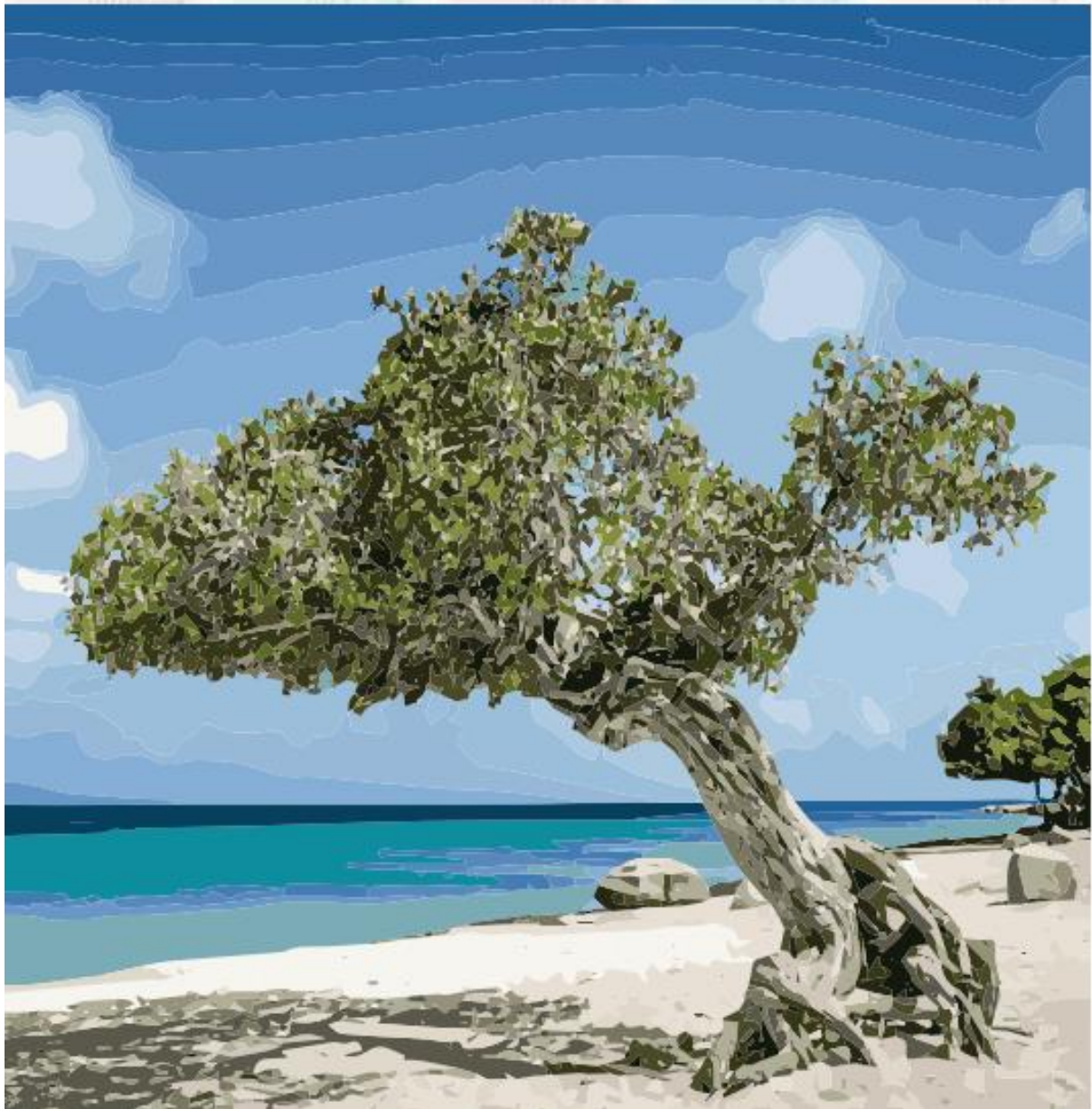


**Aruba**  
**National Money Laundering Risk Report**  
**February 21, 2021**



## **DISCLAIMER**

The National Money Laundering (ML) Risk Assessment of Aruba has been conducted as a self-assessment by Aruban authorities, using the National ML Risk Assessment Tool developed and provided by the World Bank Group. The role of the World Bank Group project team was limited to delivery of the tool, providing guidance on the technical aspects of the tool, and review/feedback to assist with its accurate use. Data, statistics, and information used for completing the National ML Risk Assessment Tool modules, as well as findings, interpretation, and judgment under the scope of the National ML Risk Assessment, belong completely to the Aruban authorities and do not reflect the views of the World Bank Group, its Board of Executive Directors, or the governments they represent. Nothing herein shall constitute or be considered a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

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## INTRODUCTION

Money laundering (ML) compromises the integrity of the financial system and is a threat to global safety and security. ML is the process used by criminals to conceal or disguise the origin of criminal proceeds to make the funds appear that they originated from legitimate sources. ML frequently benefits the most successful and profitable domestic and international criminals and organized crime groups.

“A framework designed to prevent ML is most effective when it targets resources where they will have the most effect. A country can make sure that resources are directed to prevent and mitigate its ML risks only by a good analysis and understanding of these risks.

This approach is in line with the recommendations of the Financial Action Task Force (FATF). The FATF recommends that countries identify, assess, and understand the ML risks within their jurisdiction and then use a risk-based approach to take action and apply resources to mitigate such risks. Such a risk-based approach involves considerable effort, but it will ensure that anti-money laundering (AML) regimes are set up that support measures commensurate with the actual levels and types of risk encountered.”<sup>1</sup>

## NATIONAL RISK ASSESSMENT OF ARUBA

The **public sector**'s understanding of Aruba's ML risks plays a key role in the country's ability to combat these illicit activities effectively. The National Risk Assessment (NRA) will enable the design of a comprehensive AML strategy to mitigate the identified risks.

Understanding by the public sector helps to support the policymaking process to address vulnerabilities and other potential gaps in the regime more effectively. It helps to inform operational decisions related to setting priorities, allocating resources to combat threats, and focusing on those threats with the greatest economic, social, and political consequences.

It also plays a central role in how the **private sector** applies its risk-based approaches and mitigates its risks. Overall, understanding of the risks by both the public and private sectors helps to ensure that they are focused on adequately mitigating the risks of greatest concern to Aruba.

An effective AML regime can only be implemented if all stakeholders comply with Aruba's AML laws, rules and regulations. Joint efforts are needed by the government in its regulatory and coordinating role and the regulated private sector as gatekeepers for the financial sector.

Having an NRA and AML strategy in place is essential for the upcoming 4th round AML/CFT assessment of Aruba by the CFATF, which is scheduled for the third quarter of 2021.

Aruba's commitment as a (C)FATF member means that it will update its NRA on an ongoing basis to reflect changes to existing threats and vulnerabilities, as well as new threats and vulnerabilities as they emerge.

## THE NRA ORGANIZATION AND PROCESS

This is Aruba's second NRA. The first NRA was conducted in 2012 and was based mostly on professional judgment. This report presents the results of Aruba's second NRA, which was conducted in the form of a self-assessment by the Aruban authorities using the World Bank's NRA tool. This NRA tool balances the use of quantitative information (data and statistics) with qualitative information (experience, anecdotal evidence, public or academic information, etc.).

The NRA teams included members of the public and private sector. The Centrale Bank van Aruba (CBA) acted as Coordinator and the Financial Intelligence Unit (FIU) as Assistant Coordinator for this

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<sup>1</sup> World Bank NRA Brochure.

NRA. In accordance with the NRA tool, five NRA teams consisting of a total of 80 participants (from both the public and private sectors) were formed.

1. National Threats team chaired by the Public Prosecutor's Office (PPO) and consisting among others of several law enforcement agencies, the FIU, CBA, Chamber of Commerce, and Free Zone Aruba N.V. (FZA).
2. National Vulnerabilities team chaired by the Directorate of Legislation and Legal Affairs and consisting among others of several law enforcement agencies, the FIU, CBA, Chamber of Commerce, and FZA.
3. Banking Sector team chaired by the CBA and consisting of the FIU and representatives of the commercial banks.
4. Other Financial Institutions team chaired by the CBA and consisting of the FIU and representatives of the several sectors.
5. Designated Non-Financial Businesses and Professions (DNFBP) team chaired by the FIU and consisting of the CBA and representatives of the several sectors.

The NRA process involved the following three (3) phases:

1. Preparation, Launch, and Initial Assessment;
2. Data Collection, Analysis, and Drafting of the Report; and
3. Finalization of the Report and drafting of an overview of proposed actions following the assessment.

Central to the NRA was a methodological tool developed by the World Bank. This Excel-based model enables countries to identify the main drivers of ML risks, and it is also a framework for future data collection that can be used to update the NRA on a regular basis. It provides a methodological process based on an understanding of the causal relations among money laundering risk factors and variables relating to the regulatory, institutional, and economic environment.

The NRA tool comprises several interrelated modules. These modules are built on "input variables", which represent factors related to money laundering threats and vulnerabilities. 'Threats' here refer to the scale and characteristics of the proceeds of crime and/ or financing of terrorism in the country. 'Vulnerabilities' here refer to weaknesses or gaps in a country's defenses against money laundering. Threats or vulnerabilities may exist at a national or sector level.

*National Threats team:* Data for the National Threat assessment were collected from supervisory, administrative, enforcement, and judicial agencies. Also, a qualitative review of official legal and socioeconomic documents, local literature, and international articles was conducted. Secondary source information was collected by the National Threats team from various FATF reports and other open sources.

*National Vulnerabilities team:* The necessary information for the National Vulnerability assessment was gathered during 12+ plenary sessions with all members of the National Vulnerabilities Working Group (WG) team as well as through written information and statistics. Information for the National Vulnerability module was mostly qualitative in nature. Information was gathered from (i) the discussions in the WG sessions, (ii) separate interviews with relevant authorities, and also (iii) written questionnaires sent to those authorities.

*Sector teams (Banking, Other Financial Institutions, and Designated Non-Financial Businesses and Professions):* For the various sector assessments, threats and vulnerabilities were identified by the relevant working groups based on information provided by/from the CBA, FIU, PPO as well as FATF typologies reports.

## CHALLENGES IN THE DATA COLLECTION

The NRA process presented several challenges. The challenges consisted of difficulties regarding the collection of statistics on investigations, prosecutions, and convictions. Either information was not available or it had to be compiled by hand.

Specific information and data on sectors being abused for ML were not always available from the PPO database. This was also caused by the limited number of ML cases in Aruba. As a result, in addition to the sector threats identified on the basis of ML cases, the ML threats for the various sectors were identified based on:

- Supervisory information from the CBA;
- Information from the FIU;
- Information from mutual legal assistance requests;
- Information received from the sectors during NRA sessions; and
- FATF typology reports.

The PPO has already indicated that it intends to make use of the World Bank's Proceeds of Crimes Data Collection Tool in the future to keep relevant statistics on a centralized basis.

The data quality was also an issue. For example, the information recorded in investigation records by different police departments varied in detail and accuracy (such as criminal case characteristics).

Furthermore, there were concerns about the comprehensiveness of the data. The Balance of Payments data, which give an overview of financial in/outflows, showed that the commercial banks often report to the CBA the country where the correspondent bank that is used for the international transaction is situated (which is often the United States of America). As a result, these statistics do not contain originator/destination country information. The absence of said information impeded the analysis by the Threat Assessment team of Aruba's cross-border financial flows. To be able to include such data in future analysis, possibilities should be explored on how to capture originator/ destination country information with respect to financial inflows and outflows.

Finally, no substantiated information was available on the size of the informal economy in Aruba. The Department of Economic Affairs, Trade and Industry already has indicated that it will take the lead in the future research on Aruba's informal economy.

## COUNTRY CONTEXT

Aruba is a country located in the Southern Caribbean Sea, approximately 24 kilometers (15 miles) north of the coast of Venezuela. It is a constituent country of the Kingdom of the Netherlands. As of 2018, Aruba had 111,849 inhabitants, 66% of them local Arubans. Foreign residents emigrate predominantly from Colombia (10%), the Netherlands (6%), the Dominican Republic (4%), and Venezuela (4%).<sup>2</sup>

The legal system of Aruba is based on the legal system of the Netherlands with some modifications due to local and/or regional circumstances and the substantially smaller scale of Aruba compared to the Netherlands.

The PPO is in charge of criminal investigations and prosecution. The duties and responsibilities of the PPO require an independent position within the Aruban government. Investigations of ML offenses are conducted by the PPO, the Police Force, and the RST (*Recherche Samenwerkingsteam*), an interregional unit tasked to investigate cross-border criminality between the Netherlands, Aruba, and the other countries within the Kingdom of the Netherlands.

The judiciary is made up of independent judges who are appointed by the King upon recommendation of the Common Court of Justice of the Netherlands Antilles and Aruba (Common Court). Cases are

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<sup>2</sup> Central Bureau of Statistics, Quarterly Demographic Bulletin, 1<sup>st</sup> Quarter 2019, source: Population Registry Office

heard in first instance by the Court in First Instance and can be appealed to the Common Court as court of second instance, including in tax cases. Further appeal is possible at the Supreme Court of the Kingdom of the Netherlands, but only for civil and penal cases (and not, for example, for administrative cases).

The CBA is the sole supervisory authority in Aruba with respect to the financial sector and has Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) supervisory responsibility over all sectors subject to the AML/CFT State Ordinance and the Sanction Decree to Combat Terrorism and Financing Terrorism.

The FIU in Aruba is the *Meldpunt Ongebruikelijke Transacties*, which is an “administrative” FIU. Created in 1995, it became a member of the Egmont Group in 1996. The FIU is organized as an independent and autonomous agency under the Ministry of Finance, Economic Affairs and Culture.

*FATF*: Aruba is a member of the FATF (through the Kingdom of the Netherlands) and the CFATF. Aruba is not on the FATF List of Countries identified as having strategic AML/CFT deficiencies. The most recent FATF (3rd round) assessment of Aruba was finalized in 2009.<sup>3</sup> In February 2014, the FATF recognized that Aruba had made significant progress in addressing the deficiencies identified in the 2009 mutual evaluation report, especially the deficiencies related to the core and key Recommendations that were applicable at that time, and could be removed from the regular follow-up process.

*EU Commission Tax Blacklist*: On March 12, 2019, Aruba was placed on the EU list of noncooperative jurisdictions for tax purposes due to a lack of tax transparency and information sharing. Aruba changed its legislation to make it compliant with EU requirements and was removed from the EU’s blacklist on May 17, 2019.

*Venezuela crisis*: Due to the Venezuelan crisis, Aruba has experienced an increase of illegal immigrants, gold smuggling, and an influx of illicit funds invested in real estate.

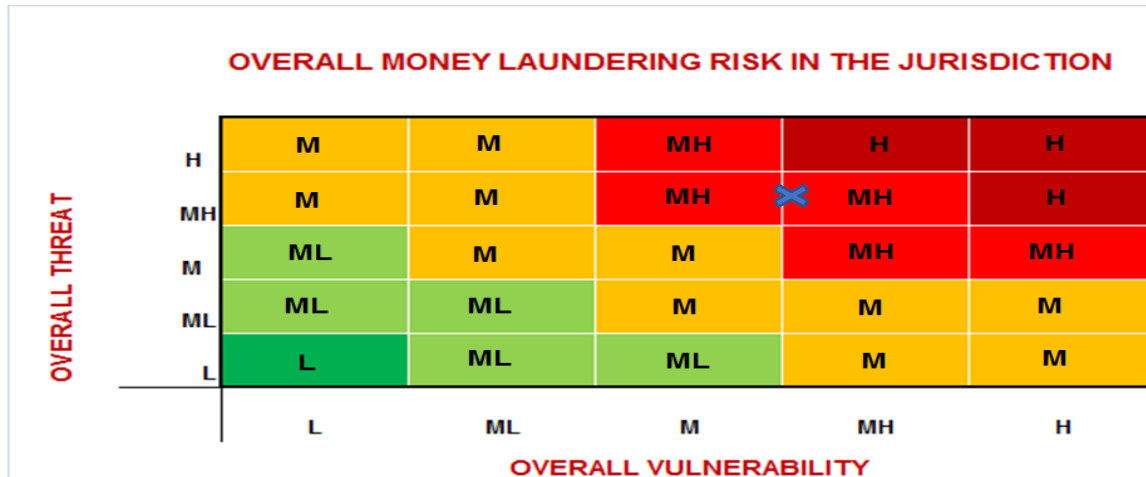
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<sup>3</sup> <http://www.fatf-gafi.org/documents/documents/fur-aruba-2014.html>

## 1. SUMMARY: MONEY LAUNDERING RISK AT NATIONAL LEVEL

Overall ML Risk Level is defined as a function of ML Threat and ML Vulnerability. The ML threat rating for Aruba is **Medium-High**, and the ML vulnerability rating is also **Medium-High**. The combination of the ML threat and the ML vulnerability results in an overall ML risk level for Aruba of **Medium-High**.

**Figure 1.** Risk map showing Aruba’s ML risk level as a function of threat and vulnerability



### *Threat assessment*

Data for the National Threat assessment were collected from control, enforcement, and judicial agencies. Also, a qualitative review of official legal and socioeconomic documents, local literature, and international articles was conducted.

The overall level of the national ML threat in Aruba is **Medium-High**. To assess the ML threat, the working group focused on the origin of the proceeds of crime by assessing the predicate offenses that generate proceeds of crime, the total proceeds of crime, and the sectors in which the proceeds of crime are invested and laundered. Based on the results of this analysis, the WG concluded that the predicate offenses that posed the highest ML threat in Aruba were illicit drug trafficking, cash smuggling, and corruption. Other noteworthy predicate offenses are underground banking, fraud and organized criminal activity, trafficking/smuggling of human beings, and smuggling.

The sectoral analysis identified the following sectors as most exposed to the threat of ML: the banking sector, the casino sector, the real estate sector, and the notary sector. The threat level for all of these sectors was assessed as **High**.

### *Vulnerability assessment*

The necessary information for the National Vulnerability assessment was gathered during plenary sessions with all members of the WG team as well as through written information and statistics. The 3rd round Mutual Evaluation Report of Aruba also was consulted.

Information for the National Vulnerability module was mostly qualitative. Information was gathered from the discussions in the WG sessions, interviews with relevant authorities, and written questionnaires sent to those authorities. Statistical data were also collected from relevant institutions.

The overall level of the national ML vulnerability in Aruba is **Medium-High**. The assessment demonstrated material weaknesses in the areas of the quality of the AML/CFT policy and strategy, quality of the AML/CFT legal framework, quality of cross-border control on transportation of cash and similar instruments, quality of criminal investigations, criminal prosecution, and adjudication.



Furthermore, the assessment showed significant weaknesses in the quality of the asset forfeiture framework.

The assessment identified an overall sectoral money laundering vulnerability score of **Medium/Medium-High**. The sector assessments were based on various sources such as information from the CBA, the FIU and the PPO. Information was also obtained from the sectors during plenary sessions, and through separate interviews and information requests/questionnaires.

The table below shows an overview per sector of the threat and vulnerability scores and the overall ML risk score for Aruba.

SECTOR	THREAT SCORE	VULNERABILITY SCORE	ML RISK SCORE
Banking	High	Medium	Medium-High
Money Transfer	Medium-High	Medium	Medium-High
Life Insurance	Low	Medium-Low	Medium-Low
Trust	Medium-High	Medium-High	Medium-High
Pawn Shop	Low	Medium-High	Medium
Credit union	Low	High (inherent Low)	Medium-Low
Casino	High	Medium-High	High
Real Estate	High	Medium-High	High
Notary	High	Medium	Medium-High
Lawyer	Medium-High	Medium	Medium-High
Accountant	Low	Medium	Medium-Low
Tax advisor	Medium-Low	Medium-High	Medium
Car Dealer	Medium	Medium-High	Medium-High
Jeweler	Medium-High	Medium-High	Medium-High

## Recent developments

During the NRA assessment period, various authorities already have taken some actions that were recommended based on the (preliminary) outcomes of the NRA.

### *Screening authority<sup>4</sup>*

It was recommended to establish a Screening authority and to make shareholder information available for competent authorities to counter the investment of illicit funds in real estate and misuse of legal persons by criminals. In 2019, the Minister of Justice appointed the National Coordination Bureau for Counterterrorism, Security and Interpol (Nationaal Centraal bureau Terrorisbestrijding, Veiligheid en Interpol, NCTVI) as a Screening Authority. The screening authority is tasked with the screening of legal entities as well as Ultimate Beneficial Owners (UBOs), which will allow authorities to prevent illustrious legal entities from settling in Aruba. Activities of the Screening Authority are yet to commence.

### *Aruba Exempt Companies (AVVs)*

On May 28, 2019, the Parliament of Aruba adopted a national ordinance to amend the Civil Code of Aruba by introducing a Book 2 on the law of legal entities. This national ordinance will go into effect on January 1, 2021. In Book 2, the AVV is no longer included. In other words, no more AVVs can be incorporated as from January 1, 2021. If an amendment to the articles of incorporation or bylaws is necessary, currently existing and active AVVs simultaneously will have to be converted; non-active AVVs will soon be collectively dissolved.

### *Casinos*

In 2019, the Minister of Justice announced new legislation regarding the establishment of a Gaming Board.

<sup>4</sup> This was also recommended following the first NRA but was not yet implemented.

### *Guidance and outreach*

Since June 2018, the FIU has held regular meetings with the compliance officers of the casinos and the TSPs. In 2020, the FIU also commenced such meetings with the notaries. These meetings have led to a greater AML awareness and knowledge of these compliance officers, as well as an improvement of the overall quality of the reported unusual transactions.

In 2019, the CBA issued a revised version of its Handbook for the prevention and detection of money laundering and financing of terrorism (AML/CFT Handbook), effective January 1, 2020. The AML/CFT Handbook, *inter alia*, contains a (new) requirement for the banks to have their Money Laundering Compliance Officers (MLCOs) stationed in Aruba.

In 2019, the CBA issued an informative brochure titled “How to protect your business against money laundering and terrorist financing in five steps”. The brochure contains the basic requirements and guidance to comply with the AML/CFT State Ordinance.

The CBA, in cooperation with the FIU, held information sessions for the various DNFBP sectors on the latest developments in the area of AML/CFT. The CBA also sent out AML/CFT Questionnaires to the various sectors under its supervision inquiring about their AML/CFT framework. Subsequently, the CBA sent letter to these sectors with, among other things, an analysis of the Questionnaire results.

### *AML/CFT State Ordinance*

An amended AML/CFT State Ordinance was prepared to address the identified gaps vis-à-vis the FATF recommendations (2012). Enactment is foreseen for the first quarter of 2021.

