

Developments in Financial Regulation in the Pacific Islands

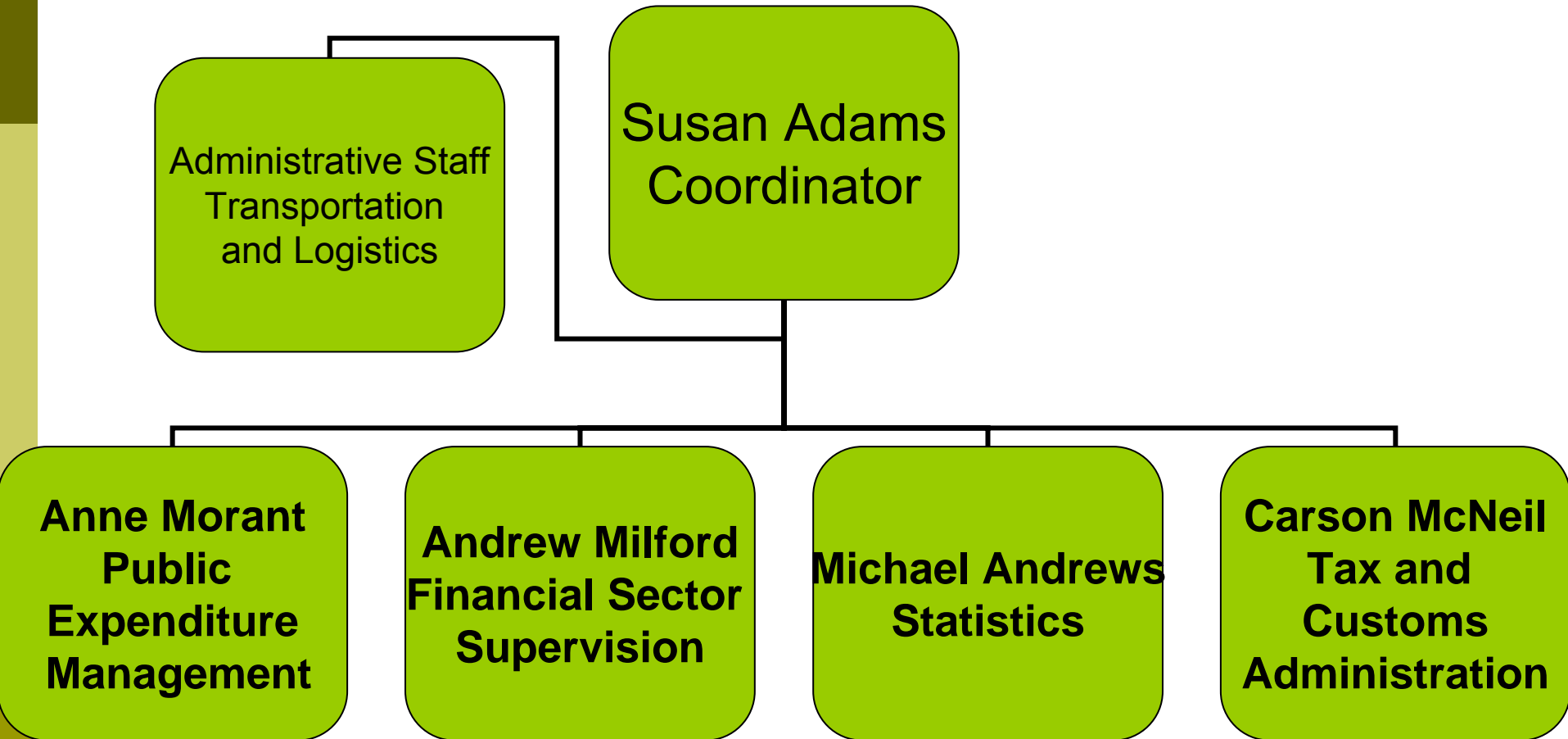
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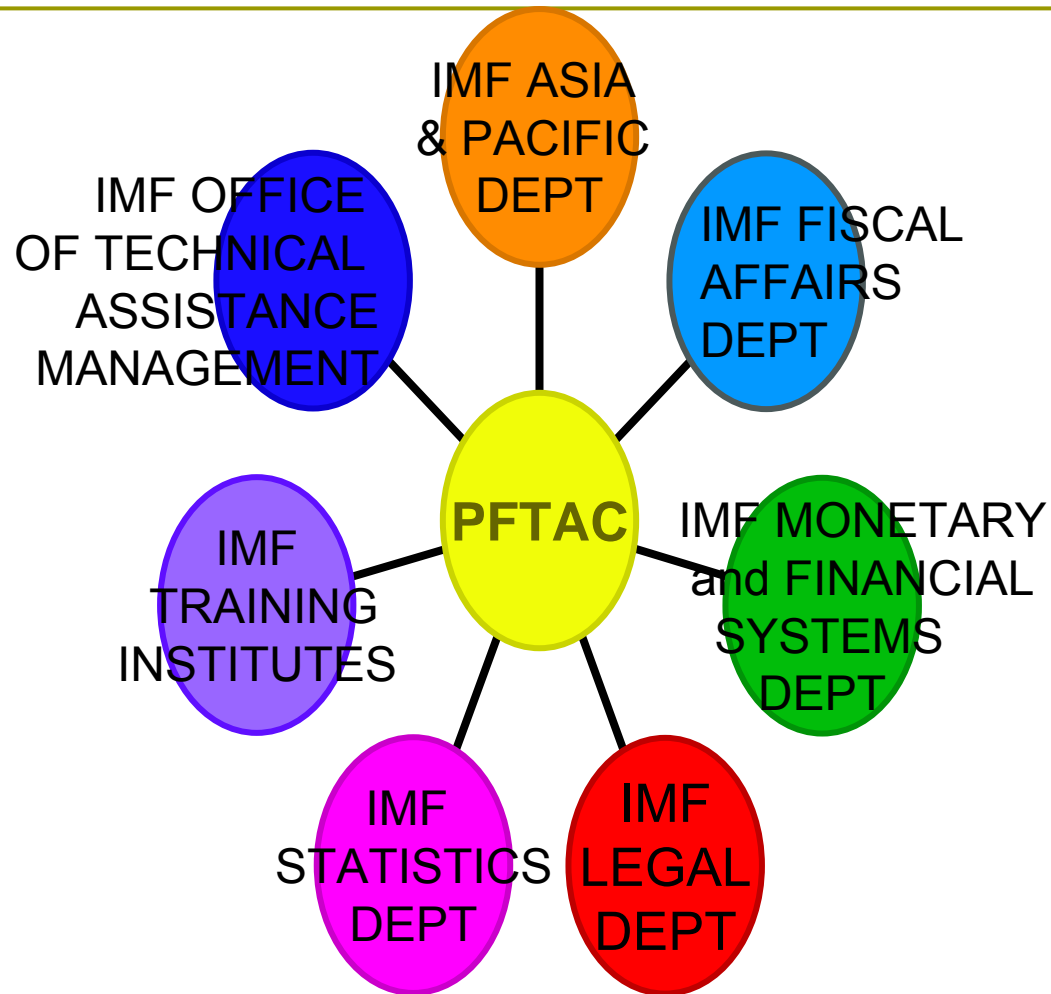
Overview

