FINANCIAL SERVICES SECTOR ASSESSMENT FOR SAMOA

PFIP | Pacific Financial Inclusion Programme

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Pacific Financial Inclusion Programme

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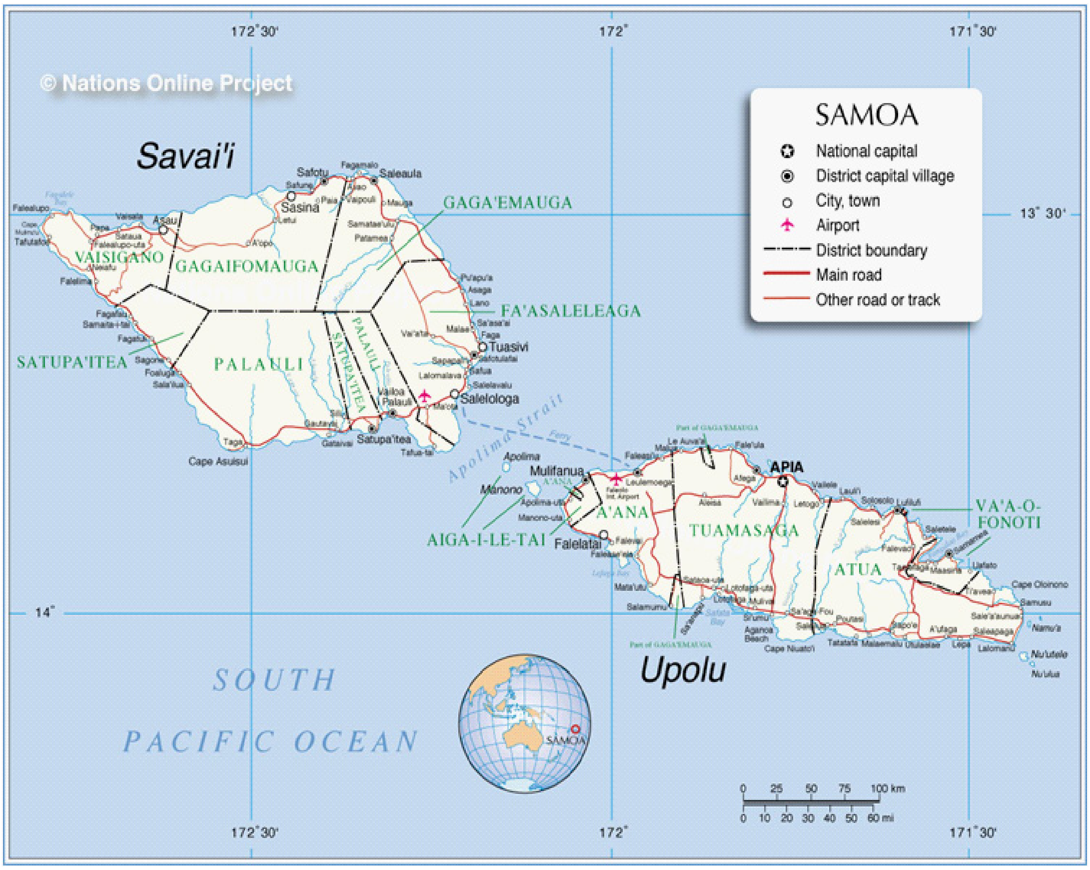
NOTE

In this report, "USD" refers to US dollars and "WST" refers to Samoan Tala.

CURRENCY EQUIVALENTS

USD 1.00 = WST 2.5



Source: Nations Online Project[1]

Note: The boundaries and names shown on this map do not imply official endorsement or acceptance by the United Nations. The map is used to provide the reader with the general overview of the cities, villages, roads, and the position of the country on the world map. It is not intended to endorse or rectify the political structure and boundaries within the country.

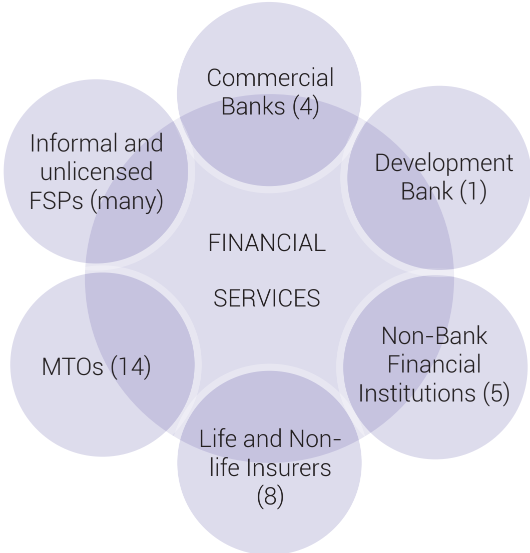
1 Can be accessed here: http://www.nationsonline.org/oneworld/map/samoa-map.html

LIST OF ACRONYMS AND ABBREVIATIONS USED

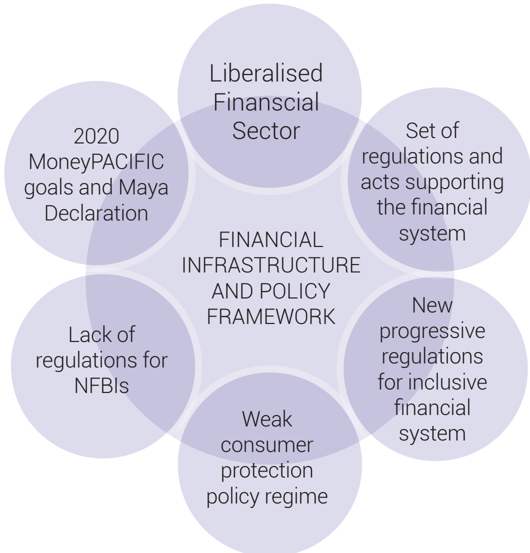
ADB	Asian Development Bank
AML	Anti-Money Laundering
ATS	Automated Transfer System
BSP	Bank of South Pacific
CBS	Central Bank of Samoa
CFT	Countering the Financing of Terrorist Activities
CSD	Central Securities Depository
CSSP	Civil Society Support Programme
DBS	Development Bank of Samoa
DFS	Digital Financial Services
DSS	Demand-side Survey
FSPs	Financial Services Providers
FSSA	Financial Services Sector Assessment
G2P	Government to People
GDP	Gross Domestic Product
KYC	Know Your Customers
LDC	Least Developed Countries
MCIL	Ministry of Commerce, Industry and Labour
MDGs	Millennium Development Goals
MESC	Ministry of Education, Sports and Culture
MFS	Mobile Financial Services
MTOs	Money Transfer Operators
NBFIs	Non-banking financial institutions
NBS	National Bank of Samoa
ODA	Overseas Development Assistance
P2P	Person-2-Person
PFIP	Pacific Financial Inclusion Programme
PFIs	Public Financial Institutions
PIRI	Pacific Islands Regional Initiative
PSDI	Pacific Private Sector Development Initiative
PSSF	Private Sector Support Facility
RTGS	Real-time Gross Settlement
SBEC	Small Business Enterprise Centre
SBS	Samoa Bureau of Statistics
SCB	Samoa Commercial Bank
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SNPF	Samoa National Provident Fund
SPBD	South Pacific Business Development
SUNGO	Samoa Umbrella for Non-Government Organisations
UTOS	Unit Trust of Samoa
WIBDI	Women in Business Development Inc.
WST	Western Samoan Tala

STRUCTURE OF THE FINANCIAL SYSTEM AT A GLANCE

A variety of financial service providers cater to the urban market, enforcing strict competition



A liberalised financial sector, but it lacks policy framework for promoting inclusive financial system



- Financial Institution Act 1996
- Insurance Act 2007
- Payments System Act 2014

Still, 61,500 adults remain outside of the formal financial system

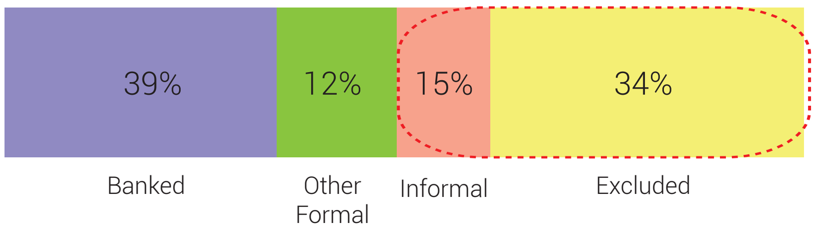


Figure 1: Structure of the financial system at a glance

EXECUTIVE SUMMARY

The financial services sector in Samoa is comprised of a variety of financial services providers; however, they offer a limited range of services that are concentrated in urban areas. The banking industry comprises of four commercial banks (two locally incorporated foreign companies, and two local companies). However, the Public Financial Institutions (PFIs) dominate the domestic credit market, where Samoa National Provident Fund (SNPF) holds 22.6% of the market share. The Development Bank of Samoa (DBS) is another large player in the domestic credit market, holding 10.3% of the market share (Dec. 2014). DBS also runs a microfinance and an SME finance scheme, but the operations are marred by high delinquency. There are several private finance companies, but only one of them is registered as a micro-finance company. A variety of other financial service providers cater to the urban market, enforcing strict competition in the urban areas. However, access to financial services is limited in places outside of Apia. The figure 1 below provides a general snapshot of the market.

Samoa has a liberalised financial sector with the Central Bank of Samoa (CBS) performing the role of the regulator. CBS has implemented a number of progressive and enabling regulations supporting the expansion of financial services, including making financial inclusion part of the official mandate of the bank. Key regulations that are in place include the Payments System Act 2014, Insurance Act 2007, Money Laundering Prevention Act 2007, and the Financial Institutions Act 1996. The work on the secured transactions bill, immovable property collateral regulations, and setting up a credit bureau[2] is underway and is expected to be fully implemented in 2016. CBS is supportive of technology-driven services and has issued a No Objection Certificate to Digicel to offer Mobile Money through an electronic wallet. Despite these efforts, the regulatory regime needs continuous improvement to keep up with the fast evolving financial services industry. There is a need to implement regulations and guidelines for digital financial services, consumer protection, and agency banking.

Formal financial service providers (FSPs) are mostly conventional and mainstream in their approach of offering financial products. There are, however, some efforts where two FSPs are offering digital financial services using alternative channels. ANZ Bank offers 'Go Money', a mobile banking service, which allows users to deposit and withdraw cash, check balance, and transfer funds among ANZ registered users. BSP runs an agent network, known as in-store merchants, where customers can deposit and withdraw cash, and can also do Person-2-Person (P2P) transfers.

One of two telecommunication companies, Digicel, offers mobile financial services through a mobile money wallet, allowing customers to pay bills to registered billers, do P2P transfer, and make deposits and withdrawals. It has partnerships with several other agencies, including a low-cost international remittance company, Klickex (a detailed analysis is presented in Section 5).

Despite a growing number of ATMs and new initiatives such as in-store merchants and mobile banking, there is a significant gap in terms of access to financial services, particularly in rural areas. An estimated 49% adults remain outside of the formal financial services domain, including 15% being served by informal financial institutions (Samoa DSS 2015). Less than 3% adults use mobile financial services. The poor performance can be attributed to inadequate presence and distribution of agency points, lack of customised products, lack of agent training, poor liquidity management arrangements, low levels of financial literacy among customers and agents, and inadequate marketing support from the lead banks.

Constraints relating to the limited scale of the market and a large cash-heavy informal economic sector are real and remain outside of the influence of FSPs. However, there are numerous opportunities for FSPs to expand the market beyond the well covered Apia urban area. Nearly all of the financial needs of economic sub-segments, such as youth and low-income casual wage earners, are yet to be met with specifically designed products and delivered through suitable channels. Likewise, a complete re-look at the existing models of agency and mobile banking channels - from the perspective of customers - will provide new insights to FSPs to improve the service uptake. It is imperative to achieving DFS led financial inclusion that attention is moved from providing a generic DFS product to creating an ecosystem of interconnected services.

The Government and other stakeholders also have an equally important role in addressing the constraints. There is an urgent need to improve the financial infrastructure, including enabling interoperability among FSPs. Similarly, the Central Bank proactively needs to implement supporting regulations for digital finance and agency banking. Having a national strategy for financial inclusion and a common platform for service providers to discuss and share ideas will surely improve the coordination.

2 For more information on Samoa's new Credit Bureau visit www.databureau.com.fj/samoa/

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1. BACKGROUND AND OBJECTIVE

The Samoan economy has been steadily growing for the past three years, registering an average annual GDP growth rate of 1.5% (CBS, 2015). However, nearly 1/4th of the households remain in poverty. One of many reasons is the informal nature of the economy, where a large section of society does not interact with formal institutions, especially the financial institutions. There is strong momentum within the government and private sector financial service providers to make the financial sector more inclusive, where everyone is able to access a variety of suitable, affordable and safe financial services.

The Central Bank of Samoa is at the forefront of it and has taken numerous steps to promote a vibrant financial services sector in Samoa. It is working with financial service providers and other stakeholders to develop suitable regulations and a national plan.

It is against this background that a Financial Services Sector Assessment (FSSA) was commissioned to provide an analytical snapshot of the financial services landscape in Samoa, which can assist stakeholders to identify market trends, constraints and opportunities. It has been observed in Fiji and Solomon Islands that similar efforts have led to increased stakeholders' interaction and coordination leading to the better implementation of national plans for financial inclusion.

This report is intended to provide an overview of the status of the financial services sector from the perspective of providing services to low-income and rural populations, consequently offering analytical information to policy makers to understand and address the market constraints, at the same time highlighting opportunities for service providers to improve the access and quality of financial services. The suggestions made in the report are by no means comprehensive and may not fit with service providers' internal business strategy, but they provide a solid departure point from which to formulate policies and priorities for a more coordinated approach to developing an inclusive financial system in Samoa.

2. APPROACH AND METHODOLOGY

The report is based on the information gathered by experts through personal interviews; companies submitted records, and data available with CBS and PFIP. In addition to consolidating the in-house existing knowledge of CBS and PFIP, a total of 24 other organisations were consulted, through personal interviews. The list of organisations and individuals consulted is provided in annexure III. The data gathering work was done from August to October 2015. All other key secondary sources consulted are cited directly in the report.

