



BANK OF PAPUA NEW GUINEA

SPEECH

BY

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**GOVERNOR AND REGISTRAR OF SAVINGS AND LOAN
SOCIETIES**

AT THE

**ANNUAL GENERAL MEETING
OF CENTRAL BANK OFFICERS SAVINGS & LOAN
SOCIETY LTD**

14 JUNE 2018.

1. Greetings and Acknowledgement

- Statutory Manager and Members of the Committee;
- Deputy Governor, Dr. Gae Kauzi,
- Members of the Central Bank Officers Savings and Loan Society (CBOSLS) who are staff of BPNG and
- Members of CBOSLS who are staff of other organization (FESALOS, MEP, IBBM).

Thank you for inviting me once again to address the 2017 Annual General Meeting of the Society. I am pleased to note that CBOSLS has done well again in 2017, which I believe the Statutory Manager will share in his report in this AGM. This would not have been possible without the support of the members (yourselves), Committee and management of the Society and I take this opportunity to congratulate you all.

1. Current Status of CBOSLS

As you all know, the Society was placed under Statutory Management on 30th November 2016 following an onsite review by the Banking Supervision Department that revealed instances of non-compliance to policies and procedures, absence of accurate and real-time member information, an unreliable management information system which the board was using to make decisions due to inaccurate bank reconciliations and other issues that has resulted in loss of earning, deterioration of loan quality and liquidity crisis. Most of the loans, including related party loans were way outside policy limits. The fortnightly repayments of many loans were less than specified in the repayment schedule.

As a result, I appointed the Statutory Manager; and his tasks were to provide oversight and manage the affairs of the Society by taking corrective actions and restore efficiency into the Society. I am pleased to note the remarkable improvements achieved in restoring health, to a great extent, to the loan portfolio (I noted that this process is not yet fully completed), cashflow and to the Society's internal controls and governance.

Governance has and continues to be the biggest challenge for the savings and loan industry in PNG. We had instance where board and management of societies serving themselves with

large loans and advances far above the limits set in their internal policies. In some cases, allowances and entitlements were paid well before they fall due. Other instances where some directors, management and staff knowingly allowed and or facilitated fraudulent activities that ran the institutions down. As a result, we have place a number of institutions under administration, and suspended or terminated boards and managements of societies and took corrective measures to restore the creditability of the societies. For your information, the Bank placed the following institutions under Administration since 2016:

- ❖ Central Bank Officers Savings & Loan Society;
- ❖ Alekano Savings & Loan Society; and
- ❖ Police & State Services Savings & Loan Society Limited – Now merging with TSL.

CBOSLS, being a licensed financial institution operating within the Bank has to lead by example in maintaining good governance and promote, rather than just complying with policies, regulations and standards that we formulate this institution (BPNG) and circulate for the industry to implement and realise the benefits for being members of the societies. The members of CBOSLS, who are mostly Bank staff, must be responsible in your personal financial management. I received reports of members with very high debts to CBOSLS and continuing to borrow from other money lenders that are often seen at the Bank during pay days. I encourage staff to practice good financial management culture as we are driving financial inclusion in PNG.

2. Developments and Challenges in the S&L Industry

Generally, Savings and loan industry has grown from strength to strength over the years in the last seventeen (17) years despite the decreasing trend in the number of societies over the years, from 100 plus SLSs to only 22 and it is most likely that the trend will continue when we introduce the new S&LS Act (i.e. bring drastic reforms into the industry). The last reform of the industry in 2000 resulted in the following growth in the industry in the last seven years ending December 2017:

- Total assets increased from K885m to K1.14b
- Total deposited increased from K428m to K628m
- Number of members increased from 219, 403 to 321, 051.

These growth trends indicate that the SLS Industry is still being seen as relevant in meeting the needs of members. The well run and managed Societies have grown larger and are utilizing technologies to improve the provision of their financial products and services to their members and have also improved their operational efficiencies. Talking about improving services - one of the societies (i.e. TISA S&LS) has expanded its scope and pursuit of improving its services to its members by setting up a separate subsidiary to conduct more market-based and large value businesses.

3. New Savings and Loan Societies Act 2015

As you all are aware, the new Savings and Loans Act 2015 has been passed by the Parliament in November 2015 and is awaiting Gazettal before it becomes operational. I wish to take this opportunity to remind our members again of some major changes proposed in the revised S&L Act including the following:

- There will be a different Registrar for S&Ls (IPA) while BPNG will only perform its prudential regulatory functions.
- This means, S&Ls will now be required to register with IPA as a company under the Companies Act and obtain a license with the Central Bank to operate as an SLS;
- SLSs will go through stringent licensing requirements such as capital requirements;
- BPNG to issue prudential standards instead of Directives;
- Free up the common bond of membership requirement for SLSs to accept membership from the public while maintaining the mutuality concept and others.

In the months ahead, CBOSLS will be working closely with the Bank to ensure that these new requirements are adhered to and that the society continues to meet the regulatory requirements needed to safeguard your money. For S&L Industry, I hope extending common bond (under the new Act) combined with the use of technology should encourage SLS's to extend their traditional boundaries in PNG.

Technological advancements have changed the landscape of financial services in the country. The introduction and rollout of ATMs, EFPOS machines, mobile and internet banking channels have revolutionized the banking services sector in PNG.

4. National Payment System

The Bank recognizes the importance of financial technology (fintech) has the key to ensure access to banking and other financial services are possible and affordable to the population in the rural areas and throughout PNG. As such the Bank is leading the work in establishing the national switch (i.e. Retail Electronic Payment System or REPS) to ensure all financial and payment service providers such as S&LS, microbanks, etc. are connecting to the same system. This is important to ensure connectivity and interoperability of our financial system is realized, to being costs of offering financial products and services right down.

5. Challenges for the Industry

The industry is faced with many challenges that requires board, management and regulatory attention to address it going forward.

- Governance is a major challenge for the societies and board and management need to manage member's funds prudently. The Bank has and will continue to take action on directors and management that fail to uphold the principles of good governance.
- The high rate of non-performing loans for the savings and loan societies is a challenge. Board and management must lend to members within policy and must ensure repayment is done on a timely manner to avoid over -indebt. I encourage members to live within their mean and borrow wisely.
- Management Information System and lack of capacity issues are real challenge for small societies.
- Lack of strategic direction by directors and management continuous to be a challenge.

6. Concluding remarks & Going forward

Having highlighted all these, where do these changes and challenges place CBO S&L going forward? This is a challenge the new board and management as well as members of CBO should start thinking about and prepare to adopt to likely changes in the industry, while continuing to serve the needs of our members. The legislative change and technological advancements are game changer for the industry and I encourage CBO board and management to start thinking strategically and consider the challenges seriously.

Finally, I take this opportunity to thank the statutory management for their tireless efforts and dedication in ensuring the successful operations of the Society in 2017 and I look forward to another successful year in 2018.

Thank you.