



**CENTRALE BANK**  
CURAÇAO & SINT MAARTEN



**2026 FINANCIAL  
STABILITY REPORT**  
Resilience in an Increasingly  
Uncertain World

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# Financial Stability Report

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Spring Edition 2026

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

Financial Stability Report | May 2026 | Financial Stability Division

[www.centralbank.cw/functions/financial-stability](http://www.centralbank.cw/functions/financial-stability)



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# Preface

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Safeguarding financial stability remains a central mandate of the Centrale Bank van Curaçao en Sint Maarten (hereafter, the CBCS). Financial stability is defined as a condition in which the financial system is well-functioning and supportive of the economy, while being resilient enough to absorb and recover from financial shocks.

To fulfill this mandate, the CBCS continuously identifies, monitors, and communicates risks that may affect the stability of the financial system. In addition, the CBCS advises on and, where necessary, takes policy actions aimed at mitigating systemic risks. These activities are carried out by the Financial Stability Division (FSD), which conducts regular risk assessments based on data reported by financial institutions, as well as insights derived from ongoing engagement with key stakeholders.

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

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

The CBCS communicates its assessment of financial stability risks primarily through its annual Financial Stability Report (FSR). The FSR provides a comprehensive overview of recent macro-financial developments, evaluates risks to the financial system, and assesses the performance of the main financial sectors—banks, insurers (life and non-life), and pension funds. It also highlights key policy initiatives and reforms aimed at strengthening financial system resilience. The analysis presented in the FSR 2026 relates to the monetary union unless stated otherwise. The banking sector analysis is based on realized data up to 2025, while the analyses of insurance and pension fund sectors are based on realized data up to 2024 and preliminary data for 2025. In line with reporting requirements, insurers and pension funds submit their data within five months after the end of the reporting year. By the time most institutions have reported the data, the FSR has already been published. This year, the FSR includes an outlook for financial sector risks over the 2026–2027 period.

The Aggregate Financial Stability Index (AFSI) serves as the main indicator underpinning the CBCS's financial stability assessment.<sup>1</sup> This composite index combines domestic and global macro-financial variables with indicators from the banking sector to provide an overall measure of systemic stability. In addition, the FSR 2026 reflects many recommendations from the 2025 International Monetary Fund (IMF) technical assistance mission on the FSR, including a more forward-looking approach with a centralized risk narrative, the introduction

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<sup>1</sup> See Ooft & Thijn-Baank (2024) for the description and methodology behind the AFSI.

of stress tests for pension funds and insurers, the development of new financial soundness indicators (FSIs) for these sectors, and a more concise report.<sup>2</sup> Furthermore, it incorporates recent enhancements to the macroprudential framework, implemented in line with recommendations from the 2026 IMF technical assistance mission on the Central Bank Transparency Code.<sup>3</sup>

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<sup>2</sup> IMF (2025b).

<sup>3</sup> IMF (2026d).

# Foreword

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As 2026 has brought newly amplified levels of uncertainty and elevated risks—arising in particular from the war in the Middle East—global economies are facing the possibility of extended disruptions to oil and energy supplies and financial markets. We seem to have entered a period of shifting influence and power, as traditional alliances evolve and new relationships emerge. While financial markets have shown resilience despite increased unrest, the International Monetary Fund (IMF) has signaled a moderation in global growth prospects, reflecting risks related to potential oil shocks, persistent output losses, and continued uncertainty surrounding the global outlook.

Governments, businesses, and institutions increasingly recognize that artificial intelligence (AI) can be deployed to maximize productivity and reduce costs. At the same time, they are confronted with cybercrime that is further intensified by these same technological advancements. Even if geopolitical risks were to stabilize over the short to medium term, cyber risk is expected to remain on an upward trajectory and continue to pose a growing challenge to financial stability globally.

Curaçao and Sint Maarten's economies experienced solid growth in 2025, while expectations for 2026 remain favorable yet subject to downside risks, given the uncertainty surrounding the duration and impact of global developments on key trading partners. As tourism continued a strong growth path, associated vulnerabilities—such as exposure to shocks in related real estate and supply chains—have also increased.

Financial institutions in the monetary union of Curaçao and Sint Maarten (hereafter, the monetary union) have consistently demonstrated resilience during the past six years of significant external shocks. As the CBCS continues to strengthen its regulatory and supervisory framework through the implementation of Basel III and Solvency II Light, financial institutions have shown the capacity and adaptability needed to withstand shocks and continue supporting the local economies. The AFSI remains above the early warning indicator, reflecting overall stable financial conditions, albeit with emerging pressures. Looking ahead, financial institutions should continue to monitor geopolitical developments closely and ensure that their buffers remain sufficiently robust to absorb potential shocks.

Banks are encouraged to strengthen capital buffers and provisioning amid weakening credit quality and strong credit growth. Pension funds and life insurers should enhance risk management and asset-liability management in response to rising market sensitivity and liquidity pressures. Non-life insurers should strengthen premium collection and liquidity management, given their sensitivity to claims volatility. In this period of elevated global uncertainty, the CBCS emphasizes continued vigilance regarding cyber and climate-related risks.

In 2025, the CBCS introduced new financial soundness indicators (FSIs) for insurers and pension funds, which were first published in the Insurance and Pension Fund Fact Sheets in November 2025.<sup>4</sup> For this report, several indicators have been refined, and figures have been adjusted to reflect improved measurement accuracy. The FSR 2026 also includes a reference to the revamped macroprudential framework, which was published in line with recommendations from the 2025 IMF technical assistance mission on the Central Bank Transparency Code.<sup>5</sup>

Furthermore, this report includes a box dedicated to the new stress testing model for the banking sector, developed following the 2025 IMF technical assistance mission.<sup>6</sup> In addition, initial steps have been taken to extend stress testing to pension funds and non-life insurers. In line with IMF recommendations on transparency, these models and their development are presented in the FSR 2026. As the FSR is based on realized data for 2024 and preliminary data for 2025 for insurers and pension funds, updated fact sheets presenting realized 2025 data will be published in the second half of 2026 to bridge the data gap between reporting cycles.

This FSR provides insights by identifying potential channels of impact and quantifying exposures and stress scenarios, with the aim of promoting stronger and better-prepared institutions that can continue to provide essential services to the economies of Curaçao and Sint Maarten in the face of global geopolitical and economic headwinds.

**Richard Doornbosch**

President

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<sup>4</sup> CBCS (2025a; 2025b; 2025c).

<sup>5</sup> IMF (2026d).

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<sup>6</sup> IMF (2025a).

# Executive Summary

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**The financial system of Curaçao and Sint Maarten remains resilient but faces a more challenging and uncertain outlook.** Solid economic growth, strong capital and liquidity buffers, and continued expansion in key sectors supported financial stability in 2025. Economic activity was driven by tourism and real estate, while moderate inflation and stable fiscal conditions supported domestic demand. Financial institutions benefited from this environment, with balance sheets expanding and overall conditions remaining favorable. However, the system remains highly dependent on externally driven growth, leaving it increasingly exposed to global shocks.

**Risks to financial stability have increased and are tilted to the downside, driven primarily by external factors.** Geopolitical tensions, global financial market volatility, and cyber risk are assessed as acute and rising over the 2026–2027 horizon. Ongoing conflicts in the Middle East and Ukraine, alongside rising trade tensions, may exert broad inflationary pressures, leading to higher commodity prices, tighter financial conditions, and weaker global demand. These developments could transmit to the monetary union through tourism, investment flows, and financial markets. At the same time, rapid digitalization continues to increase exposure to cyber threats, reinforcing operational and systemic vulnerabilities.

**Financial conditions remain stable, supported by strong underlying fundamentals despite growing external pressures.** The Aggregate Financial Stability Index (AFSI) increased in 2025 and remains well above

the early warning indicator, reflecting broad-based improvements across its subindices. These gains were driven by stronger credit growth, solid capital and liquidity positions in the banking sector, improved profitability, and a still supportive, albeit increasingly uncertain, global environment. While global uncertainties are expected to exert some downward pressure in the near term, the AFSI is projected to remain above the early warning indicator, continuing to signal overall stability.

**Credit risk has become the main domestic vulnerability.** Strong credit growth has outpaced economic activity, resulting in a positive credit-to-GDP gap and signaling a build-up of cyclical risks. Early signs of weakening credit quality are emerging, including rising nonperforming loans, increasing early-stage delinquencies, and declining provisioning coverage. In addition, the concentration of credit in tourism and real estate amplifies exposure to external shocks, increasing the system's sensitivity to adverse developments in these sectors.

**The banking sector remains sound but is increasingly exposed to credit-related risks.** Capital and liquidity buffers remain strong, and stress testing confirms resilience under adverse scenarios. However, asset quality has deteriorated moderately, and provisioning buffers have weakened, increasing sensitivity to further shocks. While profitability has improved, supported by higher net interest and fee-based income, rising credit risk underscores the need for continued vigilance.

**The insurance sector remains resilient, although vulnerabilities are emerging across segments.**

Non-life insurers benefit from favorable underwriting conditions, but stress tests highlight sensitivity to severe claims scenarios and rising asset quality risks. Life insurers maintain adequate solvency positions, but increasing exposure to mortgages and other loans, combined with heightened market sensitivity, warrants close monitoring in the current environment.

**Pension funds remain well capitalized but face increasing market and liquidity-related risks.**

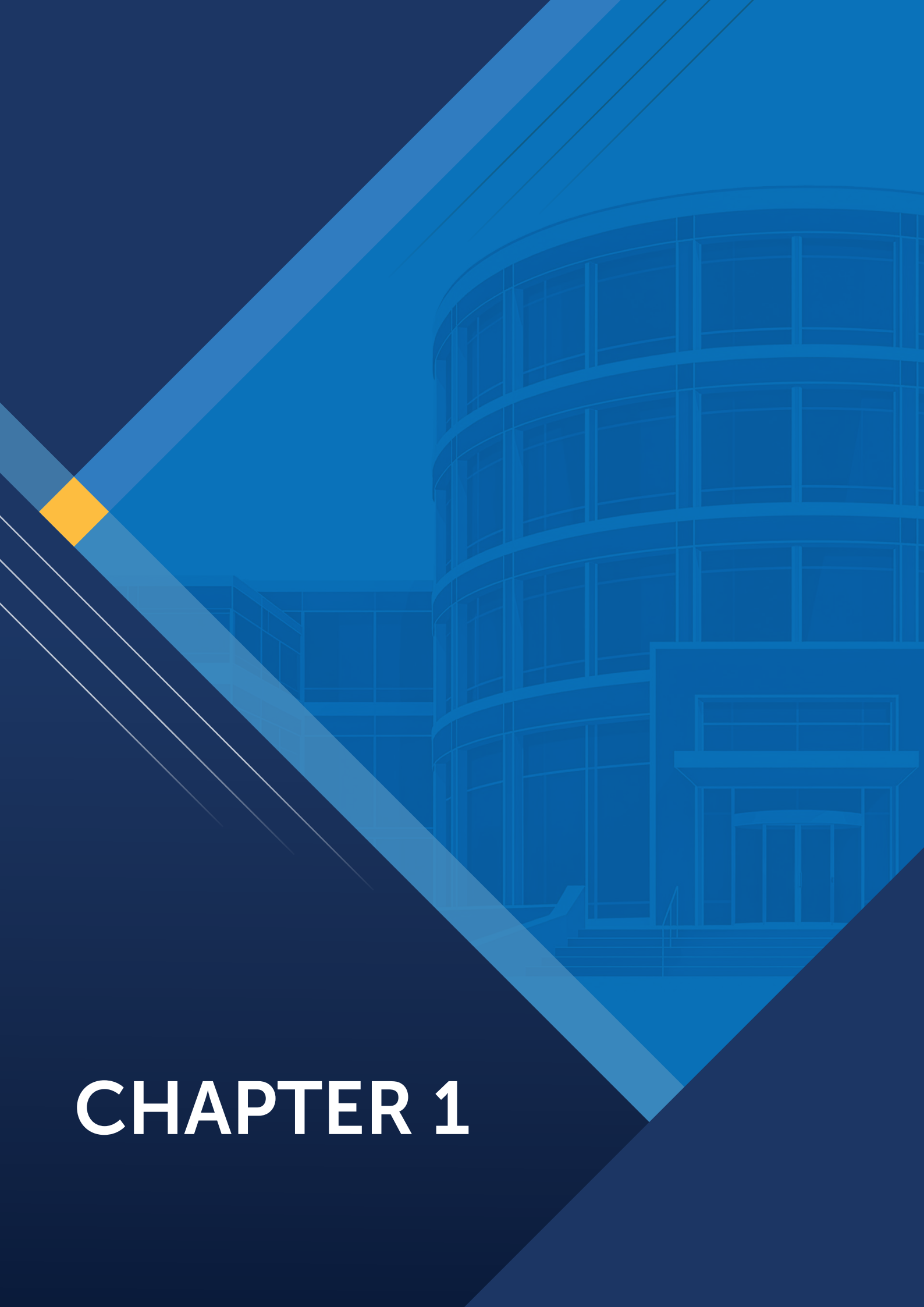
Strong funding ratios and recent investment performance continue to support the sector. However, structural pressures related to demographic developments and reliance on market returns persist. Stress testing indicates that the sector is particularly vulnerable to global financial market shocks, while declining liquidity buffers point to increasing sensitivity to adverse conditions.

**Interconnectedness within the financial system is increasing, reinforcing liquidity conditions while creating potential channels for contagion.**

Greater reliance on institutional investor funding supports liquidity but strengthens linkages between banks, on the one hand, and insurers and pension funds, on the other. While these linkages enhance financial intermediation, they may also increase the speed and transmission of shocks in times of stress. At the same time, stress testing results indicate that both the banking and pension fund sectors remain broadly resilient to deposit withdrawal scenarios and bank default shocks, respectively. Nevertheless, continued monitoring of cross-sector exposures and funding dependencies remains essential.

**Maintaining financial stability requires proactive and forward-looking policy action in an increasingly uncertain global environment.**

While the financial system remains resilient, rising external risks and emerging domestic vulnerabilities call for heightened vigilance. Strengthening credit risk monitoring, enhancing provisioning, and closely tracking sectoral exposures will be critical in the period ahead. At the same time, the continued development of the macroprudential framework—including expanded stress testing, improved data collection, and the introduction of targeted policy tools—will be essential to safeguard financial stability in Curaçao and Sint Maarten.



# CHAPTER 1

# 1 Risk Assessment

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## ■ Macro-financial conditions

### **Macroeconomic conditions in the monetary union remain positive, with growing external pressures expected to gradually moderate the outlook.**

Both Curaçao and Sint Maarten experienced real economic growth of 3.9% and 3.4% in 2025, respectively, driven primarily by continued strength in tourism and real estate-related activity. Strong stay-over and cruise tourism supported activity across accommodation, transport, trade, and construction, while ongoing investment in real estate and infrastructure further contributed to economic expansion. At the same time, moderating inflation and stable fiscal positions supported domestic demand and financial conditions. Against a backdrop of heightened external headwinds, including geopolitical tensions, tighter financial conditions, and evolving trade dynamics, the monetary union continues to benefit from externally driven growth, although this reliance poses risks to the outlook. Real economic growth in both countries is projected to decelerate in 2026 and further in 2027, primarily due to a moderation in tourism-related activity. Meanwhile, inflationary pressures are expected to edge up in 2026 before stabilizing in 2027, reflecting a temporary uptick driven by external cost pressures.<sup>7</sup>

### **According to a newly developed index, Curaçao is relatively resilient, while Sint Maarten faces greater structural challenges.**

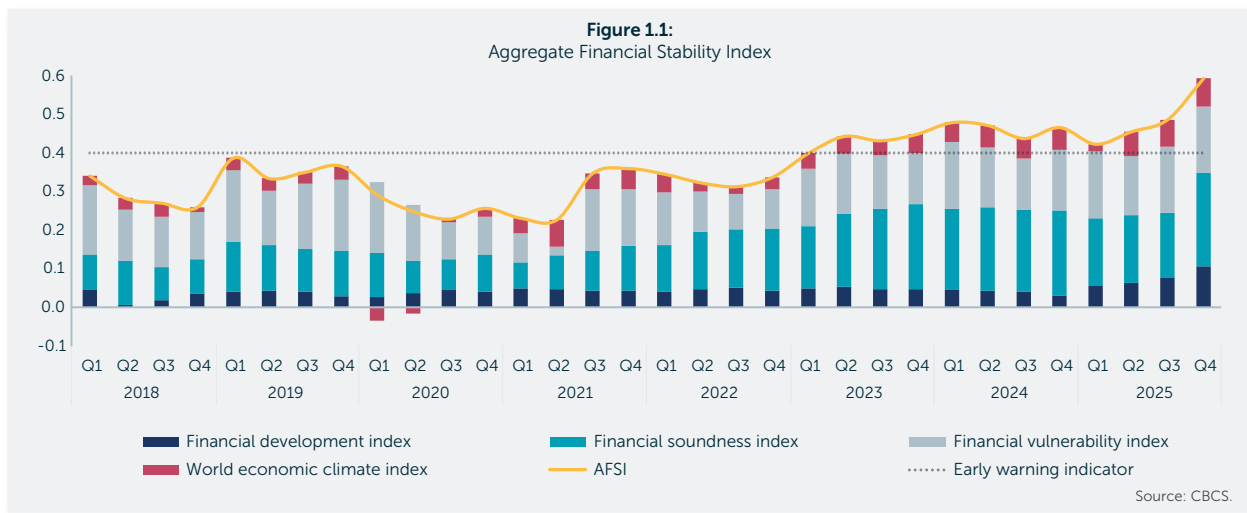
The Resilience Index Caribbean (RICa) compares 18 Caribbean countries across multiple dimensions of economic resilience, capturing exposure to external shocks, geopolitical uncertainty, and climate-related risks. Jamaica and Barbados rank highest. Curaçao also ranks relatively high (6th), supported by strong institutional and geographic indicators, whereas Sint Maarten ranks among the lowest (16th), reflecting weaknesses across economic, demographic, geographic, and sustainability indicators.<sup>8 9</sup> This improvement is driven by stronger credit growth, solid bank capital and liquidity positions, improved profitability, and a supportive global economic environment (see [Figure 1.1](#)). However, intensifying global uncertainties are expected to weigh on the AFSI in the near term, resulting in a moderate decline. Nevertheless, the index is projected to remain above the early warning indicator, signaling relatively stable financial conditions.

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<sup>7</sup> CBCS (2026a).

<sup>8</sup> Van Bilsen, Vossen, & Westerhoud (2026).

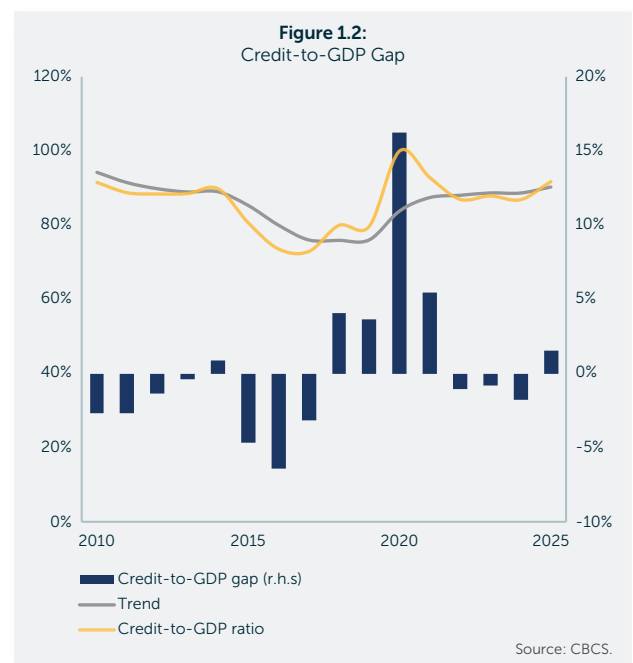
<sup>9</sup> The CBCS has set the early warning indicator at 0.4 based on historical calibration of the index.



**Despite broadly favorable macro-financial conditions, the credit-to-GDP gap signals the emergence of cyclical vulnerabilities.** The credit-to-GDP gap<sup>10</sup> provides an indication of the financial cycle by measuring the deviation of private sector credit to GDP from its long-term trend. Positive gaps are related to periods of financial booms, while negative gaps indicate that there is room for additional credit growth without creating financial imbalances. In 2025, total credit to private sector grew by 10.9%, outpacing nominal GDP growth of 5.7%, reflecting strong demand in tourism and real estate. This resulted in a positive gap of 1.2% (see [Figure 1.2](#)).

**Credit growth was more pronounced in the commercial segment than in the household segment and was largely driven by increased lending activity within the banking sector.** As a result, credit intermediation has become more concentrated in banks, reinforcing their central role in the transmission of credit-related risks. Household credit held by banks amounted

to 34.6% of GDP in 2025, while commercial credit increased to 38.6%. In contrast, other financial corporations (OFCs)<sup>11</sup> accounted for a smaller share, with household and commercial credit both at 14.0% of GDP (see [Figure 1.3](#)).

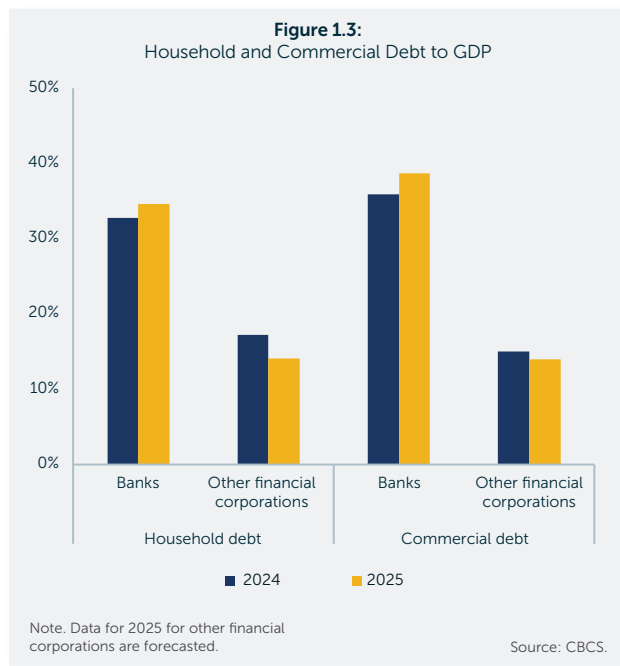


10 The credit-to-GDP gap is calculated using the one-sided Hodrick-Prescott (HP) filter. The one-sided HP filter is a real-time estimation of the HP filter, where the observed credit gap series are decomposed in a cyclical and trend component. The smoothing parameter was set at 100. Data for institutional investors for 2025 are estimates.

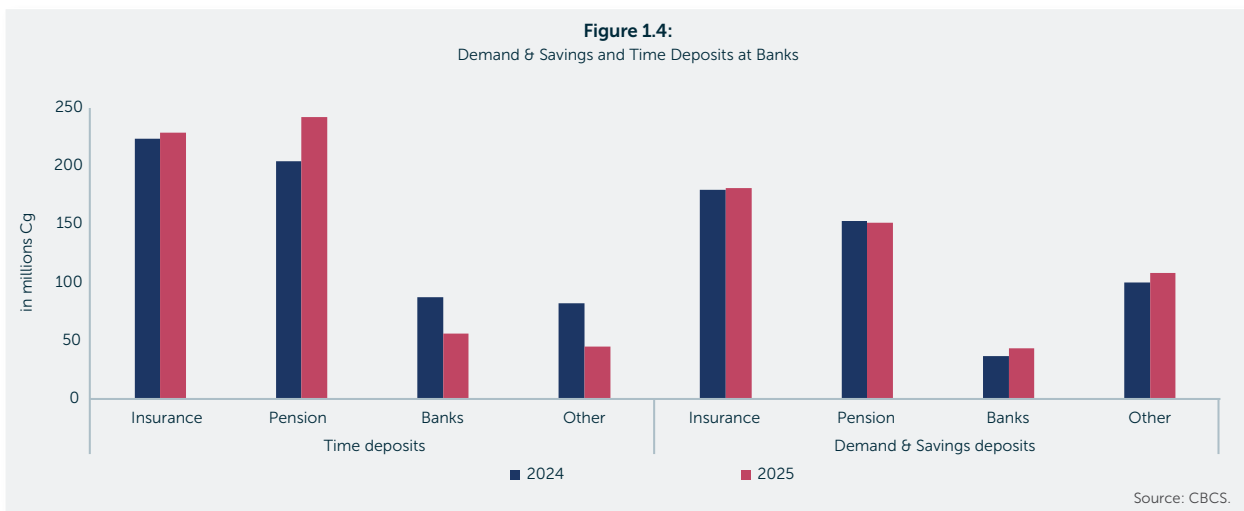
11 Other financial corporations refer to all financial entities that are not commercial banks.

**The positive credit-to-GDP gap, combined with the increasing concentration of credit within the banking sector, suggests a shift in the financial cycle toward a more expansionary phase.** While this reflects supportive economic conditions, it also points to a gradual build-up of vulnerabilities, particularly if credit growth continues to outpace nominal economic growth. The year 2025 marks the first positive gap after three consecutive years of negative gaps, and this expansionary phase is expected to continue in the near term.

**At the same time, interconnectedness<sup>12</sup> in the financial system is increasing, driven by more reliance on institutional investor<sup>13</sup> funding, which supports liquidity but raises contagion risk.** Deposits by pension funds and insurers at banks rose by 10.2% to Cg 393.0 million and by 1.6% to Cg 409.9 million, respectively, in 2025, mainly driven by higher time deposits (see Figure 1.4). By contrast, interbank exposures declined by 19.6% to Cg 99.5 million. Reflecting the growing importance of institutional investor funding at banks, large deposits from OFCs, primarily pension funds and insurers, increased



from 72.5% to 77.5% of total OFC deposits held at banks between 2024 and 2025. While this reduces direct contagion risks between banks, it increases dependence on OFCs. This supports liquidity but may heighten funding concentration risks and potential vulnerabilities in times of stress.



12 Interconnectedness captures the linkages among financial institutions and the potential for risk transmission within the financial system.

13 Institutional investors refer to pension funds and insurers.

**While interconnectedness creates potential contagion channels, stress testing results suggest that both the banking and pension fund sectors remain broadly resilient.** Withdrawals by institutional investors could quickly put pressure on bank liquidity, while stress at a bank could spill over to these investors, reinforcing contagion. However, stress testing results indicate that the banking sector remains resilient even under severe deposit withdrawal scenarios (see [Chapter 2, Stress testing section](#)). Similarly, the pension fund sector shows limited sensitivity to bank default, suggesting that deposit exposures are not a primary source of solvency risk (see [Chapter 5, Stress testing section](#)). Time deposits are not only held for longer periods but also offer higher interest rates, supporting expectations of a continued preference for these deposits. Accordingly, while the sectors remain resilient, this should not be taken for granted given prevailing uncertainties. Thus, institutional investor funding and concentration risks should continue to be monitored to ensure that contagion risk resulting from stronger interconnectedness remains contained.

## ■ Macro-financial risk environment

**The financial stability risk map provides a forward-looking overview of risks to the monetary union's macro-financial environment.** Based on recent developments and available projections, it provides an assessment of systemic risks to the monetary union over the 2026–2027 horizon (see [Figure 1.5](#)). The map focuses on macro-financial and structural vulnerabilities, while sector-specific financial soundness risks are assessed separately in the chapters on banks (see [Chapter 2](#)), insurers (see [Chapters 3 and 4](#)), and pension funds (see [Chapter 5](#)).

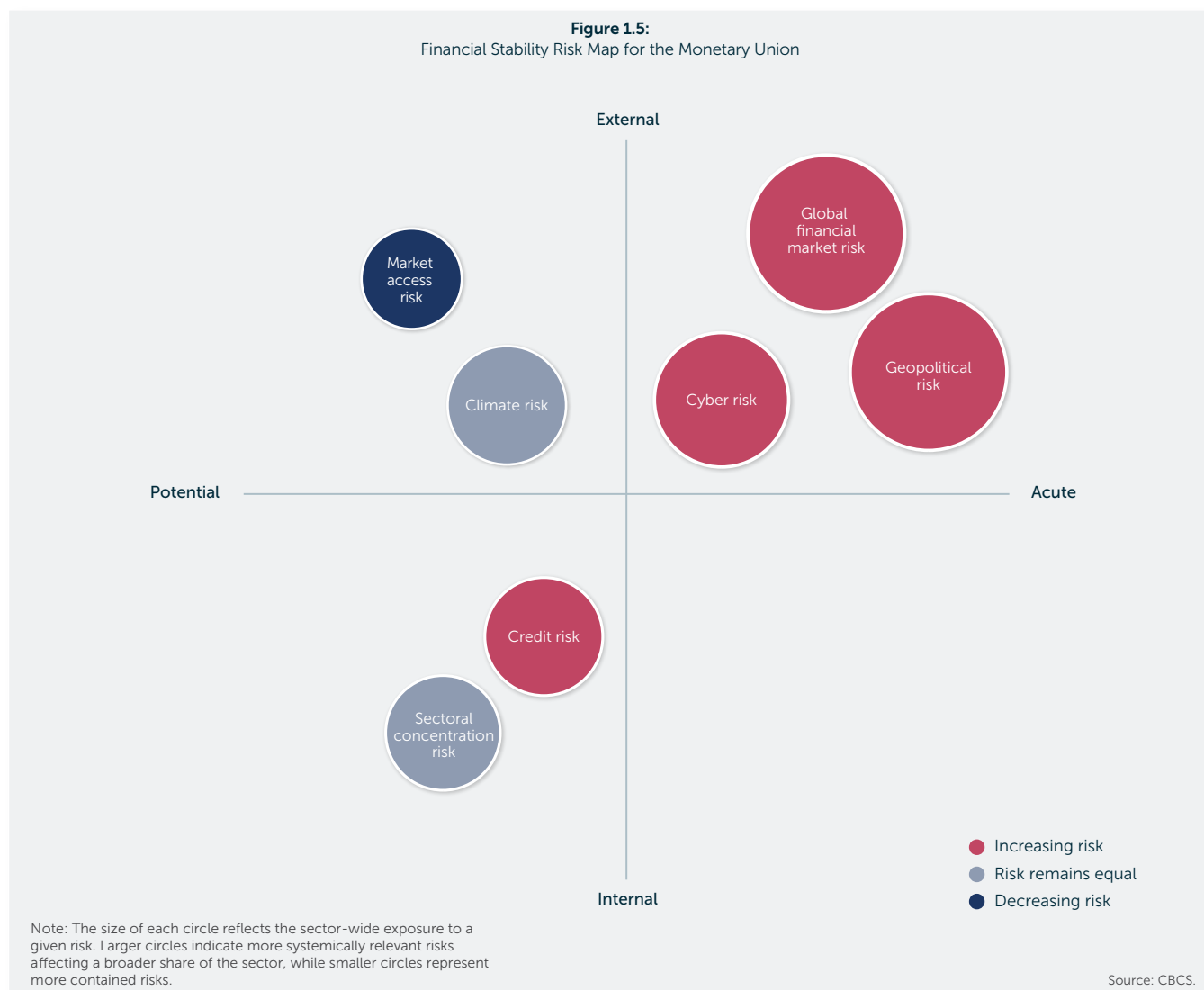
**External risks remain the main source of macro-financial vulnerability.** On the acute side, geopolitical and global financial market risks are the key external risks and are increasing, reflecting elevated uncertainty and the risk of tighter external financing conditions. A similar upward trend is observed for cyber risk, underscoring rising operational vulnerabilities. On the potential side, credit risk is increasing amid continued credit expansion and early signs of weakening credit quality. On the other hand, sectoral concentration and climate risks are broadly stable but could have significant impacts if realized, given the importance of tourism and real estate in the monetary union and Sint Maarten's exposure to natural disasters. Meanwhile, market access risk is declining as banks maintain multiple correspondent banking relationships with financial institutions abroad.

### Acute external risks

#### *Geopolitical risk*

**The International Monetary Fund (IMF) warns that renewed escalation of trade disputes and geopolitical fragmentation remain among the most significant threats to the global economic outlook and financial stability.**<sup>14</sup> Although global economic growth is projected to remain relatively stable over the 2026–2027 period, supported by continued technological investment and economic activity in major economies, increasing geopolitical tensions and trade policy shifts continue to pose downside risks.

<sup>14</sup> IMF (2026b; 2026c).



**The ongoing regional conflicts in Eastern Europe and the Middle East affect global trade routes, energy markets, and supply chains.** According to the Geopolitical Risk (GPR) Index, global political uncertainty has been elevated since 2022 (see [Figure 1.6](#)).<sup>15</sup> While Russia’s war in Ukraine and the United States (U.S.)–Israel military offensive in Iran persist, geopolitical tensions among major economies deepen. These conflicts could further contribute to higher commodity prices and risk reigniting inflationary pressures, which may dampen

economic growth in these economies and elevate the likelihood of a global economic slowdown. The post-intervention relations between the U.S. and Venezuela remain an additional source of regional uncertainty due to Curaçao’s close proximity to Venezuela.<sup>16</sup>

<sup>15</sup> Caldara & Iacoviello (2022).