The data related to financial inclusion is obtained from the CBS data depositary, which has data reported by financial service providers for public dissemination. The information presented in this report was submitted to select organisations mentioned in this report to review for accuracy and consistency of the information. The full text was reviewed by the CBS and PFIP's technical reviewers, Elizabeth Larson and Jennifer Namgyal.

3. THE SETTING FOR FINANCIAL SERVICES IN SAMOA

3.1 Country Socio-economic Profile

Samoa, a Polynesian small island developing state located in the Pacific, is comprised of two large islands, Upolu and Savai'i, which together constitute over 99% of the population and eight smaller islets, all together with a total land area of 2934 km^2. The islands are easily accessible by sea transport and an air transport link exists between Upolu and Savai'i.

The capital Apia is located in Upolu, which is Samoa's most populous and developed island. The total population is estimated to be 193,483 in 2015 (SBS, 2015), of which 81% resides in rural areas while the remaining 19% resides in and around the Apia Urban Area. While the urban population is estimated to be decreasing by 0.5%, the rural population is estimated to be increasing by 1.1% on an annual basis. Thus, most of the population is living in small rural villages located along the coast. Samoa's population is also young with 38% of the population being aged between 0 and 14 years and only 5% being 65 years plus (World Bank Indicators, 2014).

Since its independence in 1962, Samoa has enjoyed political stability. The country is divided into eleven political districts, *itūmālō*, which are the same districts that were established well before European arrival, and 41 *faipule*. While former fulfil administrative functions, latter are merely electoral districts. Each *itūmālō* has its own constitutional foundation (*faavae*), and its governance structure is rooted in the traditional village order based on the title of precedence (*faalupega*). Each extended family (*aiga*) is headed by at least one *matai*, who is appointed by family consensus. The *matais* form the central basis of village administration and are responsible for the village administration as well as maintaining family unity and prestige, administrating family land and other assets, settling disputes and representing the family in the village council (*fono*). Although Samoa's electoral system is based on the Westminster parliamentary system, only *matais* can stand for election to parliament (with the exception of two seats for voters of mixed descent). The legislative assembly (*Fono*) is elected every five years, and the head of state is elected by the parliament for a period of five years. The representation of women in parliament is still very low (4% in 2014), reflecting social and customary attitudes about the role of women. In 2013, the Government passed a bill to reserve 5 of 49 parliamentary seats (equal to 10%) for women electoral candidates[3].

Samoa's size, remoteness from major global markets, vulnerability to natural disasters and the impacts of climate change poses major constraints to the country's development. Imbalances in foreign trade and the sectoral distribution of labour force render the economy additionally fragile. Nonetheless, Samoa has graduated from the Least Developed Country (LDC) to a low-middle income country status in 2014 as there has been a fundamental shift in the country's economic structure.

Since independence, Samoa's economy has been dependent on agricultural exports. In 2014 for example, agricultural exports constituted around 80% of total exports. This mirrors Samoa's employment structure, where agriculture and fisheries traditionally provide a livelihood for most Samoans, employing two-thirds of the labour force. However, the value-add of agriculture and fisheries to GDP is as little as 10%, and other sectors play a much greater role. Services constitute around 70% of GDP and industry (mostly agro-processing manufacturing and construction) around 20%. The service sector, in particular, commerce and tourism, experienced substantive growth over the last five years, to the detriment of the manufacturing sector.

Total imports are about 50% of GDP whereas exports are only slightly over of 25%, and thus the ratio of imports to exports is high. About 90% of the exports consist of agricultural products with relatively low value added. Any redress in the merchandise trade deficit originates from remittances, exports of services (e.g. tourism) and ODA. The performance of foreign trade, however, reflects the overall performance of the productive sectors, mainly agriculture and manufacturing.

The Samoan economy was severely impacted by the global economic crisis in 2008 and the 2009 Tsunami. Real GDP, as well as GDP per capita, plummeted to negative -5.2% and -2.2% in 2008 and 2009, respectively, after a period of reasonably high, relatively stable, growth rates that lasted from 1998 to 2007 (see Figure 1). The inflation rate soared to an unprecedented rate of 11.6% in 2008 (up from 3.7% and 5.6% in 2006 and 2007, respectively). The Samoan economy recovered in the subsequent years, yet never reached the pre-crisis levels. While the nominal GDP has begun to grow steadily, it is expected to grow by 4% in 2015 (CBS est. 2015). However, the real economic growth has been modest owing to inflation staying close to the 2% mark.

3 Refer http://www.samoagovt.ws/about-samoa/ for further details about Samoa's socio-cultural organisation

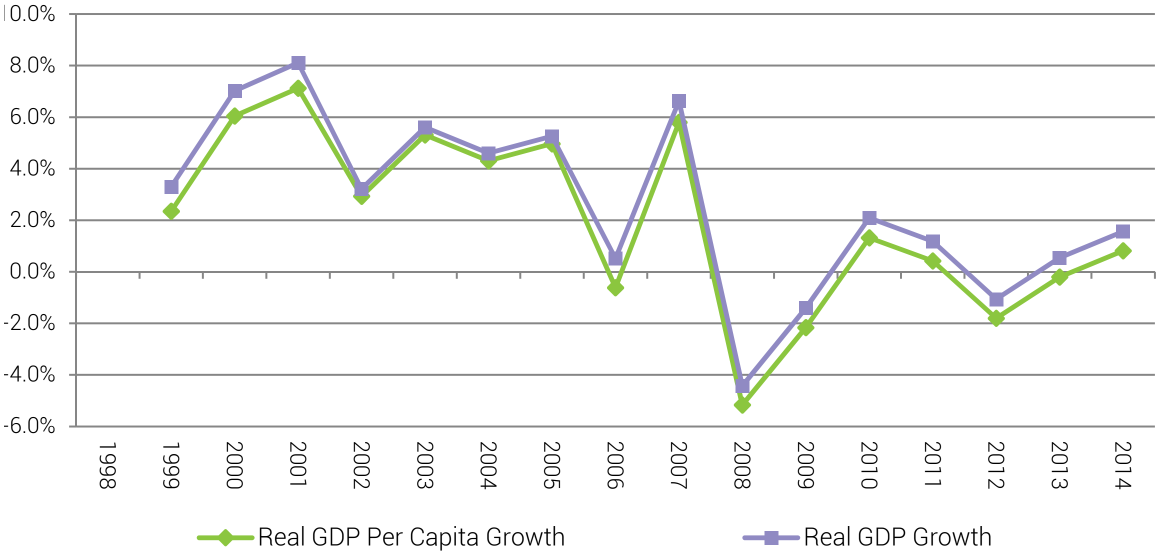

Figure 2: Growth in Real GDP and Real GDP Per-capita - percentage (1998-2014)

Source: World Bank Development Indicators and Central Bank of Samoa 2015

While the fiscal situation has improved over the last five years, it remains fragile. Government fiscal budget deficit was 9.6% of GDP in 2010-11. However, the government managed to reduce the deficit, reaching a surplus of around 1.4% of GDP in 2013-14, but this was mainly due to a significant increase in grants received (14.5% of total revenues). Total public debt increased from 53% of GDP in 2011/12 to 56% of GDP in 2013-14, most of which is foreign debt (foreign debt accounted for 54% of GDP).

Similarly, with large Samoan emigrant populations residing outside of Samoa, overseas inward remittances are another important factor for the Samoan economy. The remittances inflow has increased from USD 81 million in 2005 to an estimated USD 180 million in 2015, contributing about 21 per cent of GDP (CBS 2015). The increase in remittances and tourism receipts have helped to narrow the country's current account deficit, stemming from the trade imbalance.

The composition of money supply reflects the structure of the financial sector. Around 34% of total money supply is narrow money (M1). Currency outside the banking system and demand deposits constitute 7% and 27% of total money supply, respectively while saving deposits constitute only 14% of total money supply (see Figure 3).

The growth of commerce, the tourism sector and the increase in ODA and remittances imply that today, the financial sector plays a more central role in the economy than two decades ago when the economy was still mostly based on agriculture and fishery. However, the access to financial services has been largely exclusive, where only 51% of Samoan adults, and mostly those being urban-based, have access to formal financial services while only 39% have a formal banking account (FS-DSS Samoa 2015).

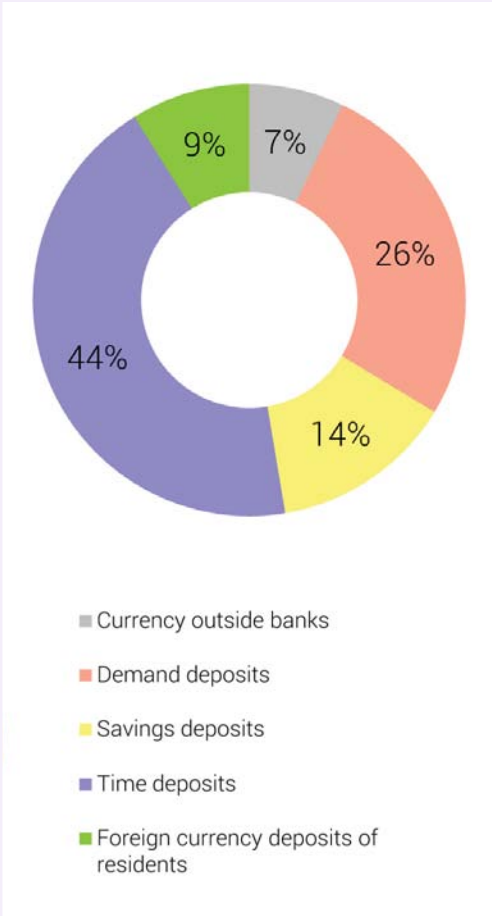

Figure 3: Composition of money supply - percentage - (December 2014)

Source: Central Bank of Samoa

3.2 National Policies for Poverty Alleviation and Economic Development

3.2.1 The Millennium Development Goals and Sustainable Development Goals

The Millennium Development Goals (MDGs) were adopted in 2000 and marked a set of development goals to have been globally achieved by 2015. A new development framework was introduced in 2015: the Sustainable Development Goals (SDGs), which pick up on the 'unfinished business' of the MDGs and added several new challenging targets, all together culminating to 17 overall goals and 169 targets to be achieved by 2030 by all member states of the United Nations.

The final evaluation of the MDGs in Samoa reveal the consequences of unequal growth (figure 3).

	MDG 1 Eliminate Extreme Poverty and Hunger	**MDG 2** Achieve Universal Primary Education	**MDG 3** Promote Gender Equality and Empower Women	**MDG 4** Reduce Child Mortality	**MDG 5** Improve Maternal Health	**MDG 6** Combat HIV/ AIDS and Other Diseases	**MDG 7** Ensure Environmental Sustainability
Cook Is	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved
FSM	Not Achieved	Mixed	Mixed	Achieved	Not Achieved	Mixed	Achieved
Fiji	Mixed	Achieved	Mixed	Achieved	Achieved	Mixed	Achieved
Kiribati	Not Achieved	Not Achieved	Mixed	Mixed	Mixed	Mixed	Mixed
Marshall Is	Not Achieved	Mixed	Mixed	Achieved	Achieved	Not Achieved	Mixed
Nauru	Not Achieved	Achieved	Mixed	Mixed	Mixed	Achieved	Not Achieved
Niue	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved
Palau	Mixed	Achieved	Achieved	Achieved	Achieved	Achieved	Achieved
PNG	Not Achieved	Not Achieved	Not Achieved	Not Achieved	Not Achieved	Not Achieved	Not Achieved
Samoa	Mixed	Achieved	Mixed	Achieved	Mixed	Mixed	Achieved

Achieved   Not Achieved   Mixed   Insufficient information   Not applicable

Figure 4: Samoa MDGs Evaluation Chart

Source: UNDP in the Cook Islands, Niue, Samoa, Tokelau

Poverty, or more accurately hardship, measured by people below the basic needs poverty line, increased to 27% in 2008 from 23% in 2002 (SBS). The geographic distribution of hardship exemplifies the rural-urban divide in employment opportunities. Thus, hardship is especially prevalent in rural areas, and Savai'i accounts for a quarter of the poor alone. In contrast and related to better employment possibilities in urban areas, hardship declined in urban centres. Generally, weak labour market conditions and high inflation rates make it increasingly difficult for households to meet daily needs. The global financial crisis hit the Samoan employment sector very hard, as 53% of employers froze or cut jobs. The Government attempted to mitigate these developments by giving incentives to create more private sector jobs and accessing regional seasonal workers' programmes offered by New Zealand and Australia[4].

Although the performance against MDGs is mixed, Samoa has experienced positive growth rates over the past decade, except for the years in 2008 and 2009 when the country was hit by the financial crisis. However, the impacts of growth have been distributed unequally amongst the Samoan population. Various estimates suggest that about 20% to 25% of the population live below the national poverty line (ADB, NHRI 2015) while the Gini coefficient is 0.47 (Abbott 2010). Additionally, a substantial proportion of low-income households remain economically active, but in the informal sector.

The low level of financial inclusion, i.e. access to formal financial services, further exacerbates the exclusiveness to economic growth, where a large segment of the Samoan population (especially low-income households) is unable to participate and benefit from the growth. The need to design a more inclusive financial sector to promote more inclusive growth is ever more important with Samoa having graduated to a low-middle income country status, and given the Sustainable Development Goals calling for the eradication of poverty and promotion of inclusive growth. Various research studies show that when people are financially included, financial development has a greater impact on households than through economic growth alone and access to a well-functioning financial system can economically and socially empower individuals, in particular, poor people.

4 More details can be found here http://www.samoastrong.ws/ and https://www.employment.gov.au/seasonal-worker-programme

3.2.2 The National Development Plans, including Private Sector Development Reforms

The Strategy for the Development of Samoa 2012-16 (SDS) provides the overarching development vision and sets policy priorities. Besides this strategy paper, the Sector Planning Manual for Samoa (SPMS) 2009 provides guidelines for the development of individual sectors. It sets terms for content and format, scope and mandate, responsible agencies of development and implementation as well as procedural guidelines for approval, adoption, budgeting, resource allocation, monitoring and evaluation. Recent reforms in public finance management introduced programme-based budgeting within a total of 14 sectors. A medium-term expenditure and investment framework has been established to enhance the link between the processes of sector planning and budgeting.

