

L Wilson Kamit: The role of savings and loan societies in Papua New Guinea

Speech by Mr L Wilson Kamit, CBE, Governor of the Bank of Papua New Guinea, to the people of East New Britain Province, on the occasion of the ground breaking ceremony for the new building complex for East New Britain Savings and Loan Society Ltd, Rabaul, 12 June 2006.

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Introduction

Thank you Master of Ceremony.

Host Governor for East New Britain Province, Honourable Leo Dion MP; Minister for Foreign Affairs and Immigration and Member for Kokopo, Right Honourable Sir Rabbie Namaliu MP; Minister for Public Service and Member for Gazelle, Honourable Sinai Brown MP; Honourable Bart Philemon MP, Treasurer; Mayor for Kokopo, Mr. Albert Buanga; Mayor for Rabaul, Mr. Changol Manuai; Lady Nerrie Tololo, wife of Late Sir Alkan Tololo (first chairman of the Board of East New Britain S&L Society); Chairman of East New Britain Savings & Loan Society, Mr. Ellison Kaivovo; The Board and management of ENB S&L Society; Auxiliary Bishop Patrick Taval, Rabaul Catholic Diocese, distinguished guests, ladies and gentlemen.

There are three reasons for being here today: Firstly, I always enjoy coming here. Secondly, to officiate at this ground breaking ceremony of ENB S&L Society and thirdly, to check out the new premises of the Bank of South Pacific which the Central Bank might use to establish a Cash Distribution Centre for the New Guinea Islands region to distribute new notes and coins.

Update on the economic developments

As part of my speech to you today, I would like to provide some key highlights of the achievements attained over the recent past.

Inflation remained low over the year to March 2006. The headline inflation rate over the year to March 2006 was 1.8 percent following an increase of 4.6 percent over the year to December 2005. The overall inflation continues to be in line with the medium term outlook as published in the Bank's January 2006 Monetary Policy Statement (MPS).

The prevailing low inflation, stable exchange rate, low domestic interest rates, high international reserves and sound fiscal management by the Government provide an enabling environment for the private sector to invest and expand. With no new inflationary pressure emerging I reiterate the statement in the January MPS that the Bank will continue to take a cautious neutral stance in monetary policy.

The current macroeconomic stability provides an opportunity for the Government to improve the public utilities and introduce microeconomic reforms to remove impediments to trade and investment and efficiency in the delivery of public services. These reforms are necessary to promote economic growth.

The level of gross foreign exchange reserves as at 9 June 2006 was K2,990 million (US\$989 million), a record high in our history, sufficient for 7.0 months of total and 11.0 months of non-mineral import cover. The high level of reserves has further strengthened the Central Bank's position to smooth any undesirable volatility in the foreign exchange market.

Under the floating exchange rate regime adopted in 1994, the kina exchange rate is determined by the supply and demand for foreign exchange. Consistent with the objective of price stability, the Bank enters the foreign exchange market from time to time to smooth the effects of short-term volatility. In 2006, the exchange rate is expected to remain stable given the favourable international prices for mineral and non-mineral export commodities. Non-mineral exports are expected to increase in 2006, due to the supply response to higher prices. Producers and exporters are continuously encouraged to increase production for export to take full advantage of the current high international prices. In addition, developments in the mineral sector, particularly the progress on the PNG Gas Project and the finalisation of the Ramu Nickel Project should contribute positively to investor confidence.

Lending to the private sector continued to grow strongly. The growth in lending has been broad based covering the agriculture, forestry and fisheries, manufacturing, transport and communication, building

and construction and other businesses including hotels and restaurants, personal loans and advances for housing sectors. Firms have responded positively to the low interest rates and lending has reached unprecedented levels.

We recently announced the withdrawal of the 1 and 2 toea coins from circulation. I urge the public to return the 1 and 2 toea coins as they will officially cease to be legal tender on the 19th April 2007. I also encourage the business houses to make changes necessary for a smooth transition. In this regard, I encourage firms to be fair and responsible in adjusting prices to the on-off policy change.

