

# DIGITAL FINANCIAL SERVICES AND FINANCIAL INCLUSION IN PACIFIC: OPPORTUNITIES & CHALLENGES

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# WHAT IS FINANCIAL INCLUSION?

Access to Payments

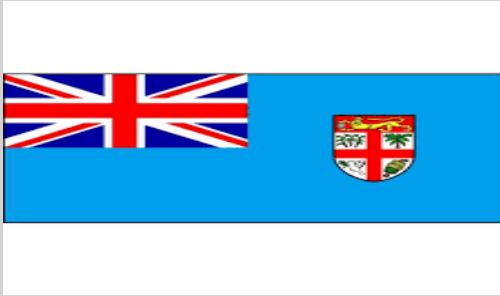
Access to Deposit

Access to credit

Access to Insurance

- Delivered in a responsible and sustainable way

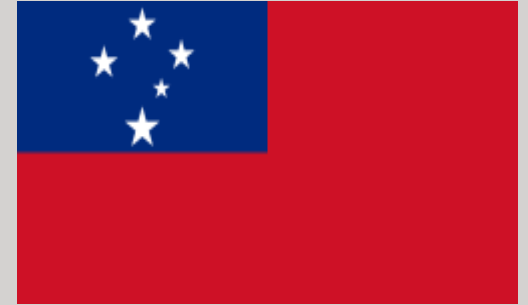
# COUNTRIES COVERED



**Fiji**



**PNG**



**Samoa**



**Tonga**



**Vanuatu**



**Solomon  
Island**

# FINANCIAL INCLUSION STATUS IN PICs

	<b>Banked</b>	<b>Other formal institutions</b>	<b>Informal</b>	<b>Completely excluded</b>
<b>Fiji</b>	<b>60%</b>	<b>4%</b>	<b>9%</b>	<b>27%</b>
<b>Samoa</b>	<b>39%</b>	<b>12%</b>	<b>15%</b>	<b>34%</b>
<b>Vanuatu</b>	<b>37</b>	<b>10</b>	<b>21</b>	<b>32</b>
<b>Tonga</b>	<b>41%</b>	<b>11%</b>	<b>14%</b>	<b>34%</b>
<b>PNG</b>	<b>39.96</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Solomon Island</b>	<b>26%</b>	<b>8%</b>	<b>35%</b>	<b>31%</b>

*Source: PFIP*

# OVERVIEW OF SOLOMON ISLAND

- Parliamentary democracy
- Population of approximately 0.6 million
- Economy largely driven by agriculture and fisheries with tourism having good potential.
- Bauxite, Copper, gold are important minerals found in Solomon Island.
- Low access to electricity, transport and huge gender disparity

# OVERVIEW (CONTD.)

- Real GDP SBD\$ 4607m
- GDP Growth 3.5%
- Per capita GDP SBD\$ 1769
- Moderately monetized
- ratio of M3 to GDP is around 50%
- ratio of private sector credit to GDP remains below 40%.

# FINANCIAL SECTOR IN SOLOMON ISLAND

- 3 major commercial banks: ANZ, BSP and Pan Oceanic Banks.
- Savings Clubs
- Credit Unions
- National Provident Fund
- SPBD (Micro-finance institution).
- 4 Insurance companies.
- Money changers.

# FINANCIAL SECTOR (CONTD.)

## ■ FINANCIAL PRODUCTS

- Savings Account
- Cheque Account
- Current Account
- Term Deposit
- Term Loan
- Asset Finance
- Micro-finance is not so developed. SPBD only entity providing micro-
- finance.
- Remittance.



