



FINANCIAL SECTOR DEVELOPMENT STRATEGY 2018 - 2030



PNG'S ROAD MAP TO FINANCIAL SYSTEM STABILITY AND GROWTH



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ABBREVIATIONS

ADB	Asian Development Bank
ADI	Authorized deposit-taking institution
AFI	Alliance for Financial Inclusion
AML/CFT	Anti-money laundering/countering the financing of terrorism
ANZ	Australia New Zealand Bank Group
ASFPNG	Association of Superannuation Funds of Papua New Guinea
ASF	Authorized Superannuation Fund
ASX	Australia Stock Exchange
BPNG	Bank of Papua New Guinea
BSP	Bank South Pacific
CEFI	Centre for Excellence in Financial Inclusion
CSD	Central Securities Depository
CDP	Customer Due Diligence
DFAT	Department of Foreign Affairs and Trade (Australian Government)
DNFBPs	Designated Non-Financial Businesses and Professions
DvP	Delivery versus Payment
EFTPOS	Electronic Funds Transfer at Point of Sale
FASU	Financial Analysis Supervision Unit
FATF	Financial Action Task Force
FSC	Financial Services Council
FSDS	Financial Sector Development Strategy
FSSD	Financial System Development Department
FSSR	Financial Services Sector Review
GFC	Global Financial Crisis
GoPNG	Government of Papua New Guinea
ICCC	Independent Competition and Consumer Commission
IFC	International Finance Corporation
IMF	International Monetary Fund
IPA	Investment Promotion Authority
ISDA	International Swaps and Derivatives Association
KATS	Kina Automated Transfer System
KYC	Know Your Customer
MEP	Microfinance Expansion Project
MNO	Money Network Operator
MoU	Memorandum of Understanding
Nasfund	National Superannuation Fund
NEC	National Executive Council
NSL	Nambawan Super
NZX	New Zealand Stock Exchange
PGK	Papua New Guinea Kina
PNG	Papua New Guinea
PNGIC	PNG Insurance Commission
SEC-PNG	Securities Exchange Commission of Papua New Guinea
POMSoX	Port Moresby Stock Exchange
RBA	Reserve Bank of Australia
S&LS	Savings and Loan Society

Treasurer's Foreword



The financial sector is an economy's cardiovascular system. It is the financial system that enables trade in goods and services, and that enables savings to flow to where investment is needed. Shortcomings in the financial system are the equivalent of cardiovascular disease.

In 2011 the World Bank and IMF subjected the PNG financial sector to a comprehensive health check. A number of areas were identified for attention. These have been worked on intensively in the period since. This has included a series of further diagnostic reports prepared by the World Bank, and work by a joint Treasury-BPNG Financial Services Sector Review Team.

This *Financial Sector Development Strategy* (FSDS) is the result of the Review Team's work. There has been considerable input from both public and private sector stakeholders, and from both providers and users of financial services. Workshops were held in Port Moresby and across PNG's four regions in July-August 2016, and the draft FSDS was presented to stakeholders in October 2016.

The FSDS is in line with the PNG Government's development priorities stipulated in the Vision 2050, the PNG Strategic Development Plan 2030, the Medium Term Development Plan, the Medium Term Fiscal and Debt Strategies, and other sectoral policy objectives. In addition to providing strategic direction for the medium to long-term, identifies specific projects to be commissioned and implemented in the short-term, that is, within the next two to three years. It provides for a review of progress to be undertaken in 2022. This review will provide an opportunity to refresh the strategy in the light of progress to that point, and also to specify a further set of projects then to be undertaken. This approach reflects an underlying philosophy that what matters for financial sector development is that plans are effectively implemented. That is better achieved by adopting a phased approach, rather than by trying to do everything at once.

Co-ordination and collaboration amongst PNG's financial sector policy and regulatory agencies is also important. Implementation of the FSDS is to be overseen by a newly established Council, to be known as the Financial Services Council. This body will comprise the Secretary of the Treasury, the Governor of the Bank of Papua New Guinea and the Chairman of the Securities Exchange Commission.

With effective implementation of the FSDS, I am confident that the PNG financial sector will continue to prosper and, at the same time, make a strengthened contribution to PNG's economic and social development. On behalf of the Government of Papua New Guinea, I would like to thank all our stakeholders who have contributed to this review, the hard working review team, and the World Bank Group for their continued technical support leading to this document.

A handwritten signature in black ink, appearing to read 'Charles Abel'.

HON. CHARLES ABEL, MP

Deputy Prime Minister and Minister for Treasury



1. This FSDS charts a course for taking PNG's financial services sector to a 'next level' of development. It begins with an assessment of the financial sector's current strengths and weaknesses and, in the light of these, outlines strategic directions for the future, covering four areas:

- the architecture of PNG's financial sector regulatory and supervisory arrangements,
- development of PNG's government bond and capital markets,
- development of the national payments system; and,
- financial inclusion.

Also included is a framework for implementing the FSDS.

Current Assessment

2. PNG's current financial services sector has a number of positive features. These include:

- a strong core banking system,
- already installed key elements of infrastructure for digital banking,
- good progress toward meeting financial inclusion objectives,
- a well-established framework for superannuation savings; and,
- sizeable primary capital markets for government bonds and equities.

3. But there are also a number of gaps and opportunities to further develop the financial system. These stem from the current:

- weak market competition amongst financial service providers,

- limited services for the financially under-served, and in some market segments, exposure of consumers of financial services to the damaging conduct of some providers,
- a still high level of use of cash as a means of payment,
- a low level of, and concentrated, lending by lending institutions; and,
- limited access to capital caused by illiquid secondary markets for bonds and equities.

4. With respect to financial sector regulatory and supervisory arrangements, the main challenges relate to the level of skills/leadership and effective coordination and implementation. In a small developing country like PNG, there is a need for supervisory/regulatory institutions to be organized in a way that is cost and scale effective. Currently PNGIC and SEC-PNG have little critical mass, and the separate supervision of life insurance and general insurance companies, respectively by BPNG and PNGIC, is inefficient.

5. Other regulatory and supervisory issues include:

- the current absence of supervisory oversight of land-owner trust funds,
- the housing of SEC-PNG, a regulatory agency, within IPA, a promotional agency. This carries the potential for a conflict of roles,
- the economy-wide breadth of ICCG's role as PNG's consumer protection agency. This breadth of role means that ICCG has limited capacity to address scams and other forms of abusive conduct that are particular to the financial sector; and,

Priorities and Strategic Directions

6. This section summarizes the strategic policy directions to be followed, and policy actions to be taken, to build on the PNG financial sector's current strengths, address the identified weaknesses, and enhance more opportunities for the sector.

Financial Sector Regulation and Supervision

7. Financial sector regulation and supervision over the next decade is envisaged as moving to a more coordinated and integrated approach. This is to be implemented in a staged manner, initially with prudential supervision of general insurance shifting to BPNG, whereupon BPNG will become PNG's single prudential supervisor. This will be alongside BPNG:

- completing implementation of the PNG's framework for AML/CFT,

- completing the re-licensing of, and implementation of updated prudential supervision for, S&LSs; and,
- further developing a risk-based approach to prudential supervision.

8. Three further steps to broaden and strengthen financial regulation are:

- strengthening of the role of SEC-PNG, as an independent securities market regulator; including by,
- assigning to SEC-PNG a supervisory oversight role in respect of land-owner trust funds.
- Strengthening consumer protection in the financial sector. This is to include establishing a channel by which CEFI can receive consumer complaints, for referral to the agency holding the relevant enforcement powers (generally either ICCG, SEC-PNG, or BPNG).

9. Whether further integration of financial regulation in PNG, to bring prudential supervision and securities market regulation together in a single financial sector regulatory authority, is something for consideration in the longer term. A number of options are available, including shifting securities market regulation into BPNG; shifting both prudential supervision and securities market regulation into a separate, standalone, financial sector regulatory agency; or an intermediate institutional arrangement, e.g., establishing an integrated financial sector regulator as a subsidiary of BPNG.

10. However, implementation of the move to a single prudential supervisor and building the capacity of SEC-PNG are prerequisites for any such further integration. Meantime, consistent with the overall shift toward more coordinated financial regulation and supervision, SEC-PNG's reporting line will be adjusted, from the Minister for Trade, Commerce and Industry to the Minister for Treasury.

11. Consideration will also be given to enhancing PNG's superannuation arrangements. It has been mooted for some time that superannuation funds available to members on retirement should be able, or required, to be paid as periodic installments, rather than as a lump sum. This would lessen the risk of retirement funds being dissipated rapidly, leaving people with insufficient funds in their later years of retirement. Another possible enhancement is to provide members' dependents with protection during the member's working life, by enabling, or requiring, life insurance to be included as part of the superannuation product (say, on an opt-out basis). A task force is being established to investigate these possibilities and to report to the Minister for Treasury by not later than end-2020.

Government Bond and Capital Market Development

12. Trading in PNG's bond and equity markets currently is shallow.

13. A first step towards developing PNG capital markets will be the establishment of a project team tasked with putting in place the arrangements needed to enable regular trading in government bonds. This will also include work on improving the efficiency of the primary market by changing the current manual cumbersome processes. The aim of this work to be completed by end of 2022.

14. Developing a more active local equity market is a more medium-term goal. While the recently enacted Capital Markets Act 2015 and Securities Commission Act 2015 provide a comprehensive legal framework, further work will be needed on strengthening corporate governance, financial disclosure practices, and the capacity of SEC-PNG to oversee and regulate the market, to support the development of a local equity market in PNG.

15. The ownership of POMSoX is also a matter for medium/longer-term consideration. Many stock exchanges, internationally, have demutualized during the past decade or two; with a number now either owned by international groups and/or, themselves having become listed companies. These developments open up a range of possibilities for the future ownership and development of POMSoX, which could help to support the development of the local equity market.

Payments System Development

16. A Strategy and Action Plan for the Development of the PNG National Payments System 2015-2018 is already in place. This sets out a comprehensive path forward for the development of the PNG payments system. A number of elements already have been implemented, including:

- enactment of the National Payments System Act 2013, and the establishment of a payments oversight unit within BPNG,
- installation of the Kina Automated Transfer System (KATS), PNG's real-time gross settlement system; and,
- the clearing of cheques using electronic imaging (i.e., cheque truncation).

17. Further steps to be implemented in 2018-2022 include:

- the installation of a 'central payments switch' to enable payments interoperability across all authorized electronic retail payments platforms. This will open up the retail payments system to increased competition amongst payment service providers,

- updating the systems required to enable safe and efficient settlement of capital markets (government bond and other capital market security) transactions; and,
- reducing the cost of international remittances.

Financial Inclusion

18. PNG is fully committed to achieving its commitments set out under the AFI Maya Declaration, one of which is to reach two million more underserved low-income people in Papua New Guinea, 50 per-cent of whom will be women. This strategic goal encompasses a wide range of financial services including savings and loans, remittance services and inclusive insurance.

19. An updated strategy for increasing financial inclusion and financial literacy has recently been approved by NEC and was launched by the Prime Minister on 14 December 2016. The key priorities for 2018-2022 as set out in that document have been incorporated into this FSDS.

