effect of market volatility and seasonal variations—which are specific for Sint Maarten—a 12-month moving average is applied. This approach smooths the data, enabling a more reliable assessment of long-term trends.

$$12\text{-}month\ \ MA_t = \frac{Real\ PPI_t + Real\ PPI_{t-1} + \ldots + Real\ PPI_{t-11}}{12}$$

where:

- $Real\ PPI_t$ is the Real Property Price Index for month t.

Preliminary results

Between April 2017 and December 2024, the Real PPI exhibited both upward and downward movements, ultimately reaching an index of 103.47 by the end of the period. The sharp decline in the Real PPI in the third quarter of 2017 resulted from the adverse consequences of Hurricane Irma, which struck in September of that year. Hurricane Irma damaged more than 70 percent of the housing stock to some degree and paralyzed Sint Maarten's tourism and commercial sectors for a prolonged period[45].

Figure 2.30:
Real Property Price Index - 12-Month Moving Average

Source: CBCS and Kadaster Sint Maarten.

The second downturn started in the third quarter of 2019 and lasted until the second quarter of 2021. This decline is associated with the Covid-19 pandemic, which led to a collapse of tourism, inflicting another major shock to the economy of Sint Maarten. The PPI experienced a strong recovery between the second quarter of 2021 and the second quarter of 2022. This is in line with the economic growth that Sint Maarten experienced in 2021 and 2022 on the back of buoyant tourism arrivals and robust private and public investment[46]. Since 2022, the PPI trend seems to have stabilized (figure 2.30).

45 International Bank for Reconstruction and Development / The World Bank, 2020.
46 IMF, 2023.

Following this preliminary analysis, the FSD developed a Real Estate Market Power BI dashboard which displays the development of the real PPI over time. These trends provide valuable insights into average property prices and transaction volumes per district. The dashboard for Sint Maarten can be viewed at https://www.centralbank.cw/statistics-dashboards/dashboards/real-estate-market-sint-maarten.

At present, the CBCS only has access to adequate and reliable data for Sint Maarten; therefore, a similar dashboard is not yet available for Curaçao. However, for Curaçao, a web scraping tool with the ability to gather and analyze housing data has been incorporated into the CBCS's EWMS.

Policy implications and next steps

The CBCS aims to detect vulnerabilities in the financial system of the monetary union as early as possible through the EWMS. Further analyses of the underlying drivers and the impact of changes in the real estate sector in Sint Maarten and Curaçao, each with their own characteristics, could provide valuable insights and lead to policy recommendations. Currently, the CBCS is exploring options for obtaining reliable data on property transactions in Curaçao. Access to adequate and reliable transaction data is essential in the further development of key indicators and for policy recommendations. Therefore, the CBCS aims to expand its research and database to develop key real estate market indicators for the EWMS across the monetary union.

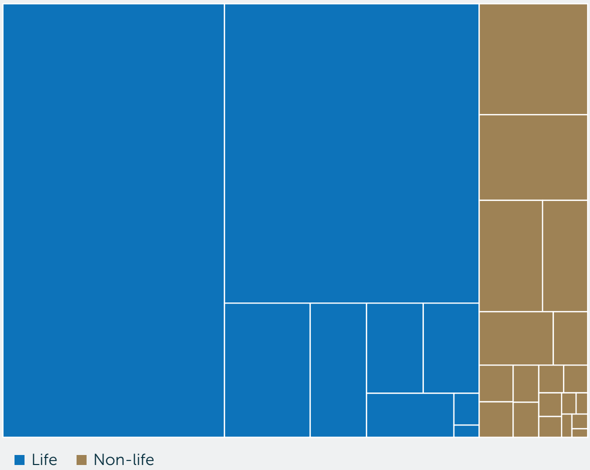
CHAPTER 3

3 Insurance Institutions

Overview

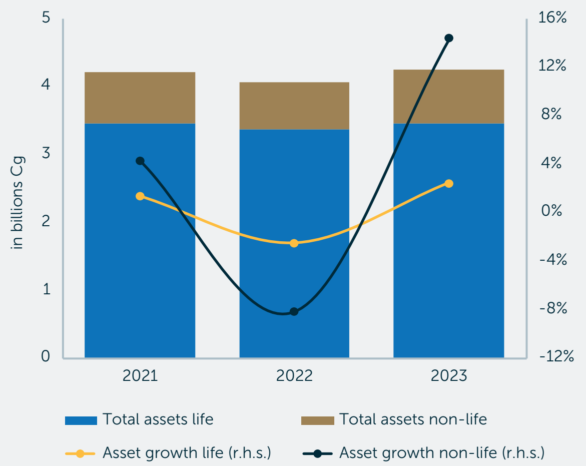
The aggregate balance sheet of the insurance sector accounted for 15.5 percent of the local financial sector's total assets in 2023[47]. Figure 3.1 illustrates the composition of the insurance market, where each block represents an institution's total assets relative to the market's total assets. Within the life insurance sector, the two largest institutions accounted for 83.5 percent of the total asset base in 2023. Within the non-life insurance sector, the three largest institutions made up 60.3 percent of the total asset base in the same year. This implies that the insurance market is highly concentrated, thereby limiting growth opportunities for both existing and potential new institutions. The aggregate balance sheets and income statements of the life and non-life insurers in the monetary union are included in appendix tables 3.1-3.4.

Figure 3.1:
Insurance Market Structure



Source: CBCS.

Figure 3.2:
Total Assets Insurance Institutions



Source: CBCS.

Developments in assets

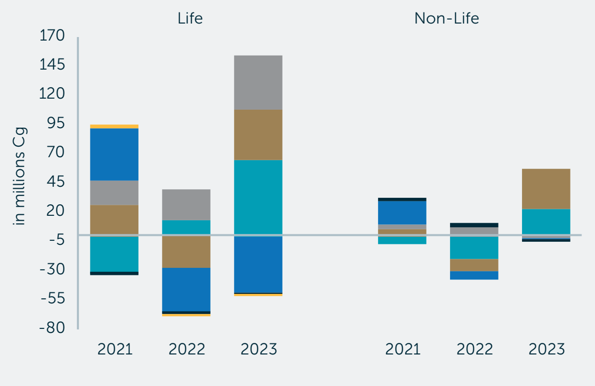
The insurance sector's investment growth in 2023 contributed to an expansion of its overall asset base[48]. The asset base of non-life insurers grew by 14.4 percent, while that of life insurers increased by 2.5 percent compared to 2022 (figure 3.2). Investments accounted for 50.5 percent of the total

47 For this analysis, the local financial sector consists of insurance institutions (life and non-life), pension funds, and local banks.

48 The insurance sector assessment is based on 2023 data. According to current legislation, insurance institutions must submit their data within six months after the end of the reporting year. As a result, most of the data are received after the CBCS has published the FSR. However, where possible, the analyses of insurance institutions were supported by 2024 survey data.

assets of life insurers and 45.2 percent of those of non-life insurers. This expansion was driven by a reallocation within investment portfolios, mainly in the life insurance sector, due to typically limited alternative local investment opportunities. Life insurers reported a significant increase of 16 percent in loans and mortgages at the end of 2023. This was accompanied by an 8 percent rise in bonds and other fixed-income securities, and a notable 23 percent increase in equity holdings, attributed to strong stock market performance. Meanwhile, non-life insurers saw a substantial growth in both equity holdings (34 percent) and bonds and other fixed-income securities (35 percent) (figure 3.3).

Figure 3.3:
Investment Portfolio Changes

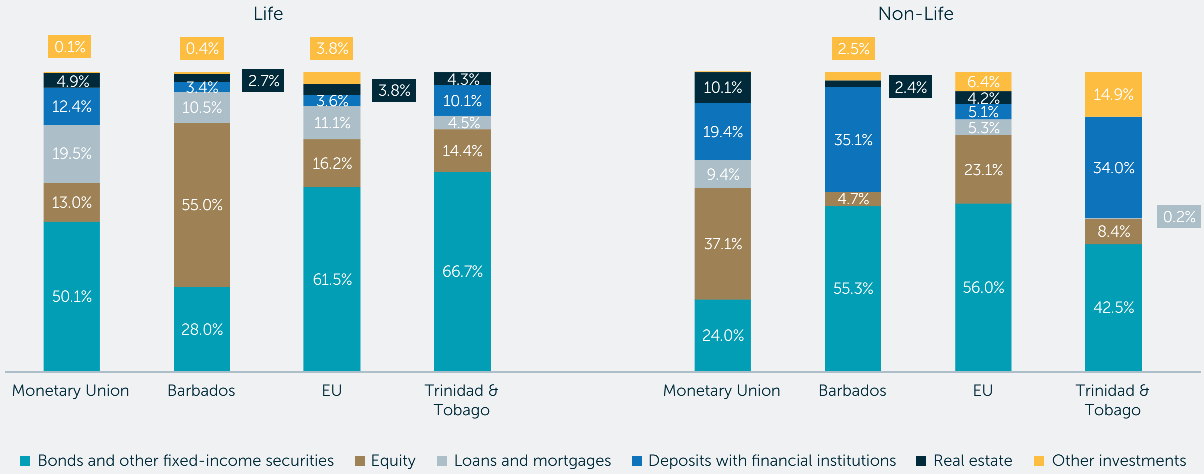


Source: CBCS.

Comparison of the monetary union with the Caribbean and the European Union

While life insurers in the monetary union exhibit investment behavior similar to those in the EU and some Caribbean countries, interesting differences arise for non-life insurers (figure 3.4). In 2023, the investment portfolio of life insurers in the monetary union remained concentrated in bonds and other fixed-income securities (50.1 percent), comparable to the EU (61.5 percent) and Trinidad & Tobago

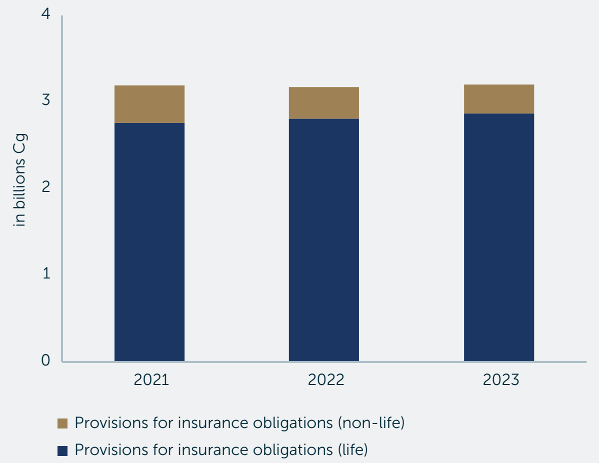
Figure 3.4:
Investment Allocation 2023



Sources: CBCS, CBB, EIOPA, and CBTT.

(66.7 percent). This pattern differed in Barbados, where life insurers held a higher concentration in equities (55 percent). For non-life insurers, the investment portfolio in the monetary union was more concentrated in equities (37.1 percent), followed by bonds and other fixed-income securities (24 percent). Whereas in the EU, Barbados, and Trinidad & Tobago, non-life insurers primarily held bonds and other fixed-income securities (56.0 percent, 55.3 percent, and 42.5 percent, respectively). Interestingly, the share of deposits with financial institutions in the investment portfolios of non-life insurers was substantially higher in Barbados (35.1 percent) and Trinidad & Tobago (34.0 percent) compared to the monetary union (19.4 percent).

Figure 3.5:
Development in Liabilities



Source: CBCS.

Developments in liabilities

Provisions for life insurers are actuarially determined to cover future insurance obligations. Life insurers assess the adequacy of their net technical provisions by performing an annual liability adequacy test, which involves evaluating current estimates of future cash flows under insurance contracts in force. In 2023, the net technical provisions for life insurers increased by 2.2 percent, mainly due to new business acquired (figure 3.5). For non-life insurers, provisions for insurance obligations mostly consist of unearned premium provisions and net claim provisions. The largest liabilities for non-life insurers are current liabilities, of which a significant portion is reinsurance balance payable. As non-life insurers are heavily dependent on reinsurance to cover their catastrophe risk, their liabilities payable to their reinsurers is the largest current liability they hold.

Financial soundness indicators

To better understand the financial stability risks faced by the insurance sector, ten FSIs are assessed for both the life and non-life insurance sectors[49] (appendix tables 3.5 and 3.6). The FSIs are grouped into four categories for each sector and portrayed in cobweb figures (figures 3.6 and 3.7). Movements of an indicator towards the center of the cobweb indicate a decreased risk, while movements away from the center indicate increased risk.

Life insurance sector

The life insurance sector had a positive year in 2023, driven by strong financial market performance, which positively contributed to both profitability and solvency. This is reflected in improved risk exposures related to earnings and profitability, market sensitivity, and capacity. Conversely, risk exposure associated with stability deteriorated due to a decrease in premiums and reserves.

