

Translation of an Interview Conducted by the Sri Lanka Broadcasting Corporation

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Introduction

An interview on regulating and supervision of licensed banks in Sri Lanka and functions of the Credit Information Bureau

01. What is known as ‘Licensed Banks’ in Sri Lanka? What is meant by “Bank Supervision” in relation to Licensed Banks?

Licensed Bank is a Commercial or specialised bank, which is permitted to accept deposits from general public, under a licence issued by the Monetary Board of the Central Bank Sri Lanka (CBSL), in terms of the provisions of the Banking Act No 30 of 1988, as amended.

The main distinction between a commercial bank and a specialized bank is that a commercial bank can accept demand deposits (current accounts) from the general public and engage in foreign currency transactions. Specialised banks cannot accept demand deposits (current deposits) and require a special approval of the Monetary Board of CBSL to engage in foreign currency transactions. As at end February 2019, there were 26 Commercial Banks and 06* Specialised Banks operating in Sri Lanka. As at end February 2019, assets of the banking sector are approximately Rs. 12 Trillion. Total deposits and total loans and advances account for Rs. 8.5 Trillion and Rs. 7.5 Trillion, respectively.

Licensed banks should carry out banking activities in compliance with certain Acts, Laws and Regulations. Licensed banks are mainly regulated by the Banking Act No 30 of 1988 and Monetary Law Act No 58 of 1949. In addition, Directions, Circulars and Regulations issued by CBSL in terms of the above mentioned Acts, Foreign Exchange Act, Payment and Settlement Act, Prevention of Money Laundering Act and Convention on the Suppression of Terrorist Financing Act are also applicable to licensed banks. Accordingly, Banking Act Directions and Orders on minimum capital requirement, minimum capital adequacy ratio, statutory liquid asset ratio and Corporate Governance *inter alia* are mainly applicable for licensed banks. Accordingly, bank supervision is engaged in monitoring of

* After the acquisition of Lankaputhra Development Bank by Regional Development Bank on 01.04.2019

licensed banks to ensure that they conduct banking business in accordance with the applicable Acts, Directions and other regulations in order to ensure the safety and soundness of the banking sector and the entire financial system stability.

02. How the Central Bank of Sri Lanka is conducting Bank Supervision activities.

Bank Supervision Department was established under Section 28 of the Monetary Law Act, to conduct bank supervision activities of the licensed banks in Sri Lanka. Accordingly, Bank Supervision Department is carrying out policy promulgation, conducting periodic examinations and continuous supervision.

Bank Supervision Department issues Banking Act Directions, Determinations and Circulars using its vested authority considering the statutory provisions, changes in financial sector and economic landscape, developments in international regulations etc. to ensure the safety and soundness of the banking sector. Bank Supervision Department conducts periodic examinations and continuous supervision in order to ensure that the licensed banks are carrying out their business activities abiding to the regulatory framework.

An evaluation on the risk structure and risk management practices of licensed banks are conducted through periodic examinations by visiting the banks to check their books of accounts, reports, systems and procedures and also conducting interviews with the respective officers to obtain necessary information.

By continuous supervision, officers examine the statutory returns submitted by banks through the web based system and scrutinize other reports/information to supervise banks and grant regulatory approvals.

03. In some instances, it is heard that people have lost money by depositing money with unauthorized institutions and individuals. What is the role of CBSL in this regard?

According to Section 16 of the Banking Act, no company other than a licensed commercial bank or licensed specialized bank shall, except with the prior written approval of the Monetary Board, use as part of its name or its description and of the words “bank”,

“banker” or “banking” or any of its derivatives or its transliterations, or their equivalent in any other language. In that case, if any company wish to have these words as its business name, it should obtain a prior written approval from the Monetary Board. Accordingly, at present, CBSL is following a strict policy on granting approval to use the word “bank” or any of its derivatives or its transliterations or their equivalent. Violation of these statutory provisions are subjected to a fine or imprisonment.

Further, CBSL publishes the list of names of licensed banks which are authorized to accept deposits from general public in the widely circulated newspapers and in the website of CBSL, and the public is informed not to deposit money in any unauthorized institution.

The Department of Supervision of Non-Bank Financial Institutes is empowered to conduct investigations under Finance Business Act, for any institution which accepts unauthorized deposits from the general public.

Further, with respect to illegal pyramid schemes, CBSL educates the general public through conducting seminars and distribute posters, leaflets and brochures.

04. What are the actions taken by the Central Bank of Sri Lanka to protect the rights of bank customers?

Bank Supervision Department of CBSL has issued Banking Act Directions on Customer Charter with a view to protect the rights of the customer and to build up a proper relationship between the bank and the customer. Accordingly, all licensed banks should adhere to these Directions to protect customer rights and, adhere to the code of conduct prepared based on the Customer Charter.

