



FINANCIAL SERVICES

SERVICES TO COUNT ON

ANZ BANK'S NEW BRANCH AT PORT MORESBY'S JACKSON'S INTERNATIONAL AIRPORT.

On the back of a thriving local economy, PNG's financial services sector continues to grow in spite of the tough global financial environment.

- PNG has broad-based and competitive financial services sector
- Strong local and international players
- Local factors mitigating impact of global economy

BANKING

Banking in Papua New Guinea is regulated by an independent reserve bank, the Bank of Papua New Guinea, which has been presided over by respected Governor, L Wilson Kamit, since 1999.

The largest consumer bank in PNG, the largest by assets, and the largest lender, is PNG-owned Bank South Pacific (BSP), a former branch of the National Australia Bank which now incorporates the business of the former Papua New Guinea Banking Corporation (see box opposite). BSP currently has 35 domestic branches spread across the country and a network of ATMs, and has a footprint across the South Pacific, with subsidiaries now in Niue, Fiji and the Solomon Islands.

In its December 2008 report on BSP, rating agency Standard & Poors noted the bank's 'strong market position, good capitalisation and profitability, and adequate asset quality in a domestic context.' Such a positive evaluation reflects well not only on the bank's current and previous management, but also on PNG's banking sector generally, which is in good shape.

The other major banks in PNG are Australia's ANZ and Westpac, while Malaysia's Maybank also has a small presence.

Reflecting a recent restructure, ANZ's PNG business now also manages its Solomon Islands and East Timor operations and its head office was due to relocate in mid-2009 to the new Harbour City complex, where ANZ will have a new commercial banking centre.

ANZ has investments in resources, agriculture and infrastructure projects, and some property in PNG.

'We're getting involved in property where are good customers are, but we're fairly cautious, as the bubble will burst at some stage,' ANZ's Managing Director for the Pacific North West Region, Garry Tunstall, told *Business Advantage*. He also noted a strong growth in finance for assets such as vehicles and construction equipment.

ANZ continues to invest in its PNG business, with refurbished

and rebuilt branches in Madang, Goroko, Mount Hagen and Lae, and a new back office infrastructure which will facilitate the deployment of electronic and mobile services.

FINANCE

Outside of the banks, the POMSOX-listed Credit Corporation (which also has operations in Fiji, Vanuatu and the Solomon Islands) offers a wide range of business and consumer finance products, while FinCorp offers consumer finance options.

Given its large informal sector, PNG is also a strong market for micro-finance products.

STOCKS & SHARES

The Port Moresby Stock Exchange, or POMSOX, continues to be an established avenue for the raising of capital (see page 13 for more on the exchange).

Two brokers are currently authorised to sell shares in PNG: BSP Capital (part of Bank of South Pacific) and Kina Securities.

SUPERANNUATION

Compulsory superannuation is typically the only form of saving for most PNG workers. Two funds dominate the fast-growing superannuation sector—Nambawan Super and NASFUND, which have traditionally covered public sector and private sector employees respectively. With a growth in formal employment and salaried earnings in PNG in recent years, both super funds have grown markedly, although the global financial crisis and the stronger PNG kina has acted as a brake on recent growth.

In April 2009, Nambawan Super announced a 15.8% growth in assets for the 2008 financial year and a 11.5% return to its 98,000 members.

'The PNG economy came to the rescue,' Nambawan Super's General Manager Leon Buskens told ABC Radio in announcing the result. 'The bulk of our investments are onshore. We have a big portfolio in the unlisted space—equities as well as property.'

NASFUND also showed strong double-digit asset growth. In 2008, the fund invested in PNG enterprises such as Airlines PNG, the partial privatisation of B-Mobile (see page 34), as well as a number of major real estate and construction projects, such as the redevelopment of Burns Philp Haus.

PNG'S LARGEST BANK SET TO WEATHER STORM



BANK SOUTH PACIFIC

Since merging with the Papua New Guinea Bank Corporation in 2002, the Bank of South Pacific (BSP) has gone from strength to strength.

Bank of South Pacific's new Chief Executive Officer, Ian Clyne (who started his career in PNG in the 1980s),

describes 2008 growth as 'exceptional,' and is hopeful that 2009 growth will be similar. 'The potential in PNG is very good,' he explains.

