

MOBILE MONEY SUMMIT 21-22 OCTOBER 2008 – LAMANA HOTEL

Opening Comments – Paul Barker, Director, Institute of National Affairs

Good morning Governors of the Central Banks from Solomon Islands, Vanuatu, and our own Bank of PNG, other government officials, commercial bankers, ICT managers and technical staff, representatives of the business community, Ladies and Gentlemen.

On behalf of the Institute of National Affairs and our co-hosts and sponsors, the Asian Development Bank and International Finance Corporation, together with the Bank of Papua New Guinea, Business Council of PNG and the Port Moresby Chamber of Commerce and Industry, let me warmly welcome you all, and particularly those of you who have travelled from far and wide around the world and this region to attend this two day summit on Mobile Money.

Much of the world has been in panic lately over a global financial crisis, triggered by the imprudence of many financial institutions which believed they could fly even without wings, or at least without adequate capital and real security, so long as it was packaged nicely! It is constructive that we are concentrating here on a more positive theme over the next couple of days, notably upon expanding Papua New Guinea's and our Pacific neighbours' narrow financial services, to reach out to those currently not holding bank accounts or with very limited access; not to throw money at them, as occurred with the sub-prime lending in the US, but to provide them the opportunity to manage their money better.

Bank accounts are only held by a very small minority in PNG and this region, and almost entirely by a portion of formal sector employees in the urban centres.....and their prospects of borrowing from their bank is even more limited.

In PNG we used to enjoy much wider banking services in the past, notably in all district offices, which were agents of the former PNG Banking Corporation, but with the collapse of our transport infrastructure, discontinuation of government charters and increased law and order problems banking services retreated to provincial capitals and a few other centres. Even this year we've seen some of those provincial services close owing to lawlessness, whilst the unavailability of reliable data transmission has jeopardised services.

Against this backdrop, various efforts have been made in recent years to extend opportunities to aspects of financial services: -

- **Microfinance** -first providing a safe haven for savings, and then an opportunity for micro-enterprises to borrow, based upon sound past performance and group pressure. Microfinance has greatly expanded in terms of the number of outlets and funds deposited, particularly, and to a lesser extent borrowing, but is still restricted to a limited number of centres.
- **Post offices** have enabled essential money transfers (through 'salim moni kwik') especially between individuals without bank accounts, and the Post Office is latterly offering other financial services on an agency basis

- **District Treasuries**, through the roll-out programme, have included improved telecommunications to Districts to manage government programmes, but also provide other financial services, though this phased programme is slowly being extended and often lacks adequate local capacity, or organisation
- **EFTPOS and ATMs** have been installed by banks and trading houses more widely, improving convenience, speeding access to funds and reducing the amount of cash carried by those holding accounts,
- **Internet and current Phone banking** are available from most banks, but restricted to the relatively small numbers of existing bank account holders with access to computers and limited land lines or wireless connections
- **Agro-nucleus enterprises** have enabled some extension to conventional banking services to employees and outgrowers
- **Vehicular mobile rural banking** have been provided in Fiji and Solomon islands in recent years using vehicles travelling out of main centres, for example to major agricultural projects. This idea was planned in PNG in the early 1980s, using vehicles and boats, but never really applied as law and order problems grew.

Whilst public infrastructure and services have contracted over recent decades in PNG, together with some rural businesses (including plantations and stores, closed owing partly to poor communications, land issues or lawlessness), one service which has taken off recently in towns and some rural areas has been mobile phone usage. Whilst the Pacific, and especially PNG and Solomons, have been the laggards with mobile phones (and other ICT), over the past year mobile phone access and usage in PNG and its neighbours has grown phenomenally since competition commenced in mid-2007, pushing the incumbent also to upgrade capacity and services and reduce charges. The similar growth has been experienced in other countries where competition has commenced.

Coverage in PNG (and elsewhere) has extended geographically away from the main towns and usage has become much more affordable, opening up wide opportunities for micro-enterprises as well as domestic consumers. There is a long way to go before there's nationwide coverage in this country and region with its extensive areas with low population densities, but the proportion with access to mobile phones now ranges from about 80% in Samoa to growing towards 30% in PNG, many living in rural areas, hitherto deemed uneconomic to service.

With the pace of new investment in service provision, PNG and much of the Pacific is rapidly following recent African adoption rates, where South Africa has the widest usage. Although mobile phones have not yet been used for mobile banking in this region, consumers are already becoming used to innovations, such as allowing financial transfers between customers for topping up their mobile phone credits.

We already have many more mobile phone owners and users than bank account holders, with thousands of outlets for top ups. Mobile phones, whilst imposing significant new household costs (and some associated social costs), have already been a major liberating force, allowing households

business opportunities to trade produce, sometimes taking orders or pre-selling, checking going market prices etc. Their potential is much greater, notably with mobile banking, using both current basic phone and SMS technology operating in this region and more so in future with system upgrades.

