



**BANK OF PAPUA NEW GUINEA**

**National Payments System Development Project**

**REQUEST FOR INFORMATION**

**FOR**

**PROVISION OF SERVICES AND PRODUCTS**

**FOR THE RETAIL ELECTRONIC PAYMENTS SYSTEM**

**FINAL v 1.0**

Port Moresby, Papua New Guinea

12 October 2017

Commercial in Confidence

## Table of Contents

Introduction .....	3
Bank of Papua New Guinea.....	3
Payments System Development Objectives .....	3
Financial inclusion.....	4
VENDOR GUIDANCE .....	4
RFI options for T2/T3 Fls .....	5
Products .....	5
Annex 1 – background information for Papua New Guinea.....	10
Annex 2 - Banking Sector .....	11
Banks.....	11
Microfinance institutions (T2 / T3) .....	12
Account Ownership.....	13
Bank account numbering.....	13
Payment services .....	13
Agent Banking .....	13
Payment Instruments and Circuits.....	14
Annex 3 - National Payments System Development Programme .....	15
Developments 2008-2016.....	15
Market developments.....	15
Planned future developments .....	16

## Introduction

The purpose of this Request for Information (RFI) is to collect information for planning purposes. It covers the provision of services and products that will assist Tier 2 and Tier 3 (T2 and T3) Financial Institutions in Papua New Guinea to join the proposed BPNG Switch.

## Bank of Papua New Guinea

Bank of Papua New Guinea (BPNG) is the monetary authority of Papua New Guinea, and enjoys legal, operational, administrative, and financial autonomy. BPNG was formally established on 13 September 1973 and operates under the Central Banking Act 2000.

BPNG's payment functions include:

- Providing the means of payment (the PNG Kina currency - PGK) through the commercial banks to the economy;
- Operating interbank clearing and settlement arrangements;
- Acting as banker to the PNG Government and as the fiscal agent of the state;
- Operating the Exchange Settlement Account (ESA) which commercial banks are required to maintain at BPNG. These accounts are used for interbank transfers and settlement of payment clearing operations in BPNG's Real Time Gross Settlement (RTGS) system, which is an element of the Kina Automated Transfer System (KATS).

## Payments System Development Objectives

- The overall objective of BPNG's development strategy for the National Payments System (NPS) is to bring modern payment and financial services to the largest possible percentage of the population.
- In line with this objective, BPNG is currently in the process of procuring and implementing a Card and Mobile Payment Switch.
- BPNG is also currently determining the ownership, management and operation model for this Card and Mobile Payments Switch.
- The integrated interoperable retail payments infrastructure will adhere to the following guiding principles:
  1. Closely co-ordinated with BPNG;
  2. Covers all payment service providers to achieve full interoperability between all payment services;
  3. Based on international standards and best practices;
  4. Fosters co-operation, financial inclusion and competition;
  5. Allows interchange of retail services between participating institutions;
  6. Efficient and cost effective;
  7. Open to all institutions involved in financial message transmission that are licensed by BPNG.

## Financial inclusion

Since 2013 BPNG has led a drive for financial inclusion of the unbanked and low-income sections of the population. Drivers for this include the high cost of opening and operating bank accounts for people on very low incomes, as well as a high level of financial illiteracy in broad sections of the population. Major steps taken so far include:

- Establishment of the Centre for Excellence in Financial Inclusion (CEFI) in 2013;
- Publication of the National Strategy for Financial Inclusion and Financial Literacy 2014 – 2015;
- Committing PNG to the Maya Declaration developed by the Alliance for Financial Inclusion (AFI).

As with equivalent programmes in other countries, a strong focus for financial inclusion in PNG is on the provision of digital financial services (DFS) to poorer individuals and communities, including services such as mobile payments and agent or branchless banking. This is particularly aimed at those living in rural areas.

## VENDOR GUIDANCE

THIS IS A REQUEST FOR INFORMATION (RFI) for a range of Services and Products for T2 and T3 Financial Institutions in PNG.

This RFI is issued solely for information and planning purposes. It does not constitute a Request for Proposal (RFP) or a commitment to issue an RFP in the future. This RFI does not commit the Bank of the Papua New Guinea (CEFI) to contract for any supply or service whatsoever.

