



BANK OF PAPUA NEW GUINEA

**KEYNOTE ADDRESS
AT THE WORKSHOP ON OPPORTUNITIES AND CHALLENGES FOR DIGITAL
FINANCIAL SERVICES (DFS) IN PAPUA NEW GUINEA,**

CROWN PLAZA, PORT MORESBY

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BY

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1. Mr. Eliko Boletawa, Head of Policy, Programs & Regional Initiatives, Alliance for Financial Inclusion,
2. Mr. Manoj Sharma, Managing Director, MicroSave,
3. Ms. Bhavana Srivastava, Associate Director, MicroSave,
4. Mr. Mukesh Sadana, Principal Consultant, MicroSave,
5. Heads and representatives of the Financial Institutions & Stakeholder Organisations,
6. Distinguished Guests,
7. Ladies & Gentlemen.

Introduction

I welcome you all to this event on the opportunities and challenges for Digital Financial Services (DFS) in PNG, hosted by the Centre for Excellence in Financial Inclusion (CEFI) and the Bank of PNG (BPNG) with funding support from our partners, Pacific Financial Inclusion Program (PFIP) and the Asian Development Bank (ADB).

The convening of this workshop is part of the programs on “Financial Inclusion”, consistent with the Government’s increased focus on extending financial services to the unbanked segment of our population and the rural areas of the country.

I would like to focus my talk on the Central Bank’s experience and perspective in relation to the progress, opportunities and challenges for digital financial services in PNG, which I hope will set the tone for today’s discussions, interactions and assessment of the future prospects for DFS in PNG.

Background

By way of background, let me give you a brief overview of the financial landscape in PNG before I touch on the status, opportunities and challenges to DFS.

Our financial system continues to remain sound, stable, and strong in profitability, capital structure and was not affected by the recent global financial crises (GFC). It continues to evolve and grow with ongoing reforms to the financial system architecture, especially the structure, composition and products. The total assets of our financial system was K41 billion as at the end June 2015. Our financial system is the key cornerstone for supporting economic development and growth of this nation.

However, according to estimate there is only about 15 - 20 percent of the total population of 7.3 – 7.6 million people in the country who have access to the formal financial system. Access to basic financial services in rural areas is either minimal or non-existent, due to the fact that most people are living in areas where there is

difficult geographical terrains and remoteness, and accessibility to markets and/or financial services is always a challenge.

Several barriers restrict the number of low-income households that participate in the formal financial sector. We have high costs of serving low income customers (low wage earners in town and subsistence farmers in rural PNG) relative to inadequate revenues generated by small transactions and balances; the high costs of building a distribution system to acquire and serve low-income customers; and lack of products and services tailored to the needs of low-income customers. These have denied individuals, families and communities of the socio-economic benefits associated with financial inclusion. The unbanked segment was estimated at 85.62 percent of the total population with the Highlands region having the highest percentage at 91.92 percent, followed by the Momase region at 82.30 percent¹ in 2013. Over the last 2 years, I'm sure we have reduced this estimate, which is subject of further work.

The Current Status of Digital Financial Services in PNG

Financial inclusion and financial literacy in PNG have received active support from the national government and the private sector, particularly the financial services sector, resulting in a diverse range of service providers, financial products and delivery channels. However, due to a lack of data to regularly map access, quality and usage of financial services, the policy and investment interventions in financial inclusion remains ad-hoc. In order to address this gap, actions were taken to produce a National Strategy for Financial Inclusion & Financial Literacy 2014-2015 (NSFIFL), which was operationalized in early 2014. The results of the implementation of the Strategy include the following:

- 560,000 new bank accounts of which 31% were by women,
- Promotion of the Young Minds Savings Campaign where 82,400 students opened up new savings accounts with either commercial banks or microbanks or S&L societies,

¹ Data calculated as per the Papua New Guinea Financial Services Assessment conducted in 2013.

- Financial literacy programs were led by different financial and training institutions. Microfinance Expansion Project, as at August 2015, trained a total of 57,000 adults of whom 48% were women,
- Financial inclusion expositions rolled out in 6 provinces, promoting awareness to the general public,
- The national strategy was rolled out to 6 provinces in Madang, East New Britain, New Ireland, Eastern Highlands, Simbu and Jiwaka provinces
- Successful rollout of micro-insurance by Capital Life Insurance in collaboration with BIMA and Digicel which saw 222,000 customers bought insurance policies by end August,
- The Bank has started to collect and compile financial inclusion and financial literacy data on a quarterly basis for purpose of measuring impact of efforts by various participating financial institutions and organizations.

It is important to state that when it comes to DFS, it is critical to have an efficient payments system platform. In 2013, the national parliament passed the National Payments System – a key legal framework for PNG payments and clearing system. And in 2014, the Central Bank in collaboration with the commercial banks and key stakeholders, successfully rolled out a world class Kina Automated System (RTGS) for PNG. Whilst the KATS is dominated only by commercial banks, there is plan underway to establish a national payments switch which will enable inter-operability between all providers of electronic and mobile payment services.