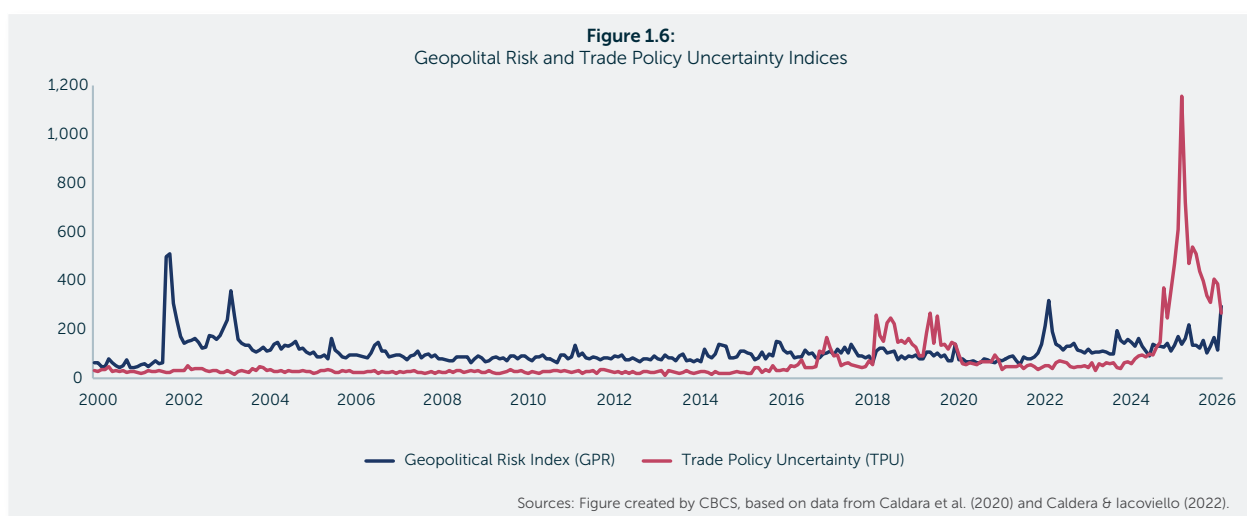
<sup>16</sup> CBCS (2026a).

**Trade frictions between the U.S. and several of its major trading partners continue to shape the global economic outlook.**<sup>17</sup> The implementation and revision of U.S. tariff measures have generated significant uncertainty regarding global trade policy and potentially threaten global economic stability, as measured by the Trade Policy Uncertainty (TPU) Index (see [Figure 1.6](#)).<sup>18</sup> Uncertain trade rules can have several negative economic and financial effects through trade, investment, financial markets, and inflation channels.

**For small open economies such as Curaçao and Sint Maarten, these global developments pose significant external risks.** Higher commodity prices are likely to drive up fuel and energy import costs, raising transportation and distribution costs and ultimately consumer prices. The CBCS's Economic Bulletin indicates that oil price shocks caused by the conflict in the Middle East may lead to stagflation in the monetary union. Rising trade tensions and tariffs could contribute to higher import prices and domestic inflation. Furthermore, slower

global growth may reduce tourism demand—the most important sector for both Curaçao and Sint Maarten—with spillovers to other sectors such as transport, trade, and construction. In addition, heightened global uncertainty may weaken foreign investor confidence and reduce capital inflows.<sup>19</sup>

**The financial sector in the monetary union remains vulnerable to global political and economic disruptions, with these geopolitical risks expected to rise further.** Deteriorating domestic macroeconomic conditions could further weaken borrowers' repayment capacity, placing pressure on the loan portfolio of especially the banking sector. Geopolitical tensions may also affect global asset valuations, particularly for institutional investors. Given the link between tourism and local real estate demand, changes in tourism activity could influence real estate asset performance. Additionally, tightening of reinsurance and war-risk capacity in the event of renewed tensions between the U.S. and Venezuela may impact non-life insurers indirectly.



<sup>17</sup> World Bank (2026).

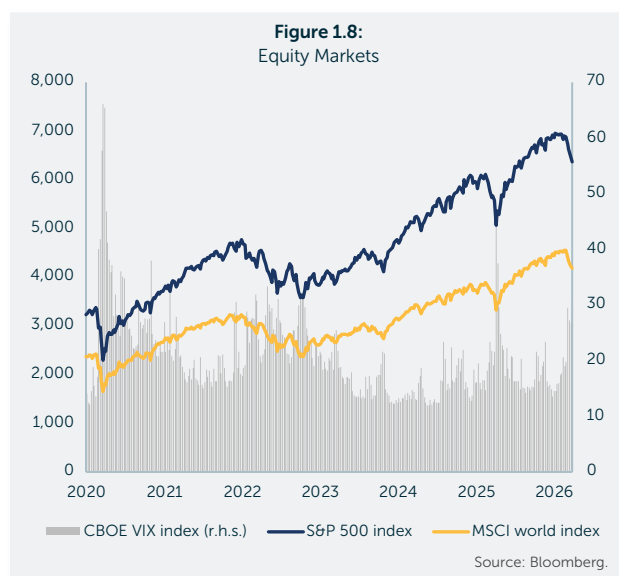
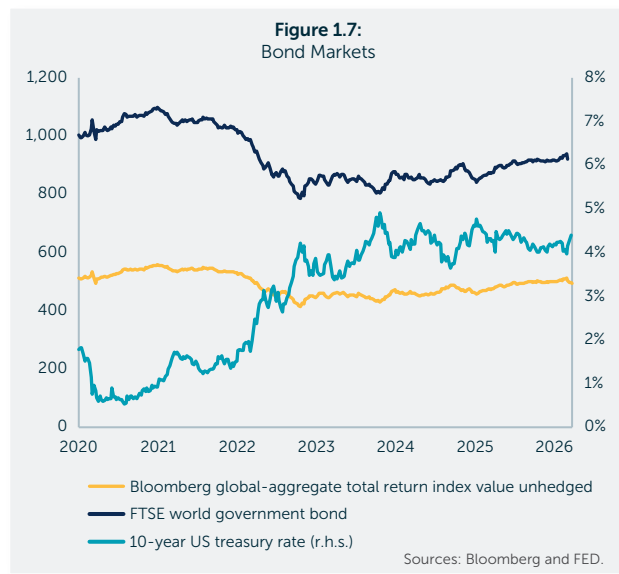
<sup>18</sup> Caldara et al. (2020).

<sup>19</sup> CBCS (2026a).

### Global financial market risk

**In March 2026, major central banks paused their monetary policy easing cycles amid increasing inflationary pressures caused by the energy supply disruptions near the Strait of Hormuz.<sup>20</sup>** The U.S. Federal Reserve (Fed) held the target range for the federal funds rate steady at 3.5% to 3.75%, alongside an upward revision of the 2026 inflation projections from 2.4% to 2.7%.<sup>21</sup> Amid the pass-through of U.S. monetary policy to international money market rates, the CBCS maintained its pledging rate at 4.25%, while raising the monetary union's inflation projection from 2.0% to 2.2%.<sup>22</sup> The European Central Bank (ECB) followed a similar trajectory, leaving its deposit facility rate unchanged at approximately 2.0%, while raising its 2026 inflation outlook from 1.9% to 2.6%.<sup>23</sup> According to a Reuters poll, many economists pivoted away from anticipated rate cuts in the first half of 2026 but still forecast at least one reduction later this year.<sup>24</sup>

**The outlook across financial markets remains highly sensitive to the trajectory of the U.S./Israel-Iran conflict.<sup>25</sup>** Global bond and equity markets have experienced broad-based declines following the escalation of the U.S./Israel - Iran conflict in late February 2026 (see [Figures 1.7 and 1.8](#)). Market stress proxied by the Chicago Board Options Exchange Volatility Index (CBOE VIX) spiked. Following the market correction, global financial conditions have tightened, but markets have not yet priced in the risk of a severely adverse escalation of the war.<sup>26</sup> The longer the conflict continues, the higher the likelihood of further and abrupt tightening. In the near



<sup>20</sup> EFG International (2026); Reuters (2026, March 19).

<sup>21</sup> Fed (2026a; 2026b).

<sup>22</sup> CBCS (2026a).

<sup>23</sup> ECB (2026, March 19).

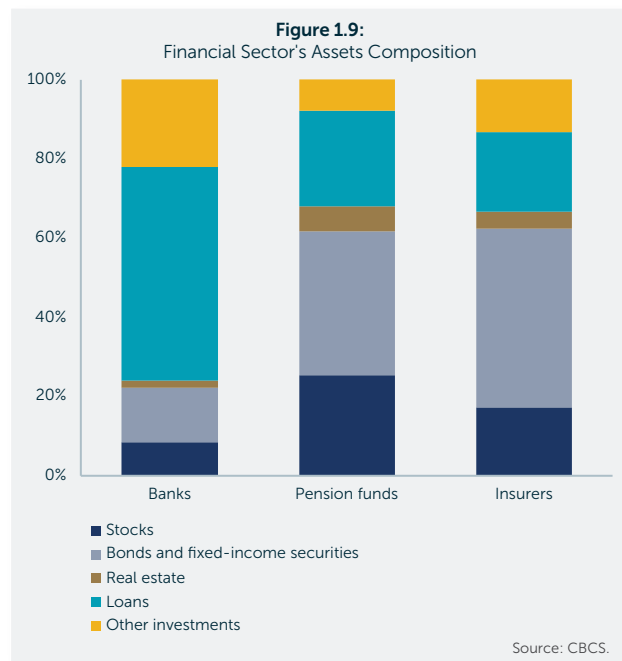
<sup>24</sup> Reuters (2026, March 26).

<sup>25</sup> IMF (2026, March 30).

<sup>26</sup> IMF (2026a).

term, bond markets will continue to face headwinds with rising bond yields reflecting inflationary pressure from energy shocks. Equity markets are expected to remain under pressure due to elevated uncertainty and investor caution, with ongoing volatility likely to persist unless geopolitical risks subside and energy supply disruptions ease.

**Institutional investors in the monetary union face heightened global financial market risk, which is likely to increase further as volatility rises, given their significant exposure to equities and fixed-income securities.** The IMF warns that financial markets may experience a risk-off episode driven by macroeconomic uncertainty, resulting in declining asset valuations, widening risk premia, capital outflows from riskier markets and a flight to safety.<sup>27</sup> Pension funds and insurers in the monetary union allocate approximately 60% of their assets to equities and fixed-income securities (see [Figure 1.9](#)). Negative price fluctuations in these markets can materially affect investment performance and erode their solvency buffers. Additionally, some of these institutions have a significant portion of their investments concentrated in the U.S., further increasing their vulnerability to geopolitical tensions and market volatility. However, the CBCS's investment rule provides some mitigation of these vulnerabilities, as a predetermined portion of such investments should be allocated domestically (see [Chapters 4 and 5, Market sensitivity section](#)).



<sup>27</sup> IMF (2026c).

*Cyber risk*

**Recent developments in generative and agentic artificial intelligence (AI) have further amplified cyber risk.** Worldwide, including the Caribbean region, supervisors have identified cyber risk as one of the top financial stability risks.<sup>28</sup> The cost of cybercrime to the global economy was estimated at USD 10.3 trillion in 2025.<sup>29</sup> Rising geopolitical conflict has further exacerbated cybersecurity incidents. On the back of generative AI and related deep fake improvements, an increasing number of financial institutions face disruptions to business continuity due to cybercrime. The IMF directly links breaches in cybersecurity to potential financial stability risk, through loss of confidence, interconnectedness, or lack of substitutes for services.<sup>30</sup> From 2026 onwards, cyber risk mitigation efforts by financial institutions remain essential. In this light, standard-setting institutions are directing efforts toward formulating sound practices for AI use by financial institutions.<sup>31</sup>

**In line with these developments, cyber risk in the monetary union is expected to remain on an upward trajectory.** The accompanying exponentially growing operational cost of improving cyber resilience is also identified as a risk for financial institutions that endeavor to protect their operations and customers. The CBCS underscores the importance of addressing potential financial stability risks from cybersecurity and AI across sectors. Efforts include preparing and setting guidance for third-party suppliers and disclosure of incidents, while addressing operational resilience and institutional preparedness for cyber disruptions, in line with prevailing international standard-setting institutions. In parallel, the CBCS is working on a note on the implications of cyber risk for financial stability (see [Chapter 6](#)).

28 WEF (2026, January 12).

29 Statista Research Department (2025).

30 Adelman et al. (2020).

31 FSB (2026, February 3).

**Potential external risks***Climate risk*

**Global climate risks remain elevated but broadly stable, with ongoing exposure to natural hazards continuing to shape vulnerabilities.** Climate policy progress slowed in 2025 and into 2026, even as record-breaking heat waves and increasing mean temperatures disproportionately affected developing economies.<sup>32</sup> Climate-related losses totaled USD 220 billion in 2025, lower than in 2024, partially attributed to a less-intense hurricane season.<sup>33</sup> However, insurance experts note that exposure to costly damages increased, as more and more valuable real estate is built in areas that are often hit by hurricanes in the Caribbean, while gaps in protection, especially in emerging economies, hover around 80-90%.<sup>34</sup> Looking ahead, global temperatures are expected to remain at or near record levels.<sup>35</sup> For the Caribbean, this reinforces existing structural vulnerabilities, as such events already impose sizable economic costs—averaging around 2% of GDP annually.<sup>36</sup>

**In the case of Curaçao and Sint Maarten, climate risk follows a similar trend, remaining high yet broadly stable.** Both economies remain exposed to climate shocks affecting tourism, infrastructure, and economic activity, with Sint Maarten particularly vulnerable due to its location in the hurricane belt. Global climate events may also disrupt supply chains, contributing to imported inflation.<sup>37</sup> At the same time, Sint Maarten's experience with such events has strengthened preparedness and recovery capacity. Climate risks are transmitted to the financial sector

32 Bloomberg (2026, March 25).

33 National Hurricane Center (2026).

34 Swiss Re Group (2026).

35 World Meteorological Organization (2025).

36 IMF (2025, June 10). For the Eastern Caribbean specifically, costs were even higher, at around 4% of GDP annually.

37 CBCS (2026a).

through multiple channels,<sup>38</sup> with especially non-life insurers relying heavily on reinsurance arrangements (see [Chapter 3](#)). However, strengthening climate resilience remains a supervisory priority, with the CBCS participating in several climate working groups, assessing sectoral readiness through its climate survey, and developing guidance on governance, risk management, and transparency, while applying the proportionality principle (see [Chapter 6](#)).<sup>39</sup>

#### *Market access risk*

**Market access risk arises from the monetary union's dependence on external financial institutions to facilitate cross-border transactions.** Given the open nature of the economies of Curaçao and Sint Maarten, correspondent banking relationships are essential for trade and capital flows, making continued access critical to the functioning of the financial sector.

**Despite increasing global uncertainties, market access risk is decreasing as banks are not dependent on a single correspondent banking relationship.**

Rather than constituting a standalone source of risk, market access risk acts as a transmission channel through which external developments can affect domestic financial stability. Changes in global regulatory standards, shifts in the risk appetite of international banks, or disruptions in payment infrastructure could constrain access to correspondent banking services, with implications for payment flows, transaction costs, and financial intermediation. The CBCS's annual survey<sup>40</sup> indicates that the banking sector maintains several relationships with international banks, reducing current and near-term pressures from this risk.

Concurrently, the CBCS is aware that the growing uncertainty from geopolitical tensions may lead to future pressures and, therefore, continues to monitor these developments to safeguard the resilience and connectivity of the financial system.

### Potential internal risks

#### *Credit risk*

**Recent credit developments in the monetary union point to a gradual build-up of vulnerabilities.**

Credit growth has rebounded strongly, outpacing economic activity, while early signs of weakening credit quality have emerged, including rising nonperforming loans, increasing early-stage delinquencies, and declining provisioning coverage (see [Chapter 2](#)). This expansion has been supported by favorable conditions in tourism and real estate sectors, which continue to drive credit demand but also contribute to the accumulation of sector-specific risks. While credit intermediation remains concentrated within the banking sector, insurers and pension funds have also increased their exposure to mortgage lending, albeit still representing a relatively limited share of their overall investment portfolios (see [Figure 1.9](#)).

**The monetary union is already experiencing early signs of increasing credit risk and, amid growing uncertainties and pressures from abroad, this risk is expected to increase further.**

A potential slowdown in tourism and real estate activity, particularly linked to non-resident demand, or tighter global financial conditions could weaken borrower repayment capacity. This may lead to a further deterioration in asset quality, putting pressure on banks' profitability and capital buffers. The CBCS continues to monitor credit developments closely, with particular attention to asset quality trends, sectoral exposures, and the

<sup>38</sup> BIS (2020).

<sup>39</sup> CBCS (2026c).

<sup>40</sup> The latest survey data are for 2024. However, this trend is expected to persist in the near term.

adequacy of provisioning buffers to ensure the resilience of the banking sector. This also points to the importance of strengthening the CBCS's macroprudential framework.<sup>41</sup>

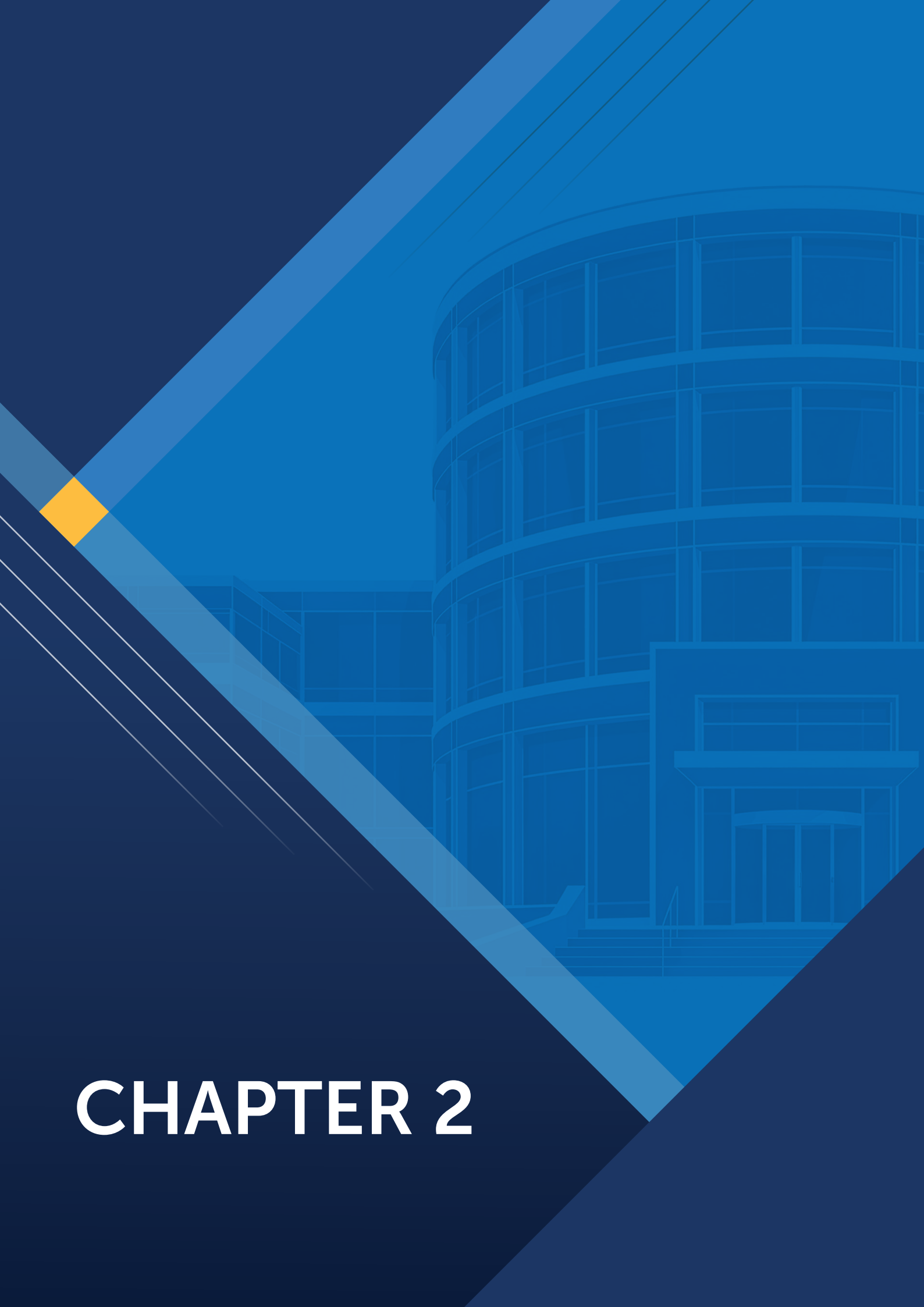
### *Sectoral concentration risk*

**Sectoral concentration risk reflects a structural feature of the monetary union, characterized by limited economic diversification and a high dependence on tourism and real estate.** This concentration shapes both growth dynamics and financial intermediation, with credit and investment exposures largely aligned to these sectors. While this structure has supported economic expansion, it also increases vulnerability to sector-specific and externally driven shocks.

**Sectoral concentration risk remains broadly stable, reflecting its inherent nature, while continuing to act as a key transmission channel through which macroeconomic shocks can translate into financial sector stress.** Rather than constituting a standalone source of risk, sectoral concentration acts as a structural amplifier of other risks, particularly credit risk. The strong link between the real economy and the financial sector implies that adverse developments in tourism or real estate can be transmitted rapidly through the system. A slowdown in tourism activity or a correction in property prices could weaken income generation, reduce collateral values, and impair borrower repayment capacity. Given the concentration of exposures, such shocks may simultaneously affect asset quality, profitability, and capital across financial institutions. While exposures remain predominantly within the banking sector, insurers and pension funds have also increased their mortgage-related investments, contributing, though to a lesser extent, to system-wide sensitivity to real

estate developments. To address these types of risks, the CBCS is developing a macroprudential instrument based on loan-to-value (LTV) ratios (see [Chapter 6](#)).

<sup>41</sup> CBCS (2026d).



# CHAPTER 2

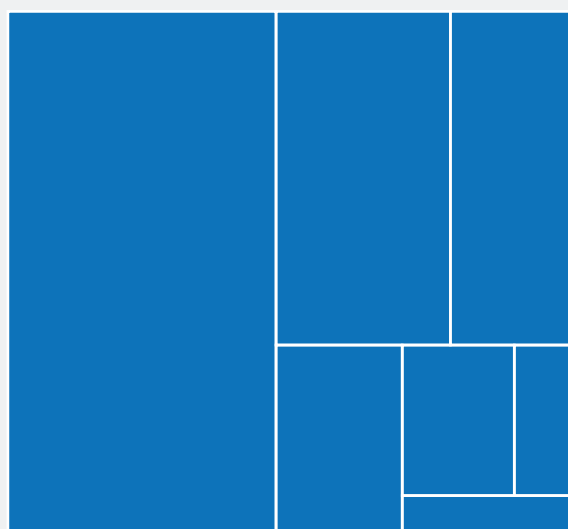
# 2 Banks

## ■ Overview

**The banking sector remains highly concentrated, with a small number of institutions holding most of the total assets.**<sup>42</sup> In 2025, the three largest banks accounted for 80.7% of total banking sector assets. At the same time, seven banks operate within the monetary union, representing 57.5% of the financial sector's total assets. The banking sector is considered fragmented with one dominant player (see [Figure 2.1](#)). Total banking sector assets amounted to Cg 16.6 billion in 2025, equivalent to 168.7% of the monetary union's GDP. The aggregate balance sheet and income statement of the banking sector are presented in [Appendix tables 2.1](#) and [2.2](#).

**The performance of the banking sector remained broadly stable in 2025, although emerging pressures in asset quality point to a gradual increase in credit-related risks.** While overall performance improved toward the end of the year, the rise in nonperforming loans weighed on asset quality and slightly reduced capital buffers. However, profitability and liquidity conditions improved, supporting a recovery in overall sector's performance. These developments are also reflected in the Banking Stability Index (BSI), which forms part of the CBCS early warning framework used to monitor vulnerabilities in the banking sector. The index combines indicators<sup>43</sup> for capital adequacy, asset quality, earnings and profitability,

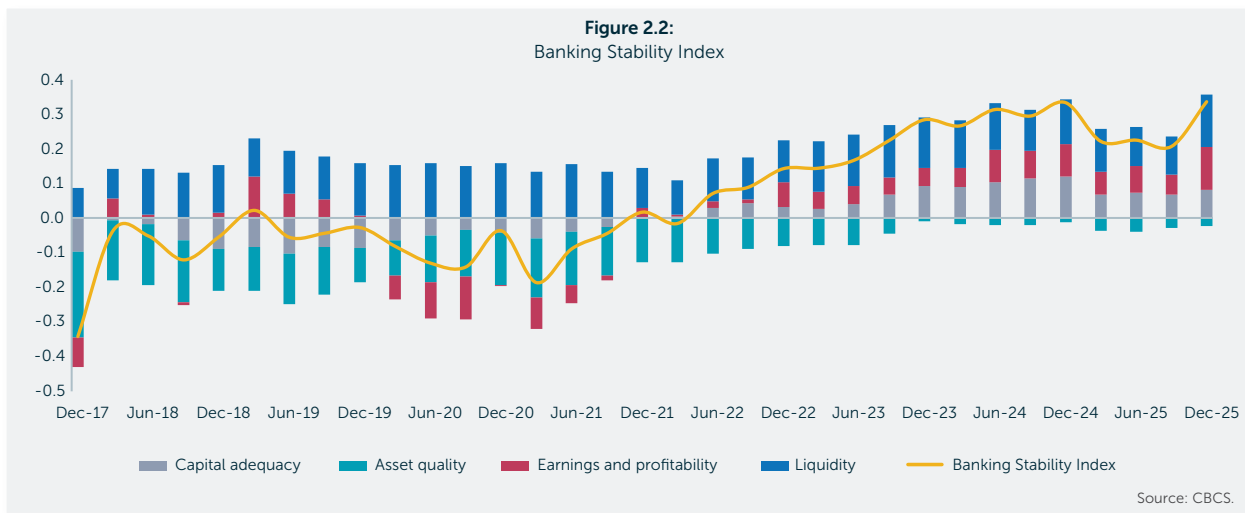
**Figure 2.1:**  
Overview of Banks



Source: CBCS.

<sup>42</sup> The banking sector refers to the local banking sector, excluding international banks.

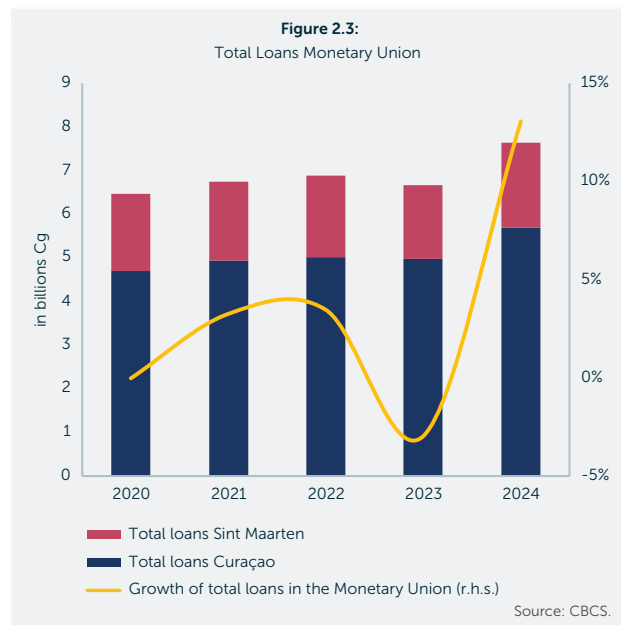
<sup>43</sup> These indicators are equally weighted and comprise of eight indicators in total.



and liquidity (see [Figure 2.2](#)). The BSI declined slightly in early 2025, driven by deteriorating asset quality, but recovered later in the year as profitability and liquidity strengthened. Overall, the index indicates that the banking sector remains stable, although vulnerabilities related to credit risk have increased.

### ■ Lending

**Credit growth rebounded strongly in 2025, returning to an expansion phase following the contraction observed in 2024.**<sup>44</sup> Total outstanding loans increased by 13.1% to Cg 7.6 billion in 2025, reflecting increased lending activity across the banking sector, partly driven by structural changes within the sector (see [Figure 2.3](#)). Growth was more pronounced in commercial lending than in household lending, indicating that credit expansion was increasingly driven by business-related financing. Credit expansion also outpaced nominal GDP growth, indicating that credit is growing above its long-term trend. While this supports economic activity, it may also signal a gradual build-up of vulnerabilities if sustained over the medium term (see [Figure 1.2](#)).



<sup>44</sup> The contraction was mainly caused by the discontinuation of operations by a bank in 2024.

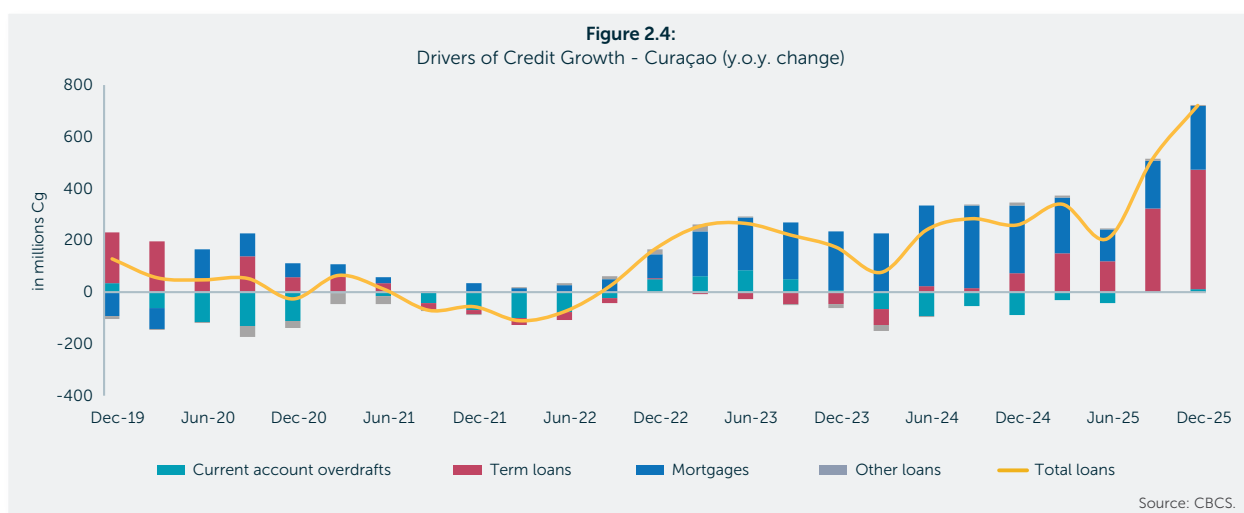
**Lending developments were closely linked to activity in the real estate market, which remains a key component of bank credit.** Total mortgage lending<sup>45</sup> increased by 13.0% in 2025, with particularly strong growth to non-residents of 31.1%, compared to more moderate growth to residents of 8.1%. Despite this development, resident mortgage lending continues to account for most total mortgages at 89.3%, although this share declined from 91.0% in 2024.

**Across both resident and non-resident segments, growth in commercial mortgages outpaced that of household mortgages, reflecting strong demand for real estate investment.** This trend points to increasing exposure to the commercial real estate segment, which may increase banks' sensitivity to changes in economic conditions and property prices. According to the Curaçao Bankers Association (CBA) and the Sint Maarten Bankers Association (SMBA), lending growth is expected to continue amid favorable economic conditions. However, both

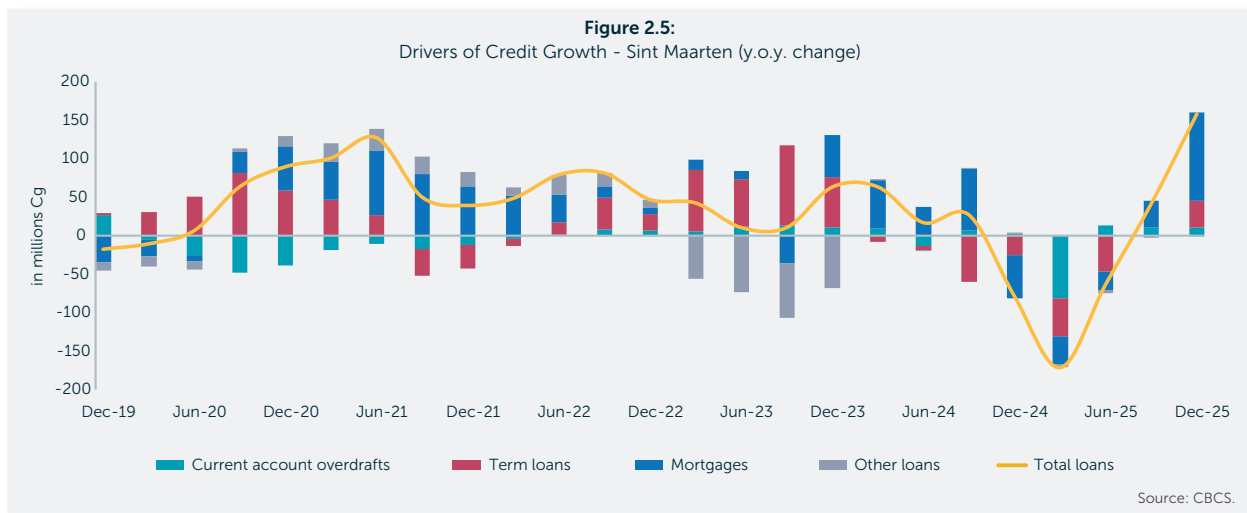
associations caution that ongoing geopolitical risks could negatively affect this outlook.

