

RESPONDING TO DEMAND

BSP'S HEADQUARTERS IN PORT MORESBY.

The demands of major projects and an emerging middle class are introducing an increased level of sophistication into PNG's financial services sector.

Increased economic activity and expectations around the PNG LNG project, other mining projects and construction are fuelling growth in Papua New Guinea's financial services sector.

The country's main banks are now expanding their technological and geographic spread, while the Bank of Papua New Guinea is working on regulatory improvements. PNG's dominant superannuation funds have performed well, and have robust investment programs mapped out for the next few years.

'While there is a lot of buzz around LNG, there is a need to guard against complacency'

CHANGES AT THE CENTRAL BANK

Martin Loi Bakani was appointed as the new Governor of the Bank of Papua New Guinea for a seven-year term in December 2009. Bakani is a career central banker, having first joined the Bank of PNG in 1985.

One of Bakani's first acts has been to launch a National Payments System Development Program, which aims to improve the safety and efficiency of PNG's payments system.

Among its elements are an Automated Transfer System (ATS) to provide real time electronic clearing and settlement of all interbank payments, and a Central Securities Depository, that will hold Bank of PNG and Government issued securities, such as Central Bank Bills, Treasury Bills and Inscribed Stock.

'This system will make the purchase of securities much more efficient by giving on line access to approved dealers, and encourage a secondary market for trading of these securities,' the Bank has stated.

A newly-formed National Payments Council will advise the Bank on implementation of these and associated reforms.

BANKING WITH THE BIG THREE

Banking in PNG is dominated by three banks. The largest is PNG-owned Bank South Pacific (BSP), which with the purchase of the Colonial banking group in Fiji in 2009, now rates as the largest banking group in the Pacific Islands region, with assets in excess of K9 billion (US\$3.2 billion) and almost 3000 employees.

BSP Chief Executive Officer Ian Clyne says 2010 is a matter of 'building on the opportunities that are now before us in PNG with the LNG [Liquefied Natural Gas] project, and building the Fiji franchise and further building the Solomon Islands project.'

Clyne says 90% of all payments in PNG are done by the bank, and BSP is positioning itself to take advantage of LNG:

'We are the bank that local companies and land owner groups who will be in joint ventures with Exxon will be coming to for support,' he tells *Business Advantage*.

The BSP board has approved K175 million (US\$64.4 million) for capital expenditure in 2010 and will introduce new internet banking services, another 100 automated teller machines (ATMs), a priority banking service for high net-worth clients and cash management projects into the market. Another major initiative, BSP Rural, is aimed at doubling the bank's retail customer base from 550,000 to one million people within the next three years using technology and mobile banking.

WESTPAC EXPANDS

Westpac celebrates its 100-year anniversary in PNG in 2010 (see page 19). Westpac PNG Managing Director Ross Hammond says the big issue this year is preparing for the economic growth that will come from LNG. Westpac expects to increase its staff by 15%, and is refurbishing its Waigani branch, with a view to doing the same in other Port Moresby and Lae branches, and adding new branches in other parts of PNG.

Hammond says Westpac's results in 2009 were solid. 'Our growth last year was 25% growth in lending. We are anticipating similar growth [in 2010].'

Westpac is also investing in a corporate online service for businesses, to bring PNG in line with what's already available in Australia.

CASE STUDY: FUNDS MANAGEMENT FIRM ENTERS PNG

PNG's financial services sector has a new string to its bow, thanks to the arrival of a new entrant, National Capital Limited.

In January 2009, National Capital Limited was established in Papua New Guinea. A wholly-owned subsidiary of Brisbane-based Backwell Lombard Capital Ltd (BLC), the Australian corporate advisory firm to offer a range of financial advisory services, including funds and investment management, capital advice, sales and trading, asset advice and corporate advisory services. It is.

Headquartered in Port Moresby, National Capital/BLC has clients throughout PNG, the Pacific Rim, Asia and Australia. Its most high profile client in PNG to date is

leading superannuation fund, NASFUND.

National Capital was founded by BLC's Terry and Ben O'Dwyer. Terry O'Dwyer is a prominent Australian corporate advisor and professional director while Managing Director Ben O'Dwyer has formerly worked for ABN AMRO Morgan's and Lehman Brothers.

