



Central Bank of Sri Lanka
Payments and Settlements Department

Payments Bulletin

Second Quarter, 2014

Volume 14: No. 2

ECONOMIC OUTLOOK AND POLICY MEASURES

The Sri Lankan economy grew by 7.8 per cent during the second quarter of 2014, in real terms, due to the favorable growth in all three sectors.

Table 1: Economic Indicators – Second Quarter of 2012, 2013 and 2014

Description	2012	2013	2014 ^(a)
	Q2	Q2	Q2
Real GDP growth rate (%)	6.4	6.8	7.8
Agriculture Sector	8.5	-1.1	6.5
Industry Sector	9.5	10.1	12.2
Services Sector	4.5	6.6	5.8
External Finance (US\$ million)			
Exports	2,309.6	2,297.9	2,630.0
Imports	4,434.4	4,710.8	4,237.0
Trade Balance	(2,124.9)	(2,413.0)	(1,607.1)
Prices			
Colombo Consumers' Price Index (2006/07 = 100) Quarterly average			
Point to Point Change (%)	7.5	6.8	3.6
Wholesale Price Index (1974 = 100) Quarterly average			
Point to Point Change (%)	2.2	9.2	n.a.
Exchange Rate			
Period average (Rs./US\$)	130.0606	126.7077	130.4519
End - period (Rs./US\$)	133.3044	129.9606	130.3018

(a) Provisional Source: Central Bank of Sri Lanka

The Industry Sector grew by 12.2 per cent benefiting mainly from the favorable growth in the mining and quarrying (9.3 per cent), manufacturing (10.3 per cent) and construction (19.7 per cent) sectors. Services Sector grew by 5.8 per cent during the second quarter of 2014 with the increases in the sub sectors of wholesale and retail trade (5.9 per cent), hotels and restaurants (20.5 per cent), and transport and communication (7.6 per cent). The Agriculture Sector recorded a growth of 6.5 per cent during the second quarter of 2014, compared to the negative

growth recorded during the same quarter of 2013. This growth was due mainly to the growth in sub sectors of tea (7.6 per cent), other food crops (10.4 per cent) and fishing (10.5 per cent).

Inflation as measured by the Colombo Consumers' Price Index (CCPI) (2006/07 = 100) declined to 3.6 per cent during the second quarter of 2014 compared to the same quarter of 2013. Base effect and relatively low increases in non-food items mainly contributed to persist inflation at low levels.

Table 2: Money Market Rates – Second Quarter of 2012, 2013 and 2014

Description	2012	2013	2014
	Q2	Q2	Q2
Interest rates (Per cent per annum at the end of the quarter)			
Bank rate	15.00	15.00	15.00
Call money market rate (3 month average)	9.90	9.07	6.96
Treasury bill yield rates (Primary)			
91 days	11.48	8.94	6.57
182 days	12.12	10.02	6.76
364 days	12.36	11.06	7.02
Repo rate (overnight)	7.75	7.00	6.50 *
Reverse repo rate (overnight)	9.75	9.00	8.00 *
Commercial Banks' Average Weighted Deposit Rate (AWDR)	8.33	10.67	7.73
Commercial Banks' Average Weighted Prime Lending Rate (AWPR)	13.21	13.05	8.35

Source: Central Bank of Sri Lanka

* Repo rate and Reverse repo rate under the standing facility were re-named as Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR), respectively, with effect from 2 January 2014.

The Central Bank of Sri Lanka (CBSL) maintained its relaxed monetary policy stance throughout the second quarter of 2014 as well. Accordingly, the Statutory Reserve Ratio (SRR) was at the level of 6.00 per cent during the second quarter of 2014 maintaining the reduction effected in July 2013. Further, Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) remained unchanged at the levels of 6.50 per cent and 8.00 per cent, respectively, during the second quarter of 2014. Moreover, in responding to the policy stance, the call money market rates and the rates of government securities market recorded notable decreases as at end of the second quarter of 2014 compared to the same 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 13.9 per cent to Rs. 356.4 billion as at the end of the second quarter of 2014 from Rs. 313.0 billion as at the end of the same period of 2013.

Table 3: Monetary Aggregates – As at the end of Second Quarter of 2013 and 2014

Description	(Rs. Mn)		% change	
	2013 Q2	2014 ^(a) Q2	13/12 Q2	14/13 Q2
1. Currency	313,024	356,438	5.3	13.9
of which held by:				
1.1 Banks	66,938	81,344	21.7	21.5
1.2 Public	246,087	275,094	1.6	11.8
2. Demand deposits	849,365	861,726	-6.8	1.5
of which held by:				
2.1 Government (b)	24,268	26,480	-5.1	9.1
2.2 Banks (c)	627,141	592,118	-9.8	-5.6
2.3 Public	197,956	244,128	3.9	23.3
3. Narrow Money Supply (M1) (1.2 + 2.3)	444,043	519,222	2.6	16.9
4. Time and Savings deposits held by public	2,399,792	2,695,094	23.2	12.3
5. Broad Money Supply (M2) (3+4)	2,843,835	3,214,316	19.4	13.0

(a) Provisional Source: Central Bank of Sri Lanka

(b) Government demand deposits with 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) as at end of the second quarter of 2014 increased by 13.0 per cent compared to the same quarter of 2013.

