



Central Bank of Sri Lanka

Payments and Settlements Department

Payments Bulletin

Second Quarter, 2013

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ECONOMIC OUTLOOK AND POLICY MEASURES

During the second quarter of 2013, the economy recorded a growth of 6.8 per cent, in real terms and that was mainly led by the Services sector and Industrial sector. The Services sector, the major sector of the economy, grew by 6.6 per cent, which was mainly contributed by the growth in the transport sector and hotels and restaurant sector. The Industrial sector, the second largest sector, recorded a growth of 10.1 per cent and that was due mainly to the growth in the manufacturing and construction sectors. However, due to unfavorable weather conditions, the Agricultural sector recorded a decline of 1.1 per cent during the second quarter of 2013 when compared to the same quarter of 2012.

Table 1: Economic Indicators – Second Quarter of 2011, 2012 and 2013

	2011 Q2	2012 Q2	2013 ^(a) Q2
Real GDP growth rate (%)	8.1	6.4	6.8
Agriculture Sector	1.8	8.5	-1.1
Industry Sector	9.5	9.5	10.1
Services Sector	8.8	4.5	6.6

External Finance (US\$ million)

Exports	2,405.2	2,309.6	2,297.9
Imports	4,842.2	4,434.4	4,710.8
Trade Balance	-2,437.0	-2,124.9	-2,413.0
Trade Balance (% change)	62.3	-12.8	13.6

Prices

Colombo Consumers' Price Index (2006/07 = 100) - Point to Point Change (%)	8.0	7.5	6.8
Wholesale Price Index (1974 = 100) Change (%)	15.8	2.2	9.2

Exchange Rate

Period average (Rs./US\$)	109.8998	130.0252	126.7077
End - period (Rs./US\$)	109.6071	133.3044	129.9606

(a) Provisional

Source: Central Bank of Sri Lanka

The trade deficit increased by 13.6 per cent in the second quarter of 2013 in comparison to the second quarter of 2012. This was due mainly to the higher expenditure on imports including of higher spending on fuel imports.

Table 2: Money Market Rates – Second Quarter of 2011, 2012 and 2013
(per cent per annum at the end of the quarter)

	2011 Q2	2012 Q2	2013 Q2
Bank rate	15.00	15.00	15.00
Call money market rate (3 month average)	7.88	9.90	9.06
Treasury bill yield rates (Primary)			
91 days	7.07	11.48	8.94
182 days	7.17	12.12	10.02
364 days	7.34	12.36	11.06
Repo rate (overnight)	7.00	7.75	7.00
Reverse repo rate (overnight)	8.50	9.75	9.00
Commercial Banks' Average Weighted Deposit Rate (AWDR)	6.28	8.33	10.67
Commercial Banks' Average Weighted Prime Lending Rate (AWPR)	9.22	13.21	13.05

Source: Central Bank of Sri Lanka

The Central Bank of Sri Lanka (CBSL) continued with the relaxed monetary policy stance throughout the second quarter of 2013, in order to stimulate the domestic economic activities. As a result, Repo rate and Reverse Repo rate were reduced to 7.0 per cent and 9.0 per cent, respectively, in May 2013 and in comparison to the second quarter of 2012, the reduction of the policy rates were 75 basis points each. Reflecting relaxation in the

monetary policy stance, the market rates showed a considerable decline as at end of the second quarter of 2013.

PAYMENT SYSTEM- HIGHLIGHTS

Cash

Cash payments continued to persist as the most popular payment mode in retail payments in Sri Lanka. Currency in circulation increased by 5.3 per cent to Rs. 313.0 billion at the end of the second quarter of 2013 from Rs.297.3 billion at the end of the same period of 2012.

Table 3: Monetary Aggregates – As at end of Second Quarter of 2012 and 2013

	(Rs. Mn)		% change	
	2012 Q2	2013 ^(a) Q2	12/11 Q2	13/12 Q2
1. Currency of which held by:	297,324	313,024	9.7	5.3
1.1 Banks	55,007	66,938	10.3	21.7
1.2 Public	242,317	246,086	9.6	1.6
2. Demand deposits of which held by:	911,618	849,365	27.5	-6.8
2.1 Government (b)	25,560	27,863	-5.8	9.0
2.2 Banks (c)	695,596	627,141	42.4	-9.8
2.3 Public	190,463	197,956	-4.7	3.9
3. Narrow Money Supply (M1) (1.2 + 2.3)	432,780	444,043	2.8	2.6
4. Time and Savings deposits held by public	1,948,563	2,399,792	24.0	23.2
5. Broad Money Supply (M2) (3+4)	2,381,343	2,843,835	19.5	19.4

(a) Provisional Source: Central Bank of Sri Lanka

(b) Government demand deposits with the commercial banks and the Central Bank of Sri Lanka

(c) Inter-bank deposits of both local and foreign banks including deposits of international organizations and commercial banks with the Central Bank of Sri Lanka.

The broad money supply (M2) increased by 19.4 per cent in the second quarter of 2013 compared to the same quarter of 2012. The growth of broad money supply was mainly contributed by the increase in credit to the private sector and the government from the banking sector.

**Table 4: Relative Sizes of Monetary Aggregates
Second Quarter of 2011, 2012 and 2013**

	2011 Q2	2012 Q2	2013 ^(a) Q2
Share of Currency (%) held by			
Banks	18.4	18.5	21.4
Public	81.6	81.5	78.6
As a % of Broad Money Supply			
Currency held by public	11.1	10.2	8.7
Demand deposits held by public	10.0	8.0	7.0
Time and Savings deposits held by public	78.9	81.8	84.4

(a) Provisional

Source: Central Bank of Sri Lanka

Out of all three components of broad money supply, Time and Savings deposits held by public still remained as the major component of broad money supply which accounted for 84.4 per cent at end of the second quarter of 2013.

Non-cash Payments

The Real Time Gross Settlement (RTGS) System and Cheque Imaging and Truncation (CIT) System, the two systematically important payment systems in Sri Lanka accounted for 99 per cent of the total value of non-cash payments in the country. The rest of the non-cash payments were made using the Sri Lanka Interbank Payment System (SLIPS), card based payment mechanisms, drafts, postal instruments and other electronic means of payment such as phone/mobile/ tele-banking and internet banking.

