



Pacific Islands
Working Group



Pacific Island Working Group Meeting

Papua New Guinea

January 24-26 2012

Meeting minutes

1. Governor Loi Bakani, Opening Remarks

- The high level representation and membership commitment signifies the role the AFI PIWG plays in the region for financial inclusion leadership
- In order to address the problem of financial inclusion the central banks and ministries agreed in 2008 to tackle the money pacific goals - education for kids and adults, reduced unbanked, consumer protection & empowerment.
- It is important that the work of the PIWG is consistent with the goals of the central bank governors and ministries
- Bank PNG is supportive and backs the drive for financial inclusion in the region. Includes development of MFI sector, promotion of mobile services, financial literacy, private sector initiatives, and placing financial inclusion as an important part of the countries medium term and 2050 economic development strategy to reduce poverty
- The new national centre for financial inclusion will deliver financial literacy as a core function, and a national financial inclusion task force will be formed that includes BPNG, industry players, NGO's, donors and experts.
- Focus on technology: mobile services rolling out from banks, coops and microcredit using it as well - three nonbank institutions have been given approval to conduct mobile financial services, as well as licensed institutions who are given a letter of no objection as this is a part of their normal banking services
- Prudential guidelines for mobile money are developed and are pending in the ministry now
- Partnering with department of education to get financial curriculum into schools, and encouraging deposit taking institutions to contribute curricula
- Financial literacy survey is being conducted in Port Moresby and central provinces, in conjunction with WB and PFIP
- Role of the bank is to provide an enabling environment for private sector providers to offer services to all. The bank is looking at introducing a national payment system act in 2012.
- BPNG is taking proactive approach, industry is seeing change of attitude of bank as conducive, they work closely with trials and testing with companies to bring products to market while ensuring roles remain clear
- There is a need for continuous partnership among the partners to meet our financial inclusion goals.

2. Roundtable updates on financial inclusion activities and progress (2011)

- Each group member to provide one paragraph summary for inclusion in minutes. Alyson sends apologies - she was facilitating the session so was unable to take notes!

3. Mobile financial services

Nationwide Microbank: Bank led model for mobile financial services

Presentation by Tony Westaway, CEO, Nationwide (See Slides for full presentation, key points below)

- Nationwide is licensed under the banking act of PNG and offers services targeted to the lower income population of PNG. They have 14 branches and about 100,000 clients. 70% of their business is savings, 30% loans.
- Nationwide is piloting a mobile banking service - they offer a wallet that is linked directly to a savings account. All subscribers therefore have access to a bank account via their mobile wallet and platform.
- Nationwide uses Digicel as a partner to provide the mobile access to the account, but Nationwide itself controls all movement of funds. No funds sit on the Digicel or Digicel's partners platforms - the bank does all clearing and settlements in its own systems backend.
- 500 people have signed up in the first month, and 70% of them did not previously have a bank account.
- The potential for reach into un- and underserved markets is enormous. Nationwide foresees salary payments being one of the biggest potential drivers as employers are looking for safer and faster ways to get funds into their workers pockets.
- An agent network will be Nationwide's biggest challenge. For the first phase they will roll out the service from their 14 branches but to reach the unserved segments they will need to find a way to KYC all clients outside of branches.
- Nationwide is third to market behind an MNO and the post office. They are moving slowly and steadily, learning lessons along the way, and hope to offer a sustainable product that responds to their clients needs.

Facilitated discussion on mobile financial service agents

Facilitated by Joep Roest, PFIP

Overall status of banking agents in the region:

- Fiji: No banking agents at the moment, but MNO agents can do cash in cash out (CICO). Westpack will force the issue as they are introducing FPOS wireless devices so agents can now CICO but not open accounts. E-money guidelines will help define agents' role. RBF requires data, fraud and customer complaint reporting from MNO agents (via the MNO who manages the agent network).
- Samoa: So far there are only MNO agents which are limited to non-banking services, but the commercial bank wants to offer mobile services and that will bring up agent banking - currently it is not allowed. CBS require customer complaints reporting but MNOs have not yet actually started reporting.
- PNG: post office agents can do things that MNO agents cannot, and there is a case by case approval for agent networks to be established by MNOs. 500 kina per day limit for MNO agents but to go beyond that they need to partner with a bank. Will require notification of super agents but probably not all the way to the individual basis - BPNG will likely just agree with the MNO on a model agreement and reporting requirements.
- Solomons: Banking agents do operate via BSP so far, but no mobile money services have been deployed yet. Servicing the small far flung towns will be tricky - exclusivity will be a tough challenge in SI.
- Vanuatu: No bank agents in operation in the country. MNO agents are not regulated by RBV but they discuss issues such as AML, fraud, and training amongst others ahead of setting up the network with the MNO. At the moment no service where mobiles are linked to banking services - but when that happens via bank or G2P that will open up agent questions. New payments system act will form the backbone of the agent arrangements and also address interoperability.
- **Next steps:**
 - Revisit the issue of agents as mobile services deepen and begin to link to banks and banking services (late 2012 or 2013).
 - Explore the emerging issue of international remittances and mobile financial services (late 2012 or 2013)

