

Sri Lanka's Expanding Banking Sector

Posted on



If a country's worth can be measured in terms of a healthy and active banking sector, then the prognosis must be good for Sri Lanka. In the last ten years, with a free enterprise economy in, full swing, more banks-both foreign and local-have opened up in Sri Lanka than ever before.

Between 1979 and 1983, 14 foreign banks established branches, while two more opened representative offices in Colombo. Even more noteworthy, two new privately owned local banks started up business in the last year. Obviously, the result of this rapid expansion of banking services competing with one another has been to improve the quality and range of banking facilities in Sri Lanka. The use of computerised systems and the latest communication technology means that customers can obtain the latest financial information instantly from anywhere in the world. Sri Lanka enjoys one of the most efficient international telecommunication linkages in the region, an indispensable tool for the corporate clientele of any bank. Add to this well-educated, highly trained banking staff and there is nothing more the businessman needs to run his banking affairs successfully.

The blossoming of the import-export sector, a major reason for the demand for comprehensive banking services, was largely tied up with the Free Trade Zones. The Greater Colombo Economic Commission, Sri Lanka's Free Trade Zone authority, oversees more than 70 enterprises employing almost 50,000 workers. Over two-thirds of the investment in Free Trade Zone enterprises comes from foreign sources. Apart from attractive tax incentives offered to investors, the Sri Lankan government has provided offshore banking facilities to cater to the specialised needs of foreign and local investors.

Foreign Currency Banking Units (FCBUs) have been established by all commercial banks for foreign currency dealings with non-residents and approved residents. The FCBUs handle eight major international currencies when accepting deposits and granting loans. Another important facility made available to investors is the Non-Resident Foreign Currency Account Scheme (NFRCA) which encourages the

encashment of foreign drafts in Sri Lankan banks. Under this scheme, account holders are offered attractive facilities such as high interest rates, tax-free interest and no restrictions on foreign currency transfers out of the country. Both FCBUs and NRFCs are characterised by minimum control by Sri Lanka's monetary authorities, thus encouraging the free movement of foreign funds in and out of the country.

The Certificate of Deposit (CD) was introduced into the local money market by American Express in the early eighties. By the end of 1984, 20 banks had been given approval to issue CDs. The popularity of this form of funding is attested to by the fact that within the next year, CDs brought Rs. 1007 million into the market. The certificate is a transferable, negotiable document that certifies that a certain amount of money has been deposited. The certificate also earns interest which is incorporated into the value of the document when it is issued. The Banque Indosuez, the first foreign bank to open a branch in Colombo under the free enterprise economy, has just introduced a new type of CD. Called the T-linked CD, it permits speculators at the Colombo tea auctions to receive a guaranteed income. This CD is linked to the weekly tea sales average and is made up of two parts. If the speculator expects tea prices to rise, he purchases a "Bull CD" and receives bonus interest on every unit increase. Likewise, the purchase of a "Bear CD" yields interest if prices are expected to fall. Thus, the tea speculator earns a reward for an accurate forecast, but his capital stays intact even if his forecast is wrong.

Other major international banks operating in Colombo include Algemene Bank Nederland (ABN), Amsterdam Rotterdam Bank (Amro), Overseas Trust Bank, Bankers Trust Company, Bank of Oman, Union Bank of the Middle East, Habib Bank AG Zurich, Bank of America, Bank of Credit and Commerce International (Overseas) Ltd., European Asian Bank and Dubai Bank. Although the liberalised economy attracted these banks from the late seventies onward, foreign banks are nothing new to Sri Lanka. As far back as 1950, over two-thirds of the commercial banks were of foreign origin. Most of these banks confined themselves to servicing the plantation sector and the import/ export trade. The Hongkong and Shanghai Bank is one of the oldest such banks still operating today. It was originally set up in the late nineteenth century to facilitate trade between China and the rest of the British Empire. Hongkong and Shanghai has proved to be an innovator in Sri Lankan banking practices, being the first bank to introduce the Electronic Teller is conveniently located in Fort, the hub of Colombo's business activities. The Hongkong and Shanghai Bank is also agent for the JCB, Mastercard and Visa credit cards. Cardholders can obtain cash advances from the bank, in addition to which

merchants authorised to accept these credit cards can also be guaranteed payment by the bank.

