



**PRESENTATION TALKING POINTS
AT THE BSP E-BUSINESS EXPO,
SIR JOHN GUISE STADIUM, PORT MORESBY**

1ST FEBRUARY 2017

BY

**MR. LOI M. BAKANI, CMG,
GOVERNOR OF THE BANK OF PAPUA NEW GUINEA**

TOPIC

ENHANCING THE ENABLING ENVIRONMENT TO SUPPORT E-BUSINESS IN PNG

Introduction

Thank you for the invitation extended to the Bank of Papua New Guinea to do a presentation on the central bank's and regulator's perspective concerning E-Business.

Although the terms e-commerce and e-business are often used interchangeably, there are differences. E-commerce is the buying and selling of goods and services on the Internet or other computer network. Any brick and mortar store can become an e-commerce business by adding a virtual storefront with an online catalogue. In most cases, e-business refers exclusively to Internet businesses of buying and selling of goods and services, but it may also refer to any business that uses Internet technology to improve productivity and profitability.

The Bank of PNG continues to ensure that, in all aspects of digital financial services, the following parameters need to be in place:

A Legislative Framework to Enable Digital Financial Services

- **The enactment of the National Payments System Act in 2013,**
 - The Act regulates all providers of mobile and electronic payments services in Papua New Guinea,

- The Act paved the way for the implementation of a new, efficient, reliable and safe payments system.
- **Regulations Supporting the Payments System**
 - The Regulations are required to operationalize the Act to deal with risks that might emanate for the financial institutions and retail clients,
 - Supporting regulations are required to give strength to the Act as they are forward looking and sufficiently flexible,
 - A number of regulations and guidelines to be issued address the following areas:
 - a) **Payments System Oversight function**
 - With scope for best practice and standards, identification of NPS instruments, ensure systems employed are reliable, to cover both high and low value transaction,
 - b) **Regulation on Agent Banking and Arrangement**
 - Agent of the same financial institution, an agent manager, or a third party. Ensures that proper risk mitigating arrangements are in place, whilst promoting financial inclusion and to reduce the cost of financial services, and cover responsibilities of parties and termination of agreements,
 - c) **Regulation of Electronic Fund Transfer**
 - A payment made by one person is received by the other,
 - d) **Regulation of Retail Payments Instruments**
 - Ensure safety, and must satisfy the requirements of the Central Bank. That the products are safe and sound including outsourcing arrangement.

The National Payments System

- The introduction of the world class Kina Automated Transfer System (KATS) which is a real time gross settlements system,
 - Cheques truncation phase implemented in 2014
 - It reduced the cheque clearing time to 3 days by January 2016.
 - The clearing time has further reduced in January 2017 to 2 days
 - Direct Credits phase

- Central Switch - The next plan by the Central Bank is to establish a Central Switch,
 - To creating a financial eco-system for all mobile and electronic payments service providers (All mobile & cards payments service providers are connected through a licensing process)
 - ✓ The customers can transact from any terminal of any payment service provider efficiently at least cost,

Digital Financial Services

The Bank's approach to the promotion of providers of financial services is one of liberal where we are encouraging different models based on the party holding the contractual relationship with the customer:

- 1) A full-service bank offering a basic or simplified transactional account for payments, transfers, and value storage via mobile device or payment card plus point-of-sale (POS) terminal;
- 2) A mobile network operator (MNO) e-money issuer;
- 3) A non-bank / non-MNO e-money issuer

As a result of this approach we have seen a number of initiatives taken out by several institutions and organisations:

- ANZ Bank rolled out its Go-Money
- BSP launched its Wantok Moni,
- Nationwide Microbanks with its MiCash and MiLife products,
- Digicel with its Cell moni,
- Westpac's In-Store 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 for payment for bills (e.g. Easy Pay by PNG Power) via an account, mobile or electronic wallet or via airtime

There have been continuous efforts by mobile network operators to widen the communication coverage across PNG. The country is experiencing a rapid change in

access to modern communication technologies including having access to internet and the upgrade of networks. 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 75 percent currently 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.

- **Addressing The Challenges**

The findings from the National Financial Capability study carried out in 2015 has guided us to review and change the way we promote financial inclusion in PNG. The second National Financial Inclusion Strategy 2016-2020 responded to those findings, by setting out a number of initiatives for strengthening financial inclusion, and in particular DFS, into the rural areas. These include:

- Digital Financial Services,
- Inclusive Insurance,
- Financial Literacy & Financial Education,
- Financial Consumer Protection,
- Informal Economy and Agriculture Finance,
- SME Finance,
- Resources Sector Engagement,

- Government Engagement.

Financial Literacy & Financial Education

Financial illiteracy is the biggest challenge throughout PNG. In order to see e-Business reaching economies of scale, adequate resources and collaborative efforts are required to ensure our adult population is financial competent. 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.

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.

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.

The National Financial Capability Survey findings also strongly emphasized the importance of strengthening financial education and financial literacy in order to increase financial inclusion by women. Levels of financial knowledge, in particular knowledge of the cost of

financial services suggest a continuing commitment is required to further strengthen consumer protection.

The 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.

Conclusion

E-Business will become successful provided these following:

- The enabling environment is conducive for e-business to prosper;
- Adult financial literacy for the economically active population of PNG is significantly supported; and,
- There is strong emphasis on the protection and empowerment of consumers' interests.

Thank you.