

## **OBJECTIVES OF SUPERVISING THE FINANCIAL SYSTEM IN PAPUA NEW GUINEA**

One of the primary roles of the Central Bank of Papua New Guinea (the *Bank*) is “promoting the general stability of the financial system in Papua New Guinea”. The *Bank’s* supervisory responsibility is not limited to institutions that accept deposits from the public, and lend these funds to others or use the money to finance any other business activity; the *Bank’s* supervisory role has been widened to include regulation of superannuation and life insurance businesses.

In supervising the financial system, the *Bank* aims:

- to protect the interests of depositors and creditors of authorized deposit-taking institutions (ADIs), policyholders of licensed life insurance companies (LICs), and contributors and stakeholders of authorized superannuation funds (ASFs), by setting, promoting, monitoring and enforcing high standards of integrity and financial soundness of the institutions it regulates;
- to promote stability and soundness of authorized financial institutions (AFIs), including ADIs, LICs and ASFs, and effective markets through setting and issuing of prudential standards and enforcing high standards and taking action where such standards are inadequately being complied with;
- to maintain confidence in the financial system by promoting consumers’ and AFIs’ confidence in its strength and integrity; and by ensuring that the failure of individual AFIs do not undermine the overall stability and soundness of the financial system.

The *Bank* consults closely with participants in the banking, superannuation and life insurance industries and, where necessary, with other regulatory authorities on issues such as prudential and market supervision, on disclosure requirements or on matters of mutual interest affecting the financial system.

## **BANK OF PAPUA NEW GUINEA'S APPROACH TO SUPERVISION OF THE FINANCIAL SYSTEM**

The *Bank's* approach to supervision is based on the premise that the prime responsibility for the prudent operation of an AFI rests with the Board of Directors (or Trustees) and senior management of the institution. This is a fundamental requirement across the financial system spectrum and affects ADIs, ASFs and LICs. The *Bank* seeks to satisfy itself that each AFI is following sound management practices, which limit risk to prudent levels and that its control procedures are kept under review to take account of changing economic and financial conditions.

The *Bank's* prudential supervision aims to minimise the possibility that bad loans or investments or other factors will put the stability of an institution or the interests of its depositors or contributors or policyholders and stakeholders at risk.

The *Bank's* supervisory framework is a combination of strict entry criteria, off-site surveillance, on-site examinations and enforcement and compliance.

The *Bank* requires that AFIs follow certain prescribed rules and regulations including those minimum financial requirements described in the prudential standards, rules, directives and guidelines. These standards are consistent with meeting requirements of core principles for effective supervision and international best practices.

In its supervisory function, the *Bank* monitors compliance on two major fronts including off-site surveillance and on-site examination.

- Off-site supervision is conducted through the analysis of financial and other prudential statistics provided by AFIs. Tests are done with the statistics to ensure that AFIs meet specific requirements with respect of capital, large exposures and concentration, provisioning and asset quality classification, foreign exchange overall and single currency exposure levels, and investments portfolio diversification. In addition, the *Bank* strongly requires that the Board of Directors and senior management continually address risk management policies and controls and to provide assurance that the risk management systems are correctly measuring and managing those risks. Where problems are detected, on-site verification are carried out.
- On-site supervision involves visits by examiners to AFIs premises and closely reviews the institution's operations, policies and procedures. These reviews may entail a general examination of an institution's overall operations, including compliance matters and financial condition, or may be targeted on a specific area particularly if off-site surveillance or other information has suggested problems, or potential problems, in that area. They also check adherence to the prudential standards, directives and guidelines.

In addition to its off-site and on-site supervision, the *Bank* also receives reports from external auditors of AFIs. The external auditors are required to provide reports to the *Bank*, commenting on the AFIs financial performance and adherence to the *Bank's* prudential standards, directives and guidelines.

## **STRUCTURE OF THE FINANCIAL SYSTEM SUPERVISION DEPARTMENT AND ITS FUNCTIONS**

The Financial System Supervision Department's (FSSD) major objective is to maintain a sound market-based financial system through risk-based prudential supervision of ADIs (this includes commercial banks, finance companies, and savings and loan societies). The extension of the supervisory function of the department also enable the *Bank* to ensure sound operation of ASFs and LICs and thereby maintaining protection to the interests of funds contributors and policyholders, respectively.

The FSSD is structured into four (4) units called Licensing and Policy, Banks and Financial Institutions, Savings and Loan Societies, and Superannuation and Life Insurance.

The objectives of the Licensing and Policy unit are to develop and review policies relating to the supervision of the ADIs, study and monitor the payments system structure and its impact on the *Bank's* supervisory regime, monitor international developments and their impact on supervision, assess licensing applications, including renewals of licences and major changes to ownership of existing ADIs.

The role of Banks and Financial Institutions unit is conducting on and off-site supervision of banks and licensed financial institutions (BFIs). On-site activity involves conducting reviews of BFIs and ensuring adherence to prudential policies and regulations, while off-site activity involves supervision of BFIs through risk-based analysis of financial information on a periodic basis. The unit is also responsible for ensuring prudential responses and corrective measures sanctioned by the *Bank* for BFIs are enforced. In addition, the unit is tasked to suppress illegal, dishonorable or improper practices of BFIs.

The role of Savings and Loan unit is to conduct on and off-site supervision of savings and loan societies. The unit is also responsible for ensuring compliance to the Savings and Loan Act and Directives issued by the Registrar.

The Superannuation and Life Insurance unit is responsible for on and off-site supervision of ASFs and LICs, licensing and formulation of prudential standards and policies for effective and efficient supervision of ASFs and LICs. The unit also ensures thorough investigations and decisions relating to fit and proper assessments of shareholders, directors and management for ASFs and LICs.

# FINANCIAL SYSTEM SUPERVISION