- Respondents are advised that BPNG will not pay for any information or administrative costs incurred in response to this RFI; all costs associated with responding to this RFI will be solely at the interested party's expense.
- BPNG unconditionally reserves the right to enter into direct contractual supply negotiations with any RFI Respondent, at any time, on any element of the RFI content, at its sole discretion.
- RFI responses will become the property of BPNG. This RFI is the property of and confidential to BPNG. Apart from using the RFI and responding to it, recipients shall not disclose any details, to any other person or organisation, and shall treat this RFI and their responses with complete confidentiality.
- BPNG reserves the right to cancel this RFI (and the RFI process) at any time and also to re-issue an RFI for the same or similar requirements.
- Please provide a written response to this RFI, along with diagrammatic overviews of technology solutions proposed.
- Whilst there are some prescriptive questions to be covered, we do recommend that Respondents should not feel constrained in providing additional guidance and / or advice in any areas where they feel BPNG would benefit from their previous experience.
- An email based response to this RFI is required by 4pm on 31 October 2017 (Papua New Guinea Time) to: [TLyon@bankpng.gov.pg](mailto:TLyon@bankpng.gov.pg).

## RFI options for T2/T3 FIs

The primary aim of this RFI is to explore options for providing an economically viable pathway for T2/T3 FIs to join an interoperable switch which, as previously stated, is the subject of a current initiative by BPNG to support its drive for financial inclusion and interoperability for financial transactions.

These options could conceivably be met by engaging a provider to act:

1. As a consolidator that connects to a new switch on behalf of all or a number of T2/T3 FIs.
2. As a service provider that manages some or all aspects of the interoperability for financial transactions on behalf of all or some of the T2/T3 FIs.
3. As a service provider that provides services and/or assistance to connect those T2/T3 FIs that wish to connect directly to the new switch.
4. As a service provider that runs and manages the new switch.

Service providers could provide some or all of the above or could recommend other services.

## Products

1. Introduce a PNG “Kinacard” Debit Card based product.

Currently there is not a country-wide Debit Card in PNG.

The four commercial banks (BSP, Westpac, Kina Bank and ANZ) and a few T2/T3 FIs in Papua New Guinea offer issuer specific Debit Cards, leaving a large number of the remaining T2/T3 FIs at a material competitive disadvantage in obtaining a share of the growing electronic transaction market and the associated payments related revenue streams.

Our estimates are that in year 3 of the Debit Card Program we would have some 700,000 active cards domestically.

Please outline in your RFI response;

- a) Your observations on the proposed target markets and any advice or guidance you may have on how to optimise this market.
- b) Using an assumption base on transaction volumes and values – outline the (indicative) quantum of new interchange based revenue that would accrue to T2/T3 FI's
- c) How you would manage the project from inception through to closure including outlining your previous experience in training staff on how to manage the ongoing requirements of a Credit Card Program.
- d) Services you could provide on an ongoing basis in relation to technology hosting, integration, testing and support.
- e) How you ensure that ongoing compliance obligations are met – including for each of PCI-DSS, AML/CFT and FATCA.
- f) Provide a high level project timeline and an overview of indicative costs.

## 2. Enable global acceptance of a PNG “Kinacard” Debit card at ATMs, EFTPOS and E- Commerce sites

Approximately 1.2 million domestic debit cards are on issue in Papua New Guinea. These debit cards access local transaction accounts held in core banking systems operated by four banks and a small number of T2/T3 FIs. Currently there are some that are scheme (Visa, MC, UPI) branded with cards produced by ABCorp and Placard in Australia which operate in Westpac/ANZ/BSP/Kina Bank EFTPOS and ATM devices in Papua New Guinea. Perhaps 25% - 30% of the domestic PNG customer base has the need for use of cards in New Zealand and Australia as they travel often for leisure and / or business purposes.

There are some existing card BINs, which, while provided under an existing agency agreement by another party, are registered in the T2/T3 FIs’ names.

Transaction volumes in calendar year 2017 are expected to be 6.1m domestic transactions including the commercial banks. This is estimated to grow rapidly for customers of T2/T3 FIs with transactions volumes for that group estimated to reach 10m ATM and EFTPOS transactions in 5 years. Transaction mix remains weighted towards ATM traffic (70%).