20. CEFI is now well established as PNG's apex financial inclusion institution and, going forward, is to play the lead role in implementing the financial inclusion agenda. This will include a shift of some of the financial inclusion and financial literacy work program to CEFI from BPNG and MEP.

FSDS Governance and Implementation

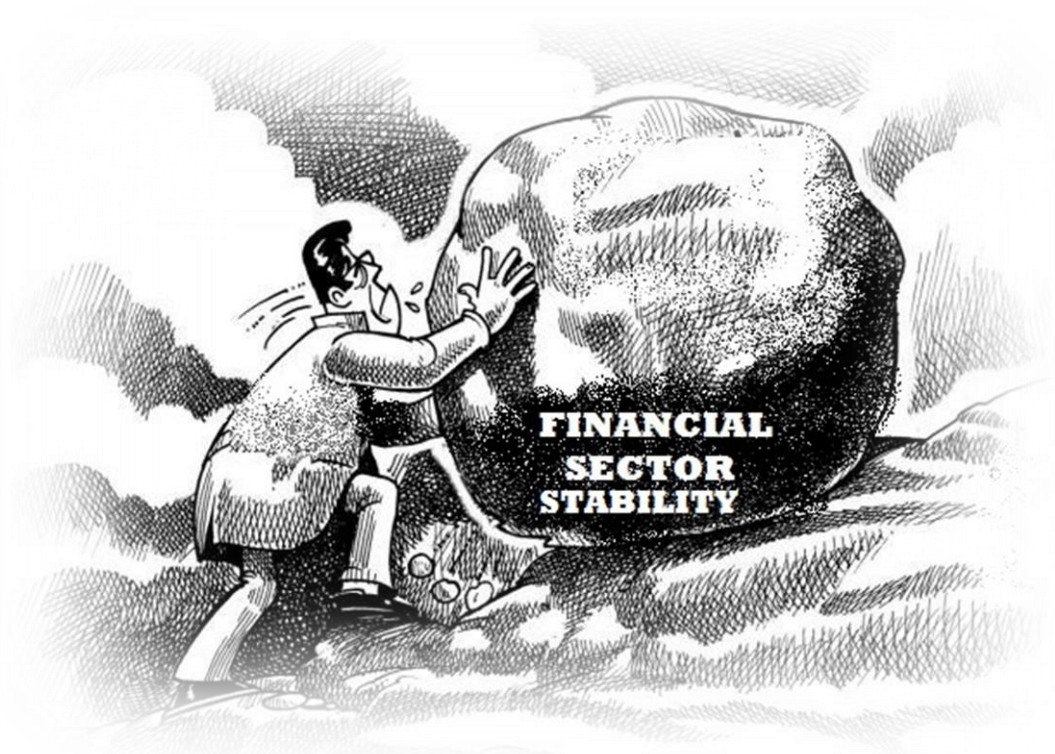
21. Key to achieving effective implementation of the FSDS work program will be good project management and strong coordination and collaboration amongst the implementing agencies.

22. To this end, a new peak financial sector governance and coordination policy committee is to be established, to be known as the PNG Financial Services Council (FSC). The membership of the FSC will include the following or their alternate:

- the Governor of the Bank of Papua New Guinea (Chair),
- the Secretary of the Department of Treasury; and,
- the Chair of the Securities Exchange Commission of PNG.

23. Other agencies will be invited to participate in the business of the FSC where it involves matters of direct relevance to the agency concerned (e.g., the ICCC in respect of competition and consumer protection matters, and the FASU in respect of AML/CFT matters).

24. The FSC will be supported by a FSD Steering Committee, comprising representatives from Treasury, BPNG, CEFI, SEC-PNG, PNGIC, and ICCG. There will also be a small Secretariat, housed within the Bank of PNG, which will provide FSC and the FSD Steering Committee with secretarial support and administrative services.



Cartoon by Taryana Odaya, 'Financial Stability and Capitalism', the Beaver

1. Introduction

25. The Government of PNG is seeking to take PNG's financial services sector to the 'next level' of development. For this purpose, it established in 2015 a Financial Services Sector Review (FSSR) team, led by the Department of Treasury and also including the Bank of Papua New Guinea (BPNG). The Review Team was tasked with undertaking a comprehensive review of the policy framework for PNG's financial services sector, taking account of diagnostic reports provided by the World Bank. This World Bank input followed on from the joint World Bank-IMF Financial Sector Assessment Program review undertaken in 2010-2011. While the FSDS builds on the financial sector component of PNG's overarching development plan (*PNG Development Strategic Plan 2010-2030*¹), it also tries to implement specific projects in the medium term by capturing the Government's mid-term priorities.

26. The objective of the FSSR has been to foster further development of the contribution made by PNG's financial services sector to PNG's economic and social development. This recognizes that the financial sector plays a key role in the economy:

- in encouraging, mobilizing, and allocating savings to those investments; and,
- by enabling payments and thus trade (domestic and international), thereby enabling people to break free from the constraints of subsistence-level economic activity.

27. At the same time, the financial sector does not operate in a vacuum. Many other aspects of economic and social policy development are also needed to support financial sector development – and thus demand for the services that the financial sector can provide. These include: a need for infrastructure, such as electricity and roads; development of human capital, through advances in education and health services; and the continued development of the 'institutions' needed for any society to operate effectively, such as good governance and law and order. Furthermore and at the macro level, the FSDS recognizes the importance of fiscal and debt sustainability including prudent fiscal management which are essential prerequisites for orderly financial sector development.

28. Given these mutual dependencies between the financial sector and the rest of the economy, co-ordination, both within the financial sector, and between the financial sector and the wider economy, is vital. This FSDS provides a platform for that

¹ Department of National Planning and Monitoring, Port Moresby, March 2010.

coordination. It sets out a framework so as to provide clarity on future strategic directions for the development of PNG's financial sector.

1.1. A Broad Scope

29. The strategy set out in this document is comprehensive in its scope. But this does not mean that it is 'starting anew'. PNG already has well-established plans in place for the development of the national payments system,² and for lifting levels of financial literacy and inclusion. Implementation of the former is well underway, and a second *National Financial Inclusion Strategy* for 2016-2020 was launched in December 2016.³

30. Two aspects of the policy framework for the development of PNG's financial sector that are less well established concern:

- the architecture of the financial regulatory arrangements; and,
- the development of PNG's capital markets, those being the market for trading of PNG government securities and for trading shares on the Port Moresby Stock Exchange (POMSoX).

This FSDS develops new strategies covering these aspects of PNG's financial sector.

31. The FSDS is also comprehensive in that it addresses both financial sector stability and financial development objectives. For the most part, these objectives are complementary. Financial sector stability is a necessary precondition for sustainable financial and economic development. But maintenance of financial sector stability alone is not sufficient: a strong focus is also needed on policies and projects that enable the financial sector to develop. Over-regulation can be an impediment to financial sector development. It is important that policies directed to maintaining financial sector stability and those aimed at developing the financial sector are mutually supportive.

1.2. A Staged Approach and a Focus on Implementation

32. The time horizon for this FSDS is a decade or so, to 2030. However, within that horizon, there is an initial focus on the first three to four years (2018-2022). A number of specific initiatives are proposed for implementation within that initial timeframe. This

² See *Strategy and Action Plan for the Development of the PNG National Payments System 2015-2018*, Bank of Papua New Guinea, October 31, 2015.

³ See *Papua New Guinea National Financial Inclusion and Financial Literacy Strategy 2014-2015*, Centre for Excellence in Financial Inclusion, December 5 2013, and *Papua New Guinea National Financial Inclusion Strategy, 2016-2020*, Centre for Excellence in Financial Inclusion, December 2016.

approach will ensure that the Government's long term strategic development objectives for the sector are achieved but subject to effective implementation of specific projects in the short term thereby remaining consistent with the Government's medium term strategic goals.

33. It also allows for a review of progress towards the end of 2022, in conjunction, at that point, with formulation of a next series of specific projects then to be implemented. This step-by- step approach reflects a view that it is better initially to select a few projects that can be carried through to implementation, rather than to attempt to make progress across many projects all at the same time. The latter risks spreading PNG's limited financial sector policy and regulatory resources too thinly and, correspondingly, less effectively. On the other hand, effective and gradual implementation of a few policy projects each year, sustained year-after-year for a decade, can confidently be expected to bring about a level-shift in the performance of PNG's financial services sector.

2. The Current Financial Services Sector Landscape [Strengths, Gaps and Opportunities]

34. This section reviews PNG's current financial system, as a basis for identifying the gaps and opportunities to be addressed over the next decade or so.

2.1 Institutions and Infrastructure

2.1.1. Payments System

35. PNG today remains significantly a 'cash economy'. While cash is convenient for small transactions, and enables people to transition from barter to the market economy, it can be something of a trap. Cash can be stolen, it pays no interest, and the absence of demonstrated responsible conduct of a bank account is a barrier to obtaining access to bank credit. Cash is also costly to print, transport and store, creates physical security risks, and can be laundered.

36. Other, paper-based, means of payment, while not subject to all these disadvantages, also have their pitfalls. Cheques take time to clear, and are expensive to process. The recent introduction of cheque truncation, which enables clearing by electronic imaging, has been a step forward. But cheques remain inefficient compared with electronic means of payment.

37. Significant progress has been made in recent years on developing the infrastructure in PNG for making electronic payments. A system to enable real-time settlement of payments across banks' accounts with BPNG – the KATS system – commenced initial stages of operation in 2013; and progress now is being made on shifting government payments onto an electronic basis. Also, commercial banks have rolled out electronic banking channels (e.g., EFTPOS, internet banking, telephone

banking) for their customers. Mobile network operators (MNOs) also provide ‘electronic wallet’ facilities, albeit using funds held outside the banking system.

38. However, at this stage, the electronic interfaces the banks (and MNOs) provide for their respective customers are not all connected-up into an integrated system. This lack of interoperability is evident from, for example, how customers have to use their own bank’s ATM machine or EFTPOS terminal, rather than all customers having access to a single network. This absence of seamless (to the customer) payments connectivity amongst providers of payments services can also act as a significant barrier to competition in the market for those services.

2.1.2 Deposit-Taking and Lending Intermediaries

39. There are four (4) commercial banks currently operating in PNG. These institutions dominate PNG’s financial system, accounting for 92 percent of bank and credit institutions’ total assets. Of these banks, two (BSP and Kina Bank) are PNG-owned and two (ANZ and Westpac) are subsidiaries of Australian-based banks. Summary data on these institutions are provided in Table 1.

40. Overall, the banks are currently sound. Impaired assets amount to not more than 1 per-cent of total assets, whereas shareholders’ funds (available to absorb losses) as a percentage of total assets is nearly 17 percent. Banks’ earnings are also strong, delivering a return on total assets of 2.1 percent per annum, approaching double the traditional 1 percent per annum benchmark. This high level of bank earnings in PNG derives from interest margins that are quite wide and fees that, on the whole, more than adequately cover costs. Both point to a banking market within which there is limited competition.

