ASSOCIATION OF PROFESSIONAL BANKERS-SRI LANKA

NAVIGATING COMPLEXITY AND ACCELERATING IMPACT THROUGH REGIONAL SYNERGY

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OF
ASSOCIATION OF PROFESSIONAL BANKERS – SRI LANKA

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Association of Professional Bankers – 36th Convention

Theme: Navigating Complexity and Accelerating Impact Through Regional Synergy

Message from Chief Guest

In an increasingly interconnected and volatile world, professional bankers face complex challenges that cut across borders, sectors, and disciplines. As technology continues to transform finance, the future lies in how banks use innovation to serve human needs. Artificial intelligence, digital platforms, and data analytics will enable smarter decisions, and faster access, to generate efficiencies across the banking sector. However, the true measure of progress lies beyond the more efficient balance sheets of banks, in personalized financial guidance; to ensure that these efficiencies trickle down to entrepreneurs, families and communities, enabling societies to stride forward. For this, banks must become institutions of trust - where people feel seen, understood, and empowered.

As the center of global economic landscape pivots toward Asia, the many disruptions caused to everyday activities present extraordinary opportunities for banks to act decisively to help industries reposition themselves, enabling them to capture the momentum of global supply chains. It is in this light that I congratulate the Association of Professional Bankers for focusing its 36th Annual Convention on "Navigating Complexity and Accelerating Impact through Regional Synergy". Banks must seize these opportunities to think strategically, foster agile decision-making, and integrate Environmental, Social, and Governance (ESG) principles into their core strategies, to actively shape the financial systems of tomorrow.

Banks have the capacity to lay strong foundations of innovation, customer trust, and operational excellence, even in the Small and Medium Entreprises; enabling them to scale, creating jobs, strengthening communities, and influencing industries. The leap from small to large is powered by the beliefs that today's small wins can lead to tomorrow's breakthroughs, and that consistent, purposeful actions compound over time to generate impactful results. Thus, as Asia emerges as major propeller of global economic growth and inclusion, the professional bankers are encouraged to leverage the talents and skills of the Sri Lankan people to upgrade along the export value chain of products and services, to become enablers of growth and resilience. In strengthening connections with regional markets, professional bankers are encouraged to collaborate with the industry leaders and policy makers to navigate the complexities. Such collaborative frameworks offer powerful pathways to accelerate impact and deliver sustainable outcomes.

Sri Lanka's economy stabilized remarkably well since emerging from its worst crisis since Independence. Despite the impact of Ditwah towards the latter part of 2025, Sri Lanka's economy is estimated to have grown by 4.5 per cent during the year and is expected to grow by 4 – 5% in 2026 as well, with improved stability. Post-Ditwah reconstruction efforts offer professional bankers a timely opportunity to connect with investors, to build resilient infrastructure and to propel the country forward along a sustainable growth path.

Since its inception in 1988, the Association of Professional Bankers has been a guiding light to bankers; by supporting collaboration and hosting discussions that have honed thought leadership in the field. I extend my best wishes for a successful 36th Annual Convention of the Association of Professional Bankers in 2026.

Dr. P Nandalal Weerasinghe
Governor
Central Bank of Sri Lanka

Association of Professional Bankers – 36th Convention

Theme: Navigating Complexity and Accelerating Impact Through Regional Synergy

Message from ABP President

It is a privilege to welcome you to the APB Convention 2026 - our flagship forum for critical dialogue, regional collaboration, and professional advancement.

This year's theme, "Navigating Complexity and Accelerating Impact Through Regional Synergy", reflects the world we are operating in. Financial systems are now deeply interconnected. Challenges, whether technological, regulatory, or geopolitical, rarely stay confined. Yet, these same shifts present opportunities: to innovate together, to strengthen our shared resilience, and to make a more meaningful impact across borders.

As APB, our responsibility goes beyond events and publications. We are here to raise the bar for professional conduct, promote continuous learning, and help shape a banking community that is not only future-ready but regionally relevant. Over the past year, we have focused on expanding cross-border engagement, strengthening development pathways for our members, and deepening our alignment with global standards. Our aspiration is to position APB as a regional hub, connecting professionals, institutions, and ideas across South Asia, the GCC, and beyond.

This e-journal captures many of those insights. Within its pages are the perspectives of respected leaders, scholars, and practitioners, each offering a lens on how to respond to complexity with clarity, and to turn shared challenges into shared strength.

My sincere thanks to our Editorial and Publication Committees, partners, sponsors, contributors, and the entire APB family for your dedication. Your efforts ensure that we remain a trusted, forward-thinking voice for the profession.

Let us continue building a banking community that is thoughtful in practice, collaborative by nature, and impactful by design.

Anton Arumugam
President
Association of Professional Bankers – Sri Lanka

Theme: Navigating Complexity and Accelerating Impact Through Regional Synergy

Message from Publication Committee Chairperson

It gives me great pleasure to present the Convention Journal of the 36th Annual Convention of the Association of Professional Bankers of Sri Lanka, on behalf of the Publication Committee.

The primary objective of this journal is to serve as a platform for informed thought leadership, professional insight and meaningful dialogue within the banking and financial services sector. Curated in line with this year's convention theme, "Navigating Complexity and Accelerating Impact through Regional Synergy," the journal brings together a carefully selected range of articles and authors whose perspectives reflect the realities, responsibilities and opportunities facing our industry today.

The content featured in this publication has been intentionally aligned with the theme of the convention. Each article offers considered insight into how financial institutions can respond to increasing complexity, strengthen regional collaboration and create sustainable impact. Collectively, these contributions reinforce the journal's purpose as both a reference point for current discourse and a catalyst for thinking that will help guide the profession in the years ahead.

I extend my sincere appreciation to all contributors for sharing their expertise and perspectives, which have added depth, relevance and credibility to this publication. I also wish to thank the President, the Council Members of the Association of Professional Bankers of Sri Lanka and the members of the Publication Committee for their guidance and support throughout the development of this journal, as well as Dr. Viruli De Silva – Former Director Studies - Institute of Bankers of Sri Lanka for the editorial work of articles and the designer for presenting the content with clarity and distinction.

As we gather for the 36th Annual Convention, I trust that this journal will encourage reflection, conversation and collaboration among professionals, and contribute meaningfully to the collective advancement of the banking sector.

Tharaka Ranwala
Chairperson - Publication Committee
Association of Professional Bankers – Sri Lanka

Accelerating Impact Through Artificial Intelligence: New Pathways in Financial Marketing and Sales

Abstract

The integration of Artificial Intelligence, AI into the financial services sector has transitioned from experimental automation to a core strategic imperative, fundamentally reshaping the economics of client acquisition and retention.

This article examines the scientific and operational mechanisms driving this shift, specifically within the high-stakes domains of marketing and sales. By leveraging advanced architectures, including Conditional Generative Adversarial Networks cGANs for market simulation, Retrieval-Augmented Generation RAG for cognitive compliance, and Federated Learning for privacy-preserving personalization, financial institutions are unlocking new pathways for revenue growth. Current methodologies are analyzed, quantifying the economic impact, estimated at US Dollar 200 to 340 billion annually in banking alone, discussing technical architecture, enabling the shift from broad-spectrum targeting to hyper-personalized, segment-of-one engagement.

Furthermore, the critical role of Explainable AI XAI is explored in navigating the regulatory landscape, arguing that the future of financial sales lies in glass-box algorithms that balance predictive power with interpretability.

Prof. Dr. Georg Bouché

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for Education

Prof. Dr. Thomas Bolz

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1 The Rise of the Cognitive Enterprise

The traditional paradigm of financial marketing and sales, historically reliant on static demographic segmentation and retrospective reporting, is being rendered obsolete by the advent of predictive, real-time intelligence. Financial institutions today face a dual pressure, the imperative to drastically reduce Customer Acquisition Costs CAC while simultaneously meeting rising client expectations for hyper-personalized, advisory-grade interactions. The response has been a rapid adoption of generative and predictive Artificial Intelligence AI technologies, marking the transition to what can be called Cognitive Enterprises.

In this new operating model, data is no longer merely a record of past transactions but a predictive asset that models future intent. Recent industry analysis indicates that banking sectors could realize a nine to 15 percent increase in operating profits through the adoption of Generative Artificial Intelligence Ai, driven largely by productivity gains in client-facing functions. However, capturing this value requires more than deploying chatbots; it demands a fundamental re-architecture of the sales stack. This article explores the technical underpinnings of this transformation, moving beyond surface-level benefits to the specific algorithmic innovations that are redefining how financial products are distributed, sold, and serviced (Kamalnath, V. et Al., 2023).

2 The Shift from Heuristics to Hyper-Dimensionality

Historically, financial marketing relied on heuristic models: If a client is over 40 years of age and has a mortgage, they offer life insurance. These linear, rules-based approaches fail to capture the complexity of modern financial lives. The new scientific pathway leverages High-Dimensional Vector Space Modeling. Modern algorithms treat a client not as a row in a database, but as a vector in a high-dimensional space, capturing thousands of latent features, from spending velocity and merchant category preferences to browsing sentiment and voice cadence during support calls. By analyzing these vectors, institutions can identify nonobvious correlations that human analysts would miss. For instance, a propensity to churn might not be signaled by a single large withdrawal, but by a subtle, multi-month degradation in engagement across digital channels combined with negative sentiment in unstructured email text. This shift from heuristic segmentation to algorithmic dimensionality is the bedrock of modern financial sales.

3 The Technical Architecture of Next-Gen Sales

The acceleration of impact is driven by three specific technological architectures that have matured significantly in the 2024-2025 cycle as described in the following subchapters.

3.1 Generative Modeling and Market Simulation cGANs

While Large Language Models LLMs dominate headlines, Conditional Generative Adversarial Networks cGANs are revolutionizing the strategic planning capabilities of financial sales teams. Unlike standard predictive models that forecast a single outcome, cGANs consist of two neural networks, a generator and a discriminator, competing in a zero-sum game (Koshiyama, A. et Al., 2019).

- The Generator creates synthetic market scenarios or customer behavior profiles (e.g., "simulate a portfolio client reacting to a sudden ten percent rate hike").
- The Discriminator evaluates these synthetic profiles against historical ground truth to ensure plausibility (Staffini, A., 2022).

This architecture allows institutions to generate synthetic training data to stress-test marketing campaigns before they launch. For example, a bank can simulate how different client segments might react to a new wealth management product under various economic conditions, effectively running A/B tests in a silicon sandbox rather than risking capital in the live market. A/B testing is a method used in marketing to compare two versions of something to find out which one performs better. You show Version A to one group of customers and Version B to another group, and then you measure which version leads to better results. These two versions often hardly differ. Research demonstrates that cGANs can effectively capture complex,

non-linear dependencies, allowing sales teams to approach clients with "pre-validated" strategies (Che, C. et Al., 2024).

3.2 The Cognitive Layer - Retrieval-Augmented Generation RAG

In financial sales, accuracy is not a luxury; it is a regulatory requirement. This constraint has historically limited the use of generative AI, which can be prone to hallucinations. The solution has emerged in the form of Retrieval-Augmented Generation also known as RAG.

A RAG architecture decouples the aspect of knowledge from the idea of reasoning. When a sales advisor asks a system a question e.g. Is this new ETF suitable for a client with a moderate risk profile? the model does not rely solely on its training data. An ETF, formerly known as Exchange-Traded Fund, is an investment fund that is traded on the stock exchange, like a share. It pools money from many investors to buy a diversified basket of assets, such as stocks, bonds, commodities, or market indices. Instead, it utilizes a retriever to scan a verified, vector-indexed database of current SEC filings, internal compliance memos, and real-time market data. SEC stands for U.S. Securities and Exchange Commission, being the financial regulator of the United States responsible for overseeing securities markets. It protects investors, ensures fair and efficient markets, and enforces securities laws. It then uses a re-ranker to prioritize the most relevant snippets before feeding them into the Generator, the LLM to construct an answer. LLM stands for Large Language Model. It is a type of artificial intelligence that is trained on enormous amounts of text data to understand and generate human language. This open-book approach ensures that every claim made by a sales agent is grounded in cited, verifiable documents. Systems like "SeerahGPT" and specialized financial RAGs (Modi, V. 2025) have demonstrated that this architecture can reduce compliance review times for marketing assets from days to seconds, while virtually eliminating the risk of promissory language violations (Obaid, S. et Bawany, N. Z., 2024).

3.3 Autonomous Agentic Workflows

We are witnessing a shift from AI-as-a-tool, such as chatbots to Agentic AI, autonomous systems capable of reasoning, planning, and executing complex workflows. In a modern sales environment, specialized agents collaborate in a multi-agent system (Deshmukh, A., 2025):

- Sourcing Agents continuously scan unstructured data (news, LinkedIn, earnings calls) to identify high probability leads.
- Diligence Agents automatically retrieve and synthesize background checks and financial health reports.
- Outreach Agents draft hyper-personalized emails based on the specific hook identified by the sourcing agent.

For example, BNY's "Eliza" system integrates reasoning models to autonomously resolve complex client queries. BNY stands for The Bank of New York Mellon, often called BNY Mellon, is one of the oldest banks in the United States, founded in 1784, and today one of the largest global financial institutions. By offloading the entire top-of-funnel workflow to agents, human advisors can focus entirely on high-value relationship management, increasing their effective capacity by three to four times according to the global player Fujitsu, the Japanese technology company that provides IT services, digital transformation solutions, and computing technologies to governments, large corporations, and organizations around the world.

4 Strategic Pathways for Acceleration

The application of these technologies is to open three distinct strategic pathways for financial institutions.

4.1 The Segment of One: Hyper-Personalization at Scale

The era of the mass affluent segment is ending, replaced by the segment of one. Institutions like Santander Bank of Spain have utilized machine learning to analyze behavioral patterns, achieving a 43 percent improvement in early default predictions, a metric that effectively doubles as a sales signal for restructuring products (DialZara, 2025).

This goes beyond simple product recommendations. By unifying transactional data with behavioral signals in a Customer Data Platform (CDP), banks can deploy Next Best Action models. These models do not just ask "what product does this client need?" but "what is the optimal action to deepen this relationship right now?" It might be a product offer, but it might also be a timely piece of educational content or a proactive service check-in. This precision improves lead-to-conversion rates by approximately 15 percent and significantly reduces churn (Brands at Play, 2024).

4.2 Algorithmic Content Supply Chains

Financial marketing has traditionally been bottlenecked by the high cost of content creation. Generative AI is dismantling this constraint by enabling an Algorithmic Content Supply Chain. Instead of creating one hero asset for a campaign, marketing teams can now generate hundreds of variations of ad copy, landing pages, and email subject lines, each tailored to a specific micro-segment's psychographic profile.

This is not just about volume; it is about resonance. So called Emotion AI algorithms analyze the performance of these variations in real-time, using reinforcement learning to optimize for engagement. If the data shows that fear-of-missing-out, short FOMO messaging works best for Segment A, while stability-and-safety messaging works for Segment B, the system automatically reallocates budget and creative assets accordingly (Sahani, T. 2024).

4.3 Real-Time Sentiment and Intent Decoding

Natural Language Processing NLP has evolved to provide real-time coaching during sales interactions. By processing acoustic features such as pitch, pace, and pause duration and semantic content, i.e. keywords, sentiment, AI systems can prompt advisors live during a call. If the system detects hesitation in a client's voice, it might nudge the advisor to slow down or offer a case study. This feedback loop has been shown to significantly improve conversion rates and customer satisfaction scores by ensuring that the sales approach is always attuned to the client's emotional state (Magrini, A.L. de P., 2025).

5 Governance, Ethics, and the "Trust Paradox"

As algorithms take on a more central role in financial decision-making, the risks associated with black box models become acute. Regulatory bodies such as SEC, FINRA, and GDPR demand explainability, a requirement that often conflicts with the complexity of deep learning models. In the financial industry, regulatory frameworks such as the SEC, FINRA, and the GDPR play a leading role in ensuring transparency, investor protection, and responsible data governance. In the United States, the Securities and Exchange Commission SEC acts as the primary government regulator overseeing securities markets, enforcing disclosure requirements, and safeguarding investors against fraud and market manipulation. Complementing this, the Financial Industry Regulatory Authority FINRA operates as a self-regulatory organization under SEC oversight, focusing specifically on the supervision of broker-dealers, the licensing of financial professionals, and the enforcement of ethical conduct in client interactions. While SEC and FINRA regulate financial markets and intermediaries, the European Union's General Data Protection Regulation GDPR governs the handling of personal data, imposing strict rules on transparency, consent, and data security. As financial institutions increasingly rely on digital technologies, advanced analytics, and AI-driven tools, compliance with GDPR has become essential to ensure that customer data is processed lawfully and responsibly. Together, these regulatory regimes form a comprehensive framework that shapes how financial organizations operate, communicate, and innovate, particularly in an era marked by rapid technological transformation.

5.1 Solving the "Black Box" with SHAP

To bridge this gap, financial institutions are increasingly relying on SHapley Additive exPlanations SHAP by Lundberg and Lee (2017). Originating from cooperative game theory, SHAP values provide a mathematical method to explain why a model made a specific prediction. For a credit marketing model, SHAP values can quantify exactly how much a client's "debt-to-income ratio" contributed to their score versus their savings history. This glass-box transparency is critical for complying with fair lending laws and for building trust with advisors who must defend the model's recommendations to clients (Lundberg, S.M. & Lee, S.-I. 2017).

5.2 Privacy-Preserving Intelligence - Federated Learning

A major hurdle in financial AI is data privacy. Banks often sit on islands of data that they cannot share due to regulation or competitive secrecy. Federated Learning offers a breakthrough. It allows institutions to train a shared machine learning model collaboratively without ever sharing the underlying data. Instead of sending customer data to a central server, the model is sent to the local device or institution, trained locally, and only the updates, mathematical gradients, are sent back. This allows for the creation of powerful, industry-wide fraud and propensity models while maintaining strict GDPR and data sovereignty compliance (Lucinity, 2024).

6 Quantitative Impact and Economic Justification

The scientific application of these technologies is delivering measurable economic value:

- Revenue Growth: Financial firms employing AI-driven lead generation report a 20 percent improvement in cost efficiency and significantly higher conversion rates compared to traditional methods (Brands at Play, 2024).
- Risk Reduction: Predictive analytics have slashed review times for fraud and risk documents from hundreds of thousands of hours to mere seconds, saving estimated costs of US Dollar 150 million in operational expenses for major implementers (DialZara, 2025).
- Market Opportunity: The banking sector alone stands to capture US Dollar 200 billion to US Dollar 340 billion in annual value from Generative AI, largely derived from marketing personalization and sales productivity (Kamalnath, V. et Al., 2023).

7 Conclusion

The integration of AI into financial marketing and sales is no longer a futuristic concept but a present-day scientific reality. We have moved beyond the hype cycle into a phase of rigorous, architectural implementation. By replacing heuristic guesswork with cGAN-driven simulation, RAG-enabled cognitive retrieval, and privacy-preserving federated learning, financial institutions are fundamentally restructuring the economics of client acquisition. The winners of the next decade will not be those with the most data, but those with the most intelligent architectures, systems that can autonomously reason, responsibly engage, and hyper-personalize at a scale previously thought impossible. The future of financial sales is a hybrid one: human empathy amplified by machine precision, delivering a level of service that is not just faster, but fundamentally smarter.

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Leading with Authenticity and Accountability: Insights and Impacts for Bankers

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Introduction

"The best way out is always through", so said Robert Frost, the renowned poet. With the apt theme selected by APB this year, "in navigating complexity and accelerating impact through regional synergy", two essential elements can be identified as authenticity and accountability. This paper deals with the "only ship that survives a storm" that is leadership in linking it with being authentic and accountable. Why should bankers be authentic and accountable? How should they set about in a BANI world with sustained success? What should Sri Lankan bankers do differently? The paper attempts to share insights impacting the banking profession in particular.

Leading in a BANI world

We are now much familiar with a VUCA 1.0 reality (Volatility, Uncertainty, Complexity, and Ambiguity). It has its origins stemming back to 1985 as an American defence perspective in a post- cold war era with Warre Bennis and Bert Nanus as co-creators. It came to our doorstep with a lingering lockdown way back in 2020 which prompted me to coin the required VUCA 2.0 response namely, Vision, Understanding, Confidence and Agility. "The concept of VUCA is clear, evocative, and increasingly obsolete" said Jamis Casio, an American anthropologist in 2020. As he further elaborates, "We have become so thoroughly surrounded by a world of VUCA that it seems less a way to distinguish important differences than simply a depiction of our default condition. Using "VUCA" to describe reality provides diminishing insight; declaring a situation or a system to be volatile or ambiguous tells us nothing new."