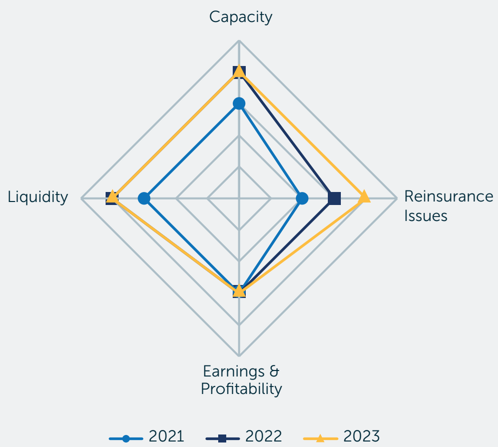
Non-life insurance sector

The non-life insurance sector experienced a relatively stable year in 2023, despite continuing to face some challenges. Risk exposure regarding liquidity remained stable as non-life insurers keep a stable level of liquid assets due the nature of their business, while risk exposure associated with reinsurance issues deteriorated as a result of rising reinsurance premiums and tightened reinsurance conditions. Although the solvency ratio of non-life insurers contributed positively to the capacity indicator, a significant decline in Gross Written Premiums (GWP) offset this development, resulting in an unchanged risk exposure related to capacity. Similarly, risk exposure related to earnings and profitability remained unchanged—despite higher

Figure 3.6:
Life Financial Soundness

Source: CBCS.

Figure 3.7:
Non-life Financial Soundness



Source: CBCS.

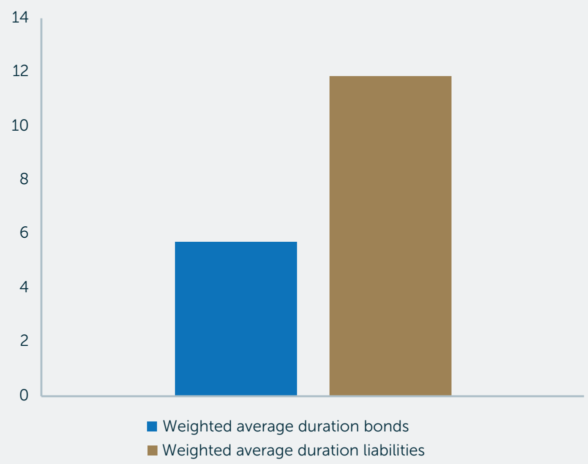
49 The FSI analysis excludes Ennia Caribe Leven.

net results and a positive ROA, these gains were offset by a deterioration in the combined ratio, particularly the loss ratio.

Duration

While the financial assets on the balance sheet of life insurers are valued at fair value—making them sensitive to interest rate fluctuations—their liabilities are typically measured using set pricing assumptions and may not fully reflect current market conditions. To ensure a proper liability valuation, discount rates should reflect current market conditions. Inaccurate valuation may distort the financial position of insurers, potentially leading to misjudgments about their solvency. In 2023, the weighted average duration of bonds was 5.7, while that of the liabilities was 11.9. This implies that a 1 percent increase in interest rates would decrease the value of liabilities by 11.9 percent, while bonds would decline by 5.7 percent. The resulting modified duration gap can be mitigated by reallocating the investment portfolio toward assets that are less sensitive to interest rate changes. As a result, insurers are continuously adjusting their asset-liability management strategies to better align the duration of their assets and liabilities and reduce their exposure to interest rate risk (figure 3.8). To address these duration mismatches and ensure proper alignment with market conditions, the CBCS is developing a new discount rate framework, scheduled for implementation in 2026.

Figure 3.8:
Duration 2023 (Life)



Source: CBCS.

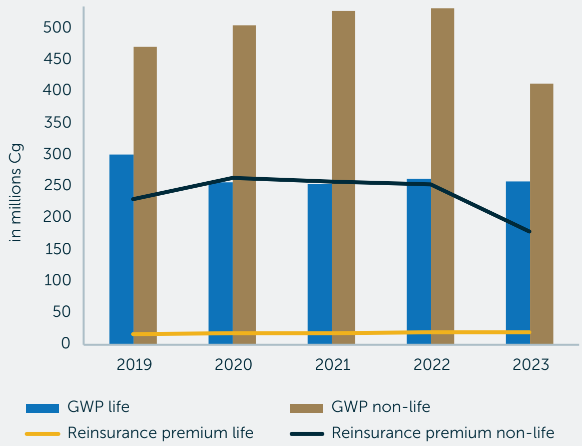
Premiums

International regulatory changes triggered a temporary but significant decrease in GWP in the non-life insurance sector in 2023 (figure 3.9). Non-life insurers experienced a decrease of 22.3 percent in GWP, while life insurers recorded a more modest decline of 1.4 percent. Furthermore, non-life insurers continued to cede a large portion of their GWP to reinsurers (43.3 percent).

The growing impact of climate risk has made it increasingly challenging for non-life insurers in the Caribbean to secure adequate reinsurance coverage. The retention rate measures the percentage of GWP that insurers retain on their books rather than ceding to reinsurers. A higher retention rate implies more funding for an institution's growth and development, while a lower ratio allows an insurer to reduce financial distress after large events such as natural disasters. Climate risk has put growing pressure on the retention rate of non-life insurers, as international reinsurers raised their fees and imposed stricter conditions for coverage in the region. The retention rate of non-life insurers in the monetary union was 52.8 percent on average over the past five years, implying that almost half of their premiums were ceded to reinsurers annually (figure 3.10). Box 3.1 provides a comparison of the retention rate of the monetary union to that of other Caribbean countries.

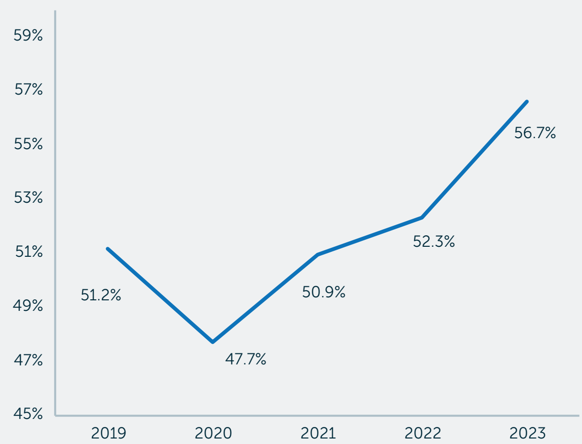
The penetration rate of non-life insurers decreased in 2023 due to a significant decline in GWP. The penetration rate reflects the level of development of a country's insurance sector and can indicate how quickly a country may recover after a natural disaster—particularly for non-life insurance. It

Figure 3.9:
GWP and Reinsurance Premium Development Life and Non-Life



Source: CBCS.

Figure 3.10:
Retention Rate Development (Non-Life)



Source: CBCS.

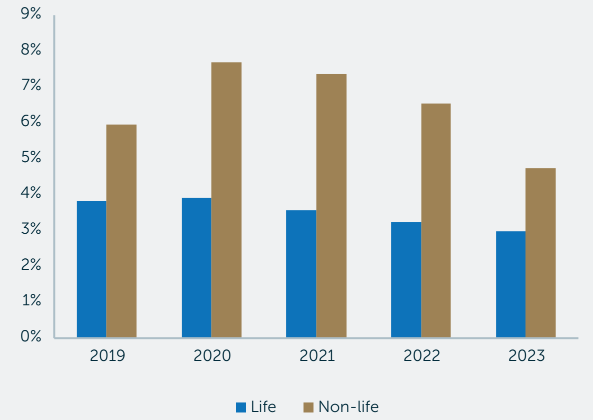
is measured as the ratio of GWP to GDP. A higher penetration rate enhances the resilience of both the real economy and the financial sector. In 2023, the penetration rate of non-life insurers decreased to 4.8 percent, while that of life insurers remained stable at 3.0 percent (figure 3.11). This decrease can be attributed to a sharp contraction in GWP (22.3 percent), which was linked to international regulatory changes. In the life insurance sector, the monetary union's penetration rate was considerably lower than the OECD average (9.4 percent) but higher than that of the Netherlands (1.5 percent) (figure 3.12). In the non-life insurance sector, the monetary union's penetration rate matched the OECD average but was below that of the Netherlands (7.0 percent). Insurance institutions continue to raise public awareness and promote the use of both life and non-life insurance products, given their importance in strengthening resilience to (climate) risks and supporting the stability of the economy and private sector.

Developments in claims and benefits

Amid increased economic activity and sticky inflation, non-life insurers continued to experience rising claims incurred. In 2023, claims incurred by non-life insurers increased by 11.6 percent, whereas benefit payouts by life insurers decreased by 0.7 percent (figure 3.13).

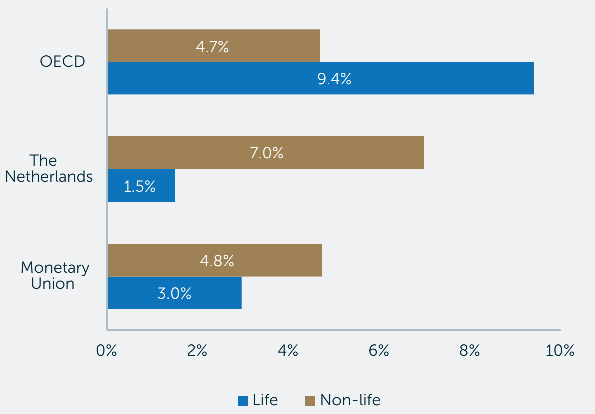
Representative insurance associations continue to express concern about rising claim costs, driven by higher material prices. The largest increases in claims incurred were registered in the motor vehicle and property indemnity groups, primarily due to persistent inflation pushing up the prices of car parts and construction materials. Additionally, growing tourism activities resulted in more rental cars on the road, potentially contributing to a higher number of

Figure 3.11:
Development in Penetration Rate



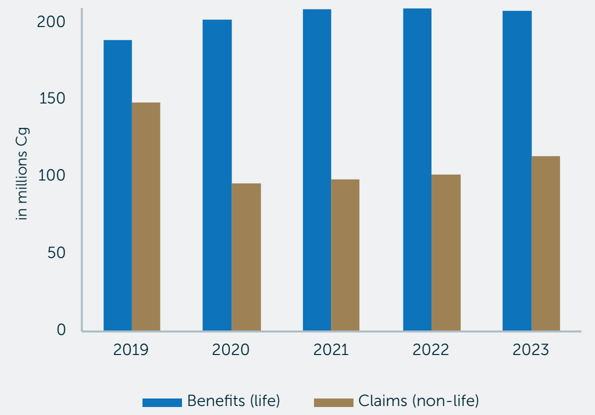
Source: CBCS.

Figure 3.12:
Penetration Rate Life and Non-life



Sources: OECD, EIOPA, and CBCS.

Figure 3.13:
Benefits and Claims Development



Source: CBCS.

accidents (figure 3.14). On the life insurance side, increased benefit payouts were mainly recorded in the life insurance (death and other benefits) and pensions & annuities groups, consistent with the previous year (figure 3.15).

Profitability

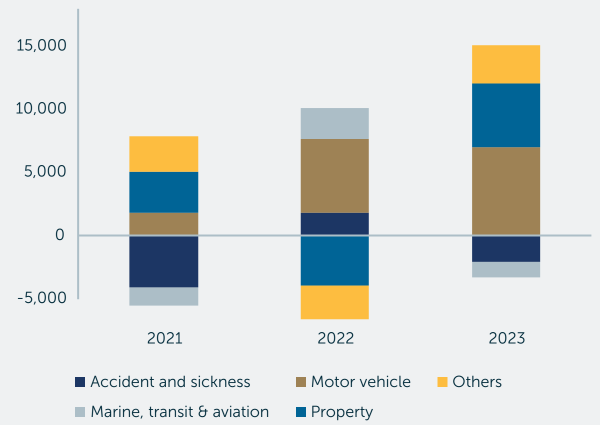
Life insurers recovered well in 2023, after experiencing a significant decrease in profitability in 2022 (figure 3.16)[50]. Aggregate profitability, measured by the median Return on Assets (ROA), increased from -2.7 percent in 2022 to 0.7 percent in 2023 for life insurers. Meanwhile, the median ROA for non-life insurers eased from 4.1 percent in 2022 to 3.9 percent in 2023, as net results grew at a slower pace than invested assets.

The net results of both life and non-life insurers improved by over 100 percent in 2023, owing to positive investment results (figure 3.17). Life insurers reversed their performance from a net loss of Cg 44.1 million in 2022 to a net profit of Cg 12.7 million in 2023. Meanwhile, non-life insurers reported a higher net profit, from Cg 14.4 million in 2022 to Cg 29.4 million in 2023. Preliminary data show further improvement in the net results of both life and non-life insurers in 2024, as financial markets performed better than in 2023.

Underwriting profitability for non-life insurers

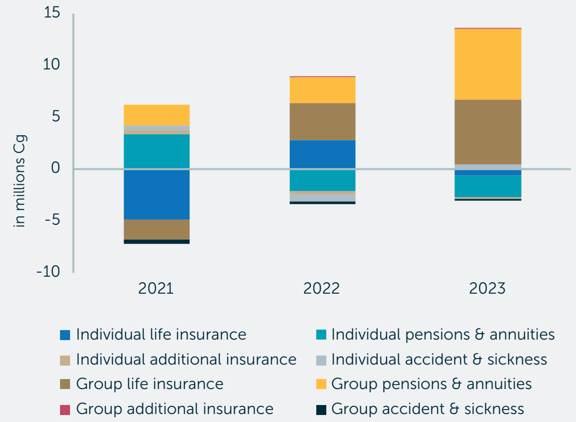
Persistent inflation and a tightened global reinsurance market have driven up operating and claim settlement costs for non-life insurers, putting pressure on their combined ratio. The combined ratio, which measures underwriting profitability for non-life insurers, increased from 78.8 percent in 2022 to 89.6 percent in 2023 (figure 3.18). According to the CBCS's supervisory benchmark, the combined

Figure 3.14:
Mutation in Claims Incurred (Non-Life)



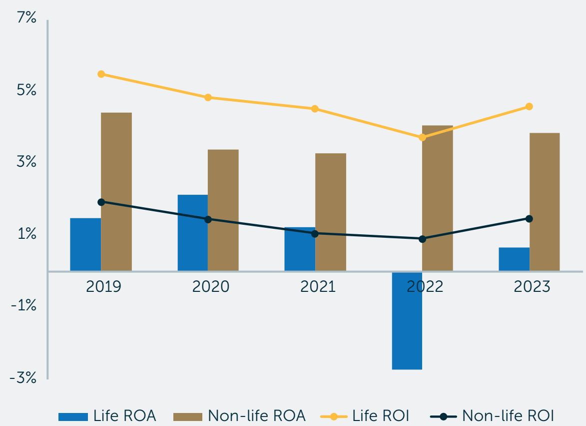
Source: CBCS.