National Capital's experience in financial services and corporate advice is based on some 40 years of 'personal involvement in the buying and selling of client's investments, capital raisings, funding, takeover battles, investment valuations, deal negotiations and the finalisation of major transactions,' according to Director—Business Development Jason Gilai.

GUARDING AGAINST COMPLACENCY

Also celebrating 100 years in PNG in 2010, ANZ is the lead local bank for the PNG LNG project. ANZ's Chief Executive Officer Papua New Guinea and Pacific North West Vishnu Mohan asserts PNG is clearly a growth market for the Australian bank and that, while there is a lot of buzz around LNG, there is a need to guard against complacency. He also believes in the need to promote and grow middle market business.

'We expect to open new branches strategically,' Mohan says. 'We are building the consumer banking sector with personal loans and credit cards. We are predominantly a corporate bank but we are aiming for a 50/50 mix between corporate and personal banking. We're also the only bank in PNG with an extensive network across Asia, Australia and New Zealand—so we're looking forward to being able to connect our customers who have international banking requirements.'

MICROFINANCE AND RURAL BANKING

All three banks are making inroads into, or investigating, microfinance and rural banking projects, which have been identified as key to the development of small to medium sized business in PNG.

PNG Microfinance Limited was established, with International Finance Corporation (IFC) assistance, in 2004 and has some 116,000 accounts according to a recent IFC report. BSP holds 32% of PNG Microfinance Ltd.

A second micro bank, Nationwide Microfinance Bank, has approximately 60,000 accounts according to the IFC report, which states that for the micro banking/mobile banking sector to advance, parties with vision and resources need 'to work with major money suppliers and cash takers to develop and introduce a simple, standardised, well-branded product ... The challenge is in making the product safe, reliable, well managed, and cost effective so that it addresses the population's demand for cash security.'

SOUND RESULTS FOR SUPER FUNDS

PNG has a strong and growing superannuation sector, which is currently dominated by two funds, Nambawan Super and NASFUND.

Nambawan Super has traditionally drawn its membership from the public sector, although this has changed over the past few years. Managing Director Leon Buskens says about 70 private sector companies have joined since the fund rebranded and opened its doors to private sector employees.

Nambawan delivered a return of 10% for the 2008/09 financial year. While the Fund's offshore investments suffered during that time as a result of the global financial crisis, since they accounted

for only 17% of its total investments their impact on the exposure has been limited and the Fund's total assets at 31 December 2009 had grown to K2.83 billion (US\$1.02 billion).

Buskens says the fund's investment strategy involves 'about K300 million (US\$108 million) worth of projects in the pipeline, rolling out over the next three years ... While we have delivered



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For more information, please contact:
ANZ Banking Group (PNG) Limited
Institutional banking
PO Box 1152, Port Moresby, PNG 121

Telephone: (675) 321 1079
Fax: (675) 321 3258
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attractive financial returns to members, our ongoing challenge will be what more can we do in regards to other social benefit to our members with housing, life insurance and medical.'

PNG's other large super fund, NASFUND, grew 22% in total assets during the last financial year. Joint CEO Rod Mitchell says the fund has done 'extremely well,' as a result of planning for shocks in 2009, a strong reserving position, and a well-performing property portfolio.

NASFUND's membership rose 6.5% in 2009 to 127,000—a clear indicator of growth in the formal private sector. But Mitchell is urging caution for 2010, warning against over-optimism on investor returns:

'We're now saying that the capital gains from property and equity are no longer as secure, and so therefore we are changing the mix to more long-term fixed-asset securities.'

FINANCE

One of PNG's leading financial services company, Kina Securities, launched the country's first listed investment company, Kina Asset Management Limited (KAML) just before the global financial crisis, and it has done 'very very well' according to Kina Securities' Chief Executive Officer Syd Yates.

KAML has holdings both in-country and offshore.

'We've got over 3000 individual Papua New Guinean shareholders,' says Yates. 'They would not normally have had the opportunity to invest in such a diverse portfolio and that's one of the reasons why we did it.'

Yates expects Kina Securities' banking and finance services—particularly for small and medium sized businesses—to grow in the coming year. He also sees scope for new investment management products as more companies list on the Port Moresby Stock

Exchange, and anticipates growth in corporate advisory services.