## 2. MONEY LAUNDERING THREAT AT NATIONAL LEVEL

### 1. Introduction

Aruba's national ML threat was assessed by a working group comprising representatives from all of the competent and relevant authorities in Aruba. The main objectives of the threat working group was to identify ML threats and understand those threats in terms of type of predicate offense, origin, and sector.

The National Threat working group rendered a rating of **Medium-High** for the overall level of the national ML threat in Aruba. The working group focused on the origin of the proceeds of crime by assessing the predicate offenses that generate proceeds of crime, the total amount of the proceeds of crime, and the sectors in which the proceeds of crime are invested and laundered. These are the sectors identified as having the highest ML threat.

In the period 2013-2019, money, goods, and immovable properties<sup>5</sup> were confiscated with a total value of approx. Afl. 11 million (approx. US\$ 6,180,000).

#### *The Domino case*

*After the suspects in an illegal drugs case were convicted, the court in 2017 dealt with the PPO's claim to deprive the convicts of their illicitly obtained possessions. The convicts were sentenced to pay amounts of Afl. 1,500,000 (approx. US\$ 838,000) and Afl. 450,000 (approx. US\$ 251,400) to the state. The convicts appealed these decisions.*

#### *The Ibis case*

*In the case of a corrupt minister, the investigation unit found out that the minister had misused funds of a foundation for private use (embezzlement). Additionally, it was determined that the former minister and his wife had spent much more cash money than could be accounted for as having a legal source. The former minister and his wife were (in total) sentenced to pay an amount of Afl. 420,000 (approx. US\$ 235,000). The convicts appealed these decisions. The confiscation claim will follow as a separate procedure.*

### 2. Predicate offenses

Between 2013 and 2017, a total of 91 persons were investigated for ML, 56 of whom were prosecuted, and 44 convicted for ML. This relatively low number is due to limited capacity to conduct complex financial investigations.

The cases and suspects investigated concerned stand-alone ML and ML investigations for predicate offenses of, *inter alia*, illicit drug trafficking, theft, fraud, organized criminal activity, forgery, robbery/extortion, cash smuggling, underground banking, corruption, and trafficking/smuggling of human beings.

Based on the results of the analysis, the WG on threat level concluded that the predicate offenses that posed the highest ML threat in Aruba were illicit drug trafficking, cash smuggling, and corruption.

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<sup>5</sup> Amounts of goods and immovable properties are based on auction results.

Aside from the predicate offenses rated as high, the other noteworthy predicate offenses are underground banking, fraud and organized criminal activity, trafficking/smuggling of human beings, and smuggling.

Based on the proceeds of the offenses committed in Aruba, the ML threat seems low. However, the ML threat from domestic crimes was determined to be high, primarily because of drug trafficking via Aruba. The drug trade in Aruba is primarily dependent on imported drugs, but the actual proceeds-generating activity does not take place only within Aruba.

The ML threat from predicate offenses committed overseas also is assessed as high. Given the nature of Aruba's economy, it is likely that proceeds from such offenses will be found in Aruba's financial institutions. The offenses that are considered sources of such funds include cash smuggling, foreign<sup>6</sup> corruption/bribery, and (international) trade-based ML.

The working group concluded that Aruba's ML threat flowed in both directions in relation to the Netherlands, the USA, Curacao, Colombia, and Venezuela, with the incoming ML threat arising (mainly) as a result of the need to pay foreign drug dealers for drugs transshipped via Aruba. China is mentioned specifically with regard to underground banking.

## **2.1. High threat predicate offenses**

### **2.1.1. Drug trafficking**

Drug offenses pose the most significant threat of money laundering to Aruba. Due to the geographical position of Aruba between South America, the USA, and Europe, Aruba is an attractive country for the trafficking of drugs between Colombia and Venezuela on the one side, and the USA and European countries on the other.

The most common predicate offense for money laundering was illicit trafficking in narcotic drugs (including import, export, and buying and selling in Aruba). Most likely some of the other predicate offenses (such as cash money smuggling and organized criminal activity) and the money laundering cases without a predicate offense have their origin in drug trafficking. The known proceeds of US\$100,000-250,000 represent a medium threat level. However, the number of cases increases the threat level to high.

Law enforcement and customs authorities actively monitor and patrol Aruba's airport and maritime borders to detect and seize illicit drugs before they reach the Aruban, European, or American market.

Proceeds from drug offenses are generally cash-based. Some of the laundering methods commonly used by criminals associated with drug trafficking include bulk cash transportation, third party laundering, high value goods dealers, cash-intensive front businesses, and gambling.

### **2.1.2. Bulk cash smuggling**

Bulk cash refers to the large amounts of currency notes that criminals accumulate from various types of criminal activity. Smuggling, in the context of bulk cash, refers to criminals' subsequent attempts to transport the money physically from one country to another. Bulk cash smuggling represents a risk due to the location of Aruba between North and South America and Europe.

Aruba law obliges travelers to or from Aruba to report the possession of cash amounts of money over Afl. 20,000 (approx. US\$ 11,000).<sup>7</sup> Failing to do so is a punishable offense. The cash is then seized. If ML is suspected, the case will be presented in court. In certain cases, prosecution can be avoided by

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<sup>6</sup> Refers to the Cesar Rincon case, <https://www.justice.gov/opa/pr/former-venezuelan-official-pleads-guilty-money-laundering-charge-connection-bribery-scheme>

<sup>7</sup> Article 7 Landsverordening meldplicht in- en uitvoer contant geld.

paying a fine. In most cases, cash money will be discovered by customs or security officers either at the airport or at the harbor. In one case (see box below) the money was discovered by the police.

*The Chicken-Cash Case (investigation Tunis)*

*In this case large amounts of cash (euros) were transported from the Netherlands to Aruba hidden in frozen chicken meat. It is unclear who sent the cash. The investigation started after a US request for legal aid. In Aruba three suspects were arrested, prosecuted and convicted. One of the suspects had contacts with Venezuela and Colombia. This suspect had been convicted previously for drug trafficking and money laundering. Another suspect was in contact with persons in Amsterdam. The illicit proceeds probably from drug sales were hidden in frozen chicken meat and transported to Aruba. The third suspect owned a local Aruban restaurant. The frozen chicken was ordered by this restaurant.*

*Investigation showed that in the period from December 2013 until June 2015, 10 containers with frozen chicken meat were delivered from the company in the Netherlands to the restaurant in Aruba. An estimated total of Euro 35,000,000 was transported to Aruba. The suspects received a commission between 2 and 4 percent.*

*The suspects were finally convicted by the appeals court. The court sentenced the suspects to four years in prison. In this case, Euro 2,833,340 was confiscated by the appeals court. In addition to the imprisonment, the suspects were sentenced to pay a total amount of Euro 2,907,000 as illegally acquired capital.*

In 2017 the Asset Recovery Team found that large amounts of cash were reported to Customs by captains of boats that came from Venezuela and Colombia. Not knowing whether the source of this cash money was legal, the Asset Recovery Team confiscated cash money on two occasions. Nobody stepped forward to claim the seized money. Since then, reported cash money has decreased dramatically, indicating that cash money coming from Colombia and Venezuela possibly has an illegal source and thus is considered a high risk.

### **2.1.3. Bribery and corruption**

In this report, bribery is defined as giving or receiving an unearned reward to influence someone's behavior. Bribery is a form of corruption.

Corruption is on the rise in Latin America and the Caribbean according to Transparency International, an international organization dedicated to fighting corruption on a global scale. Results of a survey conducted by the CBA in November/December 2019<sup>8</sup> indicated that 81 percent of the 824 people surveyed thought that corruption is widespread in Aruba, while just 1 percent perceived no corruption. Almost 76 percent agreed that corruption exists in public institutions in Aruba. One third of respondents believed that politicians were the most corrupt. A study conducted in 2011<sup>9</sup> identified several domains in the field of government that are vulnerable to corruption: lease of buildings for government use, issuing of licenses, issuing of leasehold land, and issuing of permits to work and stay in Aruba.

Although (social) media reports regularly about corrupt civil servants and ministers, it is difficult to gather enough evidence to start an investigation.

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<sup>8</sup> <https://www.cbaruba.org/cba/readBlob.do?id=6820>

<sup>9</sup> <https://www.wodc.nl/onderzoeksdatabase/onderzoek-naar-de-staat-van-bestuur-van-aruba-en-rechtshandhaving-in-het-bijzonder.aspx>.

### *The Ibis case*

*The Ibis case counted 28 suspects of whom 22 were prosecuted and 18 were convicted for (among other crimes) bribery and fraud. The main suspect was the former minister of social affairs. In addition, his wife and several of his subordinates were arrested. Also, three intermediaries were seen as suspects. The rest of the suspects were persons actively involved in bribing the minister.*

*For a foreigner to come to Aruba and start to work, a government department has to declare that no Aruban resident is available to fill that job. The written policy is that permission to come to Aruba and work in jobs that need no or a lesser education is not given. The idea is that the Arubans can do these sorts of jobs. The minister of social affairs (still) is allowed to make an exception on this policy. During the investigation, evidence was found that allowing foreigners to come to Aruba to work in jobs that did not need special education was the policy rather than the exception. Often the minister ignored the negative advice of the civil service and used his discretion to allow people to come to Aruba to work.*

*The investigation also revealed that the minister asked and received money for giving his permission to work in the cases investigated. In some cases, the money and, sometimes goods were given to him directly by trusted intermediaries; in other cases, he sold tickets for events that a foundation organized. Although formally the minister was not one of the directors of the foundation, in reality he was the one person in charge. Part of the money raised by the foundation was spent by the minister for his private use.*

*The minister was sentenced to a four-year imprisonment. He also was denied the right to be chosen as politician for a period of nine years. Both the minister and his wife were convicted of money laundering of (in total) Afl. 420,000 (approx. US\$ 235,000). The minister and his wife appealed the verdict. Prior to confiscating the proceeds of the acts of corruption, an additional court session will be held to determine the exact amount of the proceeds.*

### *Avestruz case*

*Since October 2019, a new investigation has been ongoing against a former minister of infrastructure (2009-2017). This minister is suspected of having given options on long lease commercial land owned by the country of Aruba to companies sometimes established for this specific purpose. These companies were owned by (party) friends or family of the minister. By receiving the option, the value of the companies increased dramatically, and the shares were then sold to property developers. The suspicion is that not only friends and family profited from the misuse of the minister's power (in itself a criminal act), but also that the minister himself profited from these actions.*

The misuse of power by ministers and civil servants is a great threat to Aruba. Experience with misuse of power by ministers shows that the majority of parliament is not willing to seriously investigate rumors that could endanger the position of (their own party) ministers. That the ministers in the cases mentioned misused their power was no secret. The misuse of power by ministers and civil servants is widely acknowledged.<sup>10</sup> All political parties accuse other political parties of such misuse.

## **2.2. Medium-High threat predicate offenses**

### **2.2.1. Underground banking**

Underground banking is a generic term used to describe any informal banking arrangements which run parallel to, but generally are independent of the formal banking system.

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<sup>10</sup> This does not apply for the law enforcement chain.

The Aruban population consists of a large Chinese and Venezuelan community. The absence of or limited number of transactions via money transfer companies to these countries gives reason to assume that there is an underground market. An example of illegal cash transfers to China is the Hamburg Case.

*Hamburg Case (2015-2018)*

*An Aruban court sentenced four suspects to prison for illegal underground banking, money laundering, cash transfers, and for not complying with the KYC rule. The investigation started in 2015. The suspects were convicted in 2018. The judge ruled that the men used the underground bank as a conduit for money laundering by criminal organizations. The main suspect transferred (partly physical) money from Aruba to China via Sint Maarten and Anguilla to receive it back on his Aruban bank account. The criminal case showed that this money transfer was in fact a loan back scheme with criminally obtained funds and that the suspect wanted to show that he apparently got legit loans from China and Sint Maarten to buy real estate in Aruba.*

*The main suspect also coordinated money transfers for people from Suriname, Colombia, and Venezuela to China, Curaçao, and Aruba.*

*The income derived from the underground banking activities was not reported to the tax authorities. The suspects were known in Aruba as people with a minimum income.*

*Part of the illegally obtained money was spent on jewelry and watches. Part was spent to buy real estate. The money spent could not have been from a legal source of income. Therefore, the suspects were convicted for money laundering as well. Part of the money was used as capital to run the underground bank. Customers of the bank were (among others) members of the Chinese community in Aruba that used the illegal bank to transfer money to family in China. Other customers were Arubans with a criminal background.*

### **2.3. Medium-threat predicate offenses**

Fraud, organized criminal activity, trafficking in human beings, migrant smuggling, and smuggling are considered medium-threat predicate offenses

**Fraud** is rated as a medium-threat predicate offense based on the proceeds of the crime. In the period 2014-2017, 163 persons were convicted for fraud.

**Organized criminal activity:** In the period 2014-2017, 14 persons were convicted for organized crime. Most of the cases in Aruba in which suspects were convicted for participation in an organized criminal group<sup>11</sup> had a drugs crime as the predicate offense. But sometimes, as in the Ibis case (bribery), for example, a conviction for participation in an organized criminal group followed.

**Trafficking in human beings and migrant smuggling:** Aruba is a transit and destination country for women, men, and children subjected to sex trafficking and forced labor. Venezuelan women are subjected to sex trafficking in Aruba, and foreign men and women are vulnerable to forced labor in the service and construction industries. Children may be vulnerable to sex trafficking and to forced labor in Chinese-owned supermarkets and restaurants.<sup>12</sup>

In 2017 the police Unit against Migrant Smuggling and Human Trafficking investigated seven cases of migrant smuggling; in 2018, six cases were investigated. Aruba also has established a specialized investigation team for combatting Trafficking in Persons. In 2016, thirteen reports were made to the National Coordinator on possible cases of human trafficking.

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<sup>11</sup> Article 2:79 CrCA.

<sup>12</sup> UNHCR 2018 Trafficking in Persons Report – Aruba.

### *The Foxy Lady case*

*In 2010 an investigation was begun on human trafficking (exploitation of females in the sex industry). In 2013 two of the three suspects were convicted. The conviction of the third defendant in this case took place in 2014. The male defendant received a sentence of 5 years imprisonment, which was reduced to 4 ½ years due to detention on remand. A fine of 15 thousand Aruban florins also was imposed on him. The female defendant received a sentence of 2 years imprisonment, which was reduced to 22 months due to detention on remand. The court was able to find substantive evidence that both defendants had deprived 10 women of their freedom and also mistreated them. The women were mostly from Eastern Europe and moved from country to country, which posed great challenges for the investigation. The defendants in the Foxy Lady case were convicted based on article 286a, paragraph 1 of the Criminal Code of Aruba (CrCA). This article makes trafficking in persons a felony with a maximum of six years imprisonment or a fine of Afl. 100,000 (approx. US\$ 56,000). This was a case of labor trafficking and none of the victims was under the age of 18. The case of Foxy Lady went before the Court of Appeals? in 2015. The case was completed with closing arguments in early 2016.*

**Smuggling:** Given Aruba’s geographic location and several cases, Aruba’s ML threat for smuggling is considered medium. Aruba has no significant black market for smuggled goods.

Cases consist of money laundering using illicit cigarette trade originating in Paraguay and routed to Colombia via a Curacaoan and Aruban brokerage, import, export and transit of gold from Venezuela, and smuggling of gasoline from Venezuela to Aruba.

#### **2.4. Low-threat predicate offenses**

Of the 12 categories of predicate offenses analyzed, 4 predicate offenses were assessed to represent a low threat of ML in Aruba: theft, robbery/extortion, embezzlement, and forgery. Proceeds of these crimes are relatively low and mostly spent immediately or consumed (not integrated in the financial system). For extortion, robbery, theft, and embezzlement, 399 persons were convicted in the period 2014 – 2017, and 33 persons were convicted for forgery.

### **3. Cross-border threat analyses**

Aruba has a number of economic touch points and a high frequency of international cooperation in criminal matters and financial intelligence with many countries. On the basis of various information sources, the working group was able to conclude that Aruba’s ML threat flowed in both directions in relation to the Netherlands, the USA, Curacao, Colombia, and Venezuela, with the incoming ML threat arising (mainly) as a result of the need to pay foreign drug dealers for drugs transshipped via Aruba.

### **4. Sectors most exposed to the threat of ML**

The sectoral analysis for the NRA identified the following sectors as most exposed to the threat of ML: the banking sector, the casino sector, the real estate sector, and the notary sector.

#### **4.1. Banking sector**

The ML threat level for the banking sector is rated **High**. The main threats facing the banking sector are increasing investments by subjects from jurisdictions in political turmoil, large volume of cash deposits, structuring of deposits to China, scams, politically exposed persons, and the commingling of personal and business funds.

The threat level takes the following factors into account:

- the high volume of transactions the sector is involved in (including a high volume of cash deposits with the banks by cash-intensive businesses), and
- the sector’s vital role in real estate transactions (being identified as a sector exposed to high ML threats).



## 4.2. Casino sector

The ML threat level for the casino sector is rated **High**. The main threats facing the casino sector are criminals attempting to gain control of the gambling business, the exchange of low denomination for high denomination currency, the exchange of currency, criminals using gambling to conceal the origin of criminal proceeds, and the use of front men (in Dutch: *stromanschap*).

The threat level takes the following factors into account:

- international typologies that indicate that casinos are attractive venues for criminals and are targeted consistently by criminals for criminal influence and criminal exploitation,
- FIU disclosures to law enforcement of practices that are in line with international typologies,<sup>13</sup>
- findings during the CBA's on-site examinations that are in line with international typologies, and
- the sector's high gross amount of revenue based on the tax payments pursuant to the *Landsverordening Hazardspelen*.

## 4.3. Real estate sector

The ML threat level for the real estate sector is rated **High**. The main threats facing the real estate sector are investments by subjects from jurisdictions in political turmoil, leasehold land and real estate transferred by means of share transfer, ML via (the) project development (sector), investment of illicit funds in local real estate, and the use of foreign trusts.

Aruba is categorized by the US State Department as a country/jurisdiction of primary concern with respect to ML and financial crimes. ML is related primarily to proceeds from illegal narcotics trafficked by criminal organizations and occurs, *inter alia*, through real estate purchases.

National case law illustrates that criminals purchased real estate to conceal the illicit origin of their funds.<sup>14</sup> The Hamburg Case (2018) revealed moneys obtained from underground banking (partly) being laundered via investments in local real estate. Loan-back-constructions were used for some of these real estate purchases.

Real estate, both commercial and residential, accounts for a high proportion of the value of confiscated criminal assets. Information from received Mutual Legal Assistance (MLA) requests, also indicate that illicit funds (derived mostly from drug trafficking) are invested in real estate in Aruba.

## 4.4. Notary sector

The ML threat level for the notary sector is rated **High**. The main threats facing the notary sector are the investment of illicit funds in local real estate and illegal trust/financing activities. The threat level takes into account the sector's vital role in real estate transactions.

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<sup>13</sup> Although these disseminations have not resulted in criminal proceedings or convictions.

<sup>14</sup> However, these specific ML cases pertain to situations in which criminals either purchased the real estate abroad or transferred the property among themselves without the involvement of a real estate company. Hence, although real estate is often used by criminals as a means of investing illicit funds, real estate companies and project developers are not necessarily (mis)used in order to purchase real estate.

### **3. MONEY LAUNDERING VULNERABILITY AT NATIONAL LEVEL**

#### **A. Assessment of national vulnerability to money laundering**

The National Vulnerability module assesses whether any deficiencies exist in the available defense and response mechanisms to combat ML. For the Aruba assessment, the necessary information was gathered by the National Risk Assessment Vulnerability Working Group.

The assessment rendered a rating of **Medium-High** for the overall level of the national ML vulnerability. The level of national ML vulnerability was shown to be driven mostly by the national ability to combat ML, which was rated **Medium-Low**. The vulnerabilities of the sectors were rated **Medium/Medium-High**.

#### **B. Aruba's ML combating ability**

The WG assessed the weaknesses and strengths of Aruba's national ML combating ability. The assessment demonstrated material weaknesses in the areas of the quality of the AML/CFT policy and strategy, quality of AML/CFT legal framework, quality of cross-border control on transportation of cash and similar instruments, quality of criminal investigations, criminal prosecution, and adjudication. Furthermore, the assessment showed significant weaknesses in the quality of the asset forfeiture framework. The most important strengths were observed in the areas of effectiveness of ML crime definition, quality of FIU intelligence gathering and processing, integrity and independence of criminal investigators, criminal prosecutors, and the judiciary, and domestic and international cooperation (see Annex 1 for the Vulnerability Map).

#### **C. Main deficiencies in Aruba's ML combating ability**

##### **1. Quality of national AML/CFT policy and strategy**

Aruba's political will and commitment to fight crime in general are deemed high. The AML/CFT Steering Group Aruba is the main intergovernmental mechanism for coordination and cooperation on a national level.<sup>15</sup> The Steering Group, so far, has not formulated a national level AML/CFT strategy document.<sup>16</sup> In recent years, the government has allocated more funds to combat (high impact) crimes and for investments in equipment and personnel for crime fighting agencies, namely, the Aruba Police Force and the PPO.

The vulnerability in the lack of a comprehensive national AML/CFT policy and strategy lies in the fact that (scarce) government resources to combat ML seemingly are used on an unplanned (ad hoc) basis and hence not optimally. Furthermore, due to the absence of a comprehensive national AML/CFT policy and strategy, the authorities involved may focus solely on their own priorities rather than (also) contribute to the priorities set at a national level. Going forward, the WG recommends strengthening the policymaking function of the Steering Group. This can be done, for example, by instituting a formal

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<sup>15</sup> Policy and direction have been given through the Steering Group to the national approach of ML/TF.

The Steering Group has:

1. mandated to conduct Aruba's first and second NRA.
2. established a technical committee (small steering group) with the aim of:
  - a) investigating identified bottlenecks in the evaluation and possible follow-up process;
  - b) making proposals regarding bottlenecks in the evaluation process;
  - c) following the latest developments in the prevention and control of ML/TF/ PF;
  - d) reporting, guiding the implementation of decisions at operational level.
3. commissioned a gap analysis to be performed and the identified gaps to be addressed.
4. expanded the powers of the NCTVI to include the screening authority
5. advised for setting up a crime fund.

<sup>16</sup> Guidance is given and policy is implemented by the Steering Group. However, it is not formulated in one national strategy document. Various documents are available from which the national strategy can be derived. The establishment of a steering group meeting with all relevant stakeholders, via ministerial decree, has already been the beginning of a national AML / CFT strategy. As a result of the first NRA in 2012, a strategy document was produced for the approach of 5 identified ML/TF risks.

bureau with qualified personnel to assist the Steering Group in the formulation and implementation of national AML/CFT policies and allocating resources to that purpose.<sup>17</sup>

## 2. Effectiveness of ML crime definition

The legal system of Aruba is based on the Dutch legal system with some modifications based on local or regional circumstances. The responsibility to develop an AML/CFT framework rests primarily with the government of Aruba, whereas the judiciary is linked into the Kingdom of the Netherlands.<sup>18</sup> The AML/CFT legal, regulatory, and institutional framework of Aruba generally is sound and comprehensive, but certain amendments are needed to make it compliant with the 2012 FATF standards.

