



# Payments Bulletin

**Central Bank of Sri Lanka**  
Payments and Settlements Department

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## ECONOMIC OUTLOOK AND POLICY MEASURES

The Sri Lankan economy grew by 8.2 per cent during the fourth quarter of 2013, in real terms, due to favorable growth of all three major sectors. The growth in the Services Sector, which recorded 6.5 per cent growth, was due mainly to the growth in the transport and communication (6.7 per cent), hotels and restaurants (27.0 per cent), and wholesale and retail trade (7.1 per cent) sectors. The growth in the manufacturing sector (11.9 per cent) mainly contributed to the growth of 10.7 per cent in the Industry Sector. The Agriculture Sector growth (10.4 per cent) was mainly contributed by the growth in paddy sector (57.2 per cent), inland fishing sector (78.8 per cent) and rubber sector (18.7 per cent) during the fourth quarter of 2013.

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

| Description  | 2011<br>Q4 | 2012<br>Q4 | 2013 <sup>(a)</sup><br>Q4 |
|--|------------|------------|---------------------------|
| <b>Real GDP growth rate (%)</b>  | 8.3        | 6.3        | 8.2                       |
| Agriculture Sector   | 2.4        | 0.3        | 10.4                      |
| Industry Sector  | 10.0       | 13.4       | 10.7                      |
| Services Sector  | 8.5        | 3.7        | 6.5                       |
| <b>External Finance (US\$ million)</b>   |            |            |                           |
| Exports  | 2,708.3    | 2,468.9    | 3,060.9                   |
| Imports  | 5,619.2    | 5,017.1    | 4,514.4                   |
| Trade Balance  | (2,910.9)  | (2,548.1)  | (1,453.6)                 |
| <b>Prices</b>  |            |            |                           |
| Colombo Consumers' Price Index<br>(2006/07 = 100) Quarterly average<br>Point to Point Change (%) | 4.9        | 9.2        | 5.7                       |
| Wholesale Price Index<br>(1974 = 100) Quarterly average<br>Point to Point Change (%)             | -2.6       | 12.7       | 6.7                       |
| <b>Exchange Rate</b>   |            |            |                           |
| Period average (Rs./US\$)  | 111.8081   | 129.2643   | 131.0051                  |
| End - period (Rs./US\$)  | 113.9013   | 127.1608   | 130.7530                  |

(a) Provisional

Source: Central Bank of Sri Lanka

Trade deficit contracted by 43.0 per cent in the fourth quarter of 2013 in comparison to the fourth quarter of 2012. This was due mainly to the sharp growth in export earnings led by the significant performance of exports of textiles and garments, and decline in import expenditure mainly on account of the decreased expenditure on refined petroleum products.

**Table 2: Money Market Rates – Fourth Quarter of 2011, 2012 and 2013**

| Description   | 2011<br>Q4 | 2012<br>Q4 | 2013<br>Q4 |
|---|------------|------------|------------|
| <b>Interest rates</b><br>(Per cent per annum at the end of the quarter) |            |            |            |
| Bank rate   | 15.00      | 15.00      | 15.00      |
| Call money market rate<br>(3 month average)                             | 8.37       | 10.44      | 7.87       |
| Treasury bill yield rates<br>(Primary)                                  |            |            |            |
| 91 days   | 7.83       | 10.59      | 8.11       |
| 182 days  | 7.81       | 11.89      | 8.89       |
| 364 days  | 8.21       | 12.49      | 9.68       |
| Repo rate (overnight)   | 7.00       | 7.50       | 6.50       |
| Reverse repo rate (overnight)   | 8.50       | 9.50       | 8.50       |
| Commercial Banks' Average<br>Weighted Deposit Rate (AWDR)               | 6.84       | 9.79       | 9.56       |
| Commercial Banks' Average<br>Weighted Prime Lending Rate<br>(AWPR)      | 9.88       | 14.16      | 10.79      |

Source: Central Bank of Sri Lanka

The Central Bank of Sri Lanka (CBSL) continued the monetary policy relaxation process throughout the fourth quarter of 2013 as well. Accordingly, the Statutory Reserve Ratio (SRR) was at the level of 6.00 per cent

during the fourth quarter of 2013 maintaining the reduction effected in July 2013. The Repurchase rate and the Reverse Repurchase rate were reduced by 50 basis points each in October 2013 to 6.5 per cent and 8.5 per cent, respectively. In responding to the policy stance, the call money market rates and the rates of government securities market also recorded significant decreases as at end of the fourth quarter of 2013 over the same quarter of 2012.

## 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 6.8 per cent to Rs. 339.8 billion at the end of the fourth quarter of 2013 from Rs. 318.1 billion as at the end of the same period of 2012.

**Table 3: Monetary Aggregates – As at the end of Fourth Quarter of 2012 and 2013**

| Description                                    | (Rs. Mn)  |                     | % change |       |
|--|-----------|---------------------|----------|-------|
|  | 2012      | 2013 <sup>(a)</sup> | 12/11    | 13/12 |
|  | Q4        | Q4                  | Q4       | Q4    |
| 1. Currency                                    | 318,060   | 339,771             | 8.5      | 6.8   |
| of which held by:                              |           |                     |          |       |
| 1.1 Banks                                      | 66,522    | 75,164              | 32.1     | 13.0  |
| 1.2 Public                                     | 251,538   | 264,607             | 3.6      | 5.2   |
| 2. Demand deposits                             | 867,583   | 818,293             | 12.4     | -5.7  |
| of which held by:                              |           |                     |          |       |
| 2.1 Government (b)                             | 26,084    | 25,165              | -26.5    | -3.5  |
| 2.2 Banks (c)                                  | 642,989   | 573,157             | 19.0     | -10.9 |
| 2.3 Public                                     | 198,510   | 219,971             | 1.4      | 10.8  |
| 3. Narrow Money Supply (M1)<br>(1.2 + 2.3)     | 450,049   | 484,578             | 2.6      | 7.7   |
| 4. Time and Savings deposits<br>held by public | 2,143,136 | 2,574,215           | 22.2     | 20.1  |
| 5. Broad Money Supply (M2)<br>(3+4)            | 2,593,185 | 3,058,793           | 18.3     | 18.0  |

(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) increased by 18.0 per cent in the fourth quarter of 2013 compared to the same quarter of 2012. The increase in credit to the Government and private sector from the banking sector was the main contributing factor for the growth in broad money supply.