Please outline in your RFI response in relation to a PNG “Kinacard”:

- a) How you would enable a Country Debitcard (Domestic) to be used in the Papua New Guinea and wider across global EFTPOS and ATM networks.
- b) How you would enable a PNG “Kinacard” to be used for internet purchases anywhere in the world.
- c) The method and infrastructure you would use to connect the cards to the global card networks: please include a pictorial overview of how the transactions would be routed and validated.
- d) Using an assumption base on transaction volumes and values – outline the (indicative) quantum of new interchange based revenue that would accrue to participants.
- e) How you would manage the project from inception through to closure including outlining your previous experience in training staff on how to manage the ongoing requirements of a Debit Card Program.
- f) Services you could provide on an ongoing basis in relation to technology hosting, integration, testing and support.
- g) How you ensure that ongoing compliance obligations are met – including for each of PCI-DSS, AML/CFT and FATCA.
- h) Provide a high level project timeline and an overview of indicative costs.

## 3. Payments via mobile

As in most developing economies, the potential for growth is very large, given the penetration of mobile phones in Papua New Guinea, which according to some estimates is approximately 80 percent of the population taking into account family members.

Current total mobile subscribers are approximately 5m spread between three mobile providers – Digicel – 3.5m, bmobile-Vodafone – 1.5m and Citifon – 100k.

The use of mobile telephones to access banking and payment services is in an initial stage of development and implementation in Papua New Guinea. Several institutions offer mobile banking

services, mainly tied to a bank account, with three mobile wallets in existence using SMS and USSD protocols. While smart phones enabling the use of apps are slowly increasing in usage many people still have basic phones requiring SMS based services.

Please outline in your RFI response:

- a) Your observations on the proposed target markets and any advice or guidance you may have on how to optimise this market.
- b) The method and infrastructure you would use to provide this service, please include a pictorial overview of how the transactions would be routed and validated.
- c) Using an assumption base on transaction volumes and values – outline the (indicative) quantum of new interchange based revenue that would accrue to T2/T3 FIs.
- d) How you would manage the project including outlining your previous experience in mobile payment services.
- e) Services you could provide on an ongoing basis in relation to technology hosting, integration, testing and support.
- f) How you ensure that ongoing compliance obligations are met – including for each of PCI-DSS, AML/CFT and FATCA.
- g) Provide a high level project timeline and an overview of indicative costs.

#### 4. Introduce a low cost Remittance Card between Papua New Guinea and selected countries.

There are a significant number of ethnic Papua New Guineans working/living abroad. Whilst estimates of two way low value (<\$250) remittances between Papua New Guinea and other countries varies considerably what is without doubt is the cost per transaction across the (largely) SWIFT Payments network is high. In today's global economy the workplace, or education facility, is not just the country, it's the region.

In Australia studies have found that remittances are now bi-directional because social networks continue to be significant. As long as migrants and their kin build and maintain these networks, remittances are likely to be sustained beyond what economic principles might suggest, as they respond to an implicit social contract and can be seen as a form of intergenerational value transfer.

Please outline in your RFI response;

- a) How you could introduce a Remittance Card product that would materially reduce existing costs to senders and receivers of low value remittances.
- b) The method and infrastructure you would use to provide this service, please include a pictorial overview
- c) How you would manage the project including outlining your previous experience in deploying a Remittance Card Program
- d) Services you could provide on an ongoing basis in relation to technology hosting, integration, testing and support.
- e) How you would ensure that ongoing compliance obligations are met – including for each of PCI-DSS, AML/CFT and FATCA.
- f) Provide a high level project timeline and an overview of indicative costs.

## 5. Introduce a Credit Card based product

Currently BSP, Westpac, and ANZ in Papua New Guinea issue full function credit cards, leaving T2/T3 FIs at a material competitive disadvantage in obtaining a share of the growing unsecured revolving lending market and the associated payments related revenue streams.

The initial strategic opportunity is to target higher net worth individuals across the private and public sectors in the domestic market.

Our estimates are that in year 3 of the Card Program we would have some 150,000 active cards domestically.

