

## **Loi M Bakani: Challenges and developments for a sound and stable financial system in the Pacific region**

Opening remarks by Mr Loi M Bakani, Governor of the Bank of Papua New Guinea, at the Annual Meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC), Port Moresby, 22–26 September 2014.

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### **Acknowledgements**

Mr. Gilbert Wongsin – Chairman, AFSPC (Chief Manager, Central Bank Samoa)

Mr. Pierre Seguin – PFTAC Advisor

Mr. Chris Gaskell – Head, International Relations, APRA

Colleague Regulators and Central Bankers

### **Introduction**

Good Morning.

Let me take this opportunity to extend to you and especially our foreign guests a very warm welcome to Port Moresby. I am informed that apart from participants from the Pacific island countries, and our friend from APRA, the resource person who will be joining us later during the week has come all the way from the US. I welcome you all and hope that you all had a good rest last night ready to begin the week-long program. I encourage you to use this opportunity for meaningful and fruitful discussions during the two-day meeting, and share with others your experiences and challenges in the 3-day workshop. There is a need to look towards establishing a strategy going forward in our efforts to make our regions' financial system sound and stable.

The theme for the 3-day Workshop “Managing a Banking Supervision Department” is expected to provide you added knowledge on how you can effectively manage with the limited resources in order to better supervise our financial institutions.

I commend PFTAC (Mr. Pierre Seguin and Ms. Nina Samuel) and Assistant Governor Pidik and his team for ensuring that all that was required to be done for hosting this event was done on time.

### **Importance of AFSPC**

Ladies and gentlemen, AFSPC has over the years provided a forum for regulators to exchange ideas and share information. It is also in such forums that you are able to build networks. It is increasingly important due to cross-border banking and the interconnectedness that we identify our vulnerabilities, and as a region, collectively work towards a strategy as a means of our readiness for unforeseen periods of turbulence or crisis.

And there is no better forum than AFSPC, for it is through this platform that regulators exchange ideas, share information and learn from experiences of each other. AFSPC provides the forum for exchanging and sharing information to:

- Firstly, promoting financial soundness of financial institutions within respective jurisdiction;
- Secondly, ensuring stability of the financial services sector in each jurisdictions; and,

- Thirdly, promoting and enhancing the supervisory skills and knowledge through ongoing training and workshops such as this.

In order to continue to obtain the benefits of this forum, we need to finalize the review of the Memorandum of Understanding (MOU) for AFSPC to strengthen the regional cooperation between the regulators. I therefore encourage you to pay some attention to this matter.

As Central Bankers and regulators in the region, we must always remind ourselves that we are part of the global community. On a regional basis, to be aware of the developments on the international scene and around us so that our best efforts to achieve financial stability and resilience in our region will stand the test of time.

### **Cross border banking**

Cross border banking is an emerging area with financial institutions operating across our economic borders. We have seen over the last five (5) years or so that financial institutions registered in one economic boundary in the region are moving beyond their traditional comfort zones and moving into other markets. Such moves come with it new risks and challenges, providing regulators both home and host with equal challenges to better understand institutions' cross-border risks. To better understand cross-border banking risks and the institutions' operational activities, I encourage the strengthening of our collaborative efforts through this forum and other specific initiatives such as the Supervisory Colleges and more interactions at technical levels. These collaborative efforts would ensure supervisors of both jurisdictions better understand the risks associated with institutions concerned in both home and host countries in order to adequately address them.

### **Risk-based supervision**

Another issue that we should work towards addressing is in the area of risk-based supervision, and the need to look at risks at the systems level or on a macro-prudential policy basis.

The recent global financial crisis has clearly demonstrated the crucial role of central banks in safeguarding financial stability and the importance and need for a macro-prudential approach, including risk based supervision. Many countries have strengthened the institutional framework for financial stability in light of the experiences from the crisis, and have incorporated and undertaken a new approach; in particular a macro-prudential dimension of monitoring interconnectedness in order to design policies to mitigate systemic risk.

We as central bankers play a key role in the development of policies and regulations for the stability and soundness of the financial systems in our respective jurisdiction. I encourage more collaborative discussions also in the areas of macro-prudential and general risk-based supervision. Such discussions should translate to some initiatives for future capacity building and implementation of frameworks in our respective jurisdictions.

### **Financial Inclusion and Financial Literacy**

Ladies and gentlemen, we all know that a greater majority of our people in the Pacific are financially excluded or unbanked. There is a clear call for action in the area of Financial Inclusion and Financial Literacy. Since the setting of the Alliance for Financial Inclusion (AFI), Central Banks globally, and clearly in our region also, are taking the forefront in leading efforts to ensure banking services reach the unbanked. Almost all Pacific Islands Central Banks have announced their commitment to the AFI Maya Declaration with Timor Leste being the latest in the region to declare its commitment in the recent AFI Global Policy Forum this month.

It is not the traditional activity of the Central Banks to lead this work but we cannot sit back and expect something to just happen, for we know that nothing happen in the past. We have to develop policy frameworks and provide environments conducive for our financial institutions to bring their banking services to the un-banked. The Central Banks have succeeded in undertaking lead roles due to their institutional credibility to ensure that the unbanked populations in the region is included in the monetization of our respective economies.

### **Human capacity development**

Ladies and gentlemen, in order for us to enhance our supervisory approaches and to effectively discharge our supervisory responsibilities as mentioned, we need to develop our human capacity and equip our supervisors well. We have to continue to put emphasis and resources in this area to ensure our human capital is in tune with constant changes in risk profiles of our financial sectors. You would have noticed that the skill set required for supervision has expanded as financial services have become complex. The constant adoption of technological innovations and enhanced financial products being developed and offered by our financial institutions means that we also need to train and develop technically competent supervisors to keep abreast with the changes.

### **Conclusion**

Before I finish, I wish everyone a fruitful week. I am sure that at the end of this week, you will have discussed issues, challenges and developments in your respective supervisory jurisdiction and your plans going forward. I presume these discussions and networking with each other will be very beneficial in our efforts to have a sound and stable financial system in our region.

Having said that I wish everyone who has travelled in a memorable and enjoyable stay in Port Moresby. I look forward to further interactions with you at the cocktail which I will host for you this evening.

Thank you.