Table 1: PNG depository and credit institutions (as at December 2017)

	Banks	Finance Companies	Micro-banks	Savings & LS	Total
	PGK million	PGK million	PGK million	PGK million	PGK million
Loan assets	16,953	1,030	133	362	18,478
Govt securities	10,608	215	93	334	11,251
Other assets	7,113	209	45	437	7,804
Total assets	34,675	1,454	271	1,133	37,533
Deposits	26,584	794	202	630	28,210
Other liabilities	2,101	44	14	16	2,174
Shareholders’ funds (% of total assets)	5,990 (17.3%)	616 (42.4%)	56 (20.5%)	487 (43.0%)	7,149 (19.0%)
Total liabilities	28,685	838	215	646	30,384
Impaired assets (% of total assets)	379 (1.0%)	109 (7.1%)	14 (5.1%)	44 (3.8%)	545 (1.4%)
Return on assets (%)	2.1%	4.7%	0.4%	2.5%	2.2%

Source: BPNG Quarterly Financial Returns

41. A notable feature of the banks' balance sheets is that loan assets comprise less than half of their total assets. This indicates a combination of limited availability of sound lending opportunities, limited appetite for lending by the banks, and/or limited appetite for borrowing by PNG's firms and households.

42. The bulk of banks' remaining funds are invested in PNG government securities. These potentially are liquid assets although currently they lack liquidity in the normal course of business, owing to lack of a secondary market.

43. Weak competition in the PNG banking market stems, at least in part, from the market being concentrated and segmented. One bank (BSP) has approximately 50 per cent market share. The next two largest banks (ANZ and Westpac), as subsidiaries of international banks, tend to operate in comparatively more narrow market segments. Their main, although not only, focus is on servicing the banking needs in PNG of larger and better-established local corporates, multinationals, and higher net worth/expatriate personal customers. The fourth bank (by size), until recently, was also a subsidiary of an international bank (Maybank, headquartered in Malaysia). However, in 2015 the business of Maybank in PNG was acquired by Kina Group, hitherto a PNG financial advisory, wealth management and administration group. Under its new ownership, this bank, now trading as Kina Bank, is reportedly seeking to expand its share of the PNG banking market.

44. The other categories of deposit-taking institution in PNG – micro-banks, S&L societies and finance companies – are much smaller than the commercial banks. Also, given their role, more on the margins of the financial system, their balance sheets and franchises are inherently more fragile.

45. These institutions, particularly in their role as providers of channels by which micro and smaller SME enterprises can access financial services, play a role in PNG that is disproportionate to their size. While they are small institutions, failures by them to meet their obligations, or business misconduct, could cause significant damage to public confidence, at least amongst new and potential users of financial services.

46. This is against a backdrop where the financial sector still services mostly the firms and households located in PNG's main urban centers. The financial sector's reach into the rural areas, where the majority of PNG's population resides, remains limited. However, good progress is being made. The proportion of the total population using financial services is now thought to be about 25 per cent, compared with 15 per cent a decade or so ago.

2.1.3. Protection and Accumulation of Wealth

47. Superannuation funds and insurance companies provide products that enable the accumulation and protection of wealth. In addition, land-owner trust funds are important vehicles by which revenues from community-owned land can be accumulated for the benefit of local communities now and into the future.

48. Superannuation funds comprise a sizeable part of the PNG financial sector, with total assets under management accounting for over 25 per-cent of financial system assets overall. These are held predominantly by two funds, Nambawan Super Limited (NSL) and Nasfund, which together account for over 90 percent of total superannuation fund assets under management.

49. Membership of, and the making of contributions (by employees and employers) to, a superannuation fund is compulsory for employees of firms with 15 or more employees, and for government employees. Contributions by employees are 6 per-cent of gross salaries while contributions by employers are 8.4 per-cent, although there have been compliance issues in the cases of some employers. Members, on reaching retirement age, can withdraw their funds as a lump sum.

50. Land-owner trust funds have grown, and are expected to continue to grow, in importance; potentially to a point where the amount of investments they have under management approaches the total amount of assets held by superannuation funds. Given the nature and purpose of the savings placed with both superannuation and land-owner trust funds – saving for the long-term future – prudent management of those savings is essential.

51. The long-term investment horizon for superannuation and land-owner trust fund savings, nonetheless, enables investment in ‘growth’ assets (such as property and equities), alongside ‘safer’ assets such as government bonds. The key to reconciling the risk inherent in these funds is disciplined and diversified investment. Currently there is oversight (by BPNG) of superannuation funds to ensure that there is strong governance in place to maintain those disciplines, but there is no counterpart oversight of land-owner trust funds.

52. Insurance has not featured prominently in PNG to date. Commercial and industrial cover generally is provided by international insurers, with larger risks underwritten offshore (although some international insurers have offices in Port Moresby). These firms, along with some local insurers, also cater for property and motor vehicle insurance requirements in the local economy. However, there is comparatively little uptake of insurance beyond the formal economy. The majority of PNG residents own little and therefore have little property to protect from loss, and limited income from which to pay insurance premiums.

Table 2: Investment funds and insurance (as at December 2017)

	Superannuation	Life insurance
	PGK mil.	PGK mil.
PNG government securities	3,547	7

Equity investments	5,119	21
Property investments	1,250	216
Other	2,117	20
Total assets	12,033	264

Source: BPNG Quarterly Financial Returns

53. Life and medical insurance in PNG, if anything, is less developed, although in recent years there has been a pick-up in on-line sales of life insurance products. Micro-finance institutions also provide insurance that covers a borrower's obligations in the event of untimely death.

2.1.4 Securities Markets

54. PNG's securities markets, in some respects, are the least developed segment of its financial sector. These markets comprise the government debt securities market and the PNG equity market (the Port Moresby Stock Exchange).

55. In both cases, the primary markets are quite large. PNG government securities on issue amount to a range between 10-20 percent of GDP, and the market capitalization of the companies listed on POMSx is estimated to be equivalent to over 100 per-cent of GDP. However, secondary market trading in the local market is negligible.

56. POMSx, which is owned by two local institutions (the BSP and the Kina groups) is relatively inactive. Secondary market trading in equities that does occur mostly is in the shares of a handful of PNG companies that are listed, and traded, on the Australian Stock Exchange (ASX). This provides a more liquid market for those securities.

57. PNG government bonds on issue are held almost entirely passively, mainly by PNG's banks (including the Central Bank) and superannuation funds. They would provide a more ready source of liquidity for those institutions if the necessary infrastructure to enable trading was in place.

Table 3. Papua New Guinea Securities markets (as at December 2017)

	2014	2015	2016	2017
GDP (PGK million)	56,621	62,158	67,164	73,861

PNG Government securities market				
PNG Government securities on issue (PGK million)	11,828	13,942	16,437	17,173
PNG Government securities on issue to GDP (%)	4.6	6.7	17.5	18.1
Port Moresby Stock Exchange (POMSoX)				
Market capitalization (PGK million)	56,073	51,388	71,621	33,135
Number of listed entities (No.)	18	17	16	15
Turnover to market capitalization (%)	0.32%	5.95%	0.04%	0.15%
Market capitalization to GDP (%)	99.03%	82.67%	105.69%	44.86%
Licensed stockbrokers (No.)	2	2	2	2

Source: BPNG; 2017 nominal GDP an IMF estimate.

2.1.5 Summary of the Institutional and Infrastructure Gaps and Opportunities

58. The financial sector landscape outlined above reveals both strengths and weaknesses. The current strengths include:

- a strong core banking system, including an independent and credible central bank,
- installation of key elements of infrastructure for electronic banking,
- an established framework for superannuation savings,
- progress in achieving financial inclusion objectives; and,
- sizeable amounts of publicly-issued government securities and of equities in the primary market.

59. However, there are also a number of weaknesses and opportunities for further development of PNG's financial system. These include:

- weak competition in the financial sector, albeit something that enables the sector to sustain strong earnings and sound balance sheets,

- although expanding, a still limited financial sector footprint in terms of provision of financial services to the underserved,
- exposure of segments of the market, particularly the micro-sector, to confidence-damaging conduct, i.e., scams, misleading or oppressive contract terms, etc.,
- still substantially a cash economy,
- a banking system that is under-lent,
- less than well-diversified lending and investment portfolios,
- an illiquid bond market (primary issuance only); and,
- a moribund equity market.

2.2 Current Supervisory and Regulatory Arrangements

60. PNG has in place a generally comprehensive legal framework for financial regulation and supervision, covering each of the three main aspects of financial regulation (The legislative underpinnings of financial sector regulation and supervision are provided in Table 4).

- prudential supervision of institutions that take deposits and superannuation contributions or have other forms of obligation that entail a strong 'promise' of ability to pay,
- regulation of the issuance and markets for trading in, investment securities (where investment risk lies with the investor); and,
- regulation to foster 'fair dealing' between financial institutions and their customers, and competition amongst financial institutions.

61. The preparation of this FSDS provides an opportunity to review PNG's institutional arrangements for financial sector regulation and supervision. Being a small developing country with limited regulatory and supervisory resources, it is essential that these arrangements are cost-effective. This requires PNG's supervisory resources to be arranged in a way that:

- achieves economies of scale and scope, by co-locating regulatory functions that are a 'natural fit',
- avoids unnecessary overlaps, and underlaps (gaps),
- achieves a consistent and coordinated approach to financial regulation and supervision; and,

- helps with the building of supervisory capabilities, including by ensuring that regulators have the critical mass needed to be effective and efficient.

62. Currently, the institutional architecture of financial regulation in PNG reflects a 'twin peaks' model. Prudential supervision (of banks, other deposit-takers, life insurance and superannuation) is located in BPNG, and securities market supervision is undertaken by SEC-PNG (located within the Investment Promotion Authority). The exception is prudential supervision of general insurance companies, which is undertaken by the separate Office of the PNG Insurance Commission. Regulation of competition and for consumer protection purposes, across all sectors of PNG's economy, is the responsibility of PNG's ICCC.



By Ingram Pinn, Financial Time

Table 4. The structure of financial regulation

Financial institution	Regulatory/ supervisory authority	Governing legislation
<u>Prudential supervision</u>		
Commercial banks	BPNG	Bank and Financial Institutions Act 2000
Finance companies	BPNG	Bank and Financial Institutions Act 2000
Microfinance institutions	BPNG	Bank and Financial Institutions Act 2000
Savings and loans societies	BPNG	Savings and Loan Society (Amendment) Act 1995 and Savings & Loan Societies Act 2015
National Development Bank	Unregulated	National Development Bank Act 2007
Superannuation funds	BPNG	Superannuation (General Provision) Act 2000
Superannuation funds investment managers	BPNG	Superannuation (General Provision) Act 2000
Superannuation fund administrator	BPNG	Superannuation (General Provision) Act 2000
Land-owner trust funds	Unregulated	The Trustees and Executors Act 1961 or the Companies Act 1997 (depending on the Act under which the Land-owner trust is registered)
Life insurance companies	BPNG	Life Insurance Act 2000
General insurance companies	PNGIC	Insurance Act 1995

Table 4. The structure of financial regulation (contd.)

