

Session 3

Comments on Financial Inclusion and Financial Education

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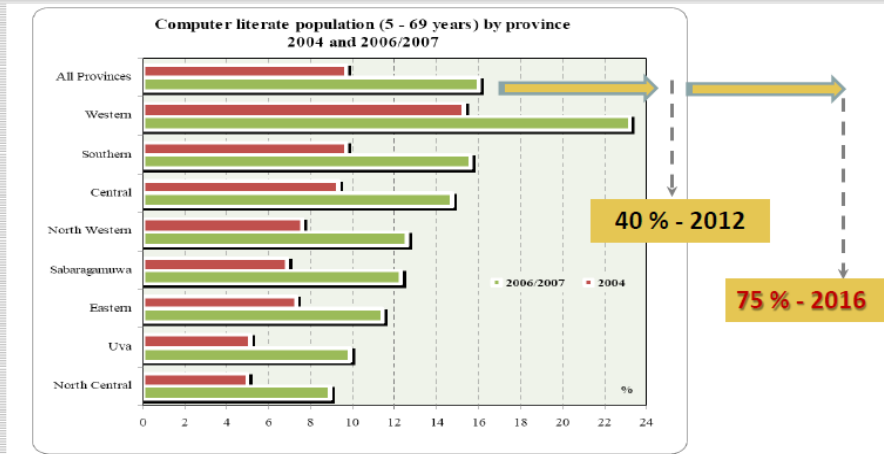
[Attachments]

- 1. Financial Education in Sri Lanka**
- 2. How would it be possible to Regulate and Avoid Various Informal Financial Market Activities in Sri Lanka?**
- 3. Role of the Central Bank of Sri Lanka (CBSL) in Regulating and Supervising Informal Financial Institutions and Financial Inclusion in Sri Lanka**

Financial Education in Sri Lanka

- In Sri Lanka, the primary, secondary and tertiary education is free of charge. There is an equitable access to free education for each and every citizen from primary school upto the degree level at a university. There are also many private and international schools established in the country, which charge fees.
- There are 349 national schools and 9,556 other schools in the country. Financial education in Sri Lanka begins with school savings and thrift programs often conducted by commercial banks in Sri Lanka. While collecting deposits for current and savings accounts from school children, banks help students in furthering financial education through corporate social responsibility programmes.
- The school financial education programs include topics such as, how to deal with banking and financial institutions (BFIs), the use of credit cards, how to prepare bankable projects etc.
- Information and Communication Technology (ICT) is mainstreamed into the school curriculum, which includes setting up of IT labs in schools, in addition to ICT being a compulsory subject for GCE (Ordinary Level) students.
- At school level, university level and public/private forums, many awareness programs are conducted on financial inclusion and access to finance. The general public is also provided with an opportunity to improve their IT skills.
- Government-led knowledge/tele-centers (NENASALA) programs are aimed at increasing the ICT knowledge and computer education in the provinces. At present, there are about 6,000 NENASALAs functioning and this has positively impacted on the level of financial education and literacy in Sri Lanka, in addition to improving ICT literacy.

Digital / ICT Literacy



Source: Information and Communication Technology Agency (ICTA) of Sri Lanka

- There are 17 universities in Sri Lanka. A couple of international universities are expected to commence operations shortly. Recently, financial education has been included as a subject in the university curricula. Following the completion of the first degree, there is a conversion program to assist graduates to acquire other skills in the fields of financial skills, IT literacy, leadership capacity etc.
- The Government, banks and large corporates jointly or individually conduct seminars/conferences on developing entrepreneurship, leadership, financial knowledge, skills development etc. Private sector and large industries attempt to train employees to enhance the latter's knowledge in financial literacy and skills.
- Large corporates help financial education and inclusion through their product linkages and supply chains, which have roots to grass root and farmer level.
- The voluntary clusters established by different industry groups also disseminate information on access to finance, financial inclusion and financial literacy throughout the country. Rural and underserved communities are given training through e-societies on various ICT applications and in dealing with BFIs.

**HOW WOULD IT BE POSSIBLE TO
REGULATE AND AVOID VARIOUS
INFORMAL FINANCIAL MARKET
ACTIVITIES IN SRI LANKA**

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1.0 LEGISLATION : THE BANKING ACT

- According to the Banking Act (BA) No.30 of 1988 as amended by Banking (Amendment) Act No.15 of 2006, no institution is permitted to accept deposits/monies, make investments with any institution that is not licensed or approved by the Central Bank of Sri Lanka (CBSL), which is the apex regulatory institution
- Section 83C of BA prohibits the operations of unauthorized schemes, such as Ponzi and pyramid schemes

1.1 THE FINANCE COMPANIES ACT

- The Finance Companies Act (FCA) No.78 of 1988 contained a number of measures against illegal companies engaging in deposit mobilization or similar type of operations
- Under FCA, in 2007, new directions were issued to finance companies (FCs) on interest rate ceilings on deposits and corporate governance
- The minimum capital requirement for FCs was raised from Rs. 100 mn to Rs. 200 mn in July 2008