Figure 3.15:
Mutation in Net Benefits Incurred per Product Type (Life)



Source: CBCS.

Figure 3.16:
ROA and ROI Life and Non-Life



Source: CBCS.

50 The profitability analysis excludes Ennia Caribe Leven.

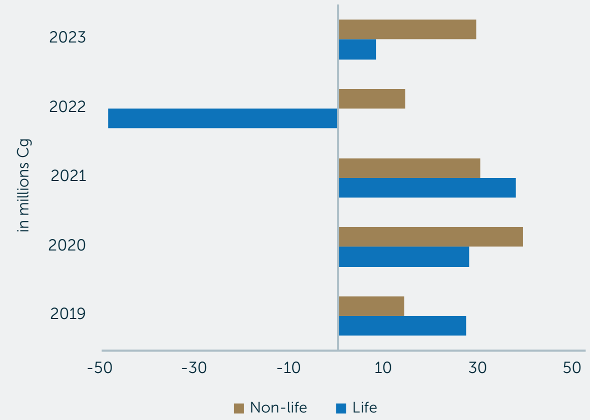
ratio should ideally remain below 100 percent and exhibit a declining trend. An increasing combined ratio —especially when paired with decreasing investment income— may eventually jeopardize an insurer's financial stability. The two components of the combined ratio are the underwriting expense ratio and the loss ratio. While the underwriting expense ratio has remained relatively stable, the loss ratio rose significantly in 2023, especially in the motor vehicle indemnity group. This rise was largely driven by inflation and increased economic activity related to tourism. The resulting increase in rental cars on the road potentially contributed to a greater number of accidents.

Solvency

Both life and non-life insurers reported sufficient capital in 2023 (figure 3.19)[51]. The surplus excess refers to the capital exceeding the minimum capital requirement set by the CBCS. When this surplus excess is divided by the supervisory threshold, it yields the solvency margin, which should be at least 100 percent. Over the past few years, the solvency margins of life and non-life insurers have remained (well) above this threshold. In 2023, the solvency margin stood at 161.6 percent for life insurers and 232.3 percent for non-life insurers. Preliminary data indicate progressive increases in the surplus excess, which are expected to contribute to the solvency margins of both life and non-life insurers in 2024. This suggests that the insurance sector is expected to continue maintaining sufficient capital. It is worth noting, however, that the solvency requirements imposed by the CBCS—while transitioning to a more risk-based regulatory framework—are not yet aligned with the Solvency II regime currently in effect in the EU.

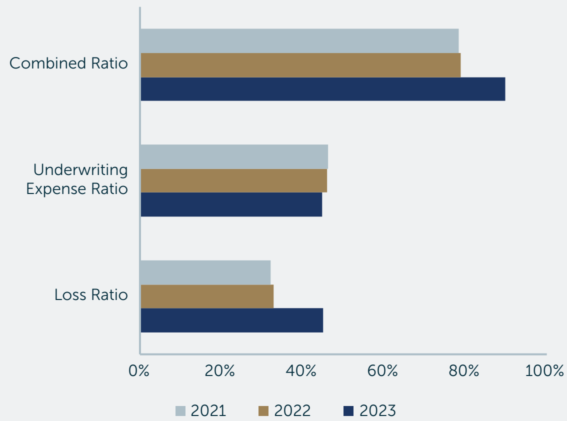
51 The solvency analysis excludes Ennia Caribe Leven.

Figure 3.17:
Net Result Life and Non-Life



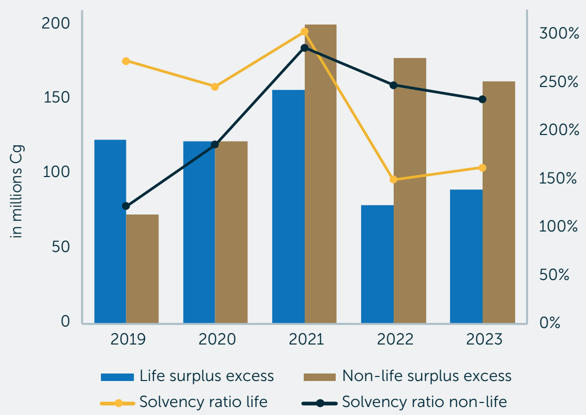
Source: CBCS.

Figure 3.18:
Combined Ratio Non-Life



Source: CBCS.

Figure 3.19:
Solvency Life and Non-Life



Source: CBCS.

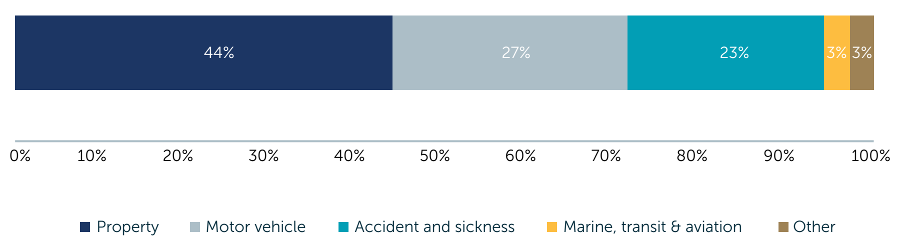
CHAPTER 3 - Box 1: (Re)insurers navigating economic headwinds in the Caribbean

On March 6, 2025, the CBCS published a Financial Stability note[52] on reinsurance risk, following concerns raised by representative insurance associations in the monetary union and in Caribbean countries such as Barbados, Jamaica, and Trinidad & Tobago.

Approximately 78 percent of non-life insurers in the monetary union face increasing reinsurance fees, with approximately 55 percent of these insurers also reporting tighter reinsurance conditions. Reinsurance means that insurance institutions cede part of their premiums to large internationally renowned reinsurers, who then cover potential losses on those policies. Entering into reinsurance agreements enables insurers to optimize their underwriting strategy, effectively manage risks, and enhance their financial stability.

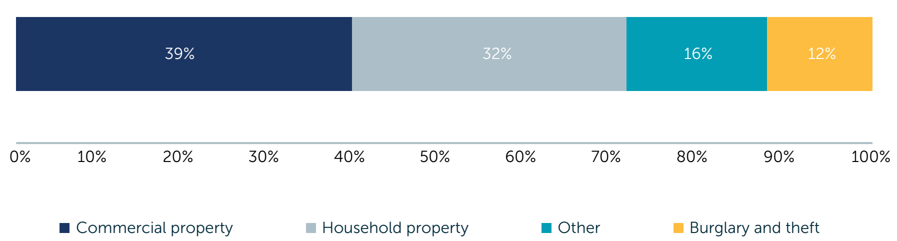
Increasing reinsurance fees mostly affect property insurance, which is one of the most vulnerable insurance categories due to persistent inflation. Based on GWP (figure 3.20) and sums insured (figure 3.21), the property indemnity group represents the largest share of the portfolio of non-life insurers in the monetary union, at 44 percent and 71 percent, respectively.

Figure 3.20:
Portfolio Based on Gross Written Premiums 2023



Source: CBCS.

Figure 3.21:
Portfolio Based on Sums Insured 2023



Source: CBCS.

52 Romero, 2025.

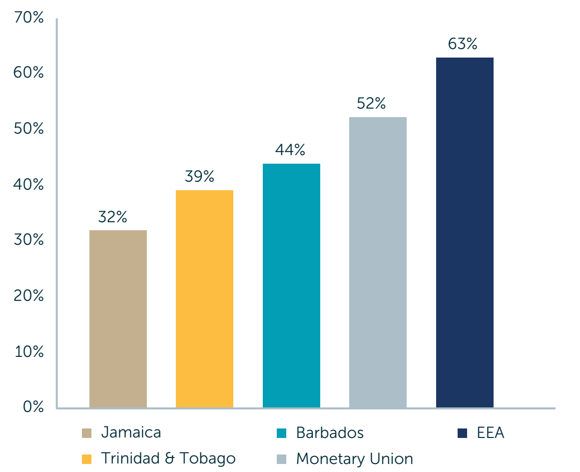
Natural disasters can cause significant damage to property and infrastructure and can be extremely costly for governments, households, and businesses. Elevated climate risk is one of the main reasons behind the increased vulnerability of the Caribbean region to natural disasters such as floods and hurricanes. Insurers and, in turn, reinsurers play a vital role in covering the damage related to catastrophes.

Reinsurance contracts can be either proportional or non-proportional, pointing to a difference in insurance terms. Approximately 58 percent of the reinsurance portfolio of non-life insurers in the monetary union is non-proportional. This is expected, since non-proportional reinsurance is often used for catastrophe risk, which is heavily influenced by climate risk.

On average, 52 percent of non-life insurers' GWP are retained on their own books. This suggests that the retention ratio in the monetary union is much higher than the ratios recorded in other Caribbean countries (figure 3.22). The higher the ratio, the more funding for an institution's growth and development opportunities. But, at the same time, an institution could face the risk of financial difficulties following a large claim.

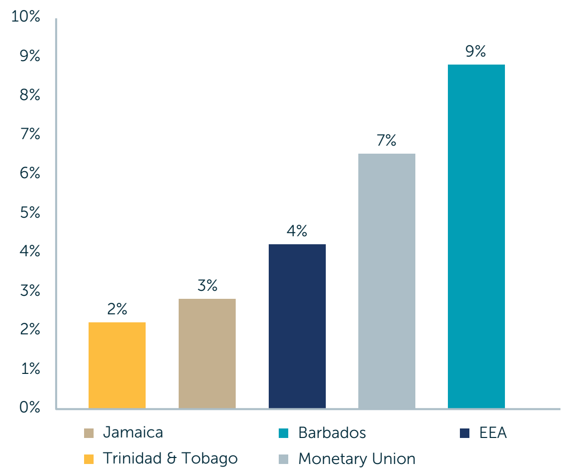
Furthermore, the penetration rate reflects the level of development of a country's insurance sector and can indicate how quickly it might recover after a natural disaster. It is measured by the ratio of GWP to GDP and is 7 percent on average in the monetary union (figure 3.23). The monetary union's penetration rate is relatively higher than the rates registered in Europe and the Caribbean, except for Barbados (9 percent). A higher penetration rate can play an important role in boosting the resilience of both the real economy and the financial sector. The CBCS is committed to continuing its research into the challenges related to reinsurance for insurance institutions.

Figure 3.22:
Retention Rate 2022



Sources: CBCS, CBB, EIOPA, and CBTT.

Figure 3.23:
Penetration Rate 2022



Sources: CBCS, CBB, EIOPA, and CBTT.

CHAPTER 4

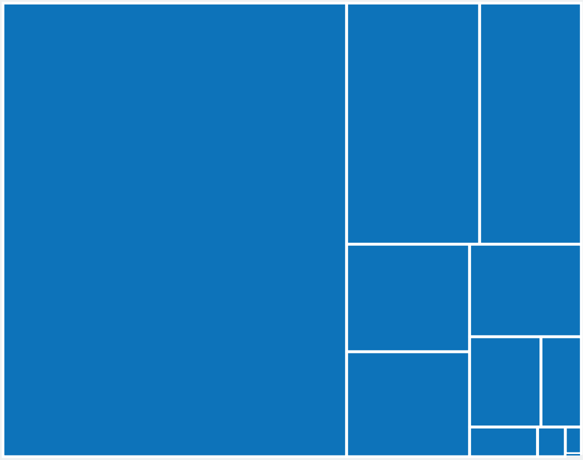
4 Pension Funds

Developments in assets

The three largest pension funds collectively accounted for 82 percent of the sector's total assets in 2023[53]. Figure 4.1 delineates the structure of the pension fund market, illustrating the relative size of each pension fund based on total assets. Roughly 90 percent of the sector's assets pertain to pension funds in Curaçao and 10 percent to those in Sint Maarten. Twelve pension funds currently operate in the monetary union, accounting for approximately 34 percent of the local financial sector's total assets.[54] The aggregate balance sheet and income statement of the pension funds in the monetary union are presented in appendix tables 4.1 and 4.2.