The SDS recognises access to financial services as one of the means to achieve inclusive growth. Special mentions are made under the financial sector, private sector, and agriculture sector development plans under the Economic Sector priority area[5]. Special attention is given to developing economic infrastructure, including telecommunications. The Government plans to set up a new submarine broadband cable that will boost the internet speed while lowering the cost, which will benefit service providers (including financial service providers) to extend their services outside the Apia urban area using web services.

The Government, through the Ministry of Commerce, Industry and Labour (MCIL), continues to provide support to the private sector through various schemes such as the Private Sector Support Facility (PSSF), under which about WST six million (USD 480,000) was spent supporting 200 private sector projects, mainly in the areas of value chains and infrastructure in agriculture and tourism.

Under the Pacific Private Sector Development Initiative (PSDI), Asian Development Bank (ADB) along with the government is working to implement private sector reforms, notably, online business registration and secured transactions reforms aiming to increased formalisation of businesses in Samoa. PSDI's work also include advising the government in privatising state-owned enterprises and boosting private investments[6].

The Personal Property Securities Act 2013 (PPSA) repealed the Chattel Transfer Act, which allows moveable assets to be used as credit security. The act, when fully implemented, is expected to make access to finance easier for SMEs and other businesses. The Government of Samoa has taken a number of initiatives to develop the financial services sector. Under the 'free markets' doctrine, a number of public sector entities were privatised. The government established the Unit Trust of Samoa (UTOS) in 2011 to create opportunities for ordinary Samoans to benefit from the privatisation of public enterprises and other investment opportunities. UTOS's investment portfolio is about WST100 million, of which about 3/4th is invested by households[7]. The subsidised credit to state enterprises, which represents about 4/5 share of its portfolio, from the Trust is often criticised for distorting the credit market; however, the Trust maintains that the credit is given after a satisfactory due diligence exercise. It is the only retail investment vehicle where units can be purchased directly by households from the UTOS office or through post office branches.

ADB recently undertook a detailed review of the reforms in the private sector development area. Refer to the 2015 published report, titled 'Reform Renewed A Private Sector Assessment for Samoa' for further details on private sector reforms[8].

3.3 Financial Sector and Services in Samoa

Samoa's financial sector is dominated by large state-owned or state-controlled financial service providers. Next to them a small number of commercial banks, formal and informal private sector providers exist. The financial sector is characterised by risk aversion and sluggishness, and the cost of doing business is high because of the lack of economies of scale and sizable demand.

Historically, Samoa, as well as the rest of the Pacific, had a strong traditional economy that rested on strong cultural values, kinship, communal production, distribution and reciprocity. This system governed the production and distribution of goods and, hence, the utilisation of factors of production, such as land, labour and physical and social capital. While Samoa is currently transitioning towards a market economy, both systems coexist and can conflict. Behaviours and attitudes rooted in traditions and customs translate into a loss of opportunities and consequently, higher opportunity costs. It can also hinder the growth of the financial sector.

Given this context, the property market is quite rigid with only a limited proportion of land being freehold[9], making it difficult to use it as collateral for credit. The lack of collateral increases the financial risk of credit and, thus, the costs of providing credit. Other cultural values and practices, including attitudes toward credit

5 Refer to http://www.mof.gov.ws/Services/Economy/EconomicPlanning/tabid/5618/Default.aspx for further details on the SDS.

6 Refer to http://www.adbpsdi.org/search/label/Samoa for more details on PSDI and ADB's work in Samoa.

7 Source: Information gathered through personal interviews with UTOS officials during the study

8 Link to the report http://www.adbpsdi.org/p/private-sector-assessments.html

9 There are various estimates of freehold and customary land ownership, ranging from 65% to 90% ownership being customary.

and savings, also hamper growth in the financial sector. While at the macro level, credit in Samoa amounts to around 40% of GDP, yet the access to low-income households is low and costly.

3.3.1 Financial System Structure

As previously mentioned the financial sector in Samoa is small, concentrated and undiversified. There are four commercial banks operating in Samoa: of which two are locally incorporated foreign companies, and two are domestic companies. The local banks are Samoa Commercial Bank (SCB) and the National Bank of Samoa (NBS). Locally incorporated, international banks are ANZ Samoa and Bank of South Pacific (BSP-formerly Westpac Bank). ANZ bank is the market leader, holding over 40% of the market share, closely followed by BSP with about 30% of the market share and the two domestic banks accounting for the rest (CBS 2015). Commercial banks provide conventional financial services to the public, such as savings and checking accounts, money transfers, credit and debit cards, and loans.

In addition to the commercial banks, state-owned financial institutions also play a significant role in providing a wide variety of financial services that are similar to and, often compete with, the services provided by commercial banks and other private sector providers. State-owned financial institutions are Samoa National Provident Fund (SNPF), Development Bank of Samoa (DBS), Samoa Housing Corporation (SHC), Accident Compensation Corporation (ACC) and Unit Trust of Samoa (UTOS).

There is a small number of specialised private sector financial services providers that mainly provide microfinance (such as South Pacific Business Development - SPBD) and money transfers to the public, and credit unions, such as the teacher's credit union, that provide some financial services to their members. In addition, a few NGOs provide financial and business services to small and micro enterprises. These are Small Business Enterprise Centre (SBEC), Women in Business Development Inc. (WIBDI) and Samoa Umbrella for Non-Government Organisations (SUNGO). NGOs mainly channel donor-funded government programmes, such as the Private Sector Support Facility (PSSF) and the Civil Society Support Programme (CSSP) to their beneficiaries. Table 1 explains the financial structure of all financial players active in Samoa's financial sector.

Total financial system assets correspond to about 120 percent of GDP with bank assets accounting for almost 60 percent of system assets or 70 percent of GDP. Term deposits and Savings deposits constitute 44% and 14% of total money supply, respectively.

The Central Bank of Samoa continues to extend its Credit Line Facility to non-monetary financial institutions, namely the Development Bank of Samoa and the Samoa Housing Corporation, as a means of injecting much needed liquidity into Samoa's main priority sectors such as tourism, agriculture and fisheries, manufacturing and housing. It is important to note that 40% of SNPF investments is lending to its members and 20% lending to the public through SPBD as well as to the government and state-owned enterprises.

	Dec-14	
	Balance Sheet	Domestic Credit
Ministry of Finance	0.1%	-6.4%
Central Bank of Samoa	14.5%	3.1%
Commercial banks	48.9%	61.5%
Australia New Zealand Bank (Samoa) Ltd	22.2%	28.1%
Westpac Samoa Ltd. (currently Bank of South Pacific)	10.4%	12.3%
National Bank of Samoa Limited	7.7%	10.6%
Samoa Commercial Bank Limited	8.6%	10.6%
Non-Monetary Financial Institutions	36.5%	41.8%
National Provident Fund	20.8%	22.6%
Development Bank of Samoa	8.0%	10.3%
National Pacific Insurance Ltd	1.0%	0.0%
Samoa Life Assurance Corp.	1.5%	1.7%
Public Trust Office	0.4%	0.5%
Samoa Housing Corporation	1.8%	2.9%
Others (Private Sector and NGOs)	3.1%	3.9%
Total	100.0%	100.0%

Table 1: Financial structure as of December 2014

Source: Central Bank of Samoa

3.3.2 Legislation and Regulations for the Financial System

Since 1998, the government has taken substantive steps to 'free-up' the financial sector and Samoa now has a liberalised financial sector. The reform process started when the Central Bank removed interest rate controls and relaxed the credit ceiling. Banks can now set their own interest rates. The Bank also relaxed restrictions on foreign exchange to make it easy to import payments and the 1% payment surcharge was removed to make remittances cheaper for banking institutions. The Central Bank of Samoa performs the classic functions of ensuring macroeconomic, financial stability and being the lender of last resort. It takes an active part in setting national and sectoral policies and plans. Some of these functions and responsibilities are shared with the Ministry of Finance. The Bank also sets and executes monetary policies, and regulates and supervises the private and state-owned financial services providers. The Financial Supervision Department performs the supervisory role and administers a number of acts to regulate the financial sector. This include:

- The Central Bank of Samoa Act 1984 (overwritten by the CBS Act 2015)
- The Financial Institution Act 1996
- The Insurance Act 2007
- The Money Laundering Prevention Act 2007

Under the Financial Institutions Act 1996, the Bank issues licenses to financial institutions, primarily for commercial banking operations, which are then required to fulfil the legal and reporting requirements. Following an amendment in 2001, the Bank brought a select group of non-bank financial institutions under its regulatory preview. These include Samoa National Provident Fund (SNPF), the Samoa Housing Corporation (SHC), the Development Bank of Samoa (DBS) and the Unit Trust of Samoa (UTOS). The Financial Institutions Act does not cover other private non-bank financial institutions, such as credit unions and microfinance organisations. Hence, they are not regulated or supervised by the Bank.

The Central Bank requires commercial banks to apply a two-tier system to maintain the risk-based capital adequacy ratio. The guidelines note, "All the banks are required to maintain at all times a minimum capital adequacy ratio of 15.0 percent in relation to the level of their risk-weighted exposure. As such, Tier one capital or 'core capital' shall be no less than 7.5 percent of total risk-weighted exposure while Tier two capital or Supplemental capital shall not exceed 100 percent of core capital" (CBS Annual Report 2012). There are no guidelines for maintaining such ratios for microfinance.

Under the Money Laundering Prevention Act 2007, which repealed the 2000 Act, the Bank created a Financial Intelligence Unit (FIU) to ensure that the private sector financial institutions comply with Anti-Money Laundering and Countering the Financing of Terrorist Activities regime (AML/CFT). The FIU is a member of the Egmont Group of FIUs and Asia Pacific Group on Money Laundering (APG). An amendment in 2012 authorised the FIU to use assets seized under the Crime Act 2007 to create a Confiscated Assets Fund account.

There are two principal legislations related to insurance in Samoa: the Insurance Act 2007 and the International Insurance Act 1998. The Insurance Act 2007 governs the local insurance industry for both, life and general insurance. The Central Bank of Samoa acts as the insurance regulator, including issuing of licenses. Local general insurers are required to maintain a minimum solvency ratio of no less than one million Samoan Tala (approx. USD 375,00), or 20 percent of the net premium, or 15 percent of the outstanding claims provision in the last 12 months (Insurance Act 2007). The Bank's Supervision Department collects information to ensure that solvency margins are met. It also monitors accumulations for all classes and requests information on reinsurance protection. The Bank requires local insurers to complete quarterly and annual returns. However, with no on-site reviews carried out by CBS, the adequacy of insurer capital, solvency, and reinsurance programmes have not been tested.

In 2014, the government introduced a special act to regulate payments and money flows, the National Payment System Act 2014. The International Finance Cooperation of the World Bank working on the Pacific Payments Regional Initiative (PAPRI) has been supporting the Bank to draft a number of regulations and guidelines under the National Payment System Act, including regulations for Macro Oversight and for Electronic Fund Transfers (EFT). These also include guidelines for Innovative Retail Instruments and for appointing agents for payment flows related activities, which also covers mobile money agents.The final version of this set of regulations and guidelines is expected to be implemented by 2016.

The banking systems of the four commercial banks are not interoperable. The only system of interbank payments is the cheque clearing house, which is operated by the banks and settled at the Central Bank through their settlement accounts. At the time of writing this report, CBS was in discussions with the World Bank to source and implement an Automated Transfer System (designated ATS+) and a Central Securities Depository (CSD). The system is envisaged to be commonly used service providers in Samoa, Solomon Islands and Vanuatu. Once implemented, the system is expected to facilitate interoperability between banks and enable a real-time gross settlement (RTGS) system. This would ease the pressure from commercial banks, which currently operate their own settlement and transaction infrastructure.

Regulatory Approach to Financial Inclusion

In 2010, the Central Bank Act was amended to include Financial Inclusion under the mandate of the Central Bank. With the growing importance of the financial inclusion work, in 2012, a separate unit, Financial System Development (FSD), was created to manage and implement activities related to financial inclusion and financial literacy. The importance of financial inclusion and financial literacy was further reinforced in the CBS Act 2015, where these aspects are specifically listed as a function of the Bank.

Much of the Bank's financial inclusion work is driven by the Bank's commitment to the Maya Declaration (Annexure I) and the 2020MoneyPacific Goals[10].

These goals are:

1. All school children to receive financial education through core curricula.
2. All adults to have access to financial education.
3. Simple and transparent consumer protection to be in place.
4. To halve the number of households without access to basic financial services.

CBS became a member of the Pacific Islands Regional Initiative (PIRI)[11] in 2009. It leads one of PIRI's working groups on financial inclusion data under which the Bank publishes a set of financial inclusion data on quarterly and annually basis (annexure II).

The Financial Institutions Act 1996 is outdated and does not address the current regulatory challenges of financial inclusion. For example, even though CBS is supportive of digital financial services, there are no specific regulations on branchless banking and mobile money. Commercial banks use individual convenience store owners as business correspondents (commonly known as merchants or in-store merchants) to offer a select range of banking services, through a standard principal-agent contract. The FI Act is currently under review, and aset of revisions are expected to address the challenges of digital financial services and financial inclusion.

Non-banking financial institutions (NBFIs), including microfinance organisations and credit unions,are not regulated by any of the Acts administered by the Central Bank. These organisations obtain a standard business license, under the Companies Act, from MCIL and file annual reports with the Ministry. Currently, there is no formal information sharing mechanism between MCIL and CBS to supervise the financial transactions done by NBFIs. There are no interest rate or secure financial transaction controls for micro-credit operations. AML/CFT or Know Your Customer laws do not affect microfinance as NBFIs do not open individual client accounts; they just maintain an institutional account. Similarly, there are no special tax rules for NBFIs;however, NGOs are tax exempt.

The Exchange Control Regulation 1999 gives CBS the power to regulate remittances flowing into the country. However, the main purpose of the regulation is to ensure that the country's foreign exchange reserves are maintained at a sustainable level and does not specifically address regulating Money Transfer Operators (MTOs) and remittances at retail services level. Similarly, the Insurance Act 2007 does not provide regulatory guidelines for inclusive or microinsurance products. There are no specific guidelines for new product development or delivery channel expansion.