The effectiveness of the Aruban ML crime definition was rated medium-high because the ML offense is defined adequately in the CrCA and covers all elements from the Vienna and Palermo conventions. ML is a stand-alone offense in Aruba's legal system. Consequently, ML can be prosecuted independently without having to prove the associated predicate offenses. In Aruba, all serious criminal offenses (in Dutch: *misdrifven*) can be predicate offenses for ML (all crime approach). Aruba has a broad range of ancillary offenses that fall within the scope of money laundering offenses.<sup>19</sup> Self-laundering is not yet codified in Aruba. A disproportionality exists between the level of criminal penalties and the administrative fines for ML.

Aruba has various operational consultation and coordination mechanisms in place for national cooperation and coordination involving various agencies. These mechanisms and meetings take place on a regular basis to discuss and coordinate efforts, as well as to exchange information, discuss joint initiatives, maintain law and order, and combat organized crime. Cooperation and coordination mechanisms at an operational interagency level and international level are deemed sufficient.

## 3. Quality of controls for cross-border transportation of cash and similar instruments

### 3.1. Border controls

Geographically, Aruba is located in a high-risk zone for illegal (and criminal) activities due to its location between North and South America.<sup>20</sup> As an island with only air and sea borders, Aruba is highly vulnerable to illegal transit of goods, drugs, money, precious metals, diamonds, and also people.<sup>21</sup> Due to the migration crisis in Venezuela, human trafficking represents a challenge. Bulk cash smuggling has become a preferred method for criminal organizations to move illicit proceeds of crime across the border due to Aruba's location between North and South America.<sup>22</sup>

Border controls in Aruba are deemed weak due to a lack of both capacity and resources needed for an effective border management. The border is porous in some places (no control or effective surveillance), and this vulnerability can be exploited for smuggling and trafficking people, for example. Coordination between the border authorities and other relevant competent authorities needs to be improved. This issue is deemed structural.<sup>23</sup>

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<sup>17</sup> This was already recommended following the first NRA but has not yet been implemented.

<sup>18</sup> In that regard, it is noted that within the Kingdom of the Netherlands there is also the application of the so-called 'principle of concordance'. This principle entails that all countries within the Kingdom should strive to have similar criminal justice systems and legal frameworks.

<sup>19</sup> See page 39 Aruba MER 2009.

<sup>20</sup> See INCSRs 2013-2020, Volume II by US State Department.

<sup>21</sup> See INCSRs 2013-2020, Volume II by US State Department.

<sup>22</sup> See INCSRs 2013-2019, Volume II by US State Department.

<sup>23</sup> In its 2018 annual report, the Coast Guard mentioned the following with regard to capacity issues at the Aruba Police Force: "In collaboration with the Aruba Police Force (KPA), the Aruba support center was able to operate with four teams 24/7 from mid-2016 to the end of 2017. Due to a shortage of staff, the KPA was no longer able to supply people structurally in 2018 to continue this cooperation at the same level, and the Aruba support center has again moved to the standard three shifts. As a result, gaps occurred in the operational schedule. Whether landings are missed as a result is unclear."

### **3.2. Customs cross-border controls**

Customs plays an important role in criminal investigations particularly related to illegal cross-border transportation of cash and similar instruments, but it faces capacity and resource challenges. These challenges are noticeable in Customs not having an effectively functioning container scanner or sniffer dogs trained to detect cash, and deficient entry controls and cross-border cash controls on the private side of the airport.

Although a legal framework exists for regulating and controlling cross-border cash (and bearer negotiable instruments) transportation, implementation of the applicable regulation is not effective. Transit travelers are under no obligation to report the transport of cash, gold, and similar instruments. The existing legislation with regard to cash and similar instruments should be amended to also include an obligation for declaring gold, precious stones, and metals.

In addition, Customs officials do not have the independent legal powers to conduct ML investigations. However, Customs does have the power to confiscate when investigating violations of the declaration obligations at the border.

### **3.3. Free Zone**

Aruba has an established Free Trade Zone<sup>24</sup> of two designated areas to facilitate entrepot trade. Free Zone Aruba N.V. is designated by the State Ordinance Free Zone as the supervisory authority. Businesses located in the Free Zone are subject to AML regulations from the supervisory authority. The movement of all goods between the free zone and Customs territory must be accompanied by clearance issued by Customs. Customs have the powers to enter the free trade zones and conduct checks on companies situated within designated free-zone areas to ensure compliance with Aruban customs requirements. The Free Zone authority indicated that it is unclear whether the information on the form regarding the intended destination of reported cash money is correct. Companies operating from the Free Zone have noticed that money that was declared as payment to a company was not received by the company. This constitutes a vulnerability in the cross-border declaration system. The Free Zone authority as supervisory authority is not mandated by law to report unusual transactions to the FIU. It is recommended that AML controls and supervision on companies established in the Free Zone be strengthened.

## **4. Quality of criminal investigations for ML**

### **4.1. Capacity of Law Enforcement Agencies (LEAs)**

Aruba's capacity to investigate serious crimes and money laundering cases is a constraint as well as its resources, level of knowledge, and experience. Not only does the Aruban police force lack enough personnel capable of investigating financial crime, but it also lacks enough funds to train personnel for that purpose. In general, the Aruba Police Force lacks capacity and expertise to deal with complex financial crime cases. Capacity and resource constraints also exist across the board at other Aruban LEAs. LEAs that fall under the responsibility of the government of the Netherlands, e.g., RST and Coast Guard, are better equipped with resources, manpower, and training. Recently the RST has been concentrated in Curacao. Although Aruba can still make use of this team, work in Aruba is much more complicated now. The working group considers this a vulnerability for Aruba.

### **4.2. Prioritization of investigations**

The PPO sets the priorities for investigations. In keeping up with the scarce capacity and resources of the LEAs, the PPO may be more inclined to focus on the predicate offense and not on the investigation and subsequent prosecution of ML. The ML offense often requires a more complex evidence structure and, therefore, more effort, time, and specialized expertise. In the case of a conviction for the predicate offense, illicit assets could always be confiscated. An extra ML conviction will not render an extra

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<sup>24</sup> Free Zone Aruba NV incorporated in 1996 is a corporation owned by the Aruban Government.

advantage in that respect. More trainings for prosecutors and judges could ensure more consistent and effective investigation, prosecution, and confiscation to combat ML.

The WG believes that the PPO should consider a more ML-focused approach. Even though a predicate offense is punishable and illicit assets are confiscated, they believed that society needs to get a clear message that nobody should profit from committing a crime and that Aruba does not tolerate ML in any way. The WG notes the cascading effect of the need for capacity (manpower), resources, and training for criminal investigators on the number of ML cases being prosecuted.

#### **4.3. Collaboration and information exchange on domestic level**

At the inter-agency level, Aruba has various operational, policy, consultation, and coordination mechanisms in place for national cooperation and coordination involving various agencies, under which are the PPO and various LEAs. These mechanisms and meetings take place on a regular basis, with a view to discussing and coordinating efforts to exchange information, discuss joint initiatives, improve and maintain law and order, and combat organized crime.

#### **4.4. The integrity and independence of Financial Crime Investigators**

A distinction is made between Aruban LEAs, who are employed by the Aruban Government, and LEAs employed directly by the Government of the Netherlands. No significant integrity issues were identified with regard to these LEAs, irrespective of employer. In the period 2013-2019, 117 integrity breaches were investigated or procedures were started.

A high level of independence and integrity is needed within law enforcement investigations in ML cases that include powerful members of society and high-profile criminals, so that these investigations are instituted and concluded in an objective and professional manner (see the Ibis case). The WG concluded that awareness-raising and training for integrity purposes are lacking at the Aruban LEAs. On the other hand, Dutch LEAs receive adequate training in these areas.

#### **4.5. Powers of investigators**

The vast majority of LEAs have the necessary legal powers to conduct investigations. However, several members of competent authorities dedicated to investigating financial crime (namely, Financial Intelligence and Fraud Unit (FIOT), Customs, and the Royal Military Police (KMAR)) still lack investigative powers and must depend on their colleagues or colleagues of the Aruba Police Force to perform investigative actions. The absence of a proper legal basis and/or of sufficient personnel with proper investigative powers entails (undue) delays in ML and predicate offense investigations. Aruba's legal framework for ML and asset forfeiture is deemed adequate.

#### **4.6. Quality of intelligence gathering and processing**

The WG is of the view that the FIU has a sound system for unusual transaction reports (UTRs). The FIU gathers relevant information locally and internationally. It strives to harmonize its analysis of information with ongoing investigations to provide relevant information to competent authorities and to increase the utilization of its reports.<sup>25</sup> With feedback provided by the LEAs and the PPO, the FIU

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<sup>25</sup>The FIU fulfills a buffer function between the PPO and the private sector. It performs analyses, both operationally and strategically, based on the register information. Transactions that are considered suspicious, on the basis of own analysis, are reported to the judicial authorities and the police and, if deemed necessary, to the VDA and NCTVI. The PPO assesses the reports, and an investigation is started where this is deemed appropriate. The dissemination reports on point of exit (indication of a possible crime) do not always connect seamlessly with the point of entry at the LEA (reasonable suspicion of criminal offenses). This gap is closed as much as possible through regular consultation between the parties. It is noted that the financial intelligence information cannot be used as proof of a crime. The reason for this is that the defense and judge cannot establish the correctness by questioning and testing the source thereof.

could improve the quality of its analysis. Not all disseminated reports have the required level of proof to start an investigation or prosecution.<sup>26</sup>

The FIU has the authority to receive and analyze UTRs from service providers (financial institutions and DNFBPs). The FIU can obtain relevant information from relevant databases of public institutions and authorities (with the exception of supervisory data of the CBA) to support the analysis of the FIU. The FIU can exchange relevant information with other international FIUs in a secure matter. After analysis, the FIU can declare transactions as suspicious and report them to all of the relevant LEAs and the PPO, after which the PPO can decide to use the information in the investigation of criminal cases.

In addition, the FIU receives cross-border cash transportation declaration reports from the Customs Department and police reports of confiscations from Customs Investigators related to these declarations. On the other hand, other LEAs do not forward their police reports to the FIU in cases where persons are detected and arrested for transporting cash and their assets confiscated due to a gap in the legislation. The lack of involvement of the FIU makes it difficult to trace the sources of the transported funds.

## **5. Quality and quantity of criminal prosecutions for ML**

### **5.1. Capacity and resources for financial crime prosecution**

The PPO is currently staffed with eight prosecutors and one head prosecutor; they are assisted by five legal clerks. All prosecutors are able to handle (complex) ML cases. Two are dedicated prosecutors tasked with financial crime investigations, including ML and corruption cases. Although all prosecutors can handle ML cases, prosecutors should receive more training focused on ML and on the freezing and confiscation of illicit assets.

Aruba has made serious efforts to combat criminal activities effectively. Since February 1, 2017, an Asset Recovery Team has been installed to aid in fighting crime and to confiscate assets from persons suspected of having obtained them illegally. Over the period 2017-2019, the Asset Recovery Team confiscated cash money (approx. Afl. 4.8 million ), immovable properties (with a value of approx. Afl. 994,000), and goods (with a value of approx. Afl. 173,000).<sup>27</sup>

### **5.2. Integrity and Independence of the PPO**

Prosecutions of alleged ML and related financial offenses are instituted without interference, political or social pressure, corruption, intimidation, or abuse of office. The PPO is not led by (social) media or political pressure and performs its tasks independently. In high-profile ML and corruption cases, prosecutors working in other parts of the Kingdom of the Netherlands may be transferred (temporarily) to Aruba if necessary. This possibility makes it harder for politicians or influential people to influence the PPO; bringing in new people with little to no connection to the Aruban society provides the necessary distance from the case.

Indications of integrity breaches regarding prosecutors are unknown. Even with occasional publicity in the media as well as threats made to prosecutors, the integrity of the PPO has never been compromised. No records/statistics exist regarding prosecution of persons who tried to compromise the integrity of the PPO.

## **6. Quality of adjudication for ML**

The capacity and resources for judicial processes and integrity and independence of judges could not be accessed effectively due to lack of information and input from the Court of First Instance. However, the WG noted its expert opinion that the courts have enough capacity to adjudicate ML cases. As noted above, in high-profile cases, such as corruption cases, judges may be brought in from other parts of the Kingdom of the Netherlands to adjudicate the cases. The WG could not assess the integrity and

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<sup>26</sup> Level of proof is not required for FIU intelligence reports.

<sup>27</sup> Values of immovable properties and goods are based on auction results.

independence of the judiciary directly. Nevertheless, the WG assumes that the judiciary is of high integrity.

## **7. Accessibility to reliable information and evidence for asset forfeiture, investigations, and prosecutions**

### **7.1. Quality of Customer Due Diligence (CDD) framework**

The main findings of the assessment of the quality of the CDD framework are:

**Availability of Reliable Identification Infrastructure:** In Aruba, three types of ID documents can be used for official identification: (1) Aruban ID (in Papiamentu: ‘*cedula*’), (2) passport, and (3) Aruban driver’s license. Dutch passports and Aruban ID cards comply with high quality and security standards and are considered secure ID documents. On the other hand, Aruban drivers’ licenses have minimal security features and are susceptible to fraud.

**Availability of Independent Information Sources:** Aruba does not have a centralized register for credit registration. No shared database/screening list exists with information on the financial history of clients (bad loans) and/or exit of clients. Companies are legally required to file financial statements at the Chamber of Commerce within 8 months after completion of the financial year. However, this financial information is not made publicly available. In addition, the compliance rate is low, and no enforcement action is initiated in case of noncompliance. The FIU, LEAs, and PPO are able to compel information on financial statements from the Chamber of Commerce in criminal investigations.

**Availability and Access to Beneficial Ownership Information:** In the Chamber of Commerce’s register, the following information is publicly available: legal name, trade name, address, names of directors, and proxies of registered companies. Information with regard to shareholders and ultimate beneficial owners (UBOs) is not publicly available at the Chamber of Commerce. The absence of an UBO registry is a shortcoming which requires measures of high urgency. Transfer of shares does not require involvement of a public notary. The shareholder register can be amended manually. Companies are required by law to update their shareholder information at the Chamber of Commerce. However, the compliance rate with this obligation is low, and no enforcement actions are initiated in case of noncompliance.<sup>28</sup>

### **7.2. Effectiveness of tax enforcement**

Auditing and collection of taxes are two of the core activities of the Tax Department of Aruba.<sup>29</sup> The Aruba Tax Department engages in desktop audits as well as on-site audit visits on a regular basis to ensure compliance levels are being improved. The audit unit of the Aruba Tax Department has approximately 20 auditors. These auditors conducted 82 audits in 2016 and 50 audits in 2017, resulting in additional tax assessments of Afl. 46.5 million for 2016 and Afl. 21.8 million for 2017.

Within the Aruba tax department, the FIOT detects financial fraud and tax fraud and the proceeds of other criminal activities such as corruption and money laundering. The FIOT is staffed with five

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<sup>28</sup> Article 3 AML/CFT State Ordinance includes the following requirements for service providers: identify the customer and verify the customer’s identity; identify the UBO and take reasonable measures to verify the UBO’s identity in such way that the service provider is convinced of the UBO’s identity; establish the purpose and intended nature of the business relationship; conduct ongoing monitoring of the business relationship and the transactions undertaken throughout the course of that relationship to ensure that they are consistent with the service provider’s knowledge of the customer, the UBO, their risk profile, including, where necessary, an assessment of the funds that are involved in the transaction or business relationship. As a result, UBO information on companies is available wherever a company engages with a service provider having obligations under the AML/CFT State Ordinance. The retention period under the AML/CFT State Ordinance is ten years. Since there is no legal requirement for all the companies to necessarily engage an AML obligated service provider at all times, the scope of application of the requirement to identify beneficial owners does not cover all relevant domestic companies

<sup>29</sup> The Aruba Tax Department currently is working on a formal articulated audit plan 2019-2023 that will present a typical audit plan for a small Tax Administration. Current audit cases are selected based on a risk profile and stated priorities. However, based on the recommendations of the IMF, the new audit plan will redirect a significant portion of the audit effort to the largest taxpayers.

members and is also a member of the Asset Recovery Team. The FIOT has direct access to the tax administration's database as well as access to databases of the civil registry, land registry, and the database managed by the Chamber of Commerce.

The statistical data from the FIOT shows that the number of informal business activities (tax evasion) over the period 2016-2019 totals 81, and the number of reports pointing to the suspicion by the FIU of possible tax evasion in that same period is 6.

The analysis of the tax enforcement framework shows lack of both a comprehensive legal framework as well as a system of sanctions for noncompliance with tax laws.

### **7.3. Level of financial integrity**

This variable assesses whether the country's tax framework provides for (1) transparency of financial matters of citizens and residents, and (2) the sharing of information by the tax authorities and law enforcement agencies, where appropriate. If the country has a sufficient level of tax transparency, it is more difficult for criminals to evade detection of money laundering activity and easier to prosecute them.

**EU blacklisting:** In 2018, Aruba became a member of the Inclusive Framework on Base Erosion and Profit Shifting of the Organization for Economic Cooperation and Development (OECD). Three fiscal regimes in Aruba were identified as creating unfair competition and not coinciding with the rules of the OECD. Aruba was listed temporarily on the EU's blacklist of countries not cooperating with the fair fiscal system on March 19, 2019, because the adaptations in some laws were not ready for introduction effective January 1, 2019. On May 17, 2019, Aruba was removed from the blacklist and is now among countries having a fiscal system that does not promote unfair competition.

**OECD assessment:** The Global Forum on Transparency and Exchange of Information for Tax Purposes has been the multilateral framework within which work in the area of transparency and exchange of information has been carried out by both OECD and non-OECD economies since 2000. In 2018, the Global Forum rated Aruba overall Largely Compliant with the international standard of transparency and exchange of information on requests handled over the period from July 1, 2014, to June 30, 2017. The main concern related to the large number of inactive companies and inadequate monitoring in general was that to be in line with the international standard, Aruba needed to urgently design and implement effective supervision and enforcement programs to ensure availability of updated and accurate ownership and accounting information for all entities.<sup>30</sup>

### **7.4. Availability of independent audit**

Currently Aruba has no regulatory body that audits the work of auditors. The WG reached out to the Aruba Association for Accountants (Arubaanse Vereniging voor Accountants, AVA) for input. According to the Association, audits (and reviews) are carried out on a high level (and according to international auditing standards), despite the lack of a local legal framework.

### **7.5. Level of formalization of the economy**

Aruba has a predominantly cash-based economy, based largely on tourism. A relatively large part of transactions in Aruba is conducted in cash, which allows for nontraceable and anonymous exchanges. Reasons can be found in the local culture, trust issues (especially with regard to digital banking), relatively high costs for financial services, and the existence of an informal economy (stimulates a preference for cash because it does not leave a transaction record). Informal economic activities make a sizable contribution to the GDP of the country; however, it is impossible to estimate, let alone determine, the level of the informal economy in Aruba. A relatively large share of business operations

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<sup>30</sup> The final OECD report can be found via the following link: <https://www.oecd.org/tax/transparency/global-forum-on-transparency-and-exchange-of-information-for-tax-purposes-aruba-2018-second-round-9789264306042-en.htm>



is performed in cash. As a result, Aruba faces a high risk for ML due to the dominance of cash transactions.

Laws and regulations requiring the formalization of economic activities need to be updated. Currently the Business Licensing Ordinance (in Dutch: *Vestigingsverordening bedrijven*), an archaic piece of legislation, is in effect. However, the Business Licensing Ordinance is not effective in regulating economic activities. No effective supervision regime exists, and the sanctions regime is not effectively applied.

#### **D. Key recommendations**

- Formulate a national AML/CFT policy and strategy and implement them effectively;
- Introduce Gaming Board and Casino supervision legislation to counter the threat of criminals attempting to gain control of the gambling business;
- Strengthen Aruba's border controls to counter the threat of bulk cash smuggling and goods smuggling, ensure effective coordination between the Coast Guard, Customs, the PPO, and the Aruba Police Force, and improve Customs' ability to effectively combat ML and illegal cross-border cash transportation by strengthening the legal framework, acquiring a new scanner at the port to check cargo coming into the country, and enforcing cross-border declarations.
- Introduce a UBO register to enhance the accessibility of reliable information for the performance of CDD and evidence gathering in the context of asset forfeiture.
- Require a notarial deed for share transfers.
- Adopt a zero-tolerance policy against public corruption by prioritizing corruption cases against politicians and close associates (Politically Exposed Persons, PEPs) and civil servants. Aruba should introduce a State Ordinance regulating financing of political parties. Aruba already has plans for the introduction of an Integrity Bureau and Integrity Chamber. Aruba should strengthen its Public Procurement law to make public procurements more transparent and fair. Aruba has advanced plans for introduction of the Institution of Ombudsman.
- Conduct research on Aruba's informal economy, and improve the tax compliance rate.
- Prioritize capacity issues and training on AML for LEAs, financial analysts, and prosecutors. In particular, prioritize proper staffing of the Bureau Financial Investigations by filling its remaining FTE slots. Encourage financial investigations within LEAs and the PPO and increase awareness, knowledge, and expertise with regard to ML and career prospects for financial investigators. Assign legal powers to relevant competent investigators.
- Improve gathering and structuring of data at the PPO.
- Increase the maximum financial penalty for ML and penalize Self Laundering.

