

# THE CENTRAL BANK: OPEN FOR BUSINESS?

Speech delivered by

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*Curaçao: The New Midshore Reality*

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Good afternoon ladies and gentlemen,

First, allow me to welcome all the participants from abroad to Curaçao. I hope you enjoy your stay on the island. Also, I would like to congratulate Curacao International Financial Services Association and Curaçao International Financial Center for taking the initiative to organize the first STEP Curaçao Conference. People oftentimes believe that stimulating economic growth and the development and strengthening of specific economic pillars is the sole responsibility of the government. However, recent experience in Curaçao with our financial and tourism sectors has shown that private sector-led initiatives are crucial to achieve the desired development and growth of an industry. Needless to say, the businesses within an industry know the trends and needs of that industry like no one else. Meanwhile, the role of the public sector is to create the right investment climate and regulatory framework for businesses to operate, grow, and invest. The *collective* actions of the public and private sectors will lead to sustainable economic growth and progress.

For that reason, the *Centrale Bank van Curaçao en Sint Maarten* supports the initiatives and actions of CIFA and CIFC to promote Curaçao as an international financial center. The theme of the first International STEP Curaçao Conference “Curaçao: The New Midshore Reality” is very relevant, given the developments in the international financial services industry.

Today, I would like to deal with the role of the Central Bank in this “Midshore Reality.” But first, I would like to discuss Curacao’s long history as a provider of international financial services. Then we will look at the international context in which we are currently operating.

Ladies and gentlemen, international financial services activities in Curaçao date back to the late 1930s, when many Dutch companies moved their assets to the island in anticipation of war. After the Second World War, the government created a fiscal environment aimed at keeping these companies in Curaçao. At first, these companies operated under a special arrangement whereby they were taxed at 10 percent of the regular rate. Subsequently, the tax rates were reduced to 2.4 percent and 3 percent. These applicable rates were accompanied by reduced withholding tax rates on payments to resident companies. Curaçao was never intended to be a complete tax-free haven, as the island needed some kind of tax income. But the government’s efforts to create a welcoming fiscal environment were successful, and by the mid-1960s, Curaçao had become a well-known international financial center.

Although other countries in the region were zero-tax havens, many companies chose to locate their business activities in Curaçao because of its political and economic stability, freedom of capital movements, the availability of a skilled labor force, convenient location and communications, and the presence of related services including banking,

legal, tax advisory, and audit services. In addition, being part of the Dutch Kingdom was also considered an important advantage for establishing international financial services activities in Curaçao.

The prosperity of the international financial services sector came to a halt with the termination of the Tax Treaty with the United States and the abolishment of the US Foreign Withholding Tax in 1985, which caused the collapse of a number of previously highly profitable international financial services activities in Curaçao. Over the past two decades, the sector also has been negatively affected by other developments, such as the gradual termination of the tax treaties of the Netherlands Antilles with other jurisdictions and increased competition from tax-exempt jurisdictions.

Notwithstanding a gradual decline over the past twenty years, the international financial services sector is still an important pillar of the Curaçao economy as it directly contributes approximately 8.5 percent to GDP and is an important generator of high-skilled labor-intensive jobs. Furthermore, over the past four years, the sector has contributed on average approximately 5 percent to foreign exchange receipts from the export of goods and services. Besides its direct contribution, the international financial services industry also indirectly contributes to the economy through spillover effects to other related industries, including business, telecommunication, transportation, and hospitality services. The publicity that accompanies the marketing of the international financial

services sector benefits other sectors as well and eventually leads to additional foreign investment in the economy.

Since the international financial services sector has a high value-added component and broadens our economic base, making us less vulnerable to external shocks, Curaçao has taken several measures to meet international standards over the past twenty years. One of the main measures taken was the enactment of a New Fiscal Regime in 2001 to be in full compliance with the policies of the OECD for fair tax practices. Curaçao has Tax Information Exchange Agreements with several countries and treaties to prevent double taxation within the Dutch Kingdom. Also, our country is a founding member of the Caribbean Financial Action Task Force against Money Laundering and Terrorist Financing.