Please outline in your RFI response;

- a) Your observations on the proposed target markets and any advice or guidance you may have on how to optimise this market.
- b) The method and infrastructure you would use to connect the T2/T3 FIs credit card to the global card networks, please include a pictorial overview of how the transactions would be routed and validated.
- c) Using an assumption base on transaction volumes and values – outline the (indicative) quantum of new interchange based revenue that would accrue to T2/T3 FIs
- d) How you would manage the project from inception through to closure including outlining your previous experience in training staff on how to manage the ongoing requirements of a Credit Card Program.
- e) Services you could provide on an ongoing basis in relation to technology hosting, integration, testing and support.
- f) How you ensure that ongoing compliance obligations are met – including for each of PCI-DSS, AML/CFT and FATCA.
- g) Provide a high level project timeline and an overview of indicative costs.

## 6. Introduce a Purchasing Card (P-Card) for use in Papua New Guinea Government and Private Sector

As we understand both inter and intra government department procurement spending processes represent a real opportunity for productivity improvement, cash flow optimisation and close monitoring of spending trends through detailed reporting. Further, we understand that a purchasing card (P-Card) is a form of charge card that allows goods and services to be procured without using a traditional purchasing process.

We envisage that for P-Cards to work effectively in the Papua New Guinea there will need to be one single system with cards issued to authorised public servants and private sector employees.

These individuals would then be expected to follow explicit policies and procedures related to P-Card use. The Papua New Guinea based Government department or Business would need to be able to centrally implement a variety of controls for each P-Card; for example, if it can be used globally or only in the Papua New Guinea, a single-purchase dollar limit, a monthly limit and where or when money can / cannot be spent. In addition, a cardholder's P-Card activity would need to be able to be centrally monitored in near real time.



The size of the Papua New Guinea economy and the inherent industrial/tourism related procurement spend represents a commercial opportunity for BPNG to lead out the in country introduction of a whole of country P-Card programme.

Please outline in your RFI response;

- a) Your observations on the proposed target markets and any advice or guidance you may have on how to optimise the marketing opportunity.
- b) The method and infrastructure you would use to connect the BPNG P-Card to the global card networks please include a pictorial overview of how the transactions would be routed and validated.
- c) Using an assumption base on transaction volumes and values – outline the (indicative) quantum of new interchange based revenue that would accrue to BPNG.
- d) How you would manage the project from inception through to closure including outlining your previous experience in training staff on how to manage the ongoing requirements of a P- Card Program
- e) Services you could provide on an ongoing basis in relation to technology hosting, integration, testing and support.
- f) How you ensure that ongoing compliance obligations are met – including for each of PCI-DSS, AML/CFT and FATCA.
- g) Provide a high level project timeline and an overview of indicative costs.

## Annex 1 – background information for Papua New Guinea

### Geography

Papua New Guinea (PNG) is an independent state in the south-west Pacific with a land area of approximately 460,000 square kilometres. It occupies the eastern half of the island of New Guinea together with a large number of smaller islands. The country is culturally very diverse, with over 800 languages spoken, many of them by very small numbers of people.

### Population

Some 15 per cent of the approximately seven and a half million population live in a small number of urban centres, of which the largest is the National Capital District (NCD) surrounding the capital, Port Moresby. These centres are well-served with modern infrastructure, including well-developed banking and other financial services.

The rest of the population is spread throughout the country in smaller towns, villages and thousands of rural communities, many of which are extremely small and remote. In general the infrastructure in the more remote communities is underdeveloped, and, due to the challenging nature of much of the terrain, not all communities are connected by road. In recent years both coverage and usage of mobile telephones have grown rapidly.

### Economy

PNG has extensive mineral resources including gold, copper, rare earth elements, nickel, cobalt, chromium, molybdenum, iron and platinum, as well as substantial deposits of natural gas. In addition the country exports a range of agricultural and non-agricultural commodities such as vanilla, palm oil, copra, copra oil, cocoa, coffee, tea, rubber, logs and marine products. The economy has shown impressive growth in recent years, much of it based on the export of liquefied natural gas and minerals. However, the recent international downturn in commodity prices has had a significant adverse impact on government revenues and economic activity in general.

Generally speaking the economy is fragmented, with a small formal sector oriented towards resource extraction and a large informal sector dominated by subsistence and semi-subsistence activities. The government has a number of programs in place to stimulate the agricultural sector, reduce the nation's dependence on minerals and hydrocarbons and engage a greater proportion of the population in the formal sector.