**Credit developments diverged across the monetary union, reflecting differences in the composition of lending growth and underlying risk exposures.**

In Curaçao, total outstanding loans increased by 14.6% or Cg 720.7 million in 2025, driven by commercial lending and, to a lesser extent, household lending (see [Figure 2.4](#)). As a result, commercial loans rose to 43.8% of GDP in 2025 compared to 39.4% in 2024, indicating a rising concentration of bank exposures in the commercial segment. In Sint Maarten, credit growth was more moderate, with outstanding loans increasing by 8.7% or Cg 157.1 million in 2025, supported primarily by growth in household mortgage lending (see [Figure 2.5](#)). Consequently, household loans rose to 31.8% of GDP in 2025 compared to 30.2% in 2024, reflecting a growing concentration of bank exposures in the household mortgage segment.



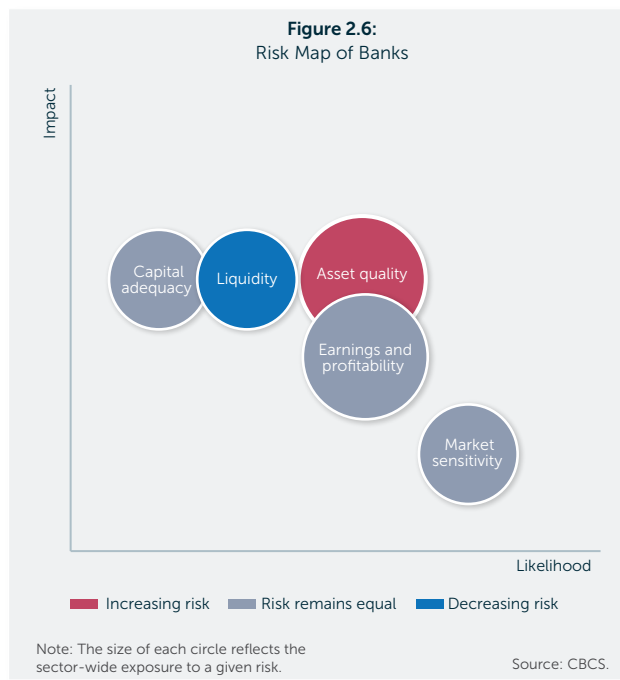
<sup>45</sup> According to the Chart of Accounts (COA) manual, mortgages reported in the COA include only loans secured by a mortgage where the outstanding loan balance does not exceed 70 percent of the appraised value by an independent appraiser (CBCS, 2016). Therefore, the data in this section were derived from the newly created Gross Mortgage Schedule.



**The credit expansion in 2025 supports economic activity and bank profitability but also signals a renewed expansion phase in the credit cycle.** The strong growth in commercial lending warrants monitoring, particularly given the concurrent increase in nonperforming commercial loans discussed in the [Asset quality section](#).

### ■ Financial soundness

**Developments in the banking sector in 2025 indicate broadly stable conditions, while forward-looking analysis shows increasing asset quality risk.** Based on realized data up to 2025, while considering the local and global context (see [Chapter 1](#)), the risks associated with financial soundness indicators (FSIs) of banks are assessed over the 2026-2027 period (see [Figure 2.6](#) and [Appendix tables 2.3, 2.4, and 2.5](#)). FSIs point to generally stable conditions in 2025. Asset quality risk is expected to increase over the near term, driven by rising nonperforming loans, weakening provisioning buffers, and increased concentration in higher-risk segments, while other risk categories will remain stable or decrease.



## Capital adequacy

**The banking sector remained well capitalized in 2025, with capital buffers continuing to provide strong resilience against potential shocks.** Capital

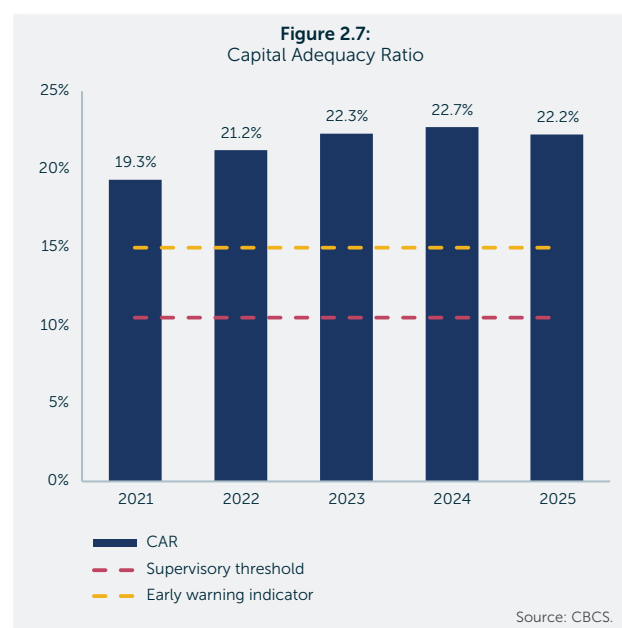
adequacy was supported mainly by retained earnings, although the Capital Adequacy Ratio (CAR) declined slightly to 22.2% due to a faster increase in risk-weighted assets, driven by credit expansion and investment growth. Despite this decline, capital levels remain stable compared to previous years (22.3% in 2023 and 22.7% in 2024) and comfortably above both the supervisory threshold of 10.5% and the early warning indicator of 15.0% (see [Figure 2.7](#)).

While all banks reported CARs above the supervisory threshold, several remain below the early warning indicator, pointing to differences in risk appetite and balance-sheet strategies across banks. The Tier 1 capital to total assets ratio declined from 14.5% to 13.6% in 2025, reflecting somewhat higher leverage as balance-sheet growth outpaced the accumulation of core capital. Nevertheless, the ratio remains at a solid level, indicating that banks continue to maintain strong core capital positions. Tier 1 capital is accounting for 93.5% of total regulatory capital at year-end.

**At the same time, credit losses remain manageable relative to available capital buffers.** The ratio of nonperforming loans (NPLs) net of provisions to capital, capturing the share of NPLs not covered by provisions and thus directly at risk of eroding capital,

increased to 11.2% in 2025. While this relatively low level suggests that credit risk remains manageable, the rise in gross NPLs points to increasing pressure on provisioning needs and, consequently, on capital buffers going forward. Yet, even under severe stress scenarios, the CAR of the banking sector declines below the early warning indicator but remains above the supervisory threshold, illustrating the sector's resilience (see [Stress testing section](#)).

**Capital adequacy risk is expected to remain broadly stable, supported by strong and high-quality capital buffers that are expected to continue providing resilience against potential shocks.** Continued credit growth and rising NPLs are expected to gradually exert pressure on capital through higher risk-weighted assets and provisioning needs, while dividend distributions may slow the pace of capital accumulation. Nevertheless, in line with the sector's track record of stable capital adequacy in recent years, these pressures are expected to remain manageable over the projected horizon.

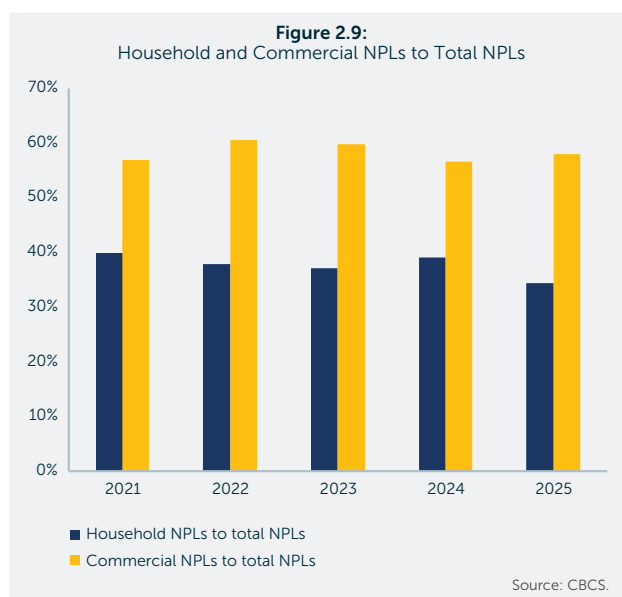
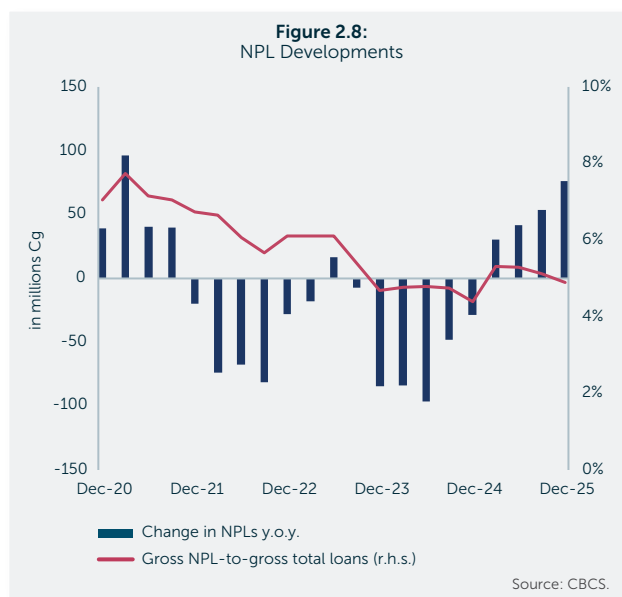


### Asset quality

**Asset quality in the banking sector deteriorated moderately in 2025, reversing the improving trend observed in recent years.** NPLs to gross loans ratio increased to 4.9% in 2025 as NPLs rose by 25.8%, outpacing the 13.1% growth in total loans (see [Figure 2.8](#)). The increase was mainly driven by early-stage delinquencies (90–120 days past due). Although the share of loans overdue more than 180 days declined slightly, this category still accounts for 72.6% of total NPLs.

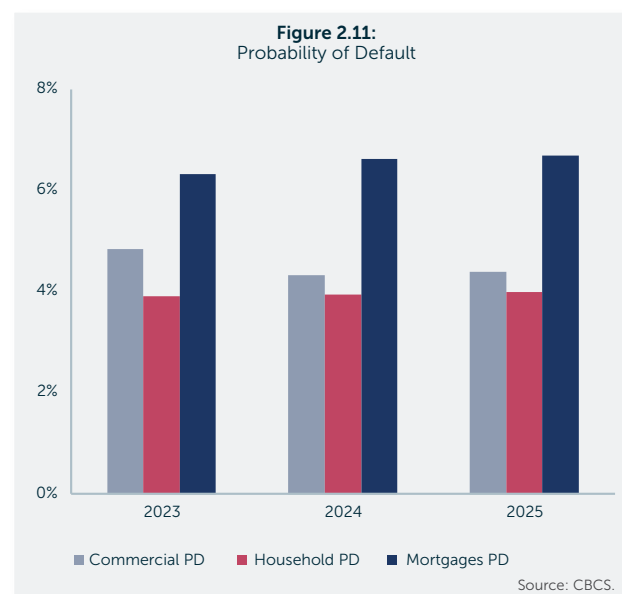
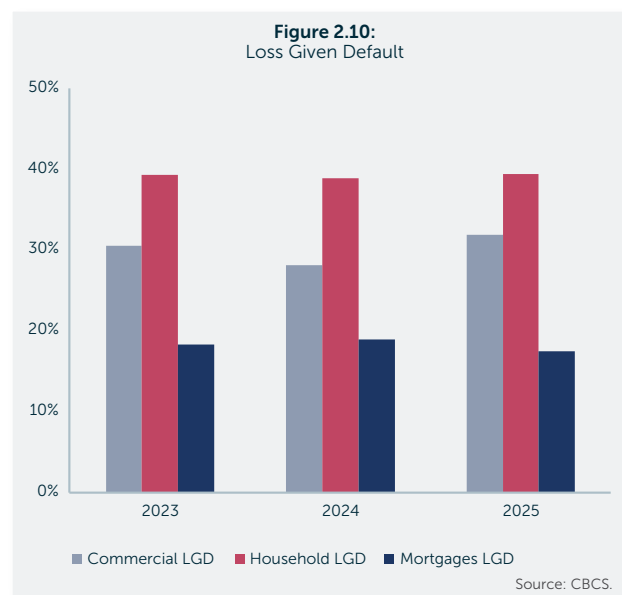
**The deterioration in the NPL ratio was concentrated in the commercial loan portfolio.** In this segment, NPLs increased by Cg 48.1 million (28.8%) and accounted for 57.9% of total NPLs in 2025 (see [Figure 2.9](#)). In addition, an increase in loss-given-default (LGD) for commercial loans, from 28.1% to 31.9%, indicates lower expected recoveries in the event of default. Household LGD also increased moderately, while mortgage LGD declined slightly and remained comparatively low, suggesting more resilient collateral conditions (see [Figure 2.10](#)).

**Credit risk indicators further point to a deterioration in borrower quality.** The probability of default (PD) increased in both the commercial segment (from 4.3% to 4.4%) and the household segment (from 3.9% to 4.0%) in 2025, indicating a higher likelihood of borrower distress, particularly in commercial exposures. In addition, mortgage PD increased from 6.6% to 6.7%, suggesting that credit risk is also gradually increasing in what is typically a more stable portfolio segment (see [Figure 2.11](#)). Overall, the combined increase in PDs and LGDs, especially in the commercial segment, indicates a worsening in both the likelihood and severity of potential credit losses.



**Provisioning buffers weakened during 2025, with the NPL coverage ratio declining to 44.0%, below the IMF benchmark of 50%.** This decline is notable, as coverage ratios would typically increase in response to rising NPLs. The observed decrease suggests that provisioning has not kept pace with the deterioration in asset quality, increasing the share of unprovisioned impaired loans that could directly erode capital. Stress test results suggest that provisioning levels may be insufficient under adverse scenarios, particularly given the large share of long-term delinquent loans (see [Stress testing section](#)). Lower coverage increases the likelihood that future credit losses could affect profitability and place pressure on capital buffers.

**Overall, asset quality risk is projected to continue increasing.** This reflects a broad-based deterioration in credit quality, driven by rising NPLs, weakening provisioning buffers, and higher PDs and LGDs, particularly in the commercial segment. Together, these developments point to increasing vulnerability to credit losses. While current capital and profitability provide a buffer against moderate shocks, continued deterioration in credit quality, combined with a potentially less favorable macroeconomic environment, may gradually erode banks' loss-absorbing capacity over the near term.

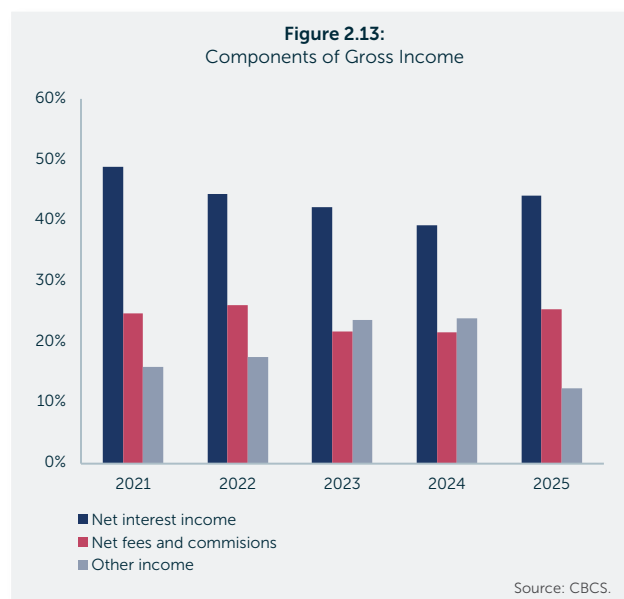
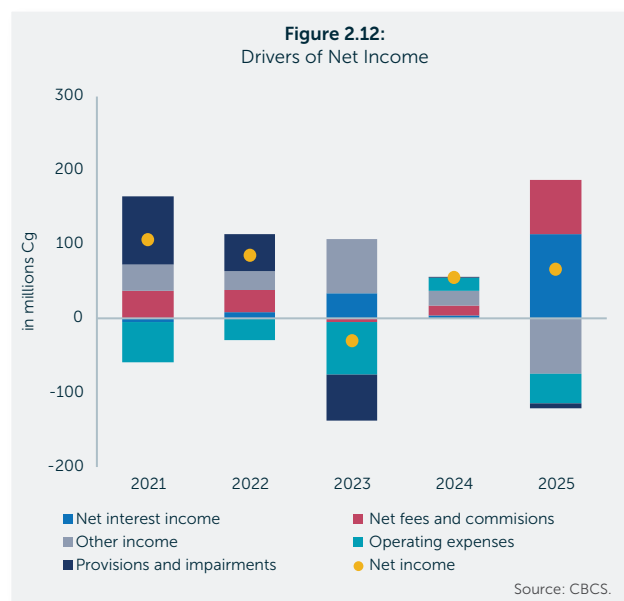


## Earnings and profitability

**Earnings and profitability strengthened further in 2025, supported by higher net interest income and fee-based income.** Return on assets (ROA) increased to 2.3%, reflecting stronger income generation despite higher operating costs and loan provisioning. Growth in net interest income and fee and commission income more than offset the rise in noninterest expenses and provisioning costs (see [Figure 2.12](#)).

**Net interest income increased significantly by 32.6% to Cg 463.3 million in 2025.** This reflects higher returns on foreign currency deposits and investment portfolios amid elevated global interest rates, alongside changes in the structure of the banking sector (see [Figure 2.13](#)). As a result, the interest margin to gross income ratio rose to 44.1%. Although operating expenses increased, the noninterest expenses to gross income ratio declined to 64.6%, indicating improved cost efficiency as income growth outpaced cost expansion. Overall, the improvement in profitability strengthened banks' internal capital generation and their capacity to absorb potential losses.

**Earnings and profitability risk is expected to remain broadly stable, as income levels are expected to provide a solid buffer despite evolving funding conditions and rising credit risks.** Profitability remains sensitive to changes in the interest rate environment and rising credit costs. A normalization of global interest rates could lead to margin compression, particularly if funding costs adjust faster than lending yields, while higher provisioning needs, linked to the deterioration in asset quality, may weigh on earnings going forward. Despite these pressures, earnings are expected to remain relatively strong over the projected horizon.

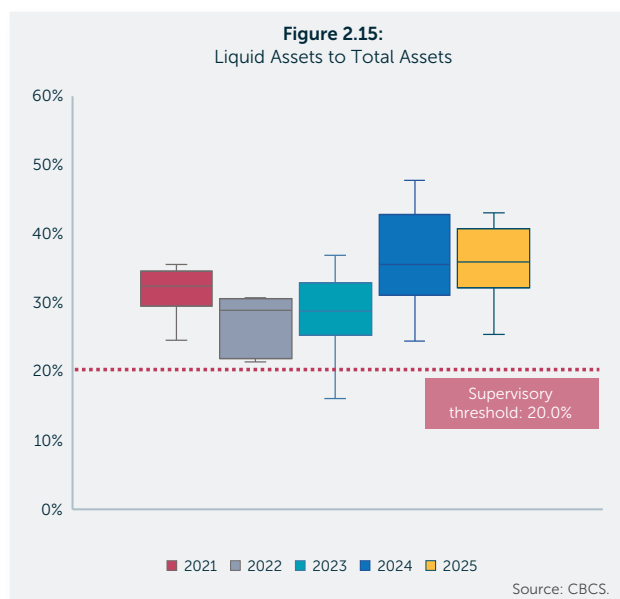
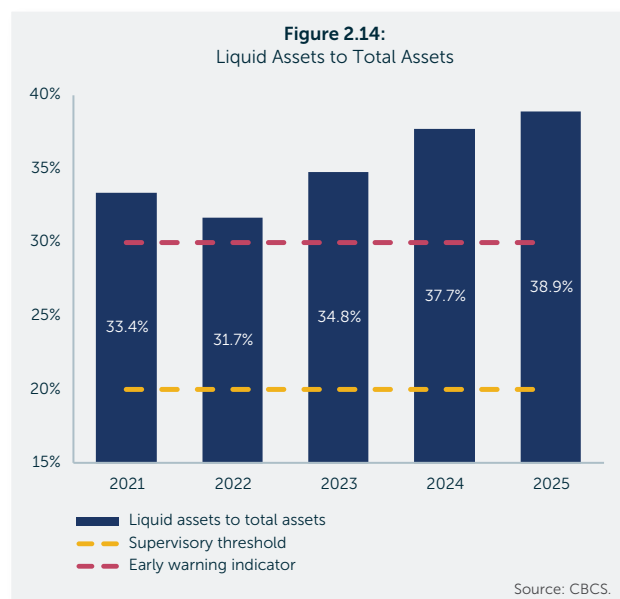


## Liquidity

**Liquidity conditions remained strong in 2025.** The liquid assets to total assets ratio increased to 38.9%, up from 37.7% in 2024. This was mainly driven by a 17.0% rise in liquid assets to Cg 6.4 billion, reflecting higher holdings of qualifying time deposits,<sup>46</sup> marketable securities, and government bonds (see [Figure 2.14](#)). This expansion was supported by continued growth in demand and savings deposits from households and other nonfinancial institutions.<sup>47</sup> All banks held liquid assets considerably above the supervisory threshold of 20% of total assets (see [Figure 2.15](#)).<sup>48</sup>

**Despite stronger liquidity buffers, banks' capacity to meet short-term liabilities weakened slightly, as short-term funding expanded at a faster pace.** This is reflected in a marginal decline in the liquid assets to short-term liabilities ratio to 53.2% in 2025. At the same time, the loan to deposit ratio increased slightly to 58.6%, indicating stronger credit growth relative to deposit inflows (see [Figure 2.16](#)). Total deposits increased by 11.9% to Cg 12.9 billion in 2025, driven in part by structural changes within the banking sector and higher deposit interest rates. However, the increase in liquid assets was partly financed through higher borrowings, which rose by 73.3%, contributing to the faster growth in short-term liabilities.

**Meanwhile, from a system-wide perspective, excess liquidity declined in 2025.** Excess liquidity in the monetary union declined further to Cg 391.0 million at the end of 2025, mainly due to increased absorption through higher investments in CBCS certificates of deposit (CDs) and a rise in required reserves (see



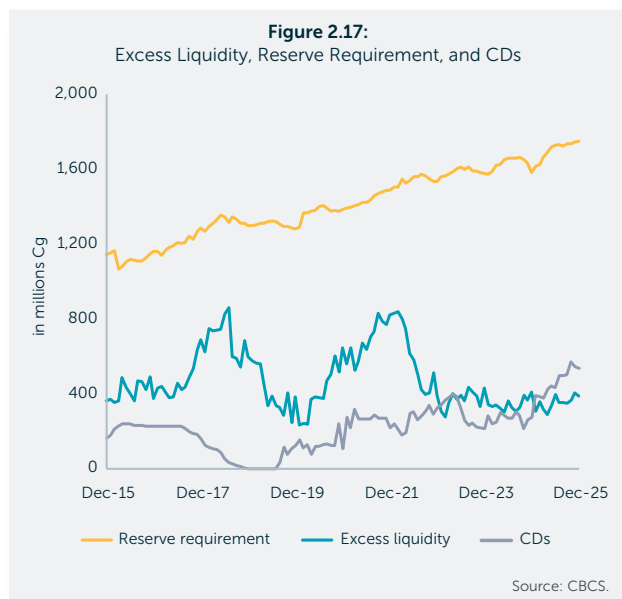
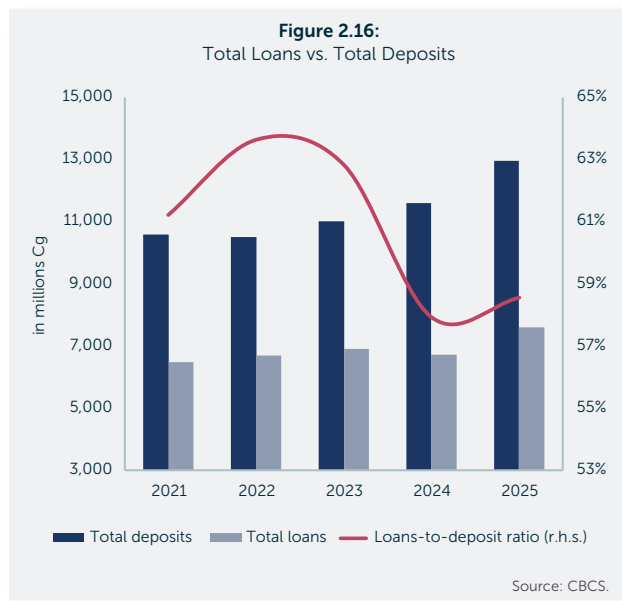
<sup>46</sup> Qualifying time deposits are those with a maturity of three months or shorter.

<sup>47</sup> Other nonfinancial institutions consist of corporations and quasi-corporations not controlled by government units.

<sup>48</sup> Figure 2.15 shows the minimum value, the second quartile (25th percentage), the medium value (50th percentage), the third quartile (75th percentage), and the maximum value (100th percentage). The outliers have been excluded.

Figure 2.17). The issuance of CDs increased by Cg 261.4 million (94.2%), reaching the highest level since the introduction of this monetary instrument in 2000. Although the reserve requirement ratio was maintained at 18.5% in 2025, required reserves increased by Cg 168.9 million (10.7%), reaching Cg 1,752.3 million in 2025. This increase was driven by growth in resident deposits, mainly from other financial corporations<sup>49</sup> and households, which broadened the reserve base. Overall, the decline in excess liquidity reveals a gradual tightening of system-wide liquidity conditions, although liquidity remains ample.

**Liquidity risk is expected to continue decreasing, underpinned by strong liquidity buffers and sustained deposit growth, supporting resilience to funding shocks.** While evolving funding dynamics, including increased reliance on short-term funding, may incrementally affect liquidity conditions, these pressures remain contained. Stress test results confirm that the banking sector remains resilient to severe liquidity shocks, with sufficient buffers to withstand periods of heightened stress (see [Stress testing section](#)). Thus, banks are expected to remain well positioned to absorb moderate liquidity shocks over the near term.

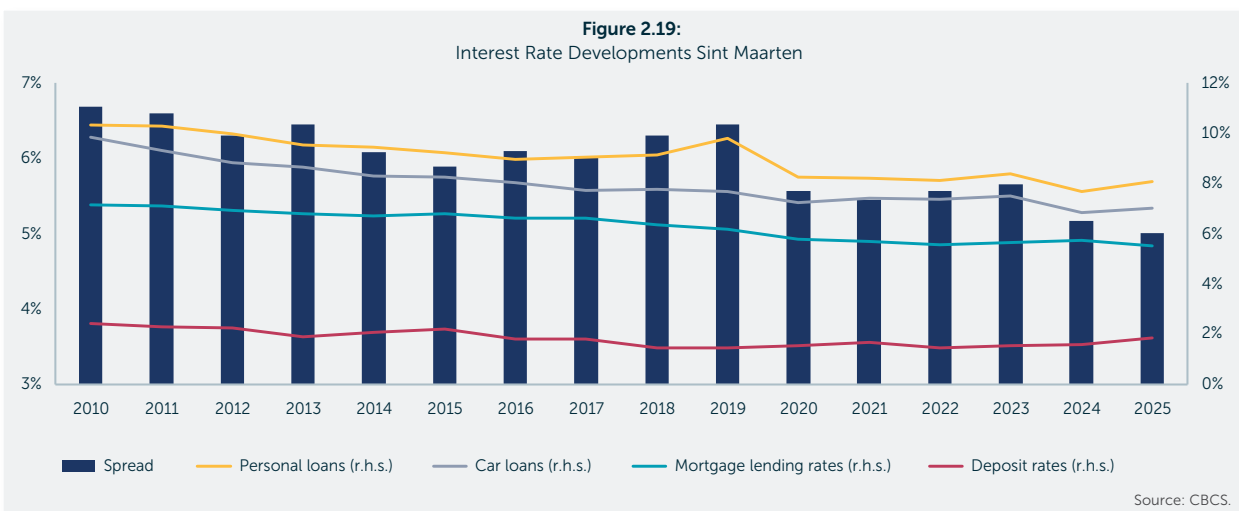
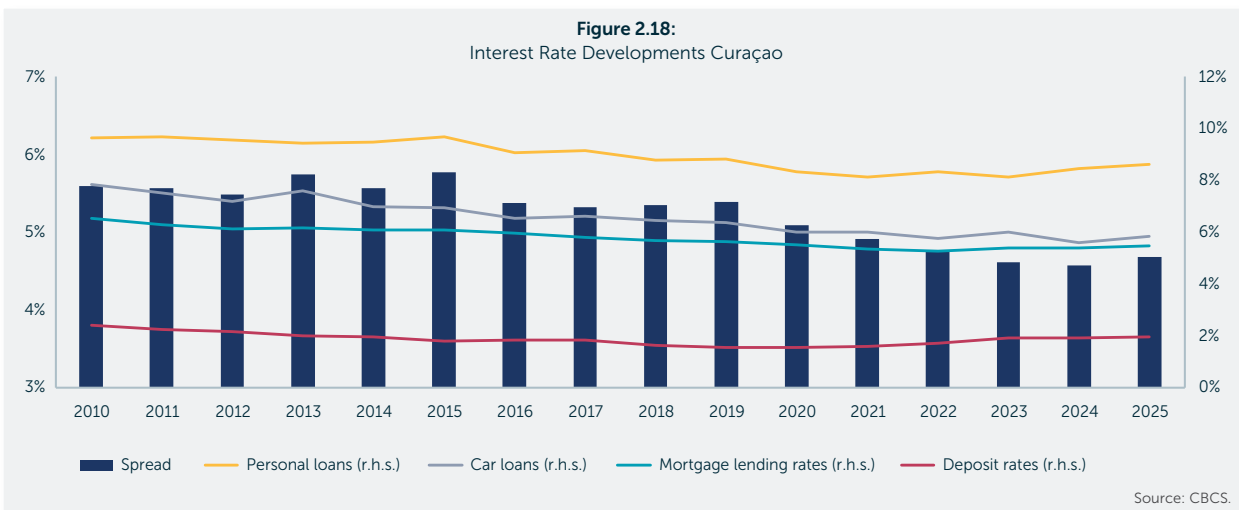


<sup>49</sup> Other financial corporations refer to all financial entities that are not commercial banks.

### Market sensitivity

**Market sensitivity remained contained in 2025, supported by favorable interest rate conditions and strong investment income.** The net interest margin (NIM) increased to 3.9% in 2025, reflecting higher interest income from investments and time deposits, as discussed in the [Earnings and profitability section](#). Despite the increase, the NIM has remained stable over the period 2021-2025, ranging between 3.5% and 3.9%. However, continued upward pressure on deposit rates may compress margins if lending rates adjust more slowly.

**Developments in interest rate spreads indicate differing pricing dynamics across the monetary union.** In Curaçao, the spread widened slightly to 4.7%, reflecting a somewhat faster increase in lending rates across all loan categories relative to deposit rates (see [Figure 2.18](#)). In Sint Maarten, the spread continued to narrow to 5.0%, as deposit rates increased more strongly than lending rates, alongside a decline in mortgage lending rate (see [Figure 2.19](#)).



**Foreign exchange exposures increased moderately during the year, while overall exchange rate risk remained contained.** The net open foreign exchange position to capital ratio rose from 1.8% in 2024 to 3.4% in 2025, as banks expanded their foreign currency assets, particularly investment holdings. Nevertheless, overall exchange rate risk remains limited, as exposures are highly concentrated in U.S. dollars (89.1%), which is pegged to the Caribbean guilder at a fixed exchange rate, with only a small share in euros (2.5%).<sup>50</sup>

**Market sensitivity risk is projected to remain broadly stable, reflecting contained interest rate and foreign exchange exposures.** Looking ahead, elevated geopolitical uncertainties may increase global interest rate volatility and affect earnings. At the same time, the expansion of foreign currency investments could heighten exposure to exchange rate movements. Nevertheless, stable interest margins, the concentration in U.S. dollar-denominated assets, and the resilience observed under stress indicate that market risks remain manageable over the projected period. Stress test results further demonstrate that declines in asset values have only a limited impact on banks' liquidity positions (see [Stress testing section](#)).