Cheques

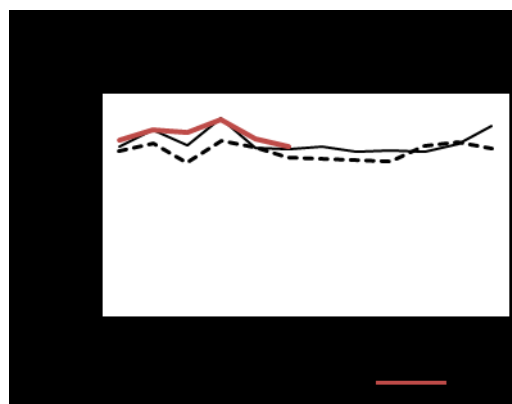
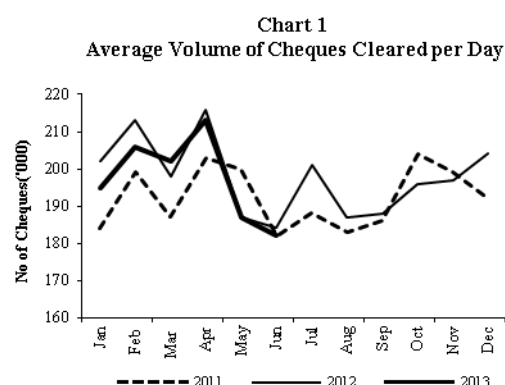
The total number of cheques cleared through the CIT system operated by LankaClear (Pvt) Ltd. (LCPL) grew by 2.9 amounting to 11.8 million cheques in the second quarter of 2013 in comparison to the second quarter of 2012. The value of the cheques cleared increased by 6.3 per cent to Rs. 1,742 billion, during second quarter of 2013, when compared to the second quarter of 2012.

**Table 5: Cheque Clearing
Second Quarter of 2012 and 2013**

	2012 Q2	2013 Q2	% change	
			12/11 Q2	13/12 Q2
1.Total number of cheques cleared	11,492,136	11,821,594	3.8	2.9
2. Total value of cheques cleared (Rs. bn)	1,638	1,742	9.4	6.3
3. Average number of cheques cleared per day	194,782	193,797	0.3	-0.5
4. Average value of cheques cleared per day (Rs.bn)	27.8	28.5	5.7	2.8

Source: LankaClear (Pvt) Ltd

However, the average volume of cheques cleared per day decreased by 0.5 per cent while average value of cheques cleared per day increased by 2.8 per cent, during the second quarter of 2013 in comparison to the same period of 2012.



**Table 6 : Volume of Cheque Clearing by Size
Second Quarter of 2012 and 2013**

Description	Number of Cheques		(13/12)	2013
	2012 Q2	2013 Q2	Q2 % change	Q2 % Share
Below Rs. 0.1 mn	9,527,533	9,673,778	1.5	81.8
Rs.0.1mn - Rs. 1mn	1,736,585	1,870,544	7.7	15.8
Rs.1 mn - Rs.11mn	217,419	265,583	22.2	2.2
Rs.11 mn - Rs.51mn	8,978	10,132	12.9	0.1
Rs.51mn - Rs.100mn	1,303	1,263	-3.1	Neg.
Above Rs. 100 mn.	318	294	-7.5	Neg.
Total	11,492,136	11,821,594	2.9	100.0

Neg - Negligible

Source: LankaClear (Pvt.) Ltd

Reflecting the popularity of cheques for small value transactions, cheques cleared through CIT system below Rs. 1 million accounted for 97.6 per cent of total volume of the cheques during the second quarter of 2013. However, the value of those cheques accounted for only 42.5 per cent of total value of the cheque cleared through CIT system during the same quarter of 2013. Meanwhile, the volume and value of the cheques with value exceeding Rs. 100 million decreased by 7.5 per cent and 24.2 per cent respectively, in the second quarter of 2013 in comparison to the same quarter of 2012.

**Table 7 : Value of Cheque Clearing by Size
Second Quarter of 2012 and 2013**

Description	Value of Cheques (Rs.mn.)		(13/12)	2013
	2012 Q2	2013 Q2	Q2 % change	Q2 % Share
Below Rs. 0.1 mn	215,175	225,964	5.0	13.0
Rs.0.1mn - Rs. 1mn	493,547	513,812	4.1	29.5
Rs.1 mn - Rs.11mn	518,136	597,857	15.4	34.3
Rs.11 mn - Rs.51mn	190,983	217,494	13.9	12.5
Rs.51mn - Rs.100mn	99,143	94,532	-4.7	5.4
Above Rs. 100 mn.	121,246	91,877	-24.2	5.3
Total	1,638,231	1,741,537	6.3	100.0

Source: LankaClear (Pvt.) Ltd

**Table 8: Cheque Returns
Second Quarter of 2012 and 2013**

	2012 Q2	2013 Q2	% change	
			12/11 Q2	13/12 Q2
1.Total number of cheque returns	597,079	575,362	38.2	-3.6
2. Total value of cheque returns (Rs. mn)	55,697	55,919	69.0	0.4
3. Average number of cheque returns per day	10,120	9,432	33.6	-6.8
4. Average value of cheque returns per day (Rs.mn)	944	917	63.3	-2.9
5.Number of cheque returns as a % of total volume of cheques received for clearing	5.2	4.9		
6. Value of cheque returns as a % of total value of cheques received for clearing	3.4	3.2		

Source: LankaClear (Pvt) Ltd

The aggregate volume of returned cheques decreased by 3.6 per cent during the second quarter of 2013 in comparison to the second quarter of 2012. However, the aggregate value of cheque returns recorded a marginal increase of 0.4 per cent during the reference period. The average number and value of cheque returns per day decreased by 6.8 per cent and 2.9 percent respectively, during the second quarters of 2013 in comparison to the same quarter of 2012. The number of cheque returns, as a percentage of total cheque volume received for clearing declined to 4.9 per cent as at end of the second quarter of 2013, when compared with 5.2 per cent of the same quarter of 2012. The total value of cheque returns, as a percentage of total value of cheque received for clearing also declined to 3.2 per cent during the reference quarter of 2013, when compared with 3.4 per cent in the second quarter of 2012.