#### **E. Sectoral Vulnerability - Overall National Vulnerability that Arises from the Sectors**

The assessment identified an overall sectoral money laundering vulnerability score of **Medium/Medium-High** for Aruba.<sup>31</sup>

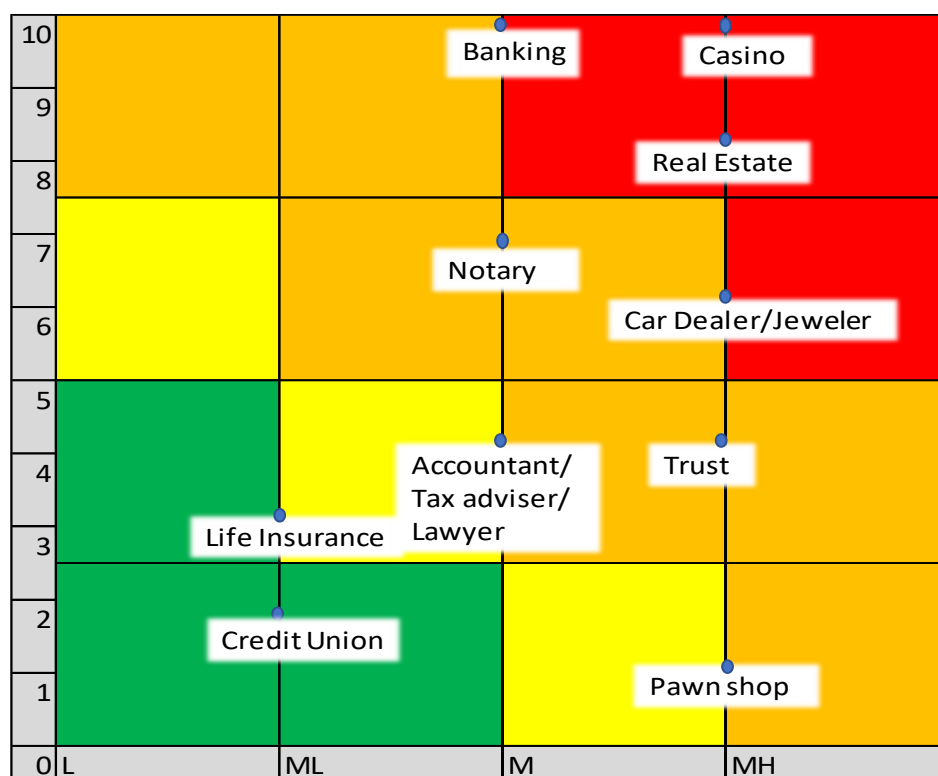
##### **1. Sectoral heat map**

The results of the individual vulnerability score per sector are placed on a *heatmap*, illustrating the vulnerability of the various sectors for money laundering, taking into account a given sector's final vulnerability score (overall vulnerability score as indicated in the table below) against the importance of that sector within the Aruban economy (sector weights as described and explained below).

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<sup>31</sup> A weighted average approach was chosen for assessing the impact of a given sector's vulnerability on the overall sectoral money laundering vulnerability: this straightforward approach calculates the overall sectoral money laundering vulnerability of Aruba on the basis of the weighted averages of the vulnerabilities of all the sectors assessed.

## Sector weight



Sector vulnerability score

## 2. Sector sizes and weightings

For each sector a sectoral weight was assigned between 1 and 10, with more important sectors being weighted more heavily (1=lowest weight, 10=highest weight) to determine the (overall) impact the sector has compared to the other sectors. Sectors that are most important in Aruba's economy and financial sectors are weighted most heavily. Relevant factors were taken into account, *inter alia*, a sector's share in the GDP, the key role of a particular profession in multiple sectors, informal business activities that may not be accurately reflected in GDP or tax records, and the level of ML threats to which a sector is exposed.

SECTOR	SECTOR SIZE <sup>32</sup>	WEIGHT	SECTOR VULNERABILITY SCORE <sup>33</sup>
Banking	<b>6.9%</b> (2019 turnover vs GDP)	<b>10</b> (high turnover, key role in all sectors, high sector threats, indications for the existence of an informal sector)	<b>Medium</b>
Life Insurance	<b>0.3%</b> (2019 turnover vs GDP)	<b>3</b> (low turnover, low sector threat)	<b>Medium-Low</b>
Money Transfer	<b>2.7%</b> (2019 size of transaction vs GDP)	<b>6</b> (high value of transactions, key role, also taking into account informal activities (e.g., underground banking))	<b>Medium</b>

<sup>32</sup> Turnover figures presented for the financial sectors were received from the CBA and were extracted from the sectors' annual financial reports. Turnover figures presented for the DNFBBPs are based on information received from the local tax authorities and are subject to certain disclaimers.

<sup>33</sup> The colors in this table are based only on the sector vulnerability score. The heatmap above shows colors based on the aggregate of the vulnerability score and the weight.

Trust	<b>0.1%</b> <i>(2018 turnover vs GDP)</i>	<b>4</b> <i>(low fees but high transaction values, indications for the existence of an informal sector)</i>	<b>Medium-High</b>
Accountant and Tax Advisor	<b>0.6%</b> <i>(2019 turnover vs GDP)</i>	<b>4</b> <i>(key role in multiple sectors, turnover mostly related to activities not covered by AML/CFT State Ordinance)</i>	<b>Medium</b>
Car Dealer	<b>2.0%</b> <i>(2019 turnover vs GDP)</i>	<b>6</b> <i>(contribution to GDP, medium-high sector threat, and indications for the existence of an informal sector)</i>	<b>Medium-High</b>
Casino	<b>10.7%</b> <i>(2019 gross amount of revenue vs GDP)<sup>34</sup></i>	<b>10</b> <i>(highest turnover of all sectors high sector threat)</i>	<b>Medium-High</b>
Jeweler	<b>1.8 %</b> <i>(2019 turnover vs GDP)</i>	<b>6</b> <i>(contribution to GDP, and medium-high sector threats)</i>	<b>Medium-High</b>
Notary	<b>Not known<sup>35</sup></b>	<b>7</b> <i>(key role in multiple sectors, high sector threat (mainly related to real estate transfers and transfers of leasehold land))</i>	<b>Medium</b>
Pawn Shop	<b>0.1%</b> <i>(2018 turnover vs GDP)</i>	<b>1</b> <i>(low turnover, low sector threat)</i>	<b>Medium-High</b>
Real Estate	<b>2.4%</b> <i>(2019 turnover vs GDP)<sup>36</sup></i>	<b>8</b> <i>(high value and volume of transactions (also taking into account the value of property not registered in the Land registry, e.g., hotels and condos), indications for the existence of a large informal sector, and the sector being identified as being exposed to a high threat by multiple WGs.</i>	<b>Medium-High</b>
Lawyer	<b>0.5%</b> <i>(2019 turnover vs GDP)</i>	<b>4</b> <i>(turnover mostly related to activities not covered by AML/CFT State Ordinance, but the sector is identified as being exposed to a medium-high threat because of its involvement in the establishment of legal companies and in a substantial part of the (larger) real estate transfers and transfers of leasehold land)</i>	<b>Medium</b>
Credit union	<b>0.03%</b> <i>(2018 turnover vs GDP)</i>	<b>2</b> <i>(low turnover, low sector threat)</i>	<b>High but inherent vulnerability is Low</b>

<sup>34</sup> Based on the tax payments pursuant to the *Landsverordening Hazardspelen*. The gross amount of revenue represents the ‘gross gaming revenue’ of slot machines with bill acceptors, the ‘drops’ at table games, and sports betting. The sector representatives indicated that the figures presented by the Tax Authorities are not indicative of the total turnover for the casino sector of Aruba. The Aruba Hotel & Tourism Association (AHATA) indicated that total turnover for the year 2018 was approximately Afl. 245 million. However, these figures were not substantiated.

<sup>35</sup> The turnover based on all taxable sales of this sector could not be determined as most notaries are part of a fiscal entity. Such fiscal entity may include other business types such as real estate, which would greatly impact the total revenue.

<sup>36</sup> The figures received from the tax authorities include any company involved in real estate, so not necessarily only realtors.

### 3. Sectors most vulnerable for money laundering

The NRA identified the following sectors as most vulnerable for money laundering, taking into account the sectors' final vulnerability scores and the sectors' importance within the Aruban economy:

#### 3.1. Casino sector

The money laundering vulnerability level for the casino sector is rated **Medium-High**. The main vulnerabilities of the casino sector lie in lack of entry controls and the vulnerability of the business to criminals gaining control over gaming activities and casinos by taking management or other positions within a casino. Multiple on-site examinations have been performed by the CBA at casinos in recent years. In almost all cases, violations of the AML/CFT State Ordinance were found (and enforcement measures were taken by the CBA).

#### 3.2. Real estate sector

The money laundering vulnerability level for the real estate sector is rated **Medium-High**. The main vulnerabilities of the real estate sector lie in the quality of AML controls: weak quality of operations and weak quality of AML policies and procedures. Information resulting from on-site examinations at realtors, information sessions held, and questionnaires sent out revealed limited awareness and compliance of the realtors with the AML/CFT requirements.

#### 3.3. Banking sector

The money laundering vulnerability level for the banking sector is rated **Medium**. The main vulnerabilities of the banking sector lie in the AML knowledge of banks' staff, the effectiveness of compliance systems, and the effectiveness of monitoring and reporting of unusual transactions. Findings from on-site examinations at banks revealed deficiencies in the area of transaction monitoring.

#### 3.4. Car dealer sector and jeweler sector

The money laundering vulnerability level for the jeweler and car dealer sectors is rated **Medium-High**. The main vulnerabilities of these sectors lie in the commitment and leadership of management, the compliance level of staff, and the effectiveness of unusual activity monitoring and reporting. The CBA's information revealed a lack of awareness and compliance with regard to AML regulations and the lack of a proper AML framework in place for many car dealers and jewelers.

During the review period, the jewelers submitted zero and the car dealers submitted one subjective UTR with the FIU. Although the sectors may have a good knowledge of their customers, they often lack the AML knowledge and proper internal policies and procedures, including red flags, that allow them to identify the unusual character of transactions.

### 4. National vulnerabilities impacting the sectors

The quality of **all sectors'** operations is impacted by (national) vulnerabilities in relation to

1. the fairly large list of technical gaps that exist between the AML/CFT State Ordinance and the FATF recommendations (2012);
2. the quality of the CDD framework (no centralized register for credit registration, companies' financial statements not publicly available, no publicly available shareholder information, no national UBO register, Aruban driving licenses being susceptible to fraud); and
3. the lack of criminal enforcement actions in cases of noncompliance with AML requirements.

## 4. MONEY LAUNDERING RISK IN THE BANKING SECTOR

### A. Introduction

At year-end 2019, the Aruban banking sector comprised five commercial banks, one international bank, and one mortgage bank. Aruba is not considered a regional financial center.<sup>37</sup> With high threats facing the banking sector and the banking sector's vulnerability to money laundering rated Medium, the money laundering risk of the banking sector is rated **Medium-High**.

### B. The main threats facing the banking sector

The money laundering threat level for the banking sector is rated **High**. The main threats facing the banking sector were identified based on a 2017 strategic analysis from the FIU Aruba<sup>38</sup> and information received from the CBA. The WG identified the following main threats facing the banking sector:

**Increasing investments by subjects from jurisdictions in political turmoil.** There has been an increase in investments in local real estate, hotels, project development and (cash intensive) businesses by subjects from jurisdictions in political turmoil, mainly Venezuela. Local loans are provided by the banks for real estate transactions. The true origin of the money offered for repayment of the mortgage can be difficult to assess or trace and may create an opportunity for laundering illegally obtained funds.

**Large volume of cash deposits.** In Aruba a large volume of transactions is conducted in cash. This results in a high volume of cash deposits by cash-intensive businesses with the banks.

**Structuring of money to China.** An increase has been noted in cash deposits by subjects of Chinese descent, sometimes occurring several times a day, through various branches to China. Apparently, this is done in (multiple) smaller amounts to avoid triggering FIU reporting obligations. The banks also noted several clients sending money to the same beneficiary in China.<sup>39</sup>

**Scams.** The banks report transfers to persons in foreign countries who are not directly related to the client. These transfers are possibly a result of scams.

**Foreign politically exposed persons.** Given the central geographic location of Aruba, the banks are exposed to (people related to) foreign politically exposed persons (mainly from Venezuela) seeking banking relations.

**Commingling of personal and business funds.** The banks have seen an increase in use of personal accounts for business transactions and vice versa (e.g., VBAs, limited liability companies, do this regularly). This commingling of funds may be related to tax evasion.

### C. Banking sector's vulnerability to money laundering

The banking sector's vulnerability to money laundering is rated **Medium**. The WG's assessment of the banking sector's AML control framework showed the highest vulnerabilities in the areas of AML knowledge of bank staff, effectiveness of compliance systems, effectiveness of unusual transactions monitoring and reporting, comprehensiveness of the AML legal framework, and enforcement of criminal sanctions. Identified strengths are the availability and effectiveness of entry controls, the effectiveness of supervision procedures and practices, the level of market pressure to meet AML standards, and the level of integrity of bank staff.

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<sup>37</sup> *United States Department of State - International Narcotics Control Strategy Report Volume II (March 2019).*

<sup>38</sup> *Cloudy with a Chance of Cash (FIU-Aruba, 2017).*

<sup>39</sup> Until 2019, the banks reported these types of transactions but the numbers have decreased compared to previous years. The banks have taken measures to discourage these types of transactions.

## **D. The deficiencies or gaps in the AML control framework that apply to the banking sector**

### **Compliance of bank staff**

During the period 2013-2019, the CBA conducted the 23 on-site examinations at banks with a focus on compliance with the integrity legislation. Over the period 2016-2019, the CBA imposed five administrative sanctions on the banks.<sup>40</sup> Besides formal measures, the CBA imposes informal measures, e.g., normative conversations and instructions included in on-site letters.

Based on the outcome of the examinations, internal procedures are amended, additional AML courses are attended by personnel, and disciplinary action may follow for employees after an administrative fine by the CBA. The AML knowledge and awareness vary significantly between the banks and their various lines of staff: the AML knowledge by the first line of defense (cashiers, etc.) is not considered high although it should be mentioned that at some banks, the majority of subjective reporting comes from the first line of defense. Higher management and compliance personnel show a more extensive knowledge (and awareness) of AML.

Banks generally regard their staff members as having high integrity. The number of integrity-related incidents at the banks is low.<sup>41</sup> However, underreporting is considered a risk since Aruba is a small island on which most people (including the employees) know each other, resulting in a less formal approach and a potential reluctance to report incidents by colleagues. To date, no administrative enforcement actions have been taken by the CBA against individuals/employees. Banks do not believe that criminal enforcement actions would be initiated in cases of noncompliance with AML requirements. In the banks' experience, law enforcement authorities and prosecution lack specific AML knowledge and AML focus.

### **Effectiveness of Compliance Function**

The banks have extensive compliance programs in place. However, not all banks have a tailored Business Risk Assessment (BRA) and (international) AML/CFT policies, procedures, and measures tailored to the Aruban operations and the requirements. Moreover, the MLCO function is not always carried out in Aruba. The banks lack compliance programs with long-term vision. The compliance departments within most banks are vulnerably staffed based on the number of compliance staff and/or specialized knowledge available only within a small group. Management generally considers recommendations given by compliance as "advice and counsel", and as such, these recommendations are not necessarily followed.

### **Effectiveness of Unusual Activity Monitoring and Reporting**

During on-site examinations, the CBA found that monitoring systems are sometimes set up too generally resulting in large numbers of alerts that need to be cleared. The CBA has noted delays of up to five months in the clearance of alerts. These delays may be due to lack of trained personnel, understaffing, and/or inadequate setting of threshold and parameters in automated monitoring systems. To improve the quality of reports, provide guidance and feedback, exchange information on risks, trends, and typologies, quarterly meetings take place between the FIU and the banks. Furthermore, an automatic 'portal' for the filing of (the large number of) objective UTRs with the FIU is necessary to ensure that these objective UTRs do not have to be reported manually anymore.

The total number of objective reports remained fairly consistent; the percentage of subjective reports increased from 1% in 2013 to 4% in 2019. The reports from the banks constituted roughly 30% of all disseminated reports to law enforcement agencies by the FIU over the years 2013-2019.

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<sup>40</sup> Formal measures are not necessarily imposed in the same year as the on-site examination.

<sup>41</sup> In 2019, six incident reports were submitted by the commercial banks to the CBA on the basis of the RIB.

Year	Objective indicators		Subjective indicators		Grand total
	Number of reports	% of total	Number of reports	% of total	
2013	17,401	99%	149	1%	17,550
2014	19,536	98%	305	2%	19,841
2015	18,761	99%	221	1%	18,982
2016	17,087	99%	248	1%	17,335
2017	17,349	97%	583	3%	17,932
2018	18,806	97%	584	3%	19,390
2019	20,291	96%	745	4%	21,036

### Quality of the CDD framework

In general, issues are seen with respect to the availability of independent information sources for all companies, availability and access to accurate and up-to-date beneficial ownership information, and availability of reliable identification documentation.

### Comprehensiveness of AML Legal Framework

Aruba has a comprehensive AML legal framework in place: the AML/CFT State Ordinance. However, a fairly large list of technical gaps was identified vis-à-vis the FATF recommendations (2012).

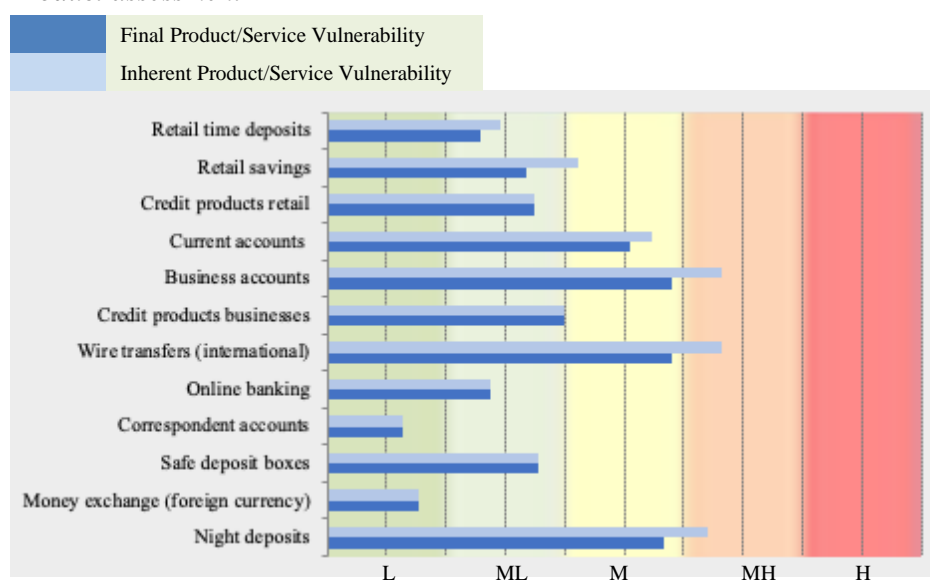
#### E. Products with the highest vulnerability to money laundering

The commercial banks in Aruba offer traditional banking products. They do not offer private banking, negotiable instruments, trust and asset management services, and they have very limited trade financing services (in the form of letters of credit).

The WG identified the following products with the highest vulnerability to money laundering: business accounts, wire transfers (international), and night deposits. The factors driving the money laundering vulnerability are

- business accounts: a medium-high average transaction size, a deposit feature, a medium-high level of cash activity, and a medium frequency of international transactions;
- wire transfers (international): a high total value, high-risk client base profile, and high frequency of international transactions; and
- night deposits: a high total value, a deposit feature, and a high level of cash activity.

#### Product assessment



## **F. The main areas of priority to mitigate the banking sector's vulnerability to money laundering**

Banks:

- Raising AML knowledge of their staff, among other things, by including the topic of AML knowledge in development plans of employees and their appraisal; providing quarterly compliance reports to Management Board/Supervisory Board; and conducting tailor-made trainings.
- Raising the effectiveness of the compliance function, among other things, by conducting more sophisticated screenings of the banks' MLCOs and Money Laundering Reporting Officers (MLROs), tailoring international compliance programmes to the Aruban situation, providing additional resources for compliance departments, and shifting the compliance role to 'risk ownership and independent challenge'.
- Conducting a critical review on the effectiveness of their monitoring systems and where necessary, amending their system parameters.
- Setting up an automatic 'portal' between the banks and FIU for objective reporting.<sup>42</sup>

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<sup>42</sup> The banks are awaiting a final decision from the FIU on continuation or replacement of the current FIU reporting system.



## 5. MONEY LAUNDERING RISK AT OTHER FINANCIAL INSTITUTIONS

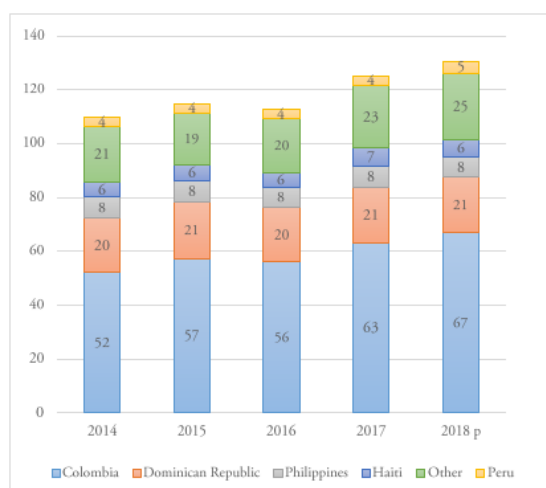
### 5.1 MONEY TRANSFER SECTOR

#### A. Introduction

At the end of 2019, three money transfer companies (MTCs) were registered in Aruba. Two of the MTCs are local agents of international companies; the third local agent renders money transfer services only within the international postal community, sending and receiving transfers for countries within the Dutch Caribbean (Curacao, Bonaire, **Saint** Martin, Saba and **Sint** Eustatius). One of the MTCs expanded its registration to include money exchange activities but has not yet started those activities. With **Medium-High** threats facing the MTC sector and the MTC sector's vulnerability to money laundering rated **Medium**, the money laundering risk of the MTC sector is rated **Medium-High**.

A substantial part of Aruba's labor force consists of foreign workers, predominantly from Colombia, the Caribbean, and the Philippines. Colombia is the main destination for outgoing money transfers with a share of more than 50% of the total transfers in 2018. The main reason for transferring money abroad is to provide financial support to relatives in the countries of origin of the foreign workers residing in Aruba. The majority of Aruba's incoming money transfers originate from the USA and the Netherlands.

Outgoing money transfers by destination in Afl. million



Source: CBA: money transfer companies; p= preliminary figures.

Incoming money transfers by origin in Afl. million



Source: CBA: money transfer companies; p= preliminary figures.

#### B. The main threats and vulnerabilities facing the money transfer sector

The ML threat level for the money transfer sector is rated **Medium-High**. Considering that MTCs were involved in a number of money laundering cases, a high number of extortion cases, and based on the expert opinion from the sector, a rating of **Medium-High** is applied for the MTC sector.

A number of local law enforcement investigations and prosecutions revealed that registered MTCs were involved in money laundering cases such as the transfer of small amounts of money to pay for services to facilitate drug transactions.<sup>43</sup> Based on the assessment conducted on the types of unusual transactions reported subjectively to the FIU during the period under review, scams and extortions can be mentioned.

The MTC sector's vulnerability to money laundering was rated **Medium**. Identified strengths of the sector include the availability and effectiveness of entry controls, the integrity of business/staff, and AML knowledge of staff. Both the quality of AML policies and procedures and the quality of operations

<sup>43</sup> Source: PPO overview of ML cases over the period 2013-2018 and sector information extracted from PPO overview of Mutual Legal assistance Requests 2013-2018.

score on a moderate level. The quality of operations is weaker due mainly to the quality of the CDD framework, which negatively impacts the overall quality of AML controls.