## Annex 2 - Banking Sector

### Banks

As in most countries the PNG NPS is characterised by several different types of financial institutions. The following paragraphs give brief details of the present state of the PNG payments landscape as it applies to this RFI.

The commercial banking sector in PNG is well-established and of long standing (the first bank opened in 1910). However, the penetration of the banks into the population is very low; the total number of accounts held at these institutions is estimated not to exceed ten per cent of the total population (noting that many accounts are held by organisations rather than individuals, and that a number of customers will have more than one account). Nevertheless, this probably also equates to a high percentage of the 'formal' economy (comprising larger organisations and their employees). The geographical penetration of the banks is also fairly shallow and is generally confined to the major population centres, although this is changing somewhat with moves towards branchless and agent banking, particularly by Bank of South Pacific (BSP).

There are currently four licensed commercial banks in PNG which are described below. They offer a range of modern services and products, including transaction and savings accounts, debit and credit cards, ATMs, EFTPOS, Internet banking, mobile phone banking and electronic crediting of salaries. The services available are generally comparable to those offered in the more advanced economies in the region.

With the exception of Kina Bank, each bank operates its own network of ATMs and EFTPOS terminals. Kina Bank, which is relatively newly-established, has recently entered into an arrangement to use Westpac's network. The three current networks are interoperable via Bi-lateral links between the three banks. This means that a card issued by one bank can be used in another bank's ATM or EFTPOS terminal. This is achieved through bilateral agreements, with net positions being calculated every evening and settled the following morning in the RTGS function of KATS.

The four banks currently operating in Papua New Guinea:

**Australia and New Zealand Bank PNG Limited (ANZ)** is a locally-incorporated subsidiary of ANZ Bank, whose head office is in Melbourne, Australia. In PNG ANZ has 15 branches, some 70 ATMs and approximately 1,500 EFTPOS terminals installed. ANZ offers a mobile banking service to its own customers in PNG and other Pacific countries called goMoney. This is tied to regular bank accounts and cannot be used to send or receive funds transfers to or from customers of other financial institutions. In each country goMoney can only be used for domestic transfers. There are over 7,500 registered goMoney customers in PNG.

**Bank of South Pacific Limited (BSP)** is locally-owned and is the largest bank in PNG in terms of customers, deposits and transactions by a considerable margin. BSP has some 80 branches, over 300 agents, over 300 ATMs and more than 9,000 EFTPOS terminals installed. In recent years it has been successful in attracting new customers outside the main population centres through its "BSP Rural" project which is targeted at rural clients, offering basic savings services at reduced fees and with biometric identification. As noted above, in addition to its own branches BSP operates through a network of agencies in smaller centres. It also offers two mobile phone-based services:

**Kina Bank Limited** is a member of Kina Group, a well-established PNG company which offers a range of financial services including wealth management, funds management and stockbroking. In 2015 Kina Group bought the operations and banking licence of the Malaysian bank Maybank, which had

been operating on a small scale in PNG for a number of years. At present Kina Bank has five branches. Pending the introduction of the BPNG switch, Kina Bank has entered into an arrangement with Westpac for the use of its ATM and EFTPOS network

**Westpac Bank PNG Limited** is a locally-incorporated subsidiary of Westpac Bank, whose head office is in Sydney, Australia. In PNG Westpac has 17 branches, 60 ATMs and some 2,100 EFTPOS terminals installed. Westpac has an agency banking service called In-Store Banking which operates through EFTPOS terminals in over 100 retail establishments. It also offers a mobile phone-based service called Westpac Mobile Banking, which is targeted at its own account holders and provides a range of banking and payment services (including transfers to customers of other banks), with some 57,000 registered customers.

### Microfinance institutions (T2 / T3)

There are currently five microfinance institutions (MFIs) in PNG offering services which include a variety of different accounts (savings, transaction, fixed deposit and special savings) and a wide range of lending activities.

Two MFIs currently offer card or mobile payment services, as described below. There is considerable interest among all MFIs in being able to provide such services in a cost-effective way. The planned card and mobile payment switch is therefore of particular interest and relevance to this sector.