# INTEREST RATES

Interest Rates							
Deposits							
Savings	Time Deposit						Weighted Average
	Up to 3 months	3-6 Months	6-12 Months	1-2 years	2-3 years	3-5 years	
0.21-0.61	0.10-2.01	0.3-2.18	0.54-2.8	0.56-3.14	2.66-3.20	2.82-3.15	0.32
Loans							
Agriculture	Forestry	Fishery	Tourism	Personal	Transportation	Weighted Average	Agriculture
7.67-19.61	11.69-18.34	9.5-9.66	6.84-20.15	6.89-20.43	7.13-20.17	10.47	7.67-19.61

Source: CBSI

# AVAILABILITY OF DIGITAL FINANCE

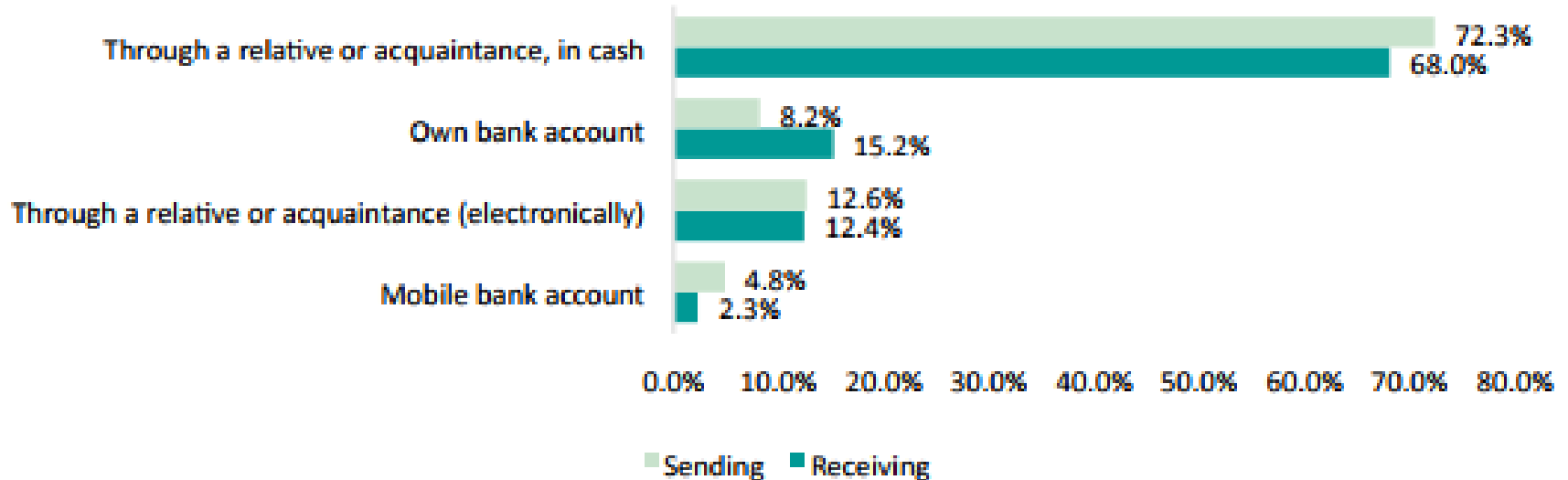
	Offering Bank	Model	Description
<b>Mobile Money</b>	ANZ GoMoney	MNO led	Mobile wallet which allows a suite of services to its customers including buying goods and services, process bill payments, obtain air-time top up, send money transfers, do a balance check, and deposit or withdraw cash.
	BSP Mobile Banking	Bank led	The product has allowed Solomon Telekom users to top up their Solomon Islands Electricity Authority cash power credit using their mobile phones.
<b>Mobile Banking</b>	Multiple Banks	Bank led	All banks offer banking through ATM, EFTPOS and other mobile devices.

# FINANCIAL ACCESS POINTS (PER 10,000)

	Cash-in/cash out	Bank Branches	ATMs	EFTPOS	Bank Agents
Solomon Island	5.8	0.5	1.3	10.8	5.1
Fiji	38.5	1.1	4.5	87.6	37.2
Samoa	13.4	1.9	4.2	57.3	6.3

Source: NFIS, 2016-20, PFIP

# DOMESTIC REMITTANCE



Source: Demand Survey, Solomon Island

As per the demand side survey conducted in Solomon Island, 36% of Solomon Island adults receive remittance.

However, these remittances are mostly carried physically.