Table 4: Relative Sizes of Monetary Aggregates - Second Quarter of 2012, 2013 and 2014

Description	2012 Q2	2013 Q2	2014 ^(a) Q2
Share of Currency (%) held by			
Banks	18.5	21.4	22.8
Public	81.5	78.6	77.2
As a % of Broad Money Supply			
Currency held by public	10.2	8.7	8.6
Demand deposits held by public	8.0	7.0	7.6
Time and Savings deposits held by public	81.8	84.4	83.8

(a) Provisional

Source: Central Bank of Sri Lanka

The share of currency held by public was 77.2 per cent in the second quarter of 2014. Out of all three components of the broad money supply, Time and Savings deposits held by public remained as the major component of the broad money supply which accounted for 83.8 per cent at end of the second quarter of 2014.

Non-cash Payments

The Real Time Gross Settlement (RTGS) System and the Cheque Imaging and Truncation (CIT) System, the two systemically important payment systems in Sri Lanka accounted for 99.0 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 payments such as phone/mobile/ tele-banking and internet banking.

Cheques

The total value of cheques cleared in the second quarter of 2014 through CIT System operated by LankaClear (Pvt) Ltd. (LCPL) recorded an increase of 3.8 per cent to Rs. 1,807 billion in comparison to the same quarter of 2013.

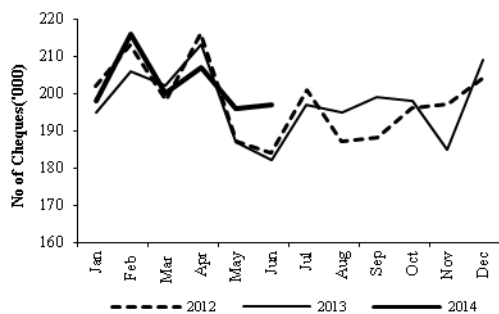
**Table 5: Cheque Clearing -
Second Quarter of 2013 and 2014**

Description	2013 Q2	2014 Q2	% change	
			13/12 Q2	14/13 Q2
1.Total number of cheques cleared	11,821,594	11,599,023	2.9	-1.9
2. Total value of cheques cleared (Rs. bn)	1,742	1,807	6.3	3.8
3. Average number of cheques cleared per day	193,797	199,983	-0.5	3.2
4. Average value of cheques cleared per day (Rs.bn)	28.5	31.2	2.8	9.2

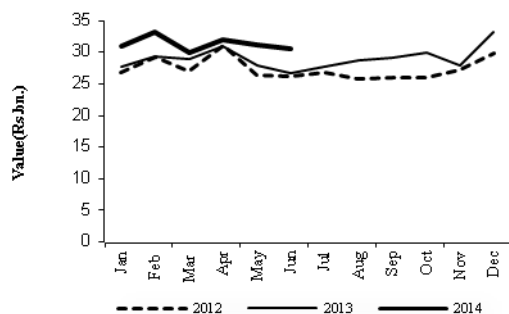
Source: LankaClear (Pvt) Ltd

The average volume and value of cheques cleared per day increased by 3.2 per cent and 9.2 per cent, respectively, during the second quarter of 2014 compared to the second quarter of 2013.

**Chart 1
Average Volume of Cheques Cleared per Day**



**Chart 2
Average Value of Cheques Cleared per Day**



**Table 6 : Volume of Cheque Clearing by Size -
Second Quarter of 2013 and 2014**

Description	Number of Cheques		(14/13) Q2 % change	2014 Q2 Share (%)
	2013 Q2	2014 Q2		
Below Rs. 0.1 mn	9,673,778	9,400,914	-2.8	81.0
Rs.0.1mn - Rs. 1mn	1,870,544	1,909,738	2.1	16.5
Rs.1 mn - Rs.1.1mn	265,583	276,042	3.9	2.4
Rs.1.1 mn - Rs.5.1mn	10,132	10,590	4.5	0.1
Rs.5.1mn - Rs.100mn	1,263	1,405	11.2	Neg
Above Rs. 100 mn.	294	334	13.6	Neg
Total	11,821,594	11,599,023	-1.9	100.0

Neg - Negligible

Source: LankaClear (Pvt.) Ltd

The percentage share of cheques for small value transactions, below Rs. 1 million was 97.5 per cent (Table 6) during the second quarter of 2014. However, the value of those cheques accounted for only 41.4 per cent (Table 7) of the total value of cheques cleared through CIT system during the quarter.

**Table 7 : Value of Cheque Clearing by Size -
Second Quarter of 2013 and 2014**

Description	Value of Cheques (Rs.mn.)		(14/13) Q2 % change	2014 Q2 Share (%)
	2013 Q2	2014 Q2		
Below Rs. 0.1 mn	225,964	224,888	-0.5	12.4
Rs.0.1mn - Rs. 1mn	513,812	525,026	2.2	29.0
Rs.1 mn - Rs.1.1mn	597,857	618,547	3.5	34.2
Rs.1.1 mn - Rs.5.1mn	217,494	225,452	3.7	12.5
Rs.5.1mn - Rs.100mn	94,533	106,356	12.5	5.9
Above Rs. 100 mn.	91,877	107,155	16.6	5.9
Total	1,741,537	1,807,424	3.8	100.0

Source: LankaClear (Pvt.) Ltd

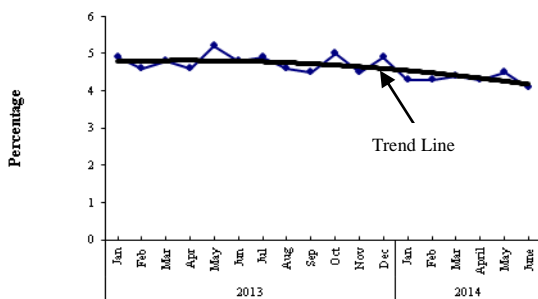
**Table 8: Cheque Returns -
Second Quarter of 2013 and 2014**