<u>Securities market regulation</u>		
Equity market	POMSoX	Capital Markets Act 2015 and the Securities Commission Act 2015
Securities market conduct	SEC-PNG	Capital Markets Act 2015 and the Securities Commission Act 2015
Stock brokers	POMSoX	Capital Markets Act 2015 and the Securities Commission Act 2015
<u>Consumer protection and competition</u>		
Consumer protection	ICCC	Independent Consumer and Competition Commission Act 2002
Competition	ICCC	Independent Consumer and Competition Commission Act 2002
<u>Payments system oversight</u>		
National Payments System	BPNG	National Payment System Act 2013
AML / CFT	FASU	Proceeds of Crime Act, 2005; Criminal Code (Money Laundering and Terrorist Financing) (Amendment) Act 2015; United Nations Financial Sanctions Act 2015; Anti-Money Laundering and Countering Terrorist Financing Act 2015; Proceeds of Crime (Amendment) Act 2015; Mutual Assistance in Criminal Matters (Amendment) Act 2015.
Money changers and money remitters	BPNG	Central Bank Act 2000 (Regulations relating to Foreign Exchange and Gold)

Source:

BPNG

2.2.1. Prudential Supervision

63. Banking supervision, including of micro banks, is conducted by BPNG within a framework that broadly follows international practice. The framework includes, in addition to licensing criteria, and governance and operational requirements, prudential standards with respect to:

- transactions with related parties,
- capital adequacy,
- asset classification, provisions and suspension of interest accrual,
- limits on inter-bank placements; and,
- limits on foreign currency exposures.

64. BPNG undertakes on- and off-site reviews. In the cases of banks with international connections (BSP, ANZ and Westpac) on-site reviews are undertaken in collaboration with overseas supervisory counterparts. Also, an increasingly risk-based approach is being adopted. It is recognized that each bank is different in terms of the nature and extent of the risks they present, and of mitigants to those risks. BSP, by a large margin, is the most systemically-important bank in PNG, and also has operations in six other South Pacific economies including Cambodia.

65. Savings and Loan Societies (S&LSs) are registered under the Savings and Loan Societies (Amendment) Act 1995. The societies are established by people sharing a common bond of membership, such as those employed in the same organization, industry or originating from the same province.

66. The legal framework under which S&LS have operated to date, the S&LS Act 1995, has been prescriptive and, to a large extent, has not enabled S&LSs to operate in line with market forces. For instance, the interest rate charged on loans has been capped at 1 percent per month, which has constrained S&LSs from charging rates that reflect the riskiness in lending to some customers or by way of some types of loan. Also, the operations of individual societies have been subject to a number of directives, administered by BPNG.

67. In 2015 a new Savings & Loan Societies Act 2015 was enacted. This separates the registration function from prudential supervision, with the former to be moved from BPNG to IPA. This shift of the registration function will result in S&LSs being registered similar to how companies are registered, and place BPNG in a position independently to license and prudentially supervise S&LSs as deposit-takers. With the new Act coming into effect, BPNG will be issuing new prudential standards for S&LSs. These are expected to result in some consolidation of the institutions, as weaker institutions merge with those with stronger balance sheets. This reform is currently absorbing a significant

amount of supervisory resource, but is expected to pay dividends in terms of the S&Ls sector becoming more strongly positioned to contribute to financial development and inclusion objectives over the longer term.

68. Finance companies differ from banks mainly in that their lending is funded from wholesale sources rather than by retail deposits. Accordingly, supervisory oversight by BPNG is less for the purpose of protecting deposits than for the purpose of avoiding damage or disruption to the financial system (systemic risk). These institutions, whilst also small, play a meaningful role as credit intermediaries, and failures would disrupt the flow of credit in the economy. Also, one of the finance companies is significant shareholder in one of PNG's major banks.

69. Superannuation funds are required to be structured so as to provide for a separation of functions. Each authorised Superannuation Fund (ASF) must have a licensed:

- trustee,
- investment manager; and,
- fund administrator.

70. This separation of functions is designed to ensure proper governance. It requires that the investment advice function is vested with the investment manager, separate from the trustee, and that there is proper management of members' account balances by a fund's administrator. All these entities – trustees, investment managers and fund administrators are required to be licensed and are subject to fit and proper requirements.

71. The centerpiece of BPNG's supervision of superannuation funds is oversight of the governance by the trustees, within a framework that takes account of good practice with respect to:

- corporate governance,
- authorised investments, which are required to be managed according to the fund's strategic asset allocations,
- risk management,
- management of expense ratios,
- financial statement disclosure,
- provisioning for bad and doubtful debts; and,

- external audit.

72. Supervision of insurance, which makes up only a small segment of the PNG financial sector, is split between BPNG, which supervises life insurance companies, and the PNG Insurance Commission, which supervises general insurance companies. Supervisory frameworks comprising licensing criteria along with governance and prudential requirements are prescribed, but with differences in application by BPNG and PNGIC respectively.

73. Traditionally, insurance has been split into life and general insurance segments. This reflects a history in which life insurance products mostly took the form of composite products that provided a combination of life-cover (for dependents in the case of untimely death) and life-time saving (to provide funds in old age) – in the single product. However, for some years now, the trend has been for life insurance to take the form of either annual life cover (term life insurance, similar in some respects to general insurance, albeit with the risk insured being loss of life) or a savings instrument (insurance bonds, or units), not a combination of the two. This has resulted in ‘boundary issues’ having arisen concerning the location of supervisory responsibility where insurers are offering term life insurance and medical insurance, products which have some of the features of life insurance and some of those of general insurance.

2.2.2 Securities Market Regulation

74. The Securities Exchange Commission of Papua New Guinea (SEC-PNG) currently is a Division within the PNG Investment Promotion Authority (IPA). SEC-PNG is charged with regulating issuance of equity and debt securities in the primary market, and secondary trading on the Port Moresby Stock Exchange (POMSoX). In the latter role, SEC-PNG approves the listing and business rules of POMSoX, and monitors trading to ensure that the market functions well. It also has approved POMSoX as a self-regulatory organisation, which enables POMSoX to set the rules and standards for its members.

75. However, with trading volumes very limited, and only a handful of companies listed, SEC-PNG’s role in regulating PNG’s capital markets currently is quite limited. (BPNG oversees activity in the money markets and government issued securities, which also is limited.)

76. In 2015 new Capital Markets and Securities Commission Acts were enacted. These provide PNG with a modern legislative framework for its capital markets. This is forward-looking legislation, which provides comprehensive enabling legislation for the development of more fully-fledged capital markets in PNG. For example, the new legislation enables SEC-PNG to regulate fund managers and investment advisors, powers it did not have under the predecessor 1997 legislation.

77. Besides housing the SEC-PNG, IPA is the registrar of companies in PNG and is in the process of assuming the same role for the registration of Savings and Loan Societies as companies, from BPNG.

2.2.3 Consumer Protection

78. The consumer protection regulatory agency in PNG is the Independent Consumer and Competition Commission (ICCC). ICCC performs a number of functions including: the monitoring of markets for and addressing anti-competitive conduct; administration of price regulation; industry licensing and regulation; and regulation of a range of other matters. One of its statutory objectives is to promote competition, fair trading and the protection of consumers' interests. It has been recommended, by a Consumer and Competition Review team that this objective be fostered by the establishment of a separate unit within the ICCC to address consumer complaints and consumer protection issues.⁴

79. However, ICCC does not have a particular focus on the financial sector; rather it has an economy-wide mandate. The breadth of ICCCs role means that, generally, it cannot give detailed attention to consumer protection issues specific to the financial sector.

2.2.4 AML/CFT

80. In mid-2016, PNG was removed from the FATF 'grey list' of countries judged to have unsatisfactory arrangements in place for countering money laundering and the financing of terrorism. This was achieved as the result of state agencies, cooperating through the National Coordinating Committee for Anti-Money Laundering and Counter Terrorist Financing, having taken sufficient steps toward establishing an internationally compliant framework for AML/CFT, including the enactment by the National Parliament of a number of new laws. Without having taken these steps, PNG would have faced the possibility of restrictions being applied to foreign financial institutions on being able to transact with their PNG counterparts.

81. The AML/CFT Act 2015 establishes the Financial Analysis Supervision Unit (FASU) in BPNG. This independent Unit is responsible for supervising and monitoring compliance by all financial institutions, businesses and professionals in PNG with AML/CTF obligations. The Royal PNG Constabulary remains responsible for the investigation of money laundering and terrorist financing related offences. A Sanctions Secretariat is also established within the Department of Prime Minister and National Executive Council to assist with the administration of the Act.

82. Whilst PNG has been removed from the FATF 'grey list', PNG remains under close scrutiny to ensure that the now established AML/CFT framework is effectively implemented. This will need to include:

⁴ See <http://www.ccfreview.info/team> for information on the Consumer and Competition Framework Review.

- implementation of AML/CTF reporting by financial institutions. This was trialed with the main banks in 2016, ahead of the commencement of formal reporting,
- implementation of compliance rules and guidelines on customer due diligence (CDD) and know your customer (KYC) obligations for all reporting entities,
- an awareness program for financial institutions, designated non-financial businesses and professions (DNFBPs), regulatory authorities, and the public so that they are aware of and understand their obligations under the AML/CTF Act 2015,
- training of the agencies in PNG with responsibilities under the new AML/CFT legislation; and,
- information-sharing relationships (MoUs) with Financial Intelligence Units from other countries and with domestic stakeholders.

2.2.5 Oversight of the Payments System

83. BPNG is tasked with oversight of the payments system. The Central Banking Act 2000 includes promotion of ‘an efficient national and international payment system’ as one of the four objectives of BPNG. Also, the National Payment System Act 2013 requires BPNG to:

- exercise regulatory and oversight powers over the national payment system as a whole and any component thereof; and,
- ensure that users of payment services and instruments are treated fairly and transparently.

84. To date BPNG’s main roles in relation to the payments system have been as a provider of payments ‘infrastructure’, including provision of the exchange settlement accounts across which commercial banks settle their, and their customers’, payments. BPNG’s main focus to date has been on developing the payments system more than on oversight. However, recently it has established a Payments System Oversight Office charged with maintaining general oversight of the payments system, to ensure that the system functions in a stable, reliable, and efficient manner.

2.2.6 Financial Inclusion

85. Financial inclusion is something that involves the whole financial sector. Progress is being made on extending delivery of financial services to the under-served. The proportion of PNG’s population that participates in the financial sector is thought to have increased, over the past decade or so, from about 15 per-cent to near 25 per-cent. This has been progressed under the *Financial Inclusion and Financial Literacy Strategy*

2014-15, with continued momentum expected under the *National Financial Inclusion Strategy 2016-2020* which was launched in December 2016.

86. The Centre for Excellence in Financial Inclusion (CEFI) was established in 2013 to spear-head continuing efforts, in collaboration with donors and PNG's financial institutions, to further extend the penetration of financial services. A centerpiece of those efforts has been the Microfinance Expansion Project, supported by the ADB, DFAT and GoPNG. Under this program, technical assistance has been provided to financial institutions on microfinance delivery. Core elements of that assistance have included:

- training for existing and potential clients of participating financial institutions on financial literacy and business development and management skills,
- work with CEFI on the development of industry benchmarks (financial and social), to help further develop delivery of effective financial services for the under-served, with due focus on protecting customer rights,
- work with BPNG to develop appropriate regulation for, and supervision of, microfinance institutions and of S&LSs, and on new areas like mobile banking; and,
- the setting up of a risk-share facility that covers some of the risk associated with micro-finance institutions' lending, and to help channel more of those institutions' deposits into lending rather than into bank deposits and government securities.