**Chart 3
Cheque Returns as a Percentage of Total
Number of Cheques Received for Clearing**

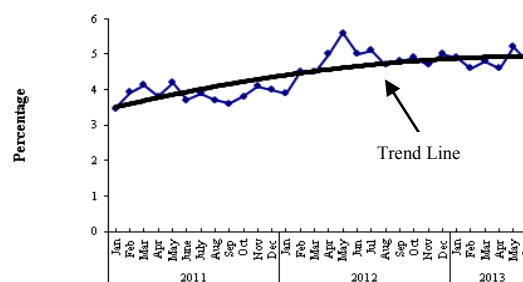


Table 9: Return Code-wise Cheque Returns (%)

Return Code	2012			2013	
	Q2	Q3	Q4	Q1	Q2
Refer to Drawer	46.7	47.2	46.7	45.6	46.5
Payment stopped by drawer	20.9	20.3	20.2	20.5	21.2
Account closed	14.6	16.4	17.0	16.2	16.4
Effects not realized	4.2	4.0	3.5	3.6	3.2
Payment postponed pending drawer's confirmation	0.9	1.0	1.0	0.8	0.7
All other reasons	12.6	11.1	11.5	13.4	12.0

Source: LankaClear (Pvt.) Ltd

As given in Table 9 and Chart 4, 'Refer to Drawer' remained as the key reason for the cheque returns accounting for 46.5 per cent of total cheque returns during the second quarter of 2013.

Chart 4
Return Code-wise Cheque Returns
2nd Qtr. 2013

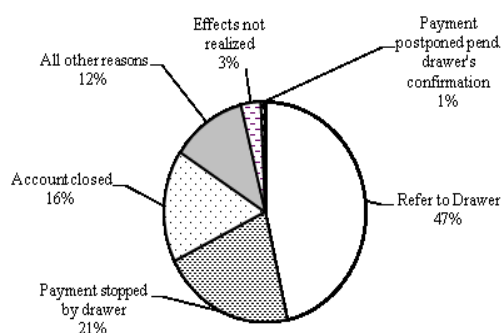
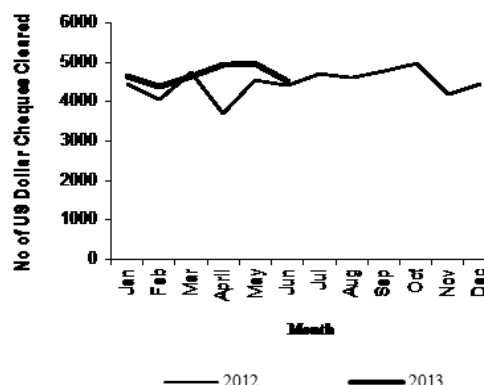


Chart 5
Monthly Volume of US Dollar Clearing



US Dollar Clearing System

The US Dollar Cheque Clearing system operated by LCPL cleared 14,400 US Dollar cheques and the aggregate value of such cheques was US Dollar 61.3 million in the second quarter of 2013. The daily average volume and value of US Dollar Cheques cleared during the second quarter 2013 were 236 and USD 1.0 million, respectively.

Table 10: Dollar Clearing
Second Quarter of 2012 and 2013

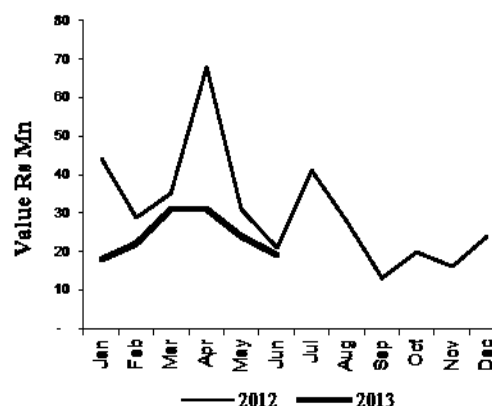
	2012 Q2	2013 Q2	% change	
			12/11 Q2	13/12 Q2
1. Total number of dollar cheques cleared	12,678	14,400	-3.1	13.6
2. Total value of dollar cheques cleared (\$)	49,455,260	61,321,304	-18.3	24.0
3. Average number of dollar cheques cleared per day	215	236	-6.4	9.9
4. Average value of dollar cheques cleared per day (\$)	838,224.8	1,005,267.3	-21.0	19.9

Source: LankaClear (Pvt) Ltd

Rupee Draft Clearing System

Reflecting the lower demand for Rupee Draft as a mode of payment, the total value of Rupee Drafts cleared through LCPL declined further by 38.8 per cent to Rs. 73.7 million in the second quarter of 2013 in comparison to the same quarter of 2012. This may be an outcome of the moving to the alternative convenient, electronic payment methods.

Chart 6
Monthly Value of Rupee Draft Clearing



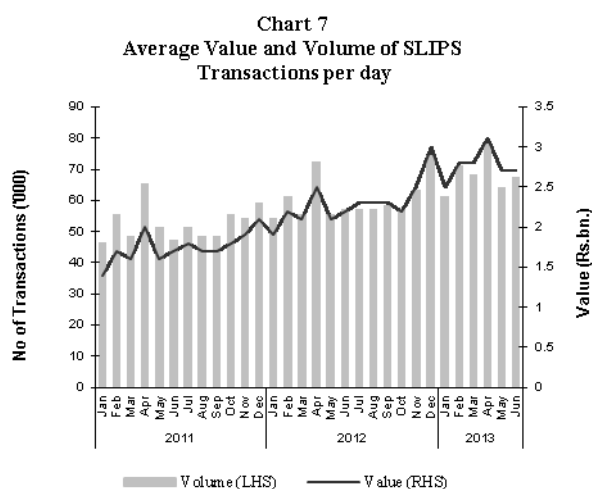
Sri Lanka Interbank Payment System (SLIPS)

Continuing the increasing popularity of transaction through SLIPS in the past quarters, volume and value cleared through SLIPS increased by 18.4 per cent and 28.7 per cent, respectively, during the reference quarter. As a result, the average daily volume and value of SLIPS transactions increased by 14.5 per cent and 24.5 per cent, respectively, during the second quarter 2013, in comparison to the same quarter of 2012.