Description	2013 Q2	2014 Q2	% change	
			13/12 Q2	14/13 Q2
1.Total number of cheques returned	575,362	502,068	-3.6	-12.7
2. Total value of cheques returned (Rs. mn)	55,919	53,392	0.4	-4.5
3. Average number of cheques returned per day	9,432	8,656	-6.8	-8.2
4. Average value of cheques returned per day (Rs.mn)	917	921	-2.9	0.4
5.Number of cheques returned as a % of total number of cheques received for clearing	4.9	4.3		
6.Value of cheques returned as a % of total value of cheques received for clearing	3.2	3.0		

Source: LankaClear (Pvt) Ltd

The total number of returned cheques declined by 12.7 per cent during the second quarter of 2014 in comparison to the same quarter of 2013. The total value of returned cheques also recorded a decline of 4.5 per cent to Rs. 53.4 billion and the average number of cheques returned per day decreased by 8.2 per cent in the second quarter of 2014 compared to the second quarter of 2013. This decline may be a result of the measures adopted by commercial banks on the instructions of CBSL, commencing 2013, to reduce the cheque returns.

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



The volume of cheque returns, as a percentage of total volume of cheques received for clearing was 4.3 per cent and the value of cheque returns as a percentage of total value of cheques received for clearing was 3.0 per cent during the second quarter of 2014.

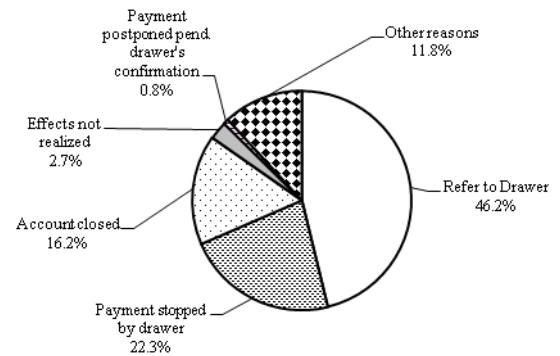
**Table 9: Return Code-wise Cheque Returns (%) -
Second Quarter of 2013 to Second Quarter
2014**

Return Code	2013			2014	
	Q2	Q3	Q4	Q1	Q2
Refer to Drawer	46.5	46.8	46.4	46.6	46.2
Payment stopped by drawer	21.2	21.6	21.6	21.2	22.3
Account closed	16.4	16.8	17.1	17.1	16.2
Effects not realized	3.2	2.9	2.7	2.6	2.7
Payment postponed pending drawer's confirmation	0.7	0.6	0.7	0.7	0.8
Other reasons	12	11.3	11.5	11.9	11.8

Source: LankaClear (Pvt.) Ltd

As shown in Table 9 and Chart 4, 'Refer to Drawer' remained as the major factor for the cheque returns which is accounted for 46.2 per cent of total cheques returned during the second quarter of 2014.

**Chart 4
Return Code-wise Cheque Returns
2nd Quarter 2014**



US Dollar Clearing System

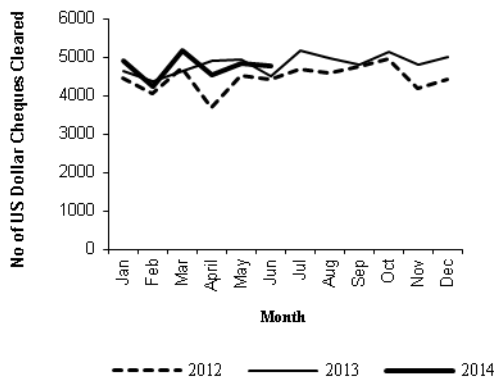
The volume and value of US Dollar cheques cleared through the US Dollar Cheque Clearing System operated by LCPL declined slightly by 1.6 per cent and 3.2 per cent, respectively, in the second quarter of 2014.

Table 10: US Dollar Cheques Clearing of LCPL - Second Quarter of 2013 and 2014

Description	2013 Q2	2014 Q2	% change	
			13/12 Q2	14/13 Q2
1.Total number of US Dollar cheques cleared	14,400	14,172	13.6	-1.6
2. Total value of US Dollar cheques cleared (\$)	61,321,304	59,357,721	24.0	-3.2
3. Average number of US Dollar cheques cleared per day	236	244	9.9	3.5
4. Average value of US Dollar cheques cleared per day (\$)	1,005,267.3	1,023,409.0	19.9	1.8

Source: LankaClear (Pvt) Ltd

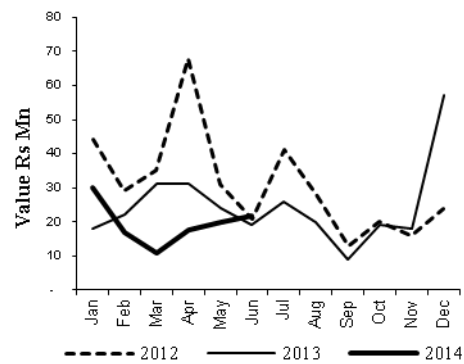
Chart 5
Monthly Volume of US Dollar Cheques Clearing



Rupee Draft Clearing System

The total value of Rupee Drafts cleared through LCPL decreased by 19.5 per cent to Rs. 59.4 million in the second quarter of 2014 in comparison to the same quarter of 2013.