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

| Description                                 | 2011<br>Q4 | 2012<br>Q4 | 2013 <sup>(a)</sup><br>Q4 |
|---|------------|------------|---------------------------|
| Share of Currency (%) held by               |            |            |                           |
| Banks                                       | 17.2       | 20.9       | 22.1                      |
| Public                                      | 82.8       | 79.1       | 77.9                      |
| As a % of Broad Money Supply                |            |            |                           |
| Currency held by public                     | 11.1       | 9.7        | 8.7                       |
| Demand deposits held by public              | 8.9        | 7.7        | 7.2                       |
| Time and Savings deposits held<br>by public | 80.0       | 82.6       | 84.2                      |

(a) Provisional

Source: Central Bank of Sri Lanka

The share of currency held by public was 77.9 per cent in the fourth quarter of 2013. 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 84.2 per cent at end of the fourth quarter of 2013.

### 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 number of cheques cleared in the fourth quarter of 2013 through CIT System operated by LankaClear (Pvt) Ltd. (LCPL) grew by 0.8 per cent to 12.2 million cheques in comparison to the same quarter of 2012. The total value of the cheques cleared increased by 11.7 per

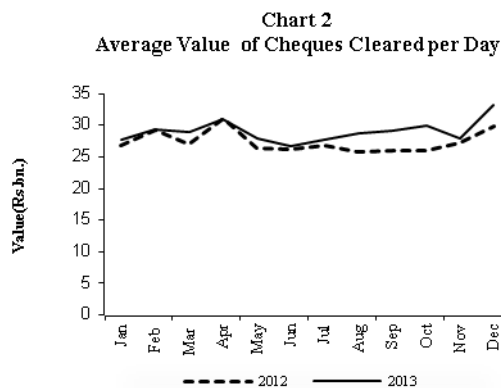
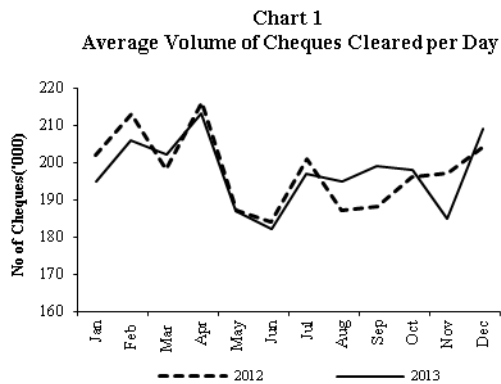
cent to Rs. 1,875 billion during fourth quarter of 2013, when compared to the same quarter of 2012.

**Table 5: Cheque Clearing - Fourth Quarter of 2012 and 2013**

| Description   | 2012 Q4    | 2013 Q4    | % change |          |
|---|------------|------------|----------|----------|
|   |            |            | 12/11 Q4 | 13/12 Q4 |
| 1.Total number of cheques cleared                   | 12,123,899 | 12,215,689 | 2.0      | 0.8      |
| 2. Total value of cheques cleared (Rs. bn)          | 1,679      | 1,875      | 4.1      | 11.7     |
| 3. Average number of cheques cleared per day        | 198,752    | 197,027    | 0.3      | -0.9     |
| 4. Average value of cheques cleared per day (Rs.mn) | 27,517     | 30,240     | 2.4      | 9.9      |

Source: LankaClear (Pvt) Ltd

The average volume of cheques cleared per day decreased by 0.9 per cent and the average value of cheques cleared per day increased by 9.9 per cent during the fourth quarter of 2013 in comparison to the same period of 2012.



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

| Description        | Number of Cheques |                   | (13/12) % change | 2013 Q4 % Share |
|--------------------|-------------------|-------------------|------------------|-----------------|
|                    | 2012 Q4           | 2013 Q4           |                  |                 |
| Below Rs. 0.1 mn   | 10,059,874        | 9,985,285         | -0.7             | 81.7            |
| Rs.0.1mn - Rs. 1mn | 1,828,083         | 1,943,287         | 6.3              | 15.9            |
| Rs.1 mn - Rs.11mn  | 225,309           | 274,862           | 22.0             | 2.3             |
| Rs.11 mn - Rs.51mn | 9,187             | 10,343            | 12.6             | 0.1             |
| Rs.51mn - Rs.100mn | 1,170             | 1,579             | 35.0             | Neg             |
| Above Rs. 100 mn.  | 276               | 333               | 20.7             | Neg             |
| <b>Total</b>       | <b>12,123,899</b> | <b>12,215,689</b> | <b>0.8</b>       | <b>100.0</b>    |
| 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 (Table 6) of the total volume of cheques cleared during the fourth quarter of 2013. However, the value of those cheques accounted for only 40.9 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 - Fourth Quarter of 2012 and 2013**

| Description        | Value of Cheques (Rs.mn.) |                  | (13/12) % change | 2013 Q4 % Share |
|--------------------|---------------------------|------------------|------------------|-----------------|
|                    | 2012 Q4                   | 2013 Q4          |                  |                 |
| Below Rs. 0.1 mn   | 227,572                   | 234,230          | 2.9              | 12.5            |
| Rs.0.1mn - Rs. 1mn | 515,017                   | 532,994          | 3.5              | 28.4            |
| Rs.1 mn - Rs.11mn  | 529,497                   | 619,158          | 16.9             | 33.0            |
| Rs.11 mn - Rs.51mn | 194,819                   | 219,897          | 12.9             | 11.7            |
| Rs.51mn - Rs.100mn | 88,777                    | 124,173          | 39.9             | 6.6             |
| Above Rs. 100 mn.  | 122,861                   | 144,436          | 17.6             | 7.7             |
| <b>Total</b>       | <b>1,678,543</b>          | <b>1,874,890</b> | <b>11.7</b>      | <b>100.0</b>    |

Source: LankaClear (Pvt.) Ltd

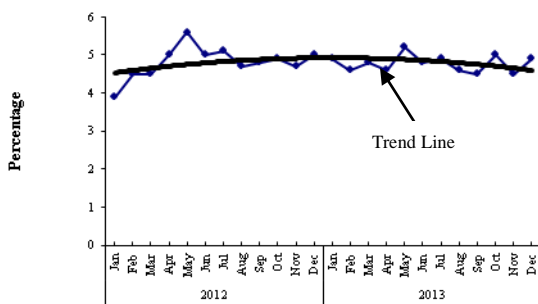
**Table 8: Cheque Returns -  
Fourth Quarter of 2012 and 2013**

| Description  | 2012<br>Q4 | 2013<br>Q4 | % change    |             |
|--|------------|------------|-------------|-------------|
|  |            |            | 12/11<br>Q4 | 13/12<br>Q4 |
| 1.Total number of cheques returned   | 589,772    | 585,142    | 25.3        | -0.8        |
| 2. Total value of cheques returned (Rs. mn)  | 53,816     | 67,802     | 41.6        | 26.0        |
| 3. Average number of cheques returned per day  | 9,668      | 9,438      | 23.3        | -2.4        |
| 4. Average value of cheques returned per day (Rs.mn)                                 | 882        | 1,094      | 39.3        | 24.0        |
| 5.Number of cheques returned as a % of total number of cheques received for clearing | 4.9        | 4.8        |             |             |
| 6.Value of cheques returned as a % of total value of cheques received for clearing   | 3.2        | 3.6        |             |             |

Source: LankaClear (Pvt) Ltd

The total number of returned cheques recorded a marginal decrease of 0.8 per cent during the fourth quarter of 2013 in comparison to the same quarter of 2012. The total value of returned cheques increased by 26.0 per cent and the average value of cheques returned per day increased by 24.0 per cent to Rs.1, 094 million in the fourth quarter of 2013 compared to the same quarter of 2012.