Accordingly, Cascio produces a refreshingly new world view, and he calls it the BANI world. As he argues, the world today is Brittle, Anxious, Non-Linear, and Incomprehensible. He reflects on the intersection of emerging technologies, environmental dilemmas, and cultural transformation, specializing in the design and creation of plausible scenarios of the future. His work focuses on the importance of long-term, systemic thinking, emphasizing the power of openness, transparency, and flexibility as catalysts for building a more resilient society.

If I may call BANI 1.0 illusions, highlighted by Cassio, brittle refers to illusion of strength. Anxious is the illusion of control or being in charge. Non-linear refers to illusion of predictability whereas incomprehensible refers to the illusion of knowledge as if one claiming to know everything. Against BANI 1.0 illusions, I would propose BANI 2.0 ignitions, as being Bold, Assertive, Neutral, and Innovative. It involves risk-taking, being confident, open minded as well as creative. These are all relevant to bankers like any other professions. One key requirement for bankers to demonstrate BANI 2.0 ignitions, is to think and act like leaders.

Bankers as leaders

Leadership is often misunderstood as positions and titles without referring to decisions and actions. One common complain around the globe is that the so-called leaders giving lame excuses to avoid accountability of their own actions. It also shows the need for authenticity in required actions. It may be true not only for political leaders but of leaders representing all walks of life. Today's column reflects on leadership lessons associated with authenticity and accountability.

The story of Jess Staley, he ex-CEO of Barclays Bank is a case in point. He lost a legal challenge against a decision to ban him from top financial jobs in the UK over his links to convicted US sex offender Jeffrey Epstein. As BBC reported, Staley was forced out in November 2021 after UK regulator, the Financial Conduct Authority (FCA), found he had failed to accurately disclose the nature and length of his relationship with Epstein to the Barclays board and the FCA in 2019.

Authenticity and accountability for bankers

Authenticity refers to being genuine in showing real you. When applied to leadership, it involves acting with sincerity, integrity, and transparency. It also includes practicing of one's core values in setting an example to his/ her team members. Authentic leaders emphasize ethicality in inspiring, influencing and initiating. They are high in demand in a world where principles are compromised for privileges.

Steve Jobs was frank about his failures. Oprah Winfrey used to openly share her past struggles during her interactions with others. Jacinda Ardern, the former prime minster of New Zealand was known for showing her empathy and effectiveness together. Satya Nadella strived to transform Microsoft's culture from "know it all" to "learn it all." These all represent authentic leaders by one way or the other.

"Authenticity is when you say and do the things you actually believe. But if you do not know WHY the organization or the products exist on a level beyond WHAT you do, then it is impossible to know if the things you say or do are consistent with your WHY. Without WHY, any attempt at authenticity will always be inauthentic." This is how Simon Sinek advocated in his popular book, "Start with Why."

Accountability simply means that one is answerable to what you do. In a broader sense, it is the acknowledgment by an individual or an institution of the answerability of one's actions. Often confusingly interchanged, it is different to responsibility or responsibilities. As we learn in the fundamentals of management, responsibilities can be delegated to others, but the accountability cannot be delegated. I remember once reporting to an elderly leader who had a framed tag hung on the wall behind his table with an interesting saying. "The buck ends here."

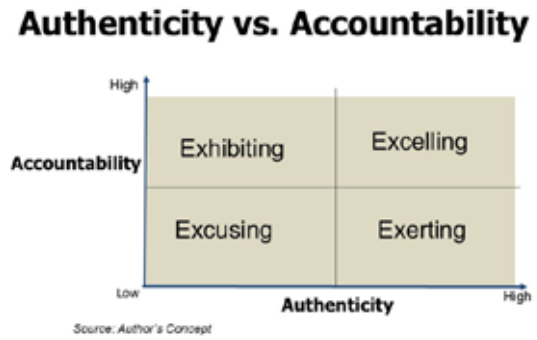
"Accountability breeds response-ability," so said Stephen Covey. It highlights the capability to manage issues

in taking ownership. Accountability creates a clear expectation for outcomes, motivating teams to meet high standards and work towards shared goals. A lack of accountability can lead to employees doing the bare minimum instead of their best effort. Jason Kelce, a US football player expressed it elegantly. "I think as a leader, you just take accountability. That is what leadership is. Leadership is taking accountability yourself and holding others to the same standard, regardless of what is going on."

Authenticity vs accountability

It is interesting to infer the interplay between authenticity and accountability with leadership in mind. Figure 1 is an attempt to do so, highlighting four possible scenarios.

Figure 1. Authenticity vs Accountability



Let us examine the four Es as given in the figure showing the combinations of accountability and authenticity.

Excusing

One may excuse to show results with low level of authenticity and accountability. We have many such examples in Sri Lanka. Rather than striving to achieve given targets despite obstacles, many will find excuses of passing the blame to others. It may be due to lack of competence and confidence both. Many politicians of yesteryear were famous for doing these and the voters, I am sure the voters gave them the deserving treatment at the elections.

In the corporate world too, such people are common. In "passing the buck," they have a whole heap of excuses to show how innocent and genuine they are. Blame games of this nature lead to escalation of organisational politics resulting in fragmentation, frustration, and eventual failure.

Exhibiting

This is one-way bias scenario where one shows the world of one's desire to be accountable but without genuinely interested in it. It is more of a showing than sincerely doing. Some bosses who want to be popular among their teams, may openly make utterances to energise them, without seriously meaning them. We have such people among Sri Lankan community as well. The real shrewdness of such leaders is to convince their team members of their so-called keenness to ensure the wellbeing of the team and limit it only to the words.

In the corporate sector, the façade some wear by way of flowery slogans and flattery statements would demonstrate the absence of authenticity. They may deceive some for some time but not all in all times. Such so called leaders will be exposed eventually with evidence so that the true nature of them will be seen with surprise by many who followed them.

Exerting

In this scenario, the leader is sincerely struggling to accept the ownership of the outcomes, mostly negative. Because of the authenticity, the effort is there, yet the challenge of facing failures as "fertilizers for future" is much less visible.

It can also be a case of having the attitude of being genuine yet not willing to be answerable for results. It is a subtle rejection of the ownership of one's own actions may be individual or collective, paving the way for a possible avoidance. A manager who is known to demonstrate a high degree of integrity yet has not achieved the given targets as a team could be one example.

Excelling

This is obviously the preferred scenario, the much respected one. Great leaders in the annals of human history have shown excellence in being both authentic and accountable. Mahatma Gandhi is a fitting example of demonstrating such excellence. His non-violent path towards freedom showing ample evidence of authenticity and accountability.

In the corporate world, the leaders who also are "leader-breeders" achieve results against odds in exceeding stakeholder expectations, together with a committed and a competent team demonstrate excellence in action. This is the rare breed in high demand, who can be role-models to many aspirant leaders.

Akio Morita as a Case in Point

In perusing through the annals of managerial leadership history, Akio Morita emerges as a fitting figure who excelled as a leader showing both authenticity and accountability. His leadership style combined “Japanese spirit” with “western learning.” He known for his visionary innovation, willingness to take calculated risks, and for fostering an employee-centric culture at Sony.

“Nobody openly laughed at me... Everybody gave me a hard time. It seemed as though nobody liked the idea... I do not believe that any amount of market research could have told us that the Sony Walkman would be successful.” That is how Morita reflected on his authentic actions, struggling at times with eventual success.

“Sony” was started in 1946 as an electronics shop by Masaru Ibuka with eight employees, just as Japan was starting to rebuild itself after World War II. The company name Tokyo Tsushin Kogyo (Tokyo Telecommunications Engineering Corporation or TTK) was quickly established when Akio Morita joined Masaru Ibuka that same year. It was not until 1958 until the company changed their name to Sony, which sounded a bit like “sonus” (Latin for noise or sound) as well as being a word unused around the world. In fact, Sony was the first company to list on an American stock exchange - the NYSE, which was a big deal for the company at the time.

Under Morita’s stewardship, Sony not only achieved unparalleled growth but also introduced a slew of groundbreaking products that revolutionized the electronics landscape. His leadership style, characterized by a blend of intuition, risk-taking, and employee empowerment, became the bedrock of Sony’s corporate culture.

Morita’s emphasis on fostering a culture of innovation and his unwavering belief in the potential of his employees played a pivotal role in Sony’s meteoric rise. His legacy continues to inspire leaders across the globe, emphasizing the importance of visionary leadership in business success.

Being accountable when authenticity was challenged

In 1955, Bulova, a well-known American brand, sought to purchase 100,000 units of Sony's innovative pocket-sized transistor radios. They had put forward one condition: no Sony name, branded as Bulouva. “Nobody in the country knows Sony! We could not sell anything under that name. But everyone in America knows our name. Isn’t it ridiculous not to utilize our established reputation?” That was how they argued.

Morita’s response was interesting. “Fifty years ago, how many people knew your name? This is the first year of my company’s fifty years history. If we do not use our name, we may not have a history.” Even though the deal was worth a significant portion of Sony's capital and the blessings of his team was for it, Akio Morita said no.

It is amazing to see how his authenticity and accountability as a leader were aptly demonstrated. What Morita believed was to establish Sony's reputation for quality and decided to find a distributor who would sell the product under the Sony brand, a decision that helped transform "Made in Japan" from a mark of cheap goods to one of quality and reliability.

Many bankers as shining stars

"Don't do anything stupid. And do not waste money. Let everybody else waste money and do stupid things; then we'll buy them." This is how Jamie Dimon advised his team. He is one name in global banking that has the top of mind recall with regards to authenticity and accountability. He is the Chairman of the Board and Chief Executive Officer of JPMorgan Chase & Co., a global financial services firm with assets of $3.2 trillion and operations worldwide. Dimon became CEO on January 1, 2006, and one year later also became Chairman of the Board. He was named President and Chief Operating Officer upon the company’s merger with Bank One Corporation on July 1, 2004. Dimon joined Bank One as Chairman and CEO in 2000. He is hailed as a role model by many aspiring bankers.

“We are not graded on effort. We are judged on our results,” so said Jane Frazer. She is a British-American banking professional who is the CEO and chairperson of Citigroup, positions she has held since March 2021 and October 2025, respectively. She is famous for advocating work-family-society harmony. "You can have it all, but don't expect to have it at exactly the same time". Her approach also highlights the needed diversity and inclusivity with better gender equity.

Sri Lankan bankers also have shown much resilience towards revival working against several odds so far. On one side, they must confidently respond to regulatory pressures. On the other side, they must cater for varying customer demands with increased use of digital technologies. Talent drain that we experienced as a battered nation, impacted banks also to a high extent, hampering operational efficiency. In using stumbling blocks as stepping stones, Sri Lankan bankers have shown sustained success contributing to economic prosperity.

Conclusion

“The journey to authentic leadership begins with understanding the story of your life. Your life story provides the context for your experiences, and through it, you can find the inspiration to make an impact in the world.” That is how Bill George advocates in his book titled “Discovering Your Authentic Leadership.” No more stressing is needed to emphasise the leadership excellence with authenticity and accountability in action. Sri Lankan managers and administrators alike can perform a lot better in this acute respect.

Sri Lankan bankers should equip themselves with needed competence and confidence in showcasing their character of going, growing and glowing.

Boards in a Boundaryless World: Navigating Change, Complexity, and Digital Transformation

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1. Introduction

In a boundaryless world where technological change, geoeconomic fragmentation, economic uncertainty, demographic shifts, and the green transition—individually and in combination—are shaping the global market, the role of corporate boards has become more complex and demanding than ever before.

The speed of change, rising uncertainties, and growing complexity have become the new normal for organizations. Disruptions driven by technological innovation and shifting geopolitical landscapes have redefined the expectations of board leadership. According to the Accenture Pulse of Change Index (2025), 90% of C-suite leaders report that the pace of change has accelerated since January of this year, with 84% expecting further acceleration, while only 42% feel prepared to manage disruptions caused by global uncertainty.

This underscores that change will remain a permanent feature of the global business environment, and organizations are still in the process of developing adequate readiness to manage it. Consequently, boards are now expected not only to ensure compliance and performance but also to anticipate disruption, drive innovation, and ensure long-term sustainability.

Against this backdrop, this paper summarizes the shifting roles of the board, synthesizing global research findings to identify how boards can enhance their effectiveness. It discusses global risks and challenges, technology transformation, board–management relationships and offers strategic recommendations for effective governance in a transforming world.

2. Challenges and Opportunities for Boards in the Current Global Landscape

Boards today face an unprecedented set of challenges arising from rapid technological disruption, economic fragmentation, and societal transformation. The key challenges include navigating geopolitical instability, managing cybersecurity and digital risks, addressing climate-related disruptions, and coping with regulatory uncertainty. Additionally, the increasing expectations for transparency, stakeholder inclusivity, and ESG accountability have stretched traditional governance models. Many boards struggle with digital capability gaps, succession planning, and maintaining trust-based relationships with management amid continuous transformation.

Yet, these same dynamics also create significant opportunities. Digital technologies, data analytics, and automation empower boards to enhance decision-making, improve oversight, and foster innovation. The growing emphasis on sustainability offers opportunities to redefine value creation by aligning financial goals with environmental and social priorities. Moreover, globalization of knowledge and talent enables boards to embrace diversity, agility, and cross-border collaboration, strengthening their resilience and foresight. In short, while the current environment presents complexity and disruption, it also allows forward-looking boards to reimagine governance as a driver of strategic advantage, not merely a mechanism of control.

3. Global Economic Risks and Challenges

The global economy stands at a complex crossroads of recovery, resilience, and restructuring. According to the IMF World Economic Outlook (October 2025), global growth is projected at 3.2%, supported by moderating inflation and recovering trade but constrained by geopolitical fragmentation, supply chain realignments, and climate-induced disruptions.

While advanced economies show stabilization, the Eurozone faces sluggish demand and fiscal constraints, and emerging Asia continues to drive global momentum, led by India and Southeast Asia, where digital transformation is fueling inclusive growth. However, global debt levels, energy insecurity, and green transition adaptation remain critical concerns.

The World Economic Forum's Global Risks Report (2025) warns of an era of interconnected volatility, highlighting top risks such as state-based armed conflicts, misinformation, extreme weather events, biodiversity loss, and societal polarization. In essence, uncertainty has become the operating environment.

Geopolitical tensions—including the U.S.–China trade and tariff conflicts, Russia–Ukraine war, and Middle East crises—continue to disrupt global politics, markets, and investment flows. The resulting fragmented global order requires boards to anticipate volatility and craft resilient strategies.

These dynamics indicate that uncertainty will remain routine, and boards must reinvent themselves to navigate volatility and seize emerging opportunities. South Asia's demographic strength, entrepreneurial spirit, and technological advancement can fuel a new era of growth—if guided by prudent and visionary boards.

4. Digital Transformation — A Catalyst for Sustainable Innovation

Digital transformation presents both challenges and opportunities for organizations. It entails the integration of digital technologies—such as artificial intelligence (AI), blockchain, mobile banking, cloud computing, data analytics, and automation—across all business functions to enhance customer experience, operational efficiency, risk management, and innovation.
In the banking sector especially, digital transformation has become non-negotiable for maintaining competitiveness in the evolving digital economy. According to the Future of Jobs Report (2025), employers expect that broadening digital access (60%), AI and information processing (86%), robotics and automation (58%), and energy generation, storage, and distribution (41%) will reshape their operations by 2030.

It can be argued that digital transformation challenges might include ensuring robust digital infrastructure and cybersecurity, maintaining regulatory compliance and data privacy, overcoming organizational resistance to change, and addressing high implementation costs and talent shortages. Given the challenges, there are many opportunities such as innovation in business models, enhanced customer experiences, data-driven decision-making, operational efficiency, and cost optimization, among others.

However, multiple studies highlight a capability gap among boards in leading digital transformation. The Deloitte Board Readiness Survey (2025) reports that only 27% of executives believe their boards possess adequate digital fluency to guide strategy. The Harvard Business Review (2024) warns that digitally unprepared boards face heightened exposure to cyber incidents and missed innovation opportunities. Similarly, 62% of South Asian directors acknowledge limited understanding of digital and cybersecurity issues (Deloitte, 2024).

This underscores the urgency for targeted board education, digital immersion programs, and inclusion of tech-savvy directors who can align technology with strategy.

5. Board–Management Relationship — Steering Through Uncertainty

A critical determinant of organizational success is the quality of the board–management relationship. A McKinsey (2024) study found that boards with strong alignment make strategic decisions 25% faster and recover from crises 30% more effectively. The OECD (2023) similarly emphasizes that constructive board–management engagement enhances both agility and accountability.

However, significant trust and alignment gaps persist globally. According to PwC and The Conference Board (2024), only 35% of executives rate their boards as "excellent or good," and 93% believe at least one director should be replaced. Moreover, only 32% believe their boards possess the right skill mix to navigate today's fast-changing environment.

The PwC Corporate Directors Survey (2024) reveals that only 56% of executives feel their boards fully understand operational challenges, while 40% of directors believe management withholds information during strategic discussions. Similarly, McKinsey's Board Effectiveness Study (2025) found that weak board–management communication contributed to strategic drift in over 60% of underperforming firms.
This misalignment highlights the need for clear role delineation, trust-based collaboration, and mutual accountability. Boards should focus on strategic foresight and risk oversight, while management drives operational agility and innovation. Structured dialogue, joint strategy sessions, and periodic role assessments can strengthen governance resilience.

Boards must also champion inclusive, ethical, and sustainable innovation, serving not only shareholders but all stakeholders—employees, customers, communities, and the planet. Integrating climate resilience, digital competitiveness, and long-term sustainability into strategy is now essential for purpose-driven governance.

6. Learning Lessons for South Asia

South Asia is home to nearly two billion people and one of the fastest-growing yet most complex economic regions in the world. According to the World Bank's South Asia Development Update (2025), the region continues to demonstrate strong resilience, but also experiences uneven growth, high inequality, and exposure to global uncertainties. Some of the key challenges facing the south Asian countries are Heavy dependence on agriculture and remittance inflows, slow industrial diversification, and the predominance of informal employment limit productivity and competitiveness. While regional growth is projected at 6%, fiscal deficits and rising debt levels remain persistent challenges. Intra-regional trade stands below 5%, compared to 25% in East Asia (Asian Development Bank, 2023). The Global Climate Risk Index (Germanwatch, 2024) ranks South Asia among the five most climate-vulnerable regions. Despite a young population (over 60% under 35), the World Economic Forum (2024) highlights a significant skills mismatch between education outcomes and digital industry demands. Youth are migrating due to inadequate employment opportunities. Frequent government changes, corruption, and weak institutional capacity are obstacles to economic prosperity.

Besides all these challenges, South Asia presents enormous prospects for transformation, as we have the advantage of a young population, digitally advanced in many ways, with natural beauty and hospitable people to attract tourists, with many opportunities to drive renewable energy for sustainable growth. The need for south Asia is to harness the strengths of countries for economic prosperity in the region.

In this evolving context, the role of Boards of Directors becomes increasingly crucial. Boards are not only responsible for oversight and compliance but also for strategic foresight, sustainability leadership, and institutional trust-building. In an era marked by transformation and uncertainty, the Boards of South Asian institutions must act not as custodians of the past, but as architects of the future. Their role extends beyond governance to visionary leadership, ensuring that organizations remain competitive, responsible, and resilient. By embracing strategic foresight, sustainability, digital innovation, and ethical governance, Boards can turn South Asia's challenges into enduring opportunities for inclusive growth and stability.

7. Conclusion: Building a Future-Ready Board

Boards today must lead with vision, integrity, and adaptability in an era defined by volatility, digital disruption, and systemic uncertainty. Their role has evolved from compliance and oversight to strategic stewardship and transformative leadership.

The UN Global Compact (2024) reports that companies engaged in multi-stakeholder partnerships achieve sustainability goals 60% faster than those acting alone. Collaborative governance enables innovation, cross-sector learning, and shared value creation.

Ultimately, board effectiveness depends on the ability to align with management, balance risk with opportunity, and guide organizations through systemic change. Continuous learning, diverse composition, and transparent communication are now vital governance imperatives.

Cultivating innovation and sustainability is not merely a matter of technology or compliance—it is a matter of leadership mindset and purpose-driven governance. The most successful boards of the coming decade will be those that look beyond short-term gains and champion holistic value creation that benefits shareholders, society, and the planet.

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Regional Synergy in Banking Innovation and Financial Inclusion: Strategies for Resilience in Complex and Accelerating Markets

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Introduction

In today's interconnected world, banking innovation and financial inclusion are no longer isolated national challenges. Markets are complex due to rapid technological change and systematic risks (e.g. Digital fraud, climate shocks). Further, markets are accelerating as customers demand speed, personalization, and seamless digital experiences. Regional synergy or collaborative efforts among neighboring countries and financial ecosystems can amplify positive outcomes such as shared knowledge, pooled resources, common standards, and cross- border scaling or successful models.

