

Loi M Bakani: The benefits of electronic payments and mobile banking products

Welcome speech by Mr Loi M Bakani, Governor of the Bank of Papua New Guinea, at the Mobile Money Workshop, Port Moresby, 10 August 2010.

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Representatives from the ADB, UNDP and World Bank,
Ladies and gentlemen.

Introduction

It gives me great pleasure to host this *Mobile Money Workshop* at the Bank of Papua New Guinea. This workshop is a follow up of the workshops in Vanuatu, Philippines and Fiji in which three Bank of PNG representatives together with our colleagues from other Pacific Islands central banks attended to learn about regulatory processes and operating environments as well as benefits of electronic payments and mobile banking products. The convening of this workshop is part of the programs on “Financial Inclusion” agreed to by central banks and Finance Ministers in the Pacific, and is also consistent with the Government’s increased focus on extending financial services to the rural areas of Papua New Guinea. This program was supported by the Forum Economic Ministers Meeting in Raratonga, Cook Islands in October 2009, which stressed that measures should be taken by respective governments to strengthen advances in financial inclusion in their respective countries to reduce poverty. Before discussing the benefits of mobile phone banking in Papua New Guinea, I wish to outline briefly the geographical and economic setting, financial sector innovations, and the challenges in Papua New Guinea.

Geographical and economic setting

Papua New Guinea is characterized by rugged geographical terrain with many parts of the country inaccessible by road and fragmented markets which are separated by oceans and jungles. As a consequence, the provision of Government services in the rural areas is scarce, if not it is non-existent, and this has led to an absence of some basic services in the rural areas. Some of the Government services either absent or in very poor and deteriorating conditions in the rural areas include:

- Inadequate infrastructure;
- Inadequate health services; and
- Inadequate educational services.

These core inadequacies have led to:

- High infant mortality, pregnancy deaths, and deaths from curable diseases such as malaria;
- Low literacy and high unemployment levels;
- Poor accessibility to markets; and

- Poor accessibility to banking and other financial services.

Whilst the Government has addressed and continues to focus on the structural issues in the previous medium term development plan and now in the Vision 2050, capacity constraints have slowed the pace of implementation. Addressing these constraints continues to be the major challenge for the Government's development agenda and considerable efforts are required to advance in these areas.

Financial sector innovations

The Government's reform of the financial sector which commenced in 2000, with the Central Banking Act 2000 (CBA), the Banks and Financial Institutions Act (2000), the Superannuation Act and the Life Insurance Act (2000) became a catalyst for private sector development. This is obvious from the rapid pace of private sector credit growth of between 20–40 percent per annum since 2003, which has led to an increase in economic growth of 4–7 percent per annum in the same period. The developments in the financial sector have set the foundation for a robust financial system and to date, Papua New Guinea's banking system remains well capitalized, highly liquid, and profitable and is well placed to take on the challenges of funding private sector credit from deposits. Technological advances in financial services have also gained momentum with increased ATMs, EFPTOS, internet banking, and telephone banking over the last decade. This is encouraging and the Bank has allowed these products in the market as they were issued by regulated financial institutions to enhance banking services to their customers.

The liberalization of the telecommunication industry made way for an additional entrant into the telecommunication industry. While this has led to an increase in competition and market penetration for mobile phones, it also created an impetus for the introduction of mobile phone banking and other means of payment services by the regulated and non regulated institutions. The Central Bank is particularly aware of the following products:

- SMS banking by BSP;
- Mobile phone top-up using a bank account with BSP;
- A pilot project by DataNets on mobile phone or electronic wallet (M-Powa);
- Cross crediting of mobile phone credits by Digicel;
- Payment of electricity bills using mobile phone credits; and
- Checking superfund contributions by Nasfund.

The Bank of PNG welcomes such innovative products to be introduced and wants to work with development partners in the promotion of these products to offer consumers with an alternative means of banking or payment service in a cost effective, low risk and efficient manner.

Certainly the benefits to the economy are overwhelming because these products target the niche market. Where conventional banking has limitation, electronic payments and mobile banking products should fill the gap. It is highly relevant for an economy like Papua New Guinea because of its rugged geographical terrain and sparsely distributed provinces which stand to benefit considerably from the use of electronic and mobile phone banking. The greatest challenge is to extend these services to the "unbanked" segment of the population who are mostly in the rural areas. In this respect a trade store in the remote part of Papua New Guinea could be an agent of this service and this could solve the everyday problem of a farmer who has to travel long distances and incurs high costs to get the required financial services in urban towns.

Role of bank of PNG

Section 7 (c) of the Central Banking Act 2000 specifies that Bank of PNG has to promote an efficient national and international system. In this regard, the Bank welcomes the introduction of electronic payments and mobile banking products, which can assist in reducing transaction cost and contribute to the expansion of financial services in the country, particularly in the rural areas. Whilst the Bank seeks to encourage the introduction of new innovative instruments for payments, it also needs to ensure that high levels of standards are maintained for safety, security and cost effectiveness with adequate levels of protection for consumers' interests.

In other words, the Bank wishes to ensure that electronic payments and mobile banking instruments are appropriately regulated to mitigate any potential incidences that might give rise to systemic risk on the entire financial system. It is also important that the other legislations such as the Proceeds of Crime Act (PCA), Information, Communication and Technology Act (ICTA) and Independent Consumer, Competition, Commission Act are also adhered to provide the necessary safety net for financial transactions. In this regard, the Bank of PNG introduced its *Statement of Intent* on electronic payments and mobile banking in May 2010. It outlines the current views and approach of the Central Bank towards electronic and mobile payment services and sets out the measures which the Bank intends to adopt in the future.

This forum demonstrates the Bank's intention to work with our development partners in achieving the Governments objectives of promoting financial inclusion, access to finance, and reduce the cost of banking that will lead to sustained economic growth. In this regard, the Bank of Papua New Guinea has been actively involved with the development of microfinance industry, the mobile phone banking and payment services, and is now finalizing a project with donor partners to undertake a financial literacy survey and linkage program for the unbanked. These programs will see the introduction of a Financial Inclusion and Literacy Policy which will be submitted to the Government for adoption, and development of a Microfinance Regulation.

Going forward

Going forward, much still needs to be done. The telecommunication liberalization has led to the creation of an enabling environment for the introduction of electronic payments and mobile banking products never witnessed before in Papua New Guinea. We have only seen the start of it but the rest is yet to come and it is here to stay and grow.

However, the challenge of all the regulatory institutions are to ensure that transactions conducted are cost effective, efficient, and poses a low risk on the consumers. This requires close coordination in the area of regulation especially monitoring and licensing, provision of technological infrastructure and ensuring maximum benefit for consumers.

The Bank has commenced a major review of the payments system in Papua New Guinea in 2009. Review of the payments system is necessary for promoting a sound and efficient system that will reduce costs to both businesses and consumers and also improve monetary policy transmission. As the electronic or mobile phone banking products are means of payments, the payments legislation will cover its regulatory aspects and where necessary specific guidelines will be introduced for the electronic payments products.

Conclusion

I trust that this workshop will help us understand the various issues relating to mobile phone or mobile money systems and products, and also appreciate major developments and pilot programs already taking place in Papua New Guinea. This workshop is meant to create awareness on the mobile phone technology that is already in the market place which can be

adopted to connect the unbanked segment of our population to financial services so they can be empowered to improve their livelihood.

Thank you all for accepting our invitation to attend this workshop and I look forward to your productive participation today.

Thank you ladies and gentlemen for listening.