Ladies and gentlemen, let me turn now to the international context in which we are now operating. The global financial crisis that erupted in 2008 substantially changed the landscape of international financial centers worldwide. Increasing pressure from the United States, Europe, and others for greater transparency in order to reduce tax evasion altered the business models of international financial centers. In particular, those jurisdictions whose competitive advantage was based primarily on zero-tax policies had to change their strategy to remain relevant in an era of greater information exchange. As a consequence, today, there is increased competition among jurisdictions to attract businesses in an industry built on reputation with

efficiency, stability, effective rules, low costs and high level of service as the cornerstones.

This new landscape has spawned a new concept--the mid-shore jurisdiction--which has become very popular among investors. (Singapore and Hong Kong have been quite successful in combining elements of both onshore and offshore jurisdictions to create mid-shore jurisdictions.) The mid-shore jurisdictions have the typical advantages of an attractive onshore jurisdiction. These advantages include a strong fiscal and legal infrastructure, a high degree of macroeconomic and political stability, a well-educated workforce that speaks a wide array of languages, and excellent communication and support services.

*A strong fiscal and legal infrastructure* includes tax information exchange agreements, a treaty network to prevent double taxation tax, contract enforcement, a functional and credible court system, and efficient bankruptcy processes. Furthermore, the fiscal and legal infrastructure must continuously reform itself to adapt to the constantly changing environment of the international business community. Relevant legislation must be introduced and adapted in a timely manner as needed.

*A high degree of macroeconomic and political stability* makes an onshore jurisdiction attractive as sound and sustainable macroeconomic policies support the stability of the financial system. In addition, political stability is

a precondition for building business confidence in all sectors of the economy – including the international financial services sector.

The success of an onshore jurisdiction is also largely dependent on the competence of its professionals working in the sector, that is, *a well-educated workforce*. Hence, access to a pool of skilled workers such as well-trained legal, tax accounting, auditing, and company professionals is indispensable. Furthermore, *a multilingual workforce* is an additional edge in an international environment. Finally, *excellent communication and support services* is an important condition for transmitting market information quickly and efficiently among its participants.

Mid-shore jurisdictions also offer the advantages of traditional offshore jurisdictions. These advantages include particularly low-tax regimes for foreign income, while at the same time complying with international standards. In other words, investors are offered the benefits of both worlds. Clearly, the mid-shore jurisdictions in Asia: Singapore, and Hong Kong have created a new lucrative market.

Ladies and gentlemen, Curaçao offers all the advantages that the Asian mid-shore jurisdictions offer. In other words, Curaçao is a mid-shore jurisdiction acting as a gateway between Latin-America and Europe. As I mentioned earlier, in contrast to many of our main competitors in the region, Curaçao has never been a zero-tax haven. Our main competitive

advantages have always been our highly skilled multilingual workforce, stable macroeconomic and political environment, the freedom of capital movement, the quality of our communication and transportation infrastructure and, as part of the Dutch Kingdom, a strong legal system inherited from our European mother country. Furthermore, Curaçao has a robust regulatory framework that complies with international standards.

Unfortunately, during the past few years, we have not capitalized enough on these advantages to promote Curaçao as an international financial center. Our focus has been primarily on meeting the international standards of cooperation in tax matters, increasing transparency, and the effective exchange of information. In addition, since becoming an autonomous country within the Dutch Kingdom in 2010, policies in Curacao have been centered primarily on achieving sound public finances. While there is broad consensus that these fiscal policies helped Curaçao achieve sound public finances, little attention has been given to other important policy areas such as stimulating sustainable economic growth through strengthening key economic pillars such as the international financial services sector. Consequently, the promotion and marketing of Curaçao based on our “onshore” strengths has lagged somewhat behind. In the new landscape I have just described, we are determined to boost our strengths so we can effectively compete with other jurisdictions.