Table 11: SLIPS Transactions - Second Quarter of 2012 and 2013

	2012 Q2	2013 Q2	% change	
			12/11 Q2	13/12 Q2
1. Total volume of transactions cleared	3,593,209	4,252,632	17.2	18.4
2. Total value of transactions cleared (Rs. mn)	133,481	171,832	30.7	28.7
3. Average volume of transactions settled per day	60,902	69,715	13.3	14.5
4. Average value of transactions settled per day (Rs.mn)	2,262	2,817	26.2	24.5

Source: LankaClear (Pvt) Ltd.



**Table 12: SLIPS Transactions by Size
Second Quarter of 2012 and 2013**

Transaction Value (a)	Number of Items		Total Value (Rs. mn.)	
	2012 Q2	2013 Q2	2012 Q2	2013 Q2
Less than Rs. 1 mn.	3,579,587	4,233,812	103,686	128,216
Rs. 1mn – Rs. 5 mn	13,622	18,820	29,795	43,617
Total	3,593,209	4,252,632	133,481	171,832

Source: LankaClear (Pvt) Ltd

(a) An upper limit of Rs 5 million per SLIPS transaction was imposed in 3rd Quarter of 2010.

The majority of SLIPS transactions processed during the quarter were of value less than Rs. 1 million and such transactions accounted for 99.5 per cent of the total volume of SLIPS transactions and 74.6 per cent of the total value of SLIPS transactions (Table 12).

**Table 13: SLIPS Transactions by Type
Second Quarter of 2012 and 2013**

Category	Total Volume		Total Value (Rs. mn)	
	2012 Q2	2013 Q2	2012 Q2	2013 Q2
Credit transactions	3,589,976	4,250,022	132,941	171,227
Debit transactions	3,233	2,610	541	606
Total transactions	3,593,209	4,252,632	133,481	171,832

Source: LankaClear (Pvt) Ltd.

In terms of the types of SLIP transactions, credit transfers continued to remain as the major transaction category. The volume and value of credit transactions were 99.9 per cent and 99.6 per cent, respectively, out of the total transactions through SLIPS during the reference quarter (Table 13).

Real Time Gross Settlement (RTGS) System

The RTGS System, which is the main large value inter-participant fund transfer system in the country, had 34 participants consisting of CBSL, 24 Licensed Commercial Banks (LCBs), 7 primary dealer companies, Employees' Provident Fund (EPF) and Central Depository System of

the Colombo Stock Exchange as at end of the second quarter of 2013.

Table 14: RTGS Transactions – Second Quarter of 2012 and 2013

Description	2012 Q2	2013 Q2	% change	
			12/11 Q2	13/12 Q2
1. Total no. of transactions	69,726	77,074	10.89	10.54
2. Total value of transactions (Rs.bn.)	11,146	13,450	-21.69	20.68
3. Average no. of transactions per day	1,182	1,264	7.14	6.91
4. Average value of transactions per day (Rs.bn.)	189	220	-24.35	16.72

Source: Central Bank of Sri Lanka

Both total volume and value of transactions effected through the RTGS System during the second quarter of 2013 recorded an increase of 10.5 per cent and 20.6 per cent, respectively. As a result, the average volume of transactions per day recorded an increase of 6.9 per cent, and value of transactions per day increased by 16.7 per cent when compared to the same quarter of 2012.

Table 15: Volume of RTGS Transactions by Size Second Quarter of 2012 and 2013

Description	No. of Transactions		% share	
	2012 Q2	2013 Q2	2012 Q2	2013 Q2
Below Rs. 1 mn	9,308	9,124	13.3	11.8
Rs 1 mn - Rs 100 mn	43,603	46,707	62.5	60.6
Rs 100 mn - Rs 500 mn	12,062	15,323	17.3	19.9
Rs 500 mn - Rs 1,000 mn	2,958	3,584	4.2	4.7
Rs. 1,000 mn and above	1,795	2,336	2.6	3.0
Total	69,726	77,074	100.0	100.0

Source: Central Bank of Sri Lanka

The volume of transactions between Rs. 1 mn - Rs 100 mn in the RTGS system continued to remain as the highest number of transactions category during the second quarter of 2013 as well. However, In value terms, that category contributed for 8.7 per cent during the reference quarter.

Table 16: Value of RTGS Transactions by Size – Second Quarter of 2012 and 2013

	Value (Rs. bn.)		% share	
	2012 Q2	2013 Q2	2012 Q2	2013 Q2
Below Rs. 1 mn	3	2	Neg.	Neg.
Rs 1 mn - Rs 100 mn	1,011	1,164	9.1	8.7
Rs 100 mn - Rs 500 mn	3,161	3,981	28.4	29.6
Rs 500 mn - Rs 1,000 mn	2,283	2,932	20.5	21.8
Rs. 1,000 mn and above	4,687	5,371	42.1	39.9
Total	11,146	13,450	100.0	100.0

Source: Central Bank of Sri Lanka

Neg - Negligible

In value terms, RTGS transactions over Rs. 100 mn contributed for 91.3 per cent of the aggregate value of RTGS transactions during the second quarter of 2013.

Table 17: Volume of RTGS Transactions by Type Second Quarter of 2012 and 2013

Type	No. of Transactions		% change	
	2012 Q2	2013 Q2	12/11 Q2	13/12 Q2
Repo/R.Repo/ILF	13,812	19,749	6.4	43.0
Interbank Transactions	13,179	12,412	13.9	-5.8
Customer Transactions	35,327	37,377	11.9	5.8
LankaSecure Transactions	935	877	12.9	-6.2
Clearing House Transactions	6,470	6,659	8.9	2.9
Internal Fund Transfers	3	0	-	-
Total	69,726	77,074	10.9	10.5

Source: Central Bank of Sri Lanka

In terms of volume (Table 17), customer transactions which was the largest category in the RTGS transactions recorded 37,377 transactions in the second quarter of 2013.

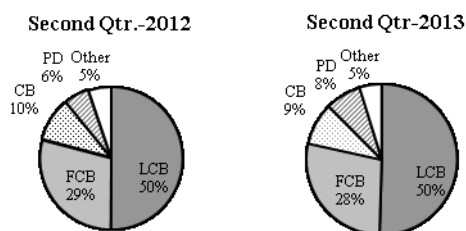
Meantime, the category of Repo, Reverse Repo and ILF transactions recorded significant increase both in terms of volume and value by 43.0 per cent and 39.9 per cent, respectively. The growth was mainly contributed by repo transactions carried out due to the excess liquidity in the market during the second quarter of 2013 in comparison to the same quarter of 2012.