<sup>50</sup> The Caribbean guilder has been pegged to the U.S. dollar at a fixed exchange rate of 1.79 since 1971.

## ■ Stress Testing

**Stress testing results indicate that the banking sector remains resilient to severe liquidity and credit shocks, although some vulnerabilities persist at the institution level.** The tests assess the impact of adverse scenarios on banks' liquidity and capital positions and provide forward-looking insights into potential risks to financial stability (see [Appendix table 2.6](#)).

### Liquidity stress test

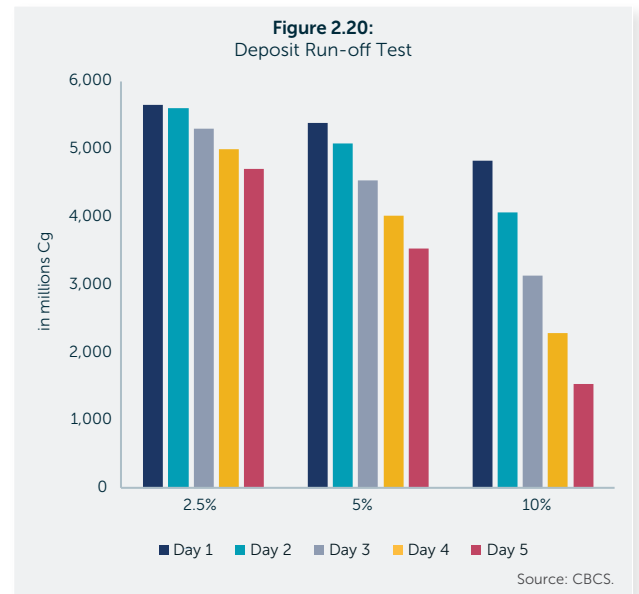
**Liquidity stress tests evaluate banks' ability to maintain sufficient liquidity under adverse funding conditions.** Three scenarios were considered: a deposit run-off stress test, a large depositor withdrawal stress test, and a liquidity risk and foreign investments stress test.

#### *Deposit run-off*

**Results show that the banking sector remains resilient under all scenarios, maintaining adequate liquidity without requiring system-wide support (see [Figure 2.20](#)).** The deposit run-off test assessed banks' resilience to sudden withdrawals over a five-day horizon under three scenarios: baseline (2.5% daily run-off), moderate (5.0%), and severe (10.0%). While the sector remains resilient, the results reveal differences in liquidity buffers across institutions that warrant continued monitoring.

#### *Large deposit withdrawal*

**Even under the severe scenario, the banking sector remains compliant with liquidity requirements.** This test evaluated the impact of the withdrawal of the largest depositors, simulating the withdrawal of the largest deposit (baseline), three largest deposits (moderate), and five largest deposits (severe). In the severe scenario, the liquid assets to total assets ratio



declined to 32.4%, still well above the supervisory threshold of 20.0% and the early warning indicator of 30.0% (see [Appendix table 2.7](#)). These results confirm that liquidity buffers are sufficient to absorb concentrated funding shocks.

#### *Liquidity risk and foreign investments*

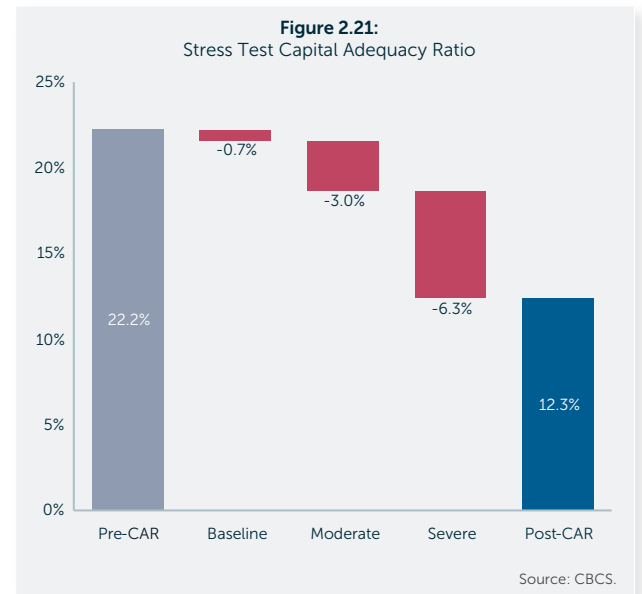
**The market value shock stress test indicates that the banking sector remains broadly resilient, with liquid assets to required liquidity staying above the 100.0% threshold under all scenarios.** The simulation evaluates whether banks can withstand declines in the value of marketable securities and treasury bonds (see [Appendix table 2.8](#)). Three scenarios are considered: a baseline scenario involving a 10% decline in market values; a moderate scenario with a 20% market value shock; and a severe scenario with a 30% decline in market values. Overall, the results indicate that reductions in asset values have only a limited impact on banks' liquidity positions.

#### **Capital stress test**

**Capital stress tests assess banks' resilience to adverse credit conditions.** Two scenarios were assessed: a capital adjustment test and a large exposure default test.

#### *Capital adjustment*

**The results indicate that the banking sector remains adequately capitalized across all scenarios (see [Figure 2.21](#) and [Appendix table 2.9](#)).** The capital adjustment stress test evaluates whether banks can maintain adequate capital in the face of adverse credit and economic shocks. After adjusting for provisioning shortfalls, by assessing the current level of provisioning against reported nonperforming loans, the sector's CAR declined to 21.6% under the baseline scenario, 18.6% under the moderate scenario, and 12.3% under the severe scenario. While



the sector remains above the supervisory threshold of 10.5% in all scenarios, the severe scenario results in the CAR falling below the early warning indicator of 15.0%, indicating reduced capital buffers under adverse conditions (see [Figure 2.21](#)).

### *Large exposure*

**The results show that the banking sector remains adequately capitalized even under the most severe scenario.** The large exposure test assesses the impact of the default of major borrowers. Scenarios include default of the largest loan (baseline), the three largest loans (moderate), and the five largest loans (severe). Assuming full provisioning under the severe scenario, the sector's CAR declined to 14.2%, remaining above the supervisory threshold of 10.5% but below the early warning indicator of 15.0% (see [Appendix table 2.10](#)). This suggests that concentration risk, while present and requiring monitoring, remains manageable at the system level.

### **Conclusion**

**Overall, stress test results confirm that the banking sector is resilient to severe liquidity and credit shocks.** Liquidity buffers are sufficient to absorb significant deposit withdrawals without requiring system-wide support, while capital buffers remain above the supervisory threshold across scenarios. However, vulnerabilities persist at the institution level and require continued monitoring. Under severe credit stress, capital ratios fall below the early warning indicator, reflecting reduced buffers to absorb unexpected losses. Combined with the observed deterioration in asset quality and weakening provisioning coverage, this underscores the importance of closely monitoring credit risk and provisioning adequacy going forward.

## Box 1: Macroeconomic Stress Testing Model

Macroeconomic stress testing is a key forward-looking tool within the macroprudential framework, used to assess the resilience of the banking sector under adverse but plausible macroeconomic conditions. By simulating downturns, it helps regulators make informed decisions, prepare for systemic crises, and enable early intervention.

In this context, the Centrale Bank van Curaçao en Sint Maarten (CBCS), in collaboration with Caribbean Regional Technical Assistance Centre (CARTAC), has implemented a multi-factor, multi-period (three-year horizon) stress testing framework to strengthen its financial stability analysis.

### Methodology

The macroeconomic stress testing (macro-ST) framework projects key balance sheet and income statement indicators of banks under scenario-specific macroeconomic assumptions. It provides a forward-looking assessment of systemic risk over the period 2026-2028.

The model is based on historical macroeconomic and nonperforming loans (NPLs) data for 2017-2025 and incorporates a sectoral credit risk model to forecast NPLs and the capital adequacy ratio (CAR). These projections are assessed against the prevailing regulatory framework to evaluate banking sector resilience.

Three scenarios are considered:

- **Baseline scenario:** The CBCS macroeconomic outlook for 2026-2028.
- **Moderate shock scenario:** Assumes a temporary but significant disruption in tourism, including a halt in arrivals to Curaçao and Sint Maarten in the first quarter of 2026, with immediate spillovers to economic activity and labor market conditions.
- **Severe shock scenario:** Incorporates more persistent and pronounced shocks to key macroeconomic factors,<sup>51</sup> calibrated within the CBCS macroeconomic model.

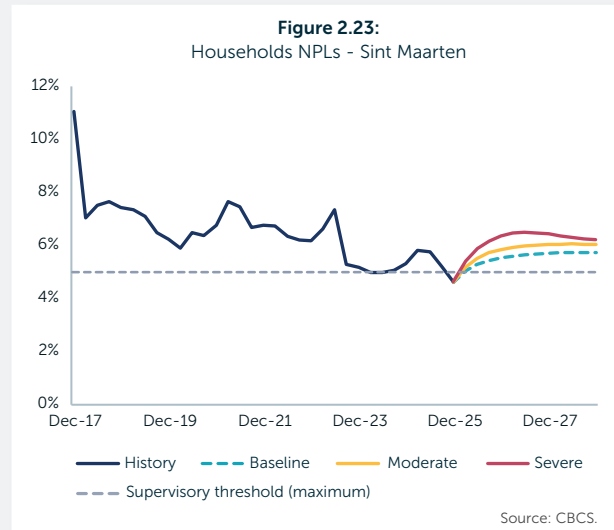
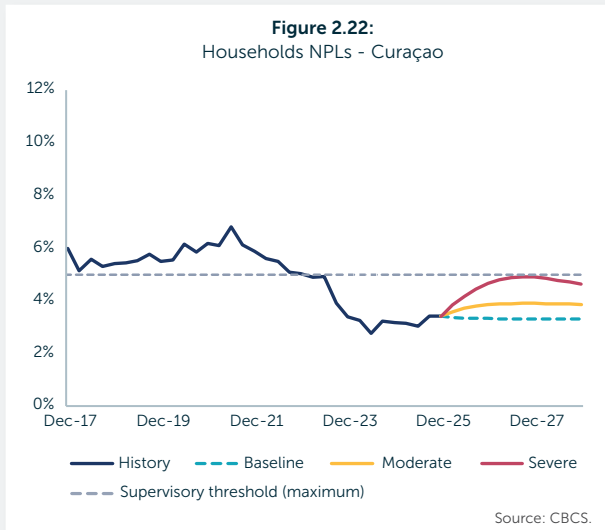
## Results

### Household nonperforming loans

Under the baseline scenario, household NPLs in Curaçao decline slightly to 3.3% and remain broadly stable through 2028, while in Sint Maarten they increase to 5.8%. Under the moderate scenario, household NPLs rise only modestly in both jurisdictions (around 3.9% for Curaçao and 6.0% for Sint Maarten), indicating limited sensitivity to moderate shocks. Under the severe scenario, household NPLs increase more significantly, peaking at 4.9% in Curaçao and 6.4% in Sint Maarten in 2027, before easing slightly

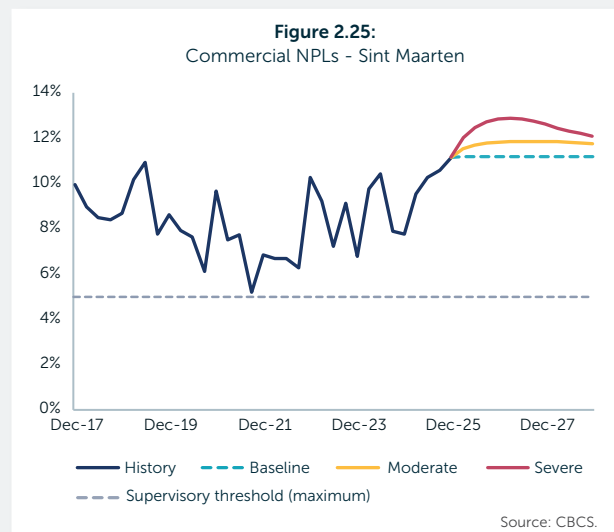
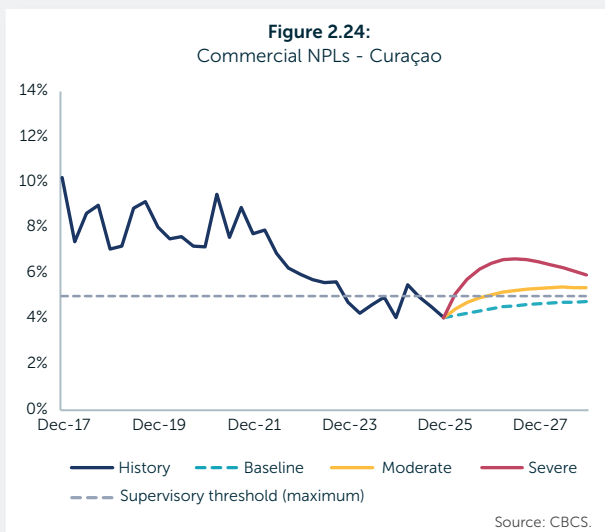
<sup>51</sup> Macroeconomic factors include GDP, inflation, unemployment, and exports.

thereafter. Notably, in Curaçao, household NPLs remain below the supervisory threshold (maximum) of 5.0% even under severe stress (see [Figures 2.22 and 2.23](#)).



### Commercial nonperforming loans

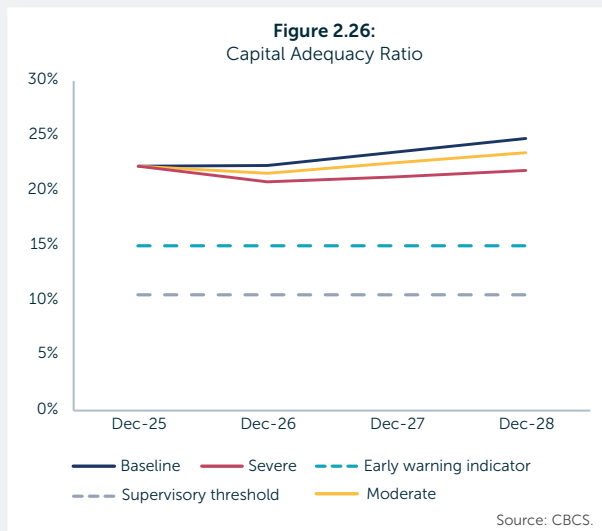
In the commercial segment, vulnerabilities are more pronounced. Under the baseline, commercial NPLs increase gradually in Curaçao to 4.8% by 2028 and remain broadly stable in Sint Maarten. Under shock scenarios, commercial borrowers—particularly in Curaçao—show higher sensitivity. In Sint Maarten, the moderate scenario has limited impact, but under the severe scenario, commercial NPLs rise sharply, peaking at 12.8% in 2026 before declining to 12.1% by 2028. In both jurisdictions, severe stress leads to breaches of the supervisory threshold (maximum) of 5.0% (see [Figures 2.24 and 2.25](#)).



### Capital adequacy

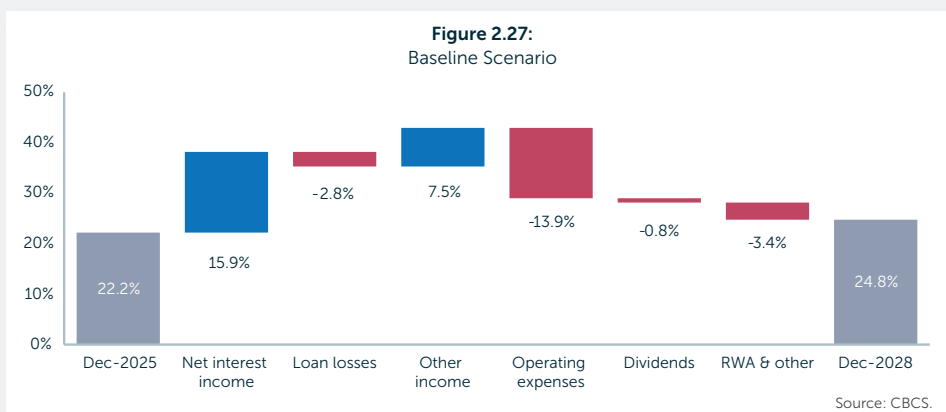
The banking sector remains resilient across all scenarios, supported by strong initial capitalization. In the baseline and moderate scenarios, the CAR increases over time, driven by sustained profitability, particularly net interest income, under the assumption of no dividend distributions.

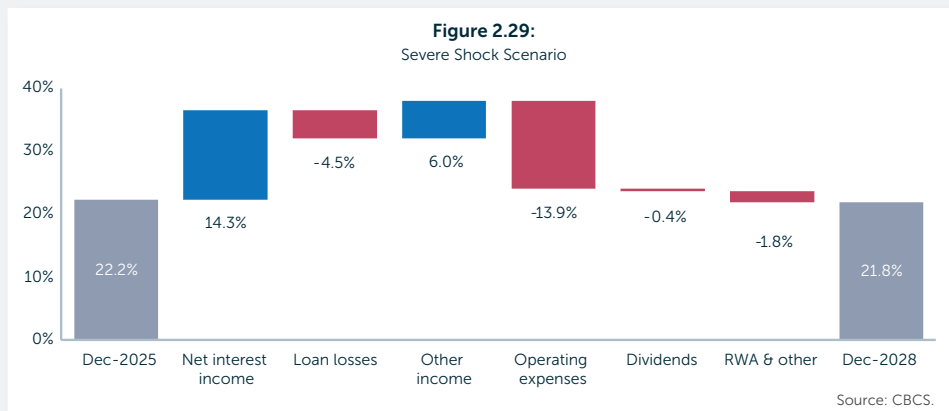
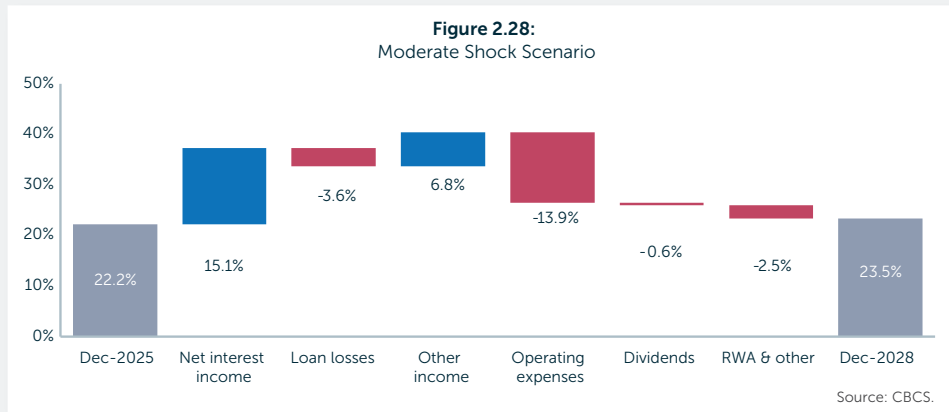
Under both shock scenarios, the CAR declines initially due to higher credit losses and reduced income but gradually recovers as the impact of the shock moderates. Even under the severe scenario, capital levels remain above the supervisory threshold of 10.5% and the early warning indicator of 15.0%, indicating that banks maintain sufficient buffers to absorb significant shocks (see [Figures 2.26-2.29](#)).



The model uses the following factors affecting the CAR:

- **Net interest income (+):** Supports capital through retained earnings.
- **Other income and expenses (+/-):** May strengthen or weaken capital depending on net effects.
- **Credit losses (-):** Reduce capital through provisioning and write-offs.
- **Dividends and taxes (-):** Lower retained earnings and capital.
- **Risk-weighted assets (+/-):** Affect the CAR denominator through changes in risk profile and asset composition.



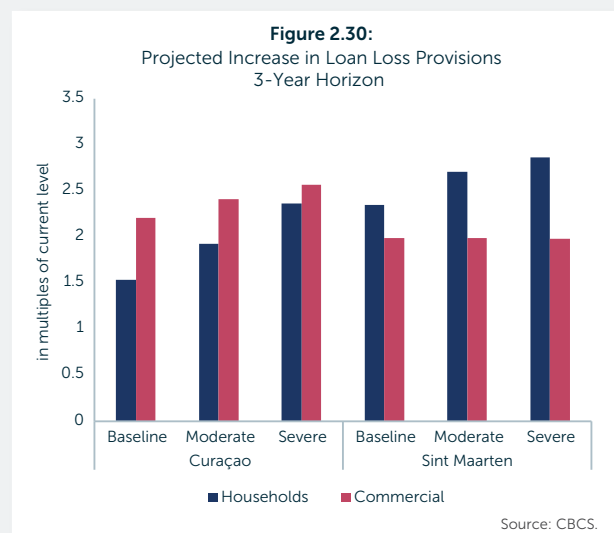


### Loans loss provisions of capital

The increase in loan loss provisions is limited under the baseline scenario but becomes more pronounced under stress, particularly in the severe scenario (see [Figure 2.30](#)).

Over the three-year horizon:

- **Household loan provisions** increase by approximately 2.4 times in Curaçao (136.5%) and 2.9 times in Sint Maarten (186.5%).
- **Commercial loan provisions** rise by 2.6 times in Curaçao (156.7%) and 2.0 times in Sint Maarten (97.8%).

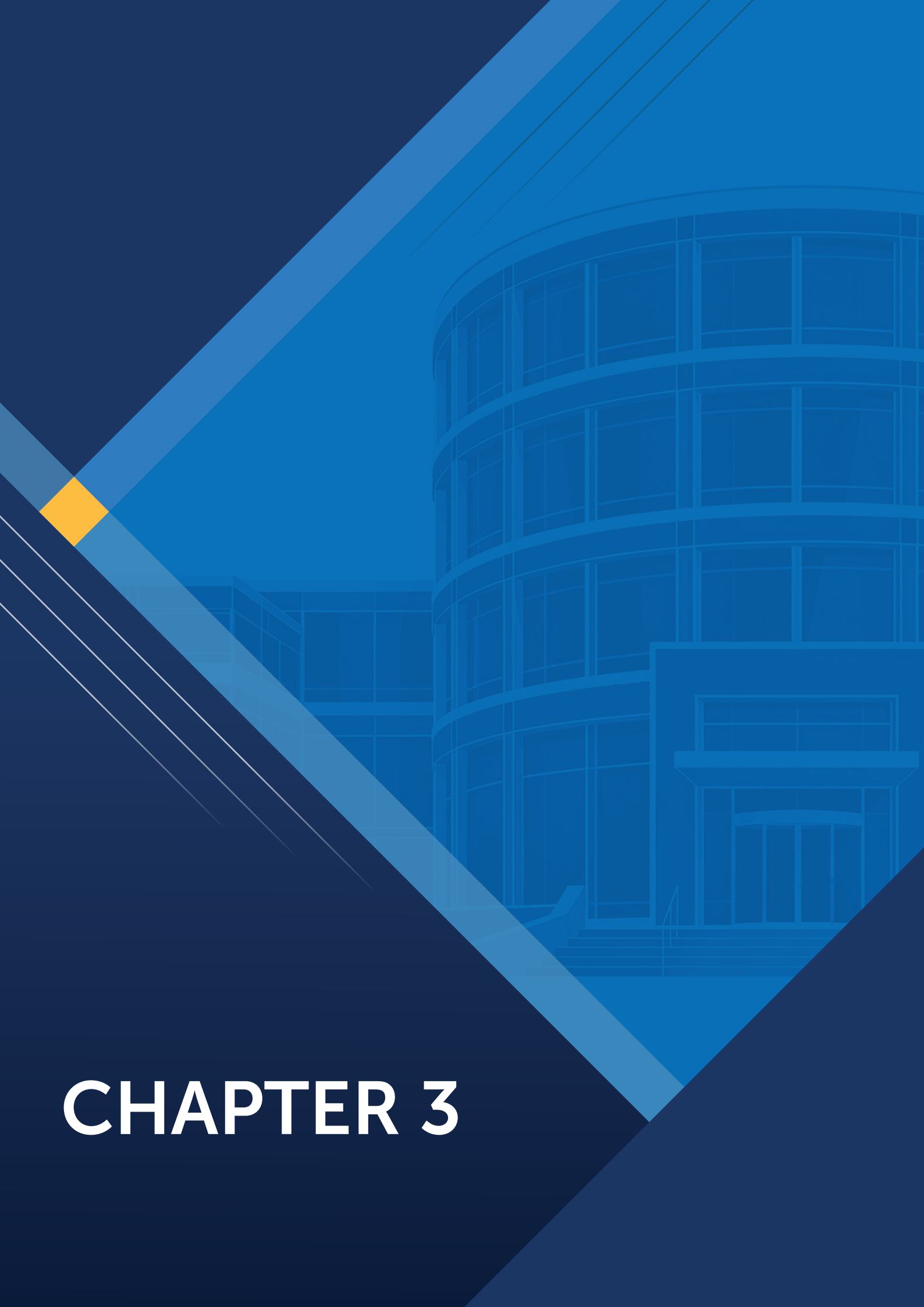


Overall, this results in an average annual credit loss rate<sup>52</sup> of approximately 2.1% under the severe scenario.

<sup>52</sup> Credit loss rate is defined as new provisioning booked in the Profit & Loss (P&L) including the impact of shocks over the initial stock of net loans (2025).

## Conclusion

The CBCS-CARTAC stress testing framework provides a robust forward-looking assessment of banking sector resilience. While both household and commercial portfolios exhibit vulnerabilities under severe stress—particularly in the commercial segment—the overall impact remains manageable. The banking sector is expected to maintain capital buffers above the supervisory threshold, even under adverse scenarios, underscoring its capacity to absorb significant macroeconomic shocks.



# CHAPTER 3

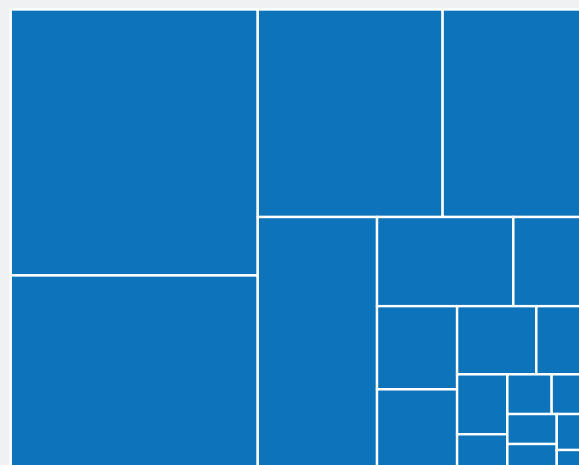
# 3 Non-Life Insurers

## ■ Overview

**The non-life insurance sector provides risk protection to households and businesses against events such as property damage, accidents, and liability claims.** The sector comprises 19 non-life insurers and accounts for 2.9% of total local financial sector assets, corresponding to a balance sheet size of Cg 827 million (see [Figure 3.1](#)). It is moderately concentrated, with the three largest insurers accounting for 56.8% of total sector assets. Balance sheets include significant technical provisions related to claims, reflecting the shorter-term and more uncertain nature of non-life insurance obligations. Investment portfolios are primarily composed of bonds and other fixed-income instruments, complemented by liquid assets such as cash and deposits, in line with the sector's need to meet potentially volatile and short-term claims. The aggregate balance sheet and income statement of the non-life insurance sector are presented in [Appendix tables 3.1 and 3.2](#).

**Activity in the non-life insurance sector increased in 2024, reflecting continued growth in insurance demand, and this momentum is expected to continue in 2025.** Gross written premiums (GWP) increased by 4.6% to Cg 433.1 million in 2024, whereas net claims paid<sup>53</sup> decreased by 14.7% to Cg 97.8 million (see [Figure 3.2](#)). This reflects a moderate expansion of underwriting activity combined with a more favorable claims experience. Preliminary

**Figure 3.1:**  
Overview of Non-life Insurers



Source: CBCS.

**Figure 3.2:**  
Gross Written Premiums vs Net Claims Paid



Source: CBCS.

<sup>53</sup> Net claims paid and net claims incurred are used interchangeably.

data for 2025 suggest that these developments will continue, indicating further strengthening of underwriting performance in the sector.

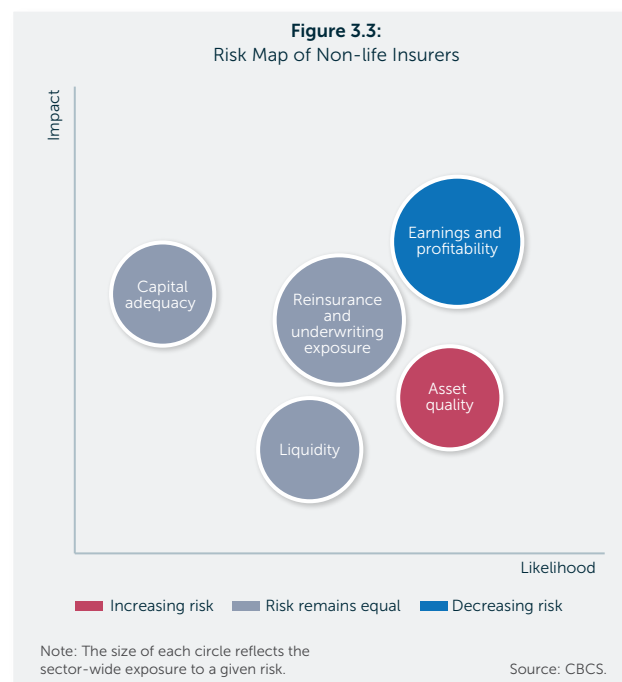
**Despite the increase in underwriting activity, insurance penetration, defined as non-life insurance premiums as a percentage of GDP, continued its declining trend.** Insurance penetration reached 4.7% in 2024, suggesting that non-life insurance activity has grown at a slower pace than overall economic activity in recent years. This development is expected to persist based on preliminary 2025 data, pointing to further moderation in the sector's relative size within the economy.

## ■ Financial soundness

**Following the improvement in sector performance in 2024, developments point to continued favorable conditions in the non-life insurance sector in 2025 while forward-looking analysis suggests rising asset quality risk.** Based on realized data up to 2024 and preliminary data for 2025, taking into consideration the local and global context (see [Chapter 1](#)), the risks related to the financial soundness indicators (FSIs) of non-life insurers are assessed over the period of 2026-2027 (see [Figure 3.3](#) and [Appendix table 3.3](#)). FSIs suggest favorable conditions in 2024 and into 2025. While most risk categories are projected to remain stable or decrease, asset quality risk will increase due to higher receivables and weaker premium collection efficiency.

### Capital adequacy

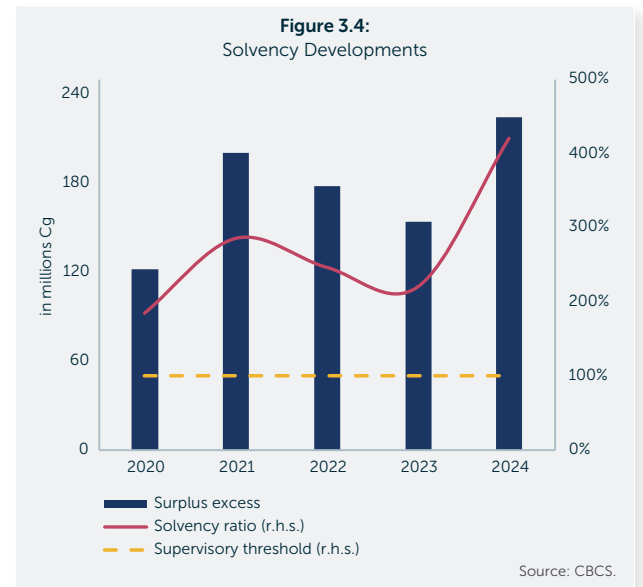
**Capital adequacy remained strong in 2024 and is expected to remain elevated in 2025.** The solvency ratio increased significantly to 420.9% in 2024, up from 220.9% in 2023, reflecting both an increase



in surplus excess<sup>54</sup> and a decline in the applicable solvency requirement (see [Figure 3.4](#)). The increase in surplus excess was supported by higher equity, driven in part by improved earnings and valuation gains on investments. As a result, solvency levels remain well above the supervisory threshold. The regulatory capital requirement is linked to the size of insurers' business and is based on the previous year's GWP, subject to a minimum threshold. As GWP declined in 2023, the solvency requirement for 2024 decreased, contributing to the higher solvency ratio. With GWP increasing again in 2024, the solvency requirement for 2025 is expected to rise. Nevertheless, as surplus excess is also expected to grow, preliminary data for 2025 indicate that the solvency ratio will stabilize.

**Other FSIs support the broadly adequate capital position of non-life insurers.** The capital ratio declined slightly from 13.9% to 13.2% in 2024, reflecting balance sheet expansion, as total assets increased while capital remained broadly unchanged. This ratio indicates a moderate level of capitalization, consistent with the short-term nature of the non-life insurance business model and its lower duration risk. Preliminary data for 2025 suggest that capital will grow faster than total assets, leading to a higher capital ratio.

**Overall, capital adequacy risk is expected to remain stable.** Strong solvency buffers will continue to support the capital position of non-life insurers in the near term. Although higher premium growth is likely to increase capital requirements, capital levels are projected to remain sufficient to absorb potential shocks. Stress test results support this assessment, showing that solvency ratios remain resilient except under the severe scenario (see [Stress Testing section](#)).