**C. The deficiencies or gaps in the AML control framework that apply to the money transfer sector**

**Compliance of MTC staff**

The MTCs provide training to their staff at least twice a year, and all trainings are mandatory. To date, no administrative enforcement actions have been taken by the CBA against (individuals/employees of) MTCs. The number of incidents of integrity failure involving MTCs is low. One company indicated having one incident in the period under review, which resulted in the termination of the employee’s contract.

During the period 2013-2019, the CBA conducted four on-site examinations at the MTCs with a focus on compliance with the AML legislation. No major negative findings were encountered and, therefore, no enforcement actions were taken by the CBA. Based on information received from the FIU, the CBA has decided to intensify the oversight on MTCs.

**Effectiveness of Compliance Function**

The money transfer companies have compliance functions and compliance programs in place. The compliance functions are sufficiently staffed. All MTCs have an MLRO who resides in Aruba.

**Effectiveness of Unusual Activity Monitoring and Reporting**

The MTCs contributed on average roughly 14% of all UTRs submitted to the FIU in the period 2013-2019. MTCs report mostly on the basis of subjective indicators. The reports from the MTCs constituted roughly 45% of all disseminated reports to law enforcement agencies by the FIU as per 2019. This is quite a substantial amount and signals effective identification of unusual activity.

Year	<i>Objective indicators</i>		<i>Subjective indicators</i>		
	Number of reports	% of total	Number of reports	% of total	Grand Total
2013	149	6%	2,411	94%	2,560
2014	24	1%	2,823	99%	2,847
2015	10	0%	2,021	100%	2,031
2016	320	12% <sup>44</sup>	2,244	88%	2,564
2017	62	2%	3,301	98%	3,363
2018	62	4%	1,552	96%	1,614
2019	31	1%	2,665	99%	2,696
	<b>658</b>		<b>17,017</b>		<b>17,675</b>

**D. The main areas of priority to mitigate the money transfer sector's vulnerability to money laundering**

Besides the quality of the CDD framework, this assessment did not identify major vulnerabilities for the MTC sector that need mitigation. This conclusion is substantiated by on-site and offsite supervisory activities by the CBA, which did not result in major findings.

<sup>44</sup> The spike in the amount of objective reporting in 2016 was due to unusual transaction reports based on a judicial request of multiple subjects with numerous transactions.

## *Underground banking*

The Aruban population consists of a relatively large Chinese and Venezuelan community. The absence/limited transactions via the MTCs to these countries give reason to assume that a significant underground market exists in which monies are transferred to the mentioned countries without intermediation of registered MTCs. In April 2019, the CBA placed a press statement in several newspapers calling on all unregistered MTCs to immediately cease all activities for which a license from the CBA is required.

## **5.2 LIFE INSURANCE SECTOR**

### **A. Introduction**

At year-end 2019, the Aruban life insurance sector comprised six insurance companies and eight insurance brokers licensed by the CBA. Most of the life insurance companies in Aruba are part of a group structure of life insurance companies operating outside Aruba. These groups offer continuous AML compliance support to the local life insurance companies and also regularly assess the AML framework of the local companies.

The majority of the products offered by the life insurance companies are either pure life insurance products that cover the risk of decease of the insured or are pension related and subjected to legal limitations for early redemption, making them much less attractive for money laundering.

With **Low** threats facing the insurance sector and the sector's vulnerability to money laundering rated **Medium-Low**, the money laundering risk level of the life insurance sector is **Medium-Low**.

### **B. The main threats and vulnerabilities facing the life insurance sector**

The ML threat level for the life insurance sector is rated **Low**. The assessment of local prosecutions for ML and relevant predicate offenses did not reveal any involvement or misuse of the life insurance sector in Aruba. Taking into consideration that (i) the majority of the clients hold (nonredeemable) pension-related group policies, (ii) cash payments are limited, and (iii) nonresidents are not accepted as clients, and based on the expert opinions obtained during conversations with the sector, no indications of any circumstance existed that would warrant a higher than a low ranking for threat in the life insurance sector.

The life insurance sector's vulnerability to money laundering is rated **Medium-Low**. The WG assessed the AML control framework currently in place for the life insurance sector and identified the highest vulnerabilities in the areas of availability of independent information resources and availability and access to beneficial ownership information. Furthermore, lower vulnerabilities were identified in the area of availability of identification infrastructure. Identified strengths are the availability and effectiveness of entry controls, the integrity of business/institution staff, and the AML knowledge of staff.

A factor contributing to the vulnerability of the life insurance sector is the use of insurance brokers. The majority of the brokers are small companies that struggle with the cost and knowledge of compliance in comparison with the life insurance companies, which possess the necessary resources. Note, however that, the volume of the policies sold by insurance brokers is low, and the life insurance companies conduct their own CDD and do not rely solely on assessments conducted by the brokers. These facts mitigate the risks posed by the brokers.

Based on the information gathered for this assessment, the quality of AML controls is moderate. Both the quality of AML policies and procedures and the quality of operations score on a moderate level. The quality of operations is weaker due mainly to limited availability of independent information sources and limited availability and access to beneficial ownership information. These two shortcomings have a considerable effect on the quality of CDD framework for the life insurance sector.

The weaknesses mentioned are counterbalanced by the fact that the life insurance sector's AML knowledge is strong, quite effective entry controls exist, and staff integrity is considered up to par.

During the period 2013-2019, the CBA conducted three on-site examinations at the life insurance companies with a focus on compliance with the AML/CFT legislation and integrity-related legislation and regulations. The CBA imposed four (informal and formal) enforcement measures on the life insurance companies.

The life insurance companies contributed roughly 0.03% (53 reports) of all reports received by the FIU in the period 2013-2019. None of the UTRs received from the life insurance companies were disseminated to law enforcement agencies by the FIU during the period reviewed.

### **C. Products with the highest vulnerability to money laundering**

The assessment of the money laundering risks of the life insurance sector was limited to the two products with the highest vulnerability for money laundering: (1) single-premium life insurance products (non-group), and (2) life insurance plans with cash value and investment/savings components excluding single-premium (non-group).<sup>45</sup> Both types of policies accrue a cash value and have a cancellation and early redemption option. Cancellation and early redemption occur quite often.

The vulnerability for money laundering is considered **Low** because employees' contributions are withheld from their salary by the employer and are paid (together with the employer's contribution) to the life insurance company by the employer for the whole group. The policies are nontransferable as per the State Ordinance on General Pension, and early redemption is possible only after three years of emigration by the employee to another county.

### **D. The main areas of priority to mitigate the life insurance sector's vulnerability to money laundering**

- Enhance the quality of CDD when applying for the two most vulnerable products; especially in cases where the application involves legal entities, establish the purpose of the business relationship, the business of the entity, the identity and background check of UBOs and Managing Directors/Supervisory Board members.
- Enhance the monitoring of clients and transactions with regard to the two most vulnerable products.

## **5.3 INVESTMENT BANKING SECTOR**

### **A. Introduction**

Aruba has one investment bank. The investment bank was incorporated as a credit institution with the objective to promote the execution of projects important to the economic development of Aruba. Its business activities comprise Corporate Finance, Syndication, Agency, providing Economic and Financial Advisory services, and Program and Project Management services. The bank is a privately owned company with shares held mainly by resident financial institutions, pension funds, and commercial banks. The majority of lenders that participate in the consortia are institutional investors that are subject to formal supervision in Aruba or their (foreign) home jurisdiction.

The borrowing clients of the investment bank must be legal entities, and they range from SMEs to larger private and public legal entities. The investment bank is lending and advising in a limited number of approved jurisdictions (Aruba, Curacao, Bonaire, St. Maarten, and Turks and Caicos Islands). For the

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<sup>45</sup> Single-premium life insurance products (non-group) consist of a one-time premium, the amount of which is higher than monthly premiums (> Afl. 1,000,-). Life insurance plans with cash value and investment/savings components excluding single-premium (non-group) consist of a higher premium due to the investment/savings component.

year 2019, the investment bank had 49 clients. The investment bank conducts financial transactions with Curacao, Bonaire, **Saint Martin**, Turks and Caicos, the USA, and The Netherlands.

The assessment of the money laundering risks of the investment bank was limited considering the size of the investment banking services in Aruba.

### **B. The main threats and vulnerabilities facing the investment banking sector**

The money laundering threat at the investment bank is considered **Medium**. Over the review period, no criminal cases involved the investment bank.

The money laundering vulnerability at the investment bank is considered **Medium**. In the period under review, one AML on-site examination was conducted (2016). There were no major findings with regard to the investment bank’s AML framework. The investment bank has a compliance function in place. The investment bank has written AML/CFT policies and procedures; CDD/EDD, transaction monitoring and reporting procedures are in place and implemented. The number of integrity-related incidents at the investment bank is low. No administrative enforcement actions have been taken by the CBA against employees of the investment bank.

The investment bank contributed 0.79% of all UTRs received by the FIU in the period 2013-2019. Of the investment bank’s UTRs (1,133), 4% were based on subjective indicators. The FIU encourages more subjective reporting.

The FIU did not disseminate any of the UTRs to the law enforcement agencies.

	<b>Objective indicators</b>			<b>Subjective indicators</b>		
Year	Number of reports	% of total		Number of reports	% of total	Grand total
2013	72	91%		7	9%	79
2014	130	84%		25	16%	155
2015	172	99%		2	1%	174
2016	146	97%		4	3%	150
2017	205	100%		1	0%	206
2018	165	98%		4	2%	169
2019	199	100%		1	0%	200
	1,089			44		1,133

The investment bank assessed its products and services to determine their inherent vulnerability. One of the seven assessed products/services resulted in a final vulnerability rating of **Medium**, namely, syndicate loans. The money laundering vulnerability for syndicate loans is mainly driven by the high-risk client base profile. The other products resulted in a rating of **Medium-Low** or **Low**.

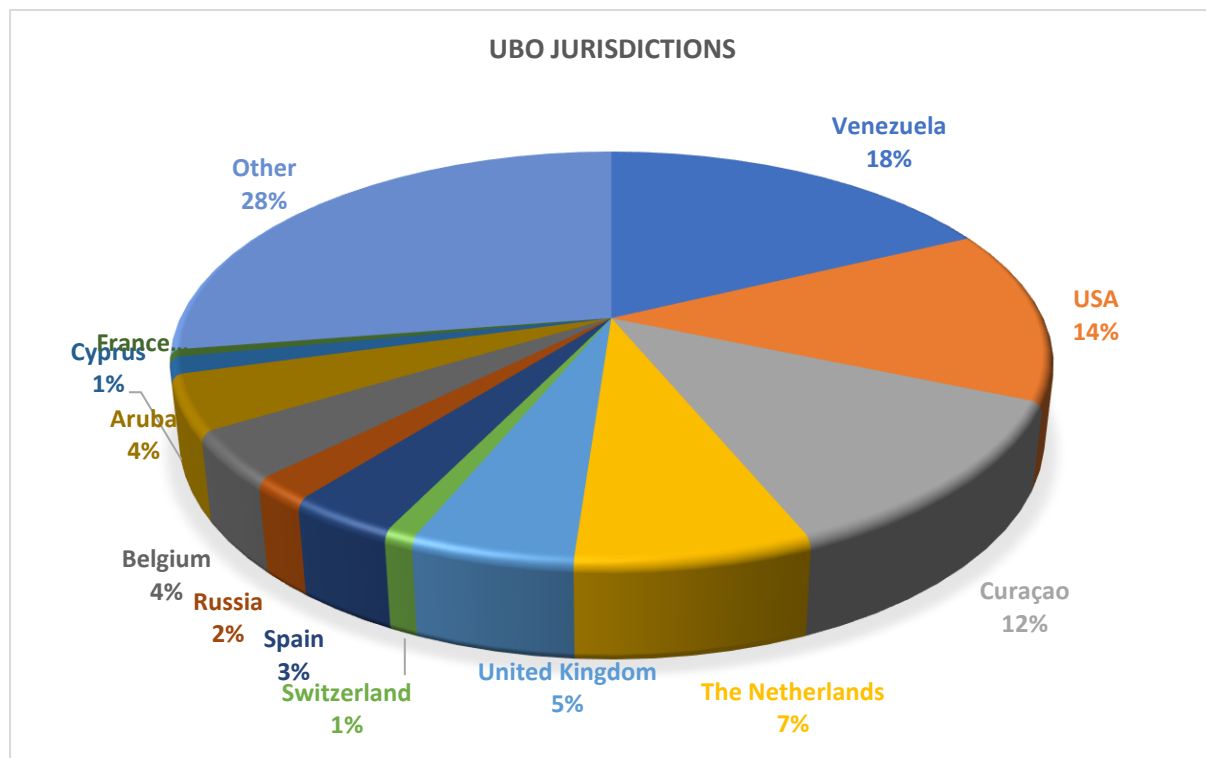
## **5.4 TRUST SECTOR**

### **A. Introduction**

At year-end 2019, the Aruban trust sector comprised ten licensed Trust Service Providers (TSPs).<sup>46</sup> The local TSPs provide services to both on-shore as well as off-shore clients. The core business of the TSPs is acting as managing director and granting domicile to companies doing business in Aruba in which the UBO or investor is not an Aruban resident. Administrative support work such as bookkeeping also is included in the services provided by the TSPs.

<sup>46</sup> In 2018 there were twelve licensed TSPs.

The top five countries<sup>47</sup> where the UBOs of the clients serviced by the TSPs reside are (1) Venezuela, (2) USA, (3) Curacao, (4) The Netherlands, and (5) the United Kingdom. The TSPs also service UBOs residing in Russia, Spain, Belgium, Cyprus, France, and Switzerland. Countries such as Dubai, Turkey, Trinidad and Tobago, Panama, and Kazakhstan, some of which are considered high-risk countries, are among the countries included in the “Other” category.



The majority of the TSPs are small offices with on average of 6-7 persons. Many of these offices have been active in Aruba for a long time. The local trust sector bloomed in the past as Aruba was an attractive jurisdiction for the establishment of companies due to its attractive tax regimes (with low tax rates and exemption possibilities). These tax regimes no longer exist.<sup>48</sup>

With **Medium-High** threats facing the trust sector and the sector’s vulnerability to money laundering also rated **Medium-High**, the money laundering risk for the trust sector is rated at **Medium-High**.

### B. The main threats facing the trust sector

The ML threat level for the trust sector is rated **Medium-High**. The WG identified the following main threats facing the TSP sector:

**Investment of illegal monies in local real estate and/or (leasehold) land.** Information from criminal prosecutions and MLA shows illicit money (often generated abroad with international drug trafficking) being laundered by investment in local real estate and/or (leasehold) land. This real estate and/or land is registered in the name of locally or offshore incorporated companies managed by local TSPs.

**Increasing investments by subjects from jurisdictions in political turmoil.** The fact that the local TSPs in Aruba have a history of providing services to Venezuelan clients and the geographical proximity of Aruba to Venezuela contribute to the threat of having corrupt money infiltrating the transactions of aforementioned clients.

<sup>47</sup> Source: UBO information as of 2018 submitted by the licensed TSPs together with financial yearly reports.

<sup>48</sup> On July 1, 2003, the Aruba offshore regime was abolished and replaced by a dividend withholding tax and an imputation payment system. Companies formed prior to the introduction of the new fiscal system were grandfathered; their existing privileges continued till the end of 2007, meaning an effective tax rate of 2.4% to 3% for foreign-owned companies.

**Misuse of the Aruba Exempt Company (AVV).** The AVV was enacted in 1988 with the help of Aruba’s financial offshore sector to provide maximum flexibility with a minimum of formalities. The AVV is nontransparent and offers substantial tax exemptions to foreigners. In several cases, AVVs were (mis)used for the laundering of funds, e.g., obtained from drug trafficking or fraud through real estate purchases. Under the new Civil Code, AVVs will no longer be incorporated. Therefore, this threat only relates to (a significant number of) AVV legacy files (232 as per 2018) in the TSPs’ current client base.

### C. The trust sector’s vulnerability to money laundering

The trust sector’s vulnerability to money laundering is rated **Medium-High**. The WG assessed the AML control framework currently in place for the trust sector. This assessment showed highest vulnerabilities in the areas of AML knowledge of staff, effectiveness of unusual activity monitoring and reporting, and quality of CDD framework. Identified strengths are the availability and effectiveness of entry controls, the effectiveness of supervision/oversight activities, and the availability and enforcement of administrative sanctions.

The quality of AML controls is rated **Medium-Low**, mainly because most of the TSPs conduct their monitoring activities post event. They are not able to detect unusual transactions as they occur, which consequently has a negative effect on the reporting behavior of the TSPs.

During the review period 2013-2019, the CBA conducted 16 on-site examinations at the TSPs. Over this period, the CBA imposed 15 (informal and formal) enforcement measures against TSPs. Virtually the same breaches were found at almost all the visited TSPs.

The limited availability of independent information sources as well as limited availability and access to UBO information negatively affect the quality of the CDD framework for the TSP sector.

Cases were identified during on-site examinations where TSPs were not assigned as signatories to the client accounts, allowing clients to conduct transactions without their prior knowledge. This situation creates the opportunity for clients to conduct unlawful transactions without being detected. A case was identified during an on-site examination where transactions should have been reported to the FIU.

The monitoring framework of the TSPs needs to be designed so that the TSPs are able to duly know their clients, understand the purpose of the structures, and the rationale behind each transaction before these transactions take place. The TSPs must be directly involved with their clients’ transactions, have signing authority, and be able to monitor transactions in real time. The lack of adequate activity and client monitoring at the TSPs results in inadequate reporting of unusual transactions. This conclusion can be deduced from a high number of late reportings and almost no subjective reporting.

In the period under review, 8 TSPs submitted UTRs to the FIU; 4 TSPs did not submit any UTRs. The UTRs submitted by the TSPs contributed to less than 2% of all reports received by the FIU in the period 2013-2019, an extremely low percentage. And almost all UTRs (99%) were based on objective indicators. Between 2013 and 2019, 18 reports of this sector were disseminated to the law enforcement agencies by the FIU (representing 0.5% of the total number of disseminations by the FIU).

#### *Objective vs subjective reporting*

Year	<i>Objective indicators</i>		<i>Subjective indicators</i>		
	Number of	%	Number of	%	Grand
	Reports	of total	reports	of total	Total
2013	1	100%	-	0%	1
2014	21	95%	1	5%	22
2015	836	100%	1	0%	837

2016	1,273 <sup>49</sup>	100%		5	0%	1,278
2017	404	99%		3	1%	407
2018	386	99%		2	1%	388
2019	366	98%		9	2%	375
	<b>3,287</b>			<b>21</b>		<b>3,308</b>

#### **D. Products with the highest vulnerability to money laundering**

The products/services rendered by the TSPs with the highest vulnerability for money laundering are acting as local representative, director, or legal representatives of legal entities or bodies. When providing these services, the TSPs frequently are not assigned as signatories to the client's account, thus allowing the clients to conduct transactions without the prior knowledge of the TSPs.

#### **E. The main areas of priority to mitigate the trust sector's vulnerability to money laundering**

- Actively seek AML training programs tailored to the type of services TSPs provide and have management and all relevant staff participate in said trainings. Test personnel regularly on their AML knowledge.
- Improve and bring the methods used for monitoring transactions to an acceptable level. TSPs should require their clients to provide them with (i) access to their bank accounts to be able to monitor real time movements on the accounts, or (ii) the authority to co-approve transactions before they take place, thereby allowing them the opportunity to evaluate whether transactions fit the clients' profile.

### **5.5 COMPANY PENSION FUND SECTOR**

At year-end 2019, Aruba had eight company pension funds. The company pension funds manage the pension rights/funds of the (former) employees in a specific company or sector, such as the tourist sector or the government (civil servants) and are regulated pursuant to the State Ordinance on Company Pension Funds.

As such, the activities of the company pension funds do not fall under the scope of the AML/CFT State Ordinance. However, if a company pension fund also grants loans as part of its investment activities, the AML/CFT State Ordinance applies to this activity. Some of the company pension funds in Aruba provide (1) mortgage loans to their participants, and/or (2) loans to third parties (through participation in a financing consortium), typically to large government-owned institutions (e.g., the local electricity company and the local water supply company) and commercial businesses (e.g., large hotels).

Considering that (i) the number of company pension funds that grant loans and/or mortgages is limited, and (ii) the loans and mortgages granted are to their participants, government-related, or duly established commercial third parties, it was decided to perform only a marginal assessment on the company pension funds.

The vulnerability of the company pension funds for money laundering is rated as **Low**.

- Loans and mortgages are issued to their participants and professional third parties, such as government-owned companies or hotels.
- A client risk assessment is performed and a risk profile is established prior to the granting of a loan/mortgage.

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<sup>49</sup> The spike in the amount of objective reporting in 2016 occurred because in 2016 a number of TSPs reported a backlog of transactions from the previous years.



- Payments are received from the employers of the participants through monthly salary withholding.
- Transaction monitoring is duly performed as most UTRs are reported based on a subjective indicator.

These company pension funds indicated that the identity of the (prospective) customers is verified, a risk profile of each customer is established and documented, and the source of funds of these customers is verified and documented. Sanctions and PEP screenings are conducted by three company pension funds. The company pension funds indicated that in the period of 2018 to 2019, no business was refused due to concerns relating to ML/TF. Over the period 2013-2019, eleven UTRs were submitted with the FIU by two company pension funds. Seven of these UTRs were based on a subjective indicator, and the other four UTRs were based on an objective indicator.

## 5.6 PAWN SHOP SECTOR

### A. Introduction

At year-end 2019, three pawn shops in Aruba were granted a dispensation pursuant to article 48, section 3 of the State Ordinance on the Supervision of the Credit System. One pawnshop holds a majority of the market share of this sector (approx. 75%). Indications exist for illegal pawnshop activity, although the CBA estimates that the magnitude is low.

The pawnshops offer the following products: pawn/loan in exchange for products, and buy-in of products. Products which are pawned - in particular jewelry - are often sold to customers in the same store. As a result, the three pawn shops also function as a jeweler and are registered as such in the CBA's DNFBP register.

The vulnerability level of the sector was rated **Medium-High**. With a threat level of **Low**, the money laundering risk level for this sector is **Medium**.

### B. The main threats and vulnerabilities facing the pawn shop sector

The money laundering threat level for the pawn shop sector is rated **Low**. The sector has not been used as a means to launder illicit funds in any of the Aruban ML prosecutions.

The sector's vulnerability to money laundering is rated at **Medium-High**. The vulnerability for ML lies in the quality of operations. In particular, the lack of effectiveness of supervision, and the quality of the CDD framework are areas that have a high level of vulnerability. The identified strengths for this sector can be found in the effectiveness of compliance function and the integrity of business/professional staff.