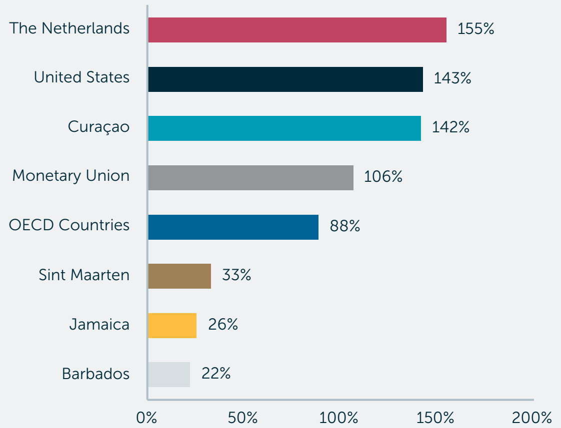
The penetration rate of the pension fund sector, which is the value of total assets relative to GDP, increased by 1 percent to 106 percent in 2023 (figure 4.2). With Sint Maarten having a penetration rate of 33 percent and Curaçao 142 percent, the combined penetration rate exceeds the OECD average. In the United States, pension assets amounted to 143 percent of GDP in 2023, comparable to the level in Curaçao. The Netherlands has the fourth highest penetration rate among OECD countries, at 155 percent in 2023. The monetary union's pension fund sector manages a larger asset

Figure 4.1:
Pension Fund Market Structure



Source: CBCS.

Figure 4.2:
Penetration Rate 2023



Sources: CBCS, EIOPA, CBB, and OECD.

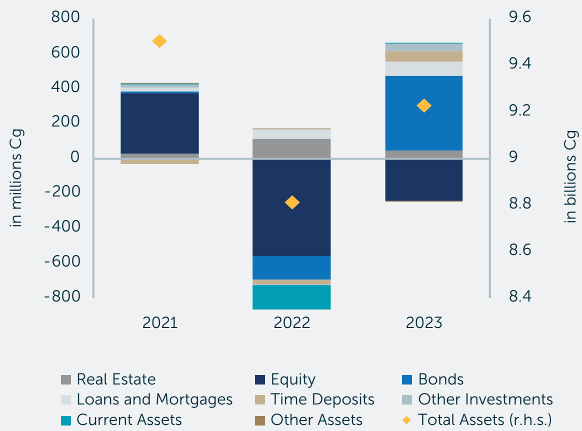
53 The pension fund sector assessment is based on 2023 data. According to current legislation, pension funds must submit their data within six months after the end of the reporting year. As a result, most of the data are received after the CBCS has published the FSR. However, where possible, the analyses of pension funds were supported by 2024 survey data.

54 The local financial sector consists of insurance institutions (life and non-life), pension funds, and local banks.

base relative to economic output, compared to other Caribbean countries.

Strong financial market performance was the main cause of the 4.8 percent increase in pension assets to roughly Cg 9.2 billion in 2023 (figure 4.3). Bond holdings, time deposits, and real estate investments grew by 14.8 percent, 16.1 percent, and 9.7 percent, respectively, while equity values decreased by 10.0 percent. This development reflects a portfolio rebalancing towards safer assets throughout 2023. Nevertheless, the positive investment performance in 2023 was not sufficient to fully recover the investment losses incurred in 2022. Pension fund assets remained 3 percent below their 2021 level.

Figure 4.3:
Asset Growth

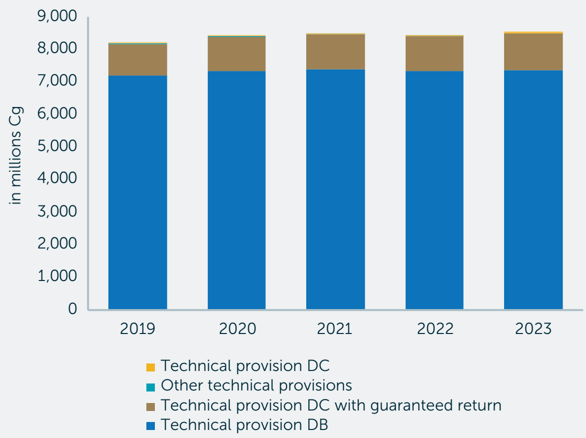


Source: CBCS.

Developments in liabilities

In 2023, approximately 86 percent of the total pension liabilities belonged to defined benefit (DB) schemes, in which participants are entitled to a predetermined benefit upon retirement (figure 4.4). A smaller portion of around 13 percent was related to defined contribution (DC) schemes with a guaranteed return. While DC schemes generally do not entail future benefit commitments, most local DC schemes offer a guaranteed return for a specified period. Only 0.3 percent of the total pension liabilities regarded traditional DC schemes in which the participant, and not the fund, bears the investment risk.

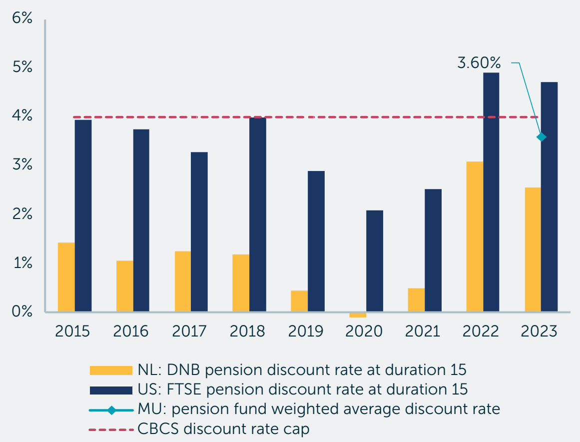
Figure 4.4:
Pension Liabilities



Source: CBCS.

As in previous years, aggregate pension liabilities remained stable, with a slight increase of 1 percent in 2023 (figure 4.4). Pension liabilities in the monetary union (MU) are valued using a fixed discount rate—3.6 percent weighted average in 2023—which remains below the 4 percent cap according to the CBCS fixed valuation framework (figure 4.5). A comparison is provided with the discount rates used in the United

Figure 4.5:
Discount Rate



Sources: CBCS, DNB, and SOA.

States (US) and the Netherlands (NL), as these countries apply a market-based valuation approach.

Demographic risk

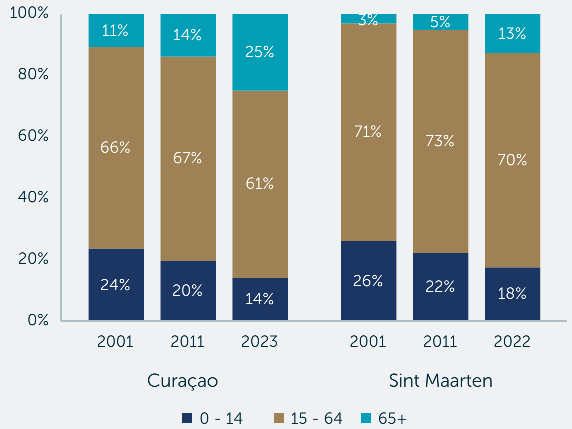
The ageing population creates a vulnerability within the pension fund sector. The demographic structure of the population is out-of-balance, featuring a shrinking workforce, an increasing elderly population, and a decreasing number of young people. The percentage of the population aged zero to fourteen has dropped significantly in the last 20 years (figure 4.6). During this period, the proportion of the population aged sixty-five and above has increased rapidly.

There is a declining trend in the ratio of contributors to pension schemes compared to non-contributors, as measured by the maturity degree (figure 4.7). This trend suggests that pension funds are becoming more mature. Mature pension funds have greater sensitivity to investment results, requiring them to carefully examine their investment strategies to ensure they can effectively meet their current and future obligations.

More than 17 thousand pensioners received benefits in 2023 (figure 4.8). Around 91 percent of the pensioners had a DB scheme, while the remaining 9 percent had a DC scheme with a guaranteed return. There were around 15 thousand active members and around 11 thousand inactive members.

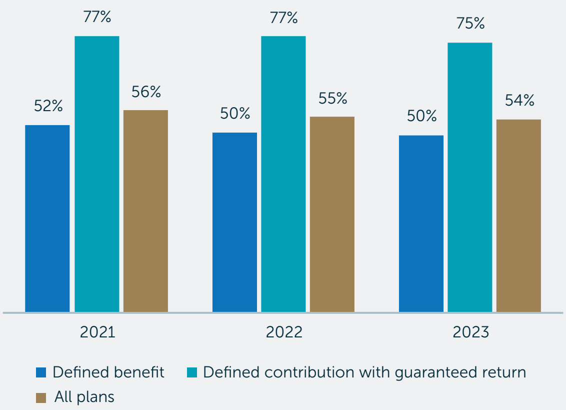
In addition to the market-based valuation framework, the CBCS will explore guidelines regarding the mortality tables as a next step in improving the valuation of pension liabilities. Periodic updates to life expectancy assumptions are crucial to ensure that pension funds maintain the

Figure 4.6:
Population Age Categories



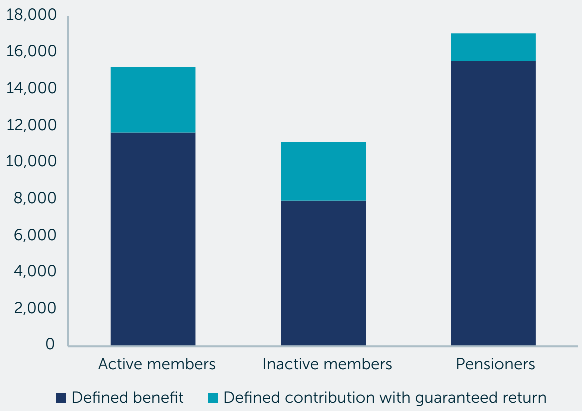
Sources: CBS and STAT.

Figure 4.7:
Maturity Degree



Source: CBCS.

Figure 4.8:
Participant Count 2023



Source: CBCS.

necessary financial resources to meet their long-term obligations and limit longevity risk.

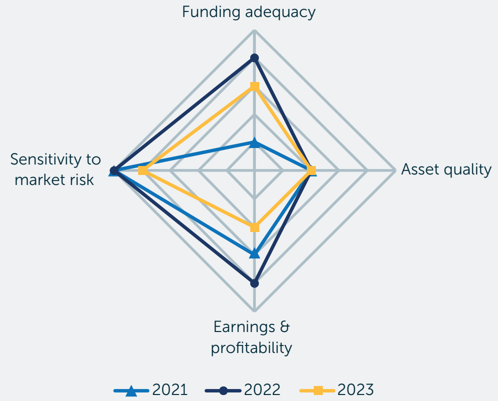
Financial soundness indicators

The pension fund sector experienced a solid 2023, largely driven by substantial investment gains resulting from strong financial market performance. The overall financial health of the sector is assessed using four key components: funding adequacy, asset quality, earnings and profitability, and sensitivity to market risk. These components, each comprising several indicators, are visualized in a cobweb (figure 4.9). Compared to 2022, risk exposure related to funding adequacy, earnings and profitability, and market sensitivity improved. However, risk exposure associated with asset quality remained unchanged. The FSIs for the pension fund sector are shown in appendix table 4.3.

Funding adequacy

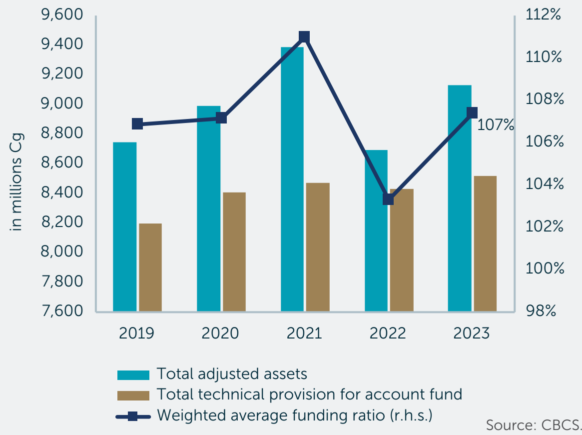
Asset growth exceeded the increase in pension liabilities in 2023, leading to improved sustainability of future pension obligations. The financial health of a pension fund is measured by its ability to fulfill current and future obligations, using the ratio of assets to technical provisions. The weighted average funding ratio increased by 4 percentage points to 107 percent in 2023 and is expected to rise further in 2024 (figure 4.10). The latter development is likely related to the strong performance of equity markets. Major equity indices, including the S&P 500 and the MSCI World Index, yielded positive returns of approximately 24 percent and 19 percent, respectively, in 2024.

Figure 4.9:
Pension Funds Financial Soundness



Source: CBCS.

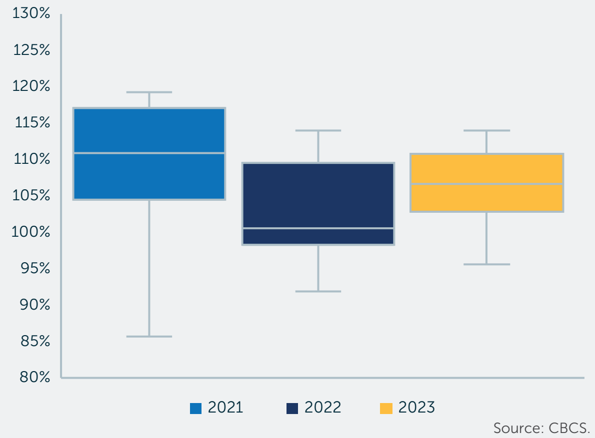
Figure 4.10:
Funding Ratio



Source: CBCS.

Of the twelve pension funds in the monetary union, only one experienced a funding deficit in 2023. The median funding ratio increased significantly, as most funds saw an improvement in their asset-to-liability position (figure 4.11). The distribution of funding ratios across the sector is well-balanced with the interquartile spanning from 103 percent to 111 percent, surpassing the CBCS's minimum requirement of 100 percent.