4. Consumer Empowerment

Opening remarks by Deputy Governor Peter Tari, RBV

- DG Tari reminded us of the commitment of the regional finance ministers and governors to advance consumer empowerment and literacy
- There is a need to ensure consumers can make informed decisions about the services they want to use, and how to use them safely
- Key for Pacific region because new services are emerging but people are not aware of the obligations and options
- Interest rates are of concern to the governors and they have taken it up with banks but not enough progress has been made in finding ways to keep these reasonable

Part 1: International perspective on consumer protection

Facilitated by Gabriel Davel, AFI

(see slide deck for full presentation, and refer to three key documents for full background, key talking points below:)

- Generally there are two schools of thinking when it comes to regulatory responses to consumer protection. The “Anglo” model which is forced disclosure and buyer beware vs. “Continental” models where the market is more tightly defined and regulated
- Natural focus from a financial inclusion perspective is on consumer credit - mortgages and unsecured loans - as these by definition are dealing with unsophisticated customers and long term liabilities
- Tradeoffs between consumer protection and financial inclusion - in which areas should one move slowly and be aware of implications for financial inclusion. As an example: limit a person to getting one loan from one MFI or give them a choice and stimulate competition? Finding a balance is key.
- UN guidelines are some of the most useful of the global standards. Examples of the principles are: finding a balance in power between company and consumer on issues of economic education and bargaining power, prescribe more rather than less in developing countries to counter balance in favor of consumer - that is the role of regulation
- G20 principles: voluntary not prescribed for all countries. Allows for adaptation by country or sectoral circumstances
- FSB discussion paper is a third emerging standard, more technical, but outlines some key guidance
- As regulators we can focus on ‘vulnerable groups’ - those that are participating in the economic system but that have low levels of literacy and experience (not looking at those excluded since they don’t need protecting)
- Commissions structures that are sales driven leads to fall out (US lesson)
- Credit bureaus - need to be shared with all credit providers, containing both positive and negative information. Some studies link credit bureaus to positive gains in financial inclusion
- A risk arises when providers from a large market start to lend in smaller neighboring countries with lower levels of financial inclusion and consumer sophistication (example: South African lenders operating in neighboring Malawi and Namibia, and not operating under SA rules). Could this be happening in the Pacific from Australian or Asian companies?
- Use journalists and advocacy group as eyes and ears to create early warning signs - central bankers should engage with them to ensure they know the law so they can spot and highlight infractions

Discussion: group member reactions

- A focus on disclosure won't help in the Pacific due to low literacy levels. What does this imply? Standardization and simplification.
- In the Pacific with employed people we do have a level of literacy, but the need for money over-rides the knowledge of the conditions of the loan and therefore you are still looking at a consumer disempowerment situation. How to counter act this? One way is to create exclusions that penalize the consumer if they falsified information on their application - protections fall away in this case. But it's not an ideal response. Alternatively the regulator has to make sure the interest rate and other conditions are ‘reasonable’ - not fix them but put some limitations on the provider.

- Responsibility could be given to the provider to ensure that the customer is not already over indebted - some sort of social responsibility in loan provision to help ensure the health of the system
- For regulators, focus should be ensuring the providers stick with the rules
- Where do consumers go to get advice? How to ensure they are safely advised. Inevitably the consumer uses the sales staff as their advisor, so they are relying for advice on the same person who is incentivized to make the sale.
- Consumer complaints: up to 80% of calls are actually education oriented not true complaints or infractions.
- Consumer financial advice must be easy and cheap to access, advisers must speak local languages, and must not be linked to sales.