#### MiBank

The largest MFI is Nationwide Microbank Limited which operates under the name of MiBank and has 12 branches. In addition to 'traditional' MFI activities, MiBank offers two services of relevance to this RFI:

1. A debit card called MiCard which is issued in collaboration with BSP. This is a MiBank-branded card which can currently be used only in BSP's ATMs, EFTPOS terminals and merchants.
2. A mobile money service called MiCash. This service uses Digicel's mobile network and has in excess of 27,000 accounts. In addition to mobile-to-mobile transfers, it can be used for cash-in/cash-out and other transactions in almost 150 access points throughout PNG.

#### People's Microbank

People's Microbank is owned by the National Development Bank, a government-owned institution, and has branches in five centres. It launched a SMS banking facility mainly for balance inquiry in April 2015 but plans to expand into other services. Later in 2015 it launched ATM and EFTPOS services.

#### Savings and Loan Societies (SLS)

These are member-owned institutions whose core business is to collect savings from members, use the funds to provide loans to members at affordable interest rates and train members in financial literacy. In addition to a number of occupational SLS (e.g. Teachers', Police, etc.) there are six regional SLS. None of them currently offers any card or mobile payment services, but a number of the larger ones have expressed interest in joining the switch when it comes into operation, so that they can start to offer innovative payment services.

The legislation governing SLS is currently being revised, after which they will cease to be member-only institutions. As a result they will exist in a much more competitive environment, and so the ability to provide modern electronic payment services may be critical to their ongoing success.

### Mobile network operators

There are three MNOs in PNG, namely bmobile-Vodafone, Citifon (operated by Government-owned Telikom PNG, which also operates the national fixed-line network) and Digicel.

Of the three, only Digicel so far offers a mobile payments service under the name of Cellmoni. This uses Telepin software which is also used to support MiBank's MiCash service and was used for Post PNG's MobileSMK (see below).

At the present time all mobile payment services in PNG operate only on Digicel's network.

### Post PNG

The PNG postal service, Post PNG, has for some years offered a domestic remittance service called Salim Moni Kwik (SMK). Using SMK, the sender pays cash at a Post PNG outlet and the order is sent by fax to another outlet, where the cash can be collected by the beneficiary on presentation of suitable identification.

In 2011 Post PNG launched a mobile version of SMK called MobileSMK which allowed customers to conduct person-to-person money transfers using their mobile phones. MobileSMK used the Digicel mobile money service and provided deposit and cash-out services at all post offices and agencies, as well as mobile-to-mobile transfers. The service was shut down in 2015.

### Account Ownership

The account ownership of PNGeans for savings/deposit accounts as at June 2016 was over 2.2m or about 30% of the total adult population.

### Bank account numbering

In early 2015 all bank account numbers in Papua New Guinea were standardised using ISO 13616 (the international standard for numbering bank accounts – International Bank Account Numbers or IBAN). Card and Mobile Payment Switch proposers should take IBAN into account in preparing their responses as necessary.

### Payment services

The commercial banks provide a range of retail payment services including: cheques for both small and large value transactions; debit cards for point of sale (POS) transactions and withdrawal of cash via Automated Teller Machines (ATMs); internet banking; and direct credit transfers.

### Agent Banking

Agent Banking is growing with moves towards branchless and agent banking, particularly by Bank of South Pacific (BSP). The number of Agents is currently 460 as at Jun 2016.

## Payment Instruments and Circuits

### Cash/Cheques

Cash/Cheques is still the overwhelmingly predominant means of payment in Papua New Guinea.

### Debit cards

There is wide use of debit cards among the bank customers, and some financial institutions use an agency model via a bank for their account holders.

### Automated Teller Machines (ATMs)

ATM's are concentrated in the main centres and most provide basic ATM functionality at this time. These ATM's are all connected to existing bank switches. There are 454 ATM's in PNG as at July 2017.

### Electronic Funds Transfer at Point of Sale (EFTPOS)

The total number of transactions using debit and credit cards made at the EFTPOS is 2.1M per quarter.

### Credit cards

There is very limited use of credit cards and Scheme debit cards. Very few establishments outside main centres accept credit cards, mainly those catering to foreigners, such as hotels, restaurants and main supermarkets in Port Moresby.

### Internet Banking/payments

ANZ/BSP/WBC/Kina Bank offer Internet payment facilities for their customers.