Other key financial services companies in PNG include FinCorp and the POMSOX-listed Credit Corporation, which also operates in Fiji, Solomon Islands and Vanuatu. Fincorp provides consumer finance options and Credit Corp offers a range of business and consumer finance products.

INSURERS SEEK CLARITY



PACIFIC MMI'S WAYNE DORGAN

PNG's insurance industry is dynamic, with participants regulated under the Insurance Act 1995 and Life Insurance Act 2000.

Wayne Dorgan, Managing Director of Pacific MMI Insurance and Chairman of the industry's peak body, the PNG Insurance Council says while the LNG project presents

opportunity, his industry needs a lot more clarity.

'Initially the project won't be insured here, which is sort of a slap in the face for the insurance industry and the people who have invested money over the years, but going forward, obviously the economy will grow and there will be a need for us more and more.'

Dorgan says due to the exemption granted to Exxon to insure offshore, a lot of operators are 'jumping on the LNG bandwagon saying they don't need to insure locally. A number of the contractors are suggesting that all they need to do is say they're attached (to Exxon) as a subcontractor and usurp the sovereign laws of PNG. [It is] yet to be tested but we'll see what happens. The main reason we have these insurance laws in place is to protect the consumers, and to take care of domicile PNG risk. The economy here will suffer if there isn't a viable insurance industry.'

Dorgan says Pacific MMI itself has been performing quite well. 'We've actually gone through the global financial crisis basically unscathed, we knew it would have an impact ... but we still grew during that time.'

Pacific MMI has recently introduced critical illness insurance and plant machinery insurance, and is also focusing on micro-insurance. 'We're providing life insurance for as cheap as 12 toea a day and other property-type products for about 40 toea a day. It's very cheap and it's also getting to the grassroots.'

Dorgan says the life insurance industry and legislation will likely see a review with the arrival of the new Bank of PNG Governor, as well as introduction of an Insurance Contracts Act, although the timing and logistics of this are still to be determined.



ANZ'S NEW HEADQUARTERS AT THE NEW HARBOUR CITY DEVELOPMENT OUTSIDE PORT MORESBY'S CBD



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PROSPERITY FOR PAPUA NEW GUINEA

WESTPAC CELEBRATES 100 YEARS



CREDIT: WESTPAC

THE BANK OF NEW SOUTH WALES AT A LAE MARKET IN 1958.

On May 10, 1910 two young men established PNG's first commercial bank. Burns Philp had been reluctantly providing banking services before Messers Pickering and Sefton arrived at Port Moresby harbour, and set up shop as the Bank of New South Wales in Douglas Street.

Branches at Samarai, Rabaul, Kavieng, Salamua, Wau, Madang and Boroko were opened over the next 50 years.

Now known as Westpac, the bank celebrates its 100th anniversary in 2010. Today it has 16 branches across the country and around 380 employees.

'This year is a celebration for our stakeholders and also celebrates the beginning of the PNG's trading economy,' says Ross Hammond, Westpac PNG's Managing Director. 'We look forward to sharing with our staff, customers and the wider community some of the history of the bank in PNG and how it developed throughout the country ... The Westpac story is the story of the country's development. It is a celebration of successful private enterprise in PNG.'

From straightforward passbook accounts, the bank now offers internet banking, credit cards and a wide network of ATMs and EFTPOS facilities. Its physical expansion has followed PNG's economic activity, from Wau and Bololo to support the early gold-mining industry to Mount Hagen when agricultural crops began to take off.

Westpac has also played an active role in community development. Its sponsorships and community-based initiatives include the Westpac Women in Business Awards and support for Port Moresby General Hospital, where Westpac employees have raised funds, provided food and bedding and visited with patients at the HIV/AIDS ward.

Other recent community initiatives include financial literacy and business development training in partnership with AusAID.

Ross Hammond says the 100th anniversary will be marked in 'PNG-style' at all Westpac's PNG branches. Westpac's Australian-based Chief Executive Officer Gail Kelly will also attend.

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Telephone: 321 4077

Level 4 Pacific MMI Building, PO Box 331 Port Moresby, NCD, Papua New Guinea
Facsimile: 321 4837 Email: enquiries@pacificmmi.com Website: www.pacificmmi.com