Part 2: Regulatory options, applications and issues

Facilitated by Gabriel Davel, AFI

(see slide deck for full presentation, key points below:)

- The crux of the US sub prime crisis is consumer protection and market conduct - previous to this crisis regulators would have shirked these issues as non-prudential. Now it has all changed.
- In some developing countries a credit crisis starts with economic development lending (so-called “good lending”) that originally opened the market - followed by a flooding by market players after it was clear there was a profit to be made. From there we see a peak followed by a crash.
- Payroll deduction loans are common in Pacific. When people have too many obligations this results in crisis. So government should limit the total percentage that can be deducted. Payroll deductions also remove the incentive of the lender to do due diligence on the creditworthiness of the client.
- It is wise to regulate by putting some basic minimum standards in place during the early market growth phase - so that basic protections are in place for consumers, providers and the system as a whole when stress starts to build.

Discussion: group member reactions

- Likely source of crisis in the short to medium term in the Pacific is going to be economic downturn which causes sources of income to dry up and people can't repay loans
- This can be related to remittance flows - so a downturn in Australia can have implications in Pacific markets ability of locals to repay local loans due to reliance on foreign salaries.
- For exporting countries in the Pacific, change in market prices (lower) will shrink income flow in country - so loans previously thought to be sustainable suddenly are not.
- Foreign lenders using foreign techniques entering in local market. For example, Hong Kong style lenders manage to attract newly monetized people in the Pacific, but their aggressive approach and different rules of the game put the client at risk
- Legislative changes can have knock on effects on income flow and market stability.
- Interconnectivity of providers - if there is a failure in PNG in bank A, although firewalls are in place, it would have a knock on effect across the other countries where bank A operates. More vulnerable are MNOs, which is important due to growing mobile financial services and the role these services play for unbanked and vulnerable clients.

Part 3: Challenges in the Pacific, and emerging action agenda for the group

Facilitated by Gabriel Davel, AFI

What are the real consumer protection risks in the Pacific region:

- Mortgages: generally a small market in the region - but concentrated in cities which is risky because these mortgage holders are also your salaried cash earners. If the ratio of payments to salary is high it is a signal that stress is rising.
- Consumer lending is high in the region relatively speaking. Fiji has limit on cash loans (US\$1000) above which loans need to be secured. For payroll loans in Fiji there is a restricted percentage that can go to repayments.
- Financial inclusion starts at unsecured loans in many places as this is the first and sometimes easiest step unbanked, illiterate and undocumented individuals can take.

- We see globally that over indebtedness leads to reactionary regulations. Better to put the building blocks in place to try to avoid a severe over indebtedness crisis especially among the poor.

What are the actual consumer empowerment problems in the Pacific:

- Assessing fees - what constitutes over charging? How to evaluate whether or not fees are reasonable? (high fees perception or reality)
- Consumers out of reach of branches
- Fees and charges, double charging,
- Fees as a disincentive to savings since bank charges for inactive accounts are high
- High interest rates (which discourages credit)
- Mortgage lender repossesses the house and sells it short, leaves the debtor with the leftover. How to stop this?

Action points the group identified as potential undertakings:

Review of existing legislation:

- Assign a legal staff person from RBV to put together some background research and a survey framework that would help capture the landscape on legal infrastructure. Each member could work with its legal department to fill out the survey.
- AFI can support small research commission if needed, Gabriel Davel available to advise, but local expertise is needed.

Education, literacy and transparency

- Consumer education on fees and charges
- Financial education to promote informed use of financial services
- Consumer education on over indebtedness
- Develop a pre-agreement/basic disclosure standard template for use in all countries

Establish a consumer complaints mechanism in all countries, as well as dispute resolution mechanism and ombudsperson

- Call centers
- Ombudsperson in central banks
- Ombudsperson in commercial banks
- Making the case for an ombudsperson

Other ideas:

- Review and improve credit bureau functionality
- Develop consumer protection checklist for supervisors
- Promote code of conduct /standards across financial sector

Lead up to Governors and Minister's meeting in Sydney 2012

- Influence the agenda of talks between governors and commercial banks on fees, disclosure, and customer education
- Report back on some quick wins that we have already accomplished in 2012
- Gain approval, including budgets, for any major long term projects

Next steps:

- Develop a survey framework for rollout across the group member countries
- Develop draft standardized forms and disclosure templates for use across the region
- Liaise with the AFI Consumer Empowerment and Market Conduct (CEMC) Working Group to capitalize on any guidance they issue on redress mechanisms, and other topics

5. Non-bank regulation and supervision

Talk by Boas Iremia

(see slides for full presentation, key points below)

- Bank PNG regulates microfinance banks under the Banking Act through a series of exceptions (such as not allowing ForEx, and lower capitalization, etc). There are three institutions with licenses under this arrangement.
- BPNG has just embarked on a review of the microbank situation and will develop and implement a specialized act in 2012 to better fit the needs of this segment and help unlock their potential in the area of financial inclusion.
- The MFI unit will eventually take on MFI supervision.
- BPNG also supervises 22 savings and loans societies under a special act which is also up for review in 2012.