87. Some of the achievements to date under these arrangements have included:

- delivery of training to 135,000 participants,
- establishment of a PGK15 million trust fund to cover losses arising in the risk-share facility,
- adoption of the SMART campaign client protection principles by 10 PNG micro finance institutions, and the commencement of reporting using the international MIX reporting framework by nine such institutions; and,
- establishment of arrangements to enable micro-finance institutions to participate in the PNG Credit Data Bureau (on a subsidised basis).

2.2.7 Summary of Policy & Regulatory Strengths, Gaps and Opportunities

88. PNG has in place a comprehensive legal framework for financial regulation and supervision.

89. The main challenges relate to effective implementation of financial regulation and supervision. These are roles that require skilled and experienced personnel, which underscores a need for PNG's small cadre of skilled and experienced financial sector regulatory and supervisory personnel to be deployed as cost-effectively as possible. Specific issues relate to:

- the need for supervisory institutions to have sufficient critical mass to be effective. Currently PNGIC, and SEC-PNG have little critical mass,
- whether the current allocation of insurance and superannuation supervision responsibilities represents the 'best fit', given the blurring of the boundaries that has occurred as between general insurance, life insurance and superannuation,
- the absence of supervisory oversight of land-owner trust funds,
- a need for stronger co-ordination and collaboration amongst the supervisors of the different parts of the financial system; and,
- a need to further strengthen 'risk-based' approaches to supervision – so as to direct supervisory effort to where it is most needed, having regard for the systemic and developmental importance of each institution, and the nature and extent of the risks, and mitigants to the risks, presented by each institution.

90. Further issues arise from:

- the potential for conflict in the roles of IPA, within which SEC-PNG currently is housed, and SEC-PNG. This potential for conflict arises from IPA's role as an investment promotion authority and SEC-PNG's role as an investment regulatory agency; and,
- the breadth of ICCC's role as PNG's consumer and competition authority. As an economy-wide competition and consumer commission, ICCC has a limited brief, and limited capacity, to address consumer protection issues specific to the financial sector.

3. Future Priorities and Strategic Directions

91. This section of the FSDS outlines the strategic policies and projects to develop the PNG financial sector in the period ahead, taking account of the issues, gaps and opportunities outlined above. It is organized under four headings:

- regulatory and supervisory arrangements,
- government bond and capital market development,
- payments system development; and,

- financial inclusion.

92. Under each of these headings, there are two parts. The first part focuses on projects for implementation within the next two-three years. The second sets out high-level strategies for the longer term. A summary overview of the implementation plan for the period to 2022 is provided in Annex 2.

3.1. Regulatory and Supervisory Arrangements

3.1.1. Short-term Regulatory and Supervisory Projects (2018 to 2022)

93. Four new projects to enhance financial regulation and supervision are identified for implementation in 2018-2022, alongside completion of three projects and activities already in train. The latter, which are to continue to receive priority attention, include:

- implementation of the new AML/CFT legal framework, as outlined in paragraph 59 above,
- the re-licensing of and implementation of updated prudential supervision for S&LSs; and,
- further development of a risk-based approach to prudential supervision, including the formulation and publication of a framework for determining supervisory priorities and resourcing, taking account of both the systemic and developmental importance of each institution, and the nature and extent of the risks they present and also of any factors that mitigate those risks.

94. The four additional new projects for implementation in 2018-2022 are:

- the transfer of prudential supervision of general insurance from PNGIC to BPNG,
- the strengthening of the role of SEC-PNG, including by way of the introduction of a role for SEC-PNG in maintaining supervisory oversight of land-owner trust funds,
- the strengthening of consumer protection in the financial sector, particularly for 'small' and new consumers to the financial sector who are vulnerable to abusive conduct; and,
- enhancements to superannuation.

95. The following elaborates briefly on each of these new work streams (WS).

WS1: Transfer supervision of general insurance from the PNGIC to BPNG

96. Given the evolution in the insurance industry, as described in paragraph 52 above, there are grounds now to co-locate the supervision of general insurance with the supervision of life insurance. This is reinforced, for PNG, by the small size of the local insurance market and hence the economies of scale and scope that can be achieved from co-location. Given that BPNG already has relatively greater supervisory capacity than PNGIC, the natural consolidation is for supervision of general insurance to be transferred to BPNG.⁵ It is also a step toward the long-term plan to move towards less fragmented regulatory and supervisory arrangements.

WS2: Re-establishing & strengthening the role of SEC-PNG

97. PNG's securities supervisor, SEC-PNG, currently lacks critical mass. At this stage, however, this is a less immediate issue, given the currently limited securities market trading activity in PNG. Also, the proposed move toward more integrated institutional arrangements for financial system regulation and supervision is better undertaken one step at a time, rather than by way of a 'mega-merger'. The re-location of prudential supervision of general insurance to BPNG, alongside development of the role of SEC-PNG, for the meantime as a separate institution, are natural first steps toward a more integrated set of regulatory arrangements.

98. In the case of SEC-PNG, for the short-term, the focus will be on building SEC-PNG's existing role, and capacity, in anticipation of there being an expanded need for securities regulation in the medium to longer term. Short-term steps to be undertaken include:

- SEC-PNG to assume a role in overseeing land-owner trust funds. This will require the preparation of the relevant legislation. The supervisory regime will broadly parallel that played by BPNG in supervising superannuation funds, that is, it will focus mainly on ensuring good governance, including by ensuring that members of governing boards, investment managers, and fund administrators, are 'fit and proper' persons; that investment decisions are made at 'arms-length'; and that there is effective monitoring and reporting by the governing boards. SEC-PNG is to develop these arrangements in collaboration with BPNG.
- With the Securities Commission Act 2015 and of the Capital Markets Act 2015 now in force, SEC-PNG needs to identify any new provisions that need now to be applied and administered by SEC-PNG, e.g., activities and/or institutions that hitherto have not required licensing/authorization but now do, and any previously

⁵ This corresponds with the arrangements for supervision of insurance nowadays in a growing number of countries. Australia, New Zealand and the UK, all countries with much larger insurance markets than PNG, over the past decade or two, have combined the prudential supervision of insurance (life and general) into a single prudential authority (which also supervises banks/deposit-takers and, in the case of Australia, also superannuation).

granted authorizations/approvals that need to be renewed, i.e., that have not been 'grandfathered'; and,

- SEC-PNG will have a stepped-up role in relation to consumer protection with respect to investment products, drawing on the expanded powers provided under the Securities Commission Act 2015 and the Capital Markets Act 2015.

99. These initial steps to enhance the role, and capacity, of SEC-PNG are a forerunner to a possible transfer of that role into the integrated regulator envisaged in the medium-long term.

100. Meantime, consistent with that direction of change, SEC-PNG's reporting line will be adjusted from the Minister for Trade, Commerce and Industry to the Minister for Treasury. This consolidation of oversight of financial regulation and policy at the Ministerial level will help foster the consistency of approach by, and coordination and collaboration amongst, PNG's financial regulatory agencies that is being promoted by the FSDS.

[WS3. Protection and promotion of consumers of financial services](#)

101. A short-term priority is to strengthen existing arrangements for protecting the interests of consumers of financial services. All users of financial services are exposed to potential scams, and other forms of abuse or misconduct by less responsible providers of financial services. But most vulnerable are those who are new to the use of financial services. Some scams and forms of abusive conduct are difficult to counter, given that the perpetrators may not be easy to locate, and may even operate from outside PNG. But there is a range of things that can be done.

102. Under this FSDS, increased priority will be given to the taking of actions to provide consumers of financial services, where possible, with basic protections.

103. Firstly, all agencies with financial sector supervisory and regulatory roles are to include a focus on enforcing the licensing requirements for which they have responsibility. Where a financial sector regulatory agency is aware of, or suspects, that financial services are being provided by providers who require a license but are unlicensed, they will, as appropriate, take the available enforcement action or notify the relevant enforcement authority.

104. Additionally, CEFI will expand its existing role in monitoring the conduct of those offering financial services to the micro and SME market segments, including by establishing a channel by which it can receive complaints (from both users of financial services and from other providers, i.e., from 'whistle blowers'). The complaints facility will be modelled on the principle that, where possible, complaints should first be raised with, and be registered by, the service provider, and be referred to CEFI only if that does not result in a satisfactory outcome.

105. CEFI's role under this arrangement will be two-fold. Where CEFI considers that enforcement action is needed, it will refer complaints to the relevant enforcement agency. Second, CEFI will have a monitoring role, and will include in its annual report an assessment of the conduct it has observed during the past year, and make recommendations on any measures that it considers can be implemented to better protect vulnerable consumers of financial services.

106. Meantime, BPNG is to continue to maintain oversight of the internal complaints resolution procedures of the financial institutions it supervises, with a view to ensuring that those institutions deal with customers in a manner that is transparent and fair.

WS4: Superannuation

107. PNG has a well-established policy framework for superannuation, which has seen superannuation funds develop into the second largest segment of the financial sector overall, second only to the banks. But there is room for improvement.

108. A concern has emerged that not all employers are making the contributions, including matching contributions, that they are required to make on behalf of their employees. BPNG is already addressing this problem, and will be intensifying its efforts to ensure full compliance (including by way of enforcement action where appropriate).

109. Consideration also is to be given within the current (2018-2022) planning horizon to further developing the policy framework for superannuation. Under existing arrangements members of superannuation funds can withdraw their funds, on reaching retirement age, as a lump sum. There is a risk of those funds being dissipated rapidly, leaving people with insufficient funds in their later years. This risk can be mitigated if some, or all, of the superannuation benefit available on retirement is able, or required, to be paid as periodic installments, rather than as a lump sum. Another possible enhancement to superannuation, to provide protection (for dependents) during the member's working life, is to enable, or require, life insurance to be included as part of the superannuation product (say, on an opt-out basis). These possibilities for improving on existing superannuation arrangements have been mooted for some time. A Task Force is to be established to carry forward the investigation, with recommendations to be provided by not later than end of 2020.

3.1.2. Medium-Long Term Strategic Directions for PNG's Regulatory Arrangements

110. Financial sector regulation and supervision over the next decade is envisaged as moving to a more integrated approach. There will also be an on-going emphasis on effective, risk-based, application of existing rules and regulation.

111. Currently, financial sector regulatory and supervisory roles are spread, unevenly, across four separate agencies: BPNG, PNGIC, SEC-PNG and ICCG. There is a need to ensure both effective collaboration and co-ordination amongst these multiple agencies

and also that each has the critical mass needed effectively, and authoritatively, to carry out their responsibilities.

112. One element of the longer-term strategy is to move to a more fully integrated institutional structure for the regulation and supervision of the financial sector – one that brings together, possibly into a single agency, PNG’s scarce financial sector regulatory and supervisory resources. There are a number of ways in which such an agency could be configured and housed, including:

- as a separate, stand-alone, institution; or,
- as a separate agency, but affiliated to BPNG, i.e., housed within BPNG for administrative purposes, but under separate governance arrangements, e.g., as a subsidiary of BPNG, with its own Board of Directors (but overlapping memberships with the BPNG Board).