**Table 18: Value of RTGS Transactions by Type
Second Quarter of 2012 and 2013**

Type	Value (Rs. bn.)		% change	
	2012 Q2	2013 Q2	12/11 Q2	13/12 Q2
Repo/R.Repo/ILF	5,681	7,947	-43.1	39.9
Interbank Transactions	3,230	3,311	23.9	2.5
Customer Transactions	1,099	1,277	36.2	16.2
LankaSecure Transactions	607	376	102.1	-38.0
Clearing House Transactions	527	540	-0.4	2.5
Internal Fund Transfers	3	0	-	-
Total	11,146	13,450	-21.7	20.7

Source: Central Bank of Sri Lanka

**Chart 8
Volume of RTGS Transactions by Type of
Participants**



LCB
FCB - Foreign Commercial Banks
CB - Central Bank of Sri Lanka
PD - Primary Dealers in Government Securities
Other - Central Depository System of Colombo Stock Exchange, Multilateral Net Settlements, Employees Provident Fund

Chart 8 compares the participant-wise distribution of RTGS transactions in the second quarters of 2012 and 2013. Local commercial banks accounted for 50 per cent of the transactions that processed through RTGS while foreign commercial banks accounted for 28 per cent in the second quarter of 2013.

**Table 19: Time Distribution of Receiving and
Settlement of RTGS Transactions - Second
Quarter of 2012 and 2013**

Description	No of Items		% share	
	2012 Q2	2013 Q2	2012 Q2	2013 Q2
Before 12.00 noon	23,298	26,340	33.4	34.2
After 12.00 noon	46,428	50,734	66.6	65.8
Total	69,726	77,074	100.0	100.0

As shown in Table 19, out of the total RTGS transactions, majority of transaction were effected after 12.00 noon accounting for 65.8 per cent of total transactions during the second quarter of 2013.

Payment Cards

Credit Cards

At the end of the second quarter of 2013, there were 12 credit card issuers licensed by CBSL to engage in the credit card business. Total number of credit cards in use stood at 910,705 as at end of the quarter 2013.

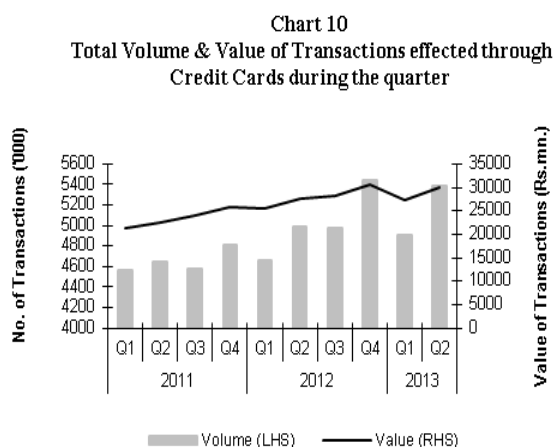
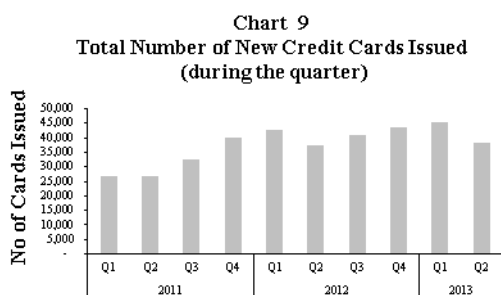
**Table 20: Credit Cards in Use - Second Quarter of 2012
and 2013**

	2012 Q2	2013(a) Q2	% change	
			12/11 Q2	13/12 Q2
Total No. of Credit Cards (As at end period)	853,180	910,705	6.2	6.7
Domestic and International Cards	811,229	873,109	9.6	7.6
Domestic Only Cards	41,951	37,596	-33.2	-10.4
Total Number of transactions ('000)	4,987	5,380	7.3	7.9
Total Value of transactions (Rs.mn)	27,558	29,947	22.8	8.7

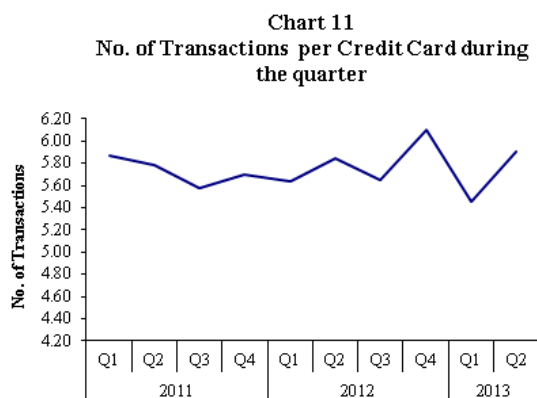
(a) Provisional

Source: Commercial Banks

Volume and value of credit card transactions recorded a growth of 7.9 per cent and 8.7 per cent, respectively, in the second quarter of 2013 in comparison to the same quarter of 2012.



The average number of transactions per credit card increased to 5.9 in the second quarter of 2013 from 5.5 per cent of the first quarter of 2013.



Credit Cards in Default

As recorded by the Credit Information Bureau, the total number of credit cards in default (i.e. credit cards, when the minimum payment is in arrears for 90 days or more from the due date) as at the end of the second quarter of

2013, was 79,498 and the total value of defaulted credit card Payments amounted to Rs 4.1 billion.