Chart 6
Monthly Value of Rupee Draft Clearing



Sri Lanka Interbank Payment System (SLIPS)

SLIPS, which is the on-line interbank retail payment system operated by LCPL provides T+0 basis settlements on each business day.

Exhibiting the growing popularity of transactions through SLIPS, the volume and value of transactions cleared through SLIPS increased further by 19.8 per cent and 22.9 per cent, respectively, during the second quarter of 2014. Consequently, the average daily volume and value of SLIPS transactions grew by 25.9 per cent and 29.2 per cent, respectively, during the quarter compared to the same quarter of 2013.

Table 11: SLIPS Transactions - Second Quarter of 2013 and 2014

Description	2013 Q2	2014 Q2	% change	
			13/12 Q2	14/13 Q2
1.Total volume of transactions cleared	4,252,632	5,092,769	18.4	19.8
2. Total value of transactions cleared (Rs. mn)	171,832	211,153	28.7	22.9
3. Average volume of transactions cleared per day	69,715	87,806	14.5	25.9
4. Average value of transactions cleared per day (Rs.mn)	2,817	3,641	24.5	29.2

Source: LankaClear (Pvt) Ltd.

Chart 7
Average Volume and Value of SLIPS Transactions per day

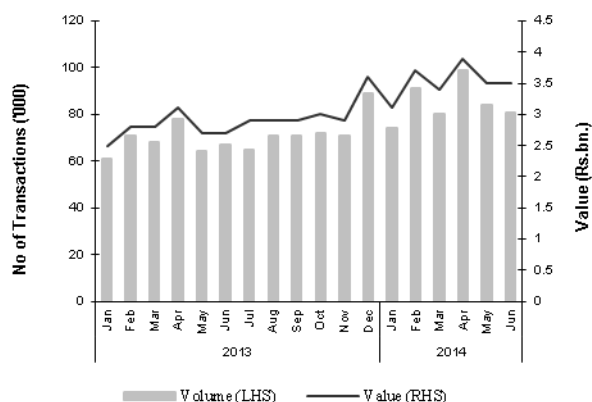


Table 12: SLIPS Transactions by Size - Second Quarter of 2013 and 2014

Transaction Value (a)	Number of Transactions		Total Value (Rs. mn.)	
	2013 Q2	2014 Q2	2013 Q2	2014 Q2
Less than Rs. 1 mn.	4,233,812	5,069,292	128,216	155,163
Rs. 1mn – Rs. 5 mn	18,820	23,477	43,617	55,990
Total	4,252,632	5,092,769	171,832	211,153

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 73.5 per cent of the total value of SLIPS transactions (Table 12).

Table 13: SLIPS Transactions by Type - Second Quarter of 2013 and 2014

Transaction	Total Volume		Total Value (Rs. mn)	
	2013 Q2	2014 Q2	2013 Q2	2014 Q2
Credit transactions	4,250,022	5,090,449	171,227	210,441
Debit transactions	2,610	2,320	606	712
Total transactions	4,252,632	5,092,769	171,832	211,153

Source: LankaClear (Pvt) Ltd.

In terms of the types of SLIPS transactions, credit transfers continued to remain as the major transaction category. The share of the total volume and value of credit transactions of the total transactions were 99.9 per cent and 99.7 per cent, respectively, 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 36 participants consisting of CBSL, 25 Licensed Commercial Banks (LCBs), 8 Primary Dealer companies, Employees' Provident Fund (EPF) and Central Depository System of the Colombo Stock Exchange, as at end of the second quarter of 2014.

Table 14: RTGS Transactions – Second Quarter of 2013 and 2014

Description	2013 Q2	2014 Q2	% change	
			13/12 Q2	14/13 Q2
1. Total no. of transactions	77,074	76,958	10.5	-0.2
2. Total value of transactions (Rs.bn.)	13,450	13,106	20.7	-2.6
3. Average no. of transactions per day	1,264	1,327	6.9	5.0
4. Average value of transactions per day (Rs.bn.)	220	226	16.7	2.5

Source: Central Bank of Sri Lanka

The average volume and value of RTGS transactions per day recorded increases of 5.0 per cent and 2.5 per cent, respectively, during the quarter.

Table 15: Volume of RTGS Transactions by Size - Second Quarter of 2013 and 2014

Transaction Value	No. of Transactions		% share	
	2013 Q2	2014 Q2	2013 Q2	2014 Q2
Below Rs. 1 mn	9,124	11,937	11.8	15.5
Rs 1 mn - Rs 100 mn	46,707	43,505	60.6	56.5
Rs 100 mn - Rs 500 mn	15,323	15,665	19.9	20.4
Rs 500 mn - Rs 1,000 mn	3,584	3,571	4.7	4.6
Rs. 1,000 mn and above	2,336	2,280	3.0	3.0
Total	77,074	76,958	100.0	100.0

Source: Central Bank of Sri Lanka

In terms of volume, RTGS transactions with values between Rs. 1 mn - Rs 100 mn continued to remain as the dominant transactions category (56.5 per cent) during the second quarter of 2014 (Table 15). However, in value terms, that category accounted only for 8.2 per cent during the quarter while values between Rs. 1,000 mn and above remains as the highest category recording a share of 41.5 per cent (Table 16).