113. These are longer-term possibilities and do not need to be decided now. Rather they are to be kept under review as implementation of initial steps toward more collaborative and integrated arrangements proceeds in the short-term.

114. One guiding consideration, however, is already clear. That is that BPNG needs to continue to be closely involved with financial regulation and supervision, particularly of the banking system. This need stems from BPNG’s role as the banking system’s liquidity and payments system provider. In playing these roles, particularly during periods of financial stress, BPNG needs to have good access to information on the prudential position of the country’s financial institutions. There is also a nexus between prudential supervision and BPNG’s macroeconomic policy role. This has come more to the fore since the GFC, in the form of so-called macro-prudential policy. These considerations will need to be borne in mind as future arrangements are developed over the medium to longer term.

115. At the same time, it will also be important to ensure that BPNG is not overburdened with too many roles and responsibilities. There is a risk that BPNG’s roles may be expanded too wide, resulting in dilution of focus and accountability. This is part of the rationale for maintaining SEC-PNG as a separate agency, at least for the meantime. For the same reason, where opportunities exist for BPNG to step back from roles that are not core to central banking, those should be considered. One such possibility is for some of BPNG’s work in relation to achieving higher levels of financial inclusion to be passed to CEFI, given that CEFI is now well-established as PNG’s lead institution in this area of work. BPNG can remain well-connected with financial inclusion and literacy work programs through the BPNG Governor’s position as chair of the CEFI board of directors, and possibly also by way of staff secondment arrangements. BPNG can continue to play a strategic advocacy role in support of implementation of the *National Financial Inclusion Strategy 2016 – 2020*.

116. Another consideration will be how best to achieve alignment of the institutional arrangements with the distinctly different nature of the different regulatory roles and responsibilities. Prudential supervision is concerned with ensuring safety and soundness outcomes and this requires the exercise of supervisory judgment, not mere compliance checking. By contrast, securities regulation is directed more toward enabling (informed) risk-taking by investors, than with ensuring necessarily always good outcomes for investors. Securities regulation, accordingly, is more ‘regulatory’ in character – compliance with the rules generally is sufficient.⁶ These differences in regulatory philosophy will need to be managed as PNG moves, in the medium-longer term, to more integrated regulatory and supervisory arrangements, and possibly to a single regulatory institution for the financial sector.

3.2 Government Bond and Capital Market Development

3.2.1. Short-Term Projects (2018 to 2022)

117. Broadening the primary market and developing a secondary market in government bonds are considered feasible within a short to medium term (3 year) horizon. Local institutional holders of government bonds have indicated that they have an appetite for trading government securities from time to time, for portfolio and liquidity management purposes. A more liquid government securities market can also assist with monetary policy transmission, by way of BPNG open market operations.

118. The recently published Medium Term Debt Management Strategy 2018-21 that aims to maintain debt and financial risk at prudent and sustainable levels (in compliance with the Fiscal Responsibility Act of a debt to GDP ratio of 30 per-cent by 2021) will assist the development of the domestic securities market. Within the strategy, Treasury is tasked with developing and efficiently managing the domestic debt market wherein the emphasis for debt raising will shift toward foreign debt to lessen the constraints on the domestic market and, within the domestic market, Treasury will engineer a shift toward longer term bond issuance facilitated by improved market infrastructure.

119. Part of the MTDS also involves developing and managing the offshore sovereign debt commercial market, including the inaugural 2018 sovereign bond issuance that will diversify funding sources, provide an alternative market based financing instrument, ease domestic liquidity and foreign exchange constraints and provide PNG a sovereign reference price. This will allow international investors to take a position in PNG which will also facilitate non-resident purchases of domestic bonds through a market based assessment of interest differentials.

⁶ In the UK prudential supervision and securities market regulation in 2001 were combined, in the Financial Services Authority (prudential supervision hitherto having been undertaken by the Bank of England). However, this arrangement was found after the GFC not to have been effective. Prudential supervision of banks was considered to have become too ‘light touch’ or, in other words, shifted too far towards mere compliance checking, with too little supervisory judgment. In 2013 prudential supervision was shifted back to (a subsidiary) of the Bank of England.

120. Addressing a number of preconditions for the development of the domestic bond market would stimulate demand for securities. These include:

- improving the efficiency of the primary market through automating the current manual and cumbersome processes,
- promoting money market and interbank transactions through repurchase agreements,
- developing automated clearing, settlement and custody facilities,
- establishing a bond market code of conduct with effective oversight by BPNG,
- promoting the establishment of pools of liquidity to allow small investors access to the market,
- improved coordination between monetary, fiscal and regulatory authorities and market participants; and,
- developing and maintaining a centralized source for bond market information and data.

122. These preconditions will underpin the goals of expanding the existing highly concentrated investor base and promoting a more liquid and efficient secondary market

123. In addition priority will be given to establishing a project team charged with putting in place the arrangements needed to readily enable trading in PNG government securities. The key elements to be addressed include:

- agreed market trading conventions, e.g., on securities valuation formulae and trading/settlement modalities,
- counterparty exchanges of master documentation that establishes the terms of trades undertaken electronically or by telephone. The ISDA master agreement provides an internationally recognized template,
- safe and efficient settlement procedures that enable exchange of payment and title, preferably on a delivery versus payment (DvP) basis; and,
- publication of a forward program of government security issuance, with a focus on structuring the program in a way that results in sufficiently large pools of securities with common maturity dates to assist market liquidity.

124. The project team, to be headed by BPNG and Treasury FMD, will include provision for market participants to be closely engaged in the design and implementation stages of this project. The target date for completion of implementation

of the above, and the commencement of regular secondary market trading in PNG government bonds, is end-2021.

3.2.2. Medium-Long Term Direction for Developing PNG's Capital Markets

125. Development of capital markets in small, less developed economies, is challenging. This underscores the need for a staged, building blocks, approach. In PNG, as in most countries, the first building block is the development of a secondary market in government securities (as above). Once progress has been made on that, attention can turn to the steps needed to further develop the secondary market in equity and private debt securities.

126. While developing a more active local equity market is a more medium-term objective, some of the pre-conditions are now in place. A comprehensive legal framework is provided by the Capital Markets Act 2015 and the Securities Commission Act 2015. Pools of investible funds are available already, mainly held by superannuation funds. Also, opportunities for capital investment projects within the corporate sector are substantial, indicating sizeable latent demand for capital raising in both equity and debt securities capital raising.

127. Development of a local secondary market for equity capital mostly will require further strengthening of the 'soft infrastructure' that is needed to support confidence in and the functioning of the market. That will require strengthening of corporate governance and financial disclosure practices, and in the oversight capacity of SEC-PNG.

128. POMSoX, in some respects, competes with the ASX. This requires that POMSoX be 'competitive' and willing to innovate, so as to make Port Moresby at least as attractive a center for PNG firms to raise equity capital as is Sydney.⁷ As to which POMSoX has some competitive advantages. PNG companies that would scarcely attract attention on the ASX (because of their comparatively small size) can achieve greater visibility, and investor interest, locally. Also, investors generally have a natural 'home bias', including because investing locally does not carry currency risk.

129. A detailed strategy for building a more active equity market in PNG is beyond the scope of this FSDS. It is a sizeable, long-term, project in its own right. Such a project needs to be wide-ranging, and to include consideration of, inter alia:

⁷ An example of a stock exchange in a broadly similar position is the New Zealand exchange (NZX). In the early 2000s, NZX was struggling in the face of competition from ASX. However, with concerted efforts, by the end of the decade, NZX was reinvigorated and put onto a more sustainable footing. That followed a change in the ownership structure of NZX (from a mutual owned by stockbrokers to a publicly listed company, listed on NZX itself). At a later stage, a Capital Markets Development Taskforce recommended, inter alia, the listing of a number of government trading enterprises, a recommendation that was implemented by the New Zealand government, and which has contributed to maintenance of local market depth at a time when some other New Zealand companies have listed on the ASX.

- the development of the ‘soft infrastructure’ mentioned above,
- the ownership of POMSoX. Issues for consideration include whether it should be a mutual, or a commercial, possibly itself a listed, enterprise. Many stock exchanges, internationally, have demutualized and listed over the past decade or two; and a number of exchanges are now owned partly or wholly by international institutional investors, and/or by other exchanges. This opens up a wide range of options for the future ownership of POMSoX; and,
- marketing of the exchange, e.g., by way of publication of stock market indices.

3.3 Payments System Development

130. *A Strategy and Action Plan for the Development of the PNG National Payments System 2015-2018* is already in place. This sets out a comprehensive path forward for the development of the PNG payments system. The main elements (with their current status in parentheses) are:

- a sound and robust legal and regulatory environment. (Already implemented by way of the National Payments System Act 2013),
- a system to process large and time-critical payments safely and efficiently in real-time. (Already implemented with KATS progressively having come on stream since 2013),
- a safe, efficient and convenient retail payments system. (Part implemented with the commencement of cheque truncation in 2014. Further steps to be implemented include the installation of a ‘central switch’ to enable direct and multilateral access by, and thus payments inter-operability across, all authorized electronic retail payments platforms),
- efficient integration of government receipts and payments into the national payment system (this is work-in-progress),
- securities clearance, settlement and depository systems which are safe and efficient. (KATS has been interfaced with BPNG’s existing systems, which are to be upgraded, or replaced, to provide Central Securities Depository (CSD) system functionality for government bond market, and later other capital market, trading),
- inter-bank money markets that are fully developed and closely integrated with the settlement system. (The KATS and CSD systems will provide the infrastructure to support these markets),
- cost-effective international remittances. (This aspect of the payments system has yet to receive attention),

- an oversight and supervisory framework. (A payments system oversight unit is now established within BPNG); and,
- effective cooperation amongst all participants in the National Payment System. (BPNG envisages establishing an appropriate industry body to serve this purpose.)

3.3.1. Short-Term Payments System Development Projects (2018- 2022)

131. As noted, some elements in the National Payments Strategy already have been implemented or are in train (as in paragraph 98 a), and b), and parts of c), d), f), and h). Work is also now commencing on the building of a central payments switch.

132. The main priorities for the period to 2022 are to complete installation of the central switch, and to establish the settlement infrastructure needed to support the commencement of trading in government bonds.

133. These projects are to be progressed with active engagement by payment system participants, including by way of establishment by BPNG of a National Payments Council provided for under paragraph 99 (i) above.

3.3.2 Medium-Long Term Payments System Strategies

134. Once the central switch and the securities settlement system (CSD) are implemented, which is envisaged to be substantially completed within the next 3 years, all the main elements of a modern payments system will be in place. However, the system will need on-going oversight and maintenance. Also, there will remain room for improvement in some areas, for example, in relation to international remittances. The latter is to be reviewed with a view to establishing lower-cost means by which remittances can be made by PNG nationals resident abroad, in particular in Australia. A model by which this can be achieved, using card-based electronic payments, has been developed by New Zealand for Pacific Island nationals resident in New Zealand.

