

CURAÇAO FINANCIAL SECTOR: READY FOR 2019 AND BEYOND ✓

Speech delivered by
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On the occasion of the information session on
Replacing the old Off-shore; Embracing the new Reality

Centrale Bank van Curaçao en Sint Maarten
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Your Excellency:

The Prime Minister of Curaçao, Mr. Eugene Rhuggenaath

The Minister of Finance of Curaçao, Mr. Kenneth Gijsbertha

Distinguished guests, ladies and gentlemen, good evening.

There is a tendency to assume that stimulating growth and the strengthening of specific economic pillars is the sole responsibility of the government. However, as we have been recently experiencing in Curaçao, initiatives jointly undertaken by all key stakeholders are crucial to achieve the desired development and growth of an industry and/or an economic sector. While the private sector knows best the trends and needs, the role of the public sector is to create and safeguard the right investment climate and regulatory framework for businesses to operate, grow, and attract direct investment. The collective actions of the public and private sectors will certainly lead to sustainable economic growth and progress.

For that reason, the *Centrale Bank van Curaçao en Sint Maarten*, supports the initiatives and actions that CIFA and other stakeholders have been taking in due preparation of replacing the old offshore regime in favor of a new and more transparent (fiscal) framework, set to take effect in 2019. The theme of this information session, “*Curaçao Financial Sector, Ready for 2019 and beyond*” is fitting, given the developments in the international financial services industry.

Today, I would like to discuss the potential role of the Central Bank in this new reality starting 2019, but first, I would like to provide a short overview of the long history of Curaçao as a provider of international financial services and the international context in which we have been and are now operating.

Ladies and gentlemen, international financial services activities in Curaçao date back to the late 1930s. Although other countries in the region provided advantages such as being zero-tax havens, many companies ultimately chose Curaçao as the location to establish their business activities 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. In addition, being part of the Dutch Kingdom was also an important advantage for establishing international financial services activities in Curaçao.

However, 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. Over the past two decades, the sector was also negatively affected by other developments, such as the negative connotation of offshore tax planning and increased bundling as tax-haven region. Furthermore, we have in the past failed to adapt quickly to market conditions, and to be innovative in terms of introduction of new products to increase the attractiveness and competitiveness of our jurisdiction.

Notwithstanding the gradual decline over the decades, the international financial services sector is still an important pillar of our economy as it directly contributes approximately 6 percent to GDP, and is an important generator of high-skilled jobs. Furthermore, over the past years, the sector contributed on average approximately 6 percent to foreign exchange receipts from the export of primarily services. Besides its direct contribution, the international financial services industry also has positive spillover effects to other related industries, including telecommunication services, transportation services and hospitality services.

Curaçao has taken several measures to meet international standards over the past years. One of the main measures taken, reason for which we are here today, was the enactment of a New Fiscal Regime to be in full compliance with the policies of the Organization for Economic Cooperation and Development (OECD) for fair tax practices. The New Fiscal Framework became effective in 2002, and aimed to eliminate the difference between offshore and onshore designations. The New Fiscal Framework also stipulated that international companies established before 2002 were subjected to a special tax treaty until the year 2019. This transitional special treatment, also referred to as the **grandfathering rule**, ensured the orderly and smooth transition from the old offshore regime to the new fiscal regime. This grandfathering period, which will remain applicable until **2019**, represents the old, and as we are entering the twilight stage of the grandfathering period, we are preparing to welcome new opportunities on the horizon.

Ladies and Gentlemen, when we thought that we have seen it all, we are now witnessing the rapid development of a global digital economy. These innovative changes are shaking global financial services and service providers to their core. We all know the benefits that disruptive technologies and innovation can bring to consumers and our economy in terms of opening accessibility to a larger part of the global population to local providers of services. The current innovation revolution offers an opportunity for Curaçao to again take the pioneering lead in shaping the future of regional and global financial services provision. I cannot stress enough the importance of our need to become adaptable and agile to keep our markets efficient, fair, and attractive in an ever-evolving and innovative environment.

Today I want to touch upon the role of the Central Bank in promoting our jurisdictional readiness and embracing the new reality.

The Central Bank is responsible for the supervision of the financial sector of Curaçao and Sint Maarten, and is not exempted of the responsibility of ensuring integrity, continuity, and resilience of our markets. In our aim to preserve and foster the reputation of Curaçao as a sound, transparent, and reputable financial center, whilst taking advantage of the changing landscape, we worked to achieve institutional agility and adaptability needed to usher our financial sector into this new era.

While we believe that there is no substitute for good regulation, we are also 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, and the underlying risks that our financial sector is exposed to. Our efforts are directed towards complying with the international standards, but keenly taking advantage of the now presenting opportunities.

We have successfully and positively been assessed by the major standard-setting bodies over the past years such as the OECD, the IMF, the World Bank, and the (C)FATF, and subsequently, implemented their recommendations. Although complying with international standards and principles is a major achievement, we now need to turn our attention to capitalize on our enhanced transparency as a jurisdiction. The collusion of our transition to a new fiscal framework with the current innovation developments is just what we need as a jurisdiction.

Although the Central Bank is not a regulator for technology driven institutions, innovation is rapidly affecting and changing our regulatory landscape as well. Financial Technology or FinTech is now driving the financial business narrative in a way that regulators are now scrambling to determine how to regulate highly technological institutions and technology driven products.

The Central Bank has recently installed an innovation committee to explore the possibility to present Curaçao as the natural alternative for innovation-driven business. Regulatory innovation is not only a theoretical concept, but rather a necessity that the Central Bank is determined to explore. Curaçao has all the pre-requisites and the mindset to take the driver's seat in this area, we now need to start the engine of the new, and all hop in to new heights in the international service provision.

In conclusion, Curaçao has traditionally been an attractive international financial services center, as we have always offered the advantages of compliance and optimal service. Therefore, I am confident to state that Curaçao can look forward to a promising 2019 and beyond. The Central Bank, as the supervisor of the financial services industry, is open for business as we tailor our regulatory framework to become a 21st century regulator, while meeting international standards to protect the interests of the international clients of our financial services industry. Together we should strive to continuously explore new opportunities and develop appealing products, and henceforth, we need to keep re-inventing our entrepreneurial creativity.

A final note. I was pleasantly surprised when I saw the check mark (✓) and not the question mark (?) in the title: “Curaçao Financial Center: Ready for 2019 and beyond..”. Because I do share the sentiment that we are ready for the future and that together, we will be better beyond 2019.

I thank you for your attention.