Customer Charter will guide banks to safeguard the interests of customers and to build a healthy relationship between customers and banks; and to improve the customer confidence in the banking sector. Accordingly, rights of customers to obtain information regarding all services/products offered by the banks are ensured in the Customer Charter.

Few examples in the Customer Charter are;

- Licensed banks should help customers to understand financial products/services offered by providing adequate information about them, explaining their financial

implications and assisting the customers to choose the appropriate banking products/services.

- Each licensed bank should have a Key Facts Document in the form of a brochure/leaflet written in simple language for its products or services, separately or in combination which should be distributed to the customers seeking such products/services.
- These brochures/leaflets should be available in languages preferred by the customers (i.e., Sinhala/Tamil/English)
- All advertisements by licensed banks should contain factual information on products/services offered by them in any media and promotional material, which can be understood by the targeted customers and not contain information that is likely to mislead the public.

In addition, in terms of the Customer Charter, customers have the right to know ‘Terms and Conditions’ of the banking services/products, bank’s procedure for receiving complaints and the resolution mechanism and the directions with respect to the agents appointed for customer services by licensed banks.

Officers in the Bank Supervision Department, examine whether the banks are complying with the Customer Charter.

Another important measure initiated to protect the rights of the customers is the establishment of the Sri Lanka Deposit Insurance and Liquidity Support Scheme. Under this scheme, CBSL maintains a Deposit insurance fund raised through the monthly premium paid by each licensed bank and licensed financial companies, where if any financial Institution fails and their licence is cancelled, a depositor is entitled to a payment up to a maximum of Rs. 600,000 (per institution).

5. What are the obligations of the customer towards the banks?

Customers of the banks also have obligations. Banking Act Direction No. 8 of 2011 on “Customer Charter of Licensed Banks”, issued by the Central Bank of Sri Lanka specify obligations that need to be fulfilled by customers such as;

- Customers should borrow money from banks after considering their repayment capacity based on their income. Customers should not borrow beyond their affordable repayment capacity limit.
- Customers should not allow the repayments or instalments to go into arrears and should ensure prompt repayment.
- If a customer finds himself/herself in financial difficulties, he/she should let the bank know about the situation as early as possible and discuss a possible solution.
- Customer should inform the bank at all times of any changes to his/her address and contact details.
- Customers should have the full knowledge and understanding of the product/service offered before entering into the contract.
- Customers should duly fill and submit the required application forms and supporting documents on time.
- Customers should exercise utmost care in using and storing/handling Personal Identification Numbers (PIN) and other security measures of electronic cards issued by the bank.
- Customers should notify the bank promptly of any fraudulent transaction/s or such attempts in their accounts with the banks whenever they become aware of such instances.

6. Is the Central Bank capable of regulating bank charges, service charges, commissions etc. charged by licensed banks?

Charges imposed by banks for different services rendered can be considered as a business decision of the respective bank. For certain banking services, maximum limits have been imposed by the Central Bank of Sri Lanka and banks have been advised through a circular to display all charges in banks' websites and branches. However, if the fees and commissions charged by banks are considered excessive, CBSL has the power to initiate necessary actions where necessary.

7. Some say that money is being charged from savings accounts of customers and that certain accounts have been closed. Are these not regulated?

There are instances where banks include conditions to maintain a minimum balance at the time of opening an account. In such instances, if the customer fails to maintain the minimum balance, banks will deduct a certain amount from the account till the minimum balance is made available in the account. This is a business decision of the relevant bank. However, when a customer obtains a service from a bank or when opening an account, he/she should have the full knowledge and understanding of the terms and conditions of the product before obtaining the service or opening the account. Customer Rights pertaining to this has been ensured by the Banking Act Direction on Customer Charter issued by the Central Bank of Sri Lanka and if a bank does not provide such details, the Central Bank will act upon it.

8. Can people deposit money and obtain loans from any banking Institution without any uncertainties or doubts?

Any business transaction contains a risk. Even in other countries there have been instances where banks have failed. Therefore, people should consider both risk and return when depositing money in licensed banks. As the Regulator of the licensed banks, CBSL cannot ensure that the licensed banks are free from any risks, even though CBSL properly carries out regulation and supervision of licensed banks. A proper mechanism is currently available to address any adverse situation that may arise in licensed banks.

Eg. Deposit Insurance Scheme of the Central Bank of Sri Lanka.

However, there is a maximum limit to the amount of deposits covered under the Deposit Insurance Scheme. Therefore, when customers deposit money, the risk involved should also be considered as any other investment decision they made.

On the other hand, customers who have borrowed money from banks should repay their debt on time as money lent by banks are depositor's funds. Therefore, as long as this mechanism continues there will not be any major impact to banks' operations.