135. Beyond that, digital payments technologies are bound to continue to evolve, e.g., the development of distributed ledger (block-chain) technologies. Technological progress can be expected to create new needs and opportunities to further develop the PNG payments system, so that it can provide the most efficient, accessible and secure means by which PNG's firms and households, and the government, can make and receive payments.

3.4 Financial Inclusion

3.4.1 Short-Term Priorities

136. The priorities for achieving continued progress in lifting levels of financial inclusion in PNG are outlined in the *National Financial Inclusion Strategy 2016-2020*, launched in December 2016. In summary,⁸ these are to:

- further extend the availability of digital financial services. These services can help to reduce the cost of delivering financial services to remote communities, and increase privacy, which is particularly important for women trying to preserve their savings and avoid violence. Also, the proposed installation of a ‘central switch’ will enable digital payment service providers to compete on a ‘level playing field’ and increase competition amongst payments service providers, which should help to bring down the fees charged to consumers. Current levels of fees are a significant impediment to uptake and use of banking facilities for those with only small amounts to deposit/transact, and need to come down,
- support the expansion of micro-insurance. The vast majority of people in PNG do not have any formal insurance. At the same time, people and businesses (including informal businesses and agricultural stakeholders) are subjected to high risk. Innovative insurance business models (e.g. underpinned by information and communication technologies) have already demonstrated their ability to extend risk protection to the general population, including low-income individuals,
- maintain and develop financial literacy and education programs. Levels of financial literacy and competence amongst most of the population remain low. This constitutes a key barrier to financial inclusion and exposes Papua New Guineans (in particular low income households) to the risks of exploitation by financial predators, and the ineffective use of household cash flows,
- improve financial consumer protection. Transparent and fair practices are key to fostering trust in the formal financial sector and therefore for promoting financial inclusion. Improved levels of financial literacy and education, as above, will help consumers of financial services to avoid some of the traps and predatory practices. But also needed are steps to give financial service consumers a voice, by way of the complaints channel to be established by CEFI (paragraphs 78-79 above) and the focus on enforcement of licensing requirements (paragraph 77 above),
- improve access to finance for agriculture and informal enterprises. The majority of the population earns its livelihood in the informal economy, a large proportion of which is agriculture, with most lacking access to appropriate financial services. This prevents large segments of the society from unlocking their economic potential. The relaunched *National Financial Inclusion Strategy 2016-2020* includes as a new priority the identification of measures to address the specific constraints and opportunities within these sectors.

⁸ For further detail, see *Papua New Guinea National Financial Inclusion Strategy, 2016-2020*.

- improve access to finance for small and medium-size enterprises (SMEs). In PNG, SMEs already make a major contribution to national output, accounting for 200,000 jobs and an estimated 10% of GDP (although these figures are likely much higher if the informal sector is taken into account). At present, SMEs face obstacles to financing and are often perceived as high-risk by commercial lenders. Attention will be given to identifying ways in which unnecessary obstacles can be lessened,
- increase engagement with the resources sector, as a channel for increasing financial inclusion. PNG has substantial oil, gas, copper and gold deposits, as well as a significant number of existing resource projects. Resource companies are present in remote rural communities, engage with the local community, and make payments to local communities. These connections with local communities can be leveraged to advance financial inclusion, including by way of equitable and transparent distribution of payments from resource projects, as well as through financial literacy programs supported by resource sector companies,
- build on existing financial inclusion data collection and dissemination activities. The availability of relevant financial inclusion data is critical for informing the selection, prioritization, and sequencing of policy programs. There is now comprehensive data on bank accounts and access points; a focus going forward will be on gathering data on usage of financial services; and,
- continuing engagement with the government through Financial Inclusion Policy. GoPNG has identified financial inclusion as a key policy objective. In addition to its primary role as a rule-maker (through regulation and supervision), the public sector can have a significant bearing, supportive as well as detrimental, on the achievement of financial inclusion objectives. Engagement with public sector agencies can assist with ensuring that government policy is generally consistent with achieving financial inclusion objectives, and does not weaken incentives for the private sector to assume an active role in financial inclusion.

137. Founded in 2013, CEFI is now well-established as the apex institution for leading the financial inclusion effort in PNG. CEFI will play a central role in coordinating the financial inclusion agenda, and in reporting progress on implementing that agenda, both to the CEFI Board and to the new Financial Services Council (FSC, see paragraphs 142-145 below).

138. With CEFI now playing a strong leadership role in PNG, the opportunity exists for BPNG to pass to CEFI some of the financial inclusion-related activities it has undertaken to date; whilst maintaining close connection between BPNG and CEFI, through both the BPNG Governor's chairmanship of the CEFI board, as well as CEFI's representation in the FSDS Steering Committee. The objective is increasingly to integrate the financial inclusion work program into PNG's financial sector development strategy.

139. While the objective of the FSDS mostly centers around issues specific to the financial services sector, the Financial Inclusion Strategy takes a multi-sectoral

approach to implementation. Financial inclusion is viewed under the FSDS as a broader national development issue that requires commitment from all agencies at all levels of the government and private sector. In order to harness this level of collaboration, support and commitment, it is imperative that the Financial Inclusion Strategy must be implemented within a broader framework of a National Financial Inclusion Policy. In the short-term Treasury in collaboration with CEFI will be responsible to frame a policy framework for Financial Inclusion.

3.4.2 Medium-Long Term Strategic Direction for Financial Inclusion

140. PNG is fully committed for the long term to achieving the commitments announced under the Maya Declaration. The first is the goal of reaching two million more underserved low-income people in Papua New Guinea, 50 per-cent of whom will be women. Beyond attaining this first goal, there will remain ample scope for achieving still higher levels of financial inclusion in PNG, thus making financial inclusion an area of financial sector policy that will require priority policy attention for the long-term.



By Kushal "Baggers go digital" - Teekhi Toons

141. Effective implementation of the FSDS initiatives outlined above will require strong governance and implementation structures. The following arrangements, to implement and oversee the work program, will be put in place.

1. A governing Council for PNG's Financial Regulatory Agencies

142. A peak financial sector governance and coordination policy body, to be known as the PNG Financial Services Council (FSC), is to be established. The membership of the FSC will comprise the following members or their appointed alternates:

- the Governor of Bank Papua New Guinea (chair),
- the Secretary of Treasury; and,
- the Chairman of Securities Exchange Commission of Papua New Guinea.

143. Other agencies will be invited to participate in the business of the FSC where it involves matters of direct relevance, e.g., CEFI in respect of financial inclusion, ICCC in respect of competition and consumer protection matters, and the FASU in respect of AML/CFT matters. Similarly, financial sector bodies, e.g., representing the banks, the S&LSs, superannuation funds, or insurers, may be invited to participate as appropriate.

144. A draft charter for the FSC outlining the roles and responsibilities of the Council is set out in Annex 3 (for confirmation by the FSC at its first meeting).

145. The FSC will be supported by an implementing body called FSDS Steering Committee, comprising representatives from Treasury, BPNG, and SEC-PNG, PNGIC, CEFI, and ICCC. There will also be a small secretariat, which will provide management and administrative support to FSC and the FSD Steering Committee. Draft terms of reference for the Steering Committee and the Secretariat are provided as Annex 4. These governance arrangements for FSDS implementation are illustrated in Annex 1.

146. The role of the FSC will be to foster coordination, collaboration and information sharing, including with respect to implementation oversight of the FSDS, especially with the long term objectives. It will not have legal decision-making/regulatory powers, which will continue to reside with FSC's individual member agencies, in accordance with their legislated mandates and authorities. However, it is expected that on matters that span the roles and activities of multiple agencies, or affect PNG's financial system more broadly, individual agencies will actively consult and seek to collaborate and, where possible, agree on consistent policy approaches that maximize regulatory effectiveness and efficiency.

147. Under the FSDS, the scope of the roles of the individual agencies will adapt as the different FSDS projects are implemented. In particular, it is envisaged that:

- PNGIC will be absorbed into BPNG,
- BPNG will shed some of its existing role in promoting financial inclusion to CEFI,
- SEC-PNG will take on, over time, an expanded role, including oversight of Land-owner Trust Funds; and,
- CEFI will have added to its functions a role in receiving complaints from consumers of financial services (that have been registered with and not resolved with the service provider).

148. The resourcing and structure of the affected agencies will need, correspondingly, to be adapted in the light of these changes, as they proceed. CEFI and SEC-PNG, in particular, will have new functions for which new organization structures and resources will be required.

2. Project Management⁹

149. Responsibility for the implementation of FSDS projects that involve multiple agencies will be assigned by the FSC to its working committee called the FSD Steering Committee and then further delegated to dedicated project teams specific to a project. Project teams normally will be led by the agency to which the project most closely relates. Individual appointments to project teams, including designation of the project head, will be made on the recommendation of the head of the relevant agencies and endorsed by the Steering Committee, with FSC being updated accordingly.

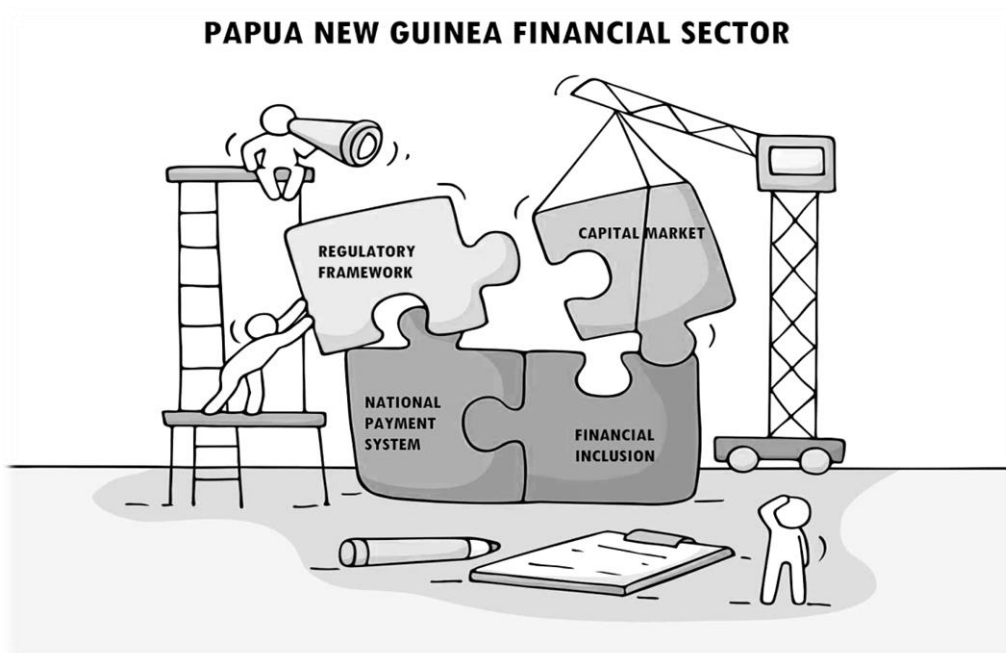
150. Once commissioned, a Project Team, under the leadership of its team head, will draw up a detailed project plan, as appropriate for the specific project. Project teams are to report to the FSC on progress on implementing the project plan each three months, until the project is completed and signed off by FSC as having been concluded.