### C. The deficiencies or gaps in the AML control framework for pawn shops

The CBA sets high standards/requirements for a pawn shop to obtain a dispensation. These requirements are partially AML-based. Within the assessed timeframe, the CBA did not conduct on-site supervision and very limited off-site activities with regard to the pawn shop sector. The sector expressed the need to receive more constructive guidance on how to comply with their AML obligations.

### D. Products with the highest vulnerability to money laundering

The assessment of the pawn/loan in exchange for products resulted in a **High** vulnerability rating whereas the buy-in of products received a **Medium** vulnerability rating. The factors driving the vulnerability of the pawn/loan in exchange for products are high volume; highly cash intensive; and

vulnerable to handling of stolen goods (predicate offenses to ML). The sector has implemented certain mitigating measures that limit the vulnerability of the services provided by the sector.

#### **E. The main areas of priority to mitigate the pawn shop sector's vulnerability to money laundering**

To improve the effectiveness of supervision, the CBA should consider (risk based) on-site visits and off-site outreach.

### **5.7 CREDIT UNION SECTOR**

#### **A. Introduction**

At year-end 2019, Aruba had two credit unions. The credit unions in Aruba are relatively very small businesses and offer only very basic financial services to their participants. Only members and their families are granted loans. The loan amounts usually do not exceed Afl. 20,000 (approx. US\$ 11,200). Members cannot make cash payments on their savings plans. Considering the limited number of members and the sector size, the WG decided to perform only a marginal assessment on the credit unions and merely describe their operations.

Taking into account the threat rating and (inherent) vulnerability rating, the money laundering risk of the credit union sector is considered **Medium-Low**.

#### **B. The main threats and vulnerabilities facing the credit union sector**

The credit union sector's threat for money laundering can be rated as **Low** considering the closed group of employees and their family members, small loan amounts, and no cash payments. The assessment of local prosecutions for ML and relevant predicate offenses did not reveal any involvement or misuse by the credit union sector in Aruba.

The credit union sector's vulnerability for money laundering is rated as **High**. The credit unions did not (i) conduct a ML business risk assessment, (ii) establish appropriate and effective policies, procedures, and measures commensurate with their ML risks, and (iii) report any UTRs to the FIU. However, the inherent vulnerability is **Low**, considering the features of the credit union sector in terms of its products, services, and clients.

#### **C. The deficiencies or gaps in the AML control framework**

In 2015 and 2016, the CBA conducted on-site examinations at both credit unions. Deficiencies noted were that both credit unions lacked (i) a compliance function, (ii) an internal audit function, and (iii) AML policies procedures and measures. In 2018, one of the credit unions outsourced its compliance function. The other credit union currently is still in the process of hiring compliance staff. Over the period 2013-2019, the credit unions did not report any UTRs to the FIU.

#### **D. The main areas of priority to mitigate the credit union sector's vulnerability to money laundering**

The recommended actions for the credit union sector are for the credit unions to

- Conduct a ML business risk assessment.
- Establish appropriate and effective policies, procedures, and measures commensurate with the credit unions' ML risks.
- Arrange for adequate AML training of the staff involved with the (daily) operations.

## 6. MONEY LAUNDERING RISK AT THE DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPs)

### 6.1 CASINO SECTOR

#### A. Introduction

At year-end 2019, thirteen casinos were registered with the CBA. Casinos require a casino license from the Minister of Justice. Those licenses are only granted to hotels, typically those that form part of a chain. Casino licenses can be ‘leased’ to another individual/entity. Hence, it is possible that the casino license holder is a different individual/entity from the actual casino operator. Internet casinos are not prohibited and/or subject to a casino license requirement. The majority of the casinos’ UBOs are nonresidents. The UBOs reside in the USA, Curacao, the Netherlands, and Aruba.

With a total gross amount of revenue of almost Afl. 630.6 million in 2019 based on the tax payments pursuant to the Gaming Act (Landsverordening Hazardspelen), the casino sector contributed roughly 10.7% of Aruba’s estimated GDP. This amount represents the ‘gross gaming revenue’ of slot machines with bill acceptors, the ‘drops’ at the table games, and sports betting.

The main purpose of the casinos is to create an additional source of entertainment for tourists. The games offered by the casinos do not require high bets, and the maximum bets are not high when compared to other countries. Therefore, the sector does not attract ‘high rollers’.

Financial intelligence and case law have shown that this sector is subject to **High** ML threats. In addition, the casino sector received a vulnerability rating of **Medium-High**. Considering the threat level and the vulnerability level for this sector, the risk level for this sector is **High**.

#### B. The main threats facing the casino sector

Based on the key threats identified for this sector, this sector’s threat level is considered **High**. The key threats derived from national case law, supervisory information, and financial intelligence in the Aruban casino sector are the following:

**Criminals attempting to gain control of the gambling businesses.** A recent court case involving a casino was primarily a contractual dispute between parties and money laundering vulnerabilities resulting from the position of a person within the casino in relation to his possible criminal background. This case does illustrate that there are loopholes that could allow UBOs and management of casinos to hire individuals in influential positions within casinos for the purpose of (mis)using the casino business to launder illicitly gained money.

**Exchanging low denomination for high denomination currency (refining).** On-site examinations as well as submitted UTRs revealed cases where casino services were used to convert large amounts of low denomination bank notes into more manageable high denomination notes.

**Exchanging currency.** The FIU has disseminated disclosures to law enforcement regarding the exchange of currency by individuals. Casinos submitted UTRs in which they reported that large sums of Aruban Florin (often reaching the objective reporting threshold of Afl. 5,000 or more for the casino sector) were exchanged into Dollars at several casinos by the same individual or several (linked) individuals, also indicating smurfing practices.

**Criminals using gambling to conceal the origin of criminal proceeds.** The FIU disseminated disclosures to law enforcement which could indicate the placement of criminal proceeds through table and non-table games to launder money, and playing a (table or non-table) game for a short amount of time with the aim of creating the illusion that they (criminals and/or associates) are gambling after which they cash out.

**Use of front men.** CBA on-site examinations revealed potential “*stromanschap*”, e.g., persons acting as a front for gambling in the casino. No ML prosecutions have involved the casino sector.

### **C. The casino sector’s vulnerability to money laundering**

The casino sector’s vulnerability to money laundering is rated at **Medium-High**.

The results of the assessment of the WG together with the Aruba Casino Association show that the vulnerability for AML lies in the lack of entry controls and the vulnerability of the business to criminals gaining control over gaming activities and casinos by taking management or other positions within a casino.

No effective measures are in place to prevent criminals or their associates from taking control of a casino, no fit and proper testing is being conducted before a casino license is granted, and leasing of a casino license to a third party is permitted.

Although casino licenses state that they are strictly personal and nontransferable, renewal procedures for casino licenses are not enforced by the relevant authorities. In practice, the authorities do not have insight into, for instance, a transfer of shares of the company granted or leasing the casino license. As a result, a change of UBO can go unnoticed (and without any prior fit and proper AML controls). License holders are required to report such transfers to the Department of Casino Affairs, but this does not occur in practice.

The quality of AML supervision was identified as a strength for this sector. Another identified strength was the effectiveness of unusual activity monitoring and reporting. Although the PPO has not pursued ML cases based on UTRs provided by casinos and relating to the identified threats in the previous section, the UTRs submitted by the casinos to the FIU are used to conduct operational<sup>50</sup> as well as strategic analysis.

The casinos provide a wide range of games and, therefore, the games that are most vulnerable to money laundering were identified for the product rating as well as other services offered by casinos – i.e., credit, front money, and currency exchange. The products received a relatively high inherent vulnerability rating as 8 out of 10 products received a vulnerability rating between **Medium-High** and **High**, whereas only two products received a **Medium** vulnerability rating.

### **D. The deficiencies or gaps in the AML control framework that apply to the casino sector**

#### **Availability and effectiveness of entry controls**

The authorities responsible for conducting entry controls do not conduct controls based on AML standards prior to granting licenses, as this is not required pursuant to the AML/CFT State Ordinance or the Gaming Act. These laws do not provide for any form of fit and proper testing of key persons in the casino sector. Consequently, the authorities responsible for granting casino licenses are not required to ensure that the person/entity requesting a license to hold a casino has all AML compliance controls in place nor are background controls conducted on the beneficiaries/stakeholders of the casino.

The hotel can subsequently decide to lease the casino operations to a third party. No authorities or any supervisory body conduct any fit and proper testing on this independent third party. Currently, 6 out of 13 casinos on Aruba use this method and have a separate casino operator.

#### **Integrity of businesses and staff**

The casino businesses and staff are vulnerable to criminals gaining control over gaming activities and casinos by taking management or other positions within a casino. At least 5 casinos are run by multinationals where it is unlikely that criminals can gain influence over certain positions within the casinos to launder illicit funds. However, the integrity of businesses and staff could be vulnerable in

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<sup>50</sup> UTRs submitted by casinos were used in operational analysis alongside with UTRs submitted by reporting entities from other sectors, the reports of which, subsequently, were disclosed to the PPO and LEAs.

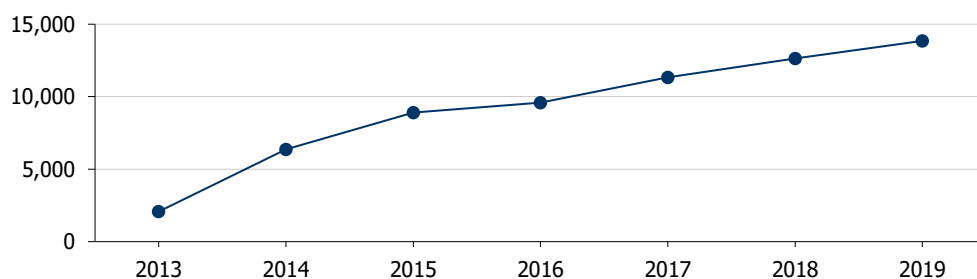
several casinos operating in Aruba. In particular, those casinos where third parties have leased the casino license from a hotel present a vulnerability to such practices.

### Effectiveness of unusual activity monitoring and reporting

The casinos encounter difficulties with regard to customers who gamble anonymously. If the unusual character of a transaction becomes clear after a customer has left and no CDD was conducted, it will be difficult to identify the customer afterwards. Consequently, the casino cannot submit a UTR to the FIU.

During on-site examinations at the casinos, the CBA encountered multiple cases of late and non-reporting, which resulted in formal measures imposed by the CBA on the casinos, and minimal subjective reporting.

However, the number of objective and subjective reports filed with the FIU increased substantially from 2013 to 2019 due to the increased awareness by the casino sector of their reporting obligations.



Indicator	2013	2014	2015	2016	2017	2018	2019
Objective reporting	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>
Cash transactions of Afl. 5,000 or more	2,054	6,350	8,877	9,558	11,289	12,490	13,732
Cash transactions of Afl. 25,000 or more	2	4	10	23	6	2	9
Transactions reported to law enforcement	1	1	2	4	5	8	5
Transactions subject to sanction measures	0	0	0	0	0	5	1
Subjective reporting							
Reason to assume ML	7	4	2	7	41	122	101
Reason to assume TF	0	1	0	0	0	0	0

### E. Products and services with the highest vulnerability to money laundering

The vast majority of the assessed products/services fall within the categories **Medium-High to High** vulnerability. This is mainly based on the vulnerability rating of the products or services currency exchange, blackjack, roulette, baccarat and slots. The services and products provided by the casinos generally are highly cash intensive and allow anonymity. However, 9 out of 11 association members have implemented mitigating controls regarding anonymity, such as the lowering of the CDD threshold for table and non-table games.

### F. The main areas of priority to mitigate the casino sector's vulnerability to money laundering

- Establish a Gaming Board with broad supervisory powers to assess key persons and enforcement measures for noncompliance with license requirements.
- Implement proper entry controls for the granting of casino licenses, including renewal procedures, and the lease of licenses by hotels to third parties.
- Introduce licensing of operators and key personnel.

- Increase awareness among the casino staff regarding the relevance of AML regulations and the compliance obligations to which they are subject, and provide casino staff and compliance officers more in-depth training on AML matters (e.g., CDD, red flags).
- Legally codify and implement stricter procedures requiring identification of all customers prior to entering a casino.

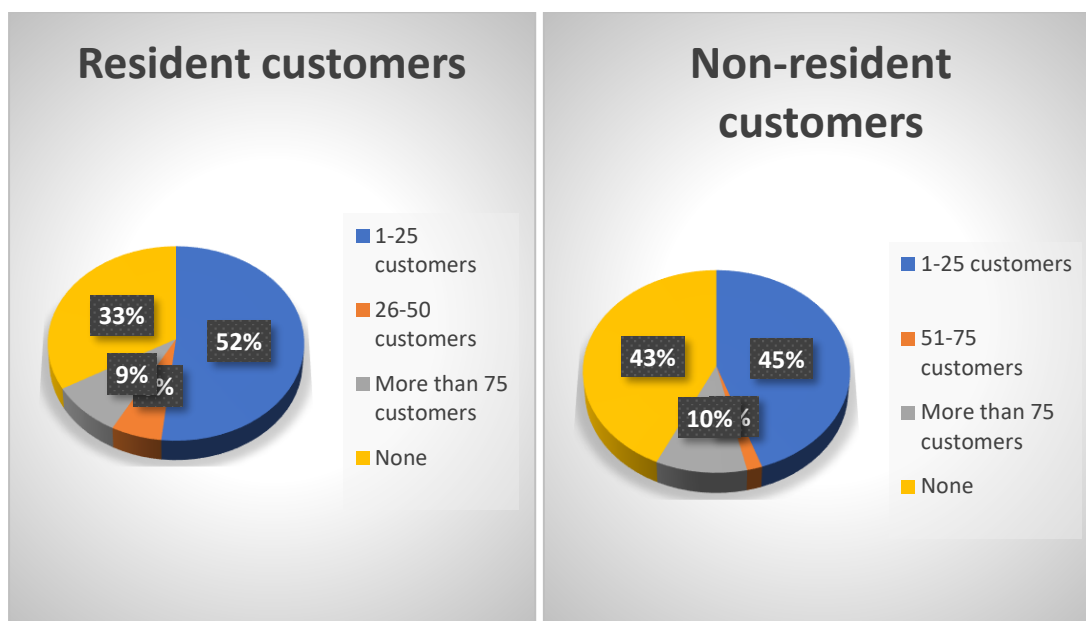
## 6.2 REAL ESTATE SECTOR

### A. Introduction

The real estate sector in Aruba can be divided into (i) real estate companies/agents, and (ii) project developers. At year-end 2019, 193 realtors were registered with the CBA, including project developers that sell the developed real estate directly to clients and hence also qualify as realtors. This number does **not** reflect the active realtors, because a significant number of the realtors registered with the CBA are inactive or involved in only a very small number of real estate transactions

The real estate companies usually act as an intermediary for the buying and selling of real estate for which they receive a commission. The Aruba real estate market for selling houses can be divided into real estate companies focused on local customers, international clients (usually tourists from the US, Canada, and Europe interested in buying a second home in Aruba), and high net worth customers (often international clients).

The CBA sent out a questionnaire in Q2/Q3 2019 to all real estate companies registered with the CBA and included questions regarding client base, AML framework, customer due diligence procedures, and reporting with the FIU in 2018. The response rate was 110/190 (60% of the total number of real estate companies, by estimation covering more than 85% of all real estate transactions by the sector). Results of the CBA questionnaire:



The vulnerability level of the sector was rated **Medium-High**. With a threat level of **High**, the money laundering risk level for this sector is considered **High**.

### B. The main threats facing the real estate sector

The threat level for this sector is considered **High**. The WG identified the following main threats facing the real estate sector:

**Increasing investments by subjects from jurisdictions in political turmoil.** Investments have increased in local real estate, hotels, project development, and (cash-intensive) businesses by subjects from jurisdictions in political turmoil. In particular, investments made by Venezuelan individuals present a higher risk that the origin of the funds are the profits of corruption and/or ties to criminal activities, such as drug cartels and illegal gold mining/smuggling.

**Leasehold land and real estate transferred by means of share transfer.** Shares in existing legal entities are purchased to acquire leasehold land in Aruba. Leasehold land is not allowed to be sold, but the shares of the legal entities owning the leasehold land are allowed to be transferred. The same structure is used for the sale of real estate which does not require any involvement of a notary, for example, real-estate sale via the takeover of a company holding real estate.

**Money laundering via (the) project development (sector).** Project developers can take a mortgage at a local financial institution for the purpose of building condominiums in Aruba. These condominiums are sold abroad by the project developer, but the mortgage payments by the project developer are taken from the sales proceeds from the condominiums. Consequently, the financial institution does not have sufficient insight into the buyers of the condominiums and, as such, is not able to determine the origin of the funds for the mortgage payments. The CBA's on-site examinations revealed potential "*stromanschap*", e.g., persons acting as a front to disguise the real UBOs of a project development company. The CBA encountered CDD files that showed the following:

- Multiple sales agreements for the same unit and the same date but for different buyers;
- Groups of foreign buyers from the same country and same nationality buying condominiums in the same complex;
- Building materials being bought abroad and paid for by the buyers of the condominiums. In return, the buyers received a discount of 10-15% on the purchase price; and
- A group of foreign buyers taking over the mortgage with the local bank from the project developer.

**Investment of illicit funds in local real estate.** Real estate, both commercial and residential, accounts for a high proportion of the value of confiscated criminal assets. Information received from MLAs also indicated that illicit funds (mostly derived from drug trafficking) are invested in real estate in Aruba.

Case Hamburg (2018) revealed that money obtained from underground banking (partly) was laundered via investments in local real estate. Loan-back constructions were used for some of these real estate purchases. Case Domino<sup>51</sup> and Case Arrow Plus<sup>52</sup> illustrates that criminals purchased real estate in order to conceal the illicit origin of their funds. However, these cases pertain to situations in which criminals either purchased the real estate abroad or transferred the property among themselves without the involvement of a real estate company. Hence, although real estate is often used by criminals as a means of investing illicit funds, real estate companies and project developers are not necessarily (mis)used in order to purchase real estate.

**Use of foreign trusts.** During on-site examinations, the CBA encountered CDD files that showed the use of foreign legal arrangements such as trusts for the holding of local real estate. Under certain conditions, these legal arrangements can conceal the identity of the true beneficiary in addition to the

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<sup>51</sup> Case Domino: In 2017, the confiscation case resulted in a conviction for deprivation of amounts of approx. Afl. 1,500,000 (approximately US\$ 838,000) and Afl. 450,000 (approximately US\$ 251,000) by the two main suspects of that drug investigation. For the purpose of the execution of the confiscation amounts, several pieces of real estate, means of transport, and amounts of money were seized.

<sup>52</sup> Case Arrow Plus: A Dutch drug criminal had, among other things, invested his money in an Aruban villa that had been placed with a Panamanian BV. The villa was seized in execution of a Dutch request for legal assistance to prosecute a Panamanian company and was forfeited in 2016.

source and/or destination of the money. The nature and/or structure of certain trusts can result in a lack of transparency and so allow these trusts to be misused for illicit activities.

### **C. The real estate sector's vulnerability to money laundering**

Considering the severity of the identified vulnerabilities and the analysis below, the vulnerability rating was determined at **High**. The results of this assessment showed that the vulnerability for ML lies in the quality of AML controls, as both the quality of operations and the quality of AML policies and procedures in the sector are weak. This weakness is the result of a high vulnerability in the effectiveness of unusual activity monitoring and reporting, the quality of the CDD framework, the commitment and leadership of management, compliance level of staff, and effectiveness of the compliance function.

Compliance with AML laws and regulations is generally low within the sector. There is a lack of awareness concerning AML compliance within the sector. Although the members of the Association of Aruban Realtors (AAR)<sup>53</sup> follow regular trainings, they represent only a fraction of the real estate companies and project developers. Furthermore, real estate companies and project developers often have not implemented policies and procedures or they are not tailored to their specific businesses. In addition, not all companies conduct business risk assessments.

Although the number of UTRs submitted by the sector to the FIU has increased, the number of real estate companies and project developers that have submitted these reports is low (18), considering the total number of registered real estate companies and project developers registered with the CBA (190).

The identified strengths for this sector can be found in the availability and enforcement of administrative sanctions. Appropriate administrative sanctions are in place for noncompliance with AML obligations, and the sector believes that the CBA would impose sanctions for noncompliance. Even though sanctions were not imposed within the assessment period, the CBA conducted on-site visits in 2017, and as a result of these examinations, administrative measures were imposed after the review period.

### **D. The deficiencies or gaps in the AML control framework that apply to the real estate sector**

#### **Commitment and Leadership of Management**

Anyone can register with the relevant authorities and act as a realtor without any prior AML controls present. Real estate companies and project developers do not need a license from the CBA or any other government institution to conduct real estate activities.

The CBA conducted 8 on-site examinations between 2017-2019. The on-site examinations revealed areas of concern. In some cases CDD was improperly conducted before the start of the business relationship, including inadequate ongoing client/transaction monitoring, inadequate EDD performed on nonresident clients, and clients connected to high-risk countries, along with minimal screening against sanctions and PEP lists in certain cases.

The CBA imposed three administrative fines for deficiencies related to the BRA, policies and procedures, minimal CDD/EDD and sanction list screening, and the reporting of unusual transactions not being up to par (some real estate companies were not reporting unusual transactions and/or reported late), and the appointment of persons in the MLCO/MLRO functions.

#### **Compliance of Staff**

The AAR considers the level of integrity within the sector as low. Furthermore, integrity breaches have occurred as the AAR previously removed two members who did not follow the AAR's code of ethics (based on complaints of clients). The AAR is limited in its abilities to enforce and maintain the integrity of the sector, no legal framework is available to control the integrity standards of the sector, and known breaches have occurred within the sector. Training of staff is infrequently offered, and the reporting

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<sup>53</sup> The AAR consists of 19 members. The AAR estimates that their members cover approximately 80% of all real estate transactions conducted by this sector.



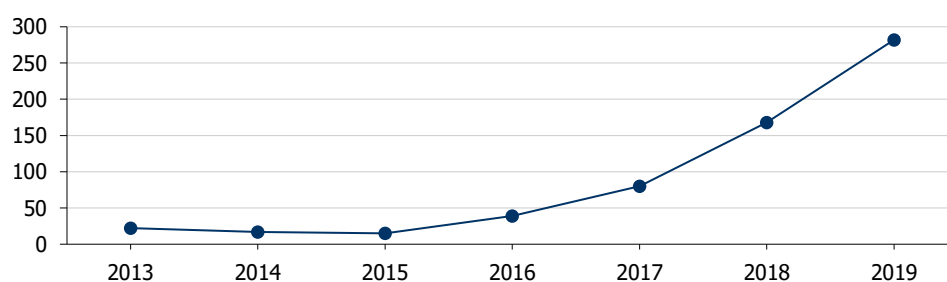
behavior of the sector confirms that the sector needs more intensive training on general AML knowledge as well as their reporting obligations.