Debit Cards

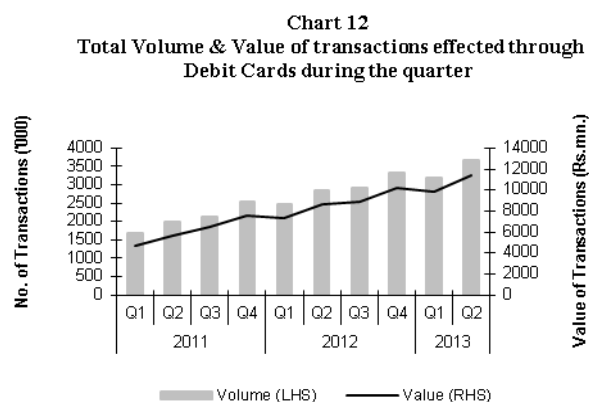
Table 21: Debit Cards in Use - Second Quarter of 2012 and 2013

	2012 Q2	2013 Q2 (a)	% change	
			12/11 Q2	13/12 Q2
Total No. of Debit Cards (As at end period)	9,612,459	11,475,953	22.7	19.4
Domestic & International	9,253,276	11,138,588	23.7	20.4
Domestic Only	359,183	337,365	0.2	-6.1
Total Number of transactions('000)	2,845	3,663	42.5	28.8
Total Value of transactions (Rs.mn)	8,625	11,439	52.5	32.6

(a) Provisional

Source: Commercial Banks

At end of the second quarter of 2013, there were 22 debit card issuers licensed by CBSL. The total number of debit cards in use was 11.4 million as at end of the quarter. The majority of debit cards had the facility to use for both domestic and international transactions. Total volume and value of debit card transactions increased by 28.8 per cent and 32.6 per cent, respectively, during the second quarter of 2013 in comparison to the same quarter of 2012.



Mobile Phone/Tele-banking/Internet Banking

Continuing the popularity of phone based electronic payments, the volume and value of financial transactions effected through tele-banking/mobile banking recorded an increase of 20.0 per cent and 23.6 per cent, respectively, in the second quarter of 2013 in comparison to the same quarter of 2012.

**Table 22 : Payment Instructions Handled Through Electronic Systems
Second Quarter of 2012 and 2013**

	2012	2013(a)	% change	
	Q2	Q2	12/11	13/12
			Q2	Q2
Tele-banking / Mobile				
Phone Banking				
No. of financial transactions	51,160	61,393	1.8	20.0
Value of Transactions (Rs.mn)	1,266	1,565	0.3	23.6
Internet Banking				
No. of financial transactions	1,691,713	2,210,225	27.4	30.7
Value of Transactions (Rs.mn)	123,885	189,291	69.7	52.8

(a) Provisional

Source: Commercial Banks

Reflecting the growing popularity of internet banking, the volume and value of the financial transactions effected through internet banking increased significantly by 30.7 per cent and 52.8 per cent, respectively, during the second quarter 2013.

Automated Teller Machines (ATMs)

**Table 23 : ATM Terminals and Transactions
Second Quarter of 2012 and 2013**

	2012 Q2	2013(a) Q2	% change	
			12/11 Q2	13/12 Q2
ATMs				
Total number of machines (End of period)	2,708	3,002	15.4	10.9
Total volume of financial transactions (During the period in '000)	31,975	38,108	10.8	19.2
Total value of transactions (During the period in Rs. mn.)	226,878	310,060	16.7	36.7

(a) Provisional

Source: Commercial Banks
Specialized Bank
Registered Finance Companies

The total number of ATM terminals stood at 3,002 recording an increase of 10.9 per cent as at end of the second quarter of 2013 in comparison to the corresponding period of 2012. Reflecting the customer preference for cash withdrawals through ATM terminals, both volume and value of ATM terminal transactions grew by 19.2 per cent and 36.7 per cent, respectively, in the second quarter of 2013.

Electronic Fund Transfer at Point of Sale (EFTPOS) Terminals

**Table 24 : EFTPOS Terminals and Transactions
Second Quarter of 2012 and 2013**

	2012 Q2	2013(a) Q2	% change	
			12/11 Q2	13/12 Q2
Total number of machines (End of period)	28,776	24,515	4.1	-14.8
Total volume of financial transactions (During the period in '000)	7,702	8,877	19.6	15.3
Total value of transactions (During the period in Rs. mn.)	39,785	44,185	28.1	11.1

(a) Provisional

Source: Commercial Banks

The total number of EFTPOS terminals, recorded a decrease of 14.8 per cent in the second quarter of 2013 in comparison to the same quarter of 2012. This decrease was due mainly to the removing of EFTPOS terminals which were not compatible with the Terminal Line Encryption (TLE) technology by the financial acquirers, under the TLE compliance project during the previous quarters. However, reflecting the customer preference for electronic payments, the total volume and value of payments effected through EFTPOS increased by 15.3 per cent and 11.1 per cent, respectively, in the second quarter of 2013 in comparison to the corresponding quarter of 2012.

Money Orders

As at the end of second quarter of 2013, the total number of post offices stood at 4,628. The total value of transactions effected through money orders was Rs. 1.5 billion in the second quarter of 2013. In terms of value,

E- Money orders stood as the major postal payment instruments used by the public which accounted for 66.5 per cent of total value of Money Orders. The value of the payments effected through e-money orders was over Rs. 1 billion in the second quarter of 2013.

Table 23 : Value of Payments made through Money Orders and Postal Orders

	2013 Q 1	2013 Q2 ^(a)
Money Orders (Value Rs. '000)	1,827,917	1,558,434
Ordinary Money Orders	553,218	478,525
Telegraph Money Orders	21,047	7,296
Fax Money Orders	3,148	172
E Money Orders	1,204,892	1,036,983
International Money Orders	1,788	2,119
Local Value Payment Money Orders	43,060	32,793
British Postal Orders (Value Rs. '000)	764	545
Total No. of Post Office (end period) ^(b)	4,737	4,628

(a) Provisional

Source: Postal Department

(b) Including post office, sub-post office and agency post office

Settlement of Payments through Asian Clearing Union (ACU)

The Asian Clearing Union (ACU) was established in 1975 with the main objective to facilitate payments among member countries for eligible transactions, thereby economising the use of foreign exchange reserves and transfer costs as well as promoting trade among the member countries. The settlement mechanism of ACU involves settling intra-regional trade related payments among member central banks on a multilateral basis. At present, ACU consists of nine central banks/monetary authorities of Bangladesh, Bhutan, India, Iran, Nepal, Maldives, Myanmar, Pakistan and Sri Lanka.

Table 26: Asian Clearing Union (ACU) Transactions of Sri Lanka- Second Quarter of 2012 and 2013

	2012 Q2	2013(a) Q2	% change	
			12/11 Q2	13/12 Q2
Total Number of Transactions	1,178	1,282	-3.2	8.8
Total receipts (Rs. Mn)	12,935	4,912	100.1	-62.1
Total payments (Rs. Mn)	110,842	53,337	4.0	-51.9
(a) Provisional	Source: Central Bank of Sri Lanka			

The total volume of transactions effected by Sri Lanka through the ACU mechanism increased to 1,282, in the second quarter of 2013. However, the total value of payments effected through ACU mechanism decreased significantly by 51.9 per cent to Rs. 53.3 billion in the second quarter of 2013 when compared to that of the second quarter of the 2012. This decline was due mainly to the fact that there were no oil bill payments through ACU mechanism to Iran. The total value of receipts effected through this mechanism also decreased significantly by 62.0 per cent to Rs.4.9 billion, during the second quarter of 2013 when compared to the same quarter of 2012.