Ladies and gentlemen, that brings me to my third and last theme of today: the role of the central bank in strengthening Curaçao as a mid-shore jurisdiction. As I explained, providing a good regulatory framework is a key determinant of competitiveness in the new landscape of international financial centers. Effective rules and processes aimed at safeguarding the stability of the financial system is an important precondition for market participants in choosing a business location. Also, a sound regulatory environment promotes the efficiency of markets, which not only benefits the clients of the financial service providers, but also contributes to market stability by minimizing the risk of market distortions. Exerting effective supervision comprises, among other things, assessing the financial soundness, business integrity, administrative organization, and internal control environment of licensed financial services institutions.

The Centrale Bank van Curacao en Sint Maarten is responsible for financial sector supervision in Curaçao and Sint Maarten. In this capacity, the Bank provides a regulatory and supervisory framework for prudential supervision and a fair and transparent financial market. The regulatory framework also promotes financial integrity and aims to prevent money laundering and terrorist financing.

In the specific case of the international financial services sector, the main objectives of our supervision are to preserve and foster the reputation of the countries Curaçao and Sint Maarten as a sound, transparent, and

reputable financial center in which the interests of its clients are well protected. Over time, several laws have been enacted that enable us to execute our supervisory tasks effectively and efficiently, including the national ordinance on the supervision of trust service providers, the national ordinance on the supervision of the securities exchange, and the national ordinance on the supervision of investment institutions and administrators.

In the constantly changing environment of the international financial services sector, the regulatory framework needs to be regularly assessed and adjusted to improve financial sector supervision and enhance the transparency of financial sector operations. For that reason, the central bank in cooperation with the government and the private sector is currently working on several regulations to further enhance financial supervision, including a draft national ordinance on the supervision of advisors and asset managers and draft legislation to harmonize and update prevailing supervision laws.

We believe there is no substitute for good regulation, since it commands premium financial services and maintains a high reputation and stability. We also are aware that overregulation will impair the ability of our jurisdiction to maintain a competitive position as an international financial center. Therefore, a proper balance must be reached between the adequacy

and effectiveness of rules and regulations, on the one hand, and the underlying risks that our financial sector is exposed to, on the other hand.

To maintain our reputation as an international financial center, our efforts are also targeted towards keeping up with the international standards. On a regular basis, we participate in assessment and review programs of international institutions and working groups such as the OECD, the IMF, the World Bank, and the FATF<sup>1</sup> and, subsequently, we implement their recommendations. For example, in February 2015, the OECD finalized the Phase II Peer Review assessment of Curaçao regarding tax transparency and exchange of information. The Phase I review, which took place in 2011, assessed the quality of our jurisdiction's legal and regulatory framework for the exchange of information, while the Phase II review looked at the practical implementation of this framework.

Also, we actively support processes that must lead to agreements between our jurisdiction and other jurisdictions. For example, we were actively involved in the process that led to the agreement between the Kingdom of the Netherlands with respect to Curaçao and the United States to improve international tax compliance and to implement the Foreign Account Tax Compliance Act or FATCA.

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<sup>1</sup> Financial Action Task Force

Finally, the Bank is a member of several international organizations including the COSRA<sup>2</sup>, the regional chapter of IOSCO<sup>3</sup>, which is the worldwide standard setting body for securities regulators. IOSCO is also the international forum for investor education development. Effective this year, the Bank has become an associated member of IOSCO and has started a 12-month process towards full membership. Becoming a full member will enhance the possibilities for Curaçao's securities sector to develop new business.

In conclusion ladies and gentlemen, Curaçao has traditionally been an attractive international financial services center, as we have always offered the advantages of both an onshore and offshore jurisdiction. Therefore, I am confident in stating that Curaçao is a promising mid-shore jurisdiction in the Caribbean region. The central bank, as the supervisor of the financial services industry, is open for business as we tailor our supervision to international standards to protect the interests of the international clients of our financial services industry. We hope to welcome your business soon in Curaçao as the mid-shore jurisdiction of the Caribbean.

I thank you for your attention.

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<sup>2</sup> Council of Securities Regulators of the Americas

<sup>3</sup> International Organization of Securities Commissions