Table 16: Value of RTGS Transactions by Size – Second Quarter of 2013 and 2014

Transaction Value	Value (Rs. bn.)		% share	
	2013 Q2	2014 Q2	2013 Q2	2014 Q2
Below Rs. 1 mn	2	3	Neg	Neg
Rs 1 mn - Rs 100 mn	1,164	1,069	8.7	8.2
Rs 100 mn - Rs 500 mn	3,981	3,905	29.6	29.8
Rs 500 mn - Rs 1,000 mn	2,932	2,688	21.8	20.5
Rs. 1,000 mn and above	5,371	5,441	39.9	41.5
Total	13,450	13,106	100.0	100.0

Source: Central Bank of Sri Lanka

Table 17: Volume of RTGS Transactions by Type - Second Quarter of 2013 and 2014

Type	No. of Transactions		% change	
	2013 Q2	2014 Q2	13/12 Q2	14/13 Q2
Repo/R.Repo/ILF	19,749	18,651	43.0	-5.6
Interbank Transactions	12,412	10,704	-5.8	-13.8
Customer Transactions	37,377	37,762	5.8	1.0
LankaSecure Transactions	877	2,735	-6.2	211.9
Clearing House Transactions	6,659	7,106	2.9	6.7
Internal Fund Transfers	-	-	-	-
Total	77,074	76,958	10.5	-0.2

Source: Central Bank of Sri Lanka

Customer transactions which was the largest category in terms of RTGS transactions volume (Table 17), accounted for 50 per cent of the total transactions in the second quarter of 2014. The LankaSecure transactions have shown significant improvement both in terms of volume and value by 211.9 per cent and 334.3 per cent, respectively, during the second quarter of 2014 mainly due to the reporting of Standing Deposit Facility (SDF) transactions under the LankaSecure transactions with effect from 03 February 2014. As a result,

the category of Repo, Reverse Repo and ILF transactions has shown decreases both in terms of volume and value by 5.6 per cent and 7.9 per cent, respectively (Table 17 and Table 18). Further, low level of open market operations executed with the prevailed stability in the market during the second quarter of 2014 in comparison to the same quarter of 2013 may be the reason for the decline in interbank transactions.

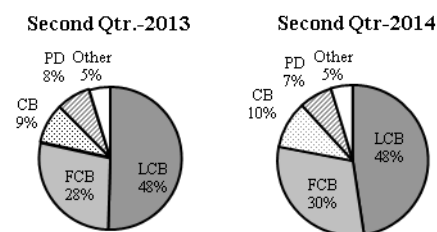
Table 18: Value of RTGS Transactions by Type - Second Quarter of 2013 and 2014

Type	Value (Rs. bn.)		% change	
	2013 Q2	2014 Q2	13/12 Q2	14/13 Q2
Repo/R.Repo/ILF	7,947	7,316	39.9	-7.9
Interbank Transactions	3,311	2,388	2.5	-27.4
Customer Transactions	1,277	1,202	16.2	-5.9
LankaSecure Transactions	376	1,633	-38.0	334.3
Clearing House Transactions	540	567	2.5	5.1
Internal Fund Transfers	-	-	-	-
Total	13,450	13,106	20.7	-2.6

Neg - Negligible

Source: Central Bank of Sri Lanka

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



LCB - Local Commercial Banks
 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 the RTGS transactions in the second quarters of 2013 and 2014. Local commercial banks accounted for 48 per cent of the RTGS transactions, while foreign commercial banks accounted for 30 per cent, in the second quarter of 2014.

Table 19: Time Distribution of Receiving and Settlement of RTGS Transactions - Second Quarter of 2013 and 2014

Description	No of Items		% share	
	2013 Q2	2014 Q2	2013 Q2	2014 Q2
Before 12.00 noon	26,340	25,870	34.2	33.6
After 12.00 noon	50,734	51,088	65.8	66.4
Total	77,074	76,958	100.0	100.0

Source: Central Bank of Sri Lanka

As shown in Table 19, out of the total RTGS transactions, majority of transactions was effected after 12.00 noon accounting for 66.4 per cent of total transactions, during the second quarter of 2014.

Payment Cards

Credit Cards

At the end of the second quarter of 2014, 12 credit card issuers licensed by CBSL were engaged in the credit card business. Total number of credit cards in use was 973,979 recording an increase of 6.9 per cent at end of the second quarter 2014 in comparison to the same quarter of 2013.

Table 20: Credit Cards in Use - Second Quarter of 2013 and 2014

Description	2013 Q2	2014(a) Q2	% change	
			13/12 Q2	14/13 Q2
No of Cards issued during the period	39,338	39,182	-4.3	-0.4
Total No. of Credit Cards in Use (As at end period)	910,705	973,979	6.7	6.9
Domestic and International Cards	873,109	939,582	7.6	7.6
Domestic Only Cards	37,596	34,397	-10.4	-8.5
Total Number of transactions ('000)	5,380	5,839	7.9	8.5
Total Value of transactions (Rs.mn)	29,947	33,018	8.7	10.3

(a) Provisional

Source: Commercial Banks

Volume and value of credit card transactions recorded an increase of 8.5 per cent and 10.3 per cent, respectively, in the second quarter of 2014 in comparison to the same quarter of 2013 reflecting the popularity of the usage of credit cards.