SWIFT

Table 27: Participation in SWIFT Customer Base (Live)

Item	2012	2013	
	Q4	Q1	Q2
Total Domestic SWIFT users (End of Period)	35	35	35
Members	11	11	11
Sub-members	12	12	12
Participants	12	12	12
Total SWIFT worldwide users (End of Period)	10,279	10,363	10,444
Members	2,398	2,399	2,397
Sub-members	3,340	3,345	3,343
Participants	4,541	4,619	4,704

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

The total number of domestic SWIFT users remained as 35, while the total number of Global SWIFT users increased to 10,444 at the end of the second quarter of 2013.

Table 28 : SWIFT Message Flow in Sri Lanka - Second Quarter of 2012 and 2013

Item	2012 Q2	2013 Q2	% change	
			12/11 Q2	13/12 Q2
All messages sent by domestic users	931,208	1,067,580	3.6	14.6
From Category I *	134,429	145,759	24.1	8.4
Category II **	100,170	111,707	0.8	11.5
All messages received by domestic users	1,123,948	1,216,802	5.1	8.3
To Category I	425,416	411,948	7.2	-3.2
Category II	32,900	32,383	11.5	-1.6
Domestic Traffic	451,045	542,833	0.4	16.9

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

*Category I - Customer (Funds) Transfers

**Category II - Bank (Funds) Transfers

Reflecting growing trends in domestic message exchange through SWIFT, the domestic SWIFT traffic recorded a increase of 16.9 per cent in the second quarter 2013 in comparison to the same quarter of 2012. Similarly, the global SWIFT traffic also recorded an increase of 12.7 per cent during the second quarter of 2013, in comparison to the same quarter of 2012.

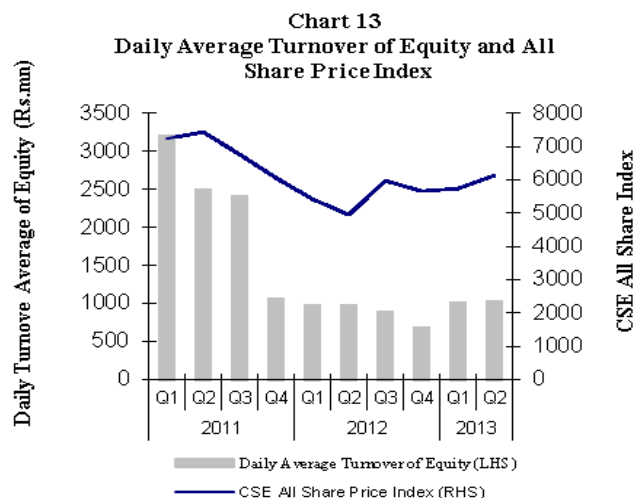
All the messages sent by domestic users increased by 14.6 per cent in the second quarter of 2013 in comparison to the same quarter of 2012. Meanwhile, all the messages received by domestic users on customer fund transfers (Category I) and bank funds transfers (Category II) declined by 3.2 per cent and 1.6 per cent, respectively, during the period under review.

Trading and Settlements at the Colombo Stock Exchange

The total number of intermediaries i.e. member firms and stockbrokers who engage in trading of equity and debt securities on behalf of investors on the Colombo Stock Exchange (CSE), remained at 29 as at the end of second quarter of 2013. The total number of customer accounts in the Central Depository System (CDS) of CSE was 714,363 and the total volume and value of equity shares lodged in the CDS were 67.4 billion and Rs 2,077.4 billion, respectively as at end of the second quarter of 2013.

The daily average turnover of equity transactions increased by 72.4 per cent to Rs 1,027.3 million in the second quarter of 2013. The low base that prevailed in second quarter 2012 caused the share market turn over to rise on quarter -on-quarter basis.

The All Share Price Index (ASPI) of CSE declined by 6.72 per cent in the second quarter 2013.



Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013

The developments in retail payments have been revolutionary, with the improvements in the scope, efficiency and scale of prevailing payments instruments and systems. The revolutionary process in retail payment systems has been accelerated with the technological innovations and change of consumer needs over the time. The resulting electronic retail payment methods such as payment cards and mobile phone based payment mechanisms have become popular due mainly to convenience and time saving benefits when compared to the paper based payment instruments.

Payment cards i. e. credit cards, debit cards, store value cards and charge cards, have become widely accepted means of electronic retail payments for both local and international transactions all over the world. Meanwhile, mobile phone based payments are becoming popular, especially for domestic transactions with effective implementation in several countries and there is a tendency to promote the mechanism to use in international transactions as well. These developments in the retail payment arena have been enhancing the customer convenience in the midst of complex economic activities. However, at the same time, such developments pose a range of risks to the stakeholders and also to the national payment systems as third parties get involved in most innovative payment mechanisms thereby creating a risk of unauthorized access by such parties to sensitive information.

In Sri Lanka, payment cards gained a significant importance in the recent past for day-to-day transactions and the mobile phone based payment mechanism is also becoming a popular payment mode for retail payments. In the meantime, non-bank entities are also interested in providing payment means using innovative technological developments. With the rapid growth of electronic payment instruments, and involvement of non-bank entities in payment systems as operators, there was an urgent need to have proper regulatory provisions to protect customer rights and to regulate service providers involved in such businesses in order to ensure the safety of the payment system and the stability of the financial system.

Thus, the Service Providers of Payment Card Regulations No. 1 of 2009 (Regulation) was issued under the Payment and Settlement Systems Act, No. 28 of 2005 (PSSA) in order to ensure that all service providers involved in offering retail payment services through payment cards and other devices, comply with the standards and best practices that were globally accepted. Under the Regulation, the Central Bank of Sri Lanka was vested with the power as the Supervisory Authority to regulate and supervise such service providers. However, in line with new developments in the electronic retail payment systems, it was observed subsequently that the prevailed regulations should be revised in order to strengthen the regulatory framework for payment cards as well as mobile phone based payment systems. Accordingly, the Service Providers of Payment Card Regulations No. 1 of 2009 was replaced with the Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013 (new Regulation) with effect from 07 June 2013 without prejudice to anything done under the previous Regulation.