In the rapidly evolving landscape of global finance, banks face a dual challenge: firstly, managing multifaceted systemic complexity arising from technological disruption, regulatory divergence, and global macroeconomic volatility; and secondly, harnessing innovation to remain competitive while ensuring inclusive access to financial services. For South Asia, and Sri Lanka in particular, these challenges present both risks and opportunities. Effective responses will increasingly depend on regional synergy — coordinated strategies among banks, regulators, and policymakers across neighboring countries to drive innovation while safeguarding stability and inclusion. While academic research has often explored financial sector themes in isolation, recent studies emphasize integrated frameworks where innovation, regulation, inclusion, and systemic risk are considered holistically in global and regional contexts.

This article proposes that regional collaboration in banking innovation and financial inclusion is critical to navigating complexity and acceleration in the modern financial ecosystem. Drawing on cutting-edge research, it examines how regional synergy can support digital transformation, strengthen cybersecurity and data governance, expand financial inclusion, and enhance resilience to systemic risks. It also highlights policy pathways for professional bankers to contribute to a resilient, inclusive, and innovation-driven regional banking sector.

1. Digital Banking Innovation and Regional Integration

1.1 The Innovation Imperative

Digital finance — encompassing mobile banking, digital wallets, distributed ledger technologies, artificial intelligence (AI), and embedded finance — has reshaped how banks deliver services. These innovations promise greater efficiency, broader access to credit, and deeper customer insights. However, they also introduce complexity, regulatory challenges, and new categories of operational risk.

Recent literature underscores this duality. For instance, a comprehensive systematic literature review finds that digital banking adoption expands access and convenience but simultaneously increases susceptibility to cybersecurity threats such as phishing, malware, and data breaches, requiring robust regulatory frameworks and technological safeguards.

1.2 Regional Synergy in Digital Banking

To accelerate innovation without compromising security or inclusion, regional cooperation can set compatible digital standards and shared security protocols.
This includes:

- Cross-border API standards and payment compatibility.
- Regional cybersecurity frameworks that harmonize threat intelligence and incident response.
- Shared identity and authentication systems to streamline Know-Your-Customer (KYC) processes while mitigating fraud.

Such synergies reduce duplication of efforts across markets, allow smaller banks to leverage shared infrastructure, and cultivate regional digital ecosystems that are more resilient and cost-efficient. South Asia's mobile finance markets, for example, exhibit varying degrees of mobile finance adoption and inclusion — comparative analysis suggests that targeted cross-national collaboration could improve digital outreach and harmonize best practices across SAARC nations.

1.3 Innovation and Stability: Nonlinear Dynamics

Recent research shows that the impact of fintech on financial stability is nonlinear. In a study across Asia-Pacific and the Middle East, fintech adoption initially increases operational risks and instability, but as adoption surpasses certain thresholds, efficiency and risk practices strengthen, before excessive complexity creates renewed vulnerabilities. Institutional quality and financial system efficiency significantly modulate these effects.

This evidence suggests that regional policy coordination must include staged innovation governance — recognizing that digital frameworks appropriate for one phase of maturity may be unsafe or inefficient at another.

1.4 Collaborative Innovation Ecosystems

Innovation ecosystems benefit from pooling resources across borders. Regional innovation hubs, shared sandboxes, and collaborative research initiatives promote knowledge exchange and reduce duplication of efforts. Such ecosystems can catalyze innovative solutions tailored to diverse market needs, including financial literacy programs, AI-enabled credit scoring for unbanked populations, and climate finance roducts.

Public-Private partnerships at the regional level can also strengthen inclusive innovation by aligning the objectives of governments, banks, fintech firms, and international organizations. Regional forums and dialogues serve to harmonize strategic priorities, promote best practices, and incentivize inclusive product design.

2. Regional Collaboration for Financial Inclusion

2.1 Inclusion as a Strategic Priority

Financial inclusion — ensuring that households and enterprises have access to affordable and appropriate financial services — remains a cornerstone of sustainable economic development. Inclusive access reduces poverty, supports small and medium enterprises (SMEs), and enhances economic resilience.
Research indicates a significant positive relationship between financial inclusion and banking sector stability in Asian contexts, with inclusion programs contributing to resilience by diversifying client bases and expanding deposit sources.

2.2 Enhancing Inclusion Through Regional Synergies

Regional synergy in financial inclusion may include:

- Joint data standards for profiling unbanked populations.
- Shared digital platforms that lower entry barriers for service delivery.
- Cross-border remittance collaborations to reduce costs and increase reliability.

Coordination among central banks and regional bodies can also accelerate mobile finance development, amplify consumer protection standards, and harmonize policies that encourage fintech partnerships with incumbent banks.

2.3 Policy Frameworks and Capacity Building

Professional banks must engage with regional initiatives that promote inclusive financial infrastructure. These include collaborative efforts to develop credit scoring mechanisms for previously unbanked individuals through shared datasets and regional fintech sandboxes that test inclusive solutions. Such frameworks foster innovation while ensuring consumer safeguards and data protection consistency.

3. Securing Financial Systems: Regulatory and Cyber Risk Challenges

3.1 Governance and Risk Complexity

As banking becomes increasingly digitized and interconnected, the complexity of regulatory compliance and governance also rises. Studies show that the interplay between sociocultural legacies and formal governance structures can influence how corporate governance functions in developing banking sectors. For example, in Sri Lanka, informal social networks and legacy structures shape governance behaviors, impacting transparency and risk oversight.
In parallel, systematic reviews of digital banking note that cybersecurity threats increasingly shape the risk environment, particularly where fintech partnerships and third-party integrations expand attack surfaces.

3.2 Regional Regulatory Coordination

- Effective regional supervision demands shared frameworks for:
- Cybersecurity standards and real-time threat information exchange.
- Data sovereignty approaches that balance national interests with seamless cross-border operations. A recent review highlights diverse regulatory approaches to data sovereignty and suggests harmonized protocols to secure cross-border data flows while protecting privacy and financial integrity.
- Aligned corporate governance guidelines that encourage transparency across jurisdictions.

Creating regional regulatory working groups and supervisory colleges can enhance joint monitoring of cross-border institutions, improve contingency planning, and enable rapid responses to systemic threats.

4. Cross-Border Banking, Systemic Risk and Cooperative Frameworks

4.1 Complexity and Cross-Border Interactions

Cross-border banking amplifies complexity but also offers diversification benefits that can reduce default and earnings risk through geographic spread. Empirical evidence from other regions (e.g., Africa) suggests that geographic complexity — measured by the spread of subsidiaries across multiple host markets — may reduce bank risk by improving loan quality and revenue balance, highlighting potential benefits of strategic cross-regional presence.

4.2 Regional Cooperative Institutions

Institutions like the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) act as agents of connectivity, supporting infrastructure and financial linkages that underpin regional banking collaboration. Their roles can be expanded to promote interoperable banking platforms, liquidity support mechanisms, and crisis resilience instruments.

4.3 Shared Crisis Management Protocols

Resilience in accelerating markets necessitates robust risk management framework that can address both traditional financial risks and emerging digital threats. Regional networks for threat intelligence sharing,

coordinated cybersecurity protocols, and cross-boarder emergency liquidity arrangements can enhance the ability to absorb shocks, such as cyber-attacks or liquidity stress episodes.

Cooperation in crisis management, such as shared early warning systems, coordinated stress testing, or liquidity swap arrangements, builds collective resilience. Research on ASEAN's financial trilemma — the balance between financial stability, sovereignty, and integration — suggests that "soft law" regional alignments and shared crisis protocols can mitigate systemic risks without eroding national policy autonomy. Further, cooperation among regulatory authorities can also improve crisis response capabilities. For example, aligned stress -testing practices and shared oversight framework can anticipate systemic vulnerabilities introduced by digital innovations, enhancing overall market stability.

5. Challenges of Regional Synergy and Mitigation

Despite its promise, regional synergy faces challenges. Divergent regulatory capacities, varying levels of technological infrastructure, and political constraints can impede effective cooperation. To manage such challenges, targeted capacity-building programs, technical assistance, and inclusive governance structures are vital. International organizations such as the Alliance for Financial Inclusion (AFI) facilitate peer learning and collective action, helping regions guild common frameworks and leverage shared insights.

Conclusion

As banks navigate the rapidly evolving landscape of 2026 and beyond, regional synergy emerges as a strategic imperative for managing the twin forces of complexity and acceleration. Integrating innovation and financial inclusion with robust regulatory coordination and shared risk governance, can help banks not only withstand systemic pressures but also foster inclusive, resilient financial systems across borders.

Strategic regional approaches in digital innovation, financial inclusion, cybersecurity, and cross-border cooperation enable banks to expand access to financial services while enhancing stability. They also harmonize regulatory frameworks to reduce risk and build institutional trust, while encouraging shared standards for data governance and cyber resilience. Harmonized regulatory frameworks, shared digital infrastructure, collaborative innovation ecosystems, and cooperative risk management strengthen financial systems by expanding access, reducing risk, and catalyzing economic growth. Furthermore, regional synergy leverages geographic diversity to diversify risk and enhance operational strength.

For Sri Lanka's banking sector and its regional partners, these insights point toward a future where collaborative ecosystems — not isolated strategies — will define resilience, competitiveness, and inclusive growth. Professional bankers can lead this transformation by embedding collaborative frameworks into their strategic planning, investing in human and technological capital, and advocating for integrated regulatory pathways that align innovation with stability.

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Building Regional Synergy as a Catalyst for Climate-Resilient Finance

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Banks on the Climate Frontline

Financial institutions, particularly banks, stand at the frontline of climate risk, absorbing the economic shocks that ripple through governments, businesses, and communities when disasters strike. Climate risk is no longer an afterthought; it is a systemic challenge that undermines credit portfolios, asset values, and operational resilience. While banks are not the only actors, they are indispensable partners in advancing climate agendas. Their ability to collaborate with policymakers, investors, and regional institutions will be critical in building resilience, managing risks, and supporting recovery across economies.

The Gravity of Climate Risk for the Financial Sector

Climate risk comes in two forms: physical risk from floods, droughts, cyclones, and rising seas, and transition risks from regulatory and market shifts toward a low carbon future. Together, they cut across every dimension of banking. Sri Lanka's recent Ditwa cyclone showed how quickly disasters can damage infrastructure, disrupt operations, and trigger loan defaults. Such events erode asset quality, raise provisioning needs through higher Expected Credit Loss (ECL), and often lead to a Significant Increase in Credit Risk (SICR) across portfolios.

Beyond credit portfolios, climate shocks amplify market risk by destabilizing asset values, liquidity risk by straining funding flows, and operational risk through disruptions to branches and data centers. They also expose banks to reputational pressure, investor concerns, and systemic instability. In short, climate risk is not just another category it is a cross cutting challenge that magnifies vulnerabilities across credit, market, and liquidity dimensions simultaneously. These realities underscore the severe and multifaceted impacts climate risk imposes on banks, including.

- **Asset Quality Deterioration:** Physical damages and declining values of carbon intensive assets erode collateral and increase non performing loans.
- **Borrower Creditworthiness:** Vulnerable sectors such as agriculture, fossil fuels, and real estate face heightened default risks.
- **Operational Continuity:** Branches, data centers, and supply chains are disrupted by extreme weather.
- **Reputation and Investor Confidence:** Regulators, investors, and the public demand stronger climate action; failure to act erodes trust and share value.
- **Funding Constraints:** Institutional investors aligned with Principales of responsible Investment (PRI)and Principles of Responsible Banking (PRB) scrutinize banks' climate strategies, limiting access to global listings and capital.
- **Trade Finance Exposure:** Climate disruptions damage infrastructure and complicated compliance, undermining international trade operations.
- **Stranded Assets:** Long term investments in high carbon sectors risk becoming unviable under new regulations.
- **Financial Performance:** Rising Expected Credit Loss (ECL), impairments, and overlays increase provisioning needs and raise Probability of Default (PD).
- **Correspondent Banking Relationships:** Global banks may sever ties with institutions failing to meet ESG standards.
- **Regulatory Pressure:** Supervisors demand climate stress testing, disclosure, and capital adequacy adjustments.
- **Insurance Costs:** Rising premiums or reduced coverage for climate exposed assets strain risk management.
- **Litigation Risk:** Legal challenges from shareholders, NGOs, or communities over environmentally harmful financing.
- **ESG Misalignment:** Difficulty accessing green bonds or inclusion in ESG indices.
- **Cost of Capital:** Investors demand higher premiums or avoid banks not aligned with climate goals.
- **MSME Exclusion:** Small businesses lacking adaptive capacity face credit exclusion, undermining financial inclusion.
- **Cross Border Regulatory Divergence:** Differing climate regulations across authorities' complicate compliance for multinational banks.
- **Systemic Risk Amplification:** Climate shocks can trigger contagion across the financial system, magnifying risks beyond individual institutions.
- **Talent Challenges:** Younger professionals increasingly prefer climate responsible institutions, affecting recruitment and retention.

Why Climate Risk Surpasses Traditional Risks

Climate risk is not just another category on the risk register, it is a cross cutting, systemic threat that can destabilize entire financial systems if left unmanaged. Banks must integrate climate risk into core risk frameworks, enhance scenario based provisioning, and collaborate regionally to build resilience. Without comprehensive integration, climate risk is poised to surpass traditional banking risks and redefine the future of financial stability in South Asia.

Traditional risk frameworks are not designed for this level of complexity. Climate risk is:

1. Systemic - affecting entire sectors and geographies simultaneously.
2. Multifaceted - spanning credit, market, operational, liquidity, and legal risks at once.
3. Forward Looking and Uncertain -not bound by historical patterns, requiring scenario based analysis.
4. Reputation Driven - deeply linked to stakeholder trust and investor scrutiny.
5. Intensifying -compounding with every delay in climate action, creating sudden and nonlinear impacts.
6. Inequality Amplifying -disproportionately affecting vulnerable populations and MSMEs, risking socio economic instability.

Regions Under Siege

South and Southeast Asia rank among the world's most climate exposed regions, where floods, cyclones,

heatwaves, and rising seas are no longer rare shocks but recurring crises. From Sri Lanka's destructive floods and Pakistan's heatwaves to Bangladesh's relentless cyclones and the Maldives' coastal erosion, South Asia is under siege. Meanwhile, Southeast Asia faces parallel threats Indonesia and Malaysia with seasonal floods, the Philippines with devastating typhoons, Vietnam's Mekong Delta with saltwater intrusion, and Thailand and Myanmar with flood drought cycles disrupting agriculture. Together, these cascading disasters erode livelihoods, displace millions, and strain financial systems across the region.

Together, these disasters reveal a hard truth, climate change does not respect borders. Its impacts cascade across regions worldwide, eroding livelihoods, displacing populations, and destabilizing financial systems by undermining credit quality, asset values, trade flows, operational continuity, and economic stability.

Sri Lanka's recent experience with the Ditwa cyclone disaster has underscored the harsh reality that no nation can withstand or rebuild from such climate calamities alone. The scale of destruction demands both regional cooperation and global collaboration, where resources, expertise, and financial mechanisms are shared to accelerate recovery. In this context, regional banks must also explore innovative ways and means to pool capital, manage risks collectively, and support climate resilient rebuilding efforts that go beyond national boundaries. This reinforces the urgent need for regional synergy, where banks across South Asia collaborate to design shared financial tools, harmonized regulations, and joint climate finance platforms that can strengthen resilience and accelerate recovery in the face of escalating climate risks.

Why Regional Synergy Matters

Regional synergy in climate finance means countries working together to pool resources, align priorities, and coordinate financial strategies to address shared climate challenges.There is an urgent need to strengthen regional collaboration to create the synergy required to confront these escalating climate risks. By leveraging diverse funding streams such as green bonds, concessional finance, adaptation grants, private capital, and blended finance and integrating them through regional platforms, both South Asian and ASEAN countries can significantly enhance the effectiveness and scale of climate action. This approach is especially vital for developing economies, where the climate finance gap continues to widen. Regional cooperation ensures that funds are not fragmented or duplicated, but instead complementary, strategically aligned, and directed toward common resilience and sustainability goals.

Regional Collaboration Framework – Key Pillars

- Shared Climate Data & Risk Maps
  - Build regional climate data commons for floods, droughts, and cyclone projections.
- Regional Stress Testing
  - Develop common climate stress testing frameworks across South Asian central banks.
- Harmonized ESG & Disclosure Standards
  - Align reporting rules and green taxonomies to attract global investors.
- Joint Climate Finance Platforms
  - Pool resources into regional green bonds, adaptation funds, and catastrophe insurance schemes.
- Cross Border Green Infrastructure
  - Finance renewable grids, resilient transport corridors, and shared water basin management.
- Shared Disaster Recovery Tools
  - Design regional catastrophe bonds, MSME recovery funds, and sovereign resilience bonds, Equipment pool.
- Knowledge & Capacity Building
  - Create regional training hubs linking banks, universities, and climate experts.

Funding Pools for Adaptation Projects

Climate adaptation requires large-scale, long-term financing beyond the capacity of any single country or bank. Regional funding pools enable South Asian countries to mobilize capital collectively, share climate risks across borders, and strengthen regional resilience.

- Regional Green Bond Guarantee Schemes Joint guarantees reduce risk for investors, making it easier to issue climate resilient bonds at competitive rates.
- Climate Resilience and Adaptation Funds Dedicated funds channel resources into projects such as flood resistant housing, drought proof agriculture, and coastal protection.
- Blended Finance Platforms Combine concessional finance from development banks with private capital, de risking investments in adaptation.
- Catastrophe Insurance Pools Shared insurance mechanisms provide immediate liquidity after disasters, stabilizing financial systems and supporting recovery.
- Regional funding pools can also finance shared disaster-response infrastructure, equipment, and trained labour, allowing rapid regional deployment during climate disasters and reducing capital expenditure for individual countries.

Why This Matters

- Scale: Larger capital bases enable financing of projects too big for individual banks.
- Risk Sharing: Distributes exposure across multiple institutions and countries.
- Investor Confidence: Regional collaboration signals credibility, attracting global climate funds and ESG investors.
- Efficiency: Prevents duplication of efforts and ensures resources are directed where they are most needed.

A Critical Gap and an Opportunity for Sri Lanka's Leadership

It is important to acknowledge that, despite the clear need for collective action, the SAARC region has not yet

demonstrated meaningful or effective collaboration in climate finance or disaster-risk management. Regional platforms remain dormant, fragmented, or limited in scope, leaving countries to confront escalating climate threats in isolation.

This persistent gap presents a timely leadership opportunity for Sri Lanka particularly the Central Bank of Sri Lanka (CBSL) together with the banking sector. By establishing a South Asian Climate Finance Partnering Program, Sri Lanka can create the region's first coordinated platform for:

- Mobilizing climate finance
- Harmonizing risk management and disclosure frameworks
- Developing shared climate-risk tools
- Supporting joint adaptation and recovery projects

Such leadership would position Sri Lanka as a regional catalyst for climate-resilient finance while transforming fragmented efforts into unified regional resilience.

In conclusion, our region's rising climate risks demand bold, coordinated, and cross-border action. The stability of the banking sector increasingly depends on shared regional risk frameworks and the mainstreaming of climate-smart finance. The Association of Professional Bankers (APB), working collaboratively with regional regulators, other professional bodies, academia, and industry associations, can play a catalytic role at the regional level by acting as a strong lobbying and advocacy platform. This includes advocating for harmonised regional climate finance and risk management standards, positioning Sri Lanka's Climate Finance Partnering Program as a regional model, and enhancing climate finance literacy among bankers, businesses, and clients across the region to support a resilient and sustainable financial system.

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Navigating Complexity and Accelerating Impact through Regional Synergy

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Introduction

Effectively navigating complexity is critical for regions and regional organizations to thrive amid uncertainty and rapid change. As the South Asian Free Trade Area (SAFTA) treaty develops, compliance with World Trade Organization (WTO) rules is necessary to address critical trade and investment issues confronted by the least developed countries in the region and work towards integrating the existing bilateral agreements that are critical for fostering cooperation, regional synergy and enhancing trade in South Asia (SA). In today's interconnected environment, shifting geopolitical dynamics, and unpredictable disruptions and traditional planning approaches often fall short. Regional organizations must understand emerging synergies and build capacity to anticipate, adapt, and respond swiftly to challenges and opportunities.

- **Understanding Complexity and Identifying Drivers of Complexity**

Complexity involves numerous variables, relationships, and feedback loops that influence decisions and outcomes. In complex systems, cause-and-effect relationships are nonlinear, synergies shift constantly, and traditional planning can be irrelevant.

