

# Introducing Mobile Banking to Papua New Guinea

Papua New Guinea's biggest bank, Bank South Pacific, reached new customers and SMEs in rural areas through digital financial services.



## CLIENT PROFILE

BSP is the largest bank in PNG with about half the market share in loans and deposits. Headquartered in Port Moresby, it has an extensive nationwide network of 42 branches and over 300 ATMs in PNG.

BSP management possesses significant banking experience and has a long track record in PNG. In 2008, it launched its SMS banking operations to reach new markets in geographically disadvantaged regions. In 2012, it expanded its SMS-based mobile banking service using an agent network, integrating EftPOS\* with the bank network. By offering digital financial services, BSP provided a better customer experience which encouraged increased banking and savings among the rural market.

By complementing its branch network with digital financial services, BSP meets the banking needs of customers throughout the country and supports SME development, particularly in the agricultural sector.

In 2015, BSP acquired Westpac Banking Corporation's banking operations in the Pacific, expanding its reach to Samoa, Cook Islands, Solomon Islands, and Tonga, significantly expanding and strengthening BSP's geographic reach. Its total assets were \$ 6.2 billion at year-end 2017.

\*Electronic funds transfer at point of sale

## BACKGROUND

Providing financial services is challenging in Papua New Guinea (PNG), an island nation of eight million in the western Pacific with a geographically dispersed and fragmented population. The country has a two-track economy: one dominated by large, extractive industries' projects sponsored by multinational companies, and the other consisting of subsistence farming and the informal sector. Wealth from natural resources has not led to increased opportunities for all citizens, especially for most in rural areas. With a GNI per capita of \$ 2,680 (2016), most of the population lacks access to basic health and services.

Serving far-flung communities on multiple islands through branch-based banking is prohibitively expensive. The average distance to the nearest bank branch is 90 km. Households suffer from limited access to finance, as do small and medium enterprises, which provide 85 percent of employment and 20 percent of GDP. With mobile phone penetration at nearly 90 percent, IFC client Bank South Pacific (BSP) saw an opportunity to meet demand for financial services in rural areas through digital services.

## IFC ROLE

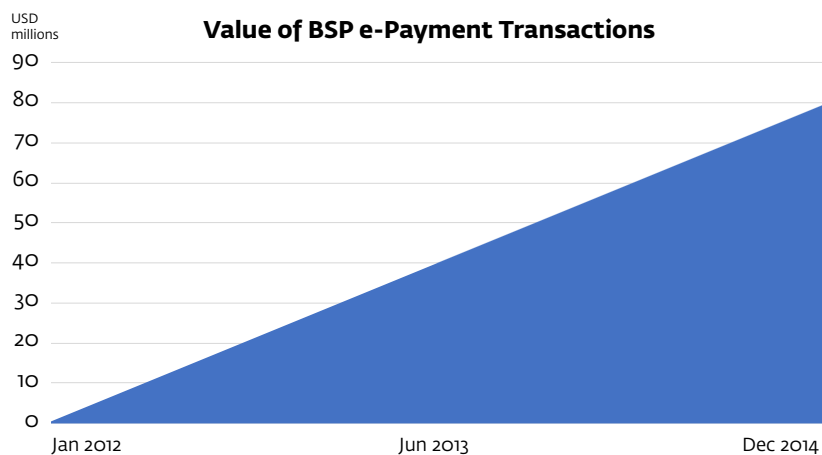
BSP's objective was to take banking to PNG's remote communities by offering digital financial services, which would not require costly expansion of its branch network. Starting in 2012, BSP sought to reach 200,000 new clients over three years through savings accounts linked to mobile banking. IFC supported BSP's objectives with both investment and advisory services. IFC provided:

- Equity of \$ 110 million
- A \$ 30 million senior loan for three years for on-lending to small and medium-sized enterprises
- An advisory service package to complement the financing, with support from the Australian government
- A performance-based grant of \$ 770,500 over three years.

IFC's advisory services supported developing the business plan, providing advice on project rollout, developing an agent network and promoting mobile banking to prospective clients.

## IMPACT AND RESULTS

IFC's engagement enabled BSP to expand its client base, increase access to finance to the underserved and small businesses, and provide additional long-term liquidity to the financial markets system. Customers were quick to adopt the new service. Within a year, BSP signed on more than 100,000 first-time users for the mobile banking initiative.



Source: IFC

- By the end of 2014, the number of active clients grew by nearly 70 percent to over 175,000 – about five percent of the total adult population. At the same time, five million e-payment transactions with a value of nearly USD 80 million were executed
- BSP increased profit per customer by 440 percent. Its electronic payment system also supported agricultural commodity transactions, which could be executed more quickly, at lower cost, and with less risk
- BSP's mobile banking customers made 2,500,000 transfers of funds in 2017
- From 2012-17, BSP's deposits grew by 65 percent to reach USD 5.5 million, while its loan portfolio grew by 133 percent reaching USD 3.4 million in the same period.

## KEY LESSONS

IFC's work with BSP on DFS led to some key findings that may be applicable in other countries with widely-dispersed populations:

- The model can successfully grow a bank's customer base without costly expansion of its branch network
- Communities accustomed to using cash are willing to use DFS because of its convenience, speed, and safety
- DFS is a safe, effective way for farmers and commodity buyers to conduct transactions
- Effective public outreach is important for educating potential DFS customers about its benefits
- Local, trusted retail establishments with good community relationships are important elements of an agent network.

## DIGITAL FINANCIAL SERVICES IN IFC

Digital Financial Services, or DFS, uses technology to provide financial services to customers with limited access to traditional branch-based banking. Technology-enabled financial services enable customers and retail outlets to connect to financial service providers using tools such as mobile phones, payment cards, and online banking.

Globally, over 2 billion people – about 40 percent of the world's adult population – are excluded from financial services. IFC's experience has shown that DFS can dramatically narrow the financial inclusion gap in emerging economies, making it an important tool for reducing poverty.

In support of the World Bank Group's commitment to universal access to finance, IFC is working with its network of partner financial institutions to reach 600 million people by 2020. DFS is at the core of IFC's strategy to achieve this goal.

For more information about IFC's Global DFS Team, visit [www.ifc.org/dfs](http://www.ifc.org/dfs).



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