Figure 4.11:
Funding Ratio Distribution

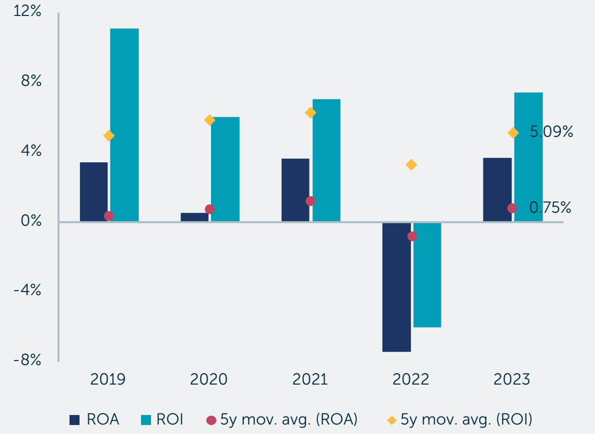


Source: CBCS.

Earnings and profitability

Pension funds experienced a positive rate of return on their investments and assets. Pension funds' investment returns soared in 2023 due to a strong recovery in the equity market as inflation eased (figure 4.12). The average ROI rate reached 7.41 percent in 2023, while the 5-year average ROI increased to 5.09 percent. Additionally, the average ROA increased to 3.67 percent in 2023, while the 5-year average ROA rose to 0.75 percent, compared to -7.43 percent and -0.79 percent, respectively, in 2022. The ROA exhibited high volatility over the last few years, which is mostly attributable to heightened fluctuations in net investment income.

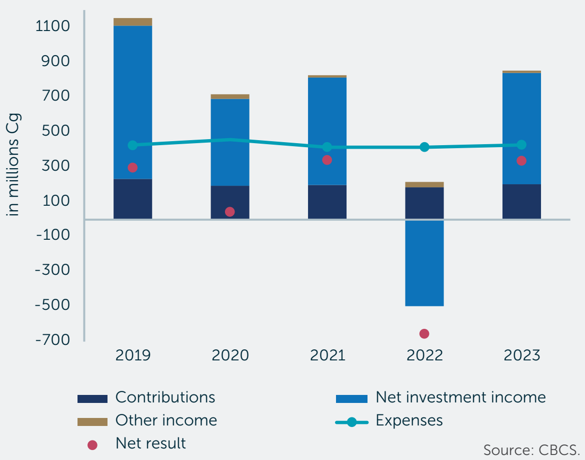
Figure 4.12:
Return on Assets and Return on Investments



Source: CBCS.

The net result for the sector reversed from a loss of Cg 654 million in 2022 to a profit of Cg 339 million in 2023, and is expected to remain a profit in 2024 (figure 4.13). Contributions increased by 10.54 percent in 2023. This upward move eases the pension funds' dependency on investment income to meet short-term obligations. The difference between the contributions and benefit payments amounted to a negative gap of Cg 180 million, which is Cg 10 million less than in 2022 (figure 4.14). This negative gap can strain short-term cash availability in the event of consecutive market downturns.

Figure 4.13:
Income, Expenses and Net Result



Source: CBCS.

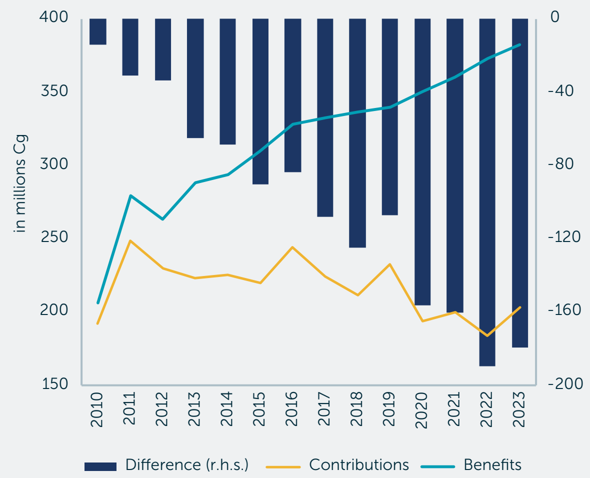
Investment allocation

Bonds and equity represented the largest share of pension fund investment allocation, accounting for 39 percent and 26 percent, respectively, of the total investments in 2023 (figure 4.15). The decline in the share of equity holdings combined with the increase in the share of bond holdings signals a tendency called 'flight to quality', in which investors opt for safer assets (bonds) at the expense of riskier assets (equities). Flight to quality allows investors to find stability amidst market uncertainty, while capitalizing on higher bond yields available due to the high-interest-rate environment.

Loans and mortgages were the third largest asset class, representing approximately 21 percent of the overall investment portfolio in 2023. Real estate investments showed a growing trend over the past years—from Cg 362.4 million in 2021 to Cg 521.8 million in 2023—mainly driven by a flourishing domestic property market. However, in terms of its share in the total portfolio, real estate investments remained at 6 percent.

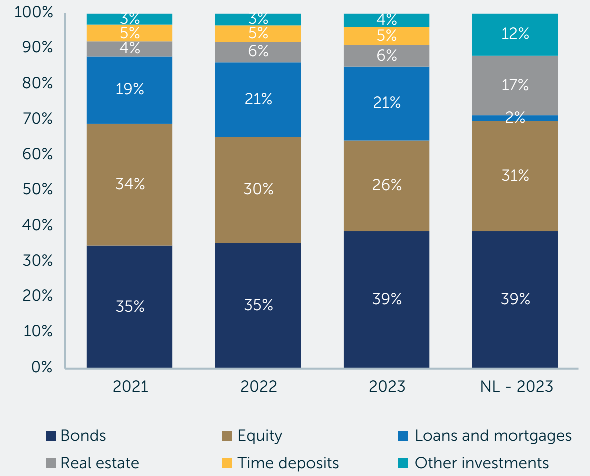
Pension funds held around Cg 445 million in time deposits in 2023, a 16.1 percent increase compared to the previous year. Approximately 5 percent of the investment portfolio is held in time deposits due to limited viable domestic investment options. This exposure to the banking sector could become a channel for risk transmission and contagion, posing a risk to pension funds. This development is closely monitored by the CBCS to avoid a liquidity problem in the financial sector.

Figure 4.14:
Contributions and Benefits



Source: CBCS.

Figure 4.15:
Investment Allocation



Sources: CBCS and EIOPA.

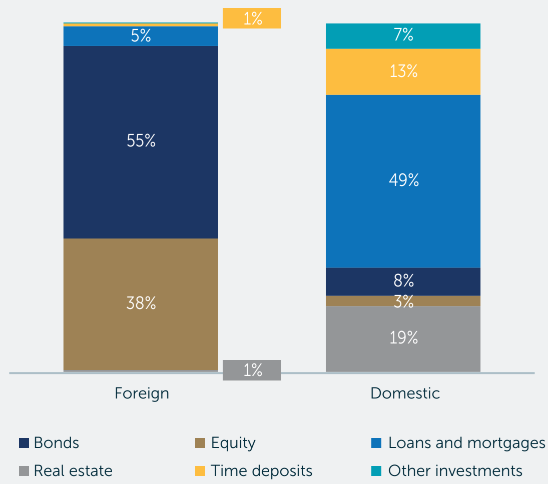
Sensitivity to market risk

The balance sheet of the pension fund sector is exposed exclusively to market risk associated with the asset side, as a fixed discount rate framework is used for the valuation of the liabilities. This creates challenges in benchmarking the funding ratio of the monetary union against countries employing market-consistent valuation methods. The new dynamic discount rate framework will address this limitation by accommodating market fluctuations and allowing for an accurate reflection on the financial health of the pension funds.

Domestic investments are comprised of mostly loans and mortgages, real estate, and time deposits, while foreign investments are centered on bonds and equity holdings (figure 4.16). The CBCS 60/40 investment rule[55] serves as a monetary policy instrument, imposing restrictions on institutional investors and compelling them to allocate a substantial portion of their investments domestically. From a monetary policy standpoint, it is essential to maintain an adequate level of foreign exchange reserves to support the fixed peg to the US dollar. This creates a tense environment in which institutions are compelled to invest domestically to preserve exchange rate stability, while experiencing a lack of viable domestic investment opportunities.

The pension fund sector allocates a significant portion of its equity and bond investments in the USA, resulting in substantial exposure to US market risk. Roughly 54 percent of the market value[56]

Figure 4.16:
Domestic and Foreign Investments



Source: CBCS.

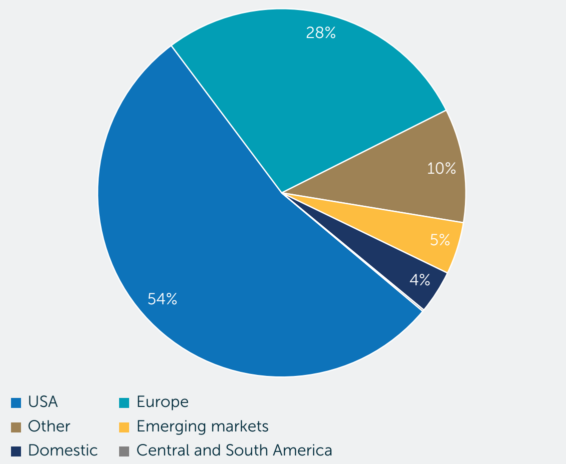
55 The 60/40 rule entails that 40 percent of the first Cg 10 million, respectively 50 percent of the second Cg 10 million and 60 percent of the remaining assets should be invested domestically. Investments in the jurisdictions of Curaçao and Sint Maarten are considered local investments. The CBCS is currently reviewing the 60/40 investment rule and will engage in consultation with the relevant representative organizations.

56 The pension fund sector's financial assets are valued at fair value according to the CBCS valuation guidelines.

of equity and around 72 percent of that of debt instruments are attributed to the USA (figures 4.17 and 4.18). The pension fund sector is vulnerable to market volatility, geopolitical events, and economic downturns in the USA through its equity holdings. Furthermore, the high allocation to US bonds makes the sector more susceptible to US interest rate fluctuations.

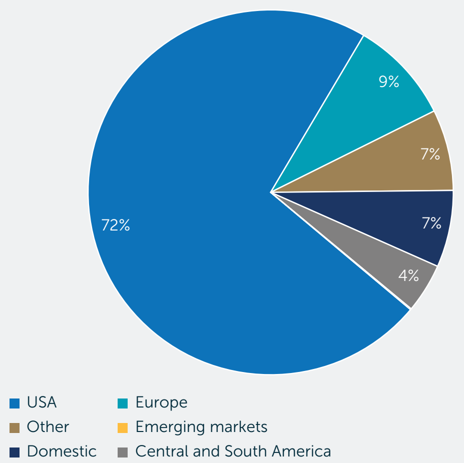
The weighted average duration of bond investments is roughly 6.2 for the local pension funds, whereas that of their liabilities is around 14.8 (figure 4.19). The duration of the technical provision is typically longer than the duration of fixed-income assets for pension funds. This negative duration gap is an indicator of the interest rate risk exposure within the pension fund sector.

Figure 4.17:
Equity Investments by Region



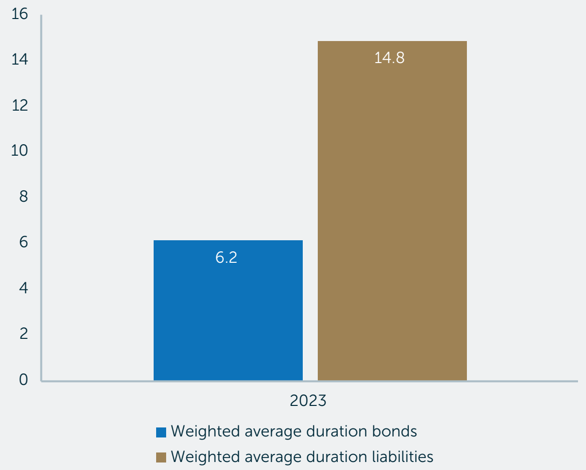
Source: CBCS.

Figure 4.18:
Bond Investments by Region



Source: CBCS.

Figure 4.19:
Duration 2023



Source: CBCS.

CHAPTER 4 - Box 1: Review of the pension systems of Curaçao and Sint Maarten

According to the OECD, the question of how to address the impact of population ageing on pension systems has moved back to centre stage[57]. As populations age, it becomes increasingly urgent for governments to review their pension systems[58]. To this end, the CBCS requested an expert company to conduct a review of the pension systems and provide recommendations to improve their long-term sustainability. This review highlights the relative strengths and weaknesses of the systems and serves as a starting point for addressing long-term structural issues in the pension systems of Curaçao and Sint Maarten.

While the CBCS provided the necessary information, the analysis was conducted independently by the external party.[59]

Methodology

Pension systems around the world exhibit great diversity; hence, comparisons are not straightforward. The expert company developed a measurement system in which a pension system is evaluated using more than 50 indicators. Each indicator carries a distinct weight within the scoring framework. The methodology entailed answering a series of fundamental questions on the three main categories:

- **Adequacy:** whether the pension system provides sufficient income in retirement to maintain a reasonable standard of living.
- **Sustainability:** examining the long-term viability of the pension system, taking factors like demographic trends, government finances, and economic growth into account.
- **Integrity:** assessing trust and transparency within the pension system, including governance, regulation, and communication.