The Government's Budget deficit in the March quarter 2006 was 0.3 percent of nominal Gross Domestic Product. However, substantial mineral tax receipts, which were higher than expected at the end of April 2006, suggest that Government revenue is likely to be significantly greater than budgeted in 2006. While acknowledging the positive outlook of the Budget, I caution that the Government should consider slowing the pace of increase in expenditure, which grew by 33.8 percent in the March quarter of 2006, from the levels in the corresponding period in 2005. The Government should direct funds to priority development areas identified in the Medium Term Development Strategies (MTDS). In this respect, I have stated that the Government should consider using windfall revenue from mineral taxes for early retirement of some of its foreign debts.

The major risk to the current macroeconomic stability remains the fiscal operations of the Government in 2006 and 2007. I would point out that the fast pace of growth in lending and high level of liquidity in the banking system introduces further vulnerability to the economy. They also provide new challenges to the Bank of Papua New Guinea in closer surveillance of the financial system and management of monetary policy. In this regard any major fiscal slippages by the Government, or fall in commodity prices could lead to loss of macroeconomic stability. I stress that the Government's adherence to the parameters of the MTDS, that is consistent with the MTDS, is vital for sustained macroeconomic stability and promotion of economic growth.

Reforms to remove impediments to conducting businesses in PNG saw the removal of the majority of the Exchange Control Regulations. It is one year since we introduced the liberalization and we have not noticed any stress on the foreign exchange system.

Financial sector reforms undertaken at the beginning of this decade (in 2002) are bearing great returns.

The banking sector asset quality has improved, likewise finance companies. The other financial institutions under the Central Bank supervision also are performing very well. The Superannuation industry continues to report improvement and good results. Likewise work to improve the life insurance industry is continuing.

The Savings & Loan Society movement

The Savings and Loan Societies movement, which is currently comprised of 21 active Societies, has grown in terms of their asset base and membership. Over the past six (6) years, the total assets in the movement have grown from K126 million to over K332 million. The total membership has significantly grown from 120,775 in December 1999 to 152,438 members by the end of 2005. The movement, more particularly provincial based societies such as the East New Britain S&L Society, is an ideal vehicle to reach and promote savings into the rural population. The movement plays an important role in the financial system in promoting thrift to its members and more importantly in extending the monetization of the PNG economy into the rural sector, so that the rural population participates meaningfully in economic development. Savings and Loan Societies complement other financial service providers such as banks and financial institutions in providing basic savings and loans products to members.

The difference between the movement and other financial institutions is that savings and loan societies operate on the principle of mutuality. That is the members are the owners of the societies, where each member has an equal say on the election of directors to the boards of the societies. They also have a direct say in the distribution of profits.

Challenges

The movement has faced many challenges in its evolution over the years. The Bank in its supervisory role has observed serious weaknesses in areas of governance and management. We have seen and

dealt with directors and managers who have conflict of interest when making decisions that were not in the best interest of members. We have also dealt with infightings between directors and managements and also between supervisory committees and boards members.

In its supervisory role, the Bank has increased its enforcement efforts to ensure that the societies are constantly in compliance with directives and regulations so that the bad experiences of the past do not repeat themselves. In many cases where such instances have occurred, the Bank has not hesitated in suspending or removing board members, managers and/or supervisory committee members from those societies.

Other challenges which we have seen Societies faced over the years were concerning operational difficulties in ensuring accurate and timely reporting of financial statements, lack of effective management of asset quality such as nonperforming loans, weaknesses in controls and risk management systems and more seriously fraud.

Directors, Management and Committeemen of the Societies have a duty to continue the effort in educating members to save for the future and to borrow within the required limits. Members must be educated to repay the loans that they borrow.

Legislative framework

The growth experienced by many societies over the years has also resulted in most societies moving away from the traditional savings and loans business. Many have now invested their surplus savings in other products such as in equities and government securities.