The Bank's approach to the promotion of mobile payment solutions to encourage different models of mobile payment services rolled out including bank-led, MNO-led and non-bank-led. As a result of this approach, we have seen a number of initiatives and products rolled out by several institutions and organisations (Bank-led and MNO-led):

- ANZ Bank rolled out its Go-Money
- BSP launched its Wantok Moni,
- Nationwide Microbanks with its MiCash and mylife products,
- Digicel with its Cellmoni,
- Westpac's InStore Banking

- BIMA in collaboration with Capital Life Insurance successfully launched its micro-insurance products,
- The various other providers launched out their innovative services such as account balance checks, sms alert messages, or paying for bills (e.g. Easy Pay) via an account or via airtime

There have been continuous efforts by mobile network operators to widen the communication coverage across PNG. Currently around 90 percent of the country is covered by the two (2) telecommunication service providers enabling approximately 2 million Papua New Guinean users.²

The country is experiencing a rapid change in access to modern communication technologies including having access to internet and the upgrade of network from 2G to 3G and now 4G. The rate in the uptakes and usage of mobile phones in PNG has been exponential since its introduction less than a decade ago.

Opportunities

There are very good reasons which make digital financial services a key and essential tool when it comes to addressing the 80 percent unbanked population in PNG;

- It increases convenience by reducing travelling from remote villages and also for reducing queuing times,
- It increases the safety of transactions for users; and,
- through agents and outlets, users have a greater control on where to transact; which helps protect privacy and reduce fraud.

I hope that the establishment of the national payments switch in the near future will establish an ecosystem for interoperability that would enhance efficiency, low transaction costs and to some extent merchants/agents who provide the service will benefit from adequate cashflows because more people will be able to use the same access point(s) regardless of which service provider they align with.

² Latest data from Digicel PNG and Bmobile/Vodafone.

Challenges

The findings from the National Financial Capability study suggest that the current National Financial Inclusion and Financial Literacy Strategy may need to be further developed, in particular to facilitate significant strengthening of the rural financial services architecture. This is a pre-condition for enhancing rural financial inclusion and in particular DFS. The findings also indicate investment in coordination and strengthening of financial inclusion and financial literacy programmes are required in order to increase financial inclusion by women. Relatively, low levels of financial knowledge, in particular knowledge of the cost of financial services suggest a continuing commitment is required to further strengthen consumer protection.

I believe uptake and customer retention will continue to be pressing issues for DFS providers. It brings no return on investment for digital financial service providers if end users are not using it. Inactivity and account dormancy are challenges for DFS providers globally. Furthermore, keeping customers happy and loyal is a daunting task in a jurisdiction where there are several players.

Financial illiteracy is the biggest challenge throughout PNG. In addition, there is still lack of information about the location of access points. Where there are already points of access, there is still lack of customer service. These are some of the challenges which we should also discuss and may be research out the causes and solutions.

Agent management is also another challenge for DFS. Agents are the front lines as from wherever they operate; they enable customers to transact by turning cash into e-money and back again. Agents play a critical role not only in handling transactions but in identifying, acquiring, and educating new customers, as well as delivering a customer experience that keeps customers coming back. At the same time, the use of agents can trigger operational, technological, legal/compliance, reputational, and other risks that should be appropriately managed.

Agents must not only comply with Know-Your-Customer (KYC) and Anti Money Laundering (AML) standards but also help guard the entire system against fraud, encouraging customers' trust in the service. In addition, agents must provide customers with access to cash when they need it. Therefore, agents play a critical role in liquidity management by keeping adequate stocks of both cash and e-money to enable clients to transact. And as the first point of contact, agents help bridge the gap between high-tech service and low-literacy clients.

Ladies and gentlemen, one thing is certain; technology will play a critical role. The rapid spread of new information and communications technologies, and, in particular, mobile technologies, is increasingly making more services available to the unbanked. I see the potential of digital technology to open up access to financial services and drive down costs. We need to embrace these developments and work together by providing the leadership, expertise, experience, and funding. I encourage the Government, the private sector, development partners, and civil society organizations to work in collaboration so that we can ensure the majority of our unbanked population have access to basic affordable financial services to create wealth and improve their living standards.

I am sure you will hear from leaders in this field on how they see digital technology driving financial inclusion and how it can benefit Papua New Guinea going forward.

On this note, I thank our guest speakers who have left their homes to share with us their experiences and our sponsors for staging this event. I acknowledge the presence of our partners and the financial institutions in the forefront of driving the financial inclusion agenda in this country.

I am sure you all will enjoy the day today and I look forward to your engagement in discussions.

Thank you