Summary of the pension system

The pension systems of Curaçao and Sint Maarten follow a multi-pillar system, comprising public, occupational, and voluntary pension schemes. The public pension scheme is a pay-as-you-go program that is non-means tested. Eligibility is determined by specific criteria and is open to residents and former residents, regardless of their nationality or employment status. For the employed, an employee contribution rate of 6 percent of wages is required up to a maximum wage limit. The employer contribution rate is 9 percent of wages in Curaçao and 7 percent of wages in Sint Maarten. The self-employed are required to pay contributions according to a gliding scale, with a maximum premium of 15 percent in Curaçao and 13 percent in Sint Maarten. The benefit amount depends on the number of years of residency before reaching the retirement age of 65, with a maximum for those who have been resident

57 OECD, 2023.
58 Knox, 2025.
59 The recommendations presented in this review do not necessarily reflect the views or the official position of the CBCS.

from age 15 to 65. As of December 2023, the maximum benefit is Cg 862 per month in Curaçao and Cg 1,338 per month in Sint Maarten[60].

Occupational pensions consist of a mandatory funded defined benefit scheme for public-sector employees[61] and a non-mandatory scheme for private-sector employees. On November 30, 2024, the CBCS published a factsheet[62] on the occupational pension landscape in Curaçao and Sint Maarten. The public sector employees receive a defined benefit pension, funded by a combined employee and employer contribution rate of 18 percent of wages, and an accrual rate of 1.75 percent per year in Curaçao and 2 percent per year in Sint Maarten. It is not a legal requirement to offer private-sector employees a pension unless this is stated in the collective labor agreement. Private-sector employees may receive a defined benefit or defined contribution pension, which may be fully or partially funded by employers. The retirement age varies from 60 to 65 years. Voluntary private pension arrangements are typically individual pension savings plans managed by insurance companies.

Results

The overall score for the pension systems of Curaçao and Sint Maarten is 5.8 out of 10 and translates to a grade C. This means that the systems have some good features but also major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability may be compromised. The following tables provide an overview of the scores per category.

Adequacy	Score (out of 10)
Level of basic state pension	9.2
Net pension replacement rate	1.0
Net household savings rate	6.0
Preservation requirements	10.0
Retirement income requirements	6.0
Growth assets	6.0
Adequacy score (40% weight in total score)	**6.2**

60 At the time the analysis was conducted by the expert company, the December 2023 data were used. As of January 2025, the maximum benefit is Cg 862 per month in Curaçao and Cg 1,398 per month in Sint Maarten.

61 Public sector employees are individuals working for the government, government-owned corporations, and government-subsidized institutions.

62 CBCS, 2024.

Sustainability	Score (out of 10)
Coverage	2.6
Level of pension assets	8.9
Mandatory contributions	0.0
Demography	7.6
Cost of public pension	10.0
Sustainability score (35% weight in total score)	5.6
Sustainability score (40% weight in total score)	**6.2**

Integrity	Score (out of 10)
Regulations	5.7
Protection and communication	4.6
Costs	7.5
Integrity score (25% weight in total score)	**5.4**

Recommendations

In 2023, the CBCS submitted a new pension regulation[63] which contains several specific rules regarding the supervision of pension providers. This draft legislation is pending approval from the legal counsel of the government. As it has not yet taken effect, it was excluded from the scope of this review.

The expert company recommended that consideration be given to improving the pension systems of Curaçao and Sint Maarten in the following ways:

- Introduce some form of compulsory second pillar, which would increase coverage of private pensions, establish a mandatory level of contribution, and improve the net replacement rate.
- Increase the share of growth assets[64] to improve long-term return of pension funds.
- Increase the requirements for trustees/fiduciaries to develop appropriate policies.
- Enhance the disclosure of information provided to pension plan members.

The FSD will formulate targeted action points based on the recommendations presented in the report. These will be integrated into the CBCS's strategic objectives 2026–2028 plan.

63 National Ordinance on the Supervision of Pensions.
64 Growth assets include equities, property, and other assets aimed at achieving capital growth.

CHAPTER 5

5 Outlook

The impact of rapid global developments on the monetary union

While the financial sectors in Curaçao and Sint Maarten remained largely resilient during 2024, the CBCS is wary about insecurity and heightened volatility in international financial markets. Potential shocks that can challenge the macro-financial environment and local financial institutions are driven by volatile financial markets and the looming global economic recession. In 2025, cyber risks are set to escalate as AI-enabled attacks and dependence on third-party digital services increase vulnerabilities in the entire financial sector. Therefore, strengthening cyber resilience and improving cross-sector coordination will be essential to safeguarding financial stability.

Local banks

The outlook for local banks remains cautiously optimistic, with solid capital buffers, sufficient liquidity, and improving profitability and asset quality. The CAR of 22.7 percent is comfortably above the regulatory requirement of 10.5 percent, indicating that banks are well-capitalized to absorb shocks or unexpected financial stress. The liquidity ratio of 37.7 percent shows that banks have sufficient liquid assets to meet their short-term obligations, further highlighting their resilience. Profitability also slightly improved in 2024, with an ROA of 2.0 percent. However, the NPLs-to-total gross loans ratio of 4.4 percent suggests a moderate level of credit risk, which remains vulnerable to economic pressures as about 80 percent of the NPLs are more than 180 days overdue.

Reemerging inflation, combined with lower tourism inflows, could dampen credit growth, as most banks are exposed to lending in tourism-related sectors. A potential decline in tourism could have a cascading effect on other sectors that depend on tourism-driven demand, such as hospitality, food and beverage, retail, transport, and construction, impacting the credit growth outlook. A downturn in the tourism sector could also limit investment opportunities. The anticipated rise in prices due to higher tariffs on imports may further strain businesses and consumers, reducing disposable income and dampening demand for goods and services. The wholesale and retail sector is also exposed, as higher tariffs increase import costs, while reduced consumer spending can lower profit margins.

While banks remain adequately capitalized and liquid, risks to asset quality and profitability should be closely monitored as profit margins may come under pressure from increased loan loss provisions and reduced credit demand. The combination of an economic slowdown and higher tariffs may dampen businesses and consumer confidence, reducing demand for both commercial and household loans. Aside from limiting loan expansion, reduced tourist numbers and rising inflation can put pressure on the repayment capacity of businesses and consumers, respectively. Geopolitical unrest and the tariff wars can impact loans in the real estate sector, as delayed or cancelled development projects can increase the risk of real estate developers defaulting. When borrowers struggle to meet their debt obligations, NPLs may increase due to deteriorating or defaulting loans. In this context, banks' profitability may also come under pressure from the volatile global environment and potential economic slowdown.

Insurance institutions

The outlook for life insurers is stable, despite facing rising economic and geopolitical uncertainty in 2025. Life insurers actively monitor the risks and opportunities that arise from fluctuating interest rates, stock market dynamics, and global trade developments. Since 2023, the investment behavior of life insurers has gradually shifted, with a noticeable reallocation towards bonds and mortgage loans, a trend that persisted throughout 2024. In addition, solvency and profitability recovered well in 2023 and this trend is expected to continue in 2024. Looking ahead to 2025, heightened economic and geopolitical uncertainty is expected to result in increased volatility in the investment performance of life insurers.

The outlook for non-life insurers is stable, supported by positive contributions from profitability and solvency in 2023 and similar expectations for 2024. However, they should be mindful of developments in the reinsurance risk as almost half of their gross written premiums are ceded to reinsurers. Reinsurers have been increasing fees and tightening reinsurance conditions in the Caribbean region, putting local insurers at risk for reduced catastrophe insurance coverage. This reduction in coverage is expected to force non-life insurers to cede a larger share of their risk, putting pressure on their earnings and profitability. Alternatively, insurers may be forced to retain more risk on their balance sheets, potentially increasing exposure to equity markets and leading to greater volatility. Consumers are likely to be affected by these developments, as the higher fees often translate into increased premiums. The CBCS is monitoring this trend closely. Additionally, claim settlement costs such as motor vehicle policies also continue to increase, while the local market for non-life insurance remains saturated. These trends are expected to persist in 2025.

Pension funds

Despite ongoing turbulence in global financial markets, the outlook for the pension fund sector remains stable due to the sector's ongoing efforts to manage risks effectively. The pension fund sector showed resilience and notable growth in 2023, with the funding ratio of several pension funds reaching the levels required for indexing pensions in line with their indexation policies. In 2024, pension funds reported that they continued to benefit from the higher interest rate environment and strong stock market performance. Looking ahead to 2025, growing recession signals such as downward adjusted GDP growth rates and potential policy rate cuts pose serious challenges. During a recession, asset values typically fall, leading to investment losses and potential funding shortfalls. In early 2025, the likelihood of an economic downturn increased amid international developments such as the implementation of US tariff and the trade wars. These developments can have various impacts on financial markets. As a result, uncertainty and high volatility in the investment performance of pension fund portfolios persist.

Nonetheless, pension funds continue to adapt their strategies and operations to ensure resilience amid rising geopolitical, demographic, and technological risks. Pension funds shifted their asset allocation towards safer assets such as bonds and time deposits in 2023. However, recent political developments in the US have increased the risk associated with US bonds. Nevertheless, periodic Asset and Liability Management (ALM) studies are being conducted to optimize investment strategies and thereby ensure effective risk management. In addition to market volatility, pension funds face challenges related to demographic trends and cybersecurity. As the population ages and life expectancy increases, structural changes are required to ensure long-term sustainability. Pension funds should adapt to demographic transformations by creating robust financial strategies, performing periodic actuarial recalibrations and revising pension policies to mitigate adequacy risks. Moreover, pension funds are facing higher IT expenses as a result of growing cyber threats. To enhance cybersecurity, pension funds continue to protect member data and maintain operational continuity by complying with the CBCS IT, BCM, and cyber risk guidance and providing mandatory cybersecurity trainings and awareness campaigns for their employees.

CHAPTER 6

6 Future-Proofing the Financial System

This chapter summarizes the developments in 2024 concerning the macroprudential policies, projects, and legislative and regulatory reforms of the CBCS. These policies, projects, and reforms are aimed at safeguarding and promoting financial stability within the monetary union. The CBCS is committed to timely detection and mitigation of vulnerabilities within the financial system.

Overview macroprudential framework

The macroprudential framework of the CBCS is geared towards monitoring macroprudential developments and promoting resilience of financial institutions and infrastructure in the monetary union, with the goal of reducing the probability and impact of a financial crisis or disruption. This framework contains policies, preventive and forward-looking instruments, and measures that enable the CBCS to monitor and, if necessary, address the buildup of excessive risk, contributing to the smooth functioning of the financial system in the monetary union.

The FSD monitors and analyzes developments in the financial system on an ongoing basis to timely identify potential imbalances, vulnerabilities, and threats to financial stability. The financial sector of the monetary union is an important contributor to the domestic economy. The current structure of this sector is complex and includes a wide array of financial institutions and services with both local and international clients.

Enhancing early warning monitoring with forward-looking risk tools

The EWMS is an essential component of the macroprudential toolkit to analyze and identify risks early and enable system-wide supervision. Communicating about potential threats and vulnerabilities and issuing warnings, recommendations, and forward-looking guidance fall within the scope of the FSD. The FSD also offers recommendations to the Board of Executive Directors of the CBCS on deploying or maintaining macroprudential instruments. Several instruments are at the disposal of the CBCS to mitigate systemic risks and boost resilience of the financial system. Ultimately, when a financial institution experiences serious, persistent and/or multiple problems, the CBCS resorts to its resolution framework.

To enhance the EWMS in 2024, the FSD developed metrics to monitor property prices. Using data from the Sint Maarten Land registry (*Kadaster*), the FSD set up a property price index for Sint Maarten, depicting aggregated and district-level price movements. To advance similar research for Curaçao, the FSD used data analytics to collect supply-side data on housing prices. These data were integrated into an index, offering insights into the housing market sentiment in Curaçao. The resulting analysis is particularly valuable for monitoring risks associated with potential overheating in the real estate markets within the monetary union. Moreover, these data enhance our understanding of movements in household mortgages.

The FSD also developed a new macro stress testing tool in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC). The stress testing tool aimed at evaluating bank solvency under various macroeconomic scenarios. This tool strengthens CBCS's macroprudential framework by offering a forward-looking approach to assessing systemic risk. By incorporating macroeconomic shock scenarios, which are internally consistent with broader macroeconomic conditions, sector-specific credit risk models, and projections for asset quality, and earnings and profitability, the tool evaluates the potential impact of (adverse) economic conditions on bank resilience.

Enhancing resilience through macroprudential capital buffers

The CBCS's current capital framework is in line with Basel II. This framework mandates a minimum capital requirement of 8 percent for banks. While this percentage has long been applied to international banks, the CBCS has maintained a higher percentage for local banks, including a 2.5 percent conservation buffer, thereby resulting in a 10.5 percent minimum capital requirement.

While macroprudential capital buffers under Basel III are designed to support financial stability, the CBCS's current capital framework is static and does not adjust in response to macroeconomic and financial conditions in Curaçao and Sint Maarten. As a result of hurricanes Irma and Maria, and a few years later the Covid-19 pandemic, the local banking sector experienced low credit growth, high nonperforming loans, and a decline in their return on assets due to increasing provisions for loan losses. With a dynamic capital buffer in place, such as the countercyclical capital buffer (CCyB), banks would have had additional capacity to extend credit, thereby supporting economic recovery. The CCyB is a macroprudential instrument focused on strengthening banks' resilience against systemic risks. Banks build up an extra capital buffer during boom periods, which can be released during downturns, to absorb losses and continue lending without jeopardizing the minimum capital requirement imposed by the CBCS. Consistent with the Basel III framework and as indicated in the Financial Stability Report 2024, the CBCS will publish a note on the CCyB in 2025, in anticipation of its implementation in 2026.