Electronic or computerised banking is rapidly changing the face of banking in Sri Lanka. The Central Bank, which acts as the clearing house for all banks in the country, has recently installed a Rs.35 million computer system to speed up operations. In the pre-computer days, banks sent in cheques were removed by the banks of origin for examination.

On the average, the entire process took about three days for cheques to be cleared within Colombo alone. It took even longer for transactions made out of Colombo. This year the Central Bank has begun using computerised clearing of cheques and up to 1,400 cheques per minute can be processed by the new machines. What took several days is now completed in 24 hours.

Computerised transactions have also transformed Sri Lanka's premier bank, the Bank of Ceylon. It was established in 1938 for the purpose of serving the local population who were unable to gain access to foreign banks. After 1950, the Bank of Ceylon was allowed to engage in foreign exchange operations as well. By 1960, the Bank of Ceylon was allowed to engage in foreign exchange operations as one of the top 500 banking institutions in the world. The Bank of Ceylon is linked globally to 600 correspondent banks and is well equipped to service its corporate and international clientele. Among the facilities it offers are a comprehensive package of pre-shipment and post-shipment financing for exports, Central Bank re-financing for exports, Central Bank re-financing for traditional and non-traditional exports, discounting of Trade Bills and project financing for new ventures.

Another successful venture of the Bank of Ceylon is its wholly owned subsidiary, the Merchant Bank of Sri Lanka. After just four years of operation, the Merchant Bank has been able to declare a 10% dividend. Amongst the services offered are training programmes for immigrants returning to Sri Lanka after foreign employment, advising "sick" industries and a significant amount of Trade Paper activities. Under its new Corporate Plan, the bank hopes to privatise with Asian Development Bank assistance. Other local banks specialising in development activities are the Development and Finance Corporation (DFCC), the State Mortgage and Investment Bank and the National Development Bank. These banks have successfully contributed to the flow of long-term credit, greatly needed for the development of the national economy. A noteworthy innovation in the local banking scene has been the birth of two new banks within the past year. The Sampath Bank, originally

known as the Investment and Credit Bank, and Seylan Bank are part of two large mercantile conglomerates. The new banks offer an interesting array of facilities unavailable in older, well-established banks in order to compete successfully. Sampath Bank, for instance, has a Cheque Savings Account Facility permitting cash withdrawals to be made with the use of a passbook. Cheques on these accounts may be made payable to third parties as well. Interest is also paid on a daily basis and credited monthly. Another useful facility offered by Sampath Bank is the Sampath Card. Fixed deposits over Rs. 25,000 are entitled to 11 % interest plus the use of the card as guarantee for payment of cheques up to a maximum of Rs. 1,000/-, as good as cash. The Seylan Bank had its soft opening in March 1988. Initially, the bank hopes to concentrate on import/ export, financing wholesale and retail trade and other short-term finance ventures. Seylan Bank will be opening its FCBU by the end of the year. Amongst the services special to this bank is an over the-counter loan scheme called PAL (Personal Assistance Loan) whereby customers can obtain a loan within 24 hours. Additionally, Seylan Bank customers will be entitled automatically to the Golden Key Credit Card facility that is handled by a subsidiary of the Ceylinco Group which founded the bank. Clients will also be able to give banking instructions over the telephone for agreed amounts of money. All evidence therefore points to an active banking sector in the country with every possible service offered to meet client needs. The last few years have witnessed a dramatic change in banking practice as Sri Lanka's banks keep up with the new pace of a liberalised economy. There is little doubt that, as more and more banks introduce faster, more efficient methods of banking, Sri Lanka will hold its own as one of the major financial centres in the South Asian region.



The hive of activity inside a bank.