- What is PFTAC
- Role of Financial Sector Supervision Advisor
 - Activities in the field
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- Developments in the Pacific
 - Banking
 - Insurance
 - Pension funds
 - Emerging issues
- The financial sector in the Pacific

WHO IS PFTAC?



But...Many People Support PFTAC back at IMF Headquarters



PFTAC -Mission, Vision & Members

PFTAC's MISSION:

To enhance the institutional and human capacities of member countries and regional bodies in the Pacific region to achieve their financial and economic policy objectives.

PFTAC's VISION:

To be a center of quality advice and capacity building on the technical aspects of financial and economic policy formulation and management to member countries, regional bodies and other TA providers in the Pacific region.

PFTAC's MEMBERS:

Cook Islands, Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu.

Role of Financial Sector Supervision Advisor

- ❑ **Provide guidance and advice** to the central banks and other financial sector supervisory agencies in the PICs aimed at building their capacity to effectively supervise financial sector institutions including, banks, and other financial intermediaries, insurance companies, superannuation and provident funds ;and
- ❑ **Assist PICs in implementing arrangements for combating money laundering and countering the financing of terrorism**, in particular in financial institutions.

Activities in the field

- ❑ Review legislation;
- ❑ Develop/review supervisory guidelines and prudential reporting forms;
- ❑ Encouraging authorities to adopt/publish financial data based on IMF's *Financial Soundness Indicators*
- ❑ Develop procedures for off-site monitoring and on-site examinations of financial institutions;
- ❑ Staff training for supervisors; and,
- ❑ Assisting supervisory authorities conduct on-site inspections of financial institutions.

Regional Activities

- The Financial Sector Supervision Advisor acts as the coordinator and secretariat **for the Association of Financial Supervisors of Pacific Countries (AFSPC)**. The advisor also distributes relevant material (e.g. updates on supervisory issues) to member countries.
- The Advisor represents PFTAC at the annual **Asia Pacific Group on Money Laundering (APG)** in donor and technical assistance provider discussions to ensure coordination in the area of anti-money laundering and combating terrorist financing (AML/CFT).
- The Advisor represents PFTAC at training seminars and conferences hosted by the IMF and ADB as well as member jurisdictions seeking to increase general awareness of AML/CFT issues.