Advancing financial stability through research and strategic initiatives

In 2024, the FSD published several studies such as notes and fact sheets addressing key topics related to financial stability[65]. Moreover, the FSD released benchmark reports for local banks, providing an anonymized comparative analysis of individual bank performance relative to their peers. In 2025, the FSD aims to explore the possibility of extending benchmark reports to the insurance and pension fund sectors. These reports will provide financial institutions with valuable insights to evaluate their performance and strengthen their resilience. Additional research initiatives are scheduled for the upcoming years.

As part of the Financial Sector Reform Program, the Financial Sector Strategic Review (FSSR) research project was launched in November 2024. The FSSR is part of the CBCS's strategic objectives and flows from the Curaçao country package agreed with the Kingdom of the Netherlands.

65 Abbad and Ooft (September 2024); CBCS (November 2024).

The objective is to contribute to a future-proof financial sector that continues providing financial services to both local and international clients, supporting the real economies of Curaçao and Sint Maarten. This project actively engages stakeholders to exchange insights into opportunities and threats to the financial system in the monetary union. Consequently, recommendations will build upon the insights from financial institutions, key policymaking entities, and other stakeholders. The findings and a suggested way forward will be presented at a final symposium in the fourth quarter of 2025, held in both Curaçao and Sint Maarten.

Furthermore, in 2024, the FSD continued its efforts to enhance the crisis management framework of the CBCS. In December 2024, the CBCS met with the IMF to discuss a technical assistance mission in preparation of the establishment of an effective Financial Stability Committee (FSC) for Curaçao and Sint Maarten. With the FSC, the CBCS and the ministries of both countries in the monetary union will have a platform to consult and coordinate with each other to identify and discuss systemic risks, and agree on policies and actions to mitigate those risks. Another important instrument in the CBCS's crisis framework is the Deposit Guarantee Scheme (DGS). The DGS is aimed at protecting depositors at credit institutions in both countries. In collaboration with the governments of Curaçao and Sint Maarten, the FSD drafted and refined the legislation for the DGS. In Curaçao, the DGS legislation was approved and signed in 2025, after which formal publication will follow. In Sint Maarten, the DGS legislation is currently under review. The implementation of the DGS for both countries is planned for July 2025.

Strengthening risk management

The first step in the CBCS cyber risk roadmap aimed at fortifying institutions in the monetary union is to strengthen BCM systems, enabling a swift recovery from any attack. In 2024, the CBCS adopted its IT security strategy for 2025-2027, outlining the CBCS's supervisory approach for governance and management of IT environments by financial institutions in Curaçao and Sint Maarten, to ensure secure operations and resilience against cyber threats. Further steps of the roadmap foster strengthening self-regulation[66]. Furthermore, in 2024, supervised institutions received training on the principles of the Provisions and Guidelines for BCM, recovery from cyber-attacks using several real-life scenarios, and software testing. The training was based on the critical security controls as defined by the Center for Internet Security and the National Institute of Standards and Technology, the same frameworks that will direct the Provisions and Guidelines for Cyber Security to be issued in 2025.

Using a system-based approach, the CBCS addresses climate-related risks to financial stability by engaging in local, regional, and international collaborative frameworks. Through a sequential and incremental application of four channels consisting of data and research, capacity building, advocacy, and leadership, the CBCS works to build up resilience against the challenges of climate risk in the monetary union. Steps are taken to improve data availability through surveys and collaboration with the national meteorological institute. Supervised financial institutions were surveyed in 2024 on their climate risk perceptions and risk management. Together with the Caribbean Group of Banking Supervisors (CGBS) in the technical working group on climate risk, the

66 The first and second line in this model comprise management, while auditors make up the third line.

CBCS focuses on identifying physical climate risks and hazards. Based on international best practices and the survey's findings, the CBCS will formulate climate risk guidance, develop a supervisory framework, explore climate stress testing and continue collaborating with local and international stakeholders and partners.

Project updates concerning the local banking sector's resilience

Implementing Basel III is at the core of the CBCS's microprudential supervision, while efforts to strengthen the risk-based supervision framework are ongoing. In 2023 and 2024, the CBCS implemented four Basel III guidelines, focusing on pillar II, the Supervisory Review Process (SRP). The SRP is intended to ensure that banks have adequate capital to support all the risks in their business and encourage banks to develop and use better risk management techniques in monitoring and managing their risks. The SRP fosters communication between banks and supervisors, to be able to address detected risks in a timely manner. Within this context, the CBCS issued the following guidelines:

- Guideline for the Sound Management of Credit Risk
- Guideline for the Sound Management of Liquidity Risk
- Guideline for Sound Stress Testing Practices
- Guideline for the Sound Management of Operational Risk

The CBCS plans to introduce the Interest Rate Risk in the Banking Book guidelines and reporting requirements in the second quarter of 2025. Additionally, the CBCS is finalizing the Internal Capital Adequacy and Assessment Process (ICAAP) guideline and reporting requirements, which are expected to be implemented in 2026. The CBCS is also working diligently on the Basel III enhancements of the Pillar 1 requirements for Capital and Liquidity. In addition, the CBCS is preparing to implement the Pillar 1 Leverage ratio guidelines and reporting requirements. These are expected to be finalized and implemented in 2026.

Project updates regarding the insurance and pension fund sectors' resilience

The CBCS has developed guidelines for the insurance and pension fund sectors, which are currently under consultation. In 2024, a draft Investment Risk Management Guideline was prepared for the insurance and pension fund sectors. The guideline for the insurance sector was sent to that sector for consultation in the first week of April 2025. Work is being continued on the guideline for the pension fund sector. Following this consultation, necessary adjustments will be made, and the guideline will subsequently be extended to the sectors. An Outsourcing Guideline has already undergone consultation with both insurers and pension funds. Currently, this guideline is being revised to incorporate feedback received during the consultation process.

Guidelines, frameworks, and laws for the insurance and pension fund sectors are in the pipeline. To further strengthen the insurance sector, the CBCS intends to implement a Solvency II "Light" framework, which includes the incorporation of a risk-based capital requirement for that sector. Additionally, as domestic non-life insurers continue to face increased reinsurance risk due to rising reinsurance fees and tightened market conditions, the CBCS set up an internal working group that will address this issue.

In collaboration with an external consultant, the project to draft guidelines for reinsurance will start in the second quarter of 2025. The guidelines will guide local insurers on what terms and conditions to follow when reinsuring part of their portfolios. The draft guidelines will be discussed in 2026 with the relevant stakeholders. Furthermore, a recovery plan template is currently being developed for the pension fund sector to address situations where a pension fund's coverage ratio falls below the legal threshold of 100 percent. Negotiations regarding a proposed mandatory pension law are currently underway .

The CBCS has been experiencing more frequent data provision from the insurance and pension fund sectors. Since 2024, the CBCS has been receiving quarterly financial statements from both pension funds and insurance institutions. This development represents a significant improvement, enabling early-stage financial analysis of these institutions. Additionally, since 2023, the CBCS has been granted the authority to impose penalties and fines where necessary, reinforcing regulatory compliance.

In 2024, an expert company completed a comprehensive pension fund sector review, which benchmarked the pension systems of Curaçao and Sint Maarten against pension systems around the world. The review focused on key characteristics such as the sector's adequacy, financial sustainability, and integrity. Subsequently, the FSD published the 2024 Pension Landscape fact sheet, a comprehensive overview of the occupational pension systems in Curaçao and Sint Maarten, using data from pension funds and insurance institutions.

The CBCS has been working on a new discount rate methodology for pension funds and insurance institutions. During 2024, several methodologies were assessed. As the new discount rate methodology is destined to be adopted by the sectors, a round of consultation is anticipated in 2025, to gauge the relevance and applicability of the new method.

The CBCS is researching the sustainability of the current investment rule. This research considers both the percentages used and the basis on which these are applied and may lead to adjustments in both. Next, the insurance and pension fund sectors will be invited to a consultation round to discuss and explain the intention and application of the investment rule.

List of Abbreviations

AFSI	Aggregate Financial Stability Index
AI	Artificial Intelligence
ALM	Asset and Liability Management
AML/CFT	Anti-Money Laundering, Combating the Financing of Terrorism
APR	Annual Percentage Rate
BBM	Borrower-based measures
BCM	Business Continuity Management
BIS	Bank for International Settlements
BSI	Banking Stability Index
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CBA	Curaçao Bankers Association
CBB	Central Bank of Barbados
CBS	Central Bureau of Statistics Curaçao
CBCS	Centrale Bank van Curaçao en Sint Maarten
CBOE	Chicago Board Options Exchange
CBTT	Central Bank of Trinidad & Tobago
CBR	Correspondent banking relationship
CCyB	Countercyclical Capital Buffer
CD	Certificate of Deposit
CFATF	Caribbean Financial Action Task Force
Cg	Caribbean Guilder
CIS	Center for Internet Security
CPI	Consumer Price Index
CRE	Commercial real estate
DB	Defined benefit (pension scheme)
DC	Defined contribution (pension scheme)
DGS	Deposit Guarantee Scheme
DNB	De Nederlandsche Bank
ECB	European Central Bank
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
EUR	Euro
EWMS	Early Warning Monitoring System
FATF	Financial Action Task Force

FED	United States Federal Reserve
FS	Financial Stability
FSC	Financial Stability Committee
FSD	Financial Stability Division
FSI	Financial Soundness Indicators
FSR	Financial Stability Report
FSRP	Financial Sector Reform Program
FSSR	Financial Sector Strategic Review
GDP	Gross Domestic Product
GWP	Gross written premiums
HP filter	Hodrick-Prescott filter
IMF	International Monetary Fund
IT	Information Technology
LDR	Loans-to-deposit ratio
LGD	Loss given default
MSCI	Morgan Stanley Capital International
MU	Monetary union
NIM	Net interest margin
NL	The Netherlands
NPL	Nonperforming loan
OECD	Organization for Economic Cooperation and Development
PD	Probability of default
POS	Point of Sale
PPI	Property Price Index
ROA	Return on assets
ROI	Return on investments
RTGS	Real-Time Gross Settlement system
RWA	Risk-weighted asset
S&P 500	Standard & Poor's 500 stock market index
SF	Stabilization Fund
SMBA	Sint Maarten Bankers Association
SOA	Society of Actuaries
SPL	Specific provisions for loan losses
SRP	Supervisory review process
STAT	Department of Statistics St. Maarten
US(A)	United States (of America)
USD	United States Dollar

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APPENDIX

Table 2.1: Aggregate Balance Sheet of the Local Banks in the Monetary Union (in millions Cg)

		2022	2023	2024
I	Currency and deposits	1,980.1	2,751.5	2,866.0
II	Total loans	6,502.6	6,789.5	6,565.1
III	Total investments	4,049.2	3,924.4	4,661.4
IV	Other assets	489.5	429.8	538.8
	Total assets (I + II + III + IV)	**13,021.5**	**13,895.3**	**14,631.3**
V	Total deposits	10,520.4	11,022.3	11,597.0
VI	Total financial liabilities	58.4	409.4	328.4
VII	Total other liabilities	410.2	302.7	287.4
VIII	Capital and reserves	2,032.5	2,160.8	2,418.6
	Total liabilities and capital (V + VI + VII + VIII)	**13,021.5**	**13,895.3**	**14,631.3**

Source: CBCS.

Table 2.2: Aggregate Income Statement of the Local Banks in the Monetary Union (in millions Cg)

		2022	2023	2024
I	Interest income	383.2	438.2	443.3
II	Interest expenses	71.8	92.7	94.0
III	**Net interest income (I - II)**	**311.4**	**345.5**	**349.3**
IV	**Non interest income**	**391.5**	**473.4**	**542.2**
	(i) Fees and commissions income	262.7	272.4	321.4
	(ii) Total (un)realized gains/losses and other income	128.8	201.0	220.9
V	**Gross income (III + IV)**	**702.9**	**818.9**	**891.5**
VI	**Non interest expenses**	**490.0**	**575.0**	**592.5**
	(i) Personnel expenses	218.7	237.8	260.1
	(ii) Occupancy expenses	73.0	83.9	84.4
	(iii) Other operating expenses	118.7	159.1	119.1
	(iv) Fees and commissions expenses	79.6	94.1	128.9
VII	Provisions for / recoveries from loan losses and impairments	-53.5	8.7	8.0
	Operating profit (OP = V - VI - VII)	**266.4**	**235.3**	**291.0**
VIII	Non-controlling interest in profit/loss of consolidated subsidiaries	0.4	-0.3	-0.3
IX	Income taxes	32.4	13.0	13.2
	Net income for the current period (OP - VIII - IX)	**233.6**	**222.5**	**278.0**

Source: CBCS.