Other laws governing commercial transactions, including secured transactions, consumer protection and credit information, are in need of updates and amendments. For example, the Secure Transactions Regulation administered by MCIL only covers trade and non-financial services. Consumer protection under the financial services regime is not included in this regulation. At the time of writing this report, the Central Bank was preparing a set of guidelines for Consumer Protection to be includedin the next revision of the Financial Institutions Act 1996.

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10 The 2020 MoneyPacific Goals were adopted by Samoa during the 2009 FEMM (Foreign Economic Ministers' Meet)

11 It was previously called the Pacific Islands Financial Inclusion Working Group (PIWG), and was created by the Alliance for Financial Inclusion (AFI)

4. THE SUPPLY OF FINANCIAL SERVICES: OVERALL PERFORMANCE AND INCLUSIVENESS

Formal financial service providers are mostly conventional and mainstream in their approach and the main trend in Samoa, as well as the rest of the Pacific region, is to emulate models and approaches that have worked somewhere else rather than designing home-grown and Pacific-specific approaches. The section provides a summary of financial services offered by both public and private sector institutions. The performance assessment is done through the perspective of inclusiveness and complexity of financial services.

4.1 Banking Services

Despite the recent growth of the financial sector and several attempts to bring in innovative business solutions, the menu of financial services offered to the public remains limited and inaccessible to the poor, particularly those living in rural areas. Services such as transactions, saving accounts and bill payments are mostly available in the urban areas, yet their access is limited in rural areas. Several innovative solutions such as banking through merchants and mobile banking are being introduced by some private sector financial service providers (see the box below for example). However, limited liquidity and availability of merchants in rural areas restrict the effectiveness and outreach of these initiatives. Despite a growing number of ATMs and new initiatives such as in-store merchants and mobile banking, there is still significant space to improve access to financial services.

Table 2 summarises the key financial access indicators (a detailed set of indicators is available in Appendix II).

Name/ description	Indicator	Indicator value
	Number of bank branches	23
	Number of ATMs	51
	Number of EFTPOS outlets	674
Cash-in and cash-out access points	Number of cash-in and cash-out access points per 10,000 adults at the national level.	6.02
Access points by channel	Number of branches per 10,000 adults nationally	1.92
Coverage by channel	Coverage of cash in and cash out access points per 1,000 km²	25.44
Access by Women	Percent of adult women with an active deposit account OR percent of deposit accounts held by women	35.10%
	Percent of adults who have received money (including e-money) through mobile money in the last 12 months	2.71%
Access- Mobile financial services	Number of mobile financial services access points per 10,000 adults	1.42
Cost to open basic account	Average minimum balance for clients to open a basic deposit account at banks in the country, converted to USD	20
Cost of travel to access point	Average cost of travelling to the nearest access point (public transit fee or gas costs), converted to USD	2.42
Time to travel to access point	Average time of travelling to the nearest access point in minutes	26.77

Table 2: Access to financial services as of June 2015.
Source: CBS and AFI PIRI reports

There is a significant gap in terms of access to financial services, particularly in rural areas. For example, the number of branches of commercial banks in Upolu is nearly three times than that in Savai'i. Yet, in Upolu, the spread of bank branches is restricted, as most of them are concentrated in or around the Apia urban area.

While the geographical expansion has a positive impact on improving the accessibility of financial services, it is not sufficient to enhance the inclusiveness of the financial sector. At present, very few attempts have been made to design products and services that particularly address the needs of and the challenges faced by the poor and vulnerable in society. For example, the average cost of opening a bank account is 20 USD while, on an average, it takes 156 minutes before anyone is served to open a bank account. Similarly, the average cost to travel to the nearest service point is 2.5 USD, which serves as a deterrent for people who do small value transactions (mostly low-income households).

These costs go much beyond the ability of the poor, and it might also not be a priority for them to spend their scarce money on financial products and services. Additionally, the general rate of interest offered on the savings by FSPs is less than the rate of inflation. Consequently, the real value of money shrinks the longer the savings are held in the account. Given the high cost of transaction and maintenance of accounts, to improve the sector's inclusiveness, there is a need to design affordable products and offer though cost effective channels, such as mobile money.

At the same time, in order to reduce their operational costs, some financial institutions are reducing their presence in rural areas. As a substitution for the branches, they are installing more ATMs. There is no evidence, however, that ATMs and limited mobile banking options are actually providing equally effective alternatives. The costs of initial and operating costs of installing ATMs are certainly lower than establishing branches. However, these costs are nonetheless high in absolute terms and require a high volume of transactions to break even. For instance, one of the commercial banks estimates that the volume of transactions needs to double at their ATM platform for the ATM channel to break-even.

Meanwhile, the use of agents for providing financial services is a less costly approach to enhancing outreach and geographical presence while avoiding the high cost of setting up branches or installing ATMs. Yet, only two of the four commercial banks offer services through agents. Nonetheless, the financial services offered by agents remain limited and mostly cover purchases and in some cases, cash withdrawals and bill payments. The poor performance of the existing agent network can be attributed to lack of agent training, poor liquidity management arrangements, and lack of financial literacy among customers and agents, and inadequate marketing support from the lead banks.

Examples of financial inclusion-oriented initiatives

MoneyMinded, ANZ's adult financial literacy programme, is available in 23 markets across the Asia Pacific region. It was launched in Samoa in 2010. The programme is designed to build the money management skills, confidence and knowledge of participants, improving the financial capabilities of individuals and communities.

The geographical spread of MoneyMinded delivery in Samoa covers urban Apia and some villages in Upolu. Given ANZ's partnership with the Ministry of Women, Community and Social Development, delivery is expected to be extended to communities in Savai'i. While the programme aims to enhance financial competencies among adults, it is yet to gain the necessary scale to induce large scale impact. However, ANZ continues to commit the expansion of the programme in Samoa.

BSP operates an agent network, known as 'in-store merchants', where customers can perform basic financial transactions, including deposits and withdrawals. There are23 such agents (as of Dec. 2015). BSP also operates a programme for financial education in rural areas by raising awareness on financial literacy in church groups, schools, and village communities. The programme conducted 28 workshops with around 2,400 participants last year and 10 to 12 workshops with 500 participants this year. It also assisted ADRA (a faith-based NGO) with their programmes for Financial Literacy Trainings.

In partnership with several commercial banks and financial service providers, the Asian Development Bank (ADB) launched the Agri-Business Funding Project in 2014. The project caters specifically to SMEs and farmers in rural areas that need funding for their business or expansion plans by offering a secured loan. Clients provide 65% of the required collateral and 35% of the remaining collateral is subsidised by ADB. The interest rate averages around 8.5% to 9%, which is about the same interest rate when taking normal loans. The duration of the loan is 5 – 7 years on average.

4.2 Credit and Microfinance

Credit and microfinance comprise a very small percentage of the total services offered by commercial banks in Samoa, mainly because of a perceived high risk and the lack of available collateral. A large percentage of credit, particularly loans provided by commercial banks (figure 5) is directed towards construction and infrastructure, followed by trade and business services. Manufacturing, agriculture, forestry and fishery combined only receive about 5% of total loans provided.

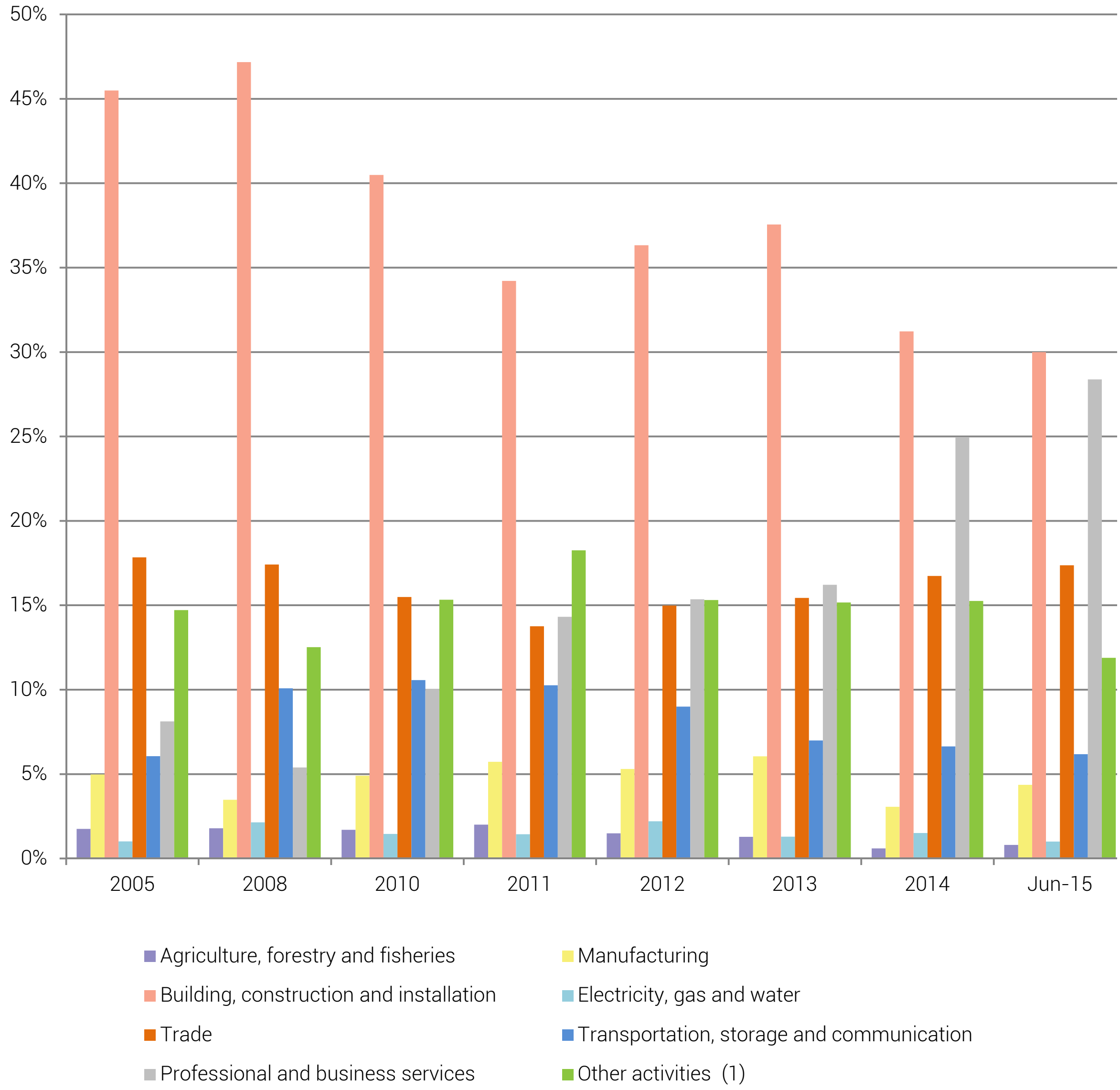

Figure 5: Sectoral distribution of credit provided by commercial banks
Source: Central Bank of Samoa

As commercial banks refrain from providing microcredit, this service is mainly provided by an array of multi-purpose NGOs, credit unions and a specialised Grameen-style microfinance organisation. Credit unions, however, lend only to their members and most of their loans are targeted for consumption.

The Samoa National Provident Fund (SNPF) is a compulsory savings scheme for the purposes of retirement covering all employees in Samoa. Employers and Employees each contribute a minimum of 6% of gross income. It will be increased to 7% by 1 July 2016. SNPF invest these funds to generate returns for its members. These investments include equity, lending, properties, offshore and others. The majority is invested through its lending activities to its employee and employer members, who can use their contribution as collateral to access credit at market rates. It accounts for 22.6% of the total domestic credit. Assets are primarily secured loans to members, employers and public sector projects.

The Development Bank of Samoa (DBS) is a large player in the domestic credit market, holding 10.3% of the market share (Dec. 2014).). For the year ended 2014, total approval was recorded at WST 42.9 million, out of which 1% represented financing under the microcredit scheme to finance micro projects operated by women clients in villages both Upolu and Savaii. However, much of the development credit is marred by high defaults or delays. Whilst some women groups have been successful, others have defaulted in loan servicing due to failed projects, priorities clashes and delays.

The Small Business Enterprise Centre (SBEC) offers loan guarantees for up to 50,000 WST (20,000 USD) on commercial interest rates to all entrepreneurs. It guarantees 100% of loans up to $10,000 and 80% of loans up to $50,000 and supported close to 2,000 small businesses through such loan arrangements with the banks in 2015. It is funded by the Government of NZ through its Official Aid programme with assistance from the Government of Samoa, and the backend guarantee is provided by the NZ Aid Programme and Government of Samoa through a loan from ADB as part of their Private Sector Development Initiative. In addition to their financial services, they also provide good business, entrepreneurial and financial literacy training programmes and support. For instance, SBEC developed an integrated model for small businesses that combines training and advisory services with facilitating access to finance as well as on-going support.

WIBDI is another multi-purpose NGO that provides support to village families who have small, mainly agricultural businesses. It supports a range of community-based projects aimed at alleviating poverty, creating sustainable village economies and revitalising the agricultural sector. WIBDI's activities to support income-generating activities include coconut oil production, organic farming, beekeeping, fine mat production and handicrafts. They are now working in over 100 rural villages across Samoa.

However, multi-purpose NGOs are heavily dependent on donor funds. Therefore, they have very limited supply capacity and, often, strict bureaucratic rules. With very few exceptions, such as WIBDI, they lack the flexibility required to cater to small borrowers and micro-business starters. As a result, multi-purpose NGOs do not provide a sustainable business model that can help create a dynamic SME sector.

SPBD is the only licensed microfinance institution. It started its operations in Samoa in the year2000 and now has client presence in 330 villages in Samoa (covering over 90% of rural areas). It offers a range of microfinance services, including credit-linked life insurance and education linked credit. As of December 2015, it had close to 8,000 active clients with a combined gross loan portfolio of over USD 3 million (WST 7.5 million) and held nearly USD 400,000 (WST 1,000,000) in client deposits. SPBD also offers savings services to its customers, both compulsory (part of the microcredit programme) and voluntary. In fact, with over 20,000 savings accounts, SPBD has many more savers than borrowers. It offers a market rate of interest with added benefit of deposit collections done in the villages through its Client Centres. Given the ease of savings option and possibility of accessing credit, the service is valued by customers.