Selected PICs – Domestic Supervisory Arrangements

	Banks	Insurers	Pension funds
Cook Islands	√		
Fiji	√	√	√
PNG	√	√	√
Samoa	√	√	√
Solomon Is	√	√	√
Tonga	√		
Vanuatu	√	√	√

Offshore financial centres

- Offshore financial centres
 - Samoa, Vanuatu, Cook Islands and Niue which offer:
 - Banking
 - Insurance
 - Trust and company service provider business (e.g. company registration).
 - Issues of secrecy and perceptions that the centres are used for illegal purposes.

Banking Supervision

- ❑ Bank supervision is reasonably robust in the PICs but there are differences across the PICs.
 - Domestic banking systems comprise either subsidiaries of branches of Australian banks and locally owned banks, e.g. national bank or development bank.
 - Supervisory agencies supervise in a manner consistent with international standards:
 - ❑ Minimum capital requirements.
 - ❑ On-site and off-site supervision.
 - ❑ Collection of statistical data (balance sheet, profit and loss etc).
 - ❑ Good dialog between supervisors and banks.
 - PICs can, to some extent, rely on APRA if issues arise with the Australian owned banks.

Insurance Supervision

- Adequate supervision of the insurance sector is important given its role in providing protection to the public when catastrophic or adverse events occur.
- But supervision of the insurance sector is relatively new in the region:
 - Five jurisdictions have insurance legislation which has not been adequately enforced.
 - Only a few supervisory agencies have actually undertaken any meaningful supervision of insurers in their jurisdiction.
 - Absence of capacity in understanding the nature of the business and regulatory approaches.
 - Emergence of questionable “schemes” from offshore promoters.

Pension Funds

- The supervision of the pension fund sector is relatively new in PICs although most countries have legislation.
 - In most countries there is only one pension fund – national provident fund.
 - Established by legislation and contributions are compulsory.
 - Some have experienced significant losses due to poor governance and even mismanagement.
 - Face a number of issues given their position in the financial system and promises to members.
 - Increasingly they have a significant presence in the local financial market as both investors and lenders.
 - Prudential responsibilities are expanding and moving from fiscal authorities to the financial sector supervisor.
- Some pension funds need assistance to develop their investment management skills.

Issues for supervisors

- Resources
- Independence
- Staff – training and retention
- Trying to balance regulation & market development
- The need to try and keep up with market developments
- International expectations and requirements
 - Basel Core Principles for Banking Supervision
 - IAIS Core Principles for Insurance Supervision
 - FATF – AML/CFT guidelines

Emerging issues (1)

- Basel II and the impact it might have on pricing of some loans.
 - New capital adequacy framework – can be very complex and aspects of it apply only to internationally operating banks.
 - May see locally owned banks disadvantaged.
- Access to finance.
 - Role of development banks?
 - Microfinance schemes.

Emerging issues (2)

- Anti-money laundering and terrorist financing remains a high focus area:
 - Technical assistance provided by PFTAC and International Monetary Fund.
 - New players include Australia (AMLAT) and the US (PALP).
- Need to harmonize legislation following implementation of AML/CFT legislation
- Corporate governance especially in relation to pension funds.

Emerging issues (3)

- Pension funds under increased pressure to perform:
 - Limited domestic investment opportunities.
 - International investments seen as the answer but there are risk management issues (e.g. exchange rates, interest rates, ability to monitor performance).
- Pension funds becoming large relative to financial system and other participants so any collapses will have a dramatic effect on the jurisdiction.

Summary: Harnessing financial sector development and supervisory capacities

- A deepening financial sector can promote increased private sector activity and economic growth.
 - Need existing participants to do more; they make good returns from offering a basic product range.
 - Lack of public awareness of the types of financial products available in other countries (e.g. life insurance, education funds)
 - No pressure on financial institutions from to supply an increased range of financial products even after the passage of legislation to ensure 'protection' of industry from unscrupulous operators.
- Ensuring financial sector stability works to preserve the rewards of growth.
- Establishing appropriate supervisory capacities is the key to financial sector development.
- PFTAC can provide or arrange assistance to member countries to develop capacity.

PFTAC & training

- PFTAC needs to ensure that training needs are reflective of members and market developments:
 - AFSPC seminars in 2006 will focus on insurance supervision and issues in bank supervision (new accounting standards).
 - Arranging and funding attachments for supervisory staff to supervisory authorities in the region.

Any questions?