1.2 THE FINANCE BUSINESS ACT

- FCA was amended as Finance Business Act (FBA) No.42 of 2011 to tighten regulation and supervision
- The FBA redefined the term 'deposits' to discourage unauthorized and illegal institutions which mobilize monies from the public without using the term 'deposits'
- The new definition of deposits covers products such as promissory notes, fund management agreements, investment certificates, placement of funds etc
- The following new provisions have been introduced to discourage illegal finance businesses
 - Deposit taking without authority is an offence
 - Advertising by unauthorised persons/entities, soliciting deposits, is prohibited
 - Media institutions are required to verify the authority of the advertiser before publishing of such advertisement
 - Use of the words 'finance', 'financing' or 'financial' as a part of its name by an entity other than a person authorized by the CBSL is prohibited

1.3 THE FINANCE BUSINESS ACT (CONTD)

- Any person who places a deposit with an unauthorized finance business will be guilty of an offence of aiding and abetting
- Employees of licensed banks and finance companies are required to inform the Department of Supervision of Non-Bank Financial Institutions (DSNBFI) of CBSL of any reasonable suspicion of acceptance of deposits by any person/institution without authority
- When CBSL detects illegal and unauthorized activities, it files action through the Attorney General's Office (the Government's Legal Department) against relevant institutions, parties or persons who are engaged in wrong doing
- Under FBA, the minimum capital was raised from Rs. 200 mn to Rs. 400mn (US \$ 3mn) in 2012

1.4 SUPERVISION AND MONITORING :

- According to FBA, every FC shall submit information to the Director of Department of Supervision of Non Bank Financial Institutions (DSNBFI) using the “Central Bank Financial Information System” on specified dates
- Financial information should be submitted as at end of each month
- Once in two years, DSNBFI conducts statutory examinations on FCs, while spot examinations are conducted as and when necessary
- All FCs are expected to follow regulatory directions issued under FBA of 2011

1.5 FINANCIAL INTELLIGENCE UNIT (FIU)

- The operations of the FIU are governed by the following Acts:
 - a) Convention on the Suppression of Terrorist Financing Act No.25 of 2005
 - b) Prevention of Money Laundering Act No.5 of 2006
 - c) Financial Transactions Reporting Act No. 6 of 2006
- FIU continues to monitor suspicious transactions and refers such cases to courts through the Attorney General's office
- Sri Lanka is a member to Asia-Pacific Group (APG) of Financial Intelligence and is a signatory to follow FATF + US guidelines
- Local as well as international NGOs operating under the guise of micro finance institutions, but with different agendas, are required to register with the Government

2.0 PUBLICITY AND AWARENESS PROGRAMMES

- 2.1 On a monthly or quarterly basis, CBSL publishes in the newspapers in all three languages (Sinhala, Tamil and English), a list of licensed commercial banks, specialized banks and finance and leasing companies
- 2.2 The public is warned not to get carried away by the canvassing done by unauthorized and illegal institutions
- 2.3 In 2012, alone CBSL published 26 such public advertisements at a cost of Rs 31 mn (US\$ 238,461)
- 2.4 CBSL conducts numerous programs to raise public awareness using radio broadcast, television channels and newspaper articles advising the general public to avoid patronizing illegal and unauthorized financial institutions

Role of the Central Bank of Sri Lanka (CBSL) in Regulating and Supervising Informal Financial Institutions and Financial Inclusion in Sri Lanka

- CBSL, being the primary regulatory and supervisory institution, has declared that the promotion of access to finance and financial inclusion in its macro-economic policy framework.
- Through its various departments and 5 provincial offices, CBSL promotes financial inclusion in all provinces in the country.
- In its branch licensing policy, banks are required to open two branches in outstation provinces, if they wish to open one branch in the Western Province.
- CBSL has designed a number of low interest rate refinance schemes to ensure that the people in Northern and Eastern provinces are not excluded from the financial system. These refinance facilities were made available immediately after the terrorism war was over and to assist the civilians to start livelihood operations.
- CBSL conducts conferences/seminars for banking and financial institutions (BFIs) at its Center for Banking Studies (CBS), which invites reputed economists and scholars in the fields of economic, finance, education, sociology and other relevant areas to deliver public lectures on a monthly basis and also conducts local and international courses to disseminate knowledge on financial inclusion and financial education.
- CBSL has set up a Credit Council (CC), which gives hearing and advice to customers who seek bank financing for the first time and on how to make their projects more bankable. CC also advises the beginners of enterprises to assess their repayment capacity on loans and advances before loans become non-performing. If and when necessary, CC refers some of the non-performing loans (NPL) cases to relevant banks to

consider rescheduling in order to avoid NPL customers being excluded from the banking sector.

- CBSL and the Bankers' Association of Sri Lanka have taken the initiative to set up a Financial Ombudsman's office in Sri Lanka to facilitate amicable settlements between customers and banks, so that customers are not excluded from the financial system because of disputes with their bankers.
- Many BFIs insert various clauses favourable to themselves and get customers to agree to such clauses at the time of signing commercial contracts. CBSL has warned BFIs not to insert small prints in commercial contracts and if they do, to explain such terms and conditions to customers before the agreements are signed.
- To preserve rights of customers in financial transactions and to avoid potential exploitation, CBSL is in the process of preparing a Customer Charter.