**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 declined to 4.8 per cent while the value of cheque returns as a percentage of total value of cheques received for clearing increased to 3.6 per cent during the fourth quarter of 2013.

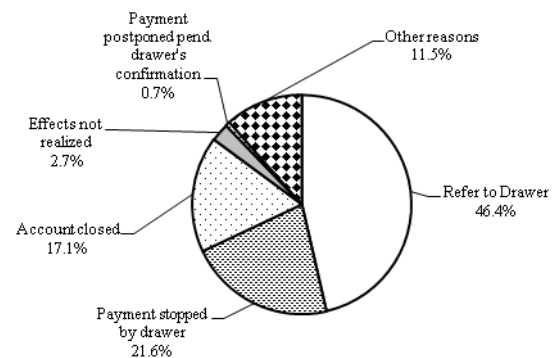
**Table 9: Return Code-wise Cheque Returns (%) -  
Fourth Quarter of 2012 and 2013**

| Return Code                                     | 2012 |      | 2013 |      |      |
|---|------|------|------|------|------|
|   | Q4   | Q1   | Q2   | Q3   | Q4   |
| Refer to Drawer                                 | 46.7 | 45.6 | 46.5 | 46.8 | 46.4 |
| Payment stopped by drawer                       | 20.2 | 20.5 | 21.2 | 21.6 | 21.6 |
| Account closed                                  | 17.0 | 16.2 | 16.4 | 16.8 | 17.1 |
| Effects not realized                            | 3.5  | 3.6  | 3.2  | 2.9  | 2.7  |
| Payment postponed pending drawer's confirmation | 1    | 0.8  | 0.7  | 0.6  | 0.7  |
| Other reasons                                   | 11.5 | 13.4 | 12.0 | 11.3 | 11.5 |

Source: LankaClear (Pvt.) Ltd

As depicted in Table 9 and Chart 4, 'Refer to Drawer' remained as the major reason for the cheque returns which is accounted for 46.4 per cent of total cheques returned, during the fourth quarter of 2013.

**Chart 4  
Return Code-wise Cheque Returns  
4th Qtr. 2013**



### US Dollar Clearing System

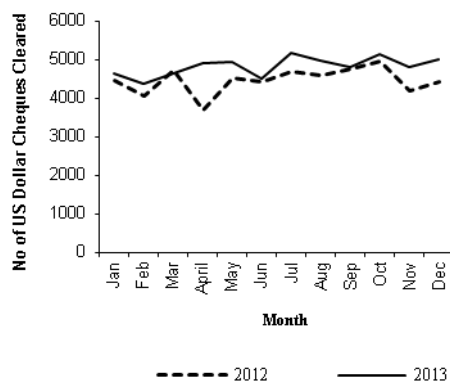
The volume and value of US Dollar cheques cleared through the US Dollar Cheque Clearing system operated by LCPL increased significantly by 10.1 per cent and 24.3 per cent, respectively, in the fourth quarter of 2013.

**Table 10: US Dollar Cheques Clearing of LCPL - Fourth Quarter of 2012 and 2013**

| Description  | 2012<br>Q4 | 2013<br>Q4 | % change    |             |
|--|------------|------------|-------------|-------------|
|  |            |            | 12/11<br>Q4 | 13/12<br>Q4 |
| 1.Total number of US Dollar cheques cleared                | 13,594     | 14,971     | -1.7        | 10.1        |
| 2. Total value of US Dollar cheques cleared (\$)           | 48,996,605 | 60,911,710 | -11.3       | 24.3        |
| 3. Average number of US Dollar cheques cleared per day     | 223        | 241        | -3.3        | 8.4         |
| 4. Average value of US Dollar cheques cleared per day (\$) | 803,223.0  | 982,446.9  | -12.8       | 22.3        |

Source: LankaClear (Pvt) Ltd

**Chart 5  
Monthly Volume of US Dollar Cheques Clearing**



### Rupee Draft Clearing System

Reflecting the higher demand for Rupee Draft as a mode of payment, the total value of Rupee Drafts cleared through LCPL increased by 56.1 per cent to Rs. 94.4 million in the fourth quarter of 2013 in comparison to the same quarter of 2012.

**Chart 6  
Monthly Value of Rupee Draft Clearing**



### Sri Lanka Interbank Payment System (SLIPS)

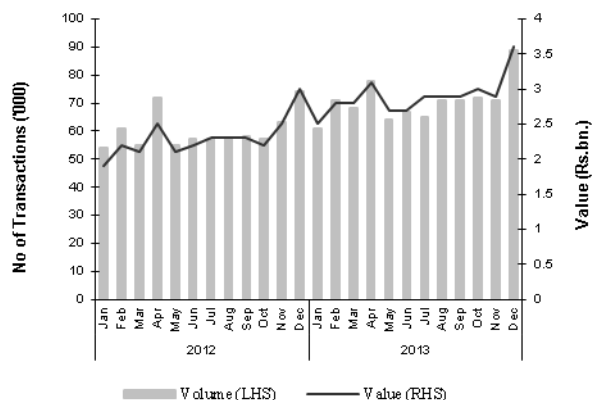
Continuing the increasing popularity of transactions through SLIPS in the past quarters, volume and value of transactions cleared through SLIPS increased further by 21.9 per cent and 26.5 per cent, respectively, during the fourth quarter of 2013. Accordingly, the average daily volume and value of SLIPS transactions increased by 19.9 per cent and 24.4 per cent, respectively, during the quarter, in comparison to the same quarter of 2012.

**Table 11: SLIPS Transactions - Fourth Quarter of 2012 and 2013**

| Description  | 2012<br>Q4 | 2013<br>Q4 | % change    |             |
|--|------------|------------|-------------|-------------|
|  |            |            | 12/11<br>Q4 | 13/12<br>Q4 |
| 1.Total volume of transactions cleared                   | 3,915,894  | 4,772,361  | 17.1        | 21.9        |
| 2. Total value of transactions cleared (Rs. mn)          | 154,625    | 195,527    | 32.1        | 26.5        |
| 3. Average volume of transactions cleared per day        | 64,195     | 76,974     | 15.2        | 19.9        |
| 4. Average value of transactions cleared per day (Rs.mn) | 2,535      | 3,154      | 30.0        | 24.4        |

Source: LankaClear (Pvt) Ltd.