There are several (number unknown) private finance companies offering retail credit at varying interest rate. The usual borrowers are those who are unable to meet the conditions to qualify for a loan from the formal banking sector. The finance company may be as informal as a group of three persons pooling personal savings to finance a portfolio of small personal loans or a larger organisation, incorporated to do lending business. Since these are not regulated by the Central Bank of Samoa, the performance data is not available, but the general understanding is that these operate on a small scale. It is estimated that interest rate (flat rate) is in the range of 12-24%. According to MFTransparency.org, as a general rule, the true annual rate equivalent is almost twice the flat rate if you include loan fees[12].

4.3 Remittances

Over the last decade, remittances from abroad to the Samoan economy have been oscillating around 20% of GDP[13] (figure 6, page 22). Since New Zealand and Australia are the main migration destinations for Samoa, these two countries, together, account for nearly ¾th of the total remittances, followed by 15% from the USA (CBS, 2015).

The most important recipient of remittances in 2014 were individuals and families as well as non-profit institutions such as churches, NGOs and charities, which received WST294.7 and WST 39.9 million respectively (figure 7, page 22).

The significance of workers remittances to the Samoan economy makes money transfer an essential financial service, especially for low-segment customers, with large actual and expected demand. It is estimated that only 15% to 25% of remittances are transferred through commercial banks, and nearly three quartersare sent through non-banking Money Transfers Operators. A total of 14 Money Transfer Operators/Restricted Foreign Exchange Dealers and one Money Changer are registered in Samoa, yet the demand side assessment survey suggests that many more operate unregistered.

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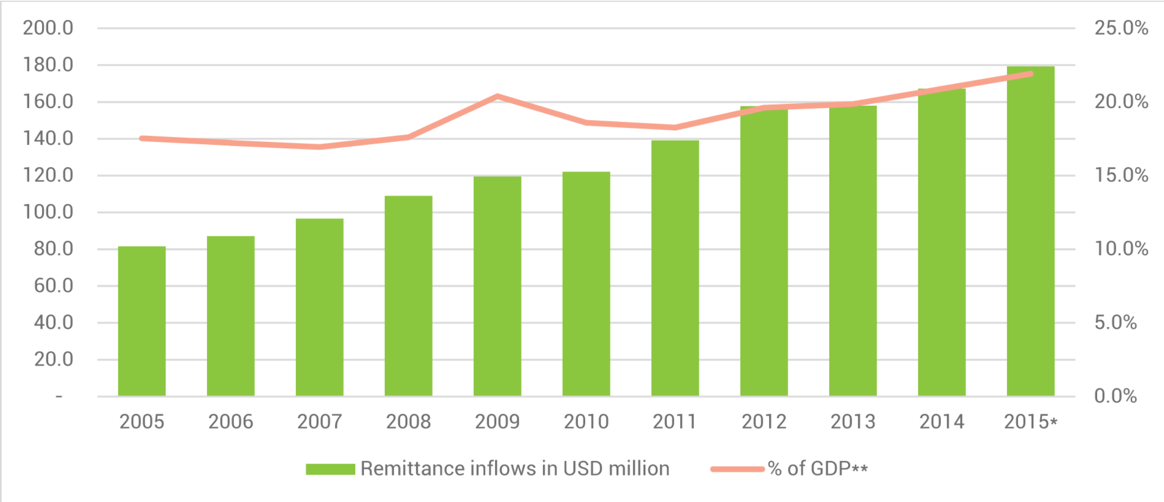
12 For an excellent article on the calculation of interest rates see: *educ.jmu.edu/~drakepp/principles/module3/interestrates.pdf*

13 Source: Combined data from World Bank Migration and Remittances Database, http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html, accessed on September 11, 2015, and Statistical Bureau of Samoa at http://www.sbs.gov.ws/index.php/economic-statistics/economic-and-financial, accessed on September 11, 2015

Western Union is the largest Money Transfer institution in Samoa. FEXCO owns the franchise and operates 23 agents, five of them are based in Savai'i and rest in Upolu. Two other major local MTOs are EzyMoney (two offices) and Samoa Money Transfer (three offices).

A small percentage of remittances is also transferred via Samoa Post. These services could be accessed at any of its five district offices in Samoa. Owing to high cost of operations, increased domestic competition and relatively small market share, the Post Office terminated the money transfer service on 31 December 2015.

KlickEx, launched in September 2011, offers low-cost remittances services to four countries in the Pacific, including Samoa. The company is based out of New Zealand and does not have its own MTO network in Samoa. Instead, it partners with Digicel to use its mobile money agents channel to offer cash-out services within Samoa. Receivers have the option to store the money in their Digicel MM wallet or to withdraw at any of the Digicel MM agents. Despite having a distinct cost advantage, KlickEx's remittances services are not popular. The market share is estimated to be below 2.0%. Mystery shopping indicates several reasons for the low uptake: lack of trust and fear of using technology, lack of awareness, and liquidity management at agent locations. As Samoans prefer the convenience of cash-based transactions and in-person communication while doing financial transactions, they are reluctant to use mobile financial services as offered by KlickEx. These findings were also confirmed by the recently conducted demand-side survey by the Central Bank. In-depth research is required to understand the reasons for slow uptake by Samoan for a low-cost technology-based money transfer service.



* Annual remittances are estimated using simple linear regression model. GDP is calculated using 2.2% growth estimate of GoS.
** GDP in current USD

Figure 6: Inflow of Remittances as percent of GDP
Source: World Bank Development Indicators and Central Bank of Samoa

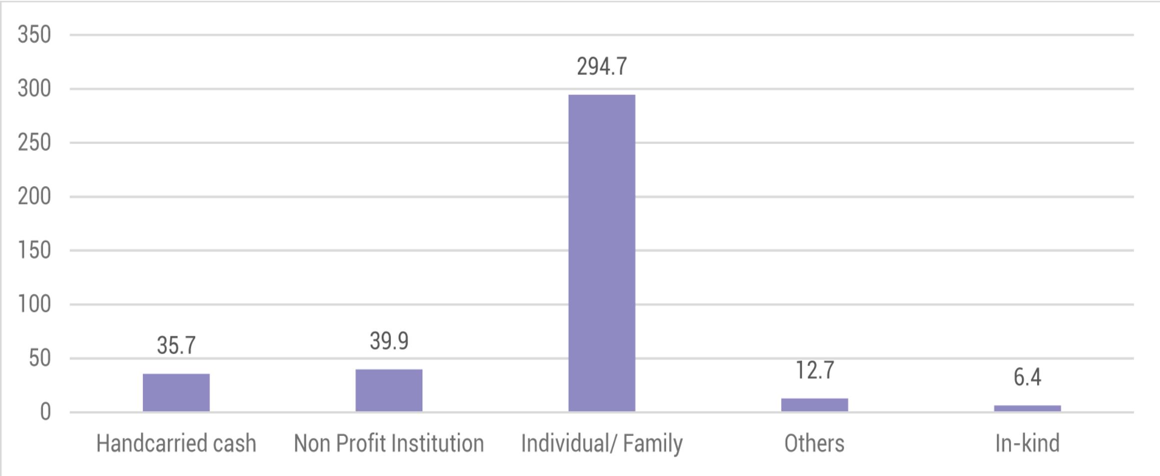


Figure 7: Remittances by Recipient in Tala million, 2014
Source: Data from the Central Bank of Samoa

Despite the growing competition and cost-saving technologies, the cost of money transfer remains considerably high. For a cash-to-cash service, to send NZD 200, MTOs charge[14] between 4.26% and 11.32%; whereas for a similar service, banks charge between 18.73% and 21.05%. Digital payments (online account-to-account) services offered by commercial banks are cheaper than cash-to-cash. For example, to send NZD 200, ANZ online transfer costs 14% of the value sent, whereas cash-out service costs 19%. Similarly, KickEx's Pacific product (it uses Digicel's mobile money product in Samoa) costs 2.5% of the value.

Since remittances are mostly sent from either Australia or New Zealand, cutting service costs when sending money from these destination holds great potential for the Samoan economy. Australia and New Zealand governments supported the establishment of the website, www.sendmoneypacific.org, which provides a comparison of the cost of sending and receiving money using various channels. The project helped to bring transparency in the market; however, the use by an average low-income customer is limited as there is limited knowledge about this Website and the information is only available via the website.

The regulatory role regarding remittances is shared among several CBS departments. The Supervision Department handles the licensing of MTOs, and the Financial Markets Department is in charge of exchange rate regulations and monitoring and deals with Foreign Reserves. Though the Samoan regulations are 'relaxed', new stricter regulations regarding international transfer of funds, such as the bank de-risking scheme and enhanced KYCs, by banks in Australia and New Zealand have threatened many of the small local MTOs[15].

4.4 Insurance

There are five active licensed insurance companies in Samoa, four non-life and one life insurer. As of December 2014, the total assets of the insurance sub-sector in Samoa stood at around $44.5 million Tala, significantly lower total assets at the end of 2010 ($63.5 million Tala). The claim ratio declined from 77.4% in December 2010 to 14.5% in December 2014. The expenses ration, however, dropped from 72.4% in 2010 to 39.3% in 2014, which contributed to higher returns on equity and returns on assets of around 72.5% and 8.8%, respectively, in 2014 compared to 0% for both in 2010. The figures suggest policy shifts towards leaner and more profitable operations.

Classic insurance products, such as life insurance, are offered through Samoa Life Insurance Corporation (SLAC) and property insurance products are offed by National Pacific Insurance (NPI). SLAC offers mainly traditional life insurance policies and is the sole life insurer. As of December 2014, it had close to 10,000 insurance policies.

Non-life insurance accounts for 85 percent of premiums. NPI provides various property insurance, including real estate, marine and automotive, as well as travel and shipping/cargo insurance and is the market leader. For high risk policies, non-life insurers bear a small portion of the risk and resort to reinsurance, mainly through Tower Insurance in New Zealand.

SLAC offers microinsurance policies (life) at a low premium of WST 5 to WST 10 per month. SPBD offers a basic credit life insurance product. Some credit unions, such as Samoa Teachers Credit Union are also considering offering some forms of insurance products to their members.

The Accident Compensation Corporation runs a statutory workers' compensation scheme. Employers are required to pay a 2% levy (1% from the employer, 1% recoverable from the employee) to the fund each month.

Though some micro insurance products are available in the market, there is a lack of awareness by people to access them. At the same time, there is a lack of experience and knowledge among insurance companies to develop and deliver inclusive insurance products. The delivery channel used is conventional, with only a few brick and mortar offices doing the sales and customer service. In practice, microinsurance is not offered through any other or alternate channel; thus, it remains out of the reach of people living in rural areas. Similarly, the low premium products are not well marketed, and often people do not know about these products. The cultural practice of providing financial support for social functions further puts buying insurance lower on the priority ladder.

4.5 Mobile Money

Mobile money services are on the rise in the Pacific, Samoa included. Currently, several financial institutions offer mobile banking in Samoa. National Bank of Samoa (NBS) introduced a Mobile Banking service, Ezibank, a few years ago. Customers could use their phone to check balances, to see recent transactions, to top up airtime, and to pay the power company, EPC, for prepaid power top-up. The service, however, has been discontinued by the bank due to insufficient transaction volume.

Two banks (ANZ and BSP) offer branchless banking services. ANZ Samoa offers 'Go Money', a mobile banking service, that allows registered users to make deposits (cash in), withdrawals (cash out), pay bills (registered billers), check their balance, transfer funds to another registered ANZ goMoney user (Person to Person), and top-up mobile phone credits. ANZ is

14 Inclusive of fee and the exchange rate margin. source: http://www.sendmoneypacific.org/compare/list/4/new_zealand-to-samoa-200.html accessed on September 11, 2015)

15 Refer to an excellent paper by Ooi and Buckley (2014), can be accessed here http://clmr.unsw.edu.au/sites/default/files/attached_files/ooi_and_buckley_jbflp_paper.pdf

considering Cash Power[16] purchases to be included into their Go Money payments. The move is aligned with the business strategy to migrate mass customers to digital platforms. Despite the service functionality, ANZ goMoney is challenged with lower levels of usage arising from several factors, notably, Samoa largely being a cash economy, lack of awareness of the product among customers, and inadequate management systems, e.g. working with only one MNO, weak liquidity and agent network management.

Customers could use Westpac's (now BSP) mobile application to check account balances. But, after the merger with BSP, the focus of the new entity is to expand its agent network, known as 'in-store merchants', where customers can perform basic banking transactions, including cash withdrawal and deposits. As of December 2015, there were 23 such agents in Samoa, mostly in Upolu. One of the two MNOs, Digicel, offers a completely mobile phone-based mobile money wallet. The Digicel Mobile Money service provides cash-in and cash-out and P2P transfer services through its agent network located throughout the country. The company is also considering adding billers to their platform. The majority of the transactions are done by a few agents (those based in Apia). The unique feature of this service is that users can transfer money to other users using their mobile phones, without having to open or operate a bank account. In addition, remittance senders in New Zealand and Australia can send remittances directly to a Samoan cell phone, using Digicel Mobile Wallet. Due to the lack of reporting to CBS, the operational figures were not available, but the management is hoping to improve the user base and the transaction volume to achieve channel sustainability.

As described in the 5.3 section on remittance above, Digicel has partnered with Klickex to offer a low-cost international remittance service. The new service has helped to put downward pressure on the cost of remittances. To send an NZ$200 remittance via Digicel costs approximately 5% of total remittances compared to an average of 15% from the other remittance providers. The mobile wallet can be loaded via a remittance received from Australia or New Zealand or through a simple topping up exercise done at any Digicel agent. Similarly, the money can be withdrawn (cashed-out) at any of the authorised Digicel mobile money agents.

The management believes that the service is grossly underutilised due to a lack of awareness of the method as well as the cost saving that it offers. Most people still prefer face-to-face service. The lack of a financial brand also hinders the service from reaching its full potential. There may be more and other reasons contributing to the poor performance such as product awareness, branding and marketing and agent network management.