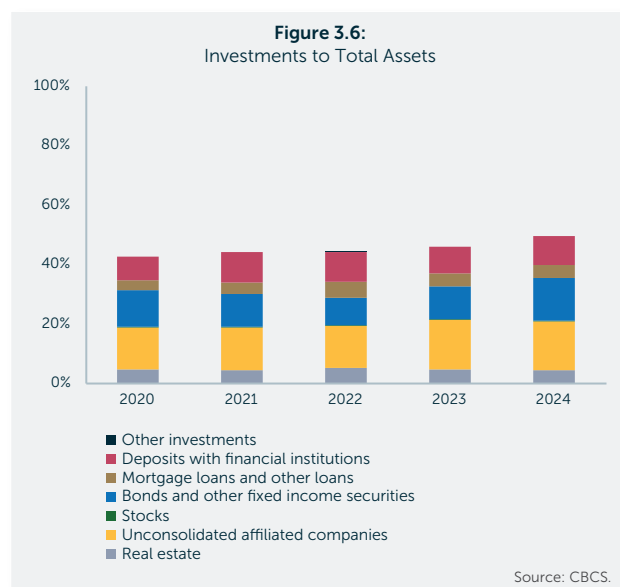
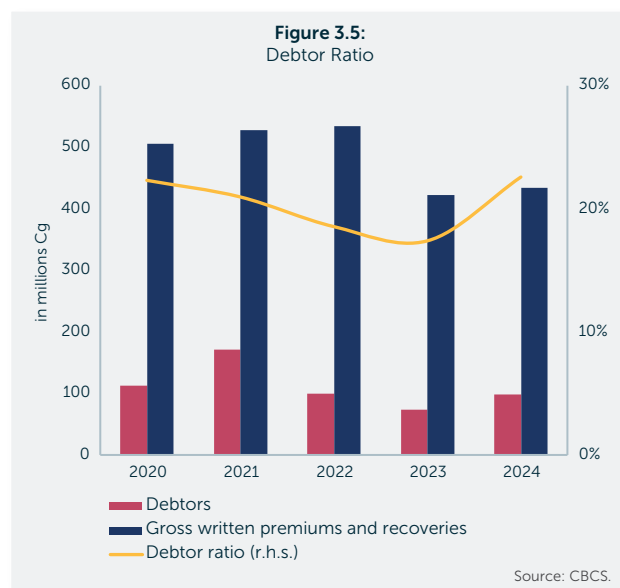
<sup>54</sup> Surplus excess refers to the amount by which an insurer's available capital exceeds its required solvency capital. It represents the buffer above the regulatory minimum that can be used to absorb unexpected losses, thereby strengthening the insurer's financial resilience.

### Asset quality

**Asset quality weakened somewhat in 2024 and is expected to remain under pressure in 2025, mainly due to higher receivables.** The debtor ratio increased to 22.6% in 2024, driven primarily by a rise in outstanding premiums rather than changes in GWP or reinsurance recoveries (see Figure 3.5). This indicates that a larger share of premiums remains unpaid, pointing to weaker collection efficiency and higher exposure to counterparty risk. Preliminary data for 2025 suggest that the debtor ratio will remain elevated, indicating that these risks may persist.

**At the same time, investment-related risks remain contained.** Exposure to equity markets is negligible, with the share of stocks at 0.2% of total assets in 2024, while investments remain concentrated in relatively stable instruments. The share of bonds and other fixed-income securities increased to 14.4%, and the share of deposits with financial institutions rose to 9.8%, supporting liquidity and income stability (see Figure 3.6). Geographically, investment portfolios remain diversified, with both investments within and outside the monetary union increasing (see Figure 3.7). Preliminary data for 2025 indicate a further increase in investments within the monetary union, particularly in real estate, which may increase concentration and potential valuation risks and therefore warrants close monitoring.

**Asset quality risk is expected to continue increasing, driven by elevated receivable risks despite stable investment exposures.** The rise in outstanding premiums reflects weaker collection efficiency and increases exposure to policyholder and intermediary counterparties, making a larger share of assets vulnerable to delayed payments and potential default. In contrast, investment-related risks remain contained, supported by concentration in relatively



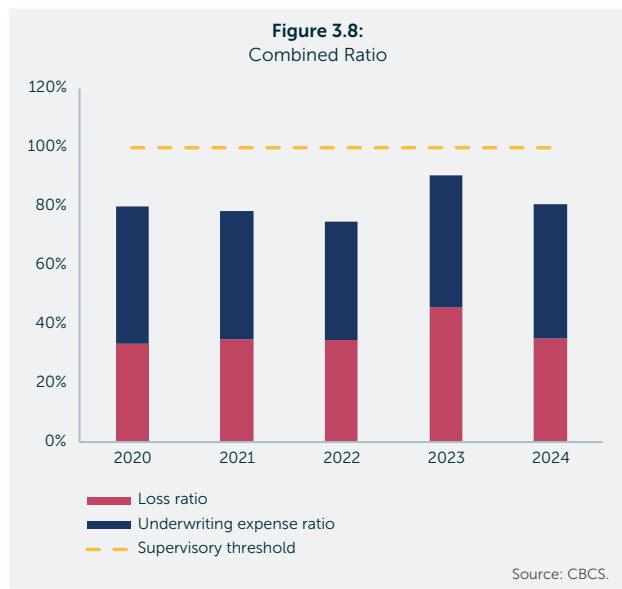
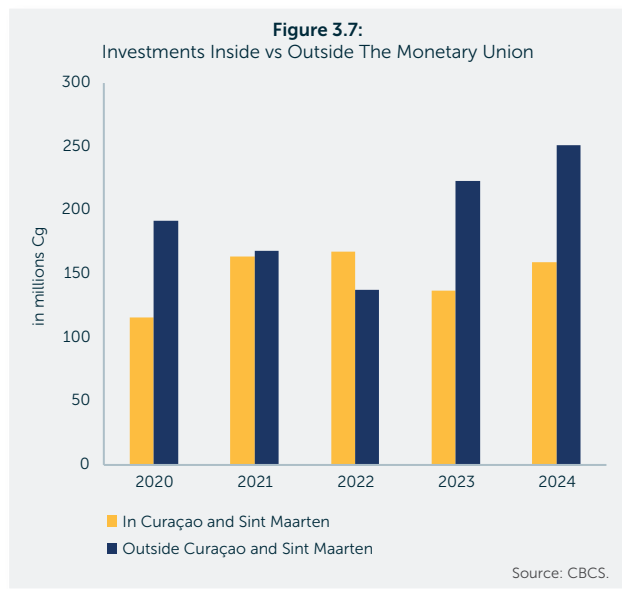
stable and diversified instruments. However, a continued shift toward real estate exposures may increase concentration and valuation risks and warrants close monitoring. Overall, receivables are expected to remain the main driver of asset quality risk over the near term.

**Earnings and profitability**

**Earnings and profitability improved in 2024 and are expected to remain strong in 2025, supported by stronger underwriting results.** Underwriting performance benefited from a 4.5% increase in net earned premiums and a 12.4% decline in net claims incurred. As a result, the combined ratio<sup>55</sup> declined to 80.8% in 2024, driven by both a lower loss ratio (29.3%) and a lower underwriting expense ratio (49.9%) (see [Figure 3.8](#)). In 2025, the combined ratio dropped further based on preliminary data.

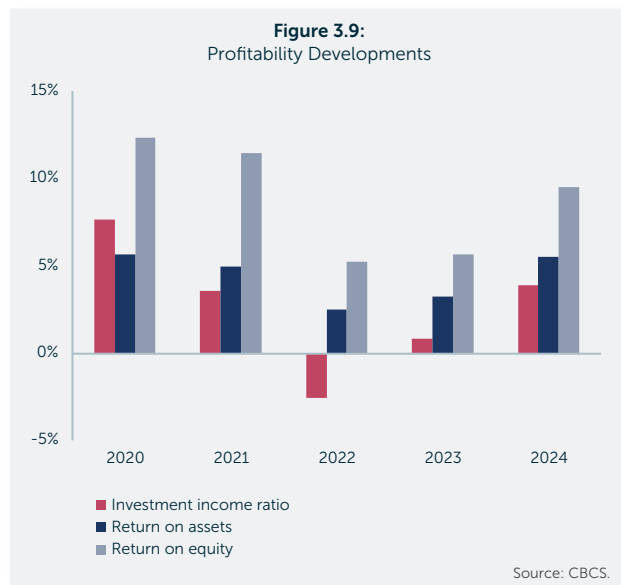
**In both Curaçao and Sint Maarten, accident & sickness and motor insurance remained the main contributors to premiums and claims in 2024, and this composition is expected to remain broadly unchanged in 2025.** Property insurance also supported underwriting results, with strong premium growth and a marked decline in claims, while highlighting exposure to higher volatility due to catastrophe-related risks (see [Figure 3.10](#)). Preliminary data for 2025 indicate that underwriting conditions remain positive, with premium growth continuing to outpace claims and underwriting expenses declining, supporting further improvement in underwriting margins.

**Profitability indicators strengthened in 2024 and are expected to continue a similar trajectory in 2025.** In 2024, return on assets (ROA) increased to 5.5% and return on equity (ROE) increased to 9.5%. In addition,

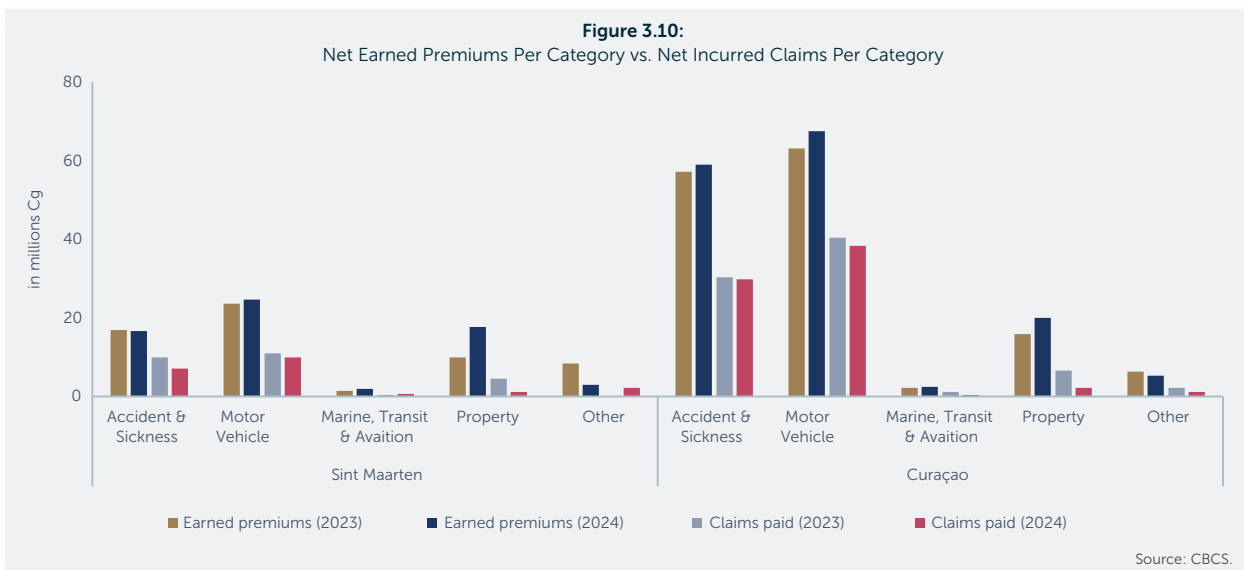


<sup>55</sup> A ratio below 100% indicates strong underwriting profitability.

the investment income ratio increased significantly from 0.9% in 2023 to 3.9% in 2024, with investment income rising sharply to Cg 10.1 million, reflecting a substantial year-on-year increase (see [Figure 3.9](#)). This improvement may reflect higher yields on bond investments in a rising interest rate environment, with portfolio adjustments or the realization of gains also potentially contributing. Consequently, investment income increased at a faster pace than net earned premiums, reflecting its stronger contribution to overall profitability. These indicators are expected to remain solid in 2025, supported by continued strength in underwriting performance and sustained investment income.



**Earnings and profitability risk is projected to continue decreasing, supported by sustained underwriting performance and stable investment income.** While exposure to adverse claims developments remains, current earnings levels provide a buffer against potential shocks. Stress test results support this assessment, indicating that profitability turns negative only under severe conditions (see [Stress testing section](#)).

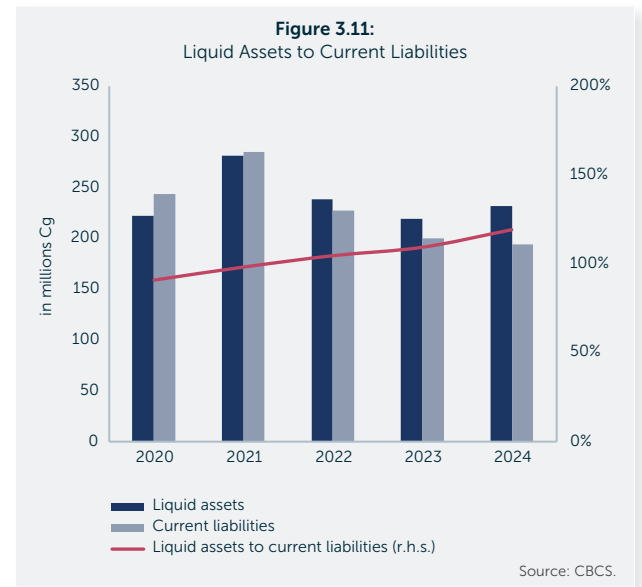


## Liquidity

**Liquidity conditions improved in 2024 and are expected to strengthen further in 2025.** The ratio of liquid assets to current liabilities increased to 119.4% in 2024, from 109.6% in 2023, indicating an enhanced capacity to meet short-term obligations (see [Figure 3.11](#)). This improvement reflects a combination of higher liquid asset holdings compared to a more moderate growth in current liabilities, consistent with favorable underwriting conditions. The ratio remains above 100% and is expected to rise further in 2025, suggesting that liquid assets continue to provide a comfortable buffer to meet short-term obligations.

**Liquidity conditions are further supported by stable operating cash flows and positive underwriting performance.** The operating cash flow ratio remained stable at 12.8% in 2024, indicating that operating activities continue to provide a reliable source of funding. In the non-life insurance sector, where claims are typically shorter-tailed but more volatile than in life insurance, such cash flows are a key component of liquidity resilience. The moderate level of internal cash generation suggests that these flows cover only part of short-term obligations, with liquidity buffers playing an important complementary role—a pattern expected to persist in 2025. Moreover, improving premium inflows and a decline in claims reduce immediate funding pressures and support internal liquidity generation, as observed in 2024 and expected to continue in 2025. However, liquidity positions remain sensitive to claims volatility, particularly in segments such as motor and accident & sickness insurance, where claims frequency can fluctuate.

**Looking ahead, liquidity risk is expected to remain stable, supported by strong liquidity buffers and stable cash flow dynamics.** Stress test results indicate

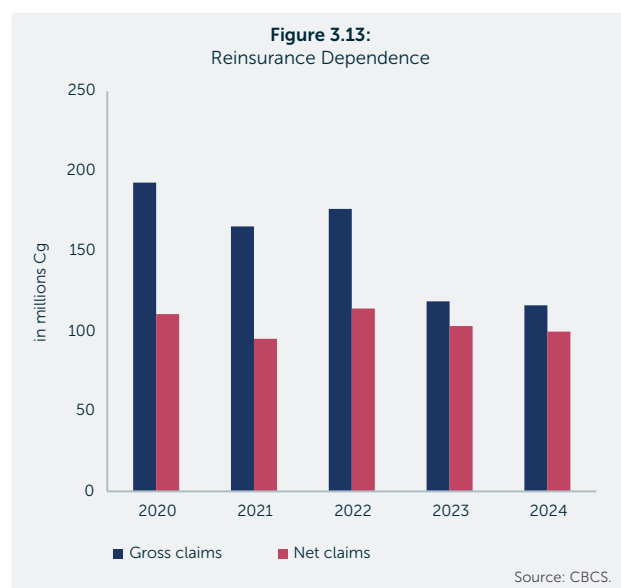
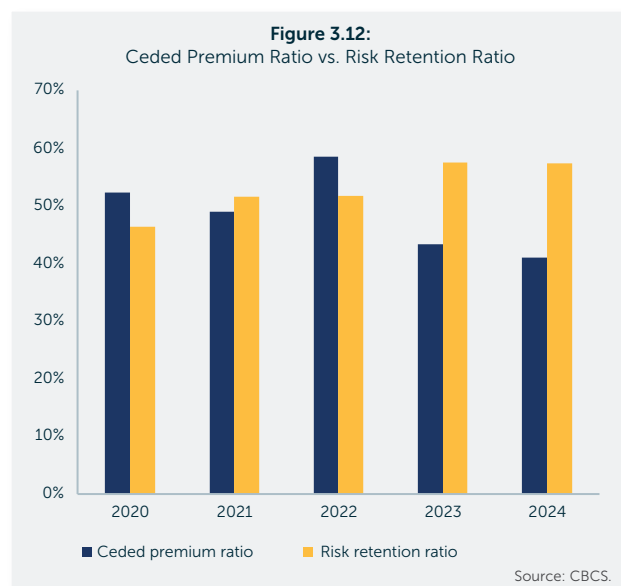


sensitivity to adverse claims developments, with supervisory thresholds breached under all scenarios (see [Stress testing section](#)). However, strong initial liquidity positions and favorable operating conditions suggest that insurers can absorb moderate shocks. Liquidity pressures are therefore expected to remain contained over the near term, although positions could come under strain under sustained or severe claims shocks.

### Reinsurance and underwriting exposure

**Reinsurance coverage and underwriting exposure remained broadly stable in 2024 and are expected to continue on that path in 2025.** The ceded premium ratio declined to 41.1% in 2024, primarily due to a 4.6% increase in GWP, while ceded premiums decreased slightly by 0.9%. This indicates that risk transfer to reinsurance companies abroad did not increase in line with premium expansion. Consistent with this, the risk retention ratio remained broadly stable at 57.4%, suggesting that overall reinsurance arrangements were maintained (see [Figure 3.12](#)). The premium leverage ratio also remained stable at 40.4%, indicating that underwriting exposure continued to evolve broadly in line with capital. All of these indicators are expected to remain broadly stable in 2025.

**Reinsurance continues to play an important role in mitigating claims volatility, particularly in catastrophe-prone segments.** Gross claims decreased by 1.9% in 2024, while net claims declined more strongly by 3.5%, suggesting that reinsurance recoveries helped absorb part of the claims burden (see [Figure 3.13](#)). The role of reinsurers is expected to remain intact in 2025, while insurers remain exposed to underwriting risk, particularly in property-related lines. Given the region's vulnerability to climate risks such as hurricanes, especially in Sint Maarten,



reinsurance remains essential to limit potential losses from large catastrophe events.

**Reinsurance and underwriting exposure risk is projected to remain stable over the near term.**

Current reinsurance arrangements continue to play a key role in containing claims volatility and supporting risk absorption. While exposure to large catastrophe events persists, particularly in property-related lines, these risks remain manageable within the existing reinsurance framework. Nevertheless, given the region's structural vulnerability to severe tail events, continued monitoring remains warranted.

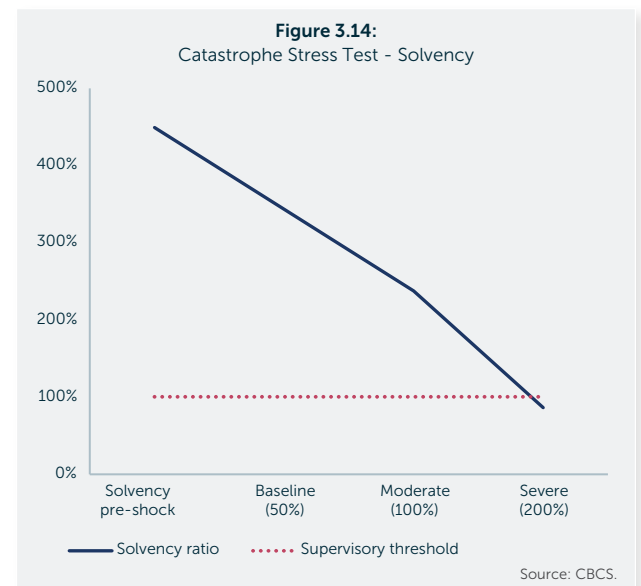
### Stress testing

**The objective of stress testing for non-life insurers is to evaluate whether they can withstand shocks and continue to meet their obligations.** The stress test assesses the resilience of the non-life insurance sector under adverse scenarios, such as a catastrophe (e.g., a hurricane) that increases both the number and value of claims. The analysis considers the impact on solvency, i.e., whether sufficient capital is available to absorb losses. In addition, the liquidity position is assessed, focusing on the ability to meet short-term obligations. The impact on net results is also analyzed, by examining how an increase in claims reduces underwriting results and overall profitability. The scenarios described in this section are designed to capture a range of adverse developments, including natural disasters and systemic underwriting losses (see [Appendix table 3.4](#)).

### Solvency stress test

**This test assesses the impact of an increase in net claims provisions on the solvency position.** Net claims provisions are increased by the following percentages across the three scenarios: baseline (50%), moderate (100%), and severe (200%).

**In each scenario, the increase in provisions leads to higher liabilities and a corresponding reduction in available equity, resulting in a deterioration of the solvency ratio.** Under the severe scenario, the solvency ratio falls to 86.4%, below the minimum regulatory requirement of 100% (see [Figure 3.14](#) and [Appendix table 3.5](#)). This suggests that, on aggregate, the sector remains resilient to moderate shocks but becomes vulnerable under extreme but plausible stress conditions.



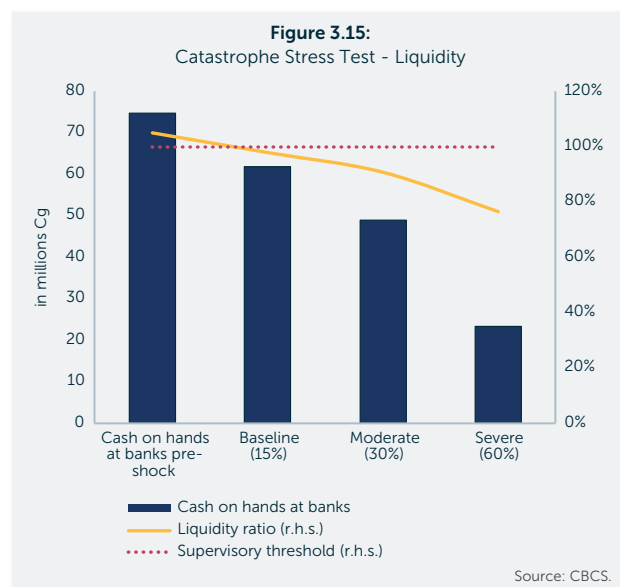
### Liquidity stress test

**This test evaluates how higher claims affect the cash position.** Net claims incurred are increased across the scenarios using the following percentage shocks, which are applied to claim-related cash outflows. The baseline (15%), moderate (30%), and severe (60%) scenarios reflect progressively higher claim levels, representing situations such as inflation-driven increases, higher claim frequency, or adverse events leading to elevated payouts.

**The liquidity stress test shows that the liquidity ratio falls below the supervisory threshold (100%) under all scenarios (see Figure 3.15 and Appendix table 3.6), highlighting the sector's sensitivity to adverse claims developments.** Higher claims increase cash outflows, reducing liquidity buffers and weakening the ability to meet short-term obligations. The impact is measured using the liquidity, defined as liquid assets that can be converted into cash within three months (such as cash, stocks, bonds, and other fixed-income securities) divided by current liabilities, where "current" refers to obligations due within 12 months.

### Profitability stress test

**This test assesses how an increase in claims affects the net results.** The same predefined shocks to net claims incurred as discussed in the [Liquidity stress test section](#) are applied across the scenarios. The shocks directly impact net results, both before and after taxes, as higher claims reduce underwriting results and overall profitability. This effect flows through to net operating results and ultimately lowers net profit.

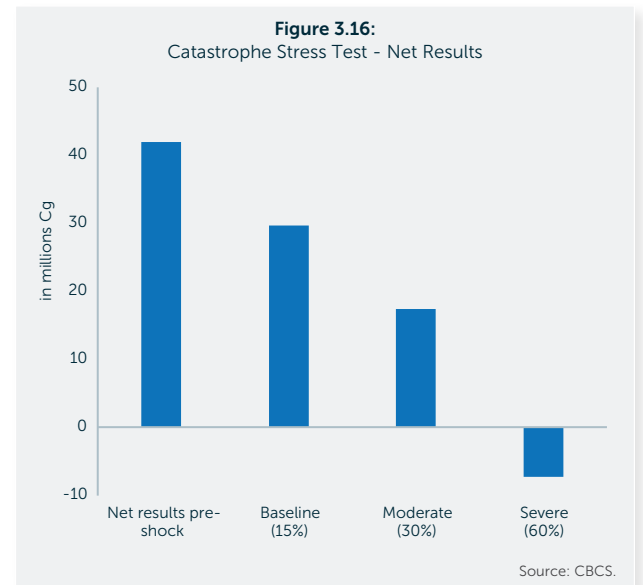


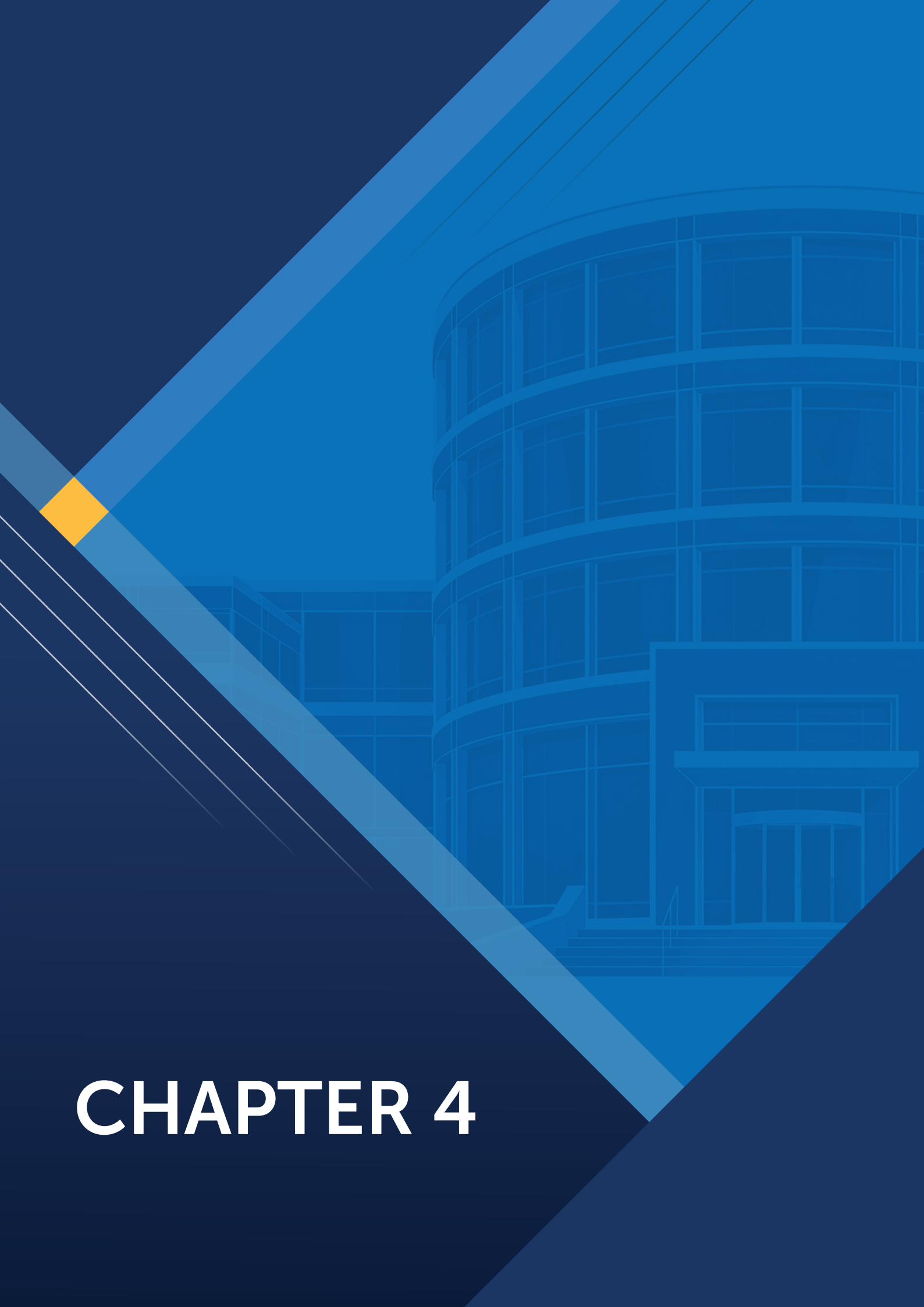
**The profitability stress test indicates that net results turn negative only in the severe scenario.**

Under this scenario, the net loss of the sector equals Cg 7.2 million (see [Figure 3.16](#) and [Appendix table 3.7](#)). Profitability is sensitive to adverse developments in claims. On aggregate, the profit decreases but is still positive for the sector in the baseline and moderate scenarios.

**Conclusion and next steps**

**Overall, stress test results indicate that the non-life insurance sector remains resilient under moderate shocks, although vulnerabilities emerge under severe stress.** The current stress testing framework provides a solid foundation for assessing resilience and will be further enhanced over the coming years in line with the implementation of Solvency II Light. In this context, the methodology for calculating the solvency capital requirement will be refined. Currently, the required capital is set at 15% of GWP.





# CHAPTER 4

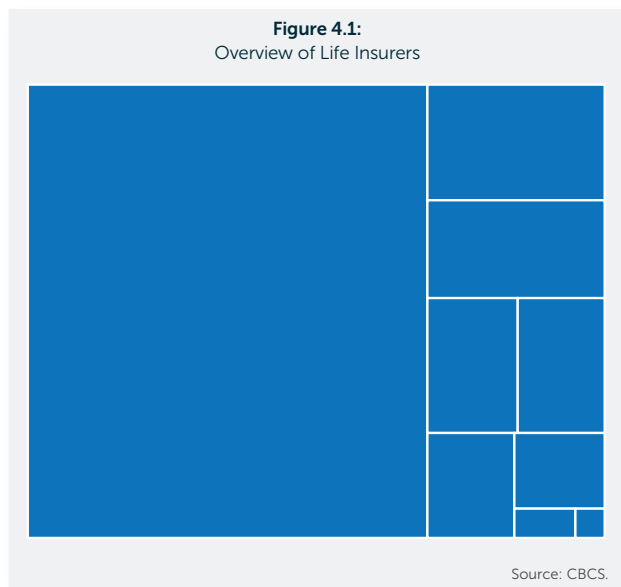
# 4 Life Insurers

## ■ Overview

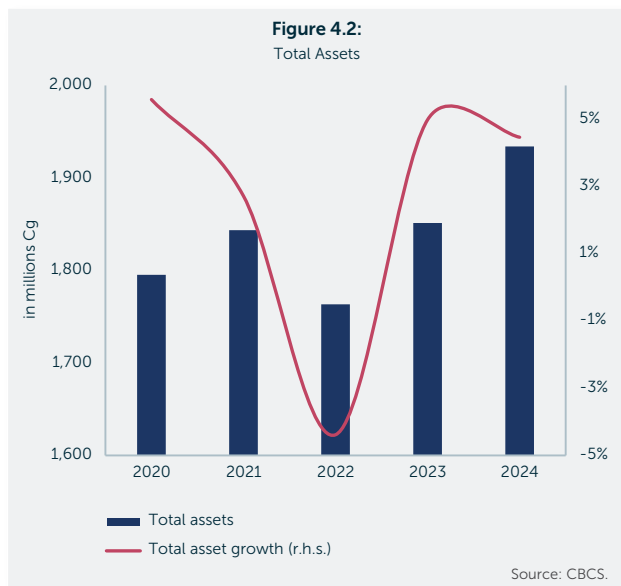
**The life insurance sector represents a limited share of the financial system, providing long-term savings and protection products to households.** The sector comprises nine life insurers<sup>56</sup> and represents 6.7% of total financial sector<sup>57</sup> assets, corresponding to a balance sheet size of Cg 1.9 billion (see [Figures 4.1 and 4.2](#)). The sector is highly concentrated, with a single insurer accounting for the majority of total assets and premiums. Balance sheets are predominantly liability-driven and dominated by technical provisions, reflecting long-term policyholder obligations. Provisions for insurance obligations accounted for 79.1% of total assets in 2024, highlighting the importance of prudent asset-liability management. Investment portfolios are largely composed of long-term assets such as bonds and other fixed-income instruments and mortgages, reflecting the sector’s long-dated liability structure. The aggregate balance sheet and income statement of life insurers are presented in [Appendix tables 4.1 and 4.2](#).