# COST OF INTERNATIONAL REMITTANCE

Australia		
	Banks	MTO
SI	40.52	23.42
Samoa	38.99	18.32
Fiji	30.20	17.25
Tonga	34.50	20.16
Vanuatu	29.98	22.20
PNG	36.50	26.73

Source: SendMoneyPacific

# KEY TAKEAWAYS

- Underdeveloped financial market
- Limited variety of financial products.
- Few access points.
- High interest rates on loans
- very low interest on deposits. Real interest rates may even be zero.
- High cost of remittance

# BUSINESS FINANCE

- Lack of micro-finance.
- Lack of specific products for SMEs.
- Problem of collateral
- Credit information.
- Small finance business scheme.

# CAUSES

- Difficult geography which is prone to disasters.
- Small and dispersed population.
- Low economic activity.
- Insufficient income.
- Lack of knowledge to use financial services
- Distance from access points- A recent study found that 25% travel more than 2 hours to access their salary
- Lack of necessary documents.
- Costs associated with services- 34% incur access costs exceeding \$SI 100.18 (NFIS)



# DIGITAL FINANCIAL SERVICES

- Why digital financial services?
  - Reduces costs for both receiver and provider of services.
  - Use of digital finance creates a greater and more reliable pool of information on customers leading to better loan repayment.
  - Increasing empirical evidence to suggest that digital finance improves inclusion.
- Models of digital finance.
  - MNO led
  - Bank led

# CONSTRAINTS FOR DIGITAL FINANCE

- Infrastructure
- Lack of documentation
- Agent network and liquidity
- Interoperability
- Financial literacy

# INFRASTRUCTURE

Country	Mobile Phone (% of population)	Broadband (% of Population)		Electricity Access
		Mobile	Fixed	
<b>Fiji</b>	<b>142</b>	<b>36</b>	<b>5</b>	<b>100</b>
<b>Solomon Island</b>	<b>61</b>	<b>9</b>	<b>Less than 1</b>	<b>35.1</b>
<b>PNG</b>	<b>47</b>	<b>16</b>	<b>Less than 1</b>	<b>20.3</b>
<b>Samoa</b>	<b>125</b>	<b>27</b>	<b>1</b>	<b>97.9</b>
<b>Tonga</b>	<b>67</b>	<b>50</b>	<b>1.5</b>	<b>95.3</b>
<b>Vanuatu</b>	<b>67</b>	<b>10</b>	<b>2</b>	<b>34.5</b>

*Source: World Bank*

# LACK OF DOCUMENTATION

- Large Number of people do not have valid identity.
- IDBox is being piloted in PNG to solve for this.
- IDBox works on solar power and does not require internet.
- Fingerprints are used as identifier and the device itself runs on solar power.
- However, Solomon Island does not have that serious a problem as 86% of adult population has some form identity.

# FINANCIAL LITERACY

- As per a World Bank report Functional literacy rates ranged from 17-34 percent, and “65–75 percent of primary school completers were not functionally literate Close.
- The problem of financial competence becomes especially severe in low-income households in Solomon Island and in rural areas.
- Several programs are being introduced in Solomon Island and other pacific countries to make financial literacy a part of school education.
- Efforts are also underway to simplify products so that minimum paperwork may be required.

# AGENT NETWORK & LIQUIDITY

- High mobile phone penetration and MNO network is needed but not sufficient.
- Agent networks provide the cash-in/cash-out points for Digital financial services.
- Without accessible cash-in/out points which have reliable stocks of liquidity, product uptake and usage will be low.
- Kendall and Voohries cite studies to argue that the location of the agent vis a vis the M-Pesa household was a determining factor in how much the user benefited from the service

# INTEROPERABILITY

- In simple terms it refers to the ability of a service provider (acting as agent) to provide services on behalf of more than one principal.
- It refers to an infrastructure which allows the following:
  - sending of funds across different service providers which could be either MNOs and/or banks;
  - an agent to provide services for different digital finance service providers simultaneously; and
  - customers to access these services irrespective of mobile network that a customer subscribes to.

Requires a national payment system which can facilitate cross settlement.

# SOLUTIONS

- Appoint super agents- Can help in improving Agent network and liquidity.
- Shifting liability from agents to principal through regulations.
- Interoperability & Payment systems
  - IFC is helping set up payment systems.
- Financial education & literacy
  - Finance education is being introduced in the school curriculum



■ THANK YOU.