Chart 9
Total Number of New Credit Cards Issued (during the quarter)

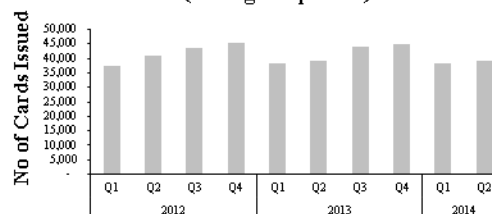
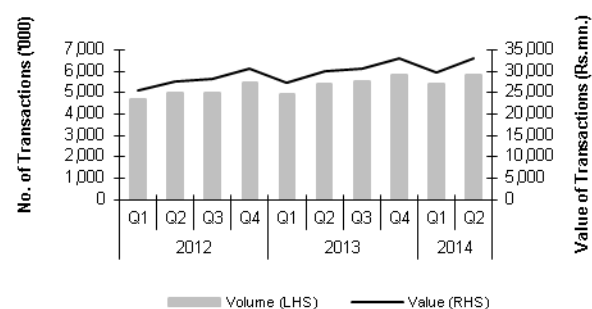
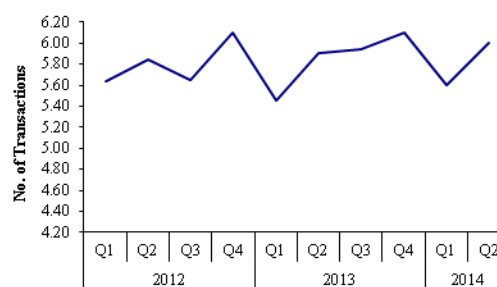


Chart 10
Total Volume & Value of Transactions effected through Credit Cards during the quarter



The average number of transactions per credit card was at 6.0 in the second quarter of 2014 indicating a slight increase from 5.6 recorded in the first quarter of 2014 (Chart 11).

Chart 11
Average Number of Transactions per Credit Card during the quarter



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 2014, was 72,491 and the total value of defaulted credit card payments amounted to Rs. 3.8 billion.

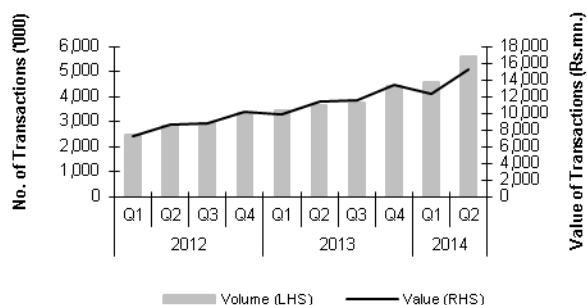
Debit Cards

Table 21: Debit Cards in Use - Second Quarter of 2013 and 2014

Description	2013 Q2	2014 Q2 (a)	% change	
			13/12 Q2	14/13 Q2
Number of Debit Cards issued during the period	555,071	572,065	32.7	3.1
Total No. of Debit Cards in Use (As at end period)	11,475,953	12,232,645	19.4	6.6
Domestic & International	11,138,588	11,871,755	20.4	6.6
Domestic Only	337,365	360,890	-6.1	7.0
Total Number of transactions('000)	3,964	5,632	39.4	42.1
Total Value of transactions (Rs.mn)	11,439	15,297	32.6	33.7
(a) Provisional		Source: Commercial Banks		

As at end of the second quarter of 2014, there were 23 debit card issuers licensed by CBSL. The total number of debit cards in use was 12.2 million at end of the period. The majority of debit cards had the facility to use for both domestic and international transactions. Total volume and value of debit card transactions recorded significant increases of 42.1 per cent and 33.7 per cent, respectively, during the second quarter of 2014 in comparison to the same quarter of 2013.

Chart 12
Total Volume & Value of transactions effected through Debit Cards during the quarter



Mobile Phone/Tele-banking/Internet Banking

Table 22 : Payment Instructions Handled Through Electronic Systems - Second Quarter of 2013 and 2014

Description	2013 Q2	2014(a) Q2	% change	
			13/12 Q2	14/13 Q2
Tele-banking / Mobile Phone Banking				
No. of financial transactions	61,393	161,574	20.0	163.2
Value of Transactions (Rs.mn)	1,565	2,188	23.6	39.8
Internet Banking				
No. of financial transactions	2,210,225	2,861,602	30.7	29.5
Value of Transactions (Rs.mn)	189,291	304,692	52.8	61.0

(a) Provisional

Source: Commercial Banks

Continuing the popularity of phone based electronic payments, the volume of financial transactions effected through tele-banking/mobile banking recorded a significant increase of 163.2 per cent, in the second quarter of 2014 when compared to the same quarter of 2013. Further, value of financial transactions made through phone based electronic means also increased by 39.8 per cent in the second quarter of 2014 in comparison to the same quarter of 2013.

Reflecting the growing popularity of e-commerce, the volume and value of the financial transactions effected through internet banking recorded increases of 29.5 per cent and 61.0 per cent, respectively, during the second quarter of 2014.

Automated Teller Machines (ATMs)

The total number of ATM terminals stood at 3,181 recording an increase of 6.3 per cent as at end of the second quarter of 2014. Reflecting the customer preference for cash withdrawals through ATM terminals, both volume and value of ATM terminal transactions grew by 12.9 per cent and 17.1 per cent, respectively, in the second quarter of 2014.