### Effectiveness of Compliance Function

Real estate companies and project developers have been subject to AML compliance since 2011 and had ample time to ensure compliance with their AML obligations. Nonetheless, the sector considers AML compliance a new development. The companies that are aware of their AML obligations often do not fully understand how to comply with their obligations, and they require more guidance. Consequently, a general lack of awareness exists within the sector regarding AML compliance, and it is not considered a priority for many real estate companies and project developers.

### Effectiveness of Unusual Activity Monitoring and Reporting

The reporting behavior of realtors improved over the years. In 2019, the number of objective UTRs more than tripled compared to 2017. The number of subjective UTRs increased from one in 2017 to nineteen in 2019.



Indicator	2013	2014	2015	2016	2017	2018	2019
Objective reporting	Total received	Total received	Total received	Total received	Total received	Total received	Total received
Cash transactions of Afl. 25,000 or more	0	0	1	2	1	0	3
Transactions of Afl. 500,000 or more	22	17	14	35	74	158	259
Transactions subject to sanction measures	0	0	0	0	4	1	0
Transactions reported to law enforcement	0	0	0	0	0	1	1
Subjective reporting							
Reason to assume ML	0	0	0	2	1	7	19
Reason to assume TF	0	0	0	0	0	1	0

### E. Products with the highest vulnerability to money laundering

The real estate sector offers two services that, in particular, are vulnerable to money laundering: (1) real estate companies acting as an intermediary in the sale of houses/real estate, and (2) project development. Factors driving money laundering in the first service include the high frequency of real estate sales to nonresidents, and high number of real estate companies that are not members of the association.

For project development, factors driving ML include the high volume and profit for the project developers; high-risk client base profile; high frequency of real estate sales to nonresidents; high net worth customers; high number of project developers that are not members of the association.

## **F. The main areas of priority to mitigate the real estate sector's vulnerability to money laundering**

- Undertake further research into the (mis)use of corporate vehicles (foreign/local) for real estate transactions (including leasehold land transfers) into beneficial ownership structures of real estate.
- Consider amending current legislation to require a notarial deed for share transfers.
- Improve the AML knowledge of staff by ensuring that the sector actively seeks training programs and test staff on their AML knowledge.
- Ensure that the sector takes remediation actions with regard to the deficiencies identified and impose criminal sanctions for severe cases of noncompliance.
- Make membership in the realtor association mandatory and apply stricter AAR membership requirements regarding AML compliance.
- Secure a screening authority of real estate companies and project developers to conduct effective screening.
- Increase the sector's knowledge and awareness regarding red flags and how to identify an unusual transaction based on the subjective indicators to improve and bring the reporting of unusual transactions to an acceptable level.
- Develop strict CDD/EDD procedures for customers to mitigate the vulnerability of project development.

## **6.3 NOTARY SECTOR**

### **A. Introduction**

At year-end 2019, four notary offices<sup>54</sup> were registered with the CBA. All notaries provide the same services. Recently, the maximum number of notaries allowed in Aruba has been expanded from four to seven notaries. Subsequently, in the first quarter of 2020, two new notary offices registered their company with the CBA.

The notary sector is not large compared to the other DNFBPs despite its key role in other sectors. However, this sector is involved in the majority of real estate transfers and subsequently the high amounts involved with these real estate transactions. This sector fulfills a key role in multiple sectors as its services are of importance to facilitate certain transactions. In Aruba, notary involvement is required for the incorporation of legal entities and for the transfer of real estate.

The risk level for this sector is **Medium-High**. The vulnerability level of the notary sector was rated **Medium**. The notary sector is a key sector in relation to real estate transfers. The threat level for this sector is considered **High** because real estate is often being used for the laundering of illicit funds.

### **B. The main threats facing the notary sector**

Considering the essential role of this sector in relation to the transfer of real estate and the fact that case law is available in which real estate was confiscated by law enforcement, the threat level for this sector is considered **High**.

**Investment of illicit funds in real estate.** This sector is subject mainly to threats relating to transfers of real estate and leasehold land. The majority of real estate transfers pass through the notary sector.

National case law illustrates that criminals have purchased real estate to conceal the illicit origin of their funds. These real estate transfers passed through notary offices. Case Domino and Case Arrow Plus show that money originating from drug trafficking was invested in real estate. The PPO did not further

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<sup>54</sup> The notary under Aruban law is an impartial lawyer who is specialized in real estate law, corporate law, and family law. The notary provides services in these areas of law and offers notarization services. )

examine the role of the notary, as to whether the notary could have known or contributed to ML, in either case. In the Case Hamburg, the notary should have been more careful, but the PPO decided not to pursue criminal sanctions.

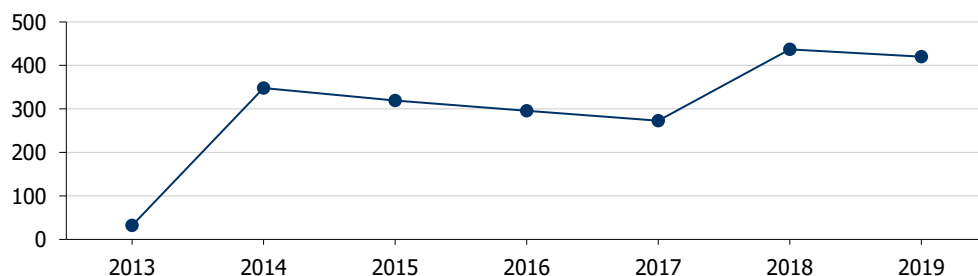
**Illegal trust/financing activities.** During CBA on-site examinations at the notaries, multiple files were identified where clients potentially conducted trust activities (indicated by the incorporation of a large number of companies) or financing activities (providing mortgages for real estate transfers) without a license from the CBA. Some (not all) of the transactions involved were reported to the FIU. The CBA was not informed.

### C. Vulnerability of the notary sector to money laundering

The notary sector’s vulnerability to money laundering is rated at **Medium**. The main vulnerability for AML lies in the quality of the CDD framework. This weakness can be derived primarily from the lack of availability of independent information sources as well as the lack of availability and access to beneficial ownership. It is difficult for the notaries to determine the UBO of companies as no independent information source is available in which the UBO is registered. Furthermore, no independent and reliable sources of information are available to determine transaction patterns of clients.

The strengths of the notary sector lie, in particular, in the effectiveness of unusual activity monitoring and reporting, the availability and effectiveness of entry controls, and the availability and enforcement of administrative sanctions.

The reporting behavior of the sector has been constant, and considering Aruba had only four notary offices during the period 2013-2017, the sector reported a relatively large amount of unusual transactions to the FIU. Subjective reporting by this sector increased especially in 2018 and 2019. Furthermore, 1.3% of the UTRs that were included in analysis by the FIU and subsequently disclosed to the LEAs and the PPO were submitted by the notary sector.



Indicator	2013	2014	2015	2016	2017	2018	2019
Objective reporting	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>	<b>Total received</b>
Cash transactions of Afl. 5,000 or more	0	0	0	1	3	0	0
Cash transactions of Afl. 25,000 or more	0	0	1	1	0	2	0
Transactions of Afl. 500,000 or more	12	242	282	247	191	292	287
Transactions subject to sanction measures	0	0	0	0	0	1	0
Transactions reported to law enforcement	0	0	0	0	0	0	1
Subjective reporting							

Reason to assume ML	20	106	36	45	79	141	132
Reason to assume TF	0	0	0	2	0	1	0

The notaries are considered reliable reporting entities with above average knowledge and dedication to adherence to their AML compliance obligations. Although this sector should seek further training concerning the detection of red flags and unusual transactions (considering their key role in various other sectors), the sector is generally committed to AML compliance.

Furthermore, the admission procedure to enter the profession is thorough, and a certain level of knowledge and integrity is required. Hence, sufficient entry controls are in place for this sector.

The availability and effectiveness of administrative sanctions by the supervisory authority are also considered a strength, as a sufficient range of administrative sanctions is in place for noncompliance with AML obligations. No cases so far have imposed criminal sanctions for noncompliance.

In the period 2013-2017, the CBA conducted four on-site examinations at the notaries with a focus on compliance with the integrity legislation. Based on the 2013-2014 on-site examinations, one of the findings was that the knowledge, experience, and skills of the MLCO and/or MLRO were limited. The conclusion was that they needed more training and coaching. Since then, the notary offices have received regular training also by the FIU and have attended information sessions at the CBA. The CBA provided the notaries with feedback to amend their policies and procedures and the BRA. Over the period 2013-2017, the CBA did not impose any enforcement measures (informal and formal) on the notary sector.

Also, in 2018/2019, the CBA conducted multiple-day on-site examinations at all four notary offices. On-site findings showed deficiencies in the areas of CDD/EDD, sanction list and PEP screening, monitoring of ongoing client relationships, and various cases of late reporting to the FIU. Three of the notaries confirmed by management letter the remediation of the breaches before the deadline imposed by the CBA.<sup>55</sup> Furthermore, formal measures may be imposed.

Although the CBA had conducted on-site examinations, the sector indicated that the CBA needs a better understanding of the notary sector and the difficulties regarding AML compliance they currently face. In order to achieve this understanding, increased contact between the CBA and the sector is needed.

#### **D. Products with the highest vulnerability to money laundering**

The WG identified five services that are vulnerable to ML: (1) escrow services, (2) transfer of registered property, (3) private loans and mortgages, (4) establishing legal entities, and (5) share transfers. The identified services, with the exception of transfer of registered property, fall within the **Medium** vulnerability category. Only the transfer of registered property received a **Medium-High** vulnerability rating due mainly to the high total size/volume and the availability of non-face-to-face use of the service.

#### **E. The main areas of priority to mitigate the notary sector's vulnerability to money laundering**

- Improving the effectiveness of the compliance function.
- (Consider) amending current legislation to require a notarial deed for share transfers.
- Increasing interaction with the sector by providing more concrete feedback to the sector in the form of guidance and more extensive feedback to the sector following on-site examinations.
- Increasing cooperation regarding real estate transfers by reaching an agreement on specific guidelines and rules that cover situations in which services should be refused to clients.
- Conducting increased due diligence on the seller of a house in cases of newly built houses.

<sup>55</sup> The final closure of the fourth on-site examination was still in progress during the second NRA.

## 6.4 LAWYER SECTOR

### A. Introduction

At year-end 2019, there were fifty-nine lawyers and two legal professionals (non-lawyers) registered with the CBA. The majority of the law firms in Aruba are small businesses, focusing mainly on providing services that fall outside the scope of the AML/CFT State Ordinance.

The vulnerability level of the sector was rated **Medium**. With a threat level of **Medium-High**, the law firms' money laundering risk level is rated at **Medium-High**.

### B. The main threats facing the lawyer sector

The money laundering threat level for the lawyer sector is rated **Medium-High**.

**Threats in relation to real estate transfers/transfers of leasehold land.** The lawyer sector is involved in a substantial portion of the (larger) real estate transfers. During on-site examinations, the CBA encountered CDD files with (potential) undervaluation of transferred leasehold land (also involvement of a PEP), and potential “*stromanschap*”, e.g., persons acting as a front in order to disguise the real UBOs (large investments being made by a young person with unexplained source of funds).

**Establishment of legal entities.** National case law involving money laundering prosecutions illustrates that criminals attempt to disguise the origin of illicit proceeds via the establishment of legal entities through the services offered by this sector.

**Misuse of the Aruba Exempt Company (AVV) – Aircraft registration.** The AVV structure has often been used for the local registration of airplanes. Various law firms offer services in relation to registration of airplanes. This service was used by airline companies, but also by wealthy individuals from, e.g., Russia and Kazakhstan. In several cases, AVVs were (mis)used for the laundering of funds, e.g., obtained from drug trafficking or fraud, through real estate purchases.<sup>56</sup>

### C. Vulnerability of the lawyer sector to money laundering

The lawyer sector's vulnerability to money laundering is rated at **Medium**. The results of this assessment show that the vulnerability for AML lies in the quality of AML controls and that the weaknesses can be derived predominantly from the quality of operations.

In particular, the effectiveness of unusual activity monitoring and reporting, and the effectiveness of the compliance function are areas with a high level of vulnerability. Many law firms have not appointed an MLCO/MLRO, regular AML audits are rarely conducted, and the law firms often do not have compliance programs in place which cover the specific AML risks of the business. In addition, the vulnerability in the quality of the CDD framework can be derived from the lack of availability of independent information sources and the availability and access to beneficial ownership.

The identified strengths for this sector can be found in the quality of AML supervision, the availability and enforcement of administrative sanctions, and the integrity of staff. The integrity of the sector was determined based on the high integrity standards the sector is subject to and which constitute the core of the profession. This stems from membership in Aruba Bar Association (in Dutch: *Orde van Advocaten*, the “Association”), as these lawyers have to take an oath prior to being admitted to the Association.

The CBA conducted on-site examinations at four law firms between December 2017 and 2019. On-site findings showed deficiencies in the AML control framework; the areas of CDD/EDD (including the

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<sup>56</sup> In July 2017, the CBA sent a letter to all registered law firms stating that were signs indicating that services were being offered by lawyers for aircraft registration, which require a license under the State Ordinance on the Supervision of Trust Service Providers from the CBA, and as such, the CBA demanded that the law firms cease such activities.

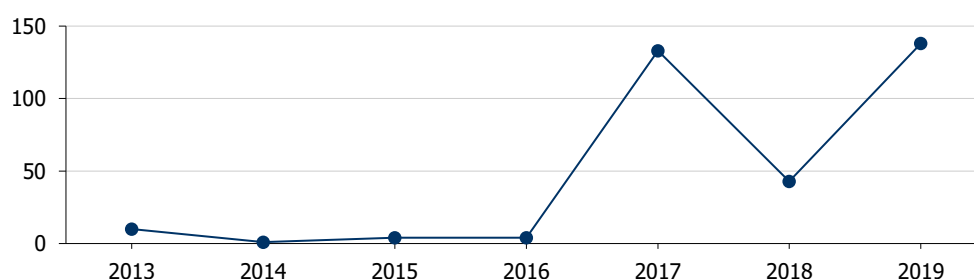
lack of identification of UBOs of corporate clients), sanction list and PEP screening, and monitoring of ongoing client relationships.

Two follow-up on-site examinations in 2019 with two of the mentioned law firms showed higher level of compliance compared to the first conducted on-site examinations. The CBA, however, did impose administrative fines on two law firms for deficiencies related to insufficient CDD screening, the AML control framework, the reporting of unusual transactions, and the appointment of persons in the MLCO/MLRO functions.

#### D. The deficiencies or gaps in the AML control framework for the lawyer sector

##### Effectiveness of Unusual Activity Monitoring and Reporting

The sector submitted UTRs predominantly based on the objective indicator of Afl. 500,000 or more, but the number of subjective reports submitted by this sector has increased. The low number of subjective UTRs is indicative of the need for a knowledge upgrade in the lawyer sector to bring the reporting behavior to an acceptable level. The lawyers indicated that they need more guidance and training from the FIU to be able to detect unusual transactions. Of the UTRs submitted by the lawyers, none were sent back by the FIU to the reporting entities for mistakes made or incompleteness.



Indicator	2013	2014	2015	2016	2017	2018	2019
Objective reporting	Total received	Total received	Total received	Total received	Total received	Total received	Total received
A transaction of AWG.20,000 or more paid with cash, bearer checks, or other similar	1	0	0	0	0	0	0
Cash transactions of Afl. 25,000 or more	0	0	0	1	10	0	4
Transactions of Afl. 500,000 or more	0	0	2	2	115	37	120
Transactions subject to sanction	0	0	0	0	1	0	0
Transactions reported to law enforcement	1	0	0	0	0	0	1
Subjective reporting							
Reason to assume ML	8	1	2	1	2	6	13
Reason to assume TF	0	0	0	0	0	0	0

##### Effectiveness of Compliance Function

Many law firms do not have a sufficiently effective compliance function in place. Often, law firms do not have compliance programs in place that cover the specific AML risks of the business. They are generally not in the possession of adequately tailored AML policies, procedures, and measures and a business risk assessment. The majority of Aruban law firms are small, and the director or an individual lawyer often functions as compliance officer. As a result, a separate AML compliance officer function is not established.

#### E. Services with the highest vulnerability to money laundering

The sector mainly offers advisory services that do not fall within the scope of the AML/CFT State Ordinance. The WG identified three services that are vulnerable to AML:

1. advise on share/banking rights/mortgage rights/transfers because of a high-risk client base profile and a majority of nonresident customers,
2. advise on transfers of registered property because these are often used by nonresident customers, and
3. advise/assist in establishing legal entities because these are often used by nonresident customers or high-risk customers.

**F. The main areas of priority to mitigate the lawyer sector’s vulnerability to money laundering**

- Improve and bring the reporting of unusual transactions to an acceptable level by creating more awareness within the sector.
- Actively seek tailored training programs and regularly test staff on their AML knowledge.

## **6.5 ACCOUNTANT SECTOR**

### **A. Introduction**

At year-end 2019, 54 accountants were registered with the CBA. The accountant sector is not limited to certified and/or licensed accountants. Under the AML/CFT State Ordinance, offices that offer administration services are also considered to be part of the accountant sector (although they are not certified or licensed as accountants).

The vulnerability level of the sector was rated **Medium**. With a threat level of **Low**, the money laundering risk level for this sector is considered **Medium-Low**.

### **B. The main threats and vulnerabilities facing the accountant sector**

Due to amendments in the (tax) legislation over the years, (highly) complicated legal structures are no longer found in Aruba. Therefore, the threat level for this sector is considered **Low**.

The sector’s vulnerability to money laundering is rated at **Medium**. The results of this assessment showed that the vulnerability for AML lies in the quality of AML controls. Both the quality of operations as well as the quality of AML policies and procedures show weaknesses.

In particular, the effectiveness of the compliance function, the effectiveness of the unusual activity monitoring and reporting, and the quality of the CDD framework are areas that have a high level of vulnerability. The commitment of leadership and management received a high vulnerability score due to the lack of availability and effectiveness of entry controls and the quality of AML supervision.

The CBA conducted on-site examinations at five accountants between January 2018 and year-end 2019. On-site findings showed, *inter alia*, AML/CFT risk assessments and AML/CFT Policies and Procedures not being tailored to the local situation, EDD not being conducted in cases where the AML/CFT State Ordinance requires EDD, insufficient monitoring of clients’ transactions, and a low awareness with regard to AML risks. No administrative measures were applied (at year-end 2019).

### **C. The deficiencies or gaps in the AML control framework for the accountant sector**

#### **Effectiveness of Compliance Function**

The international firms especially have explicit and written compliance procedures in place, including the appointment of a compliance officer. However, although the AML/CFT State Ordinance has been in effect since 2011, the AML compliance within the accountant sector is still a work in progress. Accountancy offices often have not conducted business risk assessments or implemented proper policies and procedures that are tailored to the business.

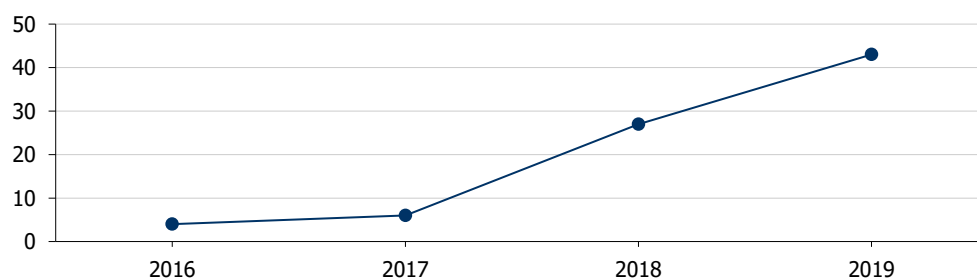
### **Commitment of Leadership and Management**

The current legal framework lacks entry controls with regard to licensing and registration of accountancy offices. The licensing bodies for RA, AA, and CPA accountants and auditors are located in other countries, resulting in a limited legal and/or self-regulating reach of these licensing bodies. However, the local professionals who are members of foreign licensing bodies must adhere to the rules and regulations of that licensing body to uphold their professional qualification, either required by their employer or by the CBA as the supervisory authority of the Aruban financial sector. Accountants are required to register themselves at the CBA. No entry controls are in place that cover any required AML framework prior to registering as an accountant with the Chamber of Commerce, Economic Affairs, or the CBA.

### **Effectiveness of Unusual Activity Monitoring and Reporting**

The sector does some internal monitoring and reporting, although on a limited scale. The accountants do not consider it a part of their job to monitor adequately for unusual transactions. The sector approaches matters from a financial point of view and in their role as advisor to a client and without a critical attitude regarding ML matters. This leaves room for unusual transactions going undetected.

Overall, accountants need to improve their reporting behavior. They lack sufficient knowledge and awareness regarding their obligation to report UTRs. There has been, however, an increase in objective as well as subjective reporting by this sector from 2017 through 2019.



### **D. Products with the highest vulnerability to money laundering**

The products offered by the accountant sector are assurance, administration and compilation, and advisory services. All three assessed products resulted in a **Medium** vulnerability rating.

### **E. The main areas of priority to mitigate the accountant sector's vulnerability to money laundering**

- The sector should actively seek training programs to increase their knowledge and awareness regarding red flags and how to identify an unusual transaction based on the subjective indicators, and should regularly test staff on their AML knowledge.
- The Arubaanse Vereniging voor Accountants (AVA) should apply stricter requirements regarding AML compliance on its members and take a more active approach in reaching out to the whole sector regarding AML compliance.
- The FIU should provide more in-depth information sessions on red flags, indicators (in particular, subjective indicators), and typologies to improve and bring the reporting of unusual transactions to an acceptable level.



## 6.6 TAX ADVISOR SECTOR

### A. Introduction

At year-end 2019, there were 37 tax advisors registered with the CBA. The sector comprises firms of very different sizes, from offices related to large global firms to sole proprietorships. This sector provides a range of services and activities that differ vastly as well.

The vulnerability level of the sector was rated **Medium-High**. With a **Medium-Low** threat level,<sup>57</sup> the money laundering risk level for this sector is considered **Medium**.

### B. The main threats and vulnerabilities facing the tax advisor sector

The threat level for this sector is considered **Medium-Low**. Reference is made to the misuse of corporate vehicles, especially the AVV.

Furthermore, on March 12, 2019, Aruba was placed on the EU list of noncooperative jurisdictions for tax purposes due to a lack of tax transparency and information sharing. Aruba changed its legislation to make it compliant with EU requirements and was removed from the EU's blacklist on May 17, 2019.

The tax advisor sector's vulnerability to money laundering is rated at **Medium-High**. This rating is mainly due to the quality of AML controls and operations, and to a lesser extent, the quality of its AML policies and procedures.

### C. The deficiencies or gaps in the AML control framework for the tax advisor sector

#### Compliance Level of Staff

A relatively high percentage of tax offices do not comply with their AML compliance obligations. The sector indicated that most tax offices do follow external trainings related to AML compliance, but these trainings are not always considered sufficient. The very low number of subjective UTRs is indicative of the need for a knowledge upgrade in the sector to bring the reporting behavior of the tax advisors to an acceptable level. The tax advisors also indicated that they need more guidance and training from the supervisor and the FIU to be able to detect unusual transactions.

#### Commitment and Leadership of Management

No entry controls are in place that cover any required AML framework prior to registering a tax advisory office with the Chamber of Commerce, Economic Affairs, or the CBA. Consequently, anyone can establish a business as a tax advisor without being subject to prior checks regarding competence, background, or having an AML framework.

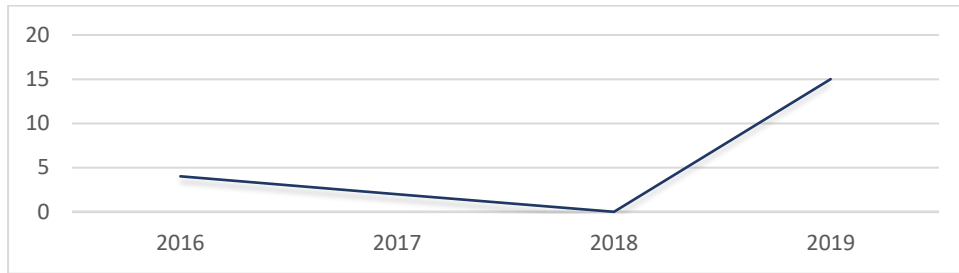
The CBA conducted on-site examinations at five tax advisors between January 2018 and year-end 2019. On-site findings showed, *inter alia*, AML/CFT risk assessments and AML/CFT Policies and Procedures not being tailored to the local situation, EDD not being conducted in cases where the AML/CFT State Ordinance requires EDD, insufficient monitoring of clients' transactions, and a low awareness with regard to AML risks.

#### Effectiveness of Unusual Activity Monitoring and Reporting

The sector only commenced its reporting activities in 2015 (thus no data for 2013-2015). Between 2015-2019, the sector reported few UTRs to the FIU, and in 2018 the sector did not report any UTRs.

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<sup>57</sup> This is a preliminary rating. Given the EU rating of noncompliance on tax transparency and known cases of use of corporate vehicles and ties to other jurisdictions, it is advised to create a horizontal review of the misuse of corporate vehicles and all gatekeepers involved and rate their role in such.



According to the sector, the number of UTRs is low because most of their tax advisor activities fall under the scope of Article 2, second section<sup>58</sup> of the AML/CFT State Ordinance, which covers professional secrecy and legal professional privilege, providing an exception to the reporting obligation.

Furthermore, the sector noted that most firms are not involved in the daily activities of their clients, and many transactions are not known to the tax advisors. On-site examinations also showed that the procedures of the firms often do not sufficiently cover the monitoring of their clients' transactions.

#### **D. Products with the highest vulnerability to money laundering**

The WG identified three services that are vulnerable to AML: (1) tax compliance, (2) tax structuring (advising), and 3) tax advice -legal opinions - due diligence. All three services are mostly provided to locally owned businesses. The vulnerability level for tax compliance is **Medium-Low**. Tax structuring (advising) falls within the **Medium-High** vulnerability category because this service is often used by nonresident customers and non-face-to-face use of the service is available. Tax advice -legal opinions - due diligence received a **Medium** vulnerability level.

#### **E. The main areas of priority to mitigate the tax advisor sector's vulnerability to money laundering**

- The sector should actively seek training programs and regularly test staff on its AML knowledge, also to increase its knowledge and awareness regarding red flags and how to identify an unusual transaction based on the subjective indicators.
- The Arubaanse Vereniging van Belastingconsulenten (AVvB) should apply stricter requirements regarding AML compliance on its members and take a more active approach in reaching out to the whole sector regarding AML compliance.
- The FIU should provide more in-depth information sessions on red flags, (subjective) indicators, and typologies to improve and bring the reporting of unusual transactions to an acceptable level.
- The CBA should conduct additional research into the tax advisor sector in order to detect those companies that have not registered.

## **6.7 CAR DEALER SECTOR**

### **A. Introduction**

At year-end 2019, 14 car dealers were registered with the CBA. Based on the information provided by the association members, the market can be divided into three segments:

1. six larger car dealers, associated through the Aruba Car Dealers Association (A.C.D.A.), that mostly sell new cars;
2. secondhand car dealers (some of which also import secondhand cars into Aruba); and

<sup>58</sup> "The regulations of Chapters 2 and 3 shall not apply to activities of a lawyer, civil notary, or tax advisor relating to the legal position of a client, his representation and defense in court, the giving of advice before, during, and after legal proceedings, or the giving of advice on instituting or avoiding legal proceedings."

- private individuals that import secondhand cars to sell. This group, in particular, is not registered with the relevant authorities and as such is part of the informal economy in Aruba.

The vulnerability level of the sector was rated **Medium-High**. With a threat level of **Medium**, the money laundering risk level for this sector is considered **Medium-High**.<sup>59</sup>

## **B. The main threats and vulnerabilities facing the car dealer sector**

The threat level for this sector is considered **Medium**.

National case law regarding ML illustrates that the car dealer sector is subject to ML threats. Criminals do not hesitate to invest their illicitly acquired funds in cars.<sup>60/61</sup>

The car dealer sector's vulnerability to money laundering is rated at **Medium-High** whereby the vulnerability for ML lies in the quality of AML controls. The weakness can be derived from the quality of operations. In particular, areas that have a high level of vulnerability include the effectiveness of unusual activity monitoring and reporting, the quality of its CDD framework, the commitment and leadership of management, and the compliance level of staff.

These vulnerabilities are the result of a lack of AML knowledge within the sector as well as a general disinterest of the sector in AML compliance. A.C.D.A. members do have certain AML compliance measures in place in order to comply with their legal obligations.

The sector's vulnerability relating to the quality of its CDD framework is also a result of the absence of a UBO registry. The sector is forced to request this information directly from the client, but they do not have the means to verify the information provided to them. Furthermore, the fact that the sector does not have access to independent information sources to determine the financial credibility of a client contributes to its vulnerability level.

Virtually no controls are present for a car dealer to enter the sector, and the relevant authorities do not conduct prior AML checks, such as requiring the presence of an AML framework. The PPO has not effectively imposed criminal sanctions on the sector for noncompliance with AML obligations. As a result, the sector does not expect to be (criminally) sanctioned for noncompliance.

The identified strengths for the car dealer sector can be found in the availability and enforcement of administrative sanctions and in the comprehensiveness of the AML legal framework. The effectiveness of supervision may be low, but the fact that the supervisory authority can and will impose administrative sanctions in case of noncompliance with AML obligations has a deterrent effect on the sector.

## **C. The deficiencies or gaps in the AML control framework for car dealers**

### **Compliance level of Staff**

The sector expressed the need to receive more training regarding red flags to be able to identify situations that should be reported under the subjective indicator for ML. The sector submitted one report based on the subjective indicators for ML in 2013. In the following years, the sector only reported objective UTRs, which confirms that the car dealer sector needs additional training with regard to their reporting obligations and recognizing of unusual transactions.

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<sup>59</sup> Car rental companies were not included in the assessment.

<sup>60</sup> Case Toppenberg: In this case, a suspect was convicted for possession of firearms, possession, transport, and provision of hemp, as well as money laundering, for a prison sentence of thirty-six months, six of which were suspended for a probationary period of two years. In addition, a number of monetary amounts and items of the person concerned were declared forfeited, including cash amounts, passenger cars, and a boat. This conviction has since become irrevocable, and the suspect has also served his sentence. FIU information showed that a car dealer neglected to report an unusual transaction when selling one of the cars to the suspect even though the transaction amount exceeded the reporting threshold for cash transactions.

<sup>61</sup> Case Domino.

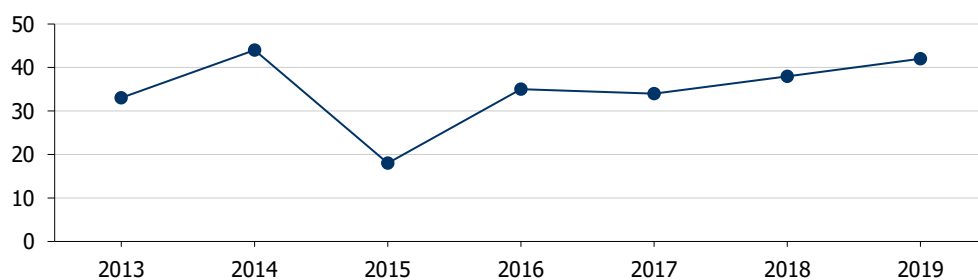
### Commitments and Leadership of Management

There are no entry controls in place for this sector. The relevant authorities do not require the presence of an AML framework prior to registration. Although car dealers selling new cars can be subject to requirements in order to sell certain brands, no other effective entry controls are in place that would reduce the vulnerability of this sector to ML. Information from open sources indicate that a number of car dealers are not registered with the CBA, mostly private individuals who import secondhand cars.

Only limited contact takes place between the car dealer sector and the CBA. Between 2013-2017, only a few contact moments have occurred through off-site activities. The CBA conducted on-site examinations at two car dealers between January 2018 and year-end 2019. The key findings of these on-site examinations did not result in the identification of any CDD violations.

### Effectiveness of Unusual Activity Monitoring and Reporting

The sector submitted four subjective UTRs with the FIU over the period 2013-2019; other UTRs were objective.



The A.C.D.A. members try to avoid having customers pay in cash. Instead, they prefer transactions be done by bank transfer, resulting in a very low amount of cash transactions. In addition, the vast majority of cars are sold through a bank loan (approx. 98%).

### D. Products with the highest vulnerability to money laundering

The products offered by the car dealers are the (1) sale of cars, (2) maintenance and repairs, (3) rent to own constructions, and (4) the lease of cars. Only one out of four assessed products, namely, sale of new cars, resulted in a **Medium-High** vulnerability rating, mainly because the volume is 75% of the car dealers' turnover and the product is available to all types of clients. The other products resulted in a **Medium** vulnerability rating.

### E. The main areas of priority to mitigate the car dealer sector's vulnerability to money laundering

- The sector should actively seek training programs tailored and regularly test employees on their AML knowledge, also to increase their knowledge and awareness regarding red flags and how to identify an unusual transaction based on the subjective indicators.
- The FIU should provide more in-depth information sessions on relevant laws and regulations, red flags, indicators, and typologies.
- The CBA should conduct additional research into the car dealer sector in order to detect those companies that have not yet registered.

## 6.8 JEWELER SECTOR

### A. Introduction

At year-end 2019, 39 jewelers were registered with the CBA. The majority are small family businesses. A few multinational jeweler businesses are located on the island. The five biggest jewelers in Aruba

represent 70% of the sector's market share. The jeweler sector within Aruba focuses mainly on tourism: about 70% to 80% of the clients are 'repeat' clients from (mainly) Canada, Europe, and the USA.

The jeweler sector offers the following products: the sale of jewelry (such as rings, bracelets, necklaces, and watches), the sale of jewels (gems, diamonds, precious stones and metals, etc.), and the sale of gift cards. The majority of the customers are nonresident, but they are typically not high net worth customers or from high-risk countries.

The vulnerability level of the sector was rated **Medium-High**. With a threat level of **Medium-High**, the money laundering risk level for this sector is considered **Medium-High**.

## **B. The main threats and vulnerabilities facing the jeweler sector**

The threat level for the jeweler sector is considered **Medium-High**. Case law involving money laundering prosecutions illustrates that the jeweler sector is vulnerable to ML. The Hamburg case (2018) revealed that money obtained from underground banking was laundered via investments in valuable items such as jewelry and watches. Gift cards were bought with the illicitly acquired proceeds, and then those gift cards were used to buy jewelry.

The jeweler sector's vulnerability to money laundering is rated at **Medium-High**. The results of this assessment show that the vulnerability for AML lies in the quality of operations as well as in the quality of AML policies and procedures.

Many jewelers have a limited understanding of what is expected of them and how they should implement AML controls in their businesses. The jeweler businesses generally conduct basic CDD checks as most customers use a credit or debit card to purchase items. The jewelers, therefore, often rely on the CDD conducted by the bank, or they verify the identity of the customer by calling the credit card company prior to completing a sale. However, the jewelers also accept cash payments, which, according to the jewelers, comprise approximately between 0.5% and 1% of the total amount of transactions conducted by the sector. The average amount of cash purchases at a jeweler is between \$300 and \$500.

In particular, the effectiveness of unusual activity monitoring and reporting, the effectiveness of the compliance function, the compliance level of staff, the commitment of leadership of management, and the quality of the CDD framework are areas that have a high level of vulnerability. The (in)availability of independent information sources, the (in)availability and access to beneficial ownership, the (in)availability and effectiveness of entry controls, and the AML knowledge of staff underlie the identified deficiencies.

The identified strengths for this sector can be found in the availability and enforcement of administrative sanctions. The CBA conducted on-site examinations at four jewelers between January 2018 and year-end 2019. On-site visits found no BRA, policies and procedures, CDD not being conducted where CDD was required, insufficient AML training, and an MLCO/MLRO not being appointed in all cases.(awkward sentence; reword?)

## **C. The deficiencies or gaps in the AML control framework for jewelers**

### **Effectiveness of Compliance Function/Compliance Level of Staff**

The awareness of the jeweler sector regarding AML compliance is low, and the subject does not have priority within the sector. The focus of the sector lies with the sale of products rather than AML compliance.

The general knowledge of AML obligations within the sector is low. Staff training does not cover in-depth information on ML trends and typologies. The sector is not associated, and it is difficult to persuade jeweler businesses to be present at information sessions while possibly missing out on sales. Furthermore, their interest and availability depends highly on the tourism season.

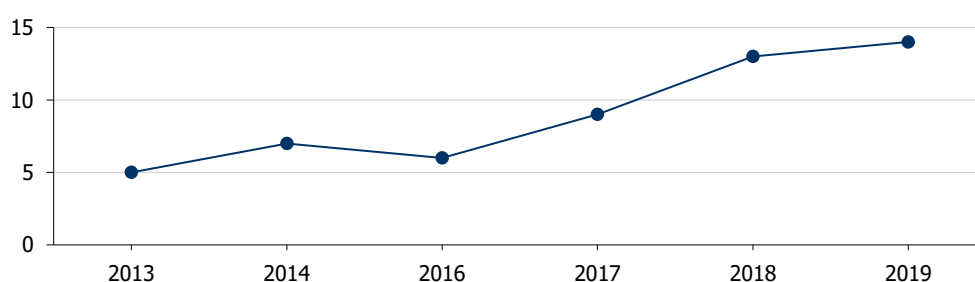
The results of a questionnaire by the CBA demonstrate that the majority of the jeweler businesses have not sufficiently implemented AML/CFT compliance programs, do not conduct customer risk ratings, and do not have a proper understanding of an AML/CFT risk assessment for their business. Furthermore, the sector primarily relies on other service providers (financial institutions, banks) for their compliance.

#### **Availability and Effectiveness of Entry Controls**

Jewelers are not required to meet certain standards or licensing requirement prior to registering with the Chamber of Commerce, Economic Affairs, or the CBA. Anyone can establish a business as a jeweler without being subjected to prior checks regarding competence, background, or an AML framework.

#### **Effectiveness of Unusual Activity Monitoring and Reporting**

The total number of objective UTRs increased to 13 in 2018 and 14 in 2019. All of the UTRs in 2019 were submitted by one jeweler, of which one was a subjective UTR. The number of UTRs is low considering the high total turnover of the sector. This could be explained by transactions not reaching the objective reporting thresholds.



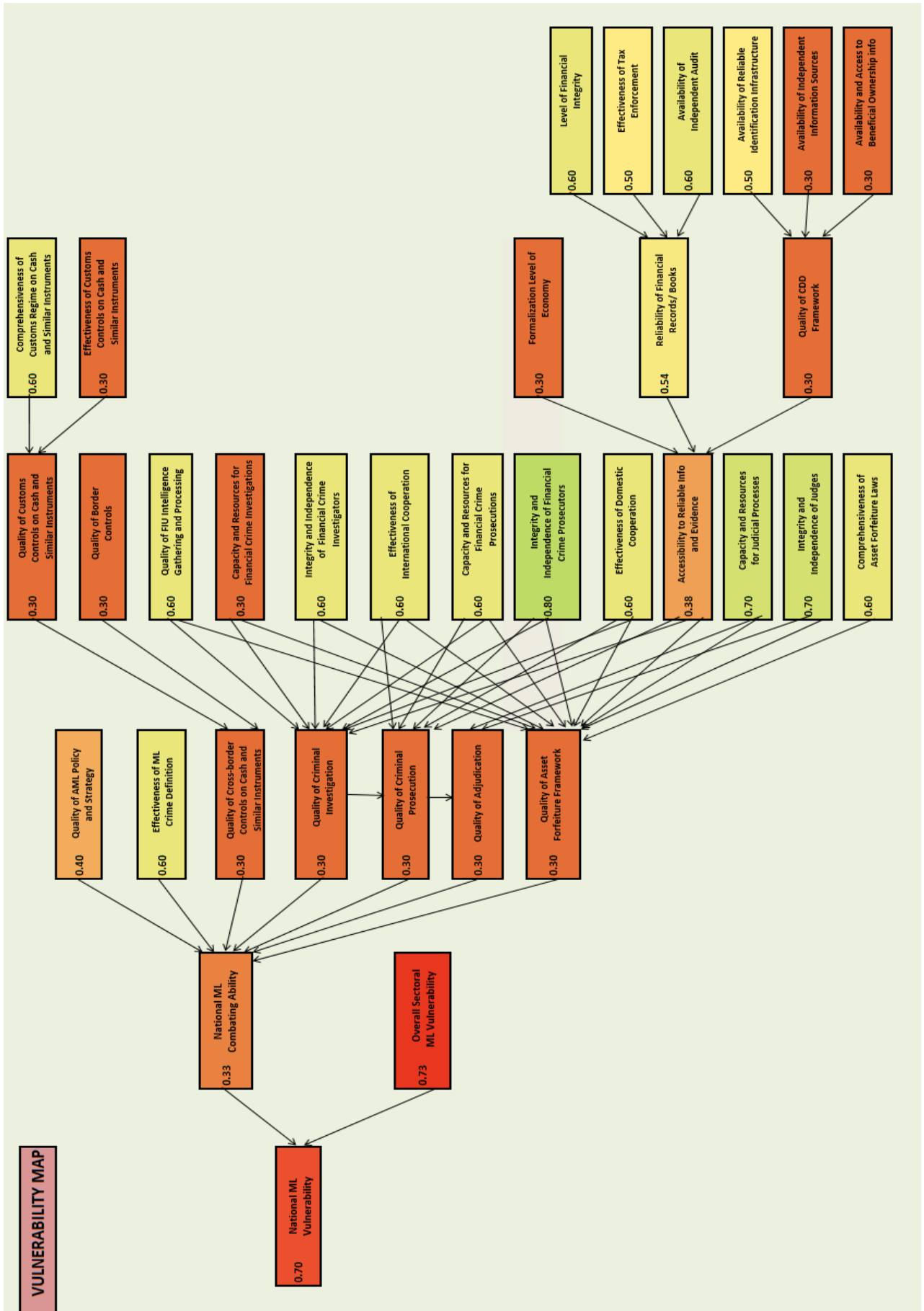
#### **D. Products with the highest vulnerability to money laundering**

The products offered by the jeweler sector are the sale of jewelry, the sale of jewels, and the sale of gift cards. The sale of jewelry resulted in a **Medium-High** vulnerability rating because of the high volume; a majority of nonresident customers; and anonymous use of the product possible as jewelry is sold over the counter. The other products resulted in a **Medium** vulnerability rating.

#### **E. The main areas of priority to mitigate the jeweler sector's vulnerability to money laundering**

- The sector should actively seek training programs and regularly test employees on their AML knowledge, also to increase their knowledge and awareness regarding red flags and how to identify an unusual transaction based on the subjective indicators.
- The FIU should provide more in-depth information sessions (at least once a year) on relevant laws and regulations, red flags, indicators (in particular subjective indicators), and typologies.

# Annex 1: Vulnerability Map



## Annex 2: List of acronyms

AA	Accountant-administratieconsulenten (Accountant-administration consultants)
AAR	Association of Aruban Realtors
A.C.D.A	Aruba Car Dealer Association
AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
AVA	Arubaanse Vereniging voor Accountants (Aruban Association for Accountants)
AVV	Aruba Exempt Company
AVvB	Arubaanse Vereniging van Belastingconsulenten
BRA	Business Risk Assessment
CBA	Centrale Bank van Aruba (Central Bank of Aruba)
CDD	Customer Due Diligence
CPA	Certified Public Accountants
CrCA	Criminal Code of Aruba
DNFBP	Designated Non-Financial Businesses and Professions
EDD	Enhanced Due Diligence
EU	European Union
FATF	Financial Action Task Force
FIOT	Fiscale Inlichtingen- en OpsporingsTeam
FIU	Meldpunt Ongebruikelijke Transacties/MOT (Financial Intelligence Unit)
FTE	Full Time Equivalent
FZA	Free Zone Aruba N.V.
ID	Identification Document
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
KMAR	Koninklijke Marechaussee (Royal Military Police)
KYC	Know Your Customer
LEA	Law Enforcement Agency
MER	Mutual Evaluation Report
ML	Money Laundering
MLA	Mutual Legal Assistance
MLCO	Money Laundering Compliance Officer
MLRO	Money Laundering Reporting Officer
MTC	Money Transfer Company
NCTVI	Nationaal Centraal bureau Terrorismebestrijding, Veiligheid en Interpol (National Coordination Bureau for Counterterrorism, Security and Interpol)
NRA	National Risk Assessment
OECD	Organization for Economic Cooperation and Development
PEP	Politically Exposed Person
PPO	Public Prosecutor's Office
RA	Registered Accountant
RIB	Richtlijn Integere Bedrijfsvoering (Regulation on Ethical Business Operations)



RST	Recherche Samenwerkingsteam (Criminal Investigation Cooperation Team)
TSP	Trust Service Provider
UBO	Ultimate Beneficial Owner
UN	United Nations
USA	United States of America
UTR	Unusual Transaction Report
VBA	Limited Liability Company
WG	Working Group