- **Technological Disruption**: AI (artificial intelligence) , blockchain, internet of things (IoT) , and platform-based business models create opportunities but overreliance on these disruptions can destabilize traditional systems.
- **Blurred Boundaries**: Categories such as "regionalism," "integration," and "globalization" overlap significantly.
- **Emerging Governance Models**: Multiplex global systems empower state and non-state actors. The Belt and Road Initiative (BRI) illustrate how China adapted to work within global infrastructure norms while reshaping state and non-state actors.
- **Market Volatility**: Rapid shifts in consumer preferences and industry trends complicate regional synergy.
- **Regulatory and Environmental Pressures**: Rising sustainability expectations, trade barriers, and compliance demands increase system-wide complexity.
- **Competition Policies, Free Trade Agreements (FTAs), and Platform Monopolies:** Global and regional economic frameworks further intensify complexity. Powerful economies tend to pursue trade promotion via monopolistic platforms. For example, the US attempts to apply competitive standards to influence global FTAs, China Under Regional comprehensive economic partnerships(RCEP) comprising ASEAN members plus Australia, China, Japan, Korea, and New Zealand try to balance foreign market access with domestic industrial support. South Korea is keen to promote the monopoly regulation and fair-Trade Act (MRFTA) and FTAs with major partners, while addressing platform monopolies with flexible enforcement. Regional dynamics are also shaped by entrepreneurial capabilities, geopolitical tensions, and large-scale initiatives such as the BRI and its newer green transition (GBRI), which strengthens infrastructure and environmental sustainability across developing economies.

- **ASEAN: Strengths and Emerging Challenges**

Although ASEAN's incremental, consensus-based approach has fostered regional stability and habits of dialogue, several challenges hinder deeper integration and synergy:

- **Slow Progress in Science, Technology, and Innovation (STI) Adoption**
  Despite the ASEAN's Plan of Action on STI (2026–2035), structural barriers impede service-led industrialization. Without strong STI adoption, ASEAN risks falling into a middle-income trap.
- **Skills and Human Capital Gaps**
  Most ASEAN countries have fewer R&D capabilities than the US and European countries. Many service exports still rely on low-value activities such as tourism and transport, limiting productivity growth.
- **vDigital Divide**
  ASEAN faces large disparities in cyber readiness, digital security, and internet penetration. MSMEs—dominant in countries like Indonesia and the Philippines—struggle with high infrastructure costs and low digital literacy.
- **Weak Innovation Ecosystems**
  Insufficient coordination between government, academia, and industry undermines STI development. Political instability also redirects long-term budgets toward short-term populist priorities.
- **Fragmented Regulation**
  Divergent rules on payments, data flows, and licensing hinder cross-border expansion, especially in fintech and digital services.
- **Widening Trade Finance Gap**
  SMEs face rejection rates of up to 45% for trade finance applications due to weak collateral, high compliance costs, and risk-averse banks. With ASEAN's heavily dependence on global supply chains, this gap inhibits inclusive growth. National champions such as Singapore, Malaysia, and Thailand have demonstrated progress in digital trade systems, while ADB-backed risk-sharing programs show how joint mechanisms can advance SME participation.

- **Priorities for ASEAN, SA and the SAARC Regions**

- Harmonize innovation policies and establish regional digital payment frameworks.
- Pool resources for cross-border R&D and expand regional cloud and broadband infrastructure.
- Adopt South Korea's tested "Triple Helix" collaboration model, involving government-industry-academia partnerships.
- Strengthen regional skills recognition and talent mobility, drawing on global best practices.
- Prioritize trade finance reform through regional guarantees, digital platforms, and shared risk facilities.

▸ **SA Within the ASEAN+ framework**

→ SA is emerging as a major digital economy hub—with a projected value of USD 1 trillion by 2030—but progress varies widely. Singapore leads digital integration, while larger economies such as Indonesia, Philippines, and Vietnam are better positioned to balance manufacturing and services. Cambodia, Laos, and Myanmar lag significantly.

→ According to the World Bank Development update, only 15% of SA workers are employed in modern sectors and out of 16 Mn that apply for jobs, only 10 Mn find employment . According to World Bank, SA is well positioned to take advantage of the new patterns of global trade and innovative technologies like AI. "Improving infrastructure and facilitating labour mobility can help maximize AI's benefits, while minimizing labour market disruptions. SA's high tariff have handicapped manufacturing." It is therefore suggested to carefully schedule tariff cuts starting with imported input, as these could help SA's manufacturing sector and labour markets. SA has not explored its potential for new supply chains and still accounts for approximately 5% of intra-regional trade. Regional constructive collaboration requires reducing trade costs, addressing infrastructure and skill development gaps, and improving soft connectivity through customs harmonization and digital systems. China's BRI and GBRI can contribute significantly to infrastructure financing.

▸ **Essentials for Achieving Regional Synergy**

→ **Effective Stakeholder Engagement**

Regional synergy relies on robust coordination among national governments, private sector development agencies, and civil society. Cooperation requires regional leadership free from hegemonic ambitions. A strong Central Secretariat must harmonize priorities, set measurable goals, and align them with the Sustainable Development Goals (SDGs). Chart I shows the focus areas of SDGs which are common in all regions.

Chart 1: UN SDGs-Focus Areas

Source: UN SDGs Google images

▸ **Growth, Resource Allocation, and Communication and the Need for Regional Cooperation**

Regional synergy should yield broad-based economic growth rather than concentrating benefits in metropolitan areas. This requires mechanisms for efficient resource allocation, alignment of national priorities, and integrated communication systems. Asia's major blocs—ASEAN and SAARC—illustrate the importance and challenges of regional cooperation.

▸ **SAARC: Persisting Challenges and Opportunities**

Over the last 40 years, SAARC operated in a region where political tensions remain high, limiting cooperation. Currently, India's trade outside SA accounts for about 95%. While bilateral or subregional initiatives such as BIMSTEC exist, cumbersome customs processes and inadequate transit systems impede trade. Digital customs platforms and renewed Customs Union efforts—supported by ADB or other development partners—can improve custom procedures.

The BIMSTEC group's share of exports to ASEAN increased from 13.1% in 1993 to 15.0% in 2023 (Table 1). Its import share increased from 10.1% in 1993 to 12.8% in 2023. Excluding the two common ASEAN countries, Myanmar and Thailand, the export share falls significantly, from 15.0% to 9.1% in 2023, and imports share from 12.8% to 10.1% , highlighting the higher level of trade integration amongst ASEAN countries compared to SA.

Table 1: BIMSTEC Countries' Exports to ASEAN as a Share of Total Exports

Country	1993	2003	2013	2023
Bangladesh	5.79	1.49	1.70	0.00
Bhutan	0.01	0.00	0.00	0.00
India	7.65	8.54	11.25	9.22
Myanmar	0.00	0.00	49.16	29.42
Nepal	0.00	0.45	1.29	0.00
Sri Lanka	2.92	2.16	2.95	3.19
Thailand	17.64	20.60	24.37	23.54
BIMSTEC	13.12	14.39	16.33	15.02
BIMSTEC – ASEAN (1)	6.99	7.40	10.38	9.06

Notes: (1) BIMSTEC excluding Myanmar and Thailand
Source: Menon Jayant(2025), 2025/36, South Asia's Regional Integration: Lessons from Southeast Asia

- **Potential Synergy Areas for ASEAN, SA, and the SAARC**

- **Technology and Trade Finance**
  Digitization of trade documents, adoption of UNCITRAL's model laws, and interoperable legal frameworks would reduce paperwork and costs for SMEs. Singapore's acceptance of electronic bills of lading sets a precedent for wider adoption.
- **Cross-Border Digital Identity Systems**
  Trusted digital IDs may reduce compliance burdens and expand access to cross border banking and financial services.
- **Digital Currencies and Payments**
  Stablecoins and central bank digital currencies (CBDCs) can reduce the cost of cross-border payments. Projects such as mBridge illustrate models for multi-country CBDC interoperability.
- **Science, Technology, and Innovation (STI)**
  STI drives productivity gains and reduces the digital divide. Instead of displacing workers, technological adoption—supported by AI and digital platforms—can create higher-skilled job opportunities.
- **Visa-Free Regional Travel**: ASEAN-style visa-free travel within SA and SAARC would support business mobility and integration, provided countries strengthen measures to prevent irregular migration. A new SAARC Master Plan should be prepared focusing on regional connectivity along with the setting up of a SA connectivity coordination committee to help coordinate the Master Plan and its feasibility. Given the current low level of port efficiency in the region, SA could expect significant gains from improving ports to lower transactions costs and facilitating trade. Recognizing this need, China's BRI and GBRI programmes were introduced in consultation with 62 BRI participants. Introducing 'open skies' policy in SA, liberalization of the rules and regulations of the international aviation industry, especially commercial aviation, would create a free-market environment for the airline industry.
- **Inclusion of Small and Island States**
  Small economies benefit disproportionately from regional integration. Sri Lanka's move to join RCEP is a positive step toward participation in high-value regional supply chains.

- **Concluding Remarks**

Regional synergy requires deliberate cooperation, shared vision, and strong institutional commitment. SA, ASEAN, BIMSTIC and SAARC each have the potential to unlock substantial economic and social gains through enhanced connectivity, integrated markets, and coordinated STI strategies. Key priorities moving forward include: the development of an integrated Regional Connectivity Strategy, like ASEAN's Master Plan on Connectivity, improving physical and soft infrastructure to reduce trade costs, Strengthening FDI policies, Regional Energy Trade and Enhancing Cross-border Digital Trade, Payments, and Identity systems. These requires simplifying and harmonizing the trade procedures, especially at the border using modern corridor management techniques in selected corridors.

SAARC must be revived—not replaced—while ASEAN can expand membership and broaden cooperation beyond geographic limitations. SAARC is marred by political tension between larger countries, and this has slowed trade among SAARC countries. Nevertheless, SAARC's economic potential is significant, and deeper regional integration and synergies could place it among one of the major regional economic players.

Stronger cooperation across ASEAN, SA, and SAARC is essential—not only for economic growth but also for maintaining sovereignty and resisting destabilizing external pressures. SA should carefully begin tariff cuts , starting with imported inputs, in SA's manufacturing sector and labour markets. BIMSTEC can also benefit from working more closely with wider SA and ASEAN. If forceful regional institutions can foster greater cooperation and synergies among their membership, trade can be promoted even without signing formal FTAs. Enhanced regional synergy, supported by technology, trade facilitation, and policy harmonization, will be central to unlocking shared prosperity in the decades ahead.

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Climate Risk: A New Frontier in Central Banking [1]

"Clearly, Central Banks are not the main actors when it comes to preventing global heating. Central Banks are not responsible for climate policy and the most important tools that are needed lie outside of our mandate. But the fact that we are not in the driving seat does not mean that we can simply ignore climate change, or that we do not play a role in combating it"

- Christine Lagarde, Climate Change and Central Banking, January 2021

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1. Introduction

Central banks across the globe face a range of risks that challenge their ability to maintain financial stability and implement effective monetary policy. Among these, climate-related risks have emerged as a critical concern, driven by the increasing frequency and intensity of extreme weather events, such as heatwaves, floods, droughts, hurricanes, wildfires, and cold snaps, resulting from long-term shifts in temperature and weather patterns caused primarily by human activities like fossil fuel combustion, deforestation, and industrial emissions that is commonly known as climate change.[2] As the global climate crisis intensifies, its implications for central banks have become more pronounced. Traditionally viewed as guardians of monetary stability, central banks are now compelled to integrate climate risk into supervision of financial institutions, macroeconomic modeling, and monetary policy frameworks. Climate risk, broadly categorized into physical and transition risks, poses significant threats to financial and price stability, as well as the broader economic outlook. In response, many central banks have begun incorporating climate considerations into their mandates through enhanced risk assessments, stress testing, and regulatory reforms, albeit on varying magnitudes and timelines. The Central Bank of Sri Lanka (CBSL) the monetary authority and the financial sector regulator of the country have also taken proactive steps in this direction, showing its commitment to addressing climate-related financial vulnerabilities.

This article examines the growing significance of climate risk for central banks, offering a comprehensive analysis of its various forms and the ways in which these risks affect core mandates. It explores how climate considerations are being integrated into monetary and financial policy, highlights both global and local initiatives, addresses the challenges central banks face in this evolving landscape and the potential remedial measures.

2. Introducing Climate Risk

Climate risk incorporates the potential adverse impacts of climate change on people, ecosystems, economies, and infrastructure. It reflects the interaction between the likelihood of climate-related hazards and the vulnerability and exposure of communities or systems to those hazards. Climate risk is broadly categorized into two main types: physical risk and transition risk.

Physical Risk refers to the direct consequences of climate change, including increasingly frequent and severe weather events such as hurricanes, floods, droughts, rising sea levels, and long-term shifts in climate patterns. These events can cause extensive damage to infrastructure, reduce agricultural yields, disrupt supply chains, and destroy homes and businesses. From a financial perspective, physical risks can erode asset values, drive up insurance costs, increase default rates, particularly in high-risk sectors like agriculture, real estate, and energy, and diminish the worth of collateral such as land and buildings.

Transition Risk arises from the economic and financial challenges associated with the shift toward a low-carbon economy. This transition involves policy changes like carbon pricing, emissions caps, and mandatory climate disclosures; technological advancements such as renewable energy and electric vehicles; evolving market preferences favoring sustainable products; and legal reforms aimed at curbing greenhouse gas emissions. While these measures are essential for long-term climate mitigation, they can introduce short- to medium-term volatility, affecting business models, asset valuations, and financial stability.

3. Impact of Climate Related Risk on Central Banks' Core Mandate

Central banks are traditionally entrusted with two primary objectives, i.e., maintaining price stability and ensuring financial system stability. In recent years, however, the pursuit of sustainable economic growth has increasingly become part of their broader strategic considerations. Historically, climate change was not viewed as falling within the scope of central bank mandates. However, as the economic and financial consequences of climate change become more pronounced, central banks are recognizing that neglecting climate-related risks could undermine their ability to achieve core objectives.

Climate-related stocks, such as crop failures, energy supply disruptions, or extreme weather events can lead to inflationary or deflationary pressures thereby impacting the stability of price. For example, severe weather can cause food price volatility, while carbon taxes may drive up energy costs. If these pressures persist, they can hinder central banks' ability to meet inflation targets. Moreover, climate change may introduce long-term structural inflation, driven by the costs of decarbonization, compliance with environmental regulations, and increased investment in green technologies. Hence, to maintain effective monetary policy, central banks can anticipate and incorporate these dynamics into their forecasting and modeling frameworks.

On the other hand, climate related risk affects financial stability. Climate risks are increasingly reflected in the balance sheets of financial institutions. Banks with exposure to carbon-intensive sectors or climate-vulnerable regions may experience deteriorating asset quality. Insurers face rising claims due to natural disasters, while investors risk losses from stranded assets in fossil fuel industries. These vulnerabilities can accumulate and pose systemic threats to financial stability. In response, central banks are enhancing their oversight by conducting climate-related stress tests, issuing supervisory guidance, and strengthening systemic risk monitoring to ensure that financial institutions are resilient to climate shocks.

4. Central Banks' Actions on Climate Risk

Over the past decade, central banks around the world have begun taking concrete steps to address climate risks. One such main initiative is the establishment of Network for Greening the Financial System (NGFS)[3] in 2017. It is a global coalition of central banks and financial supervisors committed to addressing climate-related risks and promoting sustainable finance and it aims to strengthen the financial system's response to climate change and support the transition to a low-carbon economy. NGFS operates through working groups focused on supervision, macrofinancial analysis, scaling up green finance and bridging data gaps. NGFS includes over 140 members and observers from around the world, including major central banks like the European Central Bank, the Bank of England, and the Federal Reserve.

Also, central banks across the globe specially, in the UK, France, the Netherlands, and some other countries have started conducting climate stress tests to assess how financial institutions might be affected under different climate scenarios. Unlike traditional stress tests that focus on short-term shocks, climate stress tests often span longer time horizons like 10-30 years and incorporate complex, uncertain variables tied to environmental change and policy shifts. These tests help identify vulnerabilities and inform supervisory actions.

Further, some central banks are exploring or implementing green monetary policy tools, such as green asset purchases also known as green quantitative easing, climate-adjusted collateral frameworks, and targeted refinancing schemes that incentivize lending to environmentally sustainable sectors. Central banks may also explore climate-linked reserves. These tools aim to support the transition to a low-carbon economy while maintaining core mandates like price and financial stability. Similarly, central banks as regulators are also encouraging climate disclosure to ensure that climate-related risks are transparently identified, assessed, and managed across the financial system. Climate disclosure involves requiring financial institutions to report their exposure to physical and transition risks, including carbon footprints, vulnerability to extreme weather events, and alignment with climate targets. These disclosures enhance market discipline, improve risk pricing, and support informed decision-making by investors and regulators. Additionally, to support sustainable finance, central banks help developing green taxonomies by defining what qualifies as a "green" or "sustainable" economic activity. These taxonomies guide investment flows and enable consistent classification of climate-aligned assets.

5. Some Global and Local Experiences

European Central Bank (ECB) has been a pioneer in integrating climate risk into its operations and has made significant progress in mapping climate-related risks to financial stability.[4] It has conducted climate stress tests, adjusted its collateral framework, and committed to greening its asset purchases. It conducts scenario analyses to assess banks' exposure to physical and transition risks, especially in vulnerable sectors and regions. The ECB also emphasizes enhanced disclosures and green finance development, while warning against greenwashing practices.

The Bank of England has emerged as a global leader in addressing climate-related financial risks, setting a precedent for central banks worldwide.[5] As a founding member of the Network for NGFS, it actively collaborates with global institutions to develop tools, share best practices, and promote sustainable finance. It has issued detailed supervisory guidance and conducted pioneering climate stress tests using long-term scenarios to assess vulnerabilities in banks and insurers. The Bank has also integrated climate considerations into its monetary policy operations and published transparent climate-related disclosures aligned with international practices.

Further, People's Bank of China has started integrating climate risk into its macroprudential policy framework, encouraging banks to assess and disclose their exposure to environmental risks. It supports the development of environmental stress testing tools and collaborates with international bodies like NGFS to align with global best practices. Additionally, the central bank is working to improve green finance data infrastructure, recognizing that reliable data is essential for effective supervision and policy design. Japan's Financial Services Agency has issued supervisory guidance on climate-related risk management,[6] encouraging financial institutions to engage with clients on climate issues. It promotes sector-level risk assessments, scenario analysis, and governance reforms to integrate climate considerations into financial supervision.

CBSL has undertaken a series of forward-looking initiatives to address climate-related risks within the financial system, acknowledging the increasing threat that climate change poses to economic and financial stability. Key actions include the development of a green finance taxonomy to classify and promote sustainable economic activities, the launch of Sustainable Finance Roadmaps[7] to guide financial institutions toward ESG integration, and the issuance of climate risk management guidelines/directions[8] to strengthen institutional resilience. CBSL has also prioritized stakeholder capacity building, equipping financial sector participants with the knowledge and tools needed to manage climate risks effectively. Through its Sustainable Finance Roadmap 2.0[9], Systemic Risk Surveys[10], adoption of climate disclosure standards[11], and active cross-sector collaboration, CBSL is embedding climate collaboration[12] into the core of financial governance. These efforts reflect CBSL's strategic commitment to fostering a resilient, transparent, and inclusive financial system capable of withstanding the escalating challenges of climate change.

6. Challenges Faced by Central Banks and Some Considerations for Adoption

Despite growing momentum, integrating climate risk into central banking is fraught with some challenges. Accordingly, the biggest challenge faced by central bank is the mandate constraints as they operate under thin legal mandates focused on price stability/inflation or financial stability or both. There is debate over whether climate action falls within their remit. Critics argue that climate policy is the responsibility of elected governments, not unelected technocrats. Hence, central banks are required to carefully navigate this tension,

ensuring that their actions are consistent with their mandates while supporting broader sustainability goals. One other key challenge is climate related data limitations as reliable, granular, and forward-looking climate data is still lacking. Without high-quality data, climate risk assessments, stress testing, and scenario analysis become difficult. However, currently central banks are increasingly collaborating with academia, international organizations, and the private sector to improve data availability. Measuring and modeling is also a challenge as estimating climate-related financial risk is inherently complex. It requires integrating environmental science with economic and financial modeling. Time horizons are long, uncertainties are high, and feedback loops are complex and nonlinear. Hence, traditional risk assessment frameworks need to be adapted or reimagined to capture these nuances. Since climate related issues are politically sensitive, taking an active stance on climate can expose central banks to political criticism, especially in polarized environments. For central banks to maintain their independence and credibility, their climate actions must be transparent, evidence-based, and grounded in their core objectives.