Table 23 : ATM Terminals and Transactions - Second Quarter of 2013 and 2014

Description	2013 Q2	2014(a) Q2	% change	
			13/12 Q2	14/13 Q2
ATMs				
Total number of machines (End of period)	3,002	3,181	10.9	6.3
Total volume of financial transactions (During the period in '000)	38,108	43,023	19.2	12.9
Total value of transactions (During the period in Rs. mn.)	278,748	326,290	22.9	17.1
(a) Provisional	Source: Commercial Banks Specialized Banks Registered Finance Companies			

Common Card and Payment Switch (CCAPS)

The Common ATM Switch (CAS), which is the first phase of the Common Card and Payment Switch (CCAPS), was launched on 23rd July 2013. As at end of the second quarter 2014, there were seven commercial banks facilitating their customers to operate ATM transactions through CAS. The other switches of CCAPS are Shared ATM Switch (SAS), Common Electronic Fund Transfer Switch (CEFTS), Common Mobile Switch (CMobS) and Common POS Switch (CPS). CCAPS is a project undertaken by LCPL based on a recommendation of CBSL, in order to establish a national platform for the electronic retail payments in the country.

Transactions carried out through CAS recorded a significant increase from its inception. The increases showed in the second quarter against the first quarter in volume and value of transactions were 57.1 per cent and 72.4 per cent, respectively.

Table 24 : Common ATM Switch (CAS) – Volume and Value of Transactions cleared through CAS

Description	2013	2014	
	Q4	Q1	Q2
Total number of transactions	716,652	881,404	1,385,106
Total value of transactions (During the period in Rs. mn.)	2,311	2,976	5,131

Source: LankaClear (Pvt.) Ltd

Electronic Fund Transfers at Point of Sale (EFTPOS) Terminals

The total number of EFTPOS terminals stood at 30,015 as at end of the second quarter of 2014 in comparison to the same quarter of 2013. Total volume and value of financial transactions made through EFTPOS grew by 25.2 per cent and 21.0 per cent, respectively, during the second quarter of 2014.

Table 25 : EFTPOS Terminals and Transactions - Second Quarter of 2013 and 2014

Description	2013 Q2	2014 ^(a) Q2	% change	
			13/12 Q2	14/13 Q2
Total number of machines (End of period)	24,515	30,015	-14.8	22.4
Total volume of financial transactions (During the period in '000)	8,877	11,117	15.3	25.2
Total value of transactions (During the period in Rs. mn.)	44,185	53,442	11.1	21.0

(a) Provisional

Source: Commercial Banks

Money Orders

As at the end of second quarter of 2014, the total number of post offices stood at 4,628. The salient feature observed in the transactions through money orders was that the community is moving towards the electronic payments, as the paper based money orders showed decline while the transactions through e-money orders increased in the second quarter of 2014. In terms of value, E- Money orders stood as the major postal payment instrument used by the public which accounted for 76.6 per cent of total value of Money Orders. The value of the payments effected through e-money orders was over Rs. 1.2 billion in the second quarter of 2014.

Table 26 : Value of Payments made through Money Orders and Postal Orders

	2013 Q2	2014 Q2 ^(a)	% Change (14/13)
Money Orders (Value Rs. '000)	1,558,433	1,614,213	3.6
Ordinary Money Orders	478,525	337,886	-29.4
Telegraph Money Orders	7,296	1,608	-78.0
Fax Money Orders	172	2	-98.8
E-Money Orders	1,036,983	1,236,419	19.2
International Money Orders	2,119	2,040	-3.7
Local Value Payment Money Orders	32,793	35,534	8.4
British Postal Orders (Value Rs. '000)	545	724	32.8
Total No. of Post Offices (end period) ^(b)	4,628	4,628	0.0

(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 1974 with the main objective of facilitating 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 9 central banks/monetary authorities of Bangladesh, Bhutan, India, Iran, Nepal, Maldives, Myanmar, Pakistan and Sri Lanka.

Table 27: Asian Clearing Union (ACU) Transactions Value and Volume of Sri Lanka - Second Quarter of 2013 and 2014

Description	2013 Q2	2014(a) Q2	% change	
			13/12 Q2	14/13 Q2
Total Number of Transactions	1,282	1,599	8.8	24.7
Value of total receipts (Rs. Mn)	4,912	8,770	-62.1	78.5
Value of total payments (Rs. Mn)	53,337	73,392	-51.9	37.6

(a) Provisional

Source: Central Bank of Sri Lanka

The total volume of transactions effected by Sri Lanka through the ACU mechanism increased by 24.7 per cent in the second quarter of 2014. The value of total payments effected through ACU mechanism increased by 37.6 per cent and the value of total receipts effected through ACU mechanism increased significantly by 78.5 per cent during the second quarter of 2014 when compared to the same quarter of 2013.

SWIFT

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is an internationally accepted, standard and secured communication system for financial transactions. The main purpose of the SWIFT communication is to ensure smooth, efficient and risk free transmission of messages (relating to financial transactions and financial information) through the SWIFT communication system.

Table 28: Participation in SWIFT by Financial Institutions

Item	2013	2014
	Q2	Q2
Total Domestic SWIFT users (End of Period)	35	37
Members	11	11
Sub-members	12	12
Participants	12	14
Total SWIFT worldwide users (End of Period)	10,444	10,689
Members	2,397	2,380
Sub-members	3,343	3,359
Participants	4,704	4,950

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

The domestic SWIFT users increased to 37 from 35, while the total number of Global SWIFT users increased to 10,689 from 10,444 at the end of the second quarter of 2014 when compared to the same quarter of 2013.