9. What should be considered when selecting a bank to deposit money?

Even if you deposit money in a licensed bank, the business models of licensed banks and their financial positions are different from one another. Therefore, in addition to the return on investment, it is important to evaluate the financial strength and stability of the bank. For this purpose, it is necessary for customers to check whether the bank has complied with its regulatory requirements and evaluate its financial position based on the published audited financial statements. Further, it is very important to pay attention on the amount of Capital, Capital Adequacy Ratio, Liquidity Ratios, Profitability, Non-Performing Loans, Corporate Governance, Board of Directors, and Management of the bank. Credit Rating of the bank should also be considered as it indicates the Bank's ability to repay its debts and likelihood of default. Customers can also minimize their risk by diversifying deposits in more than one bank.

10. What is the procedure for a customer to lodge a complaint against a bank?

A customer can lodge a complaint to a senior officer or the manager of the respective bank branch. If it is not resolved at branch level, the customer may escalate the matter to a higher authority of the bank, for example regional manager, chief executive officer or chairman. Only at an instance where a customer is not provided with a proper solution by the bank, a customer may send a written complaint to the Director of Bank Supervision. In such cases, the Bank Supervision Department will obtain necessary information from the respective bank and inform the customer subsequently. If the customer is not satisfied with that resolution, he/she may contact the Financial Ombudsman for further review.

11. What measures can be taken by customers who encounter difficulties due to cheque returns.

A bank may return a cheque on various grounds including omissions or errors by the issuer or willful frauds such as issuing cheques without a sufficient bank balance. Omissions and errors can be in the form of unsigned, undated or discrepancy in the amount in figure and in words. A cheque returned on above grounds may be resolved by contacting the issuer and getting a corrected cheque. However, the same cannot be applied for willful returns. The holder of the cheque should determine whether a cheque is returned due to a willful fraud by substantiating

business relationship with the issuer considering prior experiences. If a cheque is willfully issued without having sufficient funds in the bank account, legal actions can be taken against the issuer.

12. What is the Credit Information Bureau (CRIB)?

Credit Information Bureau was established by the Credit Information Bureau of Sri Lanka Act No. 18 of 1990 for collecting and dissemination of credit information of borrowers. The information collected by CRIB is disseminated to its member institutions or to the respective customers upon their request in a form of a credit report. Lending institutions use the credit report so issued to assess the repayment capacity of the customer. Licensed commercial banks, licensed specialised banks, registered leasing companies and registered finance companies regulated by the Central Bank and few other lending institutions are member institutions of CRIB.

13. What are the benefits to customers from CRIB?

If a customer has serviced his/her debt on a regular manner and has a good credit history, it will have a positive impact on his/her future borrowings.

A customer with a good credit history can negotiate new loans under favourable terms and conditions from a financial institution.

Since lending institutions consider CRIB reports, if a customer defaults or delay a payment, he/ she may face difficulties when obtaining a new loan. Financial institutions may also impose additional terms and conditions on such customers.

14. What can the customer do to maintain good records in CRIB?

- Always analyse your income and assess your credit servicing capacity prior to applying for a credit facility.
- Pay the periodical commitments of your credit facilities on or before the due date from the financial institution. With respect to Credit Cards, pay your minimum due amount or the total outstanding amount mentioned in your credit card statement on or before the due date.
- If you encounter an unexpected adverse situation which affects your credit servicing capacity, always inform and negotiate with your financial institution as there are concessional remedies available at the bank.

- Check your credit history periodically, in case of discrepancies in the credit report, inform your financial institution or CRIB for rectification.

15. How to obtain a CRIB report?

There are two ways of obtaining a CRIB report. One would be visiting CRIB located at No.35, Sir Baron Jayathilaka Mawatha, Colombo 01, between 9.00 a.m. to 3.30 p.m. on a working day and handover an application with the applicable fee (Currently Rs. 150) and National Identity card/ driving licence/Passport. You can obtain the credit information report on the same day.

The other would be handing over the application through your bank with the certified copy of identification document mentioned above with the applicable fees. CRIB will send the credit report to the applicant through registered post. This will normally take 7 working days. Both individuals and business entities can obtain credit information report through banks.

16. Many people complain that their names are at CRIB and they cannot obtain loans. What does this mean? How long will it take to update the records of CRIB?

It is not a disqualification to obtain a loan even if the customer's name appears in the data base of CRIB, as all customers who obtained loans from a financial institution are included in the data base of CRIB. The issue will be defaulting loans. When obtaining a new loan, credit records on default will be a disadvantage to customer. When customer settles all installments in arrears, CRIB will inform to the respective financial institution on the new status of the customer at the end of the relevant month. Other than that, 'amending records or removing the names of customers' from CRIB is not possible.

17. Finally, what is the advice given to bank customers ?

The customers should always make informed decisions, i.e., before making a decision such as depositing money, obtaining loans etc., all relevant information need to be considered and assessed. Further, without depositing all money in a one bank, customer can deposit in several banks to minimize counterparty risk.

If customers repay their loan installments properly they may avoid difficulties when obtaining new loans from banks.

If there are any difficulties in loan repayments, customers may obtain advice from Credit Counselling Center located at No. 57, Sri Jayewardenepura Mawatha, Rajagiriya.