16 Electric Power Corporation (EPC) is the country's sole electricity provider. It is in the process of migrating to a pre-paid electricity purchase model. In 2012-13, 72% of electricity purchases were done through Cash Power. Currently, Cash Power is available through scratch cards and EPC outlets.

5. THE DEMAND FOR FINANCIAL SERVICES

With nearly 50% of the adults excluded from formal financial services, there is a high proportion of demand for financial services that is not being met. The Central Bank of Samoa recently conducted a nationally representative demand-side survey (DSS) to assess the quantum of access and usage of financial services. The survey established baseline data that provides useful information on access, usage and quality of the financial services and products currently available to all Samoans, from the viewpoint of customers. A detailed report explaining the findings of the survey has been published during October 2015 and is available online at www.pfip.org/resources/publications. This section presents select findings from the demand-side survey to allow for direct linkages with the supply-side drivers.

5.1 Access and Usage to Financial Services

- 39% of Samoan adults currently have a bank account, while 12% use other formal services such as credit unions, microfinance, insurance, or finance companies. However, 34% of respondents are excluded from both formal and informal financial services.
- Nearly half of adults in the bottom income quintile (46%) and more than two-thirds (70%) of adults aged 15-20 are excluded from financial services entirely – highlighting the fact that the poor and youth in Samoa are yet to be reached by formal financial services.
- The majority of the banked population use bank branches to make deposits (86%) and withdrawals (51%). Among value added services, except debit cards (58.6%), other services, such as mobile banking (8.3%) and wire-transfer (8.25) are used by only a few.
- The main reason (61% of banked adults) to open a bank account is to receive payments, salary or remittances or government benefits, followed by to keep money safe (41%). In line with the reasons for opening accounts, receiving payments or money are the primary uses of the accounts mentioned by banked adults.

5.2 Savings patterns in Samoa

- With only 34% adults having saved in the last 12 months (from the survey date), saving regularly is not a common financial behaviour among most Samoan. The savings figure is lower (26%) among the low-income group, bottom two income quintile.
- Banked adults (51%) are more likely to save – in any form - compared to unbanked (17%).
- Saving at home is common among Samoan adults, particularly among unbanked and low-income earners, who also are more likely to use the surplus to lend to family and friends.
- Excluding pension fund balances, which are essentially made up of wealthier employee class, banked adults still have higher average savings at WST 1,213 (USD 534) compared with WST 83 (USD 36) for previously banked and WST 60 (USD 26) for unbanked.

5.3 Credit use patterns in Samoa

- Nearly half (47%) of adult Samoans had borrowed from formal or informal sources during the previous year.
- Credit from informal sources (47%) is higher compared to credit from formal sources (13%). Access to informal sources of credit is much higher among the low-income and financially excluded population. For example, among the excluded strand, shop credit (87%) and friends & family (29%) are key sources, compared to 16% (shop credit) and 9% (family & friends) among the banked strand.

5.4 Insurance use patterns in Samoa

- In general, 21% of all adults in Samoa have any type of insurance. Of the insurance owners, 66% are currently banked, 14% have previously been banked, and 20% have never been banked.
- Similar to other formal services, ownership of insurance is more prominent among wealthier adults (38% among top income quintile) than among adults in the bottom two income quintiles (16%).
- The rate of insurance ownership is significantly higher among employed (45%) adults than unemployed adults (11%), and the high rate of life insurance ownership among insured Samoans suggests that this may be provided by employers.
- There is a lack of awareness about insurance among Samoan. 39% of uninsured adults reported that they don't know what it is, followed by 30% who do not know where to get insurance.

In line with the findings of the supply-side drivers, scaling up the outreach through banking agents offering a range of customised products and services will likely to increase inclusion among the unbanked.

6. KEY CHALLENGES AND CONSTRAINTS

6.1. Internal and Institutional Constraints

The supply side of the financial sector in Samoa is characterised by several internal, institutional constraints. It tends to be, with few exceptions, risk-averse and self-regulated. While on the one hand, this reduces macroeconomic and financial risks for a country whose capacity to absorb and manage financial shocks is limited, it also entails missed business opportunities on the other hand. The latter leads to high opportunity costs, which in turn are reflected in the high costs of financial services in Samoa.

Next, the composition and value of the actual costs of credit are often unclear to the borrower. This problem can be addressed at two levels. The Central Bank can introduce truth-in-lending prudential guidelines requiring FSPs to disclose the real cost to the customer. These regulations do not regulate the actual interest rates on credit but require that the full cost of credit, i.e. the true annual interest rate and all applicable fees, are communicated to the borrower, using a standard method of calculation. At the same time, efforts should be made to increase the customer awareness through targeted campaigns.

Lastly, a vibrant and voluminous informal micro-lending sector is operating in Samoa. While this sector is unlikely to pose any systemic risks to the financial sector, the easy access to credit can lead to over-indebtedness of Samoa's population. Thus, the sector should be regulated to ensure better consumer protection. The Central Bank of Samoa has the legal authority to regulate and supervise informal micro-lenders. So far it has chosen not to do so because of the costs associated with bringing so many informal micro-lenders under full regulation. Yet, such a comprehensive approach would not be required as including informal micro-lenders into the truth-in-lending regulation would be enough to protect consumers from over-indebtedness.

6.1.1 Infrastructure of the Financial Sector

Although the infrastructure supporting the financial sector has significantly improved over the last decade, it remains inadequate and is a major factor to the high financial transaction costs in Samoa. Thus, to make the supply of financial services more inclusive and accessible, it is indispensable to continue upgrading supporting infrastructure. For example, an integrated electronic payment system that can be used by all financial institution would reduce the costs of utilising in-store merchants significantly.

A major bottleneck to the financial infrastructure is the fact, that the payment systems of the four commercial banks in the country are not interoperable. The only system of interbank payments is the cheque clearing house which is operated by the banks and settled at the central bank via their settlement accounts. Thus, payment systems are still at an early stage of development, and the Payment System's Reform process of procuring a new ATS+ system is surely a step to further upgrade the payment system.

6.1.2 Legislative and Institutional Environment

Several gaps in the regulatory framework make it difficult to regulate the financial sector in a comprehensive and coordinated manner. The Exchange Control Regulation of 1999, for example, empowers the Central Bank of Samoa to regulate remittances in the country. However, the main purpose of the regulation is to ensure that the country's foreign exchange reserves are maintained at a sustainable level. It does not specifically addresses the regulation of MTOs and remittances. Another example is the absence of regulations for micro-credit and micro-insurance, despite having an insurance act.

The Personal Property Securities Act (PPSA)[17] 2013 address some of the issues related to the development of SMEs, such as allowing moveable assets to be used as credit security. However, the country lacks specific financial regulations and guidelines for SME financing.

Fragmentations in the mandate of various governmental agencies and ministries hamper the coordination of enforcement and its effectiveness. Several mandates are shared, for instances, among CBS, MOF and MCIL, which makes mandate lines blurry. As a consequence, several important issues, such as consumer protection, often fall through the system cracks and are left unattended.

In addition to clarifying roles and responsibilities between ministries and sub-agencies, to enhance the effectiveness of the regulatory framework, it is also crucial to match mandates with capacity and expertise. A common platform may be useful through which financial system related mandates of various agencies can be coordinated. The Central Bank of Samoa is well positioned to take the lead and is in the process of creating a national taskforce.

6.1.3 Political Economy and Macroeconomic

The traditional economies of Samoa (akin to the rest of the Pacific region, are fundamentally different to market economies, with different conceptualizations of and values placed on land, the concept of work and modes of production, distribution and exchange, amongst others. It was not until the 1960s when PICs began to gain independence, that their leaders committed

17 Samoa FSAP Aide Memoir, Section E, subsection 75, p. 33.

themselves to a Western economic system[18]. The modern cash economy stands in contrast to the traditional land-based system that once formed the basis of Samoan society.

The financial system in its modern structure is an intrinsic component of monetised market economies. It relies on key factors of production (land, labour and capital) being liberalised, monetised and freely exchangeable. Thus, their market value (price) can be determined by supply and demand dynamics. This is not the case in Samoa, where most of the land (over 90%) is customary in nature which cannot be sold, bought or used as collateral. Similarly, a significant portion of labourservices is located outside the formal market domain. They are employed in traditional modes of productions, such as subsistence farming or community work, which are often done in an informal setup and have irregular cash flows. It presents major challenges for financial institutions to develop market-based financial services, which are based on present and future values of income and returns.

...many elements of the Samoan culture, such as sharing, reciprocity and communaland collective action can be utilised to enhance the inclusiveness of the financial system

The chronic fiscal deficit presents another major challenge to the growth of the financial system. The government is a major competitor in the finance market, offering attractive interest rate, low risk and politically secure channel for lenders. Businesses and individual borrowers find themselves in an unequal and unfair competition for limited loanable funds with the central government. For instance, 75% of UTOS portfolio is sourced from households, particularly from middle-incomehouseholds; meanwhile, 80% of its investment portfolio is comprised of loans to the public sector. This makes UTOS, effectively, a vehicle to mobilise expensive domestic debt, rather than channelling domestic savings into investments in the private sector, which will have a higher spill-over effort of generating productive income and employment.

The Public Financial Institutions (PFIs) are marred with systemic problems that have a restrictive effect on the growth of the private financial sector development. For example, DBS, which is marred by poor management practices, takes on large risk through subsidised credit, what has frequently led to losses for the institution while distorting the private sector credit market.

Similarly, investment practices of UTOS distort the 'free market' mechanisms. In order to lower the risks of investing in the UTOS Trust's units, the Government has guaranteed a 3% rate of return during the first five years of the Trust's life. In addition, the Government gives guarantee for SOE capital notes[19] for this period. The risk to Unit Holders would be very high if the government were to withdraw such guarantee.

At the same time, UTOS competes with commercial banks for financial resources. Before its existence, SOEs with excess liquidity placed it with commercial banks as deposits. Those who needed liquidity either borrowed from the banks or obtained financing from the government. Currently, deposits from SOEs are being withdrawn from the banks and placed as loans (aka investments) with UTOS, and these resources are being used to finance debts to other SOEs. This results in squeezed liquidity in the banking system. Moreover, as the loans that the banks made to SOEs are being taken over by UTOS, the banks are also losing loan assets. The size of the commercial banking system is shrinking as a resultwhile the size of the government financial system is growing. As this is a recent development, its effect has not yet been fully felt. However, interest rates on deposits have already increased as banks become more concerned about how to finance themselves in the face of a lower deposit base. This also presents an opportunity for banks to develop segment specific savings products and make them accessible through cost effective digital channels for low-income households to channel savings to the formal financial sector.

6.1.4 Social and Cultural

Social and cultural factors, such as attitude towards banking, saving and borrowing as well as behavioural patterns of consumption, hamper the growth of the financial services sector. Samoans are believed to prefer cash over the digital form of money, making it harder for FSPs to reach people in the rural areas. The DSS report 2015 (see section 6) found that savings regularly is not a common financial behaviour among most Samoan.

At the same time, many elements exist in the Samoan culture, such as sharing, reciprocity and communal and collective action, which could be utilised to enhance the inclusiveness of the financial system. This, however, requires innovative approaches to financial inclusion. Financial institutions need to design products and services that are based on and compatible with the unique characteristics of the financial behaviour of Samoan society. It is recommended that stakeholders

18 Francis X. Hezel, S.J. (1992) "The Cruel Dilemma: Money Economies in the Pacific." Journal of Pacific Theology, Series II, No. 8: 11-22

19 UTOS invests in capital notes issued by State Owned Enterprise.

commission a behavioural research to understand the traditional and cultural aspects associated with Samoans engaging with the formal financial sector and thereafter develop appropriate response mechanisms, including relevant awareness and education interventions.

Besides overcoming the cultural barriers of low personal savings and weak financial competencies, FSPs need to design innovative solutions with integrated financial education while investing heavily to raise the level of awareness, thus raising the user profile who is better able to transact with the formal financial sector.

6.1.5. Financial Education

Several financial institutions have either run their own financial education programmes (e.g. SNPF, ANZ and DBS) or have supported programmes run by multi-purpose NGOs. Multi-purpose NGOs often combine courses on financial literacy with teaching business and entrepreneurial skills (e.g. SBEC and WIBDI). There are also a few ad-hoc initiatives such as the Global Money Week and the financial literacy promotion programme of the Central Bank of Samoa. Despite these efforts, only a small proportion of the Samoan population is equipped with financial awareness. A financial competency study 2013 revealed significantly low functional financial literacy amongst low-income Samoan households, who ranked themselves poor on 13 listed competencies[20].

A financial competency study 2013 revealed significantly low functional financial literacy amongst low-income Samoan households, who ranked themselves poor on 13 listed competencies

Unfortunately, some of the awareness-raising programmes run by financial institutions are merely marketing campaigns. They focus on offering their financial products and services but do not enhance the general knowledge of customers.

Under the Maya Declaration, the Central Bank of Samoa, in collaboration with PFIP, committed to partner with the Ministry of Education, Sports and Culture to integrate financial education into the Samoa national school curriculum, aiming for full implementation by 2017. This will help to strengthen the personal money management competencies of the coming generation and will change behaviour towards consumption and savings.

6.1.6. Consumer Protection

In Samoa, consumer protection laws are administered by the Ministry of Commerce, Industry and Labour (MCIL). However, the Ministry does not monitor or supervise the consumer protection practices within the financial services sector. The Ministry is unequipped to do so, as it lacks the required expertise to address consumer protection issues related to financial services. At the same time, the general understanding among senior management in MCIL is that all aspects of supervision, including consumer protection, for financial services are or should be handled by the Central Bank. However, the existing regulatory framework of the Central Bank does not adequately address consumer protection in relation to financial institutions and services.

The Financial Institutions Act of 1996 is currently under review. It presents a good opportunity to bring consumer protection under the purview of the Bank. In support of this, CBS committed itself in the Maya Declaration to establish an effective consumer protection regime by 2016. The Financial System Development department is currently liaising with other departments to develop guidelines and regulations for consumer protection for financial services.

6.2. External Constraints

There are several external constraints, particularly the recent trends of tightened regulations on money transfers which have severely affected the growth and inclusiveness of the financial sector in Samoa.