Table 29 : SWIFT Message Flow in Sri Lanka - Second Quarter of 2013 and 2014

Description	2013 Q2	2014 Q2	% change	
			13/12 Q2	14/13 Q2
All messages sent by domestic users	1,067,580	1,025,221	14.6	-4.0
From Category I *	145,759	151,639	8.4	4.0
Category II **	111,707	110,704	11.5	-0.9
All messages received by domestic users	1,216,802	1,193,163	8.3	-1.9
To Category I	411,948	446,010	-3.2	8.3
Category II	32,383	33,668	-1.6	4.0
Domestic Traffic	542,833	478,946	20.4	-11.8

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

*Category I - Customer (Funds) Transfers

**Category II - Bank (Funds) Transfers

The domestic SWIFT traffic declined by 11.8 per cent during second quarter of 2014 compared to the same quarter of 2013. However, the global SWIFT traffic recorded an increase of 8.6 per cent to 1,399 million during the second quarter of 2014, in comparison to the same quarter of 2013.

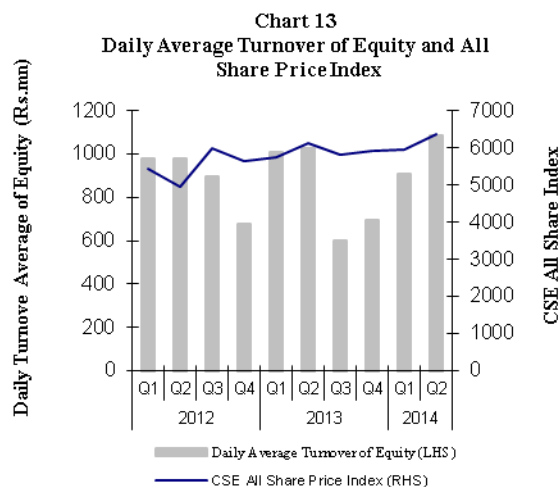
All messages received by Category I and Category II domestic users recorded an increases of 8.3 per cent and 4.0 per cent, respectively, during the second quarter of 2014 when compared to the same quarter of 2013.

Trading and Settlements on the Colombo Stock Exchange

The total number of intermediaries i.e. member firms (15) and stockbrokers (15) who engaged in trading of equity and debt securities on behalf of investors on the Colombo Stock Exchange (CSE), remained at 30 as at the end of second quarter of 2014. The total number of customer accounts in the Central Depository System (CDS) of CSE was 741,968 and the total volume and value of equity shares lodged in the CDS were 72.1 billion and Rs 2,389.6 billion, respectively, as at end of the second quarter of 2014.

The daily average turnover of equity transactions increased by 5.9 per cent to Rs 1,088 million in the second quarter of 2014.

The All Share Price Index (ASPI) of CSE increased by 6.9 per cent in the second quarter of 2014.



Bank Computer Security Incident Response Team (Bank CSIRT)

Technology has been the major contributory factor in reshaping the banking industry in the modern era, with financial products, banking systems and processes being revolutionized with technological advances. As a consequence, the risk structure of financial institutions has changed with technological and security risks becoming a major concern in risk management of the financial services sector. Technological developments have also increased the interconnectivity among financial institutions which has resulted in technological and security risks become more complex.

The Bank CSIRT, a collective security risk mitigation effort of the financial institutions operating in Sri Lanka which is planned to be launched in July 2014, will primarily receive, review, process and respond to computer security alerts and incidents that are probable to affect or has already affected those institutions. Establishment of the Bank CSIRT was initiated jointly by the Central Bank of Sri Lanka and the Sri Lanka Computer Emergency Response Team (Sri Lanka CERT). LankaClear Private Limited will be hosting the platform of Bank CSIRT.

In performing its role to strengthen the security of electronic banking transactions, the following functions will be performed by the Bank CSIRT.

- Formulating and implementing Baseline Security Standards for banks with a view to ensure that all Bank CSIRT members comply to a minimum acceptable security standard which is set based on ISO 27001 Information Security Management Standards;
- Sharing of information on cyber frauds and attacks anonymously among Bank CSIRT members;
- Alerting members as a preventive measure through providing information and advice;
- Providing incident response services;
- Registration of certified third party service providers.

Effective functioning of the Bank CSIRT will be vital in securing online banking activities which in turn will assist in building confidence in the minds of the users and potential users of online banking services. Financial institutions on the other hand will benefit immensely from the services provided by the Bank CSIRT, especially by receiving vital fraud information of peer institutions without delay, allowing those institutions to take preventive measures immediately. Taken as a whole the operations of the Bank CSIRT will promote financial system stability through minimizing the adverse impacts generated by cyber frauds and organized cyber attacks.

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
June 2012	LankaClear (Pvt) Ltd migrated to direct connectivity mode of the CIT System (Settlement Clearing) 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	The Payment Card and Mobile Payment Systems Regulations No. 1 of 2013 was issued by the Hon. Minister of Finance and Planning replacing the Service Providers of Payment Cards Regulations No.1 of 2009 issued in July 2009. CBSL issued the General Direction No. 01 of 2013 of the Operations of the Common ATM Switch
July 2013	LankaClear (Pvt) Ltd launched the Common ATM Switch (CAS) as the first phase of the Common Card and Payment Switch (CCAPS) CBSL issued the General Direction No. 02 of 2013 of the fees chargeable on the transactions effected through the CAS
November 2013	Second Custodian Account Based Mobile Payment System was launched by a Mobile Network Operator
February 2014	The General Direction No. 1 of 2014 – Fees Chargeable on the Transactions effected through the CAS was issued by CBSL replacing the General Direction No 02 of 2013.

