Loi M Bakani: Corporate governance

Speech by Mr Loi M Bakani, Governor of the Bank of Papua New Guinea, at the PNG Institute of Directors Workshop, Port Moresby, 16–17 July 2012.

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Introduction

Welcoming remarks

- Directors and official of PNG Institute of Directors (PNGID),
- Facilitator of the Workshop, Mendhurst Associates, Mr. John Mendzela
- Participants of licenced financial institutions
- Ladies and gentlemen

Before I begin, I would like to thank PNG Institute of Directors (PNGID) for hosting this Workshop and for the opportunity to address the participants on a common interest which is to enhance corporate governance in our institutions.

Corporate Governance

I know you all have now appreciated that good Governance is important in every organizations and that the lack of it results in poor management and performance of institutions. We all should know (because its public information) the bad experiences in the recent past as a result of bad Governance. For example, the demise of our former government bank, PNG Banking Corporation (PNGBC) and three of our superannuation funds namely, Defence Force Retirement Benefit Fund and former Public Officers Superannuation Fund (POSF) and National Provident Fund (NPF) were involved in bad management or questionable investments that resulted in three separate Commission of Inquiries.

The financial sector reforms that took place in 2000 resulted in amendments to the Central Banking Act and the Bank and Financial Institutions Act. This was followed by the enactment of the Superannuation and Life Insurance Act. These reforms established the independence of the Central Bank and enabled effective and stringent regulations. With greater independence comes greater accountability and transparency on the part of the Central Bank and the Governor.

In addition to the monetary policy responsibilities, regulatory and supervisory powers of the Bank were also enhanced. The Central Bank now has powers to issue rules, regulations, directives and prudential standards and to take timely interventions to ensure that bad governance and unacceptable management practices are deterred.

The new standard on Corporate Governance was drafted as a result of various onsite prudential reviews conducted by the Bank since the financial sector reform in 2000. In all its findings, the lack of good corporate governance was the key central theme.

The Bank emphasizes that the Board is ultimately responsible for governance of financial institutions, for employing the right persons in management positions and ensuring that the business functions and their risks are managed in line with Board expectations and in such a way that also serves the interests of the stakeholders.

The Board and senior management of the supervised institutions are expected to promote and demonstrate an organizational culture that expects integrity from its employees in conducting the institution’s business and for ensuring a sound and prudent approach to risk identification and management. The Bank also emphasizes that the responsibility of an institution’s Board and management is to ensure that the institution meets prudential and statutory requirements and has management practices to limit risks to prudent levels.

Key statistics

Since the reform, there have been positive results over the last few years compared to the bad experiences some 13 years ago where contributors lost a lot of their savings. Prudent and good management and good corporate governance framework are enabling factors to the positive results that we see today.

The way ahead

In anticipation of lifting the performance of the financial system as a whole, there are several challenges we face at the Central Bank. These are:

- Constantly enhancing our supervisory responsibilities as a result of global financial developments including the recent Global Financial Crisis and other external factors. This includes allocating adequate resources to undertake prudential reviews, provision of technical training and other manpower developments;
- Introduction of new prudential standards covering best practices on good governance;
- Revision of existing prudential standards to align with best practices but in a PNG context;
- Financial crime – improving ways of dealing with perpetrators of money schemes, financial fraud and theft, proceeds of crime;
- Financial inclusion – how to get the un-banked portion of our population into the formal financial system;
- Financial Awareness and literacy – to educate the populace on financial matters and awareness against fast money scams;
- Payment System – improvements to instruments and settlements to ensure a safe, cost-effective and efficient payments system.

The Bank is prepared to deal with these challenges to ensure that our supervision results in a sound and prudently managed financial system in PNG as experienced to date.

With these remarks, I would like to again say thank you to PNGID for hosting the Workshop and for Mr. John Mendzela in conducting this workshop and for all of you who attended today to take a day of from your busy schedule not only to refresh your mind, but to learn about the best practises in implementing good corporate governance. I hope that what you all have learnt during this workshop has been valuable and you would take some important lessons from the workshop to be utilised in your respective institutions.

Thank you, *Ladies and gentleman*.