Table 2.3: Financial Soundness Indicators of the Local Banks in the Monetary Union (end of period)

	2022	2023	2024	3-Yr Avg
Capital adequacy				
Regulatory capital to total risk weighted assets	21.2%	22.3%	22.7%	22.1%
Tier 1 capital to total assets	14.3%	14.4%	14.5%	14.4%
Nonperforming loans (net of provisions) to capital	17.6%	13.1%	11.1%	13.9%
Asset quality				
Gross nonperforming loans to total gross loans	6.1%	4.7%	4.4%	5.1%
Specific provisions to total loans	2.9%	2.0%	2.3%	2.4%
Earnings and profitability				
Return on assets	2.0%	1.7%	2.0%	1.9%
Interest margin to gross income	44.3%	42.2%	39.2%	41.9%
Non-interest expenses* to gross income	69.7%	70.2%	66.4%	68.8%
Liquidity				
Liquid assets to total assets	31.7%	34.8%	37.7%	34.7%
Liquid assets to total short-term liabilities	45.7%	49.3%	53.9%	49.6%
Total loans to total deposits	63.6%	62.8%	57.9%	61.5%
Sensitivity to market risk				
Net interest margin	3.5%	3.8%	3.6%	3.6%
Net open FX position to total capital	3.2%	2.0%	1.8%	2.3%

* Non-interest expenses = operational expenses

Source: CBCS.

Table 2.4: Financial Soundness Indicators of the Local Banks in Curaçao (end of period)

	2022	2023	2024	3-Yr Avg
Capital adequacy				
Regulatory capital to total risk weighted assets	22.5%	23.1%	23.8%	23.1%
Tier 1 capital to total assets	15.3%	15.7%	15.4%	15.5%
Nonperforming loans (net of provisions) to capital	13.0%	10.0%	7.6%	10.2%
Asset quality				
Gross nonperforming loans to total gross loans	5.3%	4.1%	3.6%	4.3%
Specific provisions to total loans	2.9%	1.9%	2.1%	2.3%
Earnings and profitability				
Return on assets	2.2%	2.0%	2.3%	2.2%
Interest margin to gross income	38.2%	34.2%	33.3%	35.2%
Non-interest expenses* to gross income	66.6%	66.6%	61.2%	64.8%
Liquidity				
Liquid assets to total assets	36.5%	37.6%	39.9%	38.0%
Liquid assets to total short-term liabilities	52.0%	53.3%	56.6%	54.0%
Total loans to total deposits	54.2%	53.0%	48.2%	51.8%
Sensitivity to market risk				
Net interest margin	3.0%	3.2%	3.0%	3.1%

* Non-interest expenses = operational expenses

Source: CBCS.

Table 2.5: Financial Soundness Indicators of the Local Banks in Sint Maarten (end of period)

	2022	2023	2024	3-Yr Avg
Asset quality				
Gross nonperforming loans to total gross loans	8.3%	5.9%	6.5%	6.9%
Specific provisions to total loans	3.0%	2.3%	2.8%	2.7%
Earnings and profitability				
Return on assets	0.6%	0.6%	0.4%	0.5%
Interest margin to gross income	54.5%	57.5%	53.1%	55.0%
Non-interest expenses* to gross income	81.6%	78.1%	89.3%	83.0%
Liquidity				
Liquid assets to total assets	58.8%	60.8%	65.7%	61.8%
Liquid assets to total short-term liabilities	71.9%	72.9%	79.7%	74.8%
Total loans to total deposits	38.6%	37.6%	35.7%	37.3%
Sensitivity to market risk				
Net interest margin	3.7%	4.5%	4.8%	4.4%

* Non-interest expenses = operational expenses

Source: CBCS.

Table 2.6: Large Deposit Withdrawal

Liquid assets to total assets ≥ 20%	Liquid Assets to Total Assets
Baseline : 1 large deposit	33.9%
Moderate scenario: 3 large deposits	31.4%
Severe scenario: 5 large deposits	30.1%

Passed
Failed

Source: CBCS.

Table 2.7: Liquidity Risk and Foreign Investments

Baseline scenario	5% deposit withdrawal	10% drop in qualifying marketable securities and bond value	30% drop in qualifying marketable securities and bond value
Liquidity ratio > 100%	155.0%	153.7%	151.2%

Moderate scenario	10% deposit withdrawal	10% drop in qualifying marketable securities and bond value	30% drop in qualifying marketable securities and bond value
Liquidity ratio > 100%	143.0%	141.7%	139.1%

Severe scenario	20% deposit withdrawal	10% drop in qualifying marketable securities and bond value	30% drop in qualifying marketable securities and bond value
Liquidity ratio > 100%	115.5%	114.0%	111.2%

Passed
Failed

Source: CBCS.

Table 2.8: Capital Adjustment

Supervisory requirement CAR ≥ 10.5%	CAR	Under-provisioned in millions Cg
Baseline: under-provision charge	22.2%	**40.4**
Moderate scenario: proportional increase in NPLs	19.7%	**301.6**
Severe scenario: proportional increase in NPLs	14.1%	**904.7**

Passed

Failed

Source: CBCS.

Table 2.9: Large Exposure

CAR ≥ 10.5%	10% provision	50% provision	80% provision	100% provision
Baseline: 1 large loan	22.5%	21.7%	21.1%	20.7%
Moderate scenario: 3 large loans	22.2%	20.1%	18.5%	17.4%
Severe scenario: 5 large loans	22.0%	19.1%	16.7%	15.1%

Passed

Failed

Source: CBCS.

Table 3.1: Aggregate Balance Sheet of the Life Insurers (in millions Cg)

		2021	2022	2023
I	Non-admissable assets	1,520.6	1,470.1	1,467.4
II	Total investments	1,675.2	1,645.4	1,748.4
III	Current assets	238.0	233.4	217.8
IV	Other assets	7.3	7.6	7.9
V	From separate accounts statement	22.3	20.9	20.3
	Total assets (I + II + III + IV + V)	**3,463.4**	**3,377.5**	**3,461.8**
VI	Capital and surplus	496.3	375.2	393.8
VII	Subordinated instruments	0.6	0.6	0.5
VIII	Provisions for Insurance obligations	2,756.7	2,798.5	2,859.3
IX	Current liabilities	169.4	166.7	171.7
X	Other liabilities	11.5	8.9	9.6
XI	Contingent liabilities	6.7	6.7	6.7
XII	From separate accounts statement	22.3	20.9	20.3
	Total liabilities and capital (VI + VII + VIII + IX + X + XI + XII)	**3,463.4**	**3,377.5**	**3,461.8**

Source: CBCS.

Table 3.2: Aggregate Income Statement of the Life Insurers (in millions Cg)

		2021	2022	2023
I	Premium and other policy considerations	224.7	230.2	227.1
II	Net investment income and realized capital gains and losses	137.5	106.3	132.1
III	Net other operational income	12.4	5.6	13.4
	Total income (TI = I + II + III)	**374.6**	**342.1**	**372.6**
IV	Net benefits incurred	209.0	209.3	207.9
V	Change in provisions for Insurance obligations	45.4	65.5	87.4
VI	Net operational expenditures incurred	68.0	74.2	73.2
VII	Other changes affecting net results	9.3	3.1	9.1
VIII	Profit sharing to policyholders	1.8	2.4	4.3
	Total operational expenditure (TOE = IV + V + VI + VII + VIII)	**333.5**	**354.5**	**381.9**
IX	Other results	0.2	0.8	0.0
X	Corporate taxes incurred	-0.2	2.0	6.2
XI	Net unrealized gains or losses	1.0	-30.6	28.2
	Net profit or loss (TI - TOE + IX - X + XI)	**42.4**	**-44.1**	**12.7**

Source: CBCS.

Table 3.3: Aggregate Balance Sheet of the Non-Life Insurers (in millions Cg)

		2021	2022	2023
I	Non-admissable assets	41.6	65.9	193.5
II	Total investments	332.4	305.6	357.4
III	Current assets	369.2	312.1	232.9
IV	Other assets	9.4	6.9	6.4
	Total assets (I + II + III + IV)	**752.5**	**690.5**	**790.2**
V	Capital and surplus	317.8	325.6	451.8
VI	Subordinated instruments	6.9	2.3	2.1
VII	Provisions for insurance obligations	136.6	129.5	131.9
VIII	Other provisions and liabilities	5.3	5.0	5.1
IX	Current liabilities	285.9	228.2	199.3
	Total liabilities and capital (V + VI + VII + VIII + IX)	**752.5**	**690.5**	**790.2**

Source: CBCS.

Table 3.4: Aggregate Income Statement of the Non-Life Insurers (in millions Cg)

		2021	2022	2023
I	Net earned premiums	271.9	275.3	238.1
II	Net other underwriting income	6.7	7.0	13.0
	Total gross income (TGI = I + II)	**278.6**	**282.3**	**251.1**
III	Net claims incurred	98.6	105.0	111.0
IV	Underwriting expenses incurred	154.7	155.8	120.0
V	Net other expenses incurred	0.5	-0.9	-0.2
	Total operational expenditure (TOE = III + IV + V)	**253.8**	**259.9**	**230.7**
	Underwriting result (UR = TGI - TOE)	**24.8**	**22.4**	**20.4**
VI	Net investment income earned and capital gains or losses	9.8	-7.1	2.2
VII	Other results	2.6	2.0	3.7
VIII	Corporate taxes incurred	6.5	3.7	3.4
IX	Net unrealized gains or losses	-0.5	0.9	6.7
	Net profit or loss (UR + VI + VII - VIII + IX)	**30.3**	**14.4**	**29.4**

Source: CBCS.

Table 3.5: Financial Soundness Indicators of the Life Insurers (end of period)

	2021	2022	2023	3-Yr Avg
Capacity				
Change in total equity	4.5%	-24.4%	4.9%	-5.0%
Solvency ratio	302.4%	149.1%	161.6%	204.4%
Earnings & profitability				
Net income to net operational results	11.1%	-4.1%	-4.2%	0.9%
Insurance expenses ratio	8.4%	6.6%	8.0%	7.7%
Return on assets	1.2%	-2.7%	0.7%	-0.3%
Sensitivity to market risk				
Investment yield ratio	8.2%	6.7%	7.8%	7.5%
Change in stocks to invested assets	10.7%	11.8%	13.4%	12.0%
Change in bonds and other fixed-income securities to invested assets	-1.9%	0.8%	3.7%	0.9%
Stability				
Change in reserving	-8.8%	7.0%	-3.5%	-1.8%
Change in premium	-0.7%	3.0%	-1.4%	0.3%

Source: CBCS.

Table 3.6: Financial Soundness Indicators of the Non-Life Insurers (end of period)

	2021	2022	2023	3-Yr Avg
Capacity				
Gross written premium to total equity	162.4%	162.3%	91.1%	138.6%
Net written premium to total equity	4.4%	84.9%	51.6%	47.0%
Change in total equity	-1.6%	1.0%	38.5%	12.6%
Solvency ratio	286.0%	247.0%	232.3%	255.1%
Reinsurance issues				
Catastrophe surplus exposure ratio	-734.3%	-289.9%	592.6%	-143.9%
Earnings & profitability				
Total loss ratio	32.0%	32.8%	44.8%	36.5%
Underwriting expense ratio	46.2%	46.0%	44.8%	45.7%
Combined ratio	78.2%	78.8%	89.6%	82.2%
Return on assets	3.3%	4.1%	3.9%	3.7%
Liquidity				
Liquid assets to adjusted current liabilities	112.1%	123.7%	122.6%	119.5%

Source: CBCS.

Table 4.1: Aggregate Balance Sheet of the Pension Funds (in millions Cg)

		2021	2022	2023
I	Total investments	8,723.8	8,166.9	8,584.1
II	Current assets	737.9	595.6	597.7
III	Other assets	42.4	46.7	45.9
	Total assets (I + II + III)	**9,504.1**	**8,809.2**	**9,227.8**
IV	Reserve	928.5	266.9	610.4
V	Technical provisions	8,502.0	8,458.0	8,543.4
VI	Other provisions and liabilities	17.8	17.2	19.5
VII	Current liabilities	55.8	67.1	54.4
	Total equity & liabilities (IV + V + VI + VII)	**9,504.1**	**8,809.2**	**9,227.8**

Source: CBCS.

Table 4.2: Aggregate Income Statement of the Pension Funds (in millions Cg)

		2021	2022	2023
I	Contributions	200.0	183.6	202.9
II	Net investment income earned	614.1	-494.5	636.1
III	Other income	15.8	31.1	16.4
	Gross income (GI = I + II + III)	**830.0**	**-279.9**	**855.4**
IV	Pension benefits incurred	360.4	373.3	382.5
V	Change in net technical provisions	71.5	-40.5	87.8
VI	Operational expenses incurred	41.1	26.9	40.1
VII	Other expenses incurred	14.9	14.8	6.0
	Total expenditure (TE = IV + V + VI + VII)	**487.9**	**374.5**	**516.4**
	Net profit or loss (GI - TE)	**342.1**	**-654.4**	**339.1**

Source: CBCS.

Table 4.3: Financial Soundness Indicators of the Pension Funds (end of period)

	2021	2022	2023	3-Yr Avg
Funding adequacy				
Funding ratio	110.9%	103.3%	107.4%	107.2%
Maturity degree	56.5%	54.6%	53.9%	55.0%
Asset quality				
Real estate & mortgage loans to invested assets	8.6%	11.5%	12.0%	10.7%
Earnings & profitability				
Return on assets	3.6%	-7.4%	3.7%	-0.1%
Operational expenses & other expenses to gross income	5.3%	-10.7%	5.1%	-0.1%
Contributions to gross income	24.1%	-65.6%	23.7%	-5.9%
Change in net technical provisions to total expenses	17.1%	-9.8%	20.5%	9.3%
Sensitivity to market risk				
Change in stocks to invested assets	4.2%	-6.4%	-3.0%	-1.7%
Change in bonds to invested assets	0.1%	-1.6%	5.2%	1.3%
Investment yield	7.0%	-6.1%	7.4%	2.8%

Source: CBCS.

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