A set of new regulations requires MTOs to be able to identify their customer and comply with stricter norms for documentation. The demands of the new regulatory framework, especially to be able to identify your customer or KYC norms, can only be met by international banks and large MTOs (e.g. Western Union). Small and local MTOs often struggle to invest heavily in their software and documentation systems to satisfy the new standards, which has led to the closure of many MTO accounts by regional banks in Australia, New Zealand, and the USA. This phenomenon has in turn affected the money transfer services in remittance-heavy economic such as Samoa. In Samoa, it has led to consolidating the market, increasing the cost of transactions to MTOs and customers, and a fewer options for low-volume remitters (usually from the low-income and rural segments).

20 See this link for detailed report http://www.pfip.org/resources/uploads/attachments/documents/the-financial-competency-of-low-income-households-in-samoa.pdf

7. OPPORTUNITIES FOR STAKEHOLDERS

In recent years, the financial services sector, globally and regionally, has witnessed a lot of innovations for expanding the outreach of financial services to a wider set of the population while offering a wide range of services and products, for example, inclusive insurance using mobile phone top-ups and long-term targeted savings products. There is a lot that the financial sector can learn, adapt and apply to the Samoan context. There is a need, however, to develop financial services and products that are: firstly, designed specifically for Samoa, and, secondly, designed specifically to cater to the needs and demand of the poor taken their consumption patterns and characteristics, such as geographical location, sources of income and employment, educational background, socioeconomic and cultural settings.

7.1 Opportunities for Financial Service Providers

1. **Economic growth and increased role of financial services:** After Cyclone Evan in 2012 and a period of negative real GDP growth, the Samoan economy is in a recovery stage. Both manufacturing and services industries are growing, and there is an overall movement towards the formalisation of the local economy. This presents long-term favourable market conditions for financial service providers to offer new services and deepen the access, as more and more people enter the formal economy.

2. **Huge untapped market segments:** The recently conducted DSS report 2015 revealed that 49% of Samoan adults are excluded from formal financial services with wider exclusion in the rural areas, where 80% of the population resides. The report also highlighted a substantially large portion (15%) to be using informal source for financing, pointing to missed opportunities for formal service providers. Similarly, the report highlights missed business opportunities for youth and low-income groups. A quick estimate puts the combined value of untapped savings and credit market at WST 200 million (USD 78 million), out of which nearly half can be feasibly accessed by FSPs over the next five years[21].

3. **Product and channel innovations for expanding markets:** Financial service providers have made some efforts to adapt financial services to Samoa's unique structure and characteristics, such as the Grameen Model and Mobile Banking.

While these models seem to be suitable for the Samoan context of demographic characteristics and the traditional economy, FSPs have not offered **segmentation-based products**. FSPs do not offer customised financial solutions for sub-segment such as Youth, women, low-income and casual wage earners, yet these segments present a large part of the untapped market (see the demand-side section). For example, 89% of the unemployed are uninsured and 52% youth (15-40 years) are outside the domain of formal financial institutions. Given the gap in the demand and supply, there are many opportunities for FSPs to take first mover advantage by designing innovative solutions to access these segments.

Worldwide, including the Pacific regions, there are several successful examples of product innovations leading to capturing of specific market segments, for example, **using mobile banking to offer 'at the fingertip' savings, credit and insurance products to low-income households**[22]. There are also examples where FSPs have developed financial solutions across various links in a value chain, such as **overdraft/credit against savings and direct payments through mobile money**, reducing the cost and time of transaction while improving the accessibility.

The use of technology has proved to a successful model in many markets with sparsely populated markets to drive innovations. Samoa has a very high mobile phone penetration (close to 100% among adults). The use of mobile phone-based financial technology can open doors to many new markets. For examples, **commitment savings solutions** can be developed, where people can save small amounts over a longer period to accumulate the desired lump sum for a certain commitment. Such commitments could include school or university fee payment, and savings for higher education or to buy an asset.

Given **remittances'** importance for the household economy and the high cost of transactions, there are several opportunities for FSPs to develop technology-based solutions that can lower the cost and improve the service delivery time while maintaining a competitive margin for the service provider; hence, improving their share in the remittance market. FSPs in Samoa could look at how FSPs in many islands countries across the Caribbean and Pacific have used mobile financial services to expand their market shares.

21 Estimates are based on internal calculations using average savings and credit value per adult and multiplying with an estimated new customers (adjusted to the existing pattern of financial access and projected number of newly customers). The estimates are indicative of the market opportunity lying at the Bottom of the Pyramid segments and should be used as a reference to understand the need for expansion to these segments.

22 See a Slideshow report by CGAP for a good stock of DFS innovations, http://www.slideshare.net/CGAP/the-global-landscape-of-digital-finance-innovations

Insurance is often the harder financial product to sell compared to savings and credit. But given the dearth of product diversification and high cost associated with medical and weather related issues, there are opportunities for FSPs to develop suitable solutions. **Products such as funeral policy, medical cover with evacuation policy, crop weather protection policy, and savings linked endowment policy, and other low premium life insurance policies may provide missing markets.** Funerals, in Samoa, are one of the big life cycle events that have a very high cost of organising. Similarly, for any advanced medical care, people often need to be evacuated to Auckland, American Samoa or Suva, requiring huge spending (often met through borrowing). Due to climate change, the weather seasons have become more unpredictable, which has increased the vulnerability of farmers to hedge against unpredicted financial loss. A simple product that can collect premium over several small instalments may suit the demand behaviour, for example, BIMA, in PNG, uses a model where a very small amount is deduced from the mobile top-up balance every day over a period of 30 days to make up the premium instalment for the month. Similar arrangements can be explored for the Samoan market.

It is often costly to operate a full-fledged or even a mini bank branch set-up compared to ATMs and bank agents. **A well-developed agency and mobile money network** not only improve the access and convenience but it also can lower the cost of financial services for both operators and customers. The existing agency banking models of ANZ, BSP and Digicel have shown initial signs of progress but are yet to take off. Going forward, to expand outside Apia, these channels will become even more important. However, there is a need to invest in the capacity and the management of these channels, and in building an eco-system around the agency/mobile money network. FSPs need to work continuously to move as many transactions (financial and non-financial) as possible onto these channels to offer customers more reasons to use these channels.

To aid in expanding the agency banking channels, there are opportunities for service providers to offer specialised services. For example, large FMCG distributors, Samoa Post, MTOs and banks can potentially act as **Super Agents/Master Agents to provide the much needed liquidity management support** to the existing agency channel.

4. **Benefits of shared financial infrastructure:** Financial institutions will benefit greatly from an enhanced and modernised financial infrastructure, which can be shared by all. For example, development of an electronic payment system would enable interoperability among service providers, greatly reducing the cost of operations. An advanced ATS system could enable instant transfers and settlements among various FSPs offering operational efficiency and better customer service. Likewise, investing in a credit bureau will benefit all lending institutions. It will also promote the culture of 'customer track record or credit history', which, for Samoa, could substitute the lack of immovable collateral. Some of these systems may also integrate mobile and internet banking, making it easier for payment service providers to integrate. These systems are often capital intensive; however, cost sharing and arrangements such PPP and BOT[23] can be explored. A Credit Bureau is being set up, and the Central Bank is in advanced stages of discussions with international financial institutions to bring ATS. Once fully operations, these systems would provide opportunities for FSPs to share their in-country infrastructure for greater financial inclusion.

5. **Financial education for all:** The lack of financial literacy is among the main constraints for people to use the range of financial services and channels. There are a few ad-hoc programmes aimed at addressing the problem of the low level of financial competencies; however, a more comprehensive approach is needed. The problem can be addressed at two levels: at the FSPs level and at a national level. FSPs could integrate financial literacy into their product design ensuring a gradual improvement in the level of financial competency. There are also opportunities to partner or outsource such activities to village committees and village youth councils. At the national level, MESC is preparing to integrate financial education into the school core curriculum. Once implemented, it would raise a more financially competent generation of users. In support to such programmes, FSPs could roll out school-linked banking products.

23 Public-private-partnership and Build-operate-transfer

7.2 Opportunities for Government Policy Makers

In a recently concluded workshop on national financial inclusion strategy, stakeholders identified lack of coordination as the prime factor needing the attention of government policy makers. Various FSPs are trying to expand the market share through several innovative approaches, notably, agent network and mobile banking. However, due to the lack of coordination and intense competition, FSPs are not sharing the basic infrastructure, which could help everyone. Likewise, there is no **national coordination platform for stakeholders** (FSPs, government agencies, development partners and think-tanks) to share and discuss ideas for improved financial access and usage. Development of such a platform will provide the necessary mechanism to channelize fragmented actions towards a common good. It will also likely improve the status of infrastructure sharing among service providers.

With the advent of DFS and MFS, the financial services landscape of Samoa is beginning to transform. This would require an **enabling regulatory and policy environment that promotes innovations** while ensuring the quality of service. The existing regulations do not adequately cover agency banking, digital transactions, payments, and products aimed at low-income customers. The Central of Bank Samoa should proactively bring the suitable legislation, especially allowing agency banking, providing detailed guidelines on agent-principal agreements. There is also a need to **bring non-banking financial institutions (NBFIs) under the preview of the Central Bank**. It will not only enable reporting and collection of additional data but will also reduce the risk of NBFIs de-stabilising the private and microcredit market.

As the Samoan economy moves towards formalisation, the financial sector will become more digital. It will bring great benefits of efficiency and access; however, it will also increase the vulnerability of customers to various known and unknown risks, e.g., non-transparent pricing at agent locations. It requires that CBS proactively brings the **consumer protection in the financial services sector** under its preview and issue suitable regulations. There are opportunities for setting up a national banking ombudsmen or a customer grievance system, replacing the existing ad-hoc customer complaint system.

Several ministries engage with communities for various development projects. In most of these project, people (beneficiaries or workers) are often paid either in cash or through bank cheques, e.g. beneficiaries of the old age pension and payroll payments. For people living in rural areas, they still have to spend time and money to encash the cheques. For low-skilled or unskilled workers, the payments are still in cash. Social benefits beneficiaries, who do not have bank accounts, are paid through MTOs.

The current system of social benefit transfers could be replaced, over a period of time, by a digital model (e.g. **electronic benefit transfer through mobile money**), where the recipients could be given the payment directly into their mobile bank account. The technology and the system exist, and could be easily adopted by government agencies. It will not only improve the efficiency by reducing the cost and speeding up the delivery time but will also reduce the risk of corruption. **A well-built digital financial system can also be a very useful disaster risk preparedness tool.** In the event of an unfortunate natural disaster, financial aid can be sent to people in a very short time. Such a system can also be used to collect data from the people in the affected areas, improving the disaster response of the authorities.

The National Provident Fund is extremely popular among its members. It has the largest volume of deposits and investments among FSPs in Samoa. There are opportunities to expand the scope of membership and services to cater to low-income and casual wage earners. **An informal sector micro pension product can be a very successful and inclusive product.**

7.3 Opportunities for Development Partners

Development Partners have an increased role in supporting the government and the private sector to develop an inclusive financial services sector in Samoa. The ambitious project of **MESC to integrate financial education into the school core curriculum** will require both technical and financial support. The project is expected to be implemented over a period of four years, requiring support for developing the content, pilot testing, refinement, mass printing, and roll out. The project work needs to be done at primary, secondary, and the TVET level, including for special needs schools.

The need to **develop financial infrastructure** has been identified as a major constraint for financial inclusion. The on-going work of the IFC to launch a credit bureau needs continuous and improved support from development partners. The possibility of subsidising the cost of membership for a few years may be explored to incentivise FSPs to subscribe to the service, once inplace.

The ADB has done great work in the areas of improving the business directory and property registration; however, more efforts are needed to ensure that FSPs are able to **implement private section expansion reforms**. For example, private sector FSPs are hesitant to develop credit solutions that use land, stock or insurance as valid collateral. Likewise, the agri-business credit guarantee scheme could be expanded to cover more small and medium scale farmers.

Access to credit has been identified as a major bottleneck for the growth of small and medium-sized industries.

With a growing economy, there are opportunities to **set up an SME growth facility to provide credit and business advisory services to SMEs, including value-chains (agriculture and tourism present clear opportunities)**. Such a facility could act as an investment vehicle for larger industries, for example, tourism, where local banks finance the backward value chain.

There is also need to **promote evidence-based policy** making at the institution and policy-maker level. The core of this lies in the ability to collect, analyse, and share the required data. Currently, the data management practices are ad-hoc and driven by compliance norms. There are opportunities for development partners to support the financial services industry and the Regulator in acquiring and building such capabilities. For example, a datahouse for financial services and financial inclusion can be set up within the Central Bank. The data house could work under the supervision of the Data Working Group of AFI PIRI members, which is headed by CBS.

There is also need to build **a robust knowledge base for the financial services market in Samoa**. There is a serious lack of analytical information, especially about the applicability of innovative tools for financial inclusion, such as mobile money for poor. In particular, there is a need **for in-depth research in the areas of financial behaviour of people** - in understanding their mental models affecting financial decisions - that can inform the right product development.

8. APPENDIX

Annexure I: CBS Maya Declaration Commitments

CBS MAYA DECLARATION COMMITMENTS

- For the medium term (2014-2017), we commit as follows:
- to establish a national coordinating body for financial inclusion by June 2014;
- to enact a new law; 'National Payments System Act' to regulate electronic money by early 2014;
- to increase financial service access/convenience to 50% of our population and who are in the rural areas through mobile phone financial services, institutional innovations and other initiatives by 2016;
- to establish an effective financial consumer protection regime by June 2016;
- to continuously monitor and track financial inclusion progress through data collection to reveal market opportunities and improve policy design, and publish by 2016 bi-annual reports on these findings to inform market players;
- to partner with the Ministry of Education in the integration and strengthening of financial education within the Samoa national school curriculum for primary and secondary schools. We will target a full implementation by 2017; and
- to provide an enabling environment for inclusive insurance markets and microinsurance by 2017.