In view of these developments and the challenges which I have just mentioned, I have established a working team within the Bank which has started looking at reviewing the existing legislative framework with the view to reform the entire savings and loan societies industry and microfinance/microbanking businesses.

The work of the working team is progressing and at this stage the Bank is looking at securing funding for technical assistance to carry out the substantial work in improving the legislative framework.

East New Britain Savings & Loan Society

On the 12th of April this year the Chairman of the Board of East New Britain Savings & Loan Society, Mr. Kaivovo, his Deputy Mr. Jack Namaliu and their CEO Mrs. Essie Koniel met with Bank officials and I to show us a building plan which they had obtained from an architect. It was a double story building plan which they told me that it would cost about K3 million to construct. They mentioned that they were going to obtain some funding from an Incentive Fund to finance the construction. They were seeking approval from the Bank to construct this office complex which would be owned by the Society.

The Bank assessed the proposal and gave its approval and today we are able to come together to mark this special occasion. I wish to thank you for inviting me to officiate in this ground breaking ceremony for the construction of the new building complex for East New Britain Savings and Loan Society Limited. This occasion is a significant milestone in the 13 years history of this provincial based Society since its inception on the 18th February 1993. It will be the first Provincial based savings and loan society to own its own office building.

Over the past thirteen (13) years since its inception, East New Britain Savings & Loan Society has grown to become the third largest and one of the successfully managed societies in Papua New Guinea. Much of the credit goes to the successive boards and management of the society. I also want to thank the members of this society for not putting unrealistic demands on the directors and management.

From December 1999 to December 2005 the following achievements were noted for the society:

- Total Assets increased from K 10.6 million to K 22.9 million
- Total Loans increased from K3.3 million to K6.1 million
- Members Savings increased from K8 million to K19.6 million
- Total membership increased from over 20,000 to over 40,000.

The positive performances which I just highlighted to you are clear evidence of a growing institution, but we should not be complacent with this performance. We must continue to strive forward to increase wealth for our members and ensure viability and sustainability of our society.

Fast Money Schemes

I would like to turn to the issue of Illegal Fast Money Schemes.

Fast Money Scams are rife in parts of PNG, including East New Britain Province. The Central Bank continues to warn against the fast-money schemes or pyramid schemes. Over the years, the Bank has placed public notices to warn the public about the fast money schemes or scams. Notices have appeared in daily newspapers – yet despite these warnings, people are still duped into placing their moneys into fast money schemes. The operators of these fast money schemes have been lying to people about their activities so that they continue to rob the unsuspecting depositors of their hard earned cash and savings. THESE ACTIONS ARE OUTRIGHT ACTS OF DECEIT, LIES AND FRAUD.

To put the facts right:

- The Bank of PNG does not conduct transactions or deal with individuals;
- It does not issue guarantees or warranties to individual, companies, financial institutions and even the government;
- Any person taking deposit from the public is conducting an illegal activity, because it is not licensed by the Bank of PNG and;
- The Bank of PNG is not responsible for returning your deposits from such money schemes, and it is your responsibility to report such persons or schemes to the police, or go and recover it yourself from the person you paid it to.

Directors, Executives and members of East New Britain Savings and Loan Society can assist by spreading the warning about the pitfalls of people placing their money in fast money schemes. You can quote examples of such operations as U-Vistract who took people's money and have gone hiding while depositors are still waiting for their payout. Even Fijians are waiting for their pay out.

Conclusion

I take this opportunity to once again thank the members of the Board, Committeemen, Management and Staff of East New Britain Savings and Loan Society for continuing the hard work in providing the savings and loan services extensively to parts of East New Britain. I encourage you to continue in maintaining good governance and management of your Society.

In officiating at this ground breaking ceremony for the new office complex for the East New Britain Savings & Loan Society, I wish to congratulate the Board, Management and Committeemen, members and people of East New Britain for achieving this milestone.

Thank you choir groups and performers.