### Mobile payments

As in most developing economies, the potential for growth is very large, given the penetration of mobile phones in Papua New Guinea, which according to some estimates is approximately 80% per cent of the population taking into account family members. Totals equal 7.5m = Population

The use of mobile telephones to access banking and payment services is in an initial stage of development and implementation in Papua New Guinea, with only one bank offering mobile banking services on a pilot scheme at this stage. Mobile payments will be originated through one of three mobile telephone networks.

Current total mobile subscribers are 5m approx. spread between three mobile providers – Digicel – 3.5m, bmobile-Vodafone – 1.5m and Citifon – 100k. Currently they provide services such as Mobile Wallet, the provision of information (i.e. balance enquiry, mini-statement, etc.) and funds transfers between wallet and account.

## Annex 3 - National Payments System Development Programme

### Developments 2008-2016

BPNG is the central bank of PNG. One of its responsibilities as specified in the Central Banking Act 2000 is to “promote an efficient national and international payments system”. In line with this responsibility, during 2008/2009 BPNG undertook a review of the National Payments System (NPS) of Papua New Guinea, based on needs and intentions articulated in BPNG’s *2005-2008 Strategic Plan*.

The objective of the review was to identify areas where the NPS should be reformed and modernised in order to ensure, first, that it is fully able to support the use of safe, efficient, modern payment instruments and methods (particularly electronic payments) and, second, that full and equal opportunities are available for all Papua New Guinean individuals, companies and organisations to participate in the NPS. The review was carried out in wide consultation with stakeholders from the banking, financial, government and business communities and resulted in the publication of the *Vision and Strategy for the future PNG National Payments System* in late 2009.

Following its publication BPNG commenced implementing the recommendations of the *Vision and Strategy*. The major achievements to date have been:

- Enactment of the National Payments System Act 2013 which, among other provisions, gives recognition to modern payment instruments and methods.
- Implementation of the Kina Automated Transfer System (KATS) which is housed at, and operated by, BPNG. This is an integrated electronic inter-bank system which carries out the following main functions:
  - Real time gross settlement of high value and high priority payments;
  - Clearing of retail-level direct credit transfers;
  - Clearing of electronically truncated cheques;
  - Clearing of direct debit transfer instructions (this function is not yet in operation).

KATS has been fully operational (with the exception of direct debits) since early 2015. It provides complete interoperability of payments between the four commercial banks and BPNG, which are currently the only participants in KATS. BPNG plans gradually to extend participation to non-bank financial institutions during the next few years. Work is also ongoing to move all Government payments (disbursements) and revenue receipts to electronic payment transactions processed through KATS.

### Market developments

During the period from 2009 to 2015 significant numbers of new payment instruments, systems and providers have come on the scene. While the number of commercial banks (four) has remained the same, there has been strong growth in the non-bank market. Several innovative retail payment services are now available, particularly based on mobile telephones. These are offered by a range of providers including both financial institutions and mobile network operators as discussed in more detail in section 2. Despite this, the market remains generally underdeveloped, and BPNG sees considerable scope for encouraging the introduction of modern, innovative, electronic payment systems and services in PNG, particularly outside the main centres.

Also, with the exception of the inter-bank payments handled by KATS and the ATM and EFTPOS networks of the commercial banks, no payment systems or services in PNG are interoperable. BPNG views this as an inhibiting factor in achieving its aims for the NPS, especially in terms of financial inclusion (see next paragraph). It is of concern to BPNG as the regulator and overseer of the NPS and is one of the main drivers behind the move to establish a new card and mobile payments switch.

### Planned future developments

In 2015 BPNG carried out a review and update of the 2009 *Vision and Strategy*. The objectives of the review were to:

- Assess progress to date in carrying out the 2009 *Vision and Strategy*;
- Adjust and/or update the Strategy as necessary in light of the developments from 2009 to 2015 described above;
- Specify the developments over the next few years to be undertaken by BPNG in consultation and co-operation with NPS stakeholders;
- Present an action plan for carrying out the planned developments.

The output from the review was the *Strategy and Action Plan for the Development of the PNG National Payments System 2015-2018* which was approved by BPNG management in November 2015 and was launched at a seminar later in the same month.

One of the major actions specified in the *Strategy and Action Plan* is the procurement and implementation of a card and mobile payments switch, which is the subject of this Request for Information (RFI).