3. Capacity Development

151. With respect to capacity development, the FSC and FSD Steering Committee will keep under review the means by which PNGs financial and regulatory personnel can gain experience and access to relevant training. A range of initiatives to accelerate capacity development can be stepped up, including:

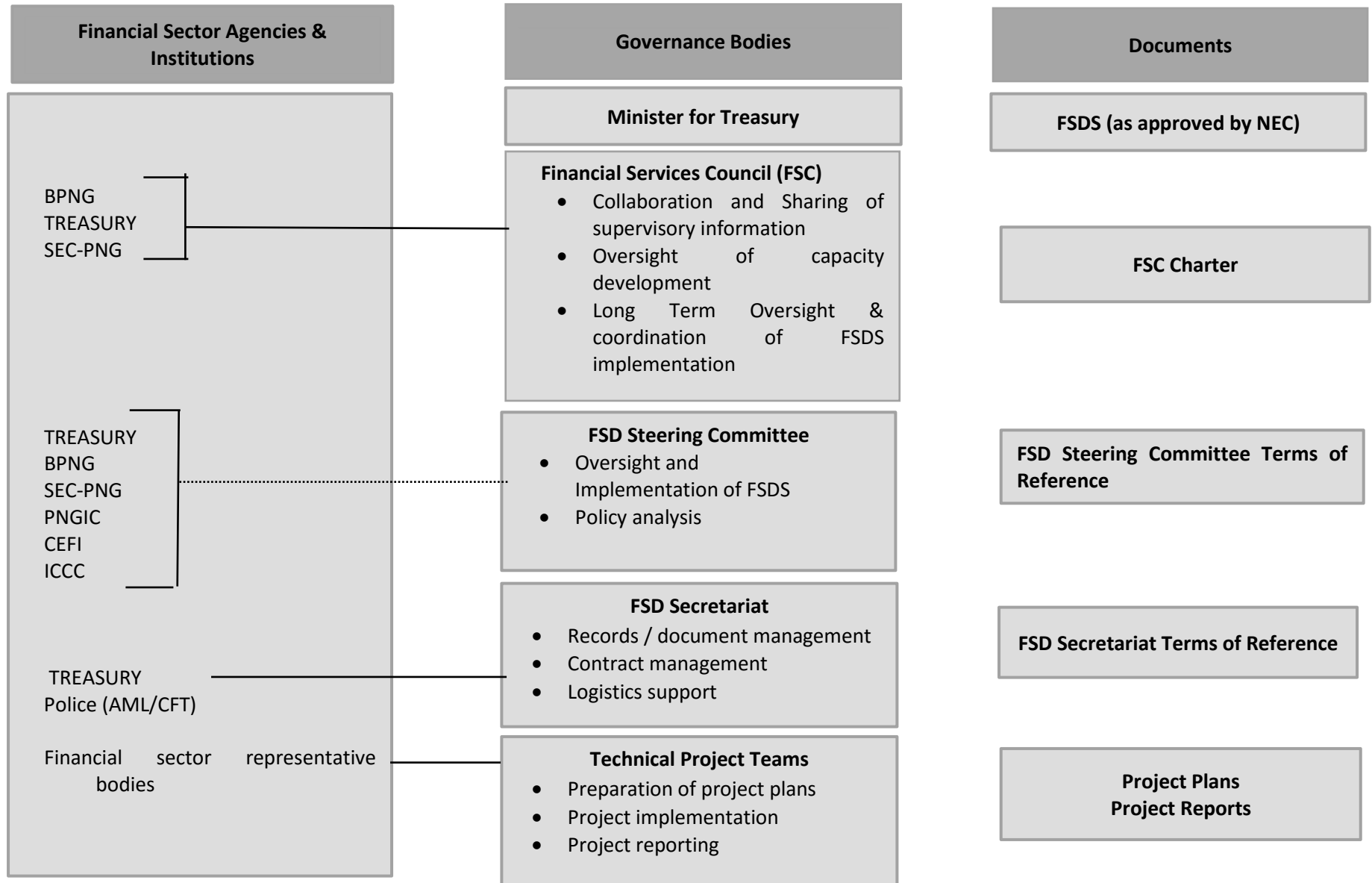
⁹ In the cases of projects that are entirely or largely internal to a single agency, the project management and reporting requirements summarised here are not intended to, and generally should not, duplicate existing similar (internal) procedures, e.g, for obtaining approval from and reporting to the agency's Board. In those cases, it may be appropriate to use the same documents for the purposes of both the FSC and the agency's internal purposes.

- staff exchanges, including secondment. These may be inward and outward, local and international, with both other official and with commercial institutions,
- keeping abreast with and drawing on the TA available from international institutions (APRA, IMF, World Bank, IFC, ADB); and,
- identifying where external consulting resources are required and maintaining oversight thereof, including with a view to achieving maximum 'experience and skill transfer' from that resource.



Anonymous Source: "Building the Financial Sector" – Financial Services Sector Review

Annex 1: FSDS Governance Structure



Annex 2: 2018-2022 New Project¹⁰ Time Line (for FSC review/confirmation)

News projects	Lead agency ¹¹	2018	2019	2020	2021	2022
Establish FSDS governance arrangements:						
• Establish FSC, confirm charter	Treasury					
• Establish FSD Steering Committee and Secretariat	Treasury					
Government Bond market:						
• Establish project team and project plan	BPNG					
• Implement project plan	BPNG					
Payments/financial infrastructure:						
• Central payments switch	BPNG					
• Central securities depository	BPNG					
• Lower cost international remittances	CEFI					
Prudential supervision:						
• Shift prudential supervision of general insurance to BPNG	BPNG					
• Formalize framework for risk-based supervision	BPNG					
• Bed in new supervisory arrangements for S&LSs	BPNG					
Strengthen role of SEC-PNG:						
• Establish supervisory oversight of land-owner trust funds	SEC-PNG					
• Change reporting line to Minister for Treasury More prominent back at para 73.	Treasury					
• Establish new licensing/administrative functions required by Capital Markets Act 2015 and Securities Commission Act 2015	SEC-PNG					

Annex 2: 2018-2022 New Project¹² Overview and Time Line (continued)

¹⁰ Not including business as usual activities

¹¹ For the purposes of this table the 'lead agency' is the agency that will be responsible and accountable for management of the project process. It need not necessarily be the primary agency for project policy/content development and implementation, although often will be. Given that most (but not all) FSDS projects involve or affect multiple agencies, an important role of the lead agency will be to lead the process in a way that fosters effective cross-agency collaboration and co-ordination.

		2018	2019	2020	2021	2022
Financial inclusion: <ul style="list-style-type: none"> Drafting of Financial Inclusion Policy Establish consumer complaints channel Engagement (with ADB/DFAT/GoPNG on next phase of MEP, to include re SME/agriculture finance) Take-up by CEFI of financial inclusion activities hitherto undertaken by BPNG Engagement with Resources sector Design of programs to improve access to finance for informal, agriculture and SME sectors 	Treasury					
	CEFI					
	CEFI					
	BPNG					
	CEFI					
Superannuation: <ul style="list-style-type: none"> Review/report to government on lump sum v. installments on retirement & inclusion of life insurance element 	CEFI					
	BPNG					
AML/CFT: <ul style="list-style-type: none"> Implement new AML/CFT legislation 	BPNG					

¹² Not including business as usual activities

Annex 3: Charter

Financial Services Council (FSC)

1. Purposes and Functions

The purposes and functions of the Financial Services Council are to:

- a) Share supervisory and regulatory information so as to foster consistent, effective and efficient supervision and enforcement of regulatory requirements. This is to include identification of existing or emerging regulatory gaps.
- b) Maintain oversight and coordination of the implementation of the FSDS initiatives and projects.
- c) To maintain an active watching brief for financial sector development opportunities in PNG.
- d) Foster capacity development within PNGs financial regulators and supervisors.
- e) Ensure appropriate coordination arrangements are in place for responding to disruption or stress events in the PNG financial sector.
- f) The FSC will provide an Annual Report to the Minister for Treasury on the work of the Council during the preceding year.

2. Membership and Meetings

The permanent members of the FSC are:

- Bank Papua New Guinea (chair)
- Treasury
- Securities Exchange Commission of Papua New Guinea

Meetings will generally be attended by the Governor of BPNG, the Secretary of the Treasury and the head of the Securities Exchange Commission, although they may appoint an alternate when they are not available. The Council may invite representation from other regulatory agencies, public authorities, and financial sector representative bodies, as required.

The FSC will meet on a quarterly basis, and as otherwise required.

3. Other Supporting Arrangements

The FSC will be supported by a Steering Committee and a small Secretariat.

Annex 4: Terms of Reference (TOR)

FSD Steering Committee and FSD Secretariat

FSD Steering Committee

1. Role

The FSD Steering Committee will:

- Report to FSC on emerging issues/problems/opportunities arising from FSDS implementation that require FSC consideration/resolution/decision.
- Prepare policy advice for FSC on matters commissioned by FSC that are multi-agency in nature. (Where a matter is confined to the sphere of responsibility of a single member agency, these normally would be undertaken by that agency.)

Monitor, review, and, where appropriate, assist with preparation of agency and project plans/implementation reports and other papers and proposals for submission to FSC. (All papers and proposals for FSC should be submitted to FSD via the Steering Committee/Secretariat.)

2. Membership and meetings

The FSD Steering Committee will comprise very senior managers from:

- Bank of PNG.
- Department of the Treasury
- CEFI.
- A senior officer from SEC-PNG
- A senior Officer of the existing PNGIC until proposed merger is fully complete.

Committee to be jointly chaired by Treasury and BPNG while appointments to be on the nomination of the respective agencies and project teams.

The FSD Steering Committee will meet ahead of, and report to, each quarterly FSC meeting, and otherwise as required.

FSD Secretariat

1. Role

The FSD Secretariat will provide administrative and support services to the FSC and the FSD Steering Committee, including:

- Arranging meetings and the taking of meeting minutes
- Maintenance of FSC records/papers/documents
- Assisting with the management of external consultancies and with technical assistance from external agencies eg, the World Bank, the ADB, etc. This includes addressing the funding aspects of the foregoing and assisting with requests to Treasury for funding of FSDS projects where they are outside the scope of agencies' own funding.

2. Membership

The FSC Secretariat will comprise a full time manager plus two senior analyst and administrative assistant.

The FSC Secretariat will be housed however and wherever the FSC Chairman sees fit, and will report to the FSD Steering Committee.



Elaine Byrne: "Ignoring reform for the sake of the status quo"



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CONTACT

Department of Treasury / Level 8, Treasury Building, Islander Drive, Waigani / P.O. Box 542, Waigani, National Capital District, Papua New Guinea / Phone: (675) 3133555 / Email: enquiries@treasury.gov.pg

Bank of Papua New Guinea / Corner of Douglas Street, ToRobert Haus, Port Moresby / PO Box 121, Port Moresby 111, NCD / Papua New Guinea / Phone: (675) 322 7200 / Email: info@bankpng.gov.pg