Visit to Nationwide Microbank, Port Moresby Branch

Hosted by Trudi Egi, Head of Sales and Customer Service

- The bank caters to clients working in the informal sector - vendors and labourers.
- 70% of the banks business is savings, with 30% being loans.
- A new 'speed loan' product allows a client to obtain a loan equaling 90% of their savings in just 30 minutes. The loan can be paid back over several months and has a low interest rate. Most clients take the loan and pay it back within weeks.
- Every client has a bank passbook which they present to the teller. The teller can call up the clients account and view a photo of the client, a digital version of their signature, a thumb print, and a history of their financial transactions. This helps to verify and confirm identities since most clients do not have photo ID.
- Nationwide Microbank has 14 branches across PNG
- They are currently piloting a mobile financial services product in PNG's second city. So far 500 customers have joined, 70% of them previously did not have a bank account.

6. Update on regional remittances program

Talk by John Vivian, IFC

(see slides for full presentation, key points below)

- Update on payments and remittances work by IFC, main work has been to track the market, unpack the costs and begin to find ways to reduce the costs along the chain
- Push for interoperability
- Work so far has been driven out of NZ, are now looking for new leaders to report to in the Pacific
- May remittance workshop 2-da, location TBC. Aim to bring together multiple stakeholders to work together to reduce the costs of remittances.

Discussion: Group member reactions

- PNG nonbanks cannot issue debit cards, so looking for some vendor that can, commercial banks act as clearing house for real time settlements.
- Trying to find a switch provider that can work in all countries, help improve the linkages between banks, but wont help with financial inclusion unless the banks reach out to unbanked segments.
- Question is how to lift the savings and loans groups up a notch so they can have cards, interoperability, etc, government investment in switch and ATMs could help for example
- For payments and mobile, the consumer protection issues arising are related to certainty of completion of transaction. For example in Vanuatu someone buys electricity via mobile but it doesn't arrive - where does the consumer go to resolve this? Longer term - privacy of data will be an issue.
- Countries with ombudsman haven't been keeping complaints registers - this is an easy step that could bring major improvement.
- As credit market grows the disputes around this will also grow, same with mobile money.

- Since the markets are so small we couldn't sustain a full time ombudsman - so fell back to a process or dispute resolution mechanism.

Regarding using the payments and remittances system project as a model, could we work together in a similar way to roll out MFI regulation across the region?

- The group discussed whether IFC should do a template for microfinance regulation for the whole region and then each country can customize it for their own laws.
- IFC says this would be possible, they would need terms of reference, a leader to coordinate on PIWG side, and agree on an expert to help implement. Group needs to agree on if we want to do it together.
- The idea to have a regulation similar to the PAPRI format for MFI, would work well to roll it out using the working group as a platform and central learning and action hub. However, some members have in place a system to regulate/ oversee MFI's while some are not certain whether there is a need, considering the size of the market and that rather than having a regulation in place, guidelines would suffice.
- **Next steps:** It was agreed that each member to seek the views of their respective institutions, we will bring this back to the group for further discussion and decision, and then provide IFC with our feedback.

7. Update on Financial Inclusion Data Project

- CBS updated the group on the data project, it has been split into two phases: background and preparation of the framework, and the second phase is implementation.
- CBS will hire a consultant for project planning and proposal drafting - AFI can suggest some global experts with data experience.
- CBS will issue a Request for Proposals for phase one of the project once the grant is approved (mid-April). Local and global consultants with financial inclusion data experience can apply and CBS will lead a selection process.
- The project would kick off with a knowledge exchange visit to Bank of Thailand, we would also invite speakers from Bangko Sentral ng Pilipinas. May is the target date for this, we will budget for two people from each central bank to attend so we have one WG member and one data lead person
- **Next steps:** CBS to send letter requesting seed grant to AFI, hire consultant, get proposal in by early April, schedule knowledge exchange visit for mid-May.