Elsewhere in the developing nations, where conventional bank accounts are relatively few, mobile banking (using accounts managed through mobile phones) has developed rapidly in recent years. This has often been launched by innovative new businesses (rather than the banks themselves), partly as they are utilising lower cost banking systems and field agents, more like micro-finance organisations, rather than the higher cost formal branch structure the banks conventionally use. But as they grow these innovators have tended to attach themselves to banks. In other cases the banks have set up their own systems, and found advantages accessing new accounts at relatively low cost, although some banks have found difficulties innovating and adapting to lower cost systems. In other cases the mobile phone operators, with their own networks, have set up the mobile banking, linking up with the banks and perhaps contracting out some services. (Banks have also developed mobile banking services in developed and developing countries as ways to enhance services to existing customers, including to enable greater freedom of financial management when travelling away from home for example.)

Mobile banking is now particularly big in the Philippines, with households transferring hundreds of millions of dollars daily as cash transfers and remittances. In South Africa, with almost universal mobile phone coverage rural-based teachers, for example, can check their bank balances, pay bills, transfer funds to relatives and obtain cash and goods in accredited local stores. The latter requires a system whereby the client and retailer both have mobile connections providing simultaneous approvals from the bank. In other developing countries, like Kenya, it has enabled financial institutions to leap-frog developed countries (with their long established and costly landlines) and provide widespread low-cost banking services, and it is also used for payments under social welfare schemes. In most countries mobile banking has been developed by the private sector, with the regulators dragging their feet behind, but in some countries, like Kenya, the Central Bank saw the opportunities provided by this technology, and has been actively spearheading it.

As PNG and Pacific neighbours explore the opportunities, it's best to look around at models from elsewhere and the pros and cons of different systems and technologies to reach a range of new and existing clients and a variety of objectives. There are various contrasted models available, using different technology, some banks, some mobile companies, some combination, linked to different technologies, including SMS, voice, and more sophisticated STK systems. Does, for example, the financial institution want a tied relationship with one mobile service, using its marketing capacity, but thereby perhaps limiting its client base, or to go for a more basic system but able to connect (as with the internet) with anyone through a mobile phone, There are also all the same questions about mobile phone security which are already being addressed with ATMs, EFTPOS and internet banking.

How the service develops clearly depends upon who the investors and their partners are. What are the objectives? A more sophisticated and expanded service for existing customers (using mobiles as hand held computers, which is virtually internet banking) or less sophisticated phones to expand the service to a wider market? It also depends upon the regulatory environment, from both a financial and phone licensing viewpoint. What are the requirements for bank- client interaction, including

when first signing up? Who can take deposits and act as a banking agent? What is permissible for transfers and remittances?

The purpose of this Summit: -

This summit has been organised to –

- Bring together bankers and other financial players, ICT operators, regulators, academics and other interested persons (including rural industry users, public and private sector employer and service organisations) from around PNG and the region, to exchange ideas to increase awareness and interaction
- Bring experienced players from financial and ICT fields involved with mobile banking overseas to share their experience, explain the potential and provide some different models available or being applied overseas,
- consider the different objectives and means to achieve them, using different organisational arrangements and technological options
- consider different regulatory frameworks, utilising existing or revised banking and supervisory processes, using domestic and international experience, including consideration of money laundering, trans-national crime and related concerns, and to
- Chart some practical outcomes, particularly for regulators (for banking and ICT) to facilitate the development of mobile banking which extends financial opportunities to the currently unbanked (including micro-enterprises – or what we often call the informal economy), can be used by rural households, businesses and public sector employees, and which is safe and secure, enables cash access as well as non- cash transfers, account maintenance, but ensures transparency and accountability, and minimises fraud and other financial crime

The mobile phone is not new technology, although the latest models and technology are fast evolving. Mobile banking can use the most basic mobile phone technology and be utilised to provide extensive affordable services. Mobile phones can perform the functions of ATMs, internet banking, debit cards, and other functions all rolled into one gadget, which is constantly carried in the pockets of an increasing portion of the entire population. It can be a very powerful and liberating tool for individual consumers and micro-businessmen and women. It can also be an effective means for banks and other financial institutions to provide more affordable services to a larger clientele, as well as for mobile phone providers to utilise their network and capital infrastructure more fully. It can also provide a boost for the overall economy, in advancing opportunities for small businesses, and improving rural and urban public services, including through encouraging rural public servants and NGO staff to remain in the field, without needed to race to town to check their accounts and manage their finances.

Over the last year or so there's been major public concern over the apparent lack of transparency over policy making for ICT. ICT is a matter of wide public interest, able to positively or negatively affect the entire community, boosting or restraining essential services and economic opportunities. The private sector and wider public have demanded greater transparency in policy making and competition in service provision. Mobile money is an extension of financial services (possibly

embrace non-traditional service providers), reaching out into the wider community. It is dependent, however, upon accessible, reliable and affordable mobile telecommunications. It also requires the freedom for the private sector to innovate and invest, combined with the light hand of regulation, requiring standards but encouraging, rather than restraining, its growth.

Ladies and gentlemen, on behalf of the co-hosts, let me wish you all a productive two days of presentations and discussion.