Annexure II: Financial Services and Financial Inclusion Indicators for Samoa [24]

Country:	Samoa
Key information	
Adult population in the country:	119,654
Land area in the country in square kilometres	2,830
Number of bank branches in the country:	23
Number of cash out only ATMs in the country	42
Number of cash out and cash in ATMs in the country	9
Number of EFTPOS outlets in the country	664
Number of cash in and cash out bank agents in country	23
Number of MNO agents in country offering mobile financial services cash in and cash out	17
Number of regulated MFI cash-in, cashout points	0
Number of cash in and cash out cooperative banks	0
Number of banks offering mobile banking	4
Number of banks offering mobile financial services	3
Total number of banks in the country	4
Number of MNOs in the country	2
Number of MNOs offering MFS	1
Number of MFS accounts in country	n/a
Number of MFI access points	n/a

Access

Dimension or topic	Name/ description	Indicator	Calculation	INDICATOR
Access	Cash-in and cash-out access points	1.1 Number of cash-in and cash-out access points per 10,000 adults at the national level.	(Total number of access points (not including cash out only ATMs)/ Total country population of adults) 10,000	6
	Access points by channel	1.2. Number of branches per 10,000 adults nationally	(Number of branches/ Total country population of adults) 10,000	1.92
		1.3 Number of ATMs per 10,000 adults nationally	(Number of ATMs/ Total country population of adults) 10,000	4.26
		1.4 Number of EFTPOS per 10,000 adults nationally	(Number of EFTPOS Total country population of adults) 10,000	55
		1.5 Number of Agents per 10,000 adults nationally	(Number of agents Total country population of adults) 10,000	3.34

24 Multiple sources, including AFI PIRI, CBS, and IMF FSAP.

Dimension or topic	Name/ description	Indicator	Calculation	INDICATOR
Access	Access points by channel	1.6 Number of MFI access points per 10,000 adults nationally	(Number of MFI access points /Total country population of adults) 10,000	0.17
	Coverage of administrative units (second-level)	2.1 Percentage of second-level administrative units with at least one access point.	(Number of second-level administrative units with at least one access point/ total number of second-level administrative units in the country) 100	n/a
	Coverage of population	2.2 Percentage of total population living in second-level administrative units with at least one access point.	(Population living in second-level administrative units with access points (identified in 2.1)/ total adult population in the country) 100	n/a
	Coverage by channel	2.3 Coverage of cash in and cash out access points per 1,000 km²	(Number of all access points/ total land area of country in square kilometers) 1,000	25
		Number of Branches per 1,000 km²	(Number of branches/ total land area of country in square kilometers) 1,000	8
		Number of ATMs per 1,000 km²	(Number of ATMs/ total land area of country in square kilometers) 1,000	18
		Number of EFTPOS per 1,000 km²	(Number of EFTPOS/ total land area of country in square kilometers) 1,000	235
		Number of agents per 1,000 km²	(Number of agents/ total land area of country in square kilometers) 1,000	14.13
Access-Mobile financial services		3.1 Number of mobile financial services access points per 10,000 adults	(Number of MFS access points/ total adult population in the country) 10,000	1.42
		3.3 Number of mobile financial services accounts/mobile wallet accounts per 10,000 adults	(Number of MFS accounts/ total adult population in the country) 10,000	0.00
		3.4 Percentage of adults who have a mobile phone subscription (active SIM card)	(Number of people with a mobile phone subscription/ number of people interviewed) 100	70.7%
	Access to MFS access points	3.5 Percentage of banks offering mobile banking, such as checking one's balance from a mobile phone	(Number of banks offering mobile banking/ total number of banks licensed in country) 100	100%
		3.6 Percentage of banks offering mobile financial services, including transfer of e-money	(Number of MFS accounts/ total adult population in the country) 10,000	75%
Access-Barriers to access	Cost to open basic account	4.1 Average minimum balance for clients to open a basic deposit account at banks in the country, converted to USD	Σ Cost for opening a bank account bank 1 + Cost for opening a bank account bank 2 +…+ Cost for opening a bank account bank x / x number of banks surveyed, adjusted to USD conversion rate	20

Dimension or topic	Name/ description	Indicator	Calculation	INDICATOR
Access- Barriers to access	Distance	4.2 Percent of adults within 5 kilometers of an access point	(Number of people reporting they live within 5 kilometers of an access point/ number of people interviewed) 100 OR (GIS mapping calculation of population within 5 km of an access points / total adult population) 100	n/a
	Cost of travel to access point	4.3 Average cost of traveling to the nearest access point (public transit fee or gas costs), converted to USD	Σ (cost of traveling to nearest access point for all people interviewed)/ number of people interviewed	2.4
	Time to travel to access point	4.4 Average time of traveling to the nearest access point in minutes	Σ (time in minutes of traveling to nearest access point for all people interviewed)/ number of people interviewed) (adults)	26.7
	Waiting time	4.5 Average time waiting to be served when opening a deposit account in minutes	Σ (Minutes waiting to open any deposit account/ number of people interviewed)	156
	Documentation	4.6 Average number of identification documents required to open a basic bank account	Σ Number of documents required to open a bank account bank 1 + Number of documents required to open a bank account bank 2 +…+ Number of documents required to open a bank account bank x / x number of banks surveyed	2
		4.7 Percent of adults reporting that they do not have all identification documents required to open a basic account	(Number of people reporting they do not have at least one of a representative list of documents needed to open a basic account/ total number of people interviewed) 100 (adults)	5%
Access- financial education	Financial education	4.8 Financial education is integrated into the national school curriculum	Yes or no (can differentiate primary and secondary)	No
	Financial education	4.9 Percentage of primary and secondary school students receiving financial education in school annually	(Number of primary and secondary school students in schools with financial education taught in a given school year/ total number of primary and secondary aged schools students) 100	n/a
	Financial education	9.1 Percent of primary and secondary school students receiving financial education in school in annually	(Number of primary and secondary school students in schools with financial education taught in a given school year/ total number of primary and secondary aged schools students) 100	n/a

Usage

Adult population in the country:	119,654	Number of regulated deposit accounts:	164,292
Adult population of women:	58,106	Number of regulated credit accounts:	11,653

Dimension or topic	Name/ description	Indicator	Calculation	INDICATOR
Access	Overall account usage- deposits	5.1. Number of regulated deposit accounts per 10,000 adults	(Number of regulated deposit accounts/ total adult population in the country) 10,000	13,731
	Overall account usage- credit	5.2 Number of regulated credit accounts per 10,000 adults	(Number of regulated credit accounts/ total adult population in the country) 10,000	974
	Population usage- deposits	5.3 Percent of adults with at least one type of regulated deposit accounts	(Number of people with at least one type of regulated deposit account/ total number of people interviewed) 100 (adults)	39.00%
	Population usage- credit	5.4 Percent of adults with at least one type of regulated credit account	(Number of people with at least one type of regulated credit account/ total number of people interviewed) 100 (adults)	13.40%
	Population usage overall	5.5 Percent of Adults with at least one regulated financial product	(Number of people with at least one type of regulated financial product/ total number of people interviewed) 100 (adults)	39.00%
	Active accounts	5.6 Percent of people with an active deposit account– have had any deposit or withdrawal in the last 90 days	(Number of people with a deposit account who have transacted in the last 90 days/ number of people interviewed)100 (adults)	34.90%
	Population usage	6.1 Number of active mobile financial service/ mobile wallet accounts per 10,000 adults OR Percentage of adults with at least one active mobile financial services product	(Number of second-level administrative units with at least one access point/ total number of second-level administrative units in the country) 100	n/a
Usage- mobile financial services	MFS use for sending money	6.2 Percentage of adults who have sent money through mobile financial services in the last 12 months for person to person transfers and bill pay	(Number of people reporting they have sent money using mobile financial services in the last 12 months/ total number of people interviewed)*100 (adults)	0.70%
Usage- mobile financial services	MFS use for receiving money	6.3 Percent of adults who have received money (including e-money) through mobile money in the last 12 months	(Number of people reporting they have received money using mobile financial services in the last 12 months/ total number of people interviewed) 100 (adults)	2.71%
Usage gender	Deposit accounts by gender	7.1. Percent of adult women with an active deposit account OR percent of deposit accounts held by women	(Number of women with a deposit account used in the last 90 days/ number of women interviewed)*100 (adults) OR (Number of deposit accounts held by women/ total number of deposit accounts)	35.10%

Definition Notes for the Measurement Framework

Access points are defined as regulated cash-in and cash-out points. This includes traditional bank branches, bank agents and mobile financial service cash-in and cash-out points, and other offices of regulated entities (such as MFIs) that perform cash in and cash out functions. Depending on the type of transactions permitted, this will also include agents of regulated entities and automated teller machines (ATMs) that perform cash-in as well as cash-out transactions.

Active – a financial product is understood to be active if it has been used in the past 90 days.

Adults refer to the population aged 15 years and older.

Agent – any third party acting on behalf of a bank or other financial services provider (including an e-money issuer or distributor) to deal directly with customers. This includes retailers that perform mobile financial services and cash-in and cash-out services.

ATM (Automatic Teller Machine) – an electronic banking outlet that allows customers to complete basic transactions without the aid of a branch representative or teller. There are two primary types of automated teller machines or ATMs. The basic units allow the customer to only withdraw cash and receive a report of the account's balance. The more complex machines will accept deposits, facilitate credit card payments and report account information.

A **bank branch** is a retail location different than a bank's corporate office where a financial institution offers face-to-face and automated services.

Cash-in is the exchange of cash for electronic value (e-money).

Cash-out is the exchange of electronic value (e-money) for cash.

Document – in this case we refer to the identification documents that are required to open an account, and not the forms that must be filled out. In the Pacific, this often includes a driver's license, passport, or birth certificate, among other documents.

E-money (also called mobile money) – A type of monetary value electronically recorded and generally understood to have the following attributes: (i) issued upon receipt of funds in an amount no lesser in value than the value of the e-money issued; (ii) stored on an electronic device (e.g. a chip, prepaid card, mobile phone, or computer system); (iii) accepted as a means of payment by parties other than the issuer; and (iv) convertible into cash. This does not include the transfer of airtime.

EFTPOS access point is an access point possessing a terminal which captures payment information by electronic means using a card-reading electronic point of sale device. Payments and withdrawals of cash by means of payment cards can be done at these electronic payment terminals in shops, for example.

Mobile banking is the use of a mobile phone to access banking services and execute financial transactions. This covers both transactional and non-transactional services, such as viewing financial information on a bank customer's mobile phone.

Mobile financial services (MFS) is the use of a mobile phone to access financial services and execute financial transactions. This includes both transactional and non-transactional services, such as viewing financial information on a user's mobile phone.

Mobile financial services account is the storage of e-money linked to a mobile account and a bank account. This is the account in a bank-led model of mobile financial services.

Mobile financial services access points – access points that also allow for cash in and cash out of mobile money into and out of mobile wallets or MFS accounts. This is a subset of all access points.

Mobile payment – a payment with electronic funds transfer that is made with a mobile phone.

Mobile wallet – the storage of e-money that can be loaded or cashed out, but that can be held only in a mobile linked account and not customer bank account. This is the account in a mobile network operator (MNO)-led model of mobile financial services.

A **regulated deposit** or credit account is an account held by a regulated entity.

Annexure III: List of organisations and individuals consulted

Sr. No.	Name of the organization	Name of the person(s)	Designation
1	ANZ Bank (Samoa)Ltd	Mathew Fisher	Chief Executive Officer
		Kaitu Aisake	HR Manager
2	Bank of South Pacific Samoa	Edward Yee	Head of Business Banking
		Shirley Greed	Head of Retail
		Fofoa Leavai Mata'afa	Everywhere Banking Officer
3	National Bank of Samoa	Tu'u'u Amaramo Sialaoa	Managing Director
4	Samoa Commercial Bank	Tauiliili Ruth Thomson	Senior Manager, Loan Department
		Fata Samuelu Lolagi	Manager, Loan Department
5	Digicel Samoa Ltd.	Rory Gordon	Chief Executive Officer
		Tina Sa'ili	Chief Finance Officer
		Vivienne Lili'i	Financial Controller
6	National Pacific Insurance	Dennis Wellborn	General Manager
		Saulele Ah Wong	Office Manager
		Faalepo Solofa-Isitolo	Sales Manager
7	Samoa Life Assurance Corporation	Leiataua Alden Godinet	Chief Executive Officer
		Theresa Uta'i	ACEO – Finance and Administration
8	FEXCO	Eneleata Samau	Manager, Business Services
		Susana Ale	Assistant Compliance Officer
9	Pacific Ezy Money	Allan Stowers	Director
		Daniel Frankie Ah Kau	Finance Manager
10	Samoa Post Office	Saunoamaali'i Finafinau Sione	Manager, Retail & Marketing
		Tulutulu Lelei	Manager, Finance & Administration
11	South Pacific Business Development	Ajay Verma	Chief Executive Officer
12	Samoa Business Enterprise Centre	Peseta Margaret Malua	Chief Executive Officer
		Leaupepe Esera Poliko	Manager, Small Business Loan Guarantee Sheme Unit
13	Unit Trust of Samoa	Justina Sa'u	Chief Executive Officer
		Joseph Wong Sin	Chief Investment Analyst
14	Ministry of Finance	Lavea Tupaimatuna Iulai Lavea	Chief Executive Officer
		Leiataua Henry Ah Ching	ACEO Economic Policy & Planning Division
		Tofilau Lae Siliva	Finance Sector Coordinator
15	Ministry of Commerce, Industry and Labour	Helen Uiese	Assistant CEO – Industrial Relations & Occupational Safety and Health and Work Permits Division
		Pulotu Lyndon Chu Ling	ACEO – Industry Development & Investment Promotion Division
		Fepuleai Roger Toleafoa	ACEO – Fair Trading Codex, and Consumer Protection
		Salote Meredith	ACEO – Trade, Commerce and Manufacturing
		Lisi Faletutulu-Asuao	ACEO - Corporate Services Division
16	Samoa National Provident Fund	Faumuina Esther Lameko-Poutoa	Chief Executive Officer
17	Samoa Umbrella for Non-Government Organisations	Fa'afetai Alisi	Chief Executive Officer
18	Samoa Teachers Credit Union	La'ulu Ray	President
		FiloiNe'emia	Principal Accountant
19	New Zealand High Commission	Michael Upton	First Secretary – Development
		Situfu Salesa	Senior Development Programme Coordinator
20	Australian High Commission	Clyde Hamilton	First Secretary – Development