**Chart 7**  
Average Value and Volume of SLIPS Transactions per day



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

| Transaction Value (a) | Number of Transactions |                  | Total Value (Rs. mn.) |                |
|-----------------------|------------------------|------------------|-----------------------|----------------|
|                       | 2012 Q4                | 2013 Q4          | 2012 Q4               | 2013 Q4        |
| Less than Rs. 1 mn.   | 3,899,461              | 4,750,843        | 117,735               | 145,004        |
| Rs. 1mn – Rs. 5 mn    | 16,433                 | 21,518           | 36,890                | 50,704         |
| <b>Total</b>          | <b>3,915,894</b>       | <b>4,772,361</b> | <b>154,625</b>        | <b>195,707</b> |

Source: LankaClear (Pvt) Ltd

(a) An upper limit of Rs 5 million per SLIPS transaction was imposed in 3<sup>rd</sup> 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 74.1 per cent of the total value of SLIPS transactions (Table 12).

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

| Transaction               | Total Volume     |                  | Total Value (Rs. mn) |                |
|---------------------------|------------------|------------------|----------------------|----------------|
|                           | 2012 Q4          | 2013 Q4          | 2012 Q4              | 2013 Q4        |
| Credit transactions       | 3,913,161        | 4,769,977        | 154,103              | 195,108        |
| Debit transactions        | 2,733            | 2,384            | 522                  | 420            |
| <b>Total transactions</b> | <b>3,915,894</b> | <b>4,772,361</b> | <b>154,625</b>       | <b>195,707</b> |

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 total 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 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 fourth quarter of 2013.

**Table 14: RTGS Transactions – Fourth Quarter of 2012 and 2013**

| Description                                       | 2012 Q4 | 2013 Q4 | % change |          |
|---|---------|---------|----------|----------|
|   |         |         | 12/11 Q4 | 13/12 Q4 |
| 1. Total no. of transactions                      | 72,856  | 81,369  | 6.0      | 11.7     |
| 2. Total value of transactions (Rs.bn.)           | 9,694   | 14,172  | -10.6    | 46.2     |
| 3. Average no. of transactions per day            | 1,194   | 1,312   | 4.2      | 9.9      |
| 4. Average value of transactions per day (Rs.bn.) | 159     | 229     | -12.1    | 43.8     |

Source: Central Bank of Sri Lanka

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

| Transaction Value       | No. of Transactions |               | % share      |              |
|-------------------------|---------------------|---------------|--------------|--------------|
|                         | 2012 Q4             | 2013 Q4       | 2012 Q4      | 2013 Q4      |
| Below Rs. 1 mn          | 9,640               | 10,392        | 13.2         | 12.8         |
| Rs 1 mn - Rs 100 mn     | 46,346              | 49,558        | 63.6         | 60.9         |
| Rs 100 mn - Rs 500 mn   | 12,430              | 15,383        | 17.1         | 18.9         |
| Rs 500 mn - Rs 1,000 mn | 2,954               | 3,193         | 4.1          | 3.9          |
| Rs. 1,000 mn and above  | 1,486               | 2,843         | 2.0          | 3.5          |
| <b>Total</b>            | <b>72,856</b>       | <b>81,369</b> | <b>100.0</b> | <b>100.0</b> |

Source: Central Bank of Sri Lanka

Total number of RTGS transactions during the quarter and the average number of transactions per day increased by 11.7 per cent and 9.9 per cent, respectively. Further, total value of RTGS transactions and the average value of transactions per day recorded significant increases of 46.2 per cent and 43.8 per cent, respectively.

In terms of volume, RTGS transactions with values between Rs. 1 mn - Rs 100 mn continued to remain in the highest number of transactions category (60.9 per cent) during the fourth quarter of 2013 (Table 15) as well. However, in value terms, that category accounted for only 8.6 per cent (Table 16) during the quarter.

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

| Transaction Value       | Value (Rs. bn.) |               | % share      |              |
|-------------------------|-----------------|---------------|--------------|--------------|
|                         | 2012 Q4         | 2013 Q4       | 2012 Q4      | 2013 Q4      |
| Below Rs. 1 mn          | 3               | 3             | Neg          | Neg          |
| Rs 1 mn - Rs 100 mn     | 1,118           | 1,224         | 11.5         | 8.6          |
| Rs 100 mn - Rs 500 mn   | 3,154           | 3,899         | 32.5         | 27.5         |
| Rs 500 mn - Rs 1,000 mn | 2,270           | 2,546         | 23.4         | 18.0         |
| Rs. 1,000 mn and above  | 3,151           | 6,500         | 32.5         | 45.9         |
| <b>Total</b>            | <b>9,694</b>    | <b>14,172</b> | <b>100.0</b> | <b>100.0</b> |

Neg - Negligible

Source: Central Bank of Sri Lanka

In value terms, RTGS transactions over Rs. 100 mn accounted for 91.4 per cent of the aggregate value of RTGS transactions during the fourth quarter of 2013.

**Table 17: Volume of RTGS Transactions by Type - Fourth Quarter of 2012 and 2013**

| Type                        | No. of Transactions |               | % change   |             |
|-----------------------------|---------------------|---------------|------------|-------------|
|                             | 2012 Q4             | 2013 Q4       | 12/11 Q4   | 13/12 Q4    |
| Repo/R.Repo/ILF             | 14,398              | 21,408        | 3.9        | 48.7        |
| Interbank Transactions      | 13,614              | 11,621        | 3.8        | -14.6       |
| Customer Transactions       | 37,279              | 40,337        | 8.3        | 8.2         |
| LankaSecure Transactions    | 865                 | 812           | 4.7        | -6.1        |
| Clearing House Transactions | 6,697               | 7,190         | 2.5        | 7.4         |
| Internal Fund Transfers     | 3                   | 1             | 50         | -66.7       |
| <b>Total</b>                | <b>72,856</b>       | <b>81,369</b> | <b>6.0</b> | <b>11.7</b> |

Source: Central Bank of Sri Lanka

Customer transactions which was the largest category in terms of RTGS transactions volume (Table 17), recorded 40,337 transactions in the fourth quarter of 2013 recording an increase of 8.2 per cent.