Clyne's optimism is based on strategies the Bank is already implementing, such as scenario planning and analysing its liquidity position as well as different lending portfolios. 'If you sit and wait for things to happen,' he tells *Business Advantage*, 'it's too late to react.'

While continuing to lend, the Bank is being extremely responsible, even overly cautious, according to Clyne.

'We are suggesting that now is not the time to borrow and people should keep the funds in their pockets.' As the dominant bank in a smaller market, Clyne says BSP clearly has a responsibility—just as there's an educative role around maintaining branches. And being head office for a regional bank, decisions can be made quickly.

'There has been strong economic growth in PNG over recent years,' Clyne says—mentioning the impressive changes and developments he's seen since his first stay here—I see that flattening and dropping to a certain extent: 2009 will be a tougher year and 2010 will follow, as is the case globally.'

But while investment may slow down, and raising finance for large projects requiring international bank funding will no doubt be more difficult, BSP is in a good position because of its high liquidity ratios (about 54% of the liquidity market in PNG), which are far in excess of regulatory requirements. And, while always on the lookout for opportunities in the region, Clyne's priority is to be conservative in these uncertain times, and retain the bank's capital to protect its investments in PNG.

Although the biggest bank in the market—with the largest network and about 530,000 retail customers—Clyne believes the Bank of South Pacific could service some sectors better. He mentions the possibility of introducing 'priority banking' for the high-net-worth expat community. (Already the dominant ATM and EFTPOS bank, by September BSP will be able to service MasterCard.)

'The Bank has done superbly to get to where it is; it has the capacity and capability to go further,' says Clyne. And with Clyne at the helm—who values 'hands-on banking' and 'a personal link to the community,' along with an international strategy and Pacific focus—there's every chance it will.

INSURANCE: HELPING BUSINESS MANAGE RISK



PACIFIC MMI'S WAYNE DORGAN.

PNG has a vibrant and competitive insurance industry regulated under the *Insurance Act 1995* by the Office of the Insurance Commissioner, and under the *Life Insurance Act 2000* by the Bank of Papua New Guinea.

The sector benefits from regulations that make insuring locally the norm rather than the exception.

'If you are placing a PNG domicile risk offshore, you have to get an exemption from the regulator,' explains

Wayne Dorgan, Managing Director of Pacific MMI and Chairman of peak body, the PNG Insurance Council.

INTERNATIONAL FEEL TO MARKET

'We have a lot of the major international players up here—players like Mitsui Sumitomo, QBE, AIG, and ourselves with our Allianz connection,' explains Dorgan. 'There is an international feel to the market. That is needed for capital support, technical understanding and solutions. There is a growing presence of the developing indigenous companies as well.'

In addition to the major insurers, there are also several insurance brokers in PNG, including Aon, Marsh, Insurance Partners and local broker South Pacific Insurance Advisors (SPIA). PNG's largest insurer, QBE Insurance, receives about 80% of its business through brokers.

GROWING MARKET

Dorgan's own business, Pacific MMI, is the largest PNG-owned insurer and second only to QBE in size. It has taken advantage of steady growth in the overall insurance market in PNG.

'In the last three years, we've managed 30% growth,' he told *Business Advantage*. 'We have taken a more innovative approach. With our website and online quoting, we are ahead of even some of our overseas counterparts in what we are doing.'

PNG'S DIFFERENCE

While the presence of international companies and a well-regulated sector gives a level of comfort to businesses seeking insurance cover in PNG, there are also factors that make PNG a different environment for insurers. Law and order issues, natural disasters such as floods, and less reliable infrastructure can make business less predictable.

'It is a different risk profile in PNG, and insurers carry a very different risk level to insurers offshore,' says Dorgan.

'Premiums are noticeably higher than in some other markets,' says Mike Sherwood of QBE Insurance. QBE's PNG business operates in Port Moresby, Lae and Kokopo, and employs 55 people. Sherwood notes insurance is an increasingly competitive market:

'The last three years have been very good years for us. The industry as a whole has been extremely competitive, with three new insurance companies coming into PNG over this period. It is good for the buying community.'

CONTRIBUTING TO ECONOMIC GROWTH

Another distinctive feature of insurance in PNG is the prevalence of micro-insurance: very small sums insured with high exposures for very little premium.

'This is needed for the informal market to develop,' explains Dorgan. ■