**Sector performance improved in 2024 and continued along this trajectory in 2025.** Gross written premiums increased by 3.6% to Cg 180.1 million in 2024, while benefit payouts<sup>58</sup> declined by 12.1% to Cg 105.4 million, partly driven by structural changes within the sector and more favorable underwriting dynamics during

**Figure 4.1:**  
Overview of Life Insurers



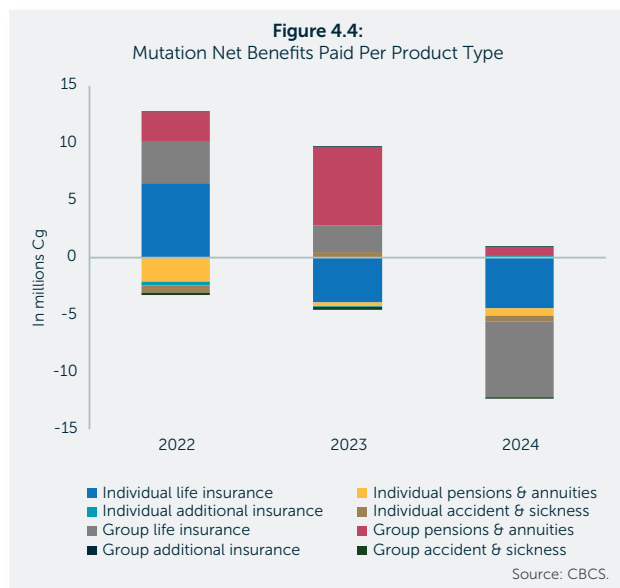
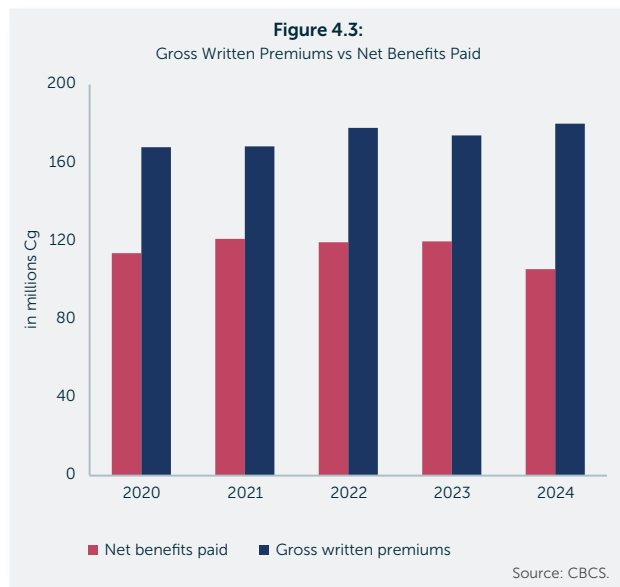
**Figure 4.2:**  
Total Assets



<sup>56</sup> This report excludes VELIA N.V. (former ENNIA Caribe Leven N.V.).  
<sup>57</sup> The local financial sector consisting of insurers (life and non-life), pension funds, and banks.  
<sup>58</sup> Benefit payouts, net benefits incurred, and net benefits paid are used interchangeably.

the year (see [Figure 4.3](#)). Despite these favorable developments, the insurance penetration rate, defined as total life insurance premiums as a percentage of GDP, stood at 1.9% in 2024, declining by an average of 0.2 percentage points per year over the period 2020-2024. This suggests that life insurance activity has not kept pace with economic growth, limiting the sector’s relative expansion within the economy. This development may also be influenced by the voluntary nature of life insurance products. Households, especially under financial pressure, may postpone or reduce participation given the associated premium costs. Preliminary data for 2025 suggest that this downward trend will persist while sector performance will be driven by lower benefit outflows and technical provisions combined with higher investment income.

**Developments in benefit payouts varied significantly across product segments, reflecting differences in claim experience, policy maturities, and product design, with these patterns expected to broadly persist in 2025.** There is no clear pattern in developments across product segments over the years, as these alternate between positive and negative changes (see [Figure 4.4](#)). In 2024, the decline in benefit payouts was mainly related to life insurance (death and other benefits) for both individuals and groups. This suggests more favorable claim experience during the year, potentially reflecting lower mortality and/or timing effects. Overall, the evolution of underwriting indicators points to outcomes being strongly influenced by the sector’s product mix and demographic characteristics of policyholders.

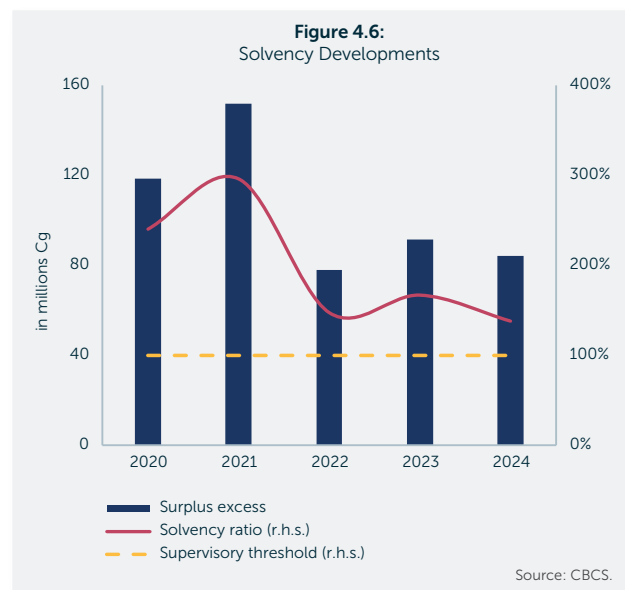
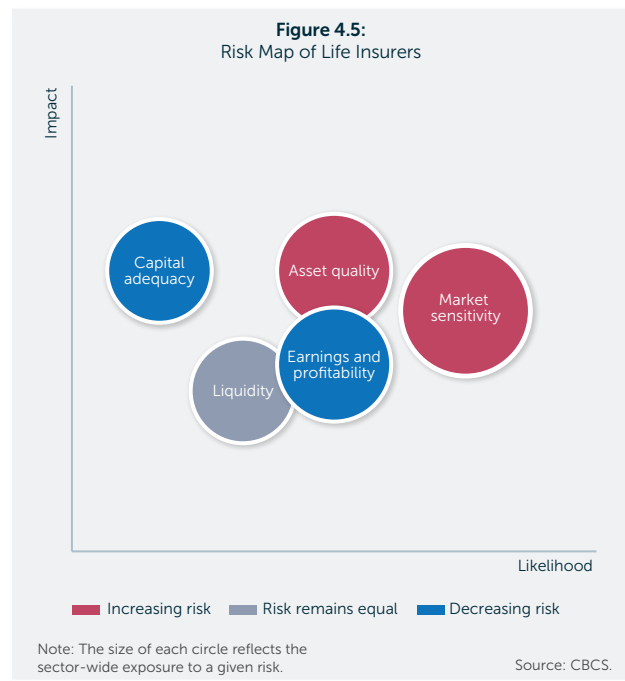


## Financial soundness

The life insurance sector remained resilient in 2024, with preliminary data for 2025 further supporting this assessment, while forward-looking analysis points to increasing market sensitivity and asset quality risks. Based on realized data up to 2024 and preliminary data for 2025, in light of the local and global context (see Chapter 1), the risks related to the financial soundness indicators (FSIs) of life insurers are assessed over the 2026–2027 horizon (see Figure 4.5 and Appendix table 4.3). FSIs demonstrate generally solid conditions in 2024 and similar expectations for 2025. The projected increase in asset quality risk reflects the continued build-up of mortgage and other loan exposures, while the rise in market sensitivity risk indicates adverse movements in financial markets. Other risk categories are expected to decrease or remain stable.

### Capital adequacy

Capital adequacy declined in 2024 but remained above minimum regulatory requirements, while preliminary data for 2025 indicate a modest strengthening of capital positions. The solvency ratio, which measures available capital relative to required capital, fell to 137.9% in 2024, but continued to indicate substantial buffers above the supervisory threshold of 100% (see Figure 4.6). However, the distribution of solvency ratios across insurers remains wide, reflecting differences in capitalization levels and business models. The decline in solvency ratio in 2024 was driven by both higher capital requirements and a slight reduction in available capital. Higher capital requirements were mainly related to changes in investment portfolios, particularly the increased share of loan exposures. At the same time, available capital was affected by weaker results in earlier years and ongoing balance-sheet adjustments, including



the recognition of non-admissible assets and asset shifts. Preliminary data suggest a gradual increase in surplus excess, which is expected to support a rise in solvency ratios in 2025.

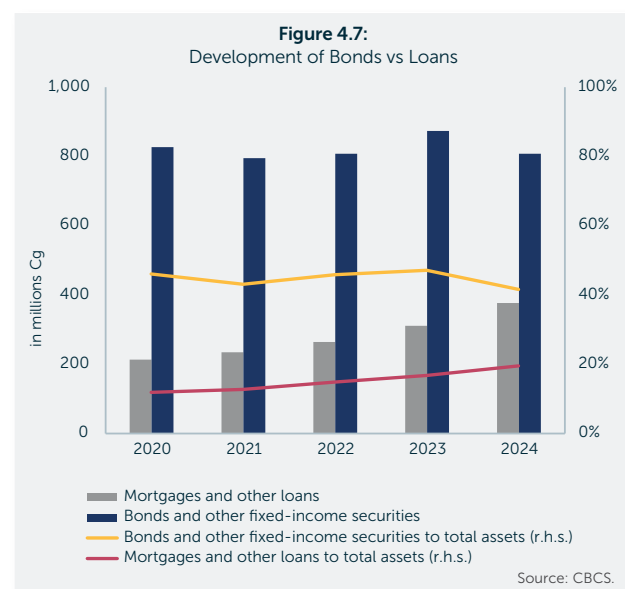
**Additional FSIs point to relatively low capital buffers relative to technical reserves and a high retention of underwriting risk.** The capital to technical reserves ratio remained stable at 4.2% in 2024 and is expected to remain broadly unchanged in 2025. This reflects the structural characteristics of the life insurance business model, where long-term obligations are primarily funded through technical provisions rather than capital. In addition, the risk retention ratio remained high at 89.6% in 2024 and is projected to remain around a similar level in 2025, indicating that life insurers retain most of their underwriting risk on their own balance sheets. While this increases direct exposure to underwriting risk, it also reflects confidence in underwriting practices and reduces reliance on reinsurance, potentially supporting cost efficiency.

**Capital adequacy risk is expected to decline over the near term, supported by the sector's solid capital position.** Despite relatively high exposure to underwriting risk, this is expected to be mitigated by strong capital buffers and stable profitability, allowing the sector to absorb potential shocks even amid increasing geopolitical and global financial market uncertainties.

### Asset quality

**Life insurers continued to increase their exposure to mortgages and other loans in 2024, reflecting an ongoing shift in portfolio composition that is expected to persist in 2025.** While bonds remain the largest asset class, accounting for 41.7% of total assets, the share of mortgages and other loans has

risen significantly to 19.5% (Cg 376.8 million) in 2024, up from 11.9% (Cg 213.9 million) in 2020 (see [Figure 4.7](#)). This shift appears to reflect a combination of factors, including increased investment opportunities driven by economic growth and tourism-related activity, as well as regulatory considerations such as the CBCS's investment rule. At the same time, it represents a move toward long-term, income-generating assets that better align with life insurers' long-dated liabilities and provide relatively stable cash flows. Given that the duration of liabilities typically exceeds that of bonds, this shift may also reflect efforts to reduce a structural duration mismatch (negative duration gap). Preliminary data for 2025 suggest that while this trend continues, higher global interest rates are supporting a renewed increase in bond investments, as improved yields enhance the attractiveness of fixed-income instruments.<sup>59</sup>



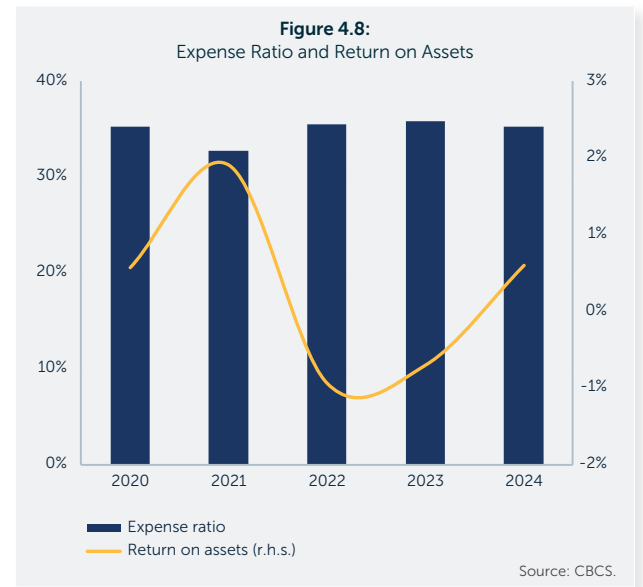
<sup>59</sup> EIOPA (2025).

**Asset quality risk is projected to continue increasing, reflecting the sector's exposure to valuation pressures on its sizable bond holdings, alongside the continued shift toward less liquid asset classes.**

While this shift supports asset-liability matching, it also increases exposure to credit, concentration, and valuation risks, particularly given the relatively illiquid nature of these assets. Heightened global uncertainties may weigh on the local economic outlook in the near term, putting pressure on asset performance more broadly and amplifying existing vulnerabilities.

### Earnings and profitability

**Profitability in the life insurance sector improved in 2024 and is expected to strengthen further in 2025, reflecting a continued recovery from weaker performance in previous years.** The return on assets (ROA) increased to 0.6% in 2024, from -0.7% in 2023<sup>60</sup> (see [Figure 4.8](#)). This improvement was supported by stronger underwriting results, more stable investment performance, alongside improved asset-liability management, as life insurers continued aligning investment portfolios with long-term policyholder obligations. The ROA is expected to increase further based on preliminary 2025 data. Despite this improvement, profitability remains lower compared to other sectors, reflecting the structural characteristics of life insurers, including long-term liabilities and predominantly bond-based investment portfolios, which typically generate more stable but lower returns, particularly in a moderate-yield environment.



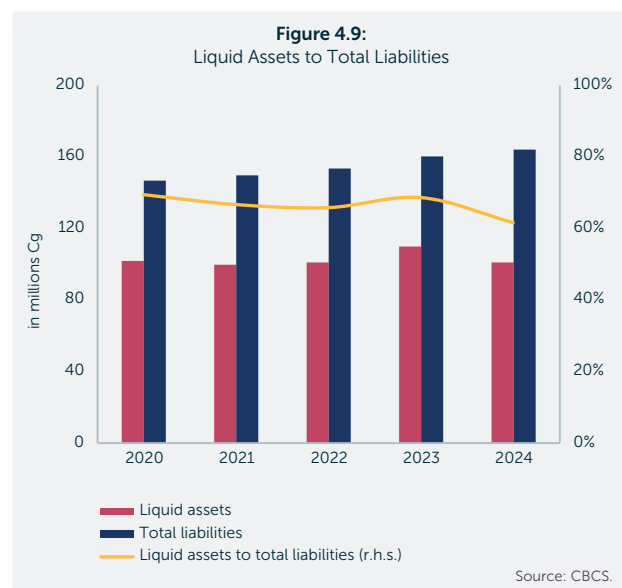
<sup>60</sup> The ratios presented may deviate from those reported in the previous report, as the calculation methodology has been refined and the composition of the life insurance sector covered in the analysis has changed. These factors affect the reported ratios and should be considered when interpreting year-on-year developments.

**Underwriting dynamics remain a key driver of profitability in the sector.** Supported by lower benefit payouts and higher premiums, net results increased to Cg 31.4 million in 2024, while higher investment income provided additional support. Preliminary data indicate further growth in 2025. At the same time, operating efficiency has been moderate over the past years, with an expense ratio of 35.3% in 2024 and around a similar level expected for 2025.

**Earnings and profitability risk is projected to continue decreasing, owing to a further improvement in overall profitability.** While earnings remain sensitive to global financial market developments, given life insurers' partial reliance on investment income and the long-term nature of their liabilities, this is largely offset by strengthening profitability in recent years and expectations of further improvement in the near term.

### Liquidity

**Liquidity conditions remained adequate in 2024 and are expected to remain broadly stable in 2025, although some moderation in liquidity buffers is observed.** The ratio of liquid assets to total liabilities declined to 61.5% in 2024, from 68.6% in 2023, reflecting a sharper decrease in liquid assets relative to the increase in total liabilities (see [Figure 4.9](#)). This development suggests a gradual shift toward less liquid asset classes, consistent with the sector's long-term investment profile. Despite this decline, the ratio is expected to stabilize in 2025 while liquidity continues to be supported by strong internal cash generation. The operating cash flow ratio rose to 71.6% in 2024, a similar level as in 2020, and is expected to increase further in 2025, suggesting a strong capacity to meet obligations from operating activities.



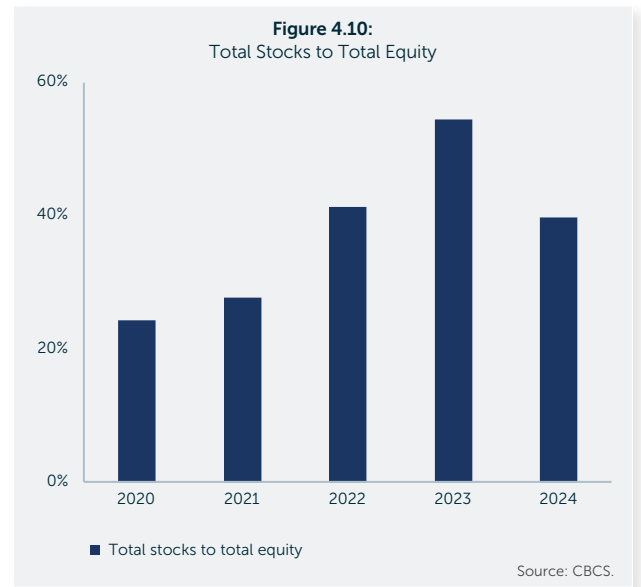
**Stable premium inflows continue to support liquidity positions.** The premium collection ratio increased to 14.1% in 2024, indicating satisfactory collection efficiency and limited credit exposure to policyholders. When excluding reinsurance balances receivable, the ratio declines to 10.8%, suggesting that reinsurance contributes to the receivable position, though it is not the main driver. Overall, these developments suggest that premium inflows remain stable and continue to support life insurers' liquidity positions.

**Liquidity risk is expected to remain broadly stable.**

Although the increasing allocation to less liquid, long-term assets such as mortgages and other loans may reduce liquidity buffers under adverse conditions, the pace of this shift is expected to be gradual and is therefore unlikely to materially affect liquidity conditions over the near term. Liquidity buffers and premium inflows are expected to remain adequate to support the sector's liquidity position.

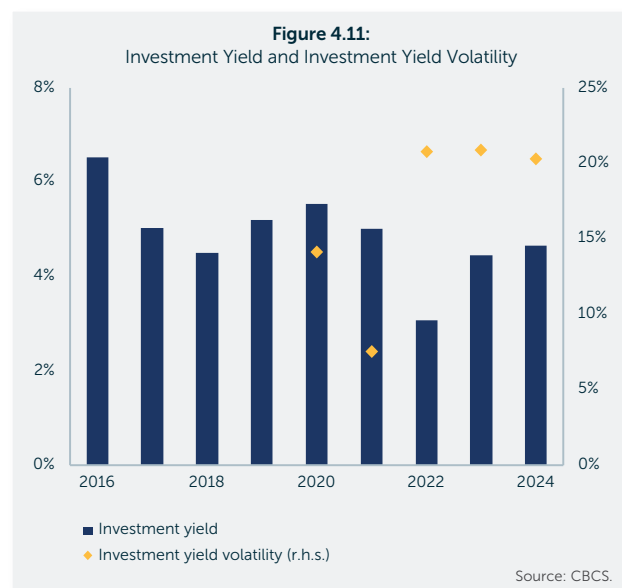
**Market sensitivity**

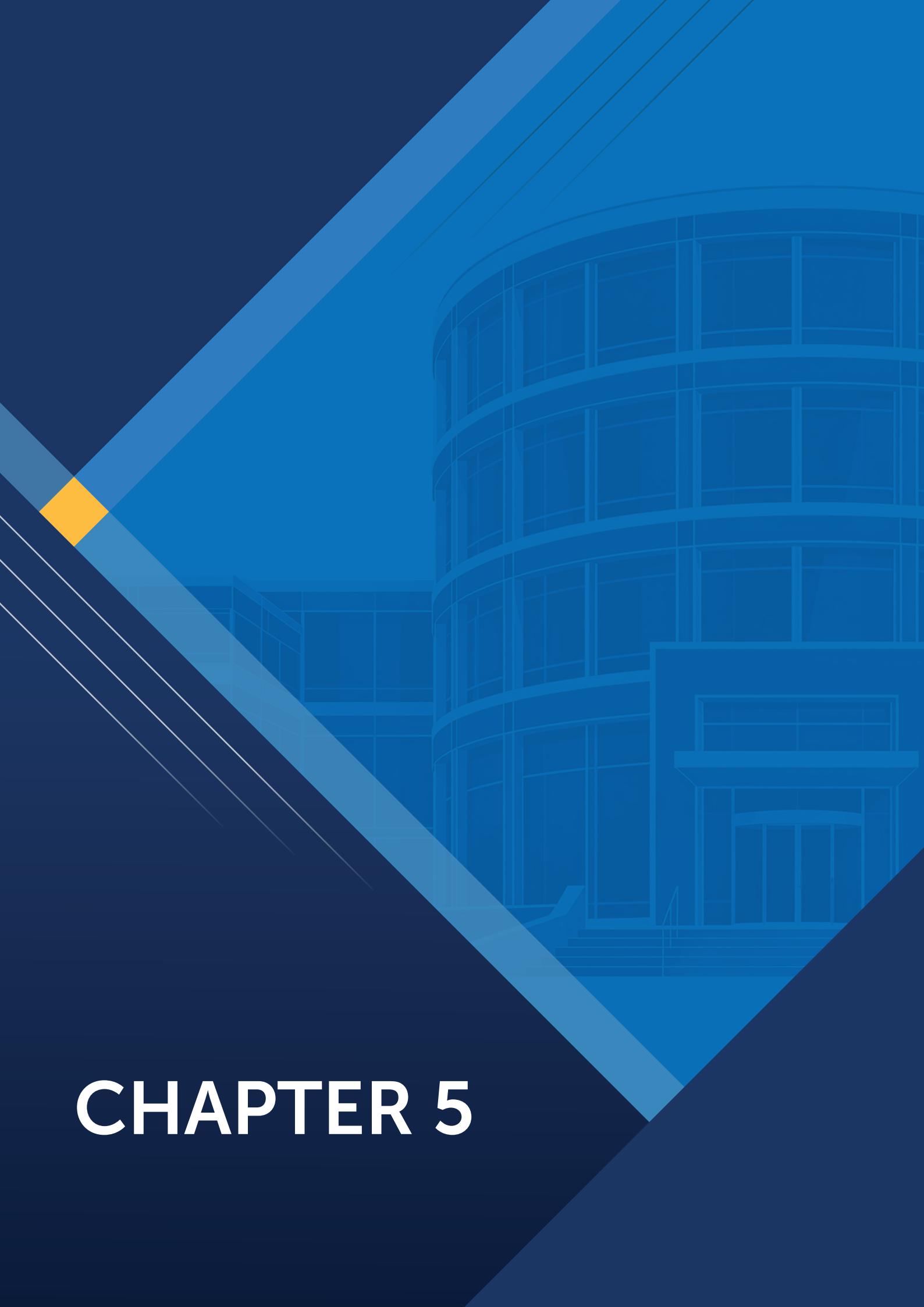
**Market sensitivity declined in 2024, as life insurers reduced their exposure to equity markets, with preliminary data indicating that this trend continued into 2025.** Total stocks to total equity decreased significantly to 39.8% in 2024, reflecting a lower share of stocks in life insurers' portfolios (see [Figure 4.10](#)). Preliminary data for 2025 suggest that investments in equities have declined further, pointing to a further reduction in sensitivity to stock market fluctuations.



**At the same time, life insurers remain exposed to broader global financial market developments, as reflected in stable but volatile investment returns.** The investment yield increased to 4.5% in 2024, whereas investment yield volatility decreased slightly to 20.2% (see [Figure 4.11](#)). Although returns remained stable on average, volatility has remained elevated, with levels of around 20.0% observed over recent years. This illustrates ongoing exposure to interest rate movements and valuation effects due to continued investment in bonds and an increased share of mortgage-related assets. Preliminary data indicate that both investment yield and its volatility will increase in 2025.

**Market sensitivity risk will continue increasing, reflecting the composition of the investment portfolio, which is predominantly allocated to bonds, alongside a continued increase in loan exposures, while equity holdings are gradually declining.** The large share of fixed-income instruments increases vulnerability to fluctuations in interest rates and global financial conditions, particularly in a higher-for-longer interest rate environment. This sensitivity is partly offset by a declining share of equity investments in the coming periods. Nevertheless, elevated yield volatility indicates that investment performance remains increasingly susceptible to market movements.





# CHAPTER 5

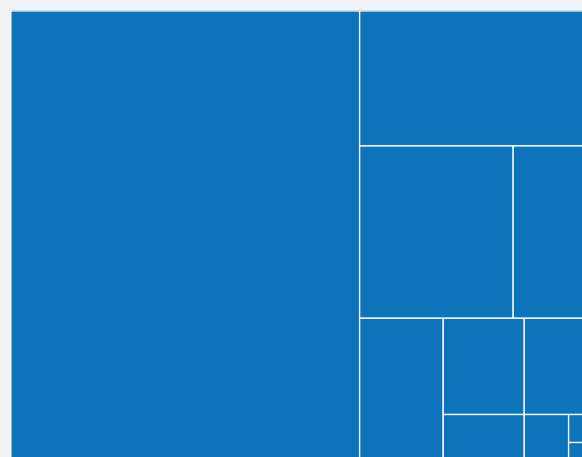
# 5 Pension Funds

## ■ Overview

**The pension fund sector is one of the largest segments of the financial sector in the monetary union.** This sector's assets accounted for 102.1% of the monetary union's GDP in 2024. [Figure 5.1](#) illustrates the composition of the sector, showing each pension fund's relative size based on total assets. Twelve pension funds currently operate in the monetary union, representing roughly 33.0% of the total assets of the financial sector.<sup>61</sup> Among these funds, there is a high degree of concentration, as a single institution accounts for well over half of the total assets. The aggregate balance sheet and income statement of pension funds in the monetary union are presented in [Appendix tables 5.1 and 5.2](#).

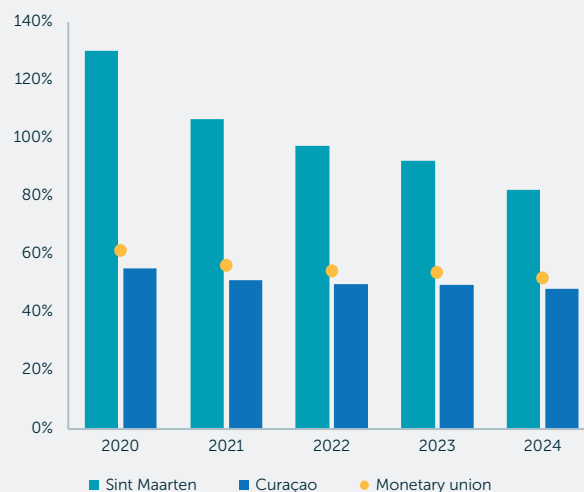
**The sector is increasingly vulnerable to economic and financial shocks due to its demographic composition and the resulting reliance on investment returns.** The maturity degree, defined as the ratio of contributors to non-contributors in pension schemes, follows a declining trend mainly due to population aging (see [Figure 5.2](#)). The maturity degree in the monetary union was 51.9% in 2024 and is expected to continue a downward path in 2025. Participation across active members, inactive members, and pensioners was concentrated in defined benefit (DB) schemes, with only a small fraction enrolled in defined contribution (DC)

**Figure 5.1:**  
Overview of Pension Funds



Source: CBCS.

**Figure 5.2:**  
Maturity Degree



Source: CBCS.

<sup>61</sup> The local financial sector in the analysis consists of insurers (life and non-life), pension funds, and local banks.

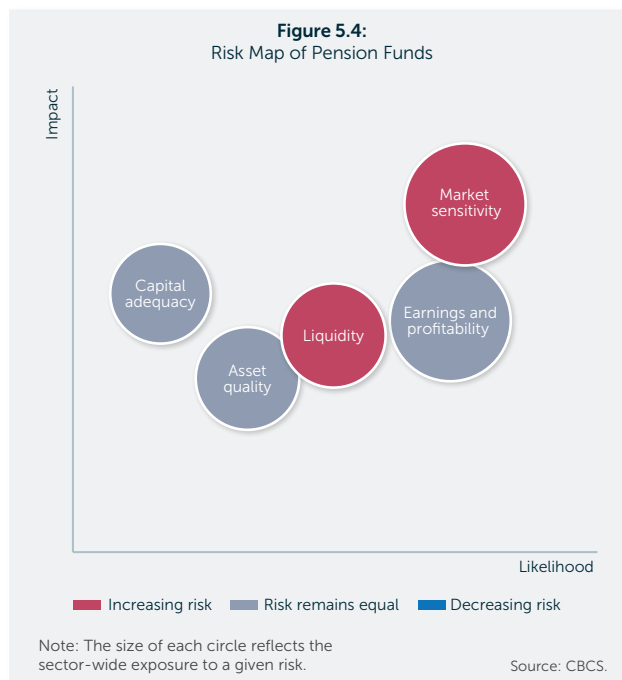
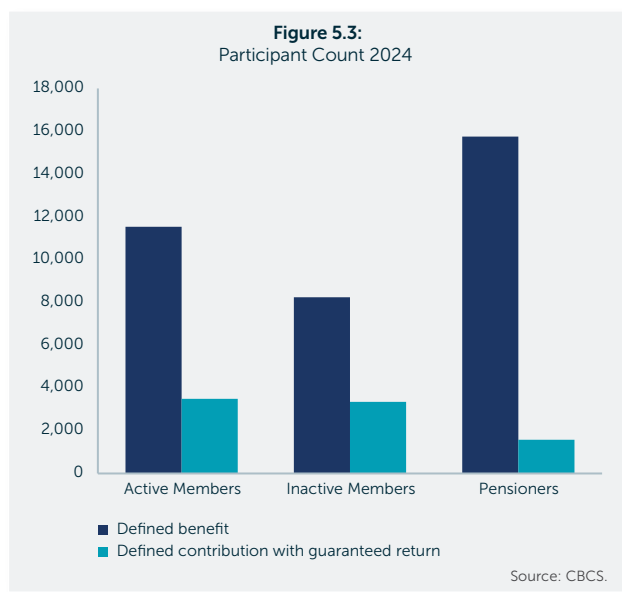
schemes (see [Figure 5.3](#)). The DC schemes typically offer a guaranteed return.<sup>62</sup>

**Despite external uncertainties, the sector’s asset base continued to expand, supported by lending activity and improved financial market performance.**

The pension fund sector’s assets increased from Cg 9.2 billion in 2023 to Cg 9.5 billion in 2024. This 2.9% increase was driven mainly by significant growth in the commercial loan portfolio.<sup>63</sup> This upward trend in new commercial lending continued through 2025. Improved financial market performance in that same year also resulted in higher equity and bond valuations, with total pension fund assets expected to increase accordingly in 2025.

**Financial soundness**

**Following the strong recovery in 2023, developments in 2024 and expectations for 2025 point to a period of stabilization for the sector, whereas forward-looking analysis suggests increasing risks related to market sensitivity and liquidity.** Based on realized data up to 2024 and preliminary data for 2025, taking into account the local and global context (see [Chapter 1](#)), the risks related to the financial soundness indicators (FSIs) of pension funds are assessed over 2026–2027 (see [Figure 5.4](#) and [Appendix table 5.3](#)). FSIs show broadly stable conditions in 2024 and similar expectations for 2025. Among the risk categories, growing market sensitivity risk is in line with global uncertainties, while rising liquidity risk stems from the gradual reduction in liquidity buffers combined with a shift toward less liquid assets.