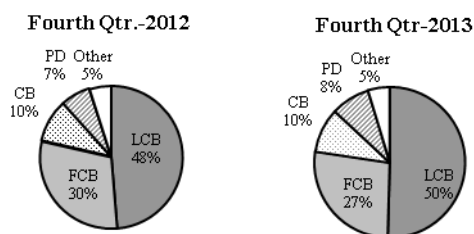
The category of Repo, Reverse Repo and ILF transactions recorded significant increases both in terms of volume and value by 48.7 per cent and 120.5 per cent, respectively (Table 17 and Table 18). The increase was mainly in Repo transactions carried out due to the excess liquidity in the market during the fourth quarter of 2013 in comparison to the same quarter of 2012.

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

| Type                        | Value (Rs. bn.) |               | % change     |             |
|-----------------------------|-----------------|---------------|--------------|-------------|
|                             | 2012 Q4         | 2013 Q4       | 12/11 Q4     | 13/12 Q4    |
| Repo/R.Repo/ILF             | 4,252           | 9,376         | -30.0        | 120.5       |
| Interbank Transactions      | 3,458           | 2,539         | 14.9         | -26.6       |
| Customer Transactions       | 1,057           | 1,297         | 11.6         | 22.7        |
| LankaSecure Transactions    | 422             | 307           | 17.5         | -27.4       |
| Clearing House Transactions | 505             | 652           | 12.4         | 29.3        |
| Internal Fund Transfers     | 0.1             | 0             | 71.5         | -95.2       |
| <b>Total</b>                | <b>9,694</b>    | <b>14,172</b> | <b>-10.6</b> | <b>46.2</b> |

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 fourth quarters of 2012 and 2013. Local commercial banks accounted for 50 per cent of the RTGS transactions, while foreign commercial banks accounted for 27 per cent, in the fourth quarter of 2013.

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

| Description       | No of Items   |               | % share      |              |
|-------------------|---------------|---------------|--------------|--------------|
|                   | 2012 Q4       | 2013 Q4       | 2012 Q4      | 2013 Q4      |
| Before 12.00 noon | 25,989        | 25,534        | 35.7         | 31.4         |
| After 12.00 noon  | 46,867        | 55,835        | 64.3         | 68.6         |
| <b>Total</b>      | <b>72,856</b> | <b>81,369</b> | <b>100.0</b> | <b>100.0</b> |

Source: Central Bank of Sri Lanka

As shown in Table 19, out of the total RTGS transactions, majority of transactions were effected after 12.00 noon accounting for 68.6 per cent of total transactions, during the fourth quarter of 2013.

## Payment Cards

### Credit Cards

At the end of the fourth quarter of 2013, 12 credit card issuers licensed by CBSL were engaged in the credit card business. Total number of credit cards in use was 951,320 recording an increase of 6.7 per cent at end of the quarter 2013 in comparison to the same quarter of 2012.

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

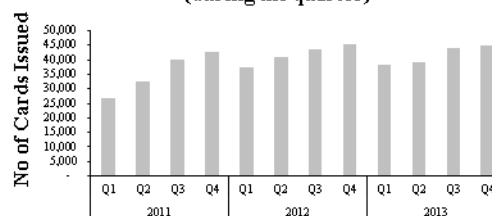
| Description   | 2012 Q4 | 2013(a) Q4 | % change |          |
|---|---------|------------|----------|----------|
|   |         |            | 12/11 Q4 | 13/12 Q4 |
| No of Cards issued during the period                | 45,402  | 44,855     | 5.9      | -1.2     |
| Total No. of Credit Cards in Use (As at end period) | 891,170 | 951,320    | 5.5      | 6.7      |
| Domestic and International Cards                    | 851,207 | 915,330    | 8.7      | 7.5      |
| Domestic Only Cards                                 | 39,963  | 35,990     | -34.8    | -9.9     |
| Total Number of transactions ('000)                 | 5,439   | 5,828      | 13.1     | 7.2      |
| Total Value of transactions (Rs.mn)                 | 30,515  | 32,979     | 18.0     | 8.1      |

(a) Provisional

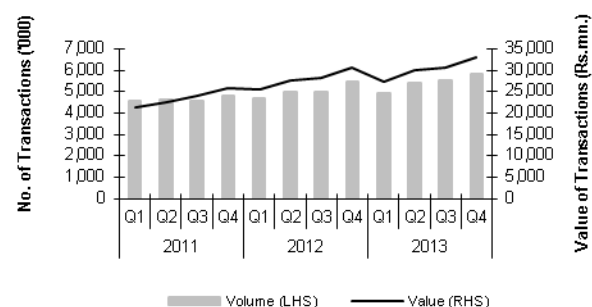
Source: Commercial Banks

Volume and value of credit card transactions recorded an increase of 7.2 per cent and 8.1 per cent, respectively in the fourth quarter of 2013 in comparison to the same quarter of 2012.

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

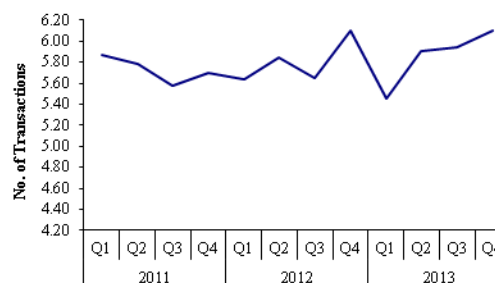


**Chart 10**  
Total Volume & Value of Transactions effected through Credit Cards during the quarter



The average number of transactions per credit card remained at 6.1 in the fourth quarter of 2013.

**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 fourth quarter of 2013, was 76,935 and the total value of defaulted credit card payments amounted to Rs 4.3 billion.

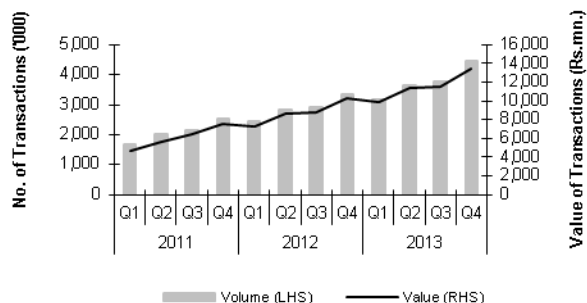
## Debit Cards

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

| Description                                    | 2012<br>Q4 | 2013<br>Q4 (a)           | % change    |             |
|--|------------|--------------------------|-------------|-------------|
|  |            |                          | 12/11<br>Q4 | 13/12<br>Q4 |
| Number of Debit Cards issued during the period | 489,775    | 595,314                  | 0.2         | 21.5        |
| Total No. of Debit Cards (As at end period)    | 10,374,819 | 12,441,728               | 18.3        | 19.9        |
| Domestic & International                       | 10,015,613 | 12,100,755               | 19.1        | 20.8        |
| Domestic Only                                  | 359,206    | 340,973                  | 0.1         | -5.1        |
| Total Number of transactions('000)             | 3,330      | 4,449                    | 31.6        | 33.6        |
| Total Value of transactions (Rs.mn)            | 10,227     | 13,479                   | 34.4        | 31.8        |
| (a) Provisional                                |            | Source: Commercial Banks |             |             |

As at end of the fourth quarter of 2013, there were 23 debit card issuers licensed by CBSL. The total number of debit cards in use was 12.4 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 recorded increases of 33.6 per cent and 31.8 per cent, respectively, during the fourth quarter of 2013 in comparison to the same quarter of 2012.