The new Regulation was made with the objective of establishing an open and level playing field for service providers to operate payment cards and mobile payment systems and defining clearly the business classes that are subject to the regulation of the Regulatory and Supervisory Authority. Further, in order to strengthen the regulatory framework, considering the experience of other countries, the licensing process, termination and cancellation procedures, exit

mechanism and data reporting requirements were also amended. As the regulatory framework of the mobile phone-based payment systems was not clearly enumerated in the previous Regulation, the new Regulation aimed to add mobile financial services to a regulatory framework focused on prudential rules and institutional collaboration for conducting of business and to integrate supervision and oversight of mobile financial services also into the existing systems and administrative processes of the Regulatory and Supervisory Authority.

The New Regulation would enhance the customer confidence on payment cards, mobile phone based payment systems and electronic money (e -money) transactions in the economy, thereby encouraging customers for electronic money transactions instead of cash based transactions. Thus, it would benefit the economy ensuring a fast, safe and efficient payment system to the public.

Chronology of Major Events in the Payment and Settlement Systems in Sri Lanka.

Year	Event
August 1950	Functions of the Colombo Clearing House were taken over by the Central Bank of Sri Lanka (CBSL).
December 1974	CBSL joined the Asian Clearing Union (ACU) – (An Intra-regional Clearing Union)
September 1981	Introduction of a Proprietary Credit Card by a non-bank financial institution in Sri Lanka
June 1986	Introduction of Automated Teller Machines (ATMs) in Sri Lanka
March 1988	Establishment of Sri Lanka Automated Clearing House (SLACH)
February 1989	Introduction of Credit Cards by commercial banks, in Sri Lanka
August 1992	CBSL joined the EuroClear System
June 1994	CBSL joined the SWIFT
August 1994	Introduction of Sri Lanka Interbank Payment System (SLIPS) - An off-line Electronic Fund Transfer System.
March 1997	Introduction of Debit Cards in Sri Lanka
March 1999	Introduction of Internet Banking in Sri Lanka
January 2002	Establishment of the Payments and Settlements Department of Central Bank of Sri Lanka
February 2002	Formation of LankaClear (Pvt) Ltd.
April 2002	LankaClear (Pvt) Ltd commenced clearing operations
September 2003	Real Time Gross Settlement (RTGS) System went live
February 2004	LankaSecure, the securities settlement components of LankaSettle went live
March 2004	The Debt Securities Exchange (DEX) of the Colombo Stocks Exchange (CSE) was officially launched
December 2004	Red Book – Payment Systems in Sri Lanka was published by the Bank for International Settlements (BIS)
February 2005	National Savings Bank (NSB) received direct access status in SLIPS
September 2005	Payment and Settlement Systems Act No.28 of 2005 was passed in the Parliament
March 2006	CBSL issued Guidelines on Business Continuity Planning to participants of the LankaSettle System
May 2006	Cheque Imaging and Truncation (CIT) System was launched
May 2006	CBSL issued a General Direction on CIT System to LankaClear (Pvt) Ltd and participants of the CIT System
November 2006	Lanka Financial Services Bureau Ltd was established
December 2006	CBSL issued norms and standards on settlement of inter participant transactions in the LankaSettle System, to LankaSettle participants
January 2007	The “Road Map: Monetary and Financial Sector Policies for 2007 and beyond” of CBSL was announced

Continued..

Year	Event
June 2007	The Money, Payment, Clearing and Settlement Service Providers Regulations No.01 was issued by the Hon. Minister of Finance and Planning
November 2007	CBSL issued the General Direction on the participating institutions' service norms and standard times for accepting cheque deposit from customers and crediting cheque proceeds to customers' accounts under the CIT System
February 2008	Lanka Financial Services Bureau Ltd, which was established in June 2007, began its operations.
March 2008	Inauguration of the SAARC Payments Initiative and the first meeting of the SAARC Payments Council (SPC) was held in Colombo, Sri Lanka
September 2008	3rd meeting of the SAARC Payments Council (SPC) was held in Colombo.
October 2008	Acquisition of Standard Chartered Bank (Pakistan) Limited by Standard Chartered Bank
January 2009	Option to settle the ACU transactions either in US Dollar or Euro was introduced.
May 2009	Sri Lanka's first certification authority under the brand name of LANKASIGN was established by the LankaClear Pvt Ltd. to provide digital certificate for the financial sector on electronic transactions.
June 2009	38 th meeting of the ACU Board of Directors was held in Colombo, Sri Lanka.
July 2009	Service Providers of Payment Cards Regulations No. 1 of 2009 was issued by the Hon. Minister of Finance and Planning.
September 2009	LankaSettle System Rules Version 2.0 was issued to participants of the LankaSettle System.
March 2010	Credit Card Operational Guidelines No 01 of 2010 was issued
August 2010	CBSL commenced licensing of service providers of payment cards under the Regulations No1 of 2009.
September 2010	SLIPS System was upgraded to an on - line system with T+0 settlements facility.
January 2011	CBSL issued the General Direction on Sri Lanka Interbank Payment System No. 01 /2011 to LankaClear (Pvt) Ltd. and the participants of the Sri Lanka Interbank Payment System
March 2011	Mobile Payments Guidelines No. 1 of 2011 for the Bank-led Mobile Payment Services and Mobile Payments Guidelines No. 2 of 2011 for Custodian Account Based Mobile Payment Services were issued by CBSL LankaClear (Pvt) Ltd migrated to direct connectivity mode of the CIT System (Settlement Clearing)
June 2012	The first Custodian Account Based Mobile Payment System was launched by a Mobile Network Operator
March 2013	Adoption of the Terminal Line Encryption (TLE) Technology for Electronic Fund Transfer Point of Sales (EFTPOS) Terminals
May 2013	Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013 was issued by the Hon. Minister of Finance and Planning rescinding the Service Providers of Payment Cards Regulations No.1 of 2009 which was issued in July 2009. CBSL issued the General Direction No. 01 of 2013 for Operations of the Common ATM Switch