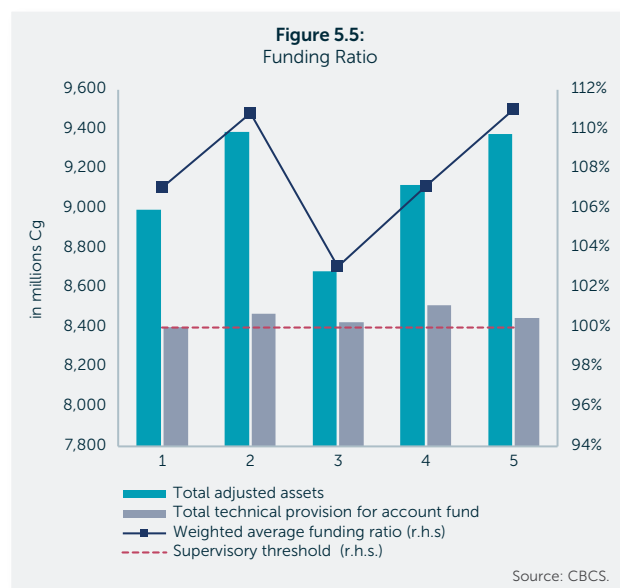
62 Approximately 86.2% of the total pension liabilities belong to DB schemes. A smaller portion of around 13.4% relates to DC schemes with guaranteed return. Only 0.4% regards traditional DC schemes.

63 The loan portfolio consists mostly of commercial mortgages and other secured and unsecured loans.

## Capital adequacy

**The pension fund sector’s capital position remains robust and continues to strengthen, providing a solid buffer against potential adverse shocks.** In 2024, total assets increased compared to 2023, while liabilities declined slightly. As a result, the funding ratio improved further, reaching 111.0% in 2024, well above the supervisory threshold of 100% (see [Figure 5.5](#)). This upward trend continued in 2025, according to preliminary data, supported by strong financial market performance, with the S&P 500 and FTSE 100 recording returns of approximately 18.0% and 22.0%, respectively, albeit accompanied by increased volatility.

**Capital adequacy risk is projected to remain broadly stable, reflecting the strong starting capital position, which is partly offset by rising valuation pressures and market volatility.** The sector currently maintains a solid buffer to absorb potential shocks in the near term. However, growing uncertainties—particularly the risk of declines in both equity and bond prices combined with heightened market volatility—could place pressure on funding ratios and gradually erode existing solvency buffers. Stress testing results confirm that the funding ratio remains resilient to moderate shocks, but is sensitive to more pronounced equity price corrections and interest rate movements, which can lead to a gradual reduction in solvency buffers (see [Stress Testing section](#)).

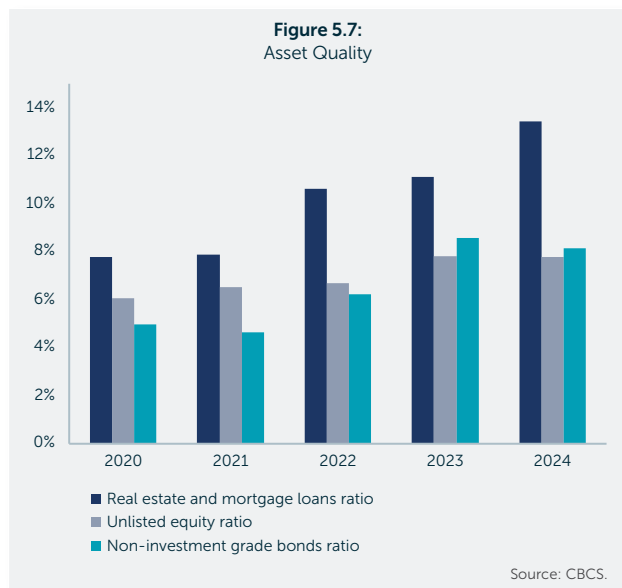
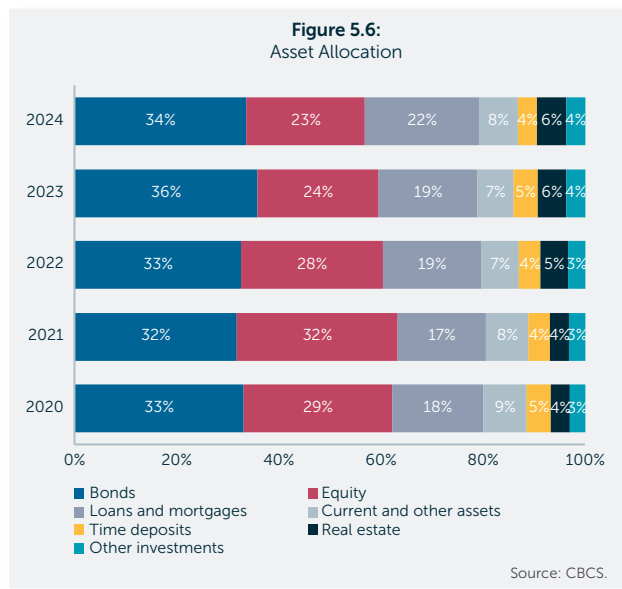


### Asset quality

**Asset quality remains broadly stable, supported by a diversified investment mix and contained high-risk exposures.** In 2024, allocations to bonds and equities declined to 33.7% and 23.3% of total assets, respectively, although they remained the largest asset classes in pension fund portfolios. Riskier exposures within these portfolios were limited, with unlisted equity and non-investment-grade shares at 7.8% and 8.2%, respectively. Meanwhile, mortgages and other loans increased to 22.2% of total assets. In 2025, the share of bonds is expected to remain around 30.0% of total assets, while mortgages and other loans are projected to surpass equities, with both remaining around 20.0%. High-risk exposures within equity and bond portfolios are expected to remain contained, with unlisted equity and non-investment-grade shares staying close to 8.0% (see [Figure 5.6](#)).

**Exposure to real estate-related assets continued to increase, extending a steady upward trend since 2020.** The real estate and mortgage loans ratio rose from 7.8% in 2020 to 13.4% in 2024 and remained on an upward path in 2025. This trend indicates growing exposure to real estate-related assets and, consequently, heightened sensitivity to developments in real estate prices (see [Figure 5.7](#)).

**Asset quality risk will remain broadly stable, as rising exposure to real estate-related assets is partly offset by the sector’s diversified portfolio structure.** The continued increase in real estate-related investments raises exposure to concentration and credit risks. In contrast, this is partly offset by the sector’s diversified and relatively balanced allocation across the main asset classes (equities, bonds, and loans), which helps limit overall asset quality vulnerabilities.



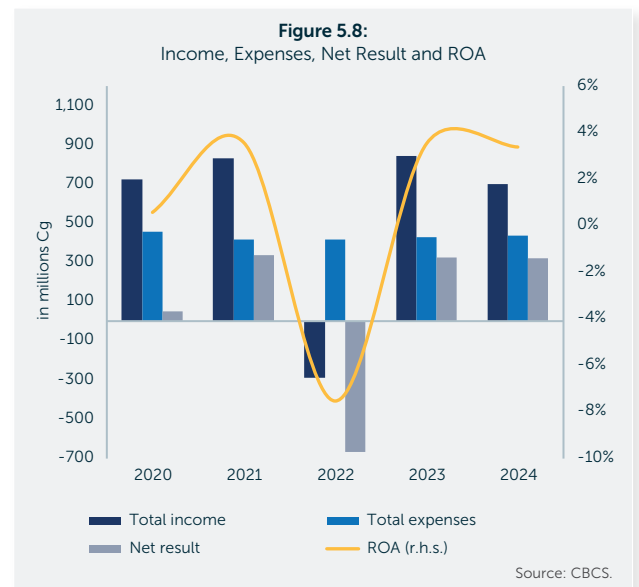
### Earnings and profitability

**In 2024, pension funds recorded a second consecutive year of positive returns on assets, which are expected to continue in 2025.** The return on assets (ROA) remained positive at 3.4% in 2024, marginally below the 3.5% recorded in 2023. Preliminary data indicates that the ROA is expected to decline further in 2025, albeit remaining positive.

**The net result for the pension fund sector remained positive in 2024 and is expected to stay positive in 2025, albeit at a lower level than in previous years.**

A marginal decline of 1.2% was observed compared to 2023, resulting in a net result of Cg 321.4 million in 2024 (see [Figure 5.8](#)). The anticipated decline in 2025 is primarily driven by higher net technical provisions, which are also expected to underpin the decrease in the ROA. Despite this, overall profitability is expected to remain positive.

**Earnings and profitability risk is expected to remain broadly stable, reflecting offsetting forces.** On the one hand, returns and net results are expected to remain positive in the near term, providing a stable earnings outlook. On the other hand, potential negative financial market performance could weigh on pension fund investment returns and ultimately on overall profitability.

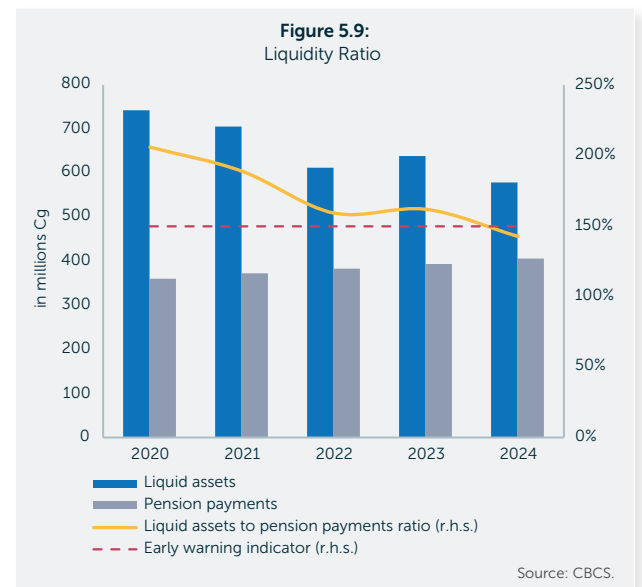


## Liquidity

**The liquid assets to pension payments ratio has declined steadily in recent years, reaching its lowest level in 2024 and expected to decline further in 2025.** The ratio of liquid assets (maturity of 1 year and under) relative to expected pension payments reflects the sector's capacity to meet near-term benefit obligations. This ratio has declined in recent years, falling from 206.0% in 2020 to 142.6% in 2024, thereby falling below the early warning indicator of 150%—considered the preferred level—for the first time (see [Figure 5.9](#)). Similarly, the liquid assets to total assets ratio has declined over the same period, from 8.1% in 2020 to 6.1% in 2024. While the liquid assets to pension payments ratio remains adequate and the share of liquid assets is consistent with the long-term investment horizon of pension funds, both indicators have exhibited a downward trend. This is expected to continue in 2025, which warrants close monitoring.

### **Liquidity risk is projected to continue increasing, as declining liquidity buffers point to rising vulnerability despite currently adequate levels.**

While the sector maintains sufficient liquid assets to meet near-term pension payment obligations, the continued reduction in both the coverage of pension payments and the share of liquid assets in total assets indicates a gradual erosion of liquidity buffers. This trend increases exposure to liquidity pressures, particularly in the context of a continued shift toward less liquid assets.



### Market sensitivity

**Pension fund investments remained highly concentrated in the United States (U.S.) in 2024 and are expected to continue as such in 2025.** The U.S. represented 55.6% of equity holdings and 70.0% of bond holdings in 2024 (see [Figure 5.10](#)).

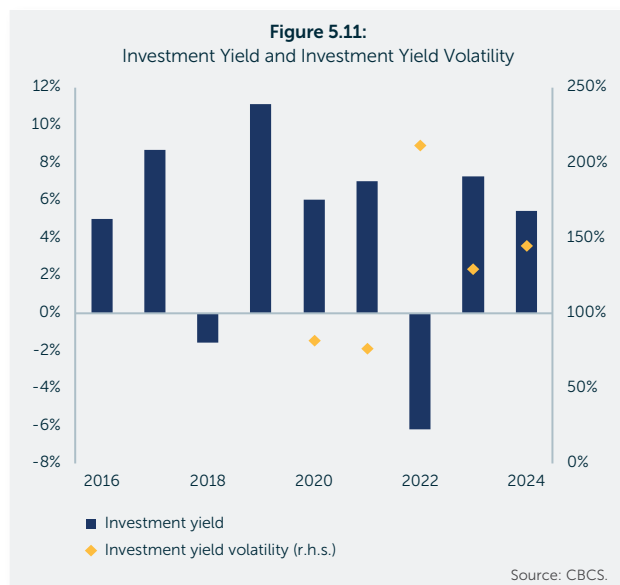
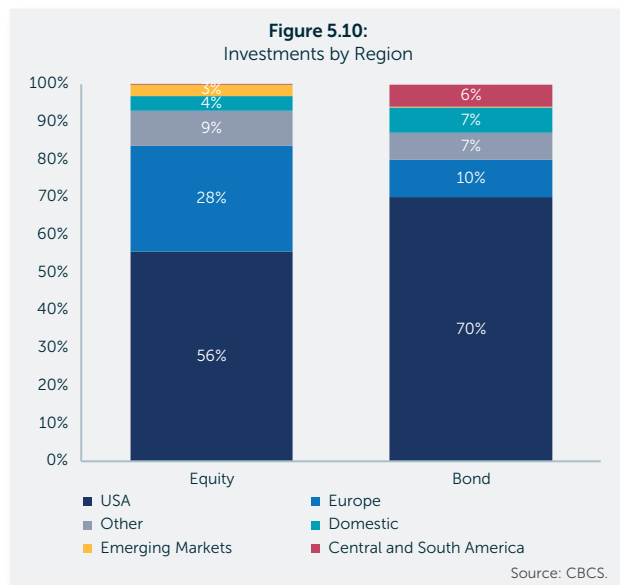
Europe constituted the second-largest exposure, accounting for 28.0% of equities and 9.9% of bonds. According to preliminary data for 2025, the U.S. will remain the primary region for investments, pointing to direct exposure to heightened geopolitical tensions and global financial market uncertainties.

**The investment yield, though positive, declined in 2024, but is expected to pick up in 2025 while volatility remains high.** The 1.9 percentage points decline resulted in an investment yield of 5.4% in 2024 (see [Figure 5.11](#)).

By contrast, the investment yield volatility increased to 144.6% over the year, indicating heightened exposure to market fluctuations. Preliminary data points to an increase in both the investment yield and related volatility in 2025.

**Market sensitivity risk will continue increasing, as concentrated exposures and elevated volatility heighten vulnerability to adverse market developments.** While investment returns remain positive, the significant allocation to market-sensitive assets and the high concentration in U.S. financial markets increase exposure to fluctuations in equity prices, interest rates, and global financial conditions.

This sensitivity is further reinforced by elevated yield volatility, indicating that investment performance remains increasingly susceptible to market movements. Stress testing results further reveal that the sector remains resilient under moderate market stress, while more severe scenarios could place pressure on funding ratios, despite the sector’s currently strong solvency position (see [Stress testing section](#)).



## Stress testing

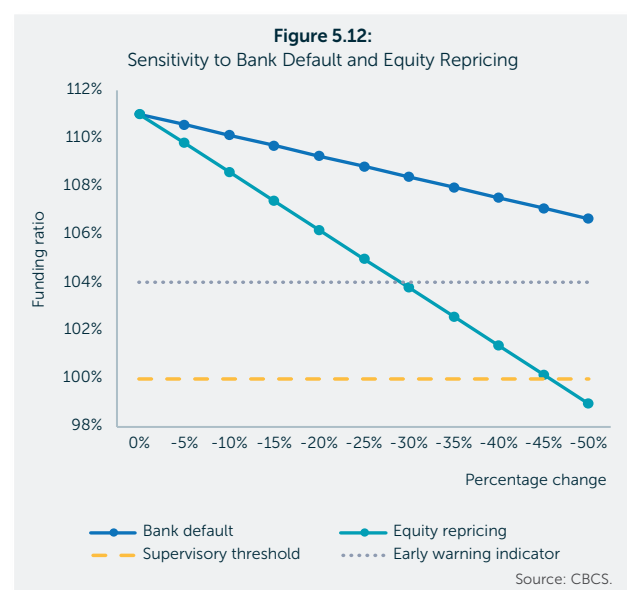
**Stress testing results indicate that the pension fund sector remains broadly resilient to adverse shocks, while more severe scenarios—particularly those involving equity price declines, interest rate declines, and global financial market turmoil—can materially weaken funding ratios.** Given the presence of guarantees, the stress tests assess the extent to which adverse shocks could weaken pension funds' funding ratios, which are the key indicator of their ability to meet promised obligations.<sup>64</sup> The framework consists of sensitivity tests and scenario-based assessments. The sensitivity tests evaluate the impact of individual shocks on the funding ratio, including bank default, equity repricing, and interest rate movements. The scenario analysis assesses the effects of a global financial market turmoil and a local economic downturn on the funding ratio.<sup>65</sup> Under the CBCS regulatory framework, pension funds are required to maintain a minimum funding ratio of 100%, while an additional solvency margin of 4% is applied as an early warning indicator within the stress testing framework (see [Appendix table 5.4](#)).<sup>66</sup>

## Sensitivity analysis

**The funding ratio shows limited sensitivity to bank default shocks, remaining above the early warning indicator even under severe stress.** For this exercise, the effect of a bank default is simulated through a haircut shock to the time and demand deposits at both domestic and foreign banks (see [Figure 5.12](#) and [Appendix table 5.5](#)). The funding ratio remains above the early warning indicator of 104% at the most

severe stress level (-50%). This indicates a relatively limited sensitivity of the pension funds' solvency position to bank default risk.

**The funding ratio is sensitive to equity price shocks, with significant declines under severe equity market corrections.** This exercise measures the sensitivity of the funding ratio of pension funds to stepwise declines in equity market values (see [Figure 5.12](#) and [Appendix table 5.6](#)). The funding ratio breaches the early warning indicator at approximately 30% equity repricing shock. This highlights equity market risk as a key vulnerability for the funds' solvency position, underlining the importance of risk-mitigating measures such as dynamic investment strategies and diversification to prevent underfunding under severe but plausible equity market stress.



<sup>64</sup> Around 86.0% of the total pension liabilities are from DB plans and roughly 13.4% belong to DC plans with guaranteed returns. See also CBCS (2026e).

<sup>65</sup> The stress testing scenarios are based on hypothetical conditions and are intended for exploratory analysis to assess the resilience of the sector to adverse events, rather than forecasting.

<sup>66</sup> This exercise uses data as of December 31, 2024, from twelve pension funds to perform three sensitivity tests and two scenario analyses. The tests are performed on the pension funds individually, but the results are presented for the aggregate sector. See also CBCS (2026e).

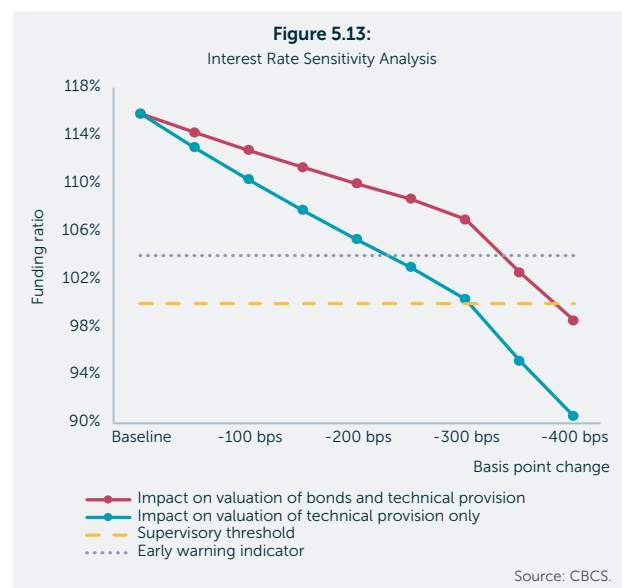
**The funding ratio is sensitive to interest rate shocks, particularly when asset valuations do not move in line with technical provisions.** For this stress test, we assess the impact of shifts in the yield curve on both the value of bond investments and future benefit obligations (see [Figure 5.13](#) and [Appendix tables 5.7 and 5.8](#)). The funding ratio remains above the early warning indicator until approximately a 350-bps shock relative to the baseline scenario.<sup>67</sup> If only a revaluation of the future benefit obligations is considered, the funding ratio breaches the early warning indicator earlier, at a 250-bps shock. This shows that substantial interest rate declines pose a significant risk to the pension funds' solvency, particularly if asset values do not move in line with liabilities, underscoring the importance of effective interest rate risk management and asset-liability matching strategies.

## Scenario analysis

### *Global financial turmoil*

**This analysis explores the materialization of global financial market turmoil and the resulting financial stress on the balance sheet of pension funds.** The analysis included three scenarios: a baseline scenario characterized by recession fears and flight to safety, a moderate scenario with heightened inflation and monetary tightening, and a severe, but plausible, scenario representing acute fiscal stress and loss of investor confidence.

<sup>67</sup> The baseline scenario is calculated according to the new discount rate framework proposal by the CBCS. The proposed discount rate framework denotes a weighted average curve of the U.S. zero-coupon Treasury yield curve and a local curve. The local curve is constructed as the U.S. Treasury zero-coupon yield curve plus a sovereign risk adjustment based on bond spreads. The local curve is capped at 4% for prudential considerations.

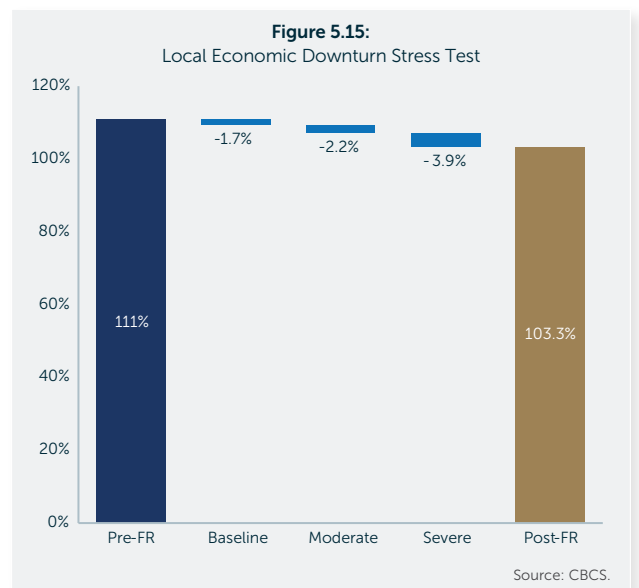
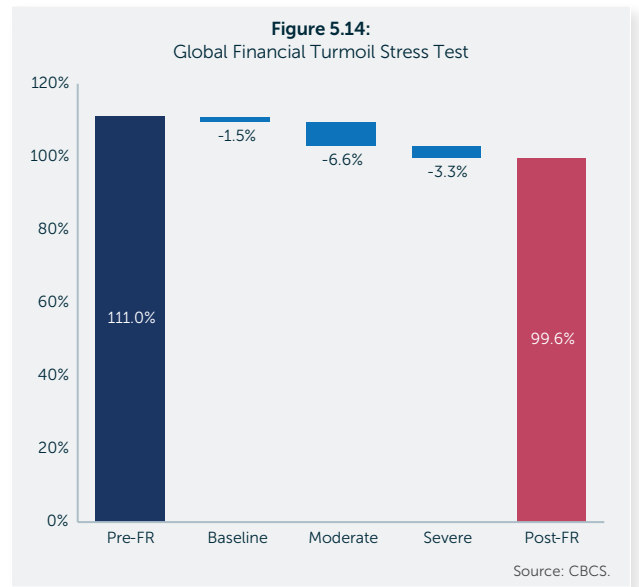


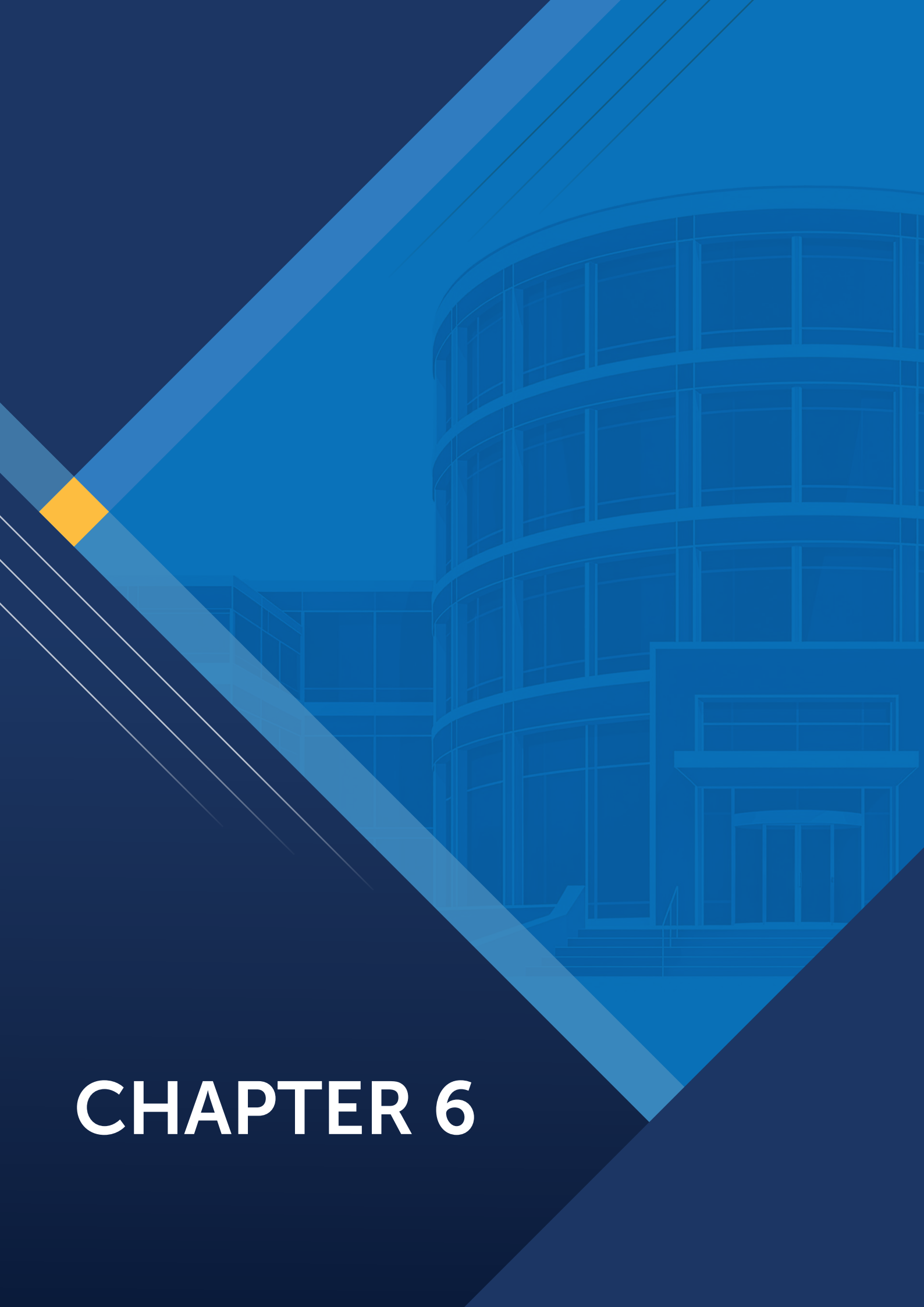
**While the pension fund sector currently benefits from a comfortable buffer, the severity and compounding nature of a global financial turmoil scenario can fully erode this buffer under severe conditions.** The results indicate a material deterioration of the solvency position leading to a breach of the early warning indicator of 104% for the moderate scenario (see [Figure 5.14](#) and [Appendix table 5.9](#)). This scenario entails shocks that adversely affect both equity and bond markets. The severe scenario's post-stress funding ratio further declines to just below the supervisory threshold of 100%, despite the relatively strong starting position. This highlights the importance of maintaining adequate solvency margins and stress testing to ensure resilience under extreme conditions.

#### *Local economic downturn*

**The local economic downturn analysis considers a stressed macroeconomic environment defined by weakened economic activity and deteriorating financial conditions.** Under these assumptions, the local economy experiences reduced growth, declining asset values, and elevated credit risk. The analysis included three scenarios: a baseline scenario simulating mild economic pressure, a moderate scenario described by a deep economic downturn, and a severe scenario consistent with a domestic recession.

**The pension fund sector demonstrated resilience to a local economic downturn and remained compliant with the minimum regulatory requirements even under severe stress.** The analysis applied successive adverse shocks, resulting in a post-stress funding ratio of 103.5% in the severe scenario, a 7.7% decline from the pre-stress funding ratio (see [Figure 5.15](#) and [Appendix table 5.10](#)). This falls just below the early warning indicator of 104%, signaling a need for enhanced monitoring.





# CHAPTER 6

# 6 Future-Proofing the Financial System

## ■ Overview macroprudential framework

**The Centrale Bank van Curaçao en Sint Maarten (CBCS) continues to strengthen its macroprudential framework to safeguard financial stability in the monetary union.** This framework comprises policies, preventive and forward-looking instruments, and measures that enable the CBCS to monitor and, if necessary, address the buildup of excessive risk. Ultimately, this contributes to the smooth functioning of the financial system in the monetary union. The framework draws on guidance from international standard-setting organizations such as the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) and incorporates best practices from leading (regional) central banks.<sup>68</sup>

**A clear governance structure ensures that the CBCS's macroprudential approach is aligned with its mandate and decision-making responsibilities.** The Financial Stability Division (FSD) is responsible for the full macroprudential policy<sup>69</sup> cycle: systemic risk identification, macroprudential instrument selection and calibration, implementation and communication, evaluation and, if needed, adaptation of macroprudential policy and/or instruments. The President ensures alignment with the CBCS's strategic objectives, while the Board of Executive Directors decides on the deployment or maintenance of macroprudential instruments based on recommendations from the FSD.

68 CBCS (2026d).

69 See e.g., IMF (2013).

**The organization of the FSD within the CBCS supports effective surveillance of systemic risks across the financial system.** Within the FSD, the Macroprudential Oversight Unit focuses on early warning monitoring and systemic risk assessment, while the Financial Stability Research Unit strengthens the analytical foundation of macroprudential policy through applied research on structural and emerging risks. In addition, the Deposit Guarantee Scheme (DGS) Unit supports depositor confidence through timely payout readiness in case a credit institution is unable to meet its obligations. Finally, the Resolution Unit enhances crisis preparedness through the resolution framework and planning.

### Early warning monitoring system

**Early identification of emerging systemic risks was enhanced by expanding the indicators toolkit.** The Early Warning Monitoring System (EWMS) provides forward-looking, system-wide insights into vulnerabilities across the financial sector. It combines indicators such as the Aggregate Financial Stability Index (AFSI),<sup>70</sup> the Banking Stability Index (BSI),<sup>71</sup> the Property Price Index (PPI), the credit-to-GDP gap, Financial Soundness Indicators (FSIs), and stress tests. In May 2025, the CBCS in collaboration with Kadaster Sint Maarten officially launched the PPI dashboard<sup>72</sup> for Sint Maarten, enabling the early detection of real estate-related systemic risks. In Curaçao, the CBCS

70 Ooft & Thijn-Baank (2024).

71 Ooft & Thijn-Baank (2024).

72 CBCS (2025d). The PPI dashboard is a user-friendly online tool that tracks aggregate and district-level real estate price developments across Sint Maarten and offers insights into the housing market sentiment to consumers, policymakers, and researchers.

continued to rely on open-source housing price data pending the conclusion of a formal data-sharing agreement between the CBCS and the Central Bureau of Statistics (CBS) Curaçao, on the one hand, and the Curaçao Kadaster on the other. Compared with the Financial Stability Report (FSR) 2025, the FSIs for insurers and pension funds were also revised to better reflect the overall health of these institutions.<sup>73</sup>

**Building on international best practices, the stress testing tool for the banking sector was enhanced, and a first step was taken toward expanding stress testing coverage beyond this sector.**

In 2025, the CBCS continued developing a macro stress testing tool for banks in line with the 2024 Caribbean Regional Technical Assistance Centre (CARTAC) mission recommendations<sup>74</sup> (see [Chapter 2, Box 1](#)). This tool uses macroeconomic shock scenarios to assess the potential impact of adverse economic conditions on bank resilience. These scenarios are based on broader macroeconomic conditions, sector-specific credit risk models, and projections for asset quality and earnings and profitability. In conjunction with this, the CBCS built initial stress testing frameworks for non-life insurers and pension funds, with the results included in the FSR as of this year (see [Chapters 3 and 5](#)).

**Financial stability publications, projects, and strategic initiatives**

**In 2025, the CBCS published notes and fact sheets on key financial stability topics and advanced a research agenda underpinning its medium-term priorities.** The publications included a note on reinsurance highlighting climate-related cost pressures and a summary of an independent review

<sup>73</sup> CBCS (2025f). The process of improving the FSIs for pension funds and insurers is ongoing, pending the IMF's review. For comparison, banks' FSIs have remained unchanged for five consecutive FSRs, as the current approach has been confirmed by the IMF.