As climate risks continue to grow, central banks are likely to deepen their involvement in several key areas. One such area is climate-integrated monetary policy. Central banks may need to better understand how climate change affects inflation dynamics, productivity, and economic output. Integrating climate variables into forecasting and decision-making could improve policy outcomes. The other consideration is the climate-related capital requirements. There is a growing debate over whether capital requirements should reflect the climate risk profile of assets. For instance, should banks hold more capital against loans to carbon-intensive sectors? Such measures could incentivize greener lending and improve resilience. Similarly, cross-sectoral collaboration is also important in addressing climate related risks as central banks alone cannot address climate risks. They may need to collaborate with fiscal authorities, regulators, international bodies, and the private sector institutions. Joint efforts can ensure policy coherence and effective risk management.

7. Conclusions

As climate-related disasters grow in frequency and severity, their repercussions on central banking have become increasingly evident, prompting a broader interpretation of central banks' mandates. Climate risk challenges conventional economic models, stretches the boundaries of monetary and financial policy, and necessitates the adoption of innovative tools and approaches. Despite ongoing challenges, such as data limitations, modeling complexities, and political sensitivities, central banks are uniquely positioned to take the lead in identifying, mitigating, and managing climate-related financial risks. This evolving responsibility extends beyond their conventional mandates of price and financial stability to include sustainability and long-term economic resilience. By integrating climate considerations into policy frameworks, supervisory practices, and risk assessments, central banks can help shape monetary and financial systems that are not only stable and efficient but also environmentally sustainable.

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[2] Climate change refers to long-term shifts in temperatures and weather patterns. While these changes can occur naturally due to changes in the sun's activity or large volcanic eruptions, the current trend is primarily driven by human activities, especially the burning of fossil fuels such as coal, oil, and gas. These activities release greenhouse gases like carbon dioxide and methane into the atmosphere, which trap heat and lead to a rise in the Earth's average temperature.
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[8] Please see https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Directions_No_5_of_2022.pdf; https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/snbfi_letter_to_ceos_of_lfc_20221129_e.pdf
[9] Please see https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/sustainable_finance_roadmap_2.0.pdf
[10] SRS tracks market participants' perceptions of risks to the financial system, including climate-related threats, https://www.cbsl.gov.lk/en/publications/other-publications/systemic-risk-survey
[11] Please see https://www.ft.lk/front-page/CBSL-charts-greener-future-with-Sustainable-Finance-Roadmap-2-0/44-776232
[12] CBSL works closely with Securities and Exchange Commission (SEC), Insurance Regulatory Commission (IRCSL), Colombo Stock Exchange (CSE), Sri Lanka Banks' Association (SLBA), Finance Houses Association (FHA), https://www.ft.lk/front-page/CBSL-charts-greener-future-with-Sustainable-Finance-Roadmap-2-0/44-776232

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The Role of Governance in Navigating Complexity and Accelerating Impact Through Regional Synergy

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Introduction

In an era characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), governance has assumed a central role in shaping institutional resilience and regional advancement. No longer limited to formal compliance or administrative oversight, contemporary governance functions as a strategic enabler, one that equips societies, organizations, and regions with the capacity to navigate systemic complexity while accelerating meaningful and sustainable impact. Within this evolving landscape, governance frameworks that foster coordination, adaptability, and accountability are increasingly critical to addressing interconnected economic, social, and political challenges.

When embedded within structures of regional synergy, governance transcends isolated decision-making and becomes a catalyst for collective transformation. Regional collaboration enables the pooling of resources, alignment of policy objectives, and diffusion of innovation across jurisdictions, thereby enhancing the effectiveness of governance interventions. This paper examines the role of governance in navigating complexity and accelerating impact through regional synergy, situating the analysis within the theoretical frameworks of multi-level governance. By doing so, it explores how interactions among local, national, and regional actors can generate coherent responses to complex challenges and amplify developmental outcomes in an increasingly interdependent world.

Governance as a Framework for Managing Complexity

Governance in Asia is increasingly recognized as a vital framework for handling the intricacies of political, economic, and social systems. The rise of formal institutions across the Asia-Pacific region reflects a deliberate response to overlapping regimes and policies. Suzuki (2024) observes that these institutions priorities precision, non-delegation, and formalization in areas such as emergency liquidity assistance, development aid, clean air, and labor migration. By establishing structured systems, governance reduces uncertainty and clarifies pathways for countries to navigate competitive environments.

At the national level, governance is inextricably linked to state efficacy. According to Rahman and Robinson (2021), accountability, openness, and institutional capacity changes have helped Asian states manage development difficulties and policy execution more effectively. Countries like South Korea and India have implemented democratic reforms to increase institutional resilience, but China has depended on centralized governance to maintain stability. These various trajectories demonstrate how governance frameworks adapt to complexity in diverse political situations, ensuring that growth and poverty reduction are still possible in the face of volatility.

Governance is also becoming more adaptive, integrating innovation and flexibility into public administration. Investments in capacity building, Reports from UNPAN's Asia-Pacific Governance Watch (2025) show how governments are investing in capacity building, ICT integration, and public finance reforms to meet difficult socioeconomic transformations. Adaptive governance allows states to adjust to rapid technological development, climate problems, and altering geopolitical dynamics by building resilience into their institutional frameworks.

Theoretical Foundations: Regulatory Governance and Stakeholder Theory

Regulatory governance frameworks have become critical components of global civilization. Directors are agents of the company, and their rights, duties, and authority are stated in the company's articles of organization. Shareholders, as the company's owners, appoint directors as agents to manage the company's activities. As a result, the firm is considered the principal, and because it is an artificial body, it is critical to have a powerful board of directors that will use their consciousness to supervise business actions in accordance with shareholder expectations. When it comes to previous governance failures in the financial and non-financial sectors, there is a heated argument over whether so-called directors are operating in the best interests of their constituents or themselves.

According to Nicholas, Wasike, David, Paul, Walter and Evans, (2012) states that the Stakeholder Theory studies the firm in the context of a wider range of implicit and explicit stakeholders having reasonable expectations, pressing demands, and/or power regarding the firm rather than focusing solely on shareholder. Further the stakeholder theory focuses on managerial or strategic decision-making and contends that the interests of all stakeholders have intrinsic value. It contends that managers in organizations have a network of relationships to serve that includes the suppliers, employees, and business partners etc.

Tricker (2014) states that Stakeholder Theory is important to examine when looking at company governance from a society perspective. The term "stakeholder," which was created to contrast with the term "shareholder," acknowledges the interests of all parties impacted by a company's decisions, including clients, staff, and managers, suppliers, clients, bankers, shareholders, the local community, more general societal interests for the environment, and the government.

Stakeholder Engagement: Inclusivity and Legitimacy

Effective stakeholder engagement in governance requires inclusivity, which enhances legitimacy and ensures that diverse voices shape policy outcomes. Citizens, businesses, and civil society organizations must be actively involved in decision-making processes to create policies that are representative, sustainable, and trusted. Inclusive governance is increasingly recognized as a cornerstone of legitimacy in modern policy frameworks. Stakeholder engagement practices are not automatically legitimizing; they must be carefully designed to balance power dynamics and avoid tokenistic participation. When done effectively, they provide

regulators with access to diverse perspectives, strengthening both the quality and acceptance of decisions (Abeysekara, 2015).

Effective stakeholder engagement in governance necessitates inclusion, which boosts legitimacy and guarantees that various perspectives influence policy decisions. Citizens, corporations, and civil society organizations must all actively participate in decision-making processes in order to develop policies that are representative, sustainable, and trustworthy. Furthermore, international frameworks emphasize that effective stakeholder involvement hastens impact by encouraging discourse, creating trust, and ensuring that policies consider the concerns of diverse populations. Together, these viewpoints demonstrate that inclusion is more than a procedural need; it is a vital driver of legitimacy, responsibility, and long-term government performance.

Accelerating Impact through Governance

Governance is critical for accelerating effect because it brings diverse stakeholders together around similar goals. Effective governance frameworks provide forums for governments, regulators, business sector entities, and civil society to collaborate toward common goals. For example, the European Union Banking Union standardizes supervisory methods across member states, ensuring that national regulators work under a uniform framework (European Central Bank, 2025). Similarly, ASEAN's financial integration, driven by the AEC 2025 Blueprint, establishes a governance structure that aligns policies across member countries to create a single financial market (Bangko Sentral ng Pilipinas, 2025; IMF, 2025). As Zhou et al. (2022) explain, regional synergy necessitates governance institutions capable of combining varied interests in order to realize collective development goals.

Beyond alignment, governance accelerates effect by establishing accountability mechanisms that promote institutional success. Transparent regulations, monitoring methods, and enforcement procedures ensure that organizations meet their commitments. The European Parliament (2025) emphasizes how the ECB's supervisory structure ensures accountability by requiring consistent reporting and compliance checks. In South Asia, SAARC's (South Asian Association for Reginal Cooperation) charter identifies accountability as a principle for cooperation, although enforcement issues persist (Hosain & Karim, 2023; BA Notes, 2024). Shi Yao (2025) emphasizes that accountability and policy coordination are critical for regional development initiatives to avoid duplication and inefficiency.

Effective governance additionally promotes innovation by establishing transparent and consistent regulatory frameworks. Environments characterized by transparency foster experimentation, stimulate investment, and facilitate cross-border collaboration. The Association of Southeast Asian Nations' (ASEAN) financial integration framework fosters innovation within the fintech and banking sectors by mitigating regulatory fragmentation (SWIFT, 2025). Similarly, the European Union Banking Union fosters equitable conditions for financial innovation through the standardization of supervisory protocols (ECB, 2025). Amagoh (2025) underscores the necessity of balancing regulatory frameworks with adaptability within complex adaptive systems, thereby fostering innovation while concurrently preserving stability.

Regional Synergy: Multiplier Effect and Collective Advancement

Component of efficient regional governance, providing economies of scale and hastening developmental impact. By merging infrastructure, financial systems, and human capital across jurisdictions, regions can achieve results that individual states or subnational entities would struggle to achieve on their own. According to the Organization for Economic Co-operation and Development (OECD) and Asian Development Bank, subnational governments in Asia-Pacific already account for 29% of public expenditure and 38% of public investment, demonstrating the transformative potential of coordinated resource allocation when governance structures are aligned. Similarly, the United Nations Committee of Experts on Public Administration emphasizes how multi-level governance structures improve efficiency by minimizing duplication and encouraging collective investment in shared objectives including transportation, energy, and digital infrastructure (Abeysekara, 2015).

ASEAN case studies show that pooling resources through regional organizations not only enhances resilience but also accelerates innovation, especially in crisis response and cross-border trade facilitation. Thus, resource pooling within regional government is more than just a financial strategy; it is a structural enabler of synergy, allowing regions to use their collective ability for long-term growth and global competitiveness.

Regional synergy operates as a multiplier, allowing countries to pool resources, align policies, and harness collective capabilities to achieve results that would be impossible in isolation. In Asia, institutions like ASEAN and SAARC demonstrate how governance structures promote cross-border cooperation, minimizing fragmentation and increasing impact. ASEAN's financial integration, directed by the AEC 2025 Blueprint, indicates how coordinated governance can result in a unified financial market, increased capital mobility, and innovation (Bangko Sentral ng Pilipinas, 2025; IMF, 2025). Similarly, the European Union Banking Union demonstrates how harmonized supervisory mechanisms may stabilize financial systems and increase resilience through shared governance (European Central Bank, 2025).

In South Asia, SAARC initiatives in trade, education, and disaster management demonstrate the potential for regional cooperation, however political obstacles have hampered their efficacy (Hosain & Karim, 2023; BA Notes, 2024). Zhou et al. (2022) suggest that regional synergistic development necessitates governance institutions capable of integrating varied interests, guaranteeing that collective action has a stronger impact than individual national efforts. Thus, regional synergy converts government into a catalyst for rapid advancement, transforming complication into opportunity through collaboration.

Finally, regional cooperation is an important governance instrument for addressing complexity across boundaries. Institutions like ASEAN, SAARC, and Asia-Pacific Economic Cooperation (APEC) provide platforms for coordinating trade, finance, and climate policy, minimizing fragmentation, and increasing collective influence. Regional governance frameworks serve as stabilizing influences by promoting synergy and shared norms, allowing countries to turn complexity into opportunity through collaboration.

Conclusion

Governance constitutes the foundational anchor through which institutions and regions are able to navigate the multifaceted challenges of an increasingly volatile, uncertain, complex, and ambiguous (VUCA) global environment. As this paper has demonstrated, governance can no longer be understood as a purely compliance-driven function; rather, it operates as a strategic enabler that cultivates adaptability, resilience, and innovation. When embedded within frameworks of regional synergy, governance attains a multiplier effect, transforming complexity into opportunity and accelerating collective impact.

The analysis underscores that inclusive stakeholder participation, robust accountability mechanisms, and adaptive regulatory frameworks are indispensable to achieving sustainable development. Regional cooperation, exemplified by integrative governance models such as those of ASEAN and the European Union, enhances the efficacy of governance by enabling resource pooling, policy harmonization, and cross-border innovation. Such collaborative arrangements not only strengthen institutional and regional resilience but also ensure that growth trajectories remain inclusive and sustainable.

Ultimately, the future of governance lies not in isolation but in collaboration. Regional partnerships and multi-level governance structures will be central to addressing emerging systemic challenges, fostering shared resilience, and sustaining equitable and enduring progress in an increasingly interconnected world.

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AI Hackers of Financial Institutions are on the Loose, but way-out is harnessing global synergy through collaboration

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Introduction

The Bangladesh Bank – the central bank in Bangladesh – came under a cross-border cyber-attack in 2016 causing it to lose eventually $ 81 million out of its scanty foreign reserves. The attack now known as the Bangladesh Bank Heist is being used as a case study for training central bankers and officials of financial institutions. The attackers had meticulously planned their surreptitious game for about a year first by breaching the security system of emails of bank officials and then generating fake SWIFT messages on a Thursday night to transfer about $ 1 billion out of the Bank's account with the Federal Reserve Bank of New York. The Fed became suspicious of several transactions involving the transfer of money to private accounts in Sri Lanka and the Philippines but could not contact the Bangladesh Bank because Friday and Saturday were holidays in Bangladesh. It had already sanctioned the transfer of $ 100 million - $ 81 million to a private account in the Philippines and $ 19 million to an account in Sri Lanka – but the Sri Lankan bank official in the Deutsche Bank did not permit the transfer of money to the account because of the discrepancy in the spelling of the name of the recipient. Thus, it was not the inbuilt security measures of the computer system that prevented the massive bank robbery but the alertness of the human brain – known as the necktop – that saved the Bangladesh Bank of a financial as well as a reputational loss. But since then, cyber criminals have been smarter and by today's standards, the Bangladesh Bank Heist seems to be a child's play. This article will throw light on two such developments, namely, Pig Butchering and the engagement of Deepfakes, and argue that it is the global cooperation and collective action that will help financial institutions to protect the moneys belonging to their customers. This is drawing on global synergy by way of a global public good to protect the financial institutions from cyberattacks.

Abuse of Generative Artificial Intelligence (GenAI)

The new hacking of financial institutions and their customers has occurred through the abuse of the latest technological development, Generative Artificial Intelligence or GenAI which has been used by people to create new content such as text, images and/or music by learning the patterns from vast datasets. Quite different from the traditional AI that analyses or categorises existing data, GenAI models produce novel and original output in response to prompts of creators. This is achieved through complex algorithms that predict what the next word, sound or pixel should be, and that prediction is based on the past patterns. Therefore, it still cannot accommodate the unexpected or events that happens at random. However, it has applications ranging from content creation for easy learning or effective marketing to medical research where it can be used for drug discovery, clinical trials, or biomarker identification for diseases. Thus, users have been able to create new texts, images, audios, and videos which can be used for productive purposes. However, its free availability has helped misusers to create content for ulterior purposes like penetrating the security measures of financial institutions and robbing the moneys of bank customers. One such use has been the creation of fabricated images, videos, or audios of a person saying or doing something which he never did. In the parlance of industry, this is known as 'deepfake' creations. These forged creations can be used for malicious purposes like spreading misinformation, creating contents involving disinformation, committing financial frauds, or simply defaming the character of known personalities.

Cultivating the victim before being robbed: 'Pig Butchering'

The newest addition to these scams is what is formally known as 'Social Engineering Scams' or aptly nicknamed 'Pig Butchering' going by the modus operandi used by scammers. According to the USA based non-profit cybersecurity alerting group, National Cybersecurity Alliance, the term pig butchering is a translation from the Chinese term, Sha Zhu Pan which means killing pig plate. Thus, for the scammers, the targeted victim is a pig to be fattened up for slaughter eventually so that the scammers can rid him of all his moneys. These pig butchering scams were first identified in China in about 2016 targeting the offshore gamblers. These networks, mostly based in Asian countries, soon spread to the rest of the world elevating them from a local issue to a global issue. They usually use the social media to seduce the gullible victims, making it a fitting term to be called more respectfully social engineering scams. The perpetrators operate in the social media space through digitally created 'bots' whose identity or origin is not traceable and therefore not known to the targeted pigs. It is like the online dating or romance or sweetheart scams or cryptocurrency scams through which a gullible pig is lured into part with his money after building a trustworthy relationship with him.

Modus operandi of pig butchering

The usual method of reaching out to a prospective victim is to pretend that it was an accidental contact done by mistake. Once confronted, the crafty scammer will apologise profusely for the inconvenience caused to the victim. That is a very powerful entry point because by winning the trust of the victim, the scammer can now manipulate him step by step according to his wishes. These by mistake contacts may take place via emails or through propaganda done on social media platforms.
Accordingly, a potential victim may get an email which is not intended for him. But it provides an opportunity for the scammer to have his communication line open with the victim who now falls for his pretensions. In the initial stage, like in the case of romance scams, the true face of the scammer is not revealed. Over time, when the two parties have become thick pals online, the opportunity for investment, usually in a cryptocurrency or another similar platform, is offered to the victim. There can be suggestions for gold trading or forex trading too. When the victim starts trusting the scammer, like a fattened pig, he is butchered by getting him to part with his money.

Deepfake: cloning of images or voices

Deepfake has entered Sri Lanka targeting the gullible public. However, its more disastrous damage has been the attack on financial institutions which presently rely on biometric data, personal information, and one-time passcodes or OTPs to identify the genuineness of their customers. Deepfakes have successfully penetrated all these security measures. It is, therefore, necessary for financial regulators and financial institutions to protect themselves from such attacks as warned by the US Treasury Department's Financial Crimes Enforcement Network or FinCEN in an alert issued in September 2024. The alert under reference has been to help financial institutions identify fraud schemes associated with the use of deepfake media created with GenAI tools. It has explained the similarities in those scams, provided red flag indicators for such scams, alerted the institutions concerned, and reminded them of the need for prompt reporting of such scams under the US Bank Secrecy Act or BSA.

Use of high-quality fake videos

Deepfake videos are high quality man-made contents that resemble the reality. This resemblance to reality is the main reason for the public to believe them as authenticated. However, it is not the people who are now deceived. It is the computer systems that have been setup to protect the safety of banking transactions and thereby the moneys belonging to customers. This is even though the leading developers of GenAI taking all the precautions to keep the prospective misusers at bay through continuous oversight and control systems. But the criminals who have the intention of robbing other people's money are also engaged in developing methods to evade and circumvent the safety measures introduced by the genuine developers. This has been facilitated by the open-source availability of these tools to anyone wishing to use them. As a result, those who have the intention of using them for criminal activities can produce such deepfakes at a lower cost and faster than the genuine developers. This is a real threat to financial institutions which believe that they have impenetrable digital systems to thwart the potential scammers. Thus, it is also a threat for the regulators which should safeguard the interests of the bank customers, on one side, and adopt a national policy to prevent both AML and CFT.

Entrust, the global company specialized in identity-centric security solutions that protect people, devices, and data, has presented its 2025 Identity Fraud Report with the support of its subsidiary onfido outlining the modus operandi of deepfake creators to attack financial institutions. The report presents three key findings.

A rise in digital manipulations

First, digital manipulation has replaced the frauds hitherto committed by forging physical documents. The Entrust report says that year 2025 marks as the first year in which this fraudulent technique has been widely used recording a historic 244% increase in its occurrence year over year. The culprit has been the easy and free availability of GenAI-assisted tools, shared methodologies among the users, and the rise of fraud-as-a-service that can be used by anyone wishing to attack the digital systems of financial institutions. Economically, it is the best way to rob people.

Use of GenAI tools to create fake videos

Second, of the digital manipulations, GenAI-assisted fraud is on the increase. The GenAI-assisted tools are increasingly used for creating convincing phishing emails or producing realistic deepfakes with apps that enable to swap the faces of real persons to created videos. There are also sites claiming to create realistic documents for use by prospective scammers. Of all the frauds, the Entrust report says that deepfakes now account for lumpy 40% of all biometric fraud.