**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 - Fourth Quarter of 2012 and 2013**

| Description                                | 2012<br>Q4 | 2013(a)<br>Q4 | % change    |             |
|--|------------|---------------|-------------|-------------|
|  |            |               | 12/11<br>Q4 | 13/12<br>Q4 |
| <b>Tele-banking / Mobile Phone Banking</b> |            |               |             |             |
| No. of financial transactions              | 58,264     | 110,946       | 20.7        | 90.4        |
| Value of Transactions (Rs.mn)              | 1,292      | 1,676         | 7.8         | 29.7        |
| <b>Internet Banking</b>                    |            |               |             |             |
| No. of financial transactions              | 2,043,683  | 2,374,512     | 34.0        | 16.2        |
| Value of Transactions (Rs.mn)              | 165,536    | 210,963       | 68.4        | 27.4        |

(a) Provisional

Source: Commercial Banks

Continuing the popularity of phone based electronic payments, the volume and value of financial transactions effected through tele-banking/mobile banking recorded significant increases of 90.4 per cent and 29.7 per cent, respectively, in the fourth quarter of 2013 in comparison to the same quarter of 2012.

Reflecting the growing popularity of internet banking, the volume and value of the financial transactions effected through internet banking recorded increases of 16.2 per cent and 27.4 per cent, respectively, during the fourth quarter 2013.

## Automated Teller Machines (ATMs)

The total number of ATM terminals stood at 3,122 recording an increase of 9.7 per cent as at end of the fourth 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 16.8 per cent and 19.4 per cent, respectively, in the fourth quarter of 2013.

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

| Description  | 2012<br>Q4  | 2013(a)<br>Q4 | % change    |             |
|--|---|---------------|-------------|-------------|
|  |   |               | 12/11<br>Q4 | 13/12<br>Q4 |
| <b>ATMs</b>  |   |               |             |             |
| Total number of machines (End of period)                           | 2,845   | 3,122         | 9.1         | 9.7         |
| Total volume of financial transactions (During the period in '000) | 36,378  | 42,482        | 15.0        | 16.8        |
| Total value of transactions (During the period in Rs. mn.)         | 261,124   | 311,736       | 20.4        | 19.4        |
| (a) Provisional  | Source: Commercial Banks<br>Specialized Banks<br>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 23<sup>rd</sup> July 2013. As at end of the fourth quarter 2013, there were three commercial banks operating their 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 the LankaClear (Pvt.) Ltd. based on a recommendation of CBSL, in order to establish a national platform for the electronic retail payments in the country.

**Table 24 : Common ATM Switch – Volume and Value of Transactions - Third and Fourth Quarter of 2013**

| Description  | 2013                          |         |
|--|-------------------------------|---------|
|  | Q3                            | Q4      |
| Total number of transactions                               | 403,716                       | 716,652 |
| Total value of transactions (During the period in Rs. mn.) | 1,318.9                       | 2,311.2 |
|  | Source: LankaClear (Pvt.) Ltd |         |

## Electronic Fund Transfers at Point of Sale (EFTPOS) Terminals

The total number of EFTPOS terminals stood at 27,955 as at end of the fourth quarter of 2013 in comparison to the same quarter of 2012. Total volume and value of financial transactions grew by 20.6 per cent and 17.0 per cent, respectively, during the fourth quarter of 2013.

**Table 25 : EFTPOS Terminals and Transactions - Fourth Quarter of 2012 and 2013**

| Description  | 2012<br>Q4 | 2013 <sup>(a)</sup><br>Q4 | % change    |             |
|--|------------|---------------------------|-------------|-------------|
|  |            |                           | 12/11<br>Q4 | 13/12<br>Q4 |
| Total number of machines (End of period)                           | 27,689     | 27,955                    | 2.3         | 1.0         |
| Total volume of financial transactions (During the period in '000) | 8,844      | 10,665                    | 18.7        | 20.6        |
| Total value of transactions (During the period in Rs. mn.)         | 47,817     | 55,933                    | 22.7        | 17.0        |

(a) Provisional

Source: Commercial Banks

## Money Orders

As at the end of fourth quarter of 2013, the total number of post offices stood at 4,628. The total value of transactions effected through money orders was Rs. 1.9 billion in the fourth quarter of 2013. In terms of value, E-Money orders stood as the major postal payment instrument used by the public which accounted for 71.3 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 fourth quarter of 2013.

**Table 26 : Value of Payments Made through Money Orders and Postal Orders**

| Description   | 2013 Q3   | 2013 Q4 (a) |
|---|-----------|-------------|
| Money Orders (Value Rs. '000)                         | 1,555,996 | 1,940,045   |
| Ordinary Money Orders                                 | 409,678   | 504,191     |
| Telegraph Money Orders                                | 5,815     | 4,431       |
| Fax Money Orders                                      | 206       | 124         |
| E Money Orders  | 1,093,121 | 1,383,307   |
| International Money Orders                            | 1,963     | 3,475       |
| L V P Money Orders                                    | 43,595    | 43,697      |
| British Postal Orders (Value Rs. '000)                | 1,618     | 820         |
| Total No. of Post Offices (end period) <sup>(b)</sup> | 4,628     | 4,628       |

(a) Provisional

Source: Postal Department

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

### 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 nine 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 - Fourth Quarter of 2012 and 2013**

| Description                      | 2012 Q4 | 2013(a) Q4 | % change |          |
|----------------------------------|---------|------------|----------|----------|
|                                  |         |            | 12/11 Q4 | 13/12 Q4 |
| Total Number of Transactions     | 1,129   | 1,240      | -1.2     | 9.8      |
| Value of total receipts (Rs. Mn) | 4,876   | 6,059      | 11.6     | 24.3     |
| Value of total payments (Rs. Mn) | 53,146  | 60,040     | -60.1    | 13.0     |

(a) Provisional

Source: Central Bank of Sri Lanka

The total volume of transactions effected by Sri Lanka through the ACU mechanism increased to 1,240, in the fourth quarter of 2013. The value of total payments effected through ACU mechanism increased by 13.0 per cent and the value of total receipts effected through ACU mechanism increased by 24.3 per cent during the fourth quarter of 2013 when compared to the same quarter of 2012.

### 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 Customer Base (Live)**

| Item  | 2012   | 2013   |
|---|--------|--------|
|   | Q4     | Q4     |
| Total Domestic SWIFT users (End of Period)  | 35     | 35     |
| Members                                     | 11     | 11     |
| Sub-members                                 | 12     | 12     |
| Participants                                | 12     | 12     |
| Total SWIFT worldwide users (End of Period) | 10,279 | 10,583 |
| Members                                     | 2,398  | 2,389  |
| Sub-members                                 | 3,340  | 3,343  |
| Participants                                | 4,541  | 4,851  |

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

There were 35 domestic SWIFT users, while the total number of Global SWIFT users stood at 10,583 at the end of the fourth quarter of 2013.

**Table 29 : SWIFT Message Flow in Sri Lanka - Fourth Quarter of 2012 and 2013**

| Description                             | 2012<br>Q4 | 2013<br>Q4 | % change    |             |
|---|------------|------------|-------------|-------------|
|   |            |            | 12/11<br>Q4 | 13/12<br>Q4 |
| All messages sent by domestic users     | 943,637    | 1,046,643  | -7.0        | 11.5        |
| From Category I *                       | 141,095    | 157,851    | 13.1        | 7.9         |
| Category II **                          | 97,456     | 105,619    | -9.4        | 11.0        |
| All messages received by domestic users | 1,126,650  | 1,226,136  | -5.6        | 11.4        |
| To Category I                           | 421,282    | 447,382    | -1.7        | 11.1        |
| Category II                             | 32,817     | 35,651     | 2.0         | 3.2         |
| Domestic Traffic                        | 463,702    | 509,440    | -10.4       | 13.0        |

Source: Society for Worldwide Interbank Financial Telecommunication (SWIFT)

\*Category I - Customer (Funds) Transfers

\*\*Category II - Bank (Funds) Transfers

Reflecting growing trends in domestic messages exchange through SWIFT, the domestic SWIFT traffic recorded an increase of 13.0 per cent in the fourth quarter of 2013 in comparison to the same quarter of 2012. Similarly, the global SWIFT traffic also recorded an increase of 12.3 per cent to 1,308 million during the fourth quarter of 2013, in comparison to 1,165 million the same quarter of 2012.

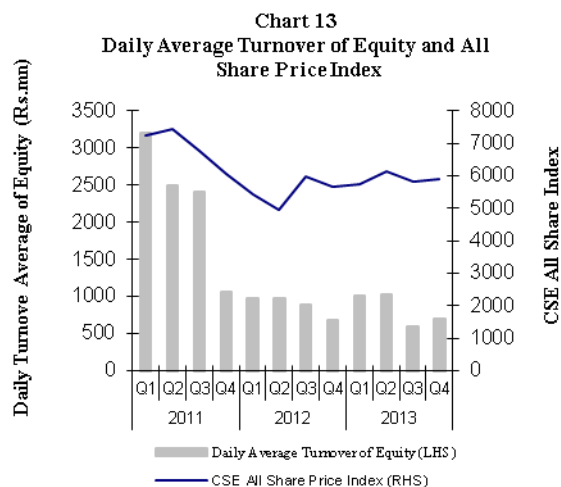
All messages sent by domestic users increased by 11.5 per cent in the fourth quarter of 2013 when compared to the same quarter of 2012. Meanwhile, all the messages received domestically increased by 11.4 per cent during the period under review.

### Trading and Settlements on the Colombo Stock Exchange

The total number of intermediaries i.e. member firms (15) and stockbrokers (14) 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 fourth quarter of 2013. The total number of customer accounts in the Central Depository System (CDS) of CSE was 730,046 and the total volume and value of equity shares lodged in the CDS were 70.4 billion and Rs 2,168.6 billion, respectively, as at end of the fourth quarter of 2013.

The daily average turnover of equity transactions increased by 2.8 per cent to Rs 694.8 million in the fourth quarter of 2013.

The All Share Price Index (ASPI) of CSE increased by 1.9 per cent in the fourth quarter of 2013.



## Trends in Moving Towards Electronic Payment Mechanisms

Efficient mechanisms for financial transactions are the main fundamentals for the development of economies, as almost every economic activity depends on the completion of the required fund movement on time. Therefore, in line with the evolution of the economic activities over the years, fund transfer mechanisms have also evolved overtime accommodating the changing needs of economic agents.

In Sri Lanka, development of electronic payment mechanisms was originated with the financial sector reforms introduced in the 1980s following the economy-wide liberalization process. Since then, a gradual transformation of the banking activities from manual processing to automated processing was experienced as commercial banks commenced to introduce computerized methods for their day-to-day internal operational activities such as book keeping, balancing and transaction processing with the objective of easing the workload associated with the manual processing. This process was gradually extended to offer better quality services for customers with convenience and easy to use mechanisms. The Central Bank of Sri Lanka (CBSL) as the regulator and facilitator of the national payment system in Sri Lanka and the National Payments Council which is comprised with the representatives from all stakeholders in payments and settlements arena in the country, collectively facilitate the introduction of electronic mechanisms for financial transactions in Sri Lanka, through offering guidance and support while ensuring that emerging payment mechanisms are introduced on timely manner in line with the international standards and industry best practices.

Accordingly, in the 1980s commercial banks in Sri Lanka introduced Automated Teller Machines (ATM), providing ATM cards to customers as a convenient method to withdraw funds from their accounts using the ATM network without visiting the bank counters. As at end December 2013, there were 3,122 ATMs all over the country. Meanwhile, with the technological enhancements, ATM network, presently provides not only the fund withdrawal facility, but also facilities such as cash deposits, balance inquiries, own account and pre-registered account transfers and sending funds to individuals who are not customers of the respective bank. In addition, ATM acquirers now facilitate 'Not-on-Us'<sup>1</sup> ATM transactions, as well. In order to reduce the cost of 'Not-on-Us' transactions and maximize utilization of available ATM infrastructure, Sri Lanka launched the Common ATM Switch (CAS) in July 2013 and by the 2013, two state commercial banks were successfully providing services for customer transactions through CAS and other banks were making necessary arrangements to join CAS.

Another landmark in the journey towards the electronic financial transactions in Sri Lanka was the introduction of payment cards; credit cards and debit cards. Credit cards were first introduced to Sri Lanka in 1989 and since then the usage of credit cards has increased gradually due to the promotional activities of

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<sup>1</sup> Not-on-Us ATM Transaction means an ATM transaction made by a customer using an ATM terminal of another financial institution which is not the issuing entity of the card being used by the customer.

card issuers and several features that have been introduced to credit cards to facilitate various payment requirements of cardholders. As at end December 2013, there were 12 credit card issuers operating in Sri Lanka under the licences issued by CBSL and 951,320 credit cards were in use. Banks have also issued debit cards to their customers to effect payments at merchant stores accessing their accounts in banks, in addition to withdrawal of funds through ATM network. As at end December 2013, there were 23 debit card issuers and 12,441,728 debit cards were in use in Sri Lanka.

With the introduction of payment cards to the system, Electronic Funds Transfer at Point of Sales (EFTPOS) mechanism was introduced in 1994 to facilitate purchasing goods and services by making payments through cards to merchants. EFTPOS mechanism has gradually expanded throughout the country with the increase of payment cardholders. As at end December 2013, there were 27,955 active EFTPOS terminals in the country and there were 8 financial acquirers<sup>2</sup> engaged in financial acquiring business. Further, internet websites have also been created by technology service providers connecting to payment gateways of banks to effect card-not-present transactions for e-commerce. With the high usage of payment cards in the country, Sri Lanka also experienced fraudulent activities in payment cards such as data theft and hacking. Therefore, as a security measure, in March 2013, on the instruction of CBSL, all financial acquirers completed adoption of Terminal Line Encryption (TLE) technology for EFTPOS terminals in order to secure the payment card based transactions in the country.

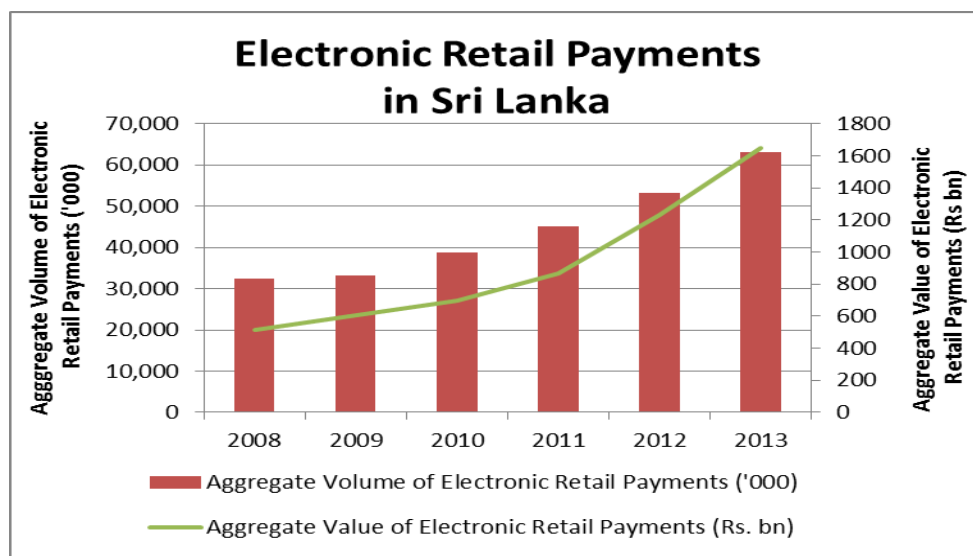
In addition to the above developments in electronic payment mechanisms, in line with the global trends, telephone/mobile phone based financial transactions also commenced in the 1990s and have shown a gradual progress over the years. At present, 10 commercial banks facilitate intra-bank transactions through mobile/phone banking. In the meantime, non-bank telecommunication operators also have introduced mobile phone-based e-money systems in Sri Lanka during the past three years i.e. eZCash and mCash.

A remarkable landmark in the context of automating fund transfers in Sri Lanka was the introduction of an automated Real Time Gross Settlement (RTGS) system in 2003 for high value payments. The scripless securities settlement system for government debt securities was integrated with the RTGS system in 2004 in order to facilitate interbank financial transactions with regard to government securities, terminating the then prevailed manual transaction processing and issuance of paper based government securities. This arrangement allowed banks to effect interbank and high value customer transactions and to transfer government securities digitally on real-time gross basis and CBSL to maintain a central depository system for government debt securities. Further, the RTGS system has been expanded to carry out the net settlements of retail payments made through cheques, interbank payment arrangements and CAS.

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<sup>2</sup> “Financial Acquirer” means, any person who makes arrangements with third parties to accept payment cards of cardholders as a means of payment and reimburses those third parties with the value of the goods or services purchased by the cardholder, and/or who reimburses such third parties for cash advances obtained by the cardholders.

The volumes and values of retail payment transactions effected through the electronic fund transfer mechanisms during the last 5 years are shown in Chart 5 which indicates a gradual shift of the Sri Lankan community towards the cashless payment mechanisms.



Source: Central Bank of Sri Lanka – Annual Reports

Electronic payment mechanisms have offered consumers and financial intermediaries a vast range of benefits that are not available through traditional means of fund transfers. The most important advantage is the convenience in effecting financial transactions. Individuals can make payments, purchases and other fund transfers at unconventional locations 24 hours a day, 7 days a week. In some cases, there is no need for a merchant location or a business to be open. As individuals can simply pull up their accounts online and make financial transactions saving transaction time cost which is another important benefit of electronic financial transactions. Once the initial set-up is completed, an individual can make financial transactions in a flash. Another benefit of digitalized financial transactions is the low cost when compared to the traditional fund transfer mechanisms. Automation of financial transactions also lowers the risk of human error by reducing manual intervention for completion of transactions once those are released by payers. In addition to the convenience, time saving and low cost, financial intermediaries have the advantage of recording each and every financial transaction thereby easing the audit trail, mitigating risks and enhancing the efficiency of their businesses. Further, usage of digitalized mode of financial transactions has become more secure as several security measures have been introduced by the system developers at the initiation of the related systems adhering to the international best practices.

Taken as a whole, automation of financial transactions has resulted in the introduction of many developed payment instruments while advancing many systems in the national payment and settlement system of Sri Lanka. In other words, majority of the landmark events in the evolution of the national payment and settlement system in Sri Lanka during the last five decades, are outcomes of the automation process. The benefits of financial transaction automation are not only for the users of payment and settlement systems, but also to the financial system and the economy as a whole. The increasing usage of electronic retail payment products will gradually reduce cash usage in the economy, thereby lowering the cost of minting coins and

printing bank notes and other related costs. Most importantly, in the economic perspective, improvements of transaction efficiency gained through higher usage of digital payment products will ultimately contribute towards fast tracking the economic growth.

Further, for a country to reap full benefits of the electronic financial transactions, it is important that the majority of people use digital financial products. Therefore, measures should be taken to discourage the usage of the existing paper based fund transfer instruments and to promote usage of electronic products as alternatives. Moreover, to ensure a smooth shift from traditional payment systems to digital payment systems, public confidence should be built on these user friendly innovative systems and at the same time, it is necessary to take action to prevent lack of knowledge on innovative systems being a barrier for using electronic fund transfer mechanisms.



## 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 Polices 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 <sup>th</sup> 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)<br>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.<br>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)<br>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  |