<sup>74</sup> IMF (2025).

of the pension systems of Curaçao and Sint Maarten conducted by Mercer Consulting Australia Pty Ltd.<sup>75</sup> The review assessed the adequacy, sustainability, and integrity of the pension systems and identified both strengths, such as a relatively strong basic state pension, and structural weaknesses related to private pension coverage, governance, and long-term sustainability. Additionally, fact sheets on insurers and pension funds—covering revised FSIs—were published in November 2025 to bridge data gaps between FSR publication cycles.<sup>76</sup> Furthermore, annual benchmark reports for local banks were released, providing anonymized peer comparisons of individual bank performance. The CBCS also published the Research Agenda 2026–2028, including its financial stability research priorities.<sup>77</sup>

**Financial stability was further reinforced through international collaboration, regulatory implementation, and stakeholder engagement.**

To enhance coordination between the CBCS and the Ministries of Finance of Curaçao and Sint Maarten, the IMF carried out a technical assistance mission in June 2025 to establish an effective Financial Stability Committee (FSC). In July 2025, the DGS legislation for Curaçao entered into force, with a public awareness campaign starting in September 2025 to officially launch the scheme.<sup>78</sup> The CBCS also prepared the Regulation on Capital Requirements for Credit Institutions and, pursuant to this, updates in the Chart of Accounts (CoA) schedules. These are critical steps to enable the CBCS to eventually roll out macroprudential buffers such as the capital conservation buffer

<sup>75</sup> CBCS (2025e); Romero (2025).

<sup>76</sup> CBCS (2025a; 2025b; 2025c).

<sup>77</sup> CBCS (2026b).

<sup>78</sup> DGS (2025). Deposits at credit unions are protected up to a maximum of Cg 25,000 per account holder, per credit union. For deposits at other credit institutions, such as banks and savings funds, the maximum is Cg 50,000 per account holder, per credit institution.

and the countercyclical capital buffer (CCyB).<sup>79</sup> In October 2025, the CBCS together with Nyenrode Business University presented the findings of the Financial Sector Strategic Review (FSSR) to financial institutions, policymakers, and the private sector at symposia in Curaçao and Sint Maarten. The report outlined four strategic pathways to future-proof the financial sector.<sup>80</sup>

**Meanwhile, efforts continued to address climate-related risks through a multi-channel approach.**

Within the Caribbean Group of Banking Supervisors' technical working group on climate risk, the first milestone was delivered through an up-to-date resource list on climate stress testing and supervisory frameworks. Additionally, the national meteorological institute of Curaçao presented its first long-term climate scenarios, forming an important basis for future macroeconomic and financial stability analysis.

**In early 2026, the CBCS strengthened the research-to-policy nexus by translating analytical insights into public debate, regulatory consultation, and macroprudential guidance.**

The CBCS contributed to the Happy Aging Conference, organized by the Algemeen Pensioenfonds van Curaçao (APC) and the University of Curaçao (UoC), by presenting financial stability perspectives on aging, pensions, financial literacy, and financial well-being.<sup>81</sup> Moreover, the CBCS published a blog on the standing subscription facility, highlighting its long-term implications for local capital market development and the structure of the financial sector.<sup>82</sup> In this context, it also participated in the launch of a collaborative

platform—the Financing Table—organized by Blue Harbour City Curaçao, aimed at improving access to capital for businesses. Furthermore, the CBCS consulted insurers and pension funds on a potential discount rate methodology aimed at enhancing consistency, transparency, and risk sensitivity in the valuation of long-term liabilities.

**Looking ahead, the CBCS will continue to strengthen financial system resilience through a broad set of macroprudential, supervisory, and analytical initiatives.**

Initiatives for the remainder of 2026 include updated fact sheets for the insurers and pension funds, an updated occupational pension landscape fact sheet, and further development of macroprudential instruments, including the Loan-to-Value (LTV) ratio and the Total Debt Service Ratio (TDSR).<sup>83</sup> Following the previously released supervisory CBCS cyber risk roadmap and IT security strategy for 2025-2027, the CBCS will publish a note on the implication of cyber risk for financial stability. In addition, stakeholder engagement will be strengthened through a luncheon in Sint Maarten on the financial stability implications of property price developments. The final report of the IMF technical assistance mission on an effective Financial Stability Committee (FSC) is expected in 2026. A Memorandum of Understanding (MoU) based on this report is expected to be established between the CBCS and the Ministries of Finance of Curaçao and Sint Maarten. Lastly, work on the DGS will continue, with implementation in Sint Maarten expected in 2026. The CBCS will furthermore conduct research on climate risk management and stress testing following up on the 2023 climate baseline survey.

<sup>79</sup> See e.g., Drehmann et al. (2010); Repullo & Saurina (2011); Van Oordt (2023). The CCyB reflects the accumulation of buffers during periods of excessive credit growth and their release during downturns to sustain lending to the real economy. A note on this instrument is forthcoming, describing the use of various financial stability indicators to calibrate this buffer for the monetary union.

<sup>80</sup> Nyenrode Business University (2025).

<sup>81</sup> APC (2026).

<sup>82</sup> Abbad & Sinlae-Elhage (2026).

<sup>83</sup> See e.g., Lim et al. (2011).

## List of Abbreviations

<b>AFSI</b>	Aggregate Financial Stability Index
<b>AI</b>	Artificial Intelligence
<b>APC</b>	Algemeen Pensioenfonds van Curaçao
<b>BIS</b>	Bank for International Settlements
<b>BSI</b>	Banking Stability Index
<b>CAR</b>	Capital Adequacy Ratio
<b>CARTAC</b>	Caribbean Regional Technical Assistance Centre
<b>CBA</b>	Curaçao Bankers Association
<b>CBCS</b>	Centrale Bank van Curaçao en Sint Maarten
<b>CBOE</b>	Chicago Board Options Exchange
<b>CCyB</b>	Countercyclical Capital Buffer
<b>CD</b>	Certificates of Deposit
<b>Cg</b>	Caribbean guilder
<b>CoA</b>	Chart of Accounts
<b>DB</b>	Defined benefit (pension scheme)
<b>DC</b>	Defined contribution (pension scheme)
<b>DGS</b>	Deposit Guarantee Scheme
<b>ECB</b>	European Central Bank
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority
<b>EWMS</b>	Early Warning Monitoring System
<b>Fed</b>	United States Federal Reserve
<b>FinTech</b>	Financial technology
<b>FR</b>	Funding ratio
<b>FS</b>	Financial stability
<b>FSC</b>	Financial Stability Committee
<b>FSD</b>	Financial Stability Division
<b>FSI</b>	Financial Soundness Indicators
<b>FSR</b>	Financial Stability Report

<b>FSSR</b>	Financial Sector Strategic Review
<b>GDP</b>	Gross Domestic Product
<b>GPR</b>	Geopolitical Risk
<b>GWP</b>	Gross Written Premiums
<b>HP filter</b>	Hodrick-Prescott filter
<b>IMF</b>	International Monetary Fund
<b>IT</b>	Information Technology
<b>LDR</b>	Loans-to-deposit (ratio)
<b>LGD</b>	Loss given default
<b>LTV</b>	Loan-to-value (ratio)
<b>MoU</b>	Memorandum of Understanding
<b>NIM</b>	Net interest margin
<b>NPLs</b>	Nonperforming loans
<b>OFCs</b>	Other financial corporations
<b>PPI</b>	Property Price Index
<b>PD</b>	Probability of default
<b>ROA</b>	Return on assets
<b>ROE</b>	Return on equity
<b>S&amp;P500</b>	Standard & Poor's 500 stock market index
<b>SMBA</b>	Sint Maarten Bankers Association
<b>SPL</b>	Specific provisions for loan losses
<b>TPU</b>	Trade Policy Uncertainty
<b>UoC</b>	University of Curaçao
<b>U.S.</b>	United States
<b>USD</b>	United States Dollar
<b>VIX</b>	Volatility Index

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# APPENDIX

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

	2021	2022	2023	2024	2025	
I	Currency and deposits	2,572.2	1,980.1	2,751.5	2,866.0	2,508.7
II	Total loans	6,246.6	6,502.6	6,789.5	6,565.1	7,433.8
III	Total investments	3,684.7	4,049.2	3,924.4	4,661.4	6,075.4
IV	Other assets	420.0	489.5	429.8	538.8	556.0
	<b>Total assets (I + II + III + IV)</b>	<b>12,923.5</b>	<b>13,021.5</b>	<b>13,895.3</b>	<b>14,631.3</b>	<b>16,573.9</b>
V	Total deposits	10,591.4	10,520.4	11,022.3	11,597.0	12,971.3
VI	Total financial liabilities	98.1	58.4	409.4	328.4	571.3
VII	Total other liabilities	359.2	410.2	302.7	287.4	414.0
VIII	Capital and reserves	1,874.9	2,032.5	2,160.8	2,418.6	2,617.3
	<b>Total liabilities and capital (V + VI + VII + VIII)</b>	<b>12,923.5</b>	<b>13,021.5</b>	<b>13,895.3</b>	<b>14,631.3</b>	<b>16,573.9</b>

Source: CBCS.

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

	2021	2022	2023	2024	2025	
I	Interest income	370.0	383.2	438.2	443.3	569.6
II	Interest expense	67.3	71.8	92.7	94.0	106.3
III	<b>Net interest income (I - II)</b>	<b>302.6</b>	<b>311.4</b>	<b>345.5</b>	<b>349.3</b>	<b>463.3</b>
IV	<b>Noninterest income</b>	<b>317.0</b>	<b>391.5</b>	<b>473.4</b>	<b>542.2</b>	<b>586.4</b>
	Fees and commissions income	212.4	262.7	272.4	321.4	440.3
	Total (un)realized gains/losses and other income	104.6	128.8	201.0	220.9	146.1
V	<b>Gross income (III + IV)</b>	<b>619.6</b>	<b>702.9</b>	<b>818.9</b>	<b>891.5</b>	<b>1,049.7</b>
VI	<b>Noninterest expenses</b>	<b>440.8</b>	<b>490.0</b>	<b>575.0</b>	<b>592.5</b>	<b>677.1</b>
	Personnel expenses	202.1	218.7	237.8	260.1	277.9
	Occupancy expenses	73.0	73.0	83.9	84.4	80.4
	Other operating expenses	106.4	118.7	159.1	119.1	144.6
	Fees and commissions expenses	59.3	79.6	94.1	128.9	174.2
VII	Provisions for / (recoveries from) loan losses and impairments	-2.9	-53.5	8.7	8.0	15.3
	<b>Operating profit (V - VI - VII)</b>	<b>181.8</b>	<b>266.4</b>	<b>235.3</b>	<b>291.0</b>	<b>357.3</b>
	Non-controlling interest in profit/(loss) of consolidated subsidiaries	-0.1	0.4	-0.3	-0.3	-0.2
VIII	Income taxes	21.2	32.4	13.0	13.2	25.8
IX	<b>Net income for the current period</b>	<b>160.7</b>	<b>233.6</b>	<b>222.5</b>	<b>278.0</b>	<b>331.7</b>

Source: CBCS.

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

	2021	2022	2023	2024	2025
<b>Capital adequacy</b>					
Regulatory capital to total risk-weighted assets	19.3%	21.2%	22.3%	22.7%	22.2%
Tier 1 capital to total assets	13.0%	14.3%	14.4%	14.5%	13.6%
Nonperforming loans (net of provisions) to capital	14.7%	14.5%	10.4%	8.4%	11.2%
<b>Asset quality</b>					
Gross nonperforming loans to total gross loans	6.7%	6.1%	4.7%	4.4%	4.9%
Specific provisions to total loans	3.7%	2.9%	2.0%	2.3%	2.2%
<b>Earnings and profitability</b>					
Return on assets	1.4%	2.0%	1.7%	2.0%	2.3%
Interest margin to gross income	48.8%	44.3%	42.2%	39.2%	44.1%
Noninterest expenses* to gross income	71.3%	69.7%	70.2%	66.4%	64.6%
<b>Liquidity</b>					
Liquid assets to total assets	33.4%	31.7%	34.8%	37.7%	38.9%
Liquid assets to total short-term liabilities	47.4%	45.7%	49.3%	53.9%	53.2%
Total loans to total deposits	61.2%	63.6%	62.8%	57.9%	58.6%
<b>Market risk sensitivity</b>					
Net interest margin	3.6%	3.5%	3.8%	3.6%	3.9%
Net open FX position to total capital	1.8%	3.2%	2.0%	1.8%	3.4%

\* Noninterest expenses = operational expenses

Source: CBCS.

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

	2021	2022	2023	2024	2025
<b>Capital adequacy</b>					
Regulatory capital to total risk-weighted assets	22.3%	22.5%	23.1%	23.8%	24.3%
Tier 1 capital to total assets	14.0%	15.3%	15.7%	15.4%	13.0%
Nonperforming loans (net of provisions) to capital	19.0%	13.0%	10.0%	7.6%	7.5%
<b>Asset quality</b>					
Gross nonperforming loans to total gross loans	6.7%	5.3%	4.1%	3.6%	3.9%
Specific provisions to total loans	3.8%	2.9%	1.9%	2.1%	1.9%
<b>Earnings and profitability</b>					
Return on assets	1.4%	2.2%	2.0%	2.3%	2.4%
Interest margin to gross income	40.9%	38.2%	34.2%	33.3%	41.6%
Noninterest expenses* to gross income	69.9%	66.6%	66.6%	61.2%	61.4%
<b>Liquidity</b>					
Liquid assets to total assets	40.5%	36.5%	37.6%	39.9%	48.7%
Liquid assets to total short-term liabilities	56.5%	52.0%	53.3%	56.6%	62.8%
Total loans to total deposits	52.0%	54.2%	53.0%	48.2%	44.0%
<b>Market risk sensitivity</b>					
Net interest margin	3.1%	3.0%	3.2%	3.0%	3.6%

\* Noninterest expenses = operational expenses

Source: CBCS.

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

	2021	2022	2023	2024	2025
<b>Asset quality</b>					
Gross nonperforming loans to total gross loans	6.8%	8.3%	5.9%	6.5%	7.8%
Specific provisions to total loans	3.2%	3.0%	2.3%	2.8%	2.9%
<b>Earnings and profitability</b>					
Return on assets	0.7%	0.6%	0.6%	0.4%	0.6%
Interest margin to gross income	61.1%	54.5%	57.5%	53.1%	44.8%
Noninterest expenses* to gross income	75.1%	81.6%	78.1%	89.3%	79.8%
<b>Liquidity</b>					
Liquid assets to total assets	59.4%	58.8%	60.8%	65.7%	64.4%
Liquid assets to total short-term liabilities	72.9%	71.9%	72.9%	79.7%	75.9%
Total loans to total deposits	37.4%	38.6%	37.6%	35.7%	36.9%
<b>Market risk sensitivity</b>					
Net interest margin	3.8%	3.7%	4.5%	4.8%	4.3%

\* Noninterest expenses = operational expenses

Source: CBCS.

**Table 2.6:** Assumptions for Stress Testing

Categories	FSIs	Supervisory threshold	Early warning indicator
Capital adequacy	Capital Adequacy Ratio (CAR)	10.5%	15.0%
Liquidity	Liquid assets to total assets	20.0%	30.0%
Liquidity	Liquid assets to required liquidity	100.0%	-

Source: CBCS.

**Table 2.7:** Large Deposit Withdrawal

Scenario	Liquid assets to total assets
Baseline: 1 large deposit	35.7%
Moderate scenario: 3 large deposits	33.9%
Severe scenario: 5 large deposits	32.4%

Passed  
Early warning  
Failed



Source: CBCS.

**Table 2.8:** Liquidity Risk and Foreign Investments

Scenario	Liquid assets to required liquidity
Baseline: 10% drop in qualifying marketable securities and bond value	159.1%
Moderate: 20% drop in qualifying marketable securities and bond value	156.5%
Severe: 30% drop in qualifying marketable securities and bond value	153.9%




Passed  
Early warning  
Failed



Source: CBCS.

**Table 2.9:** Capital Adjustment




Scenario	CAR
Baseline: under-provision charge	21.6%
Moderate: proportional increase in NPLs	18.6%
Severe: proportional increase in NPLs	12.3%

Passed   
 Early warning   
 Failed 

Source: CBCS.

**Table 2.10:** Large Exposure

Scenario	CAR (10% provision)	CAR (50% provision)	CAR (80% provision)	CAR (100% provision)
Baseline: 1 large loan	22.0%	21.0%	20.3%	19.8%
Moderate scenario: 3 large loans	21.7%	19.5%	17.8%	16.7%
Severe scenario: 5 large loans	21.5%	18.4%	15.9%	14.2%

Passed   
 Early warning   
 Failed 

Source: CBCS.

**Table 3.1:** Aggregate Balance Sheet of Non-Life Insurers (in millions Cg)

	2020	2021	2022	2023	2024
I Non-admissible assets	129.8	41.6	65.9	193.5	172.9
II Total investments	307.7	332.4	305.6	360.5	410.4
III Current assets	273.3	369.2	312.1	223.4	236.0
IV Other assets	10.4	9.4	6.9	6.4	7.7
<b>Total assets (I + II + III + IV)</b>	<b>721.2</b>	<b>752.5</b>	<b>690.5</b>	<b>783.7</b>	<b>827.0</b>
V Capital and surplus	323.1	317.8	325.6	443.8	479.4
VI Subordinated instruments	6.8	6.9	2.3	2.1	2.4
VII Provisions for insurance obligations	141.7	136.6	129.5	132.1	136.7
VIII Other provisions and liabilities	5.2	5.3	5.0	5.1	13.7
IX Current liabilities	244.4	285.9	228.2	200.6	194.7
<b>Total liabilities and capital (V + VI + VII + VIII + IX)</b>	<b>721.2</b>	<b>752.5</b>	<b>690.5</b>	<b>783.7</b>	<b>827.0</b>

Source: CBCS.

**Table 3.2:** Aggregate Income Statement of Non-Life Insurers (in millions Cg)

	2020	2021	2022	2023	2024
I Net earned premiums	234.0	271.9	275.3	238.0	248.8
II Net other underwriting income	7.4	6.7	7.0	13.1	9.0
<b>Total gross income (TGI = I + II)</b>	<b>241.3</b>	<b>278.6</b>	<b>282.3</b>	<b>251.0</b>	<b>257.8</b>
III Net claims incurred	96.4	98.6	105.0	111.6	97.8
IV Underwriting expenses incurred	118.4	154.7	155.8	120.2	124.5
V Net other expenses incurred	6.2	0.5	-0.9	-0.1	1.4
<b>Total operational expenditure (TOE = III + IV + V)</b>	<b>220.9</b>	<b>253.8</b>	<b>259.9</b>	<b>231.6</b>	<b>223.7</b>
<b>Underwriting result (UR = TGI - TOE)</b>	<b>20.4</b>	<b>24.8</b>	<b>22.4</b>	<b>19.4</b>	<b>34.1</b>
VI Net investment income earned and capital gains or losses	18.2	9.8	-7.1	2.2	10.1
VII Other results	2.0	2.6	2.0	3.7	1.6
VIII Corporate taxes incurred	4.6	6.5	3.7	3.6	6.2
IX Net unrealized gains or losses	3.1	-0.5	0.9	6.7	5.2
<b>Net profit or loss (UR + VI + VII - VIII + IX)</b>	<b>39.3</b>	<b>30.3</b>	<b>14.4</b>	<b>28.4</b>	<b>44.7</b>

Source: CBCS.

**Table 3.3:** Financial Soundness Indicators of Non-Life Insurers (end of period)

	2020	2021	2022	2023	2024
<b>Capital adequacy</b>					
Capital ratio	17.0%	13.8%	15.7%	13.9%	13.2%
Solvency ratio	185.3%	286.0%	247.0%	220.9%	420.9%
<b>Asset quality</b>					
Debtor ratio	22.3%	21.0%	18.6%	17.4%	22.6%
Total stocks to total assets	0.2%	0.1%	0.1%	0.2%	0.2%
<b>Earnings and profitability</b>					
Combined ratio	80.1%	78.4%	74.9%	90.6%	80.8%
Investment income to net earned premiums	7.7%	3.6%	-2.5%	0.9%	3.9%
Return on assets	5.7%	4.9%	2.5%	3.2%	5.5%
Return on equity	12.4%	11.5%	5.2%	5.7%	9.5%
<b>Liquidity</b>					
Liquid assets to current liabilities	91.2%	98.5%	104.9%	109.6%	119.4%
Operating cash flow to current liabilities	12.1%	28.8%	-22.6%	12.4%	12.8%
<b>Reinsurance and actuarial risk</b>					
Premium leverage ratio	50.5%	57.6%	60.2%	40.2%	40.4%
Risk retention ratio	46.3%	51.6%	51.7%	57.5%	57.4%

Source: CBCS.

**Table 3.4:** Assumptions for Stress Testing

Categories	Indicator	Supervisory threshold
Capital adequacy	Solvency ratio	100.0%
Liquidity	Liquidity ratio	100.0%
Earnings and profitability	Net results	0

Source: CBCS.

**Table 3.5:** Catastrophe Stress Test - Solvency

Scenario	Solvency ratio
Baseline: 50%	342.6%
Moderate: 100%	236.7%
Severe: 200%	86.4%

Passed   
 Failed 

Source: CBCS.

**Table 3.6:** Catastrophe Stress Test - Liquidity

Scenario	Liquidity ratio
Baseline: 15%	97.9%
Moderate: 30%	90.7%
Severe: 60%	76.4%

Passed   
 Failed 

Source: CBCS.

**Table 3.7:** Catastrophe Stress Test - Net Results

Scenario	Net results in millions Cg
Baseline: 15%	29,639
Moderate: 30%	17,332
Severe: 60%	-7,283

Passed   
 Failed 

Source: CBCS.

**Table 4.1:** Aggregate Balance Sheet of Life Insurers (in millions Cg)

	2020	2021	2022	2023	2024
I Non-admissible assets	106.1	86.9	36.4	33.9	73.9
II Total investments	1,495.5	1,557.9	1,532.0	1,637.7	1,640.3
III Current assets	182.9	187.0	184.0	169.0	210.9
IV Other assets	4.0	5.5	5.8	6.1	4.5
V From separate accounts statement	6.6	6.5	5.2	4.5	4.3
<b>Total assets (I + II + III + IV + V)</b>	<b>1,795.1</b>	<b>1,843.9</b>	<b>1,763.3</b>	<b>1,851.2</b>	<b>1,933.9</b>
VI Capital and surplus	326.3	346.9	228.7	250.3	293.8
VII Subordinated instruments	0.5	0.6	0.6	0.5	0.5
VIII Provisions for insurance obligations	1,389.2	1,410.9	1,455.0	1,516.0	1,529.1
IX Current liabilities	70.0	67.6	65.5	70.4	105.3
X Other liabilities	2.5	11.5	8.4	9.6	1.0
XI Contingent liabilities	-	-	-	-	-
XII From separate accounts statement	6.6	6.5	5.2	4.5	4.3
<b>Total liabilities and capital (VI + VII + VIII + IX + X + XI + XII)</b>	<b>1,795.1</b>	<b>1,843.9</b>	<b>1,763.3</b>	<b>1,851.2</b>	<b>1,933.9</b>

Source: CBCS.

**Table 4.2:** Aggregate Income Statement of Life Insurers (in millions Cg)

	2020	2021	2022	2023	2024
I Premium and other policy considerations	153.6	152.3	158.3	155.3	161.4
II Net investment income and realized capital gains and losses	82.8	78.0	47.1	72.9	76.3
III Net other operational income	12.9	12.0	5.6	13.4	7.1
<b>Total income (TI = I + II + III)</b>	<b>249.2</b>	<b>242.3</b>	<b>210.9</b>	<b>241.6</b>	<b>244.8</b>
IV Net benefits incurred	113.8	121.0	119.4	120.0	105.4
V Change in provisions for insurance obligations	48.1	25.1	47.3	66.7	64.4
VI Net operational expenditures incurred	56.4	49.8	56.1	55.6	56.9
VII Other changes affecting net results	-0.1	9.3	3.1	9.1	0.9
VIII Profit sharing to policyholders	2.2	1.4	2.0	3.9	1.4
<b>Total operational expenditure (TOE = IV + V + VI + VII + VIII)</b>	<b>220.4</b>	<b>206.6</b>	<b>227.8</b>	<b>255.3</b>	<b>229.0</b>
IX Other results	0.3	-0.2	0.0	-0.3	-4.9
X Corporate taxes incurred	4.5	-0.2	2.0	6.2	7.4
XI Net unrealized gains or losses	2.2	1.2	-30.1	28.4	27.9
<b>Net profit or loss (TI - TOE + IX - X + XI)</b>	<b>26.9</b>	<b>36.9</b>	<b>-48.9</b>	<b>8.3</b>	<b>31.4</b>

Source: CBCS.

**Table 4.3:** Financial Soundness Indicators of Life Insurers (end of period)

	2020	2021	2022	2023	2024
<b>Capital adequacy</b>					
Solvency ratio	240.2%	296.1%	147.3%	166.8%	137.9%
Capital to technical reserves ratio	4.2%	4.5%	4.4%	4.2%	4.2%
Risk retention ratio	89.6%	90.4%	89.0%	89.3%	89.6%
<b>Asset quality</b>					
Total stocks to total assets	6.1%	5.2%	5.4%	7.4%	6.1%
Total mortgages and other loans to total assets	11.9%	12.7%	14.9%	16.8%	19.5%
<b>Earnings and profitability</b>					
Return on assets	0.3%	1.9%	-0.9%	-0.7%	0.6%
Net operational expenditures to net premiums	35.3%	32.7%	35.4%	35.8%	35.3%
<b>Liquidity</b>					
Liquid assets to total liabilities	64.0%	66.6%	65.8%	68.6%	61.5%
Operating cash flow ratio	71.6%	113.3%	43.2%	64.3%	71.6%
Premium collection ratio	14.1%	14.4%	10.2%	8.3%	14.1%
<b>Market risk sensitivity</b>					
Investment yield	4.4%	5.5%	5.0%	3.1%	4.5%
Total stocks to total equity	24.3%	27.7%	41.3%	54.4%	39.8%
Investment yield volatility	14.5%	7.5%	20.7%	20.8%	20.2%

Source: CBCS.

**Table 5.1:** Aggregate Balance Sheet of Pension Funds (in millions Cg)

	2020	2021	2022	2023	2024
I Total investments	8,347.5	8,738.4	8,174.6	8,589.6	8,778.4
II Current assets	737.7	746.0	604.4	606.6	681.7
III Other assets	41.3	42.4	46.7	45.9	46.2
<b>Total assets (I + II+ III)</b>	<b>9,126.5</b>	<b>9,526.9</b>	<b>8,825.7</b>	<b>9,242.1</b>	<b>9,506.3</b>
IV Reserve	593.8	930.9	256.8	598.1	920.4
V Technical provisions	8,440.7	8,515.4	8,477.6	8,563.1	8,499.0
VI Other provisions and liabilities	19.6	17.8	17.2	19.5	19.8
VII Current liabilities	72.4	62.8	74.1	61.3	67.0
<b>Total equity &amp; liabilities (IV + V + VI + VII)</b>	<b>9,126.5</b>	<b>9,526.9</b>	<b>8,825.7</b>	<b>9,242.1</b>	<b>9,506.3</b>

Source: CBCS.

**Table 5.2:** Aggregate Income Statement of Pension Funds (in millions Cg)

	2020	2021	2022	2023	2024
I Contributions	193.6	199.5	184.9	204.2	200.7
II Net investment income earned	505.9	616.0	(502.9)	625.6	476.8
III Other income	24.2	15.8	31.0	16.3	24.1
<b>Gross income (GI = I + II + III)</b>	<b>723.6</b>	<b>831.4</b>	<b>(287.0)</b>	<b>846.1</b>	<b>701.6</b>
IV Pension benefits incurred	350.8	361.2	374.5	383.7	393.2
V Change in net technical provisions	211.8	74.4	(37.1)	90.8	(59.0)
VI Operational expenses incurred	99.3	40.9	26.9	40.0	41.2
VII Other expenses incurred	9.9	14.9	14.8	6.0	4.8
<b>Total expenditure (TE = IV + V + VI + VII)</b>	<b>671.7</b>	<b>491.4</b>	<b>379.0</b>	<b>520.6</b>	<b>380.2</b>
<b>Net profit or loss (GI - TE)</b>	<b>51.9</b>	<b>340.0</b>	<b>(666.0)</b>	<b>325.6</b>	<b>321.4</b>

Source: CBCS.

**Table 5.3:** Financial Soundness Indicators Pension Funds (end of period)

	2020	2021	2022	2023	2024
<b>Capital adequacy</b>					
Funding ratio	107.1%	110.8%	103.1%	107.1%	111.0%
Capital requirement breaches	16.7%	8.3%	41.7%	8.3%	8.3%
<b>Asset quality</b>					
Real estate and mortgage loans ratio	7.8%	7.9%	10.6%	11.1%	13.4%
Unlisted equity ratio	6.1%	6.5%	6.7%	7.8%	7.8%
Non-investment grade bonds ratio	5.0%	4.6%	6.2%	8.6%	8.2%
<b>Earnings and profitability</b>					
Return on assets	0.6%	3.6%	-7.5%	3.5%	3.4%
Expense ratio	14.1%	5.2%	-10.4%	5.1%	6.3%
<b>Liquidity</b>					
Liquid assets to total assets	8.1%	7.4%	6.9%	6.9%	6.1%
Liquid assets to pension payments	206.0%	189.1%	159.3%	161.9%	142.6%
<b>Market risk sensitivity</b>					
Investment yield	6.1%	7.0%	-6.2%	7.3%	5.4%
Investment yield volatility	81.4%	76.1%	211.5%	129.4%	144.6%

Source: CBCS.

**Table 5.4:** Assumptions for Stress Testing




Categories	Indicator	Supervisory threshold	Early warning indicator
Capital adequacy	Solvency ratio	100.0%	104.0%

Source: CBCS.

**Table 5.5:** Sensitivity to Bank Default

Scenario	Funding ratio
Scenario 1: 5% haircut on time and demand deposits	110.6%
Scenario 2: 10% haircut on time and demand deposits	110.1%
Scenario 3: 15% haircut on time and demand deposits	109.7%
Scenario 4: 20% haircut on time and demand deposits	109.3%
Scenario 5: 25% haircut on time and demand deposits	108.8%
Scenario 6: 30% haircut on time and demand deposits	108.4%
Scenario 7: 35% haircut on time and demand deposits	108.0%
Scenario 8: 40% haircut on time and demand deposits	107.5%
Scenario 9: 45% haircut on time and demand deposits	107.1%
Scenario 10: 50% haircut on time and demand deposits	106.7%




Source: CBCS.

Passed	
Early warning	
Failed	

**Table 5.6:** Sensitivity to Equity Repricing

Scenario	Funding ratio
Scenario 1: 5% decrease of equity values	109.8%
Scenario 2: 10% decrease of equity values	108.6%
Scenario 3: 15% decrease of equity values	107.4%
Scenario 4: 20% decrease of equity values	106.2%
Scenario 5: 25% decrease of equity values	105.0%
Scenario 6: 30% decrease of equity values	103.8%
Scenario 7: 35% decrease of equity values	102.6%
Scenario 8: 40% decrease of equity values	101.4%
Scenario 9: 45% decrease of equity values	100.2%
Scenario 10: 50% decrease of equity values	99.0%




Source: CBCS.

Passed	
Early warning	
Failed	

**Table 5.7:** Sensitivity to Interest Rates

Scenario	Funding ratio
Baseline: market-based discount rate framework	115.9%
Scenario 1: 50 bps decrease of discount rate curve	114.3%
Scenario 2: 100bps decrease of discount rate curve	112.8%
Scenario 3: 150bps decrease of discount rate curve	111.4%
Scenario 4: 200bps decrease of discount rate curve	110.0%
Scenario 5: 250bps decrease of discount rate curve	108.7%
Scenario 6: 300bps decrease of discount rate curve	107.0%
Scenario 7: 350bps decrease of discount rate curve	102.6%
Scenario 8: 400bps decrease of discount rate curve	98.6%




Source: CBCS.

Passed	
Early warning	
Failed	

**Table 5.8:** Sensitivity to Interest Rates – Technical Provision Only

Scenario	Funding ratio
Baseline: market-based discount rate framework	115.9%
Scenario 1: 50 bps decrease of discount rate curve	113.0%
Scenario 2: 100bps decrease of discount rate curve	110.4%
Scenario 3: 150bps decrease of discount rate curve	107.8%
Scenario 4: 200bps decrease of discount rate curve	105.4%
Scenario 5: 250bps decrease of discount rate curve	103.0%
Scenario 6: 300bps decrease of discount rate curve	100.4%
Scenario 7: 350bps decrease of discount rate curve	95.2%
Scenario 8: 400bps decrease of discount rate curve	90.6%




Source: CBCS.

Passed	
Early warning	
Failed	

**Table 5.9:** Global Financial Market Turmoil

Scenario	Funding ratio
Baseline: recession fears and flight to safety behavior	109.5%
Moderate: heightened inflation and monetary tightening	102.9%
Severe: fiscal stress and loss of investor confidence	99.6%




Source: CBCS.

Passed	
Early warning	
Failed	

**Table 5.10:** Local Economic Downturn

Scenario	Funding ratio
Baseline: mild economic pressure	109.3%
Moderate: deep economic downturn	107.1%
Severe: domestic recession	103.3%

Source: CBCS.

Passed	
Early warning	
Failed	

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