More sophisticated frauds

Third, fraud is getting more sophisticated and more accessible to potential scammers. The sophistication has come from the use of GenAI, proliferation of deepfake videos, and techniques like injection attacks. In injection attacks, the scammer sends malicious data to an application, causing it to execute commands or reveal aunauthorised data. This happens when an application fails to properly validate or sanitise user input, allowing specially crafted data to be interpreted as code.

Need for harnessing Global Synergy as a Global Public Good

Both Pig Butchering and Deepfake Scams use easily available GenAI assisted tools. When they are in the hand of the people with criminal intentions, it is difficult to check on them unless there is continuous vigilance on the part of the financial institutions and national governments. Financial institutions have introduced biometric safeguards to protect their customers. However, scammers have become smarter and beaten those safeguards promptly after they have been introduced. Hence, it has become a continuous battle between biometric safeguards developers and potential scammers to win over the other. At one stage, the biometric safeguard developers are on the top but at another, the scammers are pushing them down and win over them. What this means is that there should be continuous vigilance to keep these scammers at bay and maintain the safety of and trust in financial institutions.

Panacea or Pitfall: Reassessing the Viability of a Bad Bank for Sri Lanka's Non-Performing Loan Crisis

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1. Introduction

The stability of the financial system is widely recognized as a prerequisite for sustained economic growth. Within this system, banks perform a central role through financial intermediation, efficient credit allocation, and the transmission of monetary policy. Empirical evidence consistently demonstrates that elevated levels of non-performing loans (NPLs) impair banking sector profitability, weaken credit supply, and increase systemic vulnerability (Mileris, 2015; Partovi & Matousek, 2019; Singh et al., 2021). These effects extend beyond the financial sector, adversely influencing investment, consumption, and employment, thereby constraining overall economic performance.

Accordingly, the resilience of the banking sector remains a critical determinant of macroeconomic stability in both developed and developing economies. Sustained weaknesses in asset quality are frequently associated with prolonged economic stagnation and heightened financial fragility (Gnawali, 2018).

Sri Lanka's financial system is predominantly bank-centric. As explained in Table 1 end-2024, the banking sector accounted for approximately 72.7 percent of total financial system assets, with Licensed Commercial Banks (LCBs) alone representing more than half of aggregate financial assets. Given this concentration, systemic stability is largely dependent on the financial soundness of LCBs. However, Sri Lanka has historically recorded NPL ratios that exceed those observed in regional peers and advanced economies, rendering the issue of impaired assets a persistent structural challenge.

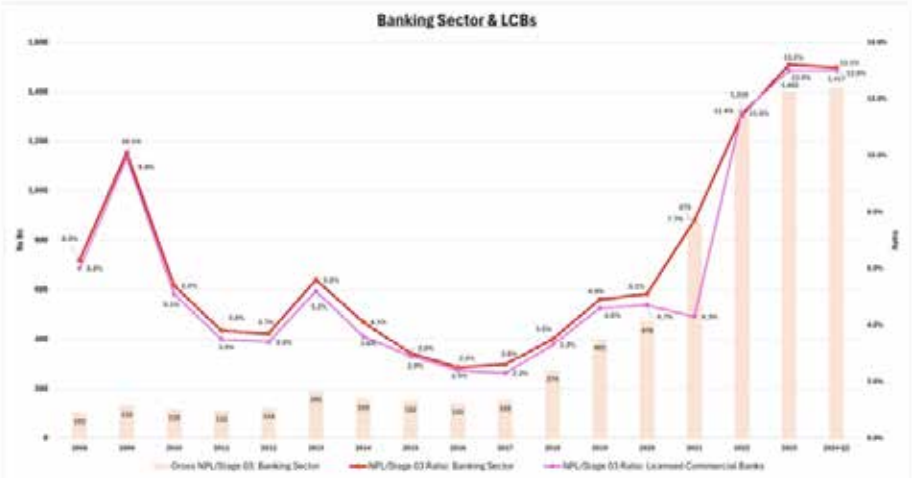
Table 1: Total Assets of the Financial System in Sri Lanka – 2024

Contributors	Rs. Bn	%
1. Banking Sector	26,051.8	72.7
Central Bank	3,876.1	10.8
LCB's	19,815.0	55.3
LSB's	2,360.7	6.6
2. Other Deposit-taking institutions	2,195.1	6.1
3. Specialized Financial Institutions	908.7	2.5
4. Contractual Savings Institutions	6,678.7	18.6
Total	35,834.3	100

(Source: Annual Economic Review CBSL: 2023)

The period from 2019 onward has been particularly destabilizing. A sequence of adverse shocks—including the Easter Sunday terrorist attacks, the COVID-19 pandemic, and the subsequent sovereign debt default—resulted in a sharp deterioration in asset quality across the banking system. While a marginal improvement in the NPL ratio was observed by end-2024, the level remains elevated and continues to pose material risks to financial stability. Figure 1 portraits the exponential increasing NPL in Sri Lanka after 2019.

Figure 1: Non-Performing Loans of LCB in Sri Lanka



Source : Annual reports of CBSL

Against this backdrop, the establishment of a "Bad Bank" has been periodically proposed as a potential policy response. This paper critically examines the applicability of the Bad Bank model to Sri Lanka's current NPL crisis, drawing on international experience and domestic institutional realities.

2. Non-Performing Loans and Financial Stability

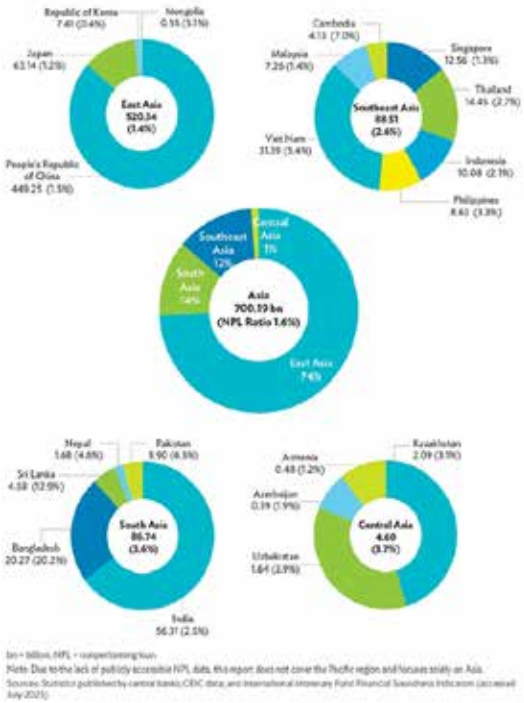
The systemic risks associated with high NPL ratios have been extensively documented. During the global financial crisis of 2007–2008, excessive accumulation of non-performing mortgage assets led to widespread banking failures and culminated in a severe global recession (Swedberg, 2010). Similar dynamics have been observed in Asian economies, where rapid increases in NPLs constrained bank lending and amplified financial instability (Rehman, 2017).

Non-performing loans have been characterized as early indicators of financial distress, as their accumulation weakens bank balance sheets and restricts credit expansion (Reinhart & Rogoff, 2010). Louzis et al. (2012) further demonstrate that rising NPL ratios reduce banking sector efficiency and elevate the probability of systemic crises. Over the long term, persistently high levels of impaired assets have been shown to undermine economic growth and financial development (Feijó et al., 2011).

In the Sri Lankan context, these concerns are particularly pronounced. Historical evidence indicates that the average NPL ratio of LCBs has consistently exceeded international benchmarks. Comparative studies have confirmed that Sri Lanka's banking sector has underperformed relative to many neighboring economies in terms of asset quality. Despite recent stabilization efforts, the NPL ratio of the banking sector remained above 12 percent at end-2024, significantly higher than most Asian counterparts. As depicted in Figure 2, Sri Lanka has experience higher NPL percentage compared to many of their counterparts in the Asian region as per the Asian Development Bank report on non-performing loans Watch in Asia 2025.

Figure 2 – NPL volume (US$ billions) with NPL ratios (1%) by Regions and Subregions

Source: Non-performing loans Watch in Asia 2025 - ADB



3. The Bad Bank Concept

A Bad Bank is generally defined as a specialized institutional arrangement designed to isolate non-performing or toxic assets from otherwise viable financial institutions. Through the transfer of impaired assets to a separate entity, banks are able to cleanse their balance sheets, restore capital adequacy, and refocus on core intermediation activities.

Although frequently associated with post-crisis restructuring in Europe and the United States, the Bad Bank concept is not novel. Variations of this model have been employed since the 1960s, with institutional designs tailored to country-specific conditions. Common characteristics include the acquisition of impaired assets at discounted values, professional asset management, and explicit or implicit government support.

Figure 3 visualize different modalities of Bad Bank.

Source: The Authors compilation, Lending, Concept, Theory and Practice.

Business Model			
	External off-balance-sheet	Separate Bad Bank	Separate Bad Bank or Special purpose vehicle as subsidiary
	Internal on-balance sheet	Part of the losses guaranteed by the Government	Create an internal Bad Bank
		Government	Non-Government
		Funding	Sources

Bad Banks may be established as stand-alone public entities, public–private partnerships, special purpose vehicles, or internal restructuring units within banks. In most cases, government involvement has been central, either through direct funding, sovereign guarantees, or regulatory forbearance. The primary objective has been the preservation of systemic stability rather than the maximization of short-term financial returns.

4. International Experience with Bad Banks

International experience suggests that Bad Banks can be effective under specific conditions. Successful cases—such as Sweden's Securum, Malaysia's Danaharta, and Ireland's National Asset Management Agency—were characterized by strong fiscal backing, transparent asset valuation frameworks, and robust legal authority to expedite asset recovery. Table 3 explains the historical sequence of establishment of different Bad Banks by various countries which had encountered NPL pressure on their banking systems.

Table 3 – History of Established Bad Banks

Country	Name of Bad Bank	Year of Establishment
South Korea	Korean Asset Management Company (KAMCO)	1962
USA	Resolution Trust Corporation (RTC)	1989
Sweden	Securum	1992
Indonesia	Indonesian Bank Restructuring Agency (IBRA)	1998
Malaysia	Danaharta	1998
China	Orient Great Wall. Cinda. Huarong Asset Management	1999
Japan	Resolution and Collection Cooperation (RCC)	1999
Thailand	Thai Asset Management Company (TMC)	2001
Ireland	National Asset Management company (NAMA)	2009
Germany	FMS Wert Management	2010
UK	UK Asset Resolution Company (UKR)	2010
Spain	SARB	2012
India	National Asset Reconstruction Company Ltd; (NARCL)	2021

Source: Reserve Bank of India - Bulletin Feb 2022

A critical determinant of success has been the valuation and transfer pricing of impaired assets. Transfers conducted at realistic market values, incorporating appropriate haircuts, have facilitated restructuring and asset disposal. Conversely, overvaluation has often resulted in the accumulation of unrecoverable assets, ultimately imposing significant fiscal costs and undermining the intended objectives of the Bad Bank.

Moreover, in jurisdictions where existing legal frameworks already provide expedited recovery mechanisms, the incremental benefits of establishing a Bad Bank have been limited. In such contexts, the costs associated with institutional duplication and fiscal exposure have often outweighed potential gains.

5. Applicability to the Sri Lankan Context

The relevance of the Bad Bank model to Sri Lanka must be assessed in light of prevailing macroeconomic, fiscal, and institutional constraints. The current sovereign debt situation significantly limits the government's capacity to provide the level of financial backing that has characterized successful Bad Bank implementations elsewhere. Without credible fiscal support, the effectiveness of such an institution would be severely constrained.

In addition, Sri Lanka's banking system already operates under a legal framework that grants extra-judicial recovery powers through the Debt Recovery (Special Provisions) Act No. 2 of 1990. These provisions allow banks to enforce collateral without prolonged judicial processes, thereby reducing one of the primary justifications for establishing a centralized asset management entity. However, in view of current policy measures introduced by the Central Bank of Sri Lanka, fully implementation of Parate execution has been restricted for small and medium enterprises.

The composition of distressed assets also warrants careful consideration. A substantial proportion of non-performing exposures is concentrated in micro, small, and medium-sized enterprises (SMEs), which play a critical role in employment generation and economic recovery. Transferring such exposures to a Bad Bank is unlikely to address underlying issues of business viability and may exacerbate social and economic costs.

Recognizing these constraints, the Central Bank of Sri Lanka has adopted a more targeted approach, emphasizing business revival units within licensed banks, regulatory relief measures, and restructuring frameworks for affected borrowers. These initiatives reflect a policy preference for rehabilitation over liquidation, particularly in the aftermath of multiple exogenous shocks, including natural disasters and public health crises.

6. Policy Implications and Alternative Approaches

The effectiveness of asset resolution strategies ultimately depends on institutional capacity and incentive alignment. In the Sri Lankan context, strengthening internal business revival and restructuring units may offer a more viable and cost-effective solution than the establishment of a centralized Bad Bank.

Such units require specialized skills that extend beyond traditional credit risk management, including operational restructuring, sectoral expertise, and turnaround financing. Independence, transparency, and adequate governance frameworks are essential to mitigate conflicts of interest and ensure borrower-centric resolution outcomes. The selective engagement of foreign expertise may further enhance institutional capacity.

In parallel, improvements in credit underwriting standards, early warning systems, and macro-prudential supervision are necessary to prevent the recurrence of elevated NPL levels. Without addressing these structural drivers, any asset resolution mechanism—whether centralized or decentralized—is likely to deliver only temporary relief.

7. Conclusion

Sri Lanka's persistently high NPL ratio reflects deep-seated structural and macroeconomic vulnerabilities rather than a transient cyclical phenomenon. While international experience demonstrates that Bad Banks can serve as effective crisis-management tools under specific conditions, such arrangements are not universally applicable.

Given current fiscal constraints, existing legal recovery mechanisms, and the predominance of SME-related

distress, the establishment of a Bad Bank in Sri Lanka risks becoming a costly and ineffective intervention. Greater emphasis should instead be placed on decentralized business revival frameworks, enhanced institutional capacity, and preventive credit risk management practices.
It is therefore concluded that, in the Sri Lankan context, a Bad Bank is more likely to constitute a policy pitfall than a panacea. Sustainable resolution of the NPL problem will depend on a balanced strategy that prioritizes economic rehabilitation, financial stability, and long-term institutional reform.

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Key Imperatives for Digital Finance and Supply Chain Digitalization: Opportunities, Challenges, and the Way Forward for the Banking Sector

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The rapid spread of digital technologies across global supply chains and financial systems has created urgent pressure on regulators, bankers, and policy makers to respond with clear, decisive action. Digitalization is no longer just a tool for improving efficiency; it has become a fundamental driver of competitiveness, transparency, and stability in modern economies. In this context, how regulators treat blockchain, crypto-assets and new forms of digital money have become strategically important, especially for banks operating in developing and frontier markets.

Current evidence shows a clear tension between innovation and regulation. While private companies continue experimenting with distributed ledger technologies (DLT) to improve tracking, compliance and operational efficiency, regulatory frameworks in many countries remain incomplete, cautious, and sometimes underdeveloped. This gap creates both opportunity and risk for the banking sector.

OPPORTUNITIES ARISING FROM BLOCKCHAIN-ENABLED SUPPLY CHAINS

Blockchain technology gives banks practical tools to address long-standing problems in supply chain finance, trade documentation, and compliance verification. Unlike speculative cryptocurrency applications, enterprise blockchain focuses on permanent record-keeping, shared information access, and controlled permissions, which align naturally with regulatory goals.

In supply chain finance, blockchain platforms allow banks to verify where goods come from, monitor financing events as they happen, and automate contract terms through smart contracts. These capabilities significantly reduce fraud risk, document errors, and settlement delays, all of which have historically limited the growth of trade finance in emerging markets. From a risk management perspective, better visibility across the supply chain enables more accurate credit assessment, stress testing, and early warning systems. Regulatory pilot programs using blockchain-based shared KYC (Know Your Customer) systems further demonstrate the technology's value for banking supervision. By enabling secure data-sharing among regulated institutions, distributed ledgers reduce duplication, improve data quality, and strengthen anti-money laundering and counter-terrorist financing controls. These applications show how blockchain can function as regulatory infrastructure rather than a regulatory threat.

THE REGULATORY CHALLENGE: FRAGMENTED FRAMEWORKS AND RESTRICTIVE

APPROACHES

Despite these opportunities, regulatory frameworks governing blockchain and crypto assets remain nascent in many jurisdictions. The lack of comprehensive legislation creates uncertainty for banks, discourages institutional investment, and pushes online activity into informal or unregulated channels. Central banks and supervisory authorities, concerned about consumer protection, capital flight and financial crime, have often adopted restrictive positions, particularly toward cryptocurrencies.

This restrictive approach, while understandable from a safety perspective, has produced unintended consequences. Informal peer-to-peer crypto markets continue operating outside the regulated financial system, limiting regulatory oversight, and undermining effective anti-money laundering monitoring. Banks, prohibited from direct engagement, cannot influence standards, governance, and risk controls in this rapidly evolving space.

From a professional banking perspective, the challenge is not about resisting innovation, but about distinguishing between high-risk speculative activity and legitimate business and infrastructure applications. Regulatory approaches that fail to make this distinction risk blocking beneficial innovation while failing to eliminate the underlying risks.

CENTRAL BANK DIGITAL CURRENCIES: BRIDGING THE REGULATORY GAP

Central Bank Digital Currencies (CBDCs) offer a credible path for balancing innovation with regulatory control. As a digital form of government-issued money, CBDCs can deliver the efficiency benefits of digital payments while preserving monetary integrity, consumer protection, and financial stability.

Globally, CBDC initiatives have moved beyond theoretical research into pilot and implementation phases. The Bank for International Settlements reports that most central banks are actively exploring CBDC models, driven by declining cash usage, the rise of private digital currencies and the need to modernize payment infrastructures. For developing economies, CBDCs also offer potential gains in financial inclusion, fiscal transparency, and targeted policy implementation.

Accelerating CBDC pilots is therefore not merely a technological choice, but a strategic regulatory necessity. Delayed action risks losing ground to unregulated or privately issued digital instruments that operate outside prudential oversight. Well-designed CBDC pilots allow regulators and banks to test evaluate compatibility, cybersecurity, liquidity management, and operational strength in a controlled environment.

Lessons learned from past successes and failures provide guidance for safe digital currency adoption:

1. Long-term benefits vs. short-term obstacles

Successful CBDC adoption depends on ensuring that the benefits of using them outweigh the costs. However, many payment products have failed despite their long-term advantages due to short-term barriers such as complex account setup, limited usability, or inflated costs for merchants.

2. Importance of reducing barriers

Simplifying initial steps, such as easy account creation, ensuring widespread merchant acceptance, and minimizing hardware investment for merchants, is essential for adoption.

3. Successful mobile payment examples

Services like Swish (Sweden), MobilePay (Denmark), Vipps (Norway), and M-Pesa (Kenya) highlight the importance of addressing unmet needs, providing easy onboarding, and using existing infrastructure. These initiatives succeeded by offering services in markets lacking convenient digital alternatives.

4. Failed payment services

Unsuccessful cases like Paybox (Germany), DigiCash Inc., and Avant smart card systems show that adoption can fail due to factors such as inflated costs, lack of cooperation, insufficient advantages over existing systems, and absence of partnerships with established customer bases.

5. Cross-border transfer success

Services like Wise and Revolut have succeeded by offering competitive pricing, faster transactions, and user-friendly account setup. These are examples for Cross-border transfer success.

Globally, many more use cases have evolved from pilots to successful deployments as well as costly mistakes that created learning opportunities for better risk management.

Central banks are adopting a cautious approach to CBDC implementation to ensure financial stability and successful adoption. There are several reasons why bank regulators are proceeding carefully:

1. Minimizing risks: Central banks aim to avoid the mistakes of past payment innovations that failed due to short-term obstacles, such as complex onboarding or lack of merchant acceptance.
2. Ensuring user trust: As central bank money is the safest form of money, CBDCs are being designed to offer high security, privacy, and reliability to gain user confidence.
3. Encouraging adoption: By addressing unmet user needs, reducing costs, and ensuring ease of use, central banks aim to create a CBDC that appeals to both consumers and merchants.
4. Supporting financial stability: A safe and well-designed CBDC can prevent users from adopting less secure payment instruments, which could lead to economic and consumer harm.
5. Learning from past experiences: Central banks are applying lessons from successful and failed payment systems to design CBDCs that are flexible, accessible, and capable of evolving with future user needs.

By adopting a careful approach, central banks aim to balance innovation with risk reduction, ensuring that CBDCs meet public policy objectives while avoiding potential disruptions to the financial system.

THE CASE FOR A REGULATORY SANDBOX APPROACH

Regulatory sandboxes represent an essential governance tool during periods of rapid technological change. By allowing controlled experimentation under defined rules, sandboxes enable regulators to observe risks in real time while providing innovators with clarity and predictability.

In jurisdictions where blockchain and crypto regulation remain underdeveloped; sandbox frameworks offer a practical interim solution. Banks, fintech companies and technology providers can evaluate blockchain-based settlement, tokenization, digital identity, and compliance tools without exposing the broader financial system to widespread risk. Importantly, sandbox participation creates a collaborative learning process between regulators and market participants, strengthening regulatory capacity over time.

STRATEGIC IMPLICATIONS FOR PROFESSIONAL BANKERS

For the professional banking community, the implications are clear. Digital finance capabilities must be integrated within enterprise risk management frameworks rather than treated as separate innovation projects. Boards and senior management must ensure that digital initiatives are subject to the same governance, capital allocation discipline, and assurance standards as traditional banking activities.

Active engagement with regulators is equally critical. Professional bankers and accountants have a responsibility to contribute constructively to policy discussions, sharing operational insights and advocating proportionate, principles-based regulation. This includes supporting the development of CBDCs, participating in sandbox initiatives, and investing in digital literacy across institutions.

WAY FORWARD

The intersection of blockchain, digital finance and regulation represents both a challenge and an opportunity for the banking sector. Rather than viewing regulation as an obstacle, banks should position themselves as partners in building resilient, transparent, and inclusive digital financial ecosystems.

Acceleration of CBDC initiatives, coupled with carefully designed regulatory sandboxes, offers a balanced and credible path forward. By embracing controlled innovation and strengthening institutional capacity, the banking sector can help ensure that digital transformation enhances, rather than undermines, financial stability and public trust.

In the years ahead, the competitiveness of banking institutions will be determined not simply by technological adoption, but by the quality of governance that supports it.

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Unlocking Liquidity: Exploring the Potential for Collateralized Debt Obligations and Credit Default Swaps in Sri Lankan Banks

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Introduction

The Sri Lankan banking sector stands at a pivotal juncture. As we navigate an era defined by volatility and the necessity for rapid economic recovery, the traditional mechanics of financial intermediation are being tested. The theme of this year's convention, "Navigating Complexity and Accelerating Impact through Regional Synergy," is not merely a slogan but a strategic imperative. For Sri Lankan banks to drive genuine economic acceleration, we must look beyond vanilla lending and deposit mobilization. We must boldly explore advanced structured finance mechanisms that have matured in global markets yet remain underutilized domestically. Specifically, the introduction and regulation of Collateralized Debt Obligations (CDOs) and Credit Default Swaps (CDS) offer a pathway to unlock trapped liquidity, optimize capital allocation, and distribute systemic risk more efficiently.

The Imperative for Balance Sheet Optimization

Sri Lankan commercial banks currently face a dual challenge. On one hand, there is immense pressure to fund national growth projects and revitalize the Small and Medium Enterprise (SME) sector. On the other, capital adequacy requirements under Basel III and the inherent maturity mismatch of funding sources constrain our ability to lend aggressively. Our balance sheets are heavy with illiquid assets, primarily term loans and mortgages, funded by short duration liabilities.

This structural rigidity limits the velocity of money within the economy. The solution lies in the transition from an "originate to hold" model to an "originate to distribute" model. By embracing securitization and credit derivatives, banks can recycle capital faster, thereby accelerating impact without compromising stability.

Collateralized Debt Obligations: A Mechanism for Liquidity

The Collateralized Debt Organization (CDO) is often misunderstood due to its association with the 2008 global financial crisis. However, when constructed with transparency and rigorous underwriting standards, the CDO is a potent tool for liquidity management.

In the local context, a CDO structure would allow a bank to pool a diverse portfolio of debt instruments, such as corporate loans, SME facilities, or infrastructure project finance. These assets are transferred to a Special Purpose Vehicle (SPV), effectively removing them from the bank's balance sheet. The SPV then issues securities to investors in tranches, governed by a strict waterfall mechanism for cash flow distribution.

The brilliance of this structure lies in tranching. By slicing the risk into Senior, Mezzanine, and Equity tranches, we can cater to different investor appetites.

- Senior Tranches: These possess the highest credit quality and claim on cash flows, offering safety comparable to government securities. They are ideal for local pension funds and insurance companies seeking stable yields superior to Treasury bills.

- Equity Tranches: These absorb the first losses but offer significant upside, appealing to sophisticated investors or the originating bank wishing to retain some "skin in the game" to align interests.

For a Sri Lankan bank, the immediate benefit is regulatory capital relief. By transforming risk-weighted assets into cash or highly rated securities, the bank improves its Capital Adequacy Ratio (CAR), freeing up fresh equity to support new lending. This is the definition of navigating complexity to generate liquidity.

Credit Default Swaps: The Precision Scalpel for Risk

While CDOs address liquidity, Credit Default Swaps (CDS) address the concentration of credit risk. A CDS is an insurance contract against the default of a borrower. The buyer of protection pays a periodic premium (spread) to the seller of protection. In return, the seller agrees to compensate the buyer if a specific credit event occurs, such as a default or restructuring.

The potential applications in Colombo are profound.

1. Managing Concentration Risk: Sri Lankan banks often reach single borrower limits with large local conglomerates. A CDS market would allow a bank to lend to a key client and subsequently hedge that exposure by buying protection from another financial entity or an institutional investor. This enables the bank to maintain the client relationship without breaching internal risk thresholds.

2. Price Discovery: A liquid CDS market provides a real time gauge of creditworthiness. Currently, we rely heavily on credit ratings and historical financial statements. CDS spreads, driven by market sentiment and active trading, would provide a forward-looking indicator of corporate health, enhancing the overall sophistication of our risk management frameworks.

Regional Synergy: The Catalyst for Success

The domestic market alone may lack the depth to absorb large scale issuances of CDOs or to provide sufficient liquidity for CDS trading. This is where the convention theme of "Regional Synergy" becomes critical. To make these instruments viable, we must look toward integration with broader Asian markets. Sri Lanka can position itself as a specialized hub, inviting regional players from India, Singapore, and the Middle East to participate in these structures.

- Cross Border Placement: Senior tranches of Sri Lankan CDOs could be marketed to regional institutional investors searching for yield in a low-interest rate global environment.

- Counterparty Diversification: International banks operating in the region could function as counterparties in CDS transactions, bringing global expertise and deeper balance sheets to underwrite local risks.

By aligning our regulatory frameworks with international standards, such as the ISDA (International Swaps and Derivatives Association) Master Agreement, we create a common language that facilitates this cross-border flow of capital.

Navigating the Complexity of Implementation

The adoption of CDOs and CDS is not without significant hurdles. It requires an ecosystem upgrade across three pillars:

1. Valuation and Modelling : These instruments require sophisticated mathematical modelling. The complexity of correlating default probabilities within a CDO portfolio or pricing the premium of a CDS requires actuarial precision. Sri Lankan banks must invest heavily in quantitative finance talent and systems. We cannot manage tomorrow's products with yesterday's spreadsheets.

2. The Regulatory Sandbox : The Central Bank of Sri Lanka (CBSL) plays a defining role here. We need a regulatory framework that encourages innovation while strictly monitoring systemic risk. A "regulatory sandbox" approach would be prudent, allowing select banks to pilot these instruments under close supervision. This ensures that the market develops transparency and that leverage ratios remain within healthy limits.

3. Data Infrastructure : Pricing credit risk accurately requires robust historical data on default rates and recovery rates across different sectors. The industry must collaborate to build a centralized data repository, through the Credit Information Bureau (CRIB), to provide the empirical backbone for pricing these complex derivatives.

Conclusion

The journey toward a sophisticated derivatives market is undeniably complex. It demands technical prowess, regulatory evolution, and a cultural shift in how we view risk. However, the cost of stagnation is far higher. Without these tools, our banking sector remains tethered to simple balance sheet lending, unable to fully support the dynamic needs of a modernizing economy.

By integrating CDOs and CDS into our financial architecture, we do more than just innovate; we empower. We empower banks to lend more freely to entrepreneurs. We empower investors with tailored asset classes. We empower the nation by connecting our financial system to the regional grid.

As members of the APB, we are the custodians of this transition. It is our responsibility to master these technical complexities and champion their adoption. Let us utilize the platform of the 36th Convention not just to discuss these ideas, but to initiate the structural changes required to realize them. The potential to unlock billions in liquidity exists; we simply need the courage and the competence to turn the key.

Emerging Trends in Banking

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1.0 Background

1.1 Environment - Banks have been faced with multiple challenges in a volatile environment since the global financial crisis in 2007-2008. It was followed by macro-economic challenges in terms of recessions, followed by the Corona Virus-related pandemic in 2019, the wars in certain key geographies of the world which have caused most economies to face unprecedented challenges. These challenges have shaped the way banks have been doing business, contending with tougher and wide-ranging regulations, while faced with significant changes in the real economy which impacts the demand for banking services by customers. More recently banks have encountered alternative finance providers, technologies, and artificial intelligence (AI) tools which are now a core part of the financial ecosystem. Banks are also faced with risks hitherto not addressed like climate risk. As countries pursue environmental, social and governance (ESG) goals, the banks are required to keep pace with establishing sustainable finance and inclusive banking principles. All this has created a complex environment which is now the norm rather than the exception.

1.2Trends in financial intermediation – Financial intermediation is the primary function of successful banking systems which provide financial services including deposits and loans which drives savings and economic growth in countries. This function is performed by banks. The two important metrics used to measure this are broad money supply as a % of GDP and private sector credit as a % of GDP. In 2024 the world's broad money supply as a % of GDP rose to 141.2%, the highest since 1960 (49.5%). This reveals that global financial intermediation has continued to increase. In Sri Lanka this metric declined from 59.5% in 2019 (World Bank report - footnote 1) to 47.9% in 2024. In 2024 Bangladesh reported this at 48.8% and Nepal reported this at 126.2% while in 2021, India reported this at 82.1%. Domestic credit to private sector as a % of GDP in the world was reported at 148% in 2024 (1970 -69.0%). Sri Lanka's was at 47% in 2019 and recovered to 57% in 2024. In 2024 Bangladesh's domestic credit to the private sector was reported at 35.8% of GDP and Nepal's was at 92.1% of GDP. These regional disparities show interesting directions in financial intermediation (refer Chart 1 and Chart 2 below).

Chart 1 - Broad Money (% of GDP)-1960-2024

Chart 2 - Domestic Credit to Private Sector (%of GDP) -1970-2024

1.3Private credit lending – Private credit lending includes capital sourced from nonbank entities such as private funds, high net worth individuals with family offices and specialty finance firms. Businesses, mainly small and medium-sized enterprises (SME) have increasingly sourced private credit as opposed to traditional bank financing for a long time. SMEs have complex balance sheets and customized liquidity requirements which can be catered to by private credit lending as they offer flexible, transaction-specific structures designed to address financing requirements.

1.4 Global scenario – The disintermediation of traditional banking continues apace, with private credit funds and neo-banks taking share from traditional banks. Banks are learning to co-exist with their disruptors by providing them with funding and even participating in deals. The tools to measure and assess risks must now support these complex and expanding relationships. Banks have long worked to balance adoption of modern technology alongside regulatory scrutiny and evolving customer expectations. AI represents the latest phase of this pattern, offering tremendous potential for greater efficiency and improved customer experience if operational and regulatory risks are well-managed. As private credit firms are not subject to the same capital requirements, stress testing, or transparency standards as banks, this can lead to weaker credit underwriting, higher leverage, and reduced visibility into systemic exposures. This shift creates regulatory blind spots, increases the potential for financial instability, and complicates risk monitoring especially as these firms become more interconnected with the broader financial system. The lack of transparency, combined with growing interconnectedness between banks and private lenders, creates vulnerabilities across the financial system.

1.5 Global Bank performance in 2025 – The revenues of the top twenty-five banks showed a year-on year growth of 9.4% despite global pressures. However, profit margins were mixed, as many banks faced higher costs, regulatory tightening, and geopolitical uncertainty, highlighting the growing gap between revenue performance and overall financial health World inflation rate moderated to 5.8% in 2024 which has been conducive for banking sector growth. In years 2024-2025 South Asia was cited as the highest growing emerging markets which includes India.

2.0 Recent trends in banking

2.1 Evolving trends in the last decade. Firstly, significant regulations which have increased the cost of compliance for banks, secondly, business model changes as banks need to develop agility to cater to an ever more digital savvy customer base and financing products which need innovation and skills to structure and implement, thirdly the use of technology to leverage on its potential to stay relevant, fourthly the risks in the real economy that translates into financial risks almost simultaneously due to the unparallelled climate related events in countries which require building capital buffers and cyber risk which if unaddressed in time can paralyze banks' operations, fifthly, the opportunities presented by the unbanked and underbanked segments of society, sixthly flatter organizational structures which require retraining and attitudinal changes among staff members at various levels of banks, and seventhly strong governance practices to withstand challenges brought about by complexities in a globalized world economic order.

2.2 Digital transformation in banking and financial services- This refers to the massive shift from traditional banking practices to modern digital solutions and platforms. Banks are integrating innovative technologies, such as AI and machine learning, cloud computing, and digital channels, into the banking industry. The importance of digital transformation in banking lies in its ability to enhance customer experience, streamline operational efficiency and drive business growth. Additionally, open banking empowers banks to develop new products and services, further propelling the momentum of digital transformation in the financial sector.

Key drivers include:

- The allocation of technology budgets
- Embracing modern technologies for a holistic approach
- The influence of fintech companies on digital transformation in banking.

3.0 Opportunities

3.1 Remittances - Remittances are cross-border payments received by a country from its migrants. High transaction costs and uncompetitive exchange rates reduce the remittances received by beneficiaries. Banks with good depth, efficiency and access could enable effective financial intermediation between remittances and support credit intermediation and the real economy (banking-based financial deepening). In this regard banks have a great opportunity to team with micro finance players and fintechs to leverage remittances in a country's economy. Realizing the importance of remittances, the United Nations (UN) introduced the UN Sustainable Development Goal (SDG) target on transaction cost on remittances at 3%, and the elimination of remittance corridors with transaction costs at more than 3% by 2030. Banks would benefit from strategizing on increasing remittance volume business through active participation to reduce transaction costs in remittance corridors and digitalization.

3.2 Digitalization - Banks are being categorized into three based on their digitalization model. Traditional banks driven by digitalization through alliances with fintechs, banks who adopt a hybrid model of traditional infrastructure and digital banks and total digital banks. Banks are now recognizing the importance of digitalization. As a result of digitalization banks could increase financial inclusion as it permits customer reach with better efficiency and costs. Mobile banking and digital wallets have led to increased need for financial literacy among banks' customers. Traditional banks who do not cater to financial planning requirements and efforts to increase will suffer loss of market share to digital banks and fintechs.

3.3 Regional Synergies - Banks are increasingly entering partnerships to integrate with fintechs to ensure their survival and competitiveness. The synergy between global fintechs and banks will help leverage strengths of both parties. Banks bring a legacy of experience, vast customer bases, regulatory familiarity, and a culture of trust while fintechs bring agility, innovation and cutting-edge technology and usually top talent. Together a broader audience could be reached, and the last mile connectivity achieved using fintechs coupled with banks' credibility. While label models are where fntechs provide the technology and expertise and banks manage the regulatory compliance and branding. In co-branding both fintechs and banks share the brand offering innovative digital services. Embedded finance requires integrating financial services into non-financial platforms enabling seamless access to banking solutions within other applications. Partnership models have proven successful in creating innovative solutions that drive customer satisfaction and growth.

4.0 Risks

4.1 Key risks - The key main risks faced by banks today include the macroeconomic stresses brought about by subsectors in markets leading to asset quality and liquidity challenges, volatile demand for credit, competition offered by alternative financial service providers bringing in the much needed last mile connectivity, lack of capacity to serve micro small and medium enterprises who remain largely underserved by banks but a profitable segment, inadequate readiness to offer sustainable finance services and technology risk. While the macroeconomic impacts are largely outside banks' control understanding the customer trends including credit, investment, and service delivery is an imperative for success.

4.2 Competition – Intra financial system competition is coming from nonbanks which includes finance and leasing companies, micro finance companies, fintechs and digital banks. The credit from nonbanks, digital adoption and attractive pricing dynamics are important variables in the competition mix which need to be addressed by the most appropriate strategy based on existing business models. The decisions to grow organically on core functions while embracing changes may need to be supplemented parallelly by inorganic growth through acquisitions as time is of essence. The strategy should address staying relevant, growing outside one's established clientele and venturing into service delivery in line with customer expectations.

5.0 Conclusion

The operating environment for banks is complex from a macroeconomic perspective, changing regulation, digital disruption, and the rise of private credit, and changing demographics. The latest statistics reveal both globally and locally that banks still own the major share of the financial system. Hence, they have a natural advantage in established infrastructure to continue to impact the economies they operate in. Complexity requires thinking long term as cross border transactions grow. Banks would need to form alliances with anyone who is selling nonfinancial products to their customers, offering customers the same product on different platforms using digitalization and actively seek to share costs to sustain business models. These would include regional alliances. The ability to leverage on intercountry trade and other commercial alliances is crucial to reap first mover advantage and build volumes.

Source: World Bank; https://data.worldbank.org/indicator/FM.LBL.BMNY.GD.ZS;

Source: World Bank; https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS

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Walking a Fine Line; Headwinds on the path to Economic improvements

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Abstract

In an era defined by systemic uncertainty, geopolitical fragmentation, climate volatility, and rapid technological disruption, organizations and governments increasingly operate within complex regional ecosystems rather than isolated national or institutional boundaries. Regional synergy—the deliberate alignment and integration of capabilities, resources, and governance across neighboring or functionally linked entities—has emerged as a critical mechanism for enhancing resilience and accelerating impact. This article examines regional synergy through a risk management lens, arguing that effective regional collaboration is not merely a growth strategy but a sophisticated response to interconnected risks. By integrating enterprise risk management (ERM), systems thinking, and adaptive governance, regional synergy can transform risk from a constraining factor into a strategic asset.

1. Introduction: Complexity as the New Operating Condition

In recent years, concerns surrounding the forthcoming repayment of sovereign debt have intensified apprehensions regarding the resilience of the Sri Lankan economy, particularly with respect to the country's overall creditworthiness. These concerns have been amplified by persistent structural imbalances within the growth framework, which continue to constrain long-term economic stability. Nevertheless, despite widespread uncertainty and macroeconomic stress, the Sri Lankan economy has demonstrated notable pockets of growth, indicating a degree of underlying dynamism amid prevailing challenges.

At the regional level, countries have concurrently faced their own sets of economic, financial, and structural difficulties, often manifesting in isolated and country-specific contexts. While these challenges have varied in nature and intensity, regional economies have sought to address them through internally driven policy responses and adaptive strategies. Importantly, such efforts have enabled several countries to arrest declining economic trajectories and gradually transition toward moderate growth in the recent past.

This broader regional experience provides a relevant comparative backdrop for examining Sri Lanka's economic adjustment process. Understanding how similar economies have navigated periods of financial stress and recovery offers valuable insight into potential pathways for restoring stability and fostering sustainable growth. Accordingly, this study situates Sri Lanka's current economic conditions within a wider regional context, laying the groundwork for a systematic analysis of structural vulnerabilities, recovery mechanisms, and policy responses pertinent to economies confronting sovereign debt pressures and growth imbalances.

Modern risk landscapes are characterized by non-linearity, interdependence, and uncertainty. Traditional risk management approaches—often siloed, compliance-driven, and retrospective—are increasingly insufficient for addressing risks that propagate across borders, sectors, and institutions. Financial contagion, supply chain disruptions, pandemics, cyber threats, and climate-induced shocks exemplify risks that transcend organizational and national boundaries. Within this context, regional synergy represents a structural response to complexity. Rather than optimizing performance at the level of individual entities, regional synergy seeks to optimize system-level outcomes by fostering coordination, shared intelligence, pooled resources, and aligned decision-making. From a risk management perspective, this shift reflects a move from risk avoidance and mitigation toward risk anticipation, absorption, and strategic leverage.

2. Conceptualizing Regional Synergy in Risk Terms

Regional synergy can be defined as the intentional integration of strategies, operations, and governance mechanisms across a geographically or functionally connected region to achieve outcomes that exceed the sum of individual efforts. In risk management terms, synergy operates across three dimensions:

1. Risk Interdependence – recognizing that risks are correlated across entities and regions.
2. Risk Distribution – sharing exposure, resources, and response capacity.
3. Risk Intelligence – enhancing situational awareness through collective sensing and learning.

Unlike "siloed" structures, which fragment risk ownership and obscure systemic vulnerabilities, synergistic regional arrangements create risk visibility and coherence. However, synergy itself introduces new forms of risk—coordination risk, governance risk, and dependency risk—necessitating robust frameworks to manage trade-offs. Wang H. (2025) did research on how to manage in inflow of risk management information and developed methodologies on how the data processes could be used more efficiently.

3. Systems Thinking and the Regional Risk Ecosystem

A risk-informed approach to regional synergy requires systems thinking, where regions are viewed as complex adaptive systems rather than aggregates of independent actors. In such systems:

- Risks emerge from interactions, not just individual components.
- Small disturbances can generate disproportionate effects.
- Control is distributed, not centralized.

From this perspective, regional risk management must focus on feedback loops, tipping points, and resilience thresholds. For example, supply chain resilience is less about protecting individual nodes and more about ensuring redundancy, substitutability, and adaptive capacity across the network.

Regional synergy enhances systemic resilience by:

- Diversifying risk exposure across jurisdictions
- Enabling mutual aid and contingency arrangements
- Facilitating rapid coordination during crises

However, without clear governance, synergy can amplify systemic risk—particularly when regions become tightly coupled without adequate buffers.

4. Enterprise Risk Management Beyond the Organization

Enterprise Risk Management (ERM) frameworks, such as COSO and ISO 31000, traditionally focus on risks within organizational boundaries. Regional synergy necessitates an expanded ERM paradigm, extending risk governance across institutional and national interfaces.

Key adaptations include:

- Shared Risk Taxonomies

Regions must develop common risk language and classification systems to enable meaningful dialogue and aggregation. Divergent definitions of risk severity, likelihood, and tolerance undermine coordination.

- Aligned Risk Appetite

While uniform risk appetite is unrealistic, mutual recognition and calibration of risk thresholds are essential. Misalignment—such as one jurisdiction prioritizing speed while another prioritizes safety—can destabilize regional initiatives. The risk appetite of each country and each region will be specific according to the diversifications. Nevertheless, it is always prudent to maintain such specific levels to avoid any sudden impacts.

- Collective Risk Ownership

Regional synergy challenges the notion of singular risk owners. Instead, it requires distributed accountability, supported by joint steering committees, memoranda of understanding, and escalation protocols.

5. Governance, Power, and Risk Asymmetry

One of the most underexamined aspects of regional synergy is risk asymmetry—the unequal distribution of risk exposure, control, and benefit among participants. Stronger actors may externalize risk onto weaker partners, while weaker entities may lack voice in governance structures.

From a risk management perspective, effective regional synergy requires:

- Transparent decision rights
- Equitable burden-sharing mechanisms
- Dispute resolution and exit options.

Failure to address power imbalances introduces latent governance risk, which may not manifest during stable periods but can fracture regional arrangements during crises. Risk-aware governance therefore emphasizes procedural fairness and trust-building as foundational controls.

6. Risk Intelligence and Early Warning Systems

One of the most powerful benefits of regional synergy is the enhancement of risk intelligence. By pooling data, expertise, and analytical capacity, regions can move from reactive risk management to anticipatory governance.

Key mechanisms include:

- Regional risk observatories
- Shared dashboards and scenario models
- Joint stress testing and simulations

Such systems enable the identification of weak signals—early indicators of emerging threats—before they escalate into full-scale crises. Importantly, risk intelligence must be accompanied by decision agility; insight without authority or willingness to act constitutes a false sense of security.

Impact on the environmental changes

The south Indian region countries are having constant expose to the environmental issues. The recent cyclone faced by Sri Lanka devastated major part of the country and the economic impact it did was huge. Similarly, flooding is also one of the major disasters that affects the build environments Globall (Fuchs.et.al.,2017). Several studies including Audefroy (2010), Alipour et al. (2015), Santago (2017), Jayakody et al. (2022) and Nofal and Lindt (2022) have researched post-disaster management strategies at community levels. In most recent times, a focus on pre-emptive measures and preparedness for natural disasters has taken center stage.

7. Accelerating Impact through Risk-Informed Collaboration

Regional synergy accelerates impact not by eliminating risk, but by optimizing the risk–reward balance at

scale. Coordinated infrastructure investment, harmonized regulatory frameworks, and joint innovation platforms reduce duplication, shorten response times, and enhance return on risk capital.
From a risk management standpoint, acceleration occurs when:

- Uncertainty is reduced through shared knowledge.
- Volatility is dampened through diversification.
- Downside risk is constrained while upside optionality is preserved.

These reframing positions risk management as an enabler of strategic ambition, rather than a constraint—provided that risk functions are embedded early in regional planning processes.

8. Failure Modes and Risk of Over-Synergy

While regional synergy offers substantial benefits, excessive integration can create single points of failure. Over-standardization, excessive dependence on shared infrastructure, or centralized decision-making may reduce local adaptability.

Common failure modes include:

- Cascading failures due to tight coupling
- Slow response caused by consensus paralysis
- Loss of local risk sensitivity

Therefore, resilient regional systems balance integration with modularity, allowing components to operate independently when necessary. This principle aligns with resilience engineering, which emphasizes graceful degradation rather than brittle optimization.

9. Implications for Policy and Practice

For policymakers and executives, a risk-informed approach to regional synergy implies several imperatives:

- Embed risk management expertise in regional governance bodies.
- Invest in shared risk intelligence infrastructure.
- Design incentive structures that reward collaboration without masking risk
- Regularly stress-test regional arrangements against extreme but plausible scenarios

Ultimately, Regional synergy should be treated as a dynamic risk strategy, continuously adjusted as conditions evolve.

10. Conclusion

Navigating complexity in the twenty-first century requires moving beyond isolated, siloed approaches to risk management. Regional synergy offers a powerful framework for addressing interconnected risks while accelerating collective impact. However, synergy is not inherently risk-reducing; it redistributes, transforms, and sometimes amplifies risk.

This study underscores the strategic advantage of examining the region as a coherent and interconnected unit, given the strong convergence of its structural characteristics, challenges, and development trajectories. The countries within the region face a set of remarkably similar social, economic, environmental, and institutional issues, suggesting that these challenges are not isolated phenomena but rather shared systemic conditions. This commonality creates a valuable opportunity to move beyond fragmented, country-specific responses and instead explore coordinated, regionally grounded solutions that are more efficient, scalable, and sustainable in the long term.

Furthermore, the demographic composition of the region reveals significant similarities in population structure, growth patterns, labor dynamics, and social transitions. These shared demographic features shape comparable development pressures and policy needs, reinforcing the relevance of collective analytical frameworks and joint strategic planning. In parallel, the region's broadly similar climatic conditions—characterized by comparable temperature regimes, rainfall variability, and exposure to climate-related risks—intensify common vulnerabilities while also opening space for shared adaptive and mitigation strategies. Addressing climate-related challenges through regional cooperation can therefore enhance resilience and reduce duplication of effort.

Taken together, these shared demographic and climatic contexts provide a strong empirical foundation for regional collaboration in research, policy formulation, and implementation. By recognizing the interconnected nature of the region's problems and potential, this study argues that common solutions, informed by comparative evidence and mutual learning, can offer a more effective pathway toward sustainable development. Such an approach not only strengthens regional solidarity but also provides a pragmatic way forward in addressing complex, multidimensional challenges that transcend national boundaries.

A mature risk management perspective recognizes this duality and focuses on designing regional systems that are resilient, adaptive, and just. When underpinned by strong governance, shared intelligence, and systems thinking, regional synergy becomes not only a response to complexity but a strategic advantage in an uncertain world.

Central Bank Digital Currency: Global Trends and Implications

Abstract

There has been research and development, designing, launching of pilot projects and actual implementation of Central Bank Digital Currencies (CBDCs) using the Distributed Ledger Technology (DLT) that enables peer-to-peer settlements without the need of trusted third-party intermediaries thus proving that fiat money can be in digital form substituting cash. CBDCs, coupled with remuneration by interest payments or penalization with negative interest charges can enhance the effectiveness of monetary policy. Contemporary developments in the crypto asset eco system including the popularity of crypto currencies, tokenized assets and stablecoins as substitutes of money pose a threat that the traditional fiat money and monetary and payment systems may be replaced by such emerging forms of money. Hence central banks may embrace the new forms of payment instruments and technology in a controlled and regulated manner, well supported by the research and guidelines issued by international bodies, while introducing local currency denominated crypto assets and CBDCs, at the appropriate time frame, whereby central banks would retain the substance of monetary sovereignty and control over monetary policy at the same time allowing the form of money and payment eco system to change. For this, a considerable number of central banks are, quite rightly, engaged in research, proof of concept projects and pilot projects for launch at the appropriate times while a few central banks have already launched CBDCs.

Keywords: CBDC, digital currency, money, monetary policy, crypto assets

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1. Introduction

Central Bank Digital Currency (CBDC) is a topic that has attracted wide attention across monetary and financial systems around the world. Should CBDCs be unveiled or not and if so, what would be the implications? Implications from a wide range of perspectives; on stability of bank deposits, financial system stability, monetary policy transmission, monetary policy implementation, and transformation of monetary policy frameworks? How about practical considerations of acceptability, privacy and anonymity, and safety? What would be the impact on seigniorage as against the present physical currency issued by the central banks on behalf of the Governments and what added costs may arise if the central banks opt for the payment of interest on CBDCs? With all these questions, should a topic like CBDCs even be discussed as relevant given the presence of physical currency, the legal tender or fiat money that is so well established today in the monetary and financial systems?

When Goldsmiths' receipts gradually took over the functions of gold as a form of money, factors such as convenience, trust and reliability may have played a more decisive role than the fact that paper was not gold. If paper fiat money with the backing of Government fiat has been good enough to replace money that was backed by gold under the gold standard, wouldn't a more convenient digital form of the same fiat money replace the paper form?

When crypto currencies have been gaining momentum and popularity to the extent of replicating other forms of money not only as a medium of exchange or store of value but also, to some extent, as a unit of account then a question arises if central banks may lose control over the money supply and effectiveness in conducting monetary policy. The proposed and since stalled crypto asset "Libra" by "Facebook" led consortium may have caused severe disruption to the banking systems as well as the implementation of monetary policy by the central banks (Wijewardena, 2021). CBDCs may counter the threat to monetary sovereignty posted by stablecoins or crypto assets backed by hard currency assets (Bordo, 2021).

This article examines the current global trends of the evolving CBDCs and the potential implications of well penetrated CBDCs on the monetary and financial systems. Followed by this introduction, Section 2 will place CBDCs in the context of a taxonomy of money differentiated by key properties. Section 3 presents current trends of emerging crypto asset ecosystems and CBDCs. Section 4 analyses design features and monetary policy implications of CBDCs while Section 5 is a discussion on embracing or distancing digital assets and CBDCs, followed by the conclusion in Section 6.

2. Placing CBDCs in Context

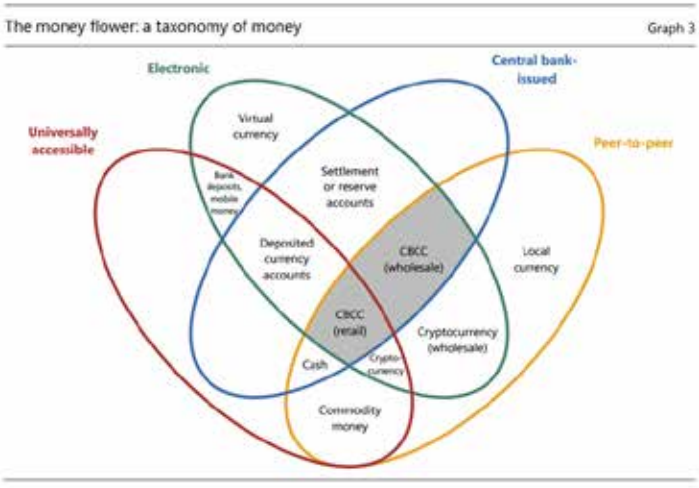
As defined in the report by a group of central banks titled "Central bank digital currencies: foundational principles and core features", published by Bank for International Settlements (BIS), CBDC "is a form of central bank money that is different from balances in traditional reserve or settlement accounts" and "a CBDC is a digital payment instrument, denominated in the national unit of account, that is a direct liability of the central bank", (Group of Central Banks, 2020). CBDCs are issued by central banks thus are liabilities of central banks. Not only are they liabilities but also sight liabilities meaning that they are payable on demand. They form part of the legal tender of a country where the Government decrees that the currency shall be accepted as legal tender. Hence, they are also part of the fiat money. In form, they are different from physical currency notes and coins since they are issued in the form of digital currencies with of course the status of legal tender. Central banks could opt for one of two approaches to issue currencies in digital form. One is to maintain accounts for the holders where the balances are recorded using the double entry bookkeeping principles in a centralized ledger maintained by the central bank. At present the central banks do maintain central bank money in digital form in this manner in favor of Commercial Banks, Governments and core market participants such as primary dealers of Government Securities on whose behalf they maintain current accounts. The public is not entitled to maintain such accounts. Despite being a form of "digital money" these balances are not called "digital currencies" in general. Rather, they are called commercial bank reserves and settlement balances. The term "digital currency" is more restricted for the currency issued in the form of "crypto" currencies using Distributed Ledger Technology (DLT). Thus is the exclusion of reserve and settlement balances from the definition of CBDCs in the BIS document cited at the beginning of this paragraph. This exclusion does not mean any inability to convert into CBDC if there are excess reserves or settlement balances. The Government

current account balances are pure working balances and do not necessarily imply a representation of the available resources of the Government to spend which instead depend on the budgeted income, expenditure and the borrowing less repayments. Thus, Government account balances are not considered as part of "central bank money".

There is no question of digital currency for the public in the form of centralized account balances at the central banks since central banks do not, generally, maintain accounts for the public. It is not practical for central banks to maintain accounts for the entirety of populations which would divert attention from the core functions of central banking. Thus, even though an account balance maintained by a member of public with the central bank also referred to as Deposited Currency Accounts (DCAs) may technically qualify as "digital currency" such DCAs would rather not exist except in theory. In addition, such accounting records would not have the character of anonymity and, therefore, would differ from the true meaning and expectation of a "currency". Therefore, CBDCs are based on DLT which is also referred to as blockchain technology. This technology facilitates completion of transactions through a validation process in the distributed ledgers unlike the central accounting system at the central bank. With this technological innovation it has become feasible for central banks to maintain digital records of balances of its liabilities to large numbers of holders of such digital currency without cumbersome accounting and reconciliation processes and face to face interactions. At the same time, this technology allows maintaining privacy and anonymity of the holders thus satisfying another important characteristic of currency to be so recognized.

CBDCs can be differentiated from what is referred to as crypto assets or crypto currencies in that CBDCs are issued as fiat money or legal tender whereas crypto currencies such as Bitcoin and Ethereum do not have such backing. Secondly, CBDCs are different from stablecoins and tokenized assets. Stablecoins are backed by fiat currencies or Government securities thus representing close resemblance to the CBDCs but not being so exact. Tokenized assets or asset tokenization refers to issuances of crypto currencies or crypto assets against pools of assets held by the issuers. Basel paper SCO 60 initially issued in 2024 and updated effective January 2026 (Basel Committee on Banking Supervision, 2026) classifies the stablecoins and tokenized crypto assets in to two categories. The first refers to those backed by high quality assets attracting zero risk weights while the latter refers to assets that may be subject to losses upon realization with a range of higher risk weights for the calculation of capital adequacy ratios under the Basel Framework. Another category of crypto assets is exchange tokens defined as blockchain-based assets issued by crypto exchanges (Garratt & Van Oordt, 2024). Given the above background let us use an interesting presentation of the taxonomy of money using what is called the "Money Flower" a set of Venn diagrams that identify where CBDCs are placed in the following graph (Bech & Garratt, 2017, p. 60) :

Figure 1. The Money Flower



Source: (Bech & Garratt, 2017)

Note on the Source: This "Graph 3" that appeared in the journal article of BIS Quarterly Review, September 2017, by Morten Bech and Rodney Garratt refers to CBCC that stands for Central Bank Crypto Currency instead of CBDC, Central Bank Digital Currency, presumably based on the common terminology that prevailed at that time. Subsequent Basel literature had adopted versions of the graph with the terminology changed to CBDC instead of CBCC (Benoît Cœuré, 2018). In today's context the term CBDC is well established since then.

Bech & Garratt, (2017) proposes this taxonomy of money based on four properties viz. issuer (central bank or other), form (electronic or physical), accessibility (universal or limited), and transfer mechanism (centralized or decentralized). Let us analyze these properties further.

I. Property 1 - Issuer: Central Bank or Other

All types of money can be classified into two categories depending on who issues money i.e. central bank or any other. While issuance by a central bank is an obvious matter to comprehend, it is to be appreciated that money in today's context is seldom issued by central banks. Out of money issued other than by central banks a) bank deposits represent the largest share while b) mobile money, c) crypto assets including crypto currencies, d) commodity money and e) some virtual currencies also fall under this type.

Central bank issued money which is our focus in this paper is placed within the blue ellipse in the money flower. There are five distinct kinds of central bank issued money viz. a) cash b) settlement or reserve accounts c) retail CBDCs and d) wholesale CBDCs and e) theoretical Deposited Currency Accounts (DCAs). In fact, DCAs refers to a theoretical possibility of central banks maintaining accounts for the members of public in centralized accounting systems where Bech & Garratt, 2017, makes reference to the case in support argued for

by Nobel Laureate James Tobin far back in 1987. As stated in the paragraphs above, DCAs do not exist in practice. Thus, we are left with four types of which two are CBDCs. CBDCs differ from reserve or settlement accounts because the reserve or settlement accounts are maintained in centralized ledgers with no feasibility on peer-to-peer transfers and a trusted central party is required to settle the transactions, while CBDCs are based on decentralized transfer mechanisms using DLT or blockchain technology where peer-to-peer transfers are feasible.

II. Property 2 – Form: Electronic or Physical?

Money in electronic form is included in the green ellipse. This includes a) bank deposits and mobile money, b) settlement or reserve accounts of central banks c) retail CBDCs d) wholesale CBDCs e) theoretical DCAs f) virtual currencies and g) crypto assets including crypto currencies, both retail and wholesale, issued by private sector. The key kinds of physical money identified are a) cash, b) commodity and c) local (private) currency that refers to physical currency issued other than by central banks.

III. Property 3 – Universally Accessible or not?

This is an important feature when deciding if money is for the retail or general-purpose segment or for a limited set of counterparties in the wholesale segment. Money that is universally accessible is included in the red eclipse. This includes a) bank deposits and mobile money b) theoretical CDAs c) retail CBDCs d) retail crypto assets including crypto currencies e) cash and f) commodity money. Money that is not universally accessible falls into wholesale category. The key kinds are a) wholesale CBDCs b) wholesale crypto assets including crypto currencies c) reserve and settlement balances with central banks d) local (private) currency and e) virtual currency.

IV. Property 4 – Peer-to-Peer or Trusted Counterparty

In normal usage of money for payments, the expectation is for transactions to be settled "peer-to-peer" without a need for a central intermediary. For example, if cash or commodity money is paid by a consumer to a merchant, the merchant will peruse the note and accept the cash without having to validate each transaction through a central intermediary such as the central bank. Under the blockchain technology or DLT too, transactions are settled by validation of the blocks in the blockchain in the distributed ledger by the validators or miners (Bech & Garratt, 2017) and there is no need for the transactions to be passed through a central intermediary. This feature enables the crypto assets and retail CBDCs to maintain anonymity of the parties. Although the public address is shared like in the case of an email, the identity of the payer is not revealed to the payee beyond the public address (Bech & Garratt, 2017; Nakamoto, 2008). There is no likelihood of reversal of transactions due to reasons concerning the settlement of payment since there is no centralized processing and no retention of identity, unlike in the case of payment by bank account or cheque.

Hitherto it was unimaginable to have a peer-to-peer transaction in electronic form because the electronic transactions are maintained in centralized ledgers by institutions such as banks or mobile payment operators. However, the revolutionary introduction of Bitcoin in 2009 using the blockchain technology has changed this misconception in theory as well as in practice. Bitcoin was introduced with the white paper titled "Bitcoin: A Peer-to-Peer Electronic Cash System" under the pseudonym Satoshi Nakamoto in 2008 (Nakamoto, 2008). The paper states "What is needed is an electronic payment system based on cryptographic proof instead of trust, allowing any two willing parties to transact directly with each other without the need for a trusted third party" (Nakamoto, 2008, p. 1).

In the money flower money that is settled peer-to-peer instead of through a trusted third party is included within the yellow ellipse. This includes a) cash b) commodity money c) retail and wholesale crypto assets including crypto currencies d) retail and wholesale CBDCs and local (private) currency. Money that cannot be settled peer-to-peer but rather recorded in the centralized ledgers of trusted third parties such as banks and central banks includes a) bank deposits and mobile money b) theoretical DCAs c) reserve and settlement balances with central banks and d) various forms of virtual money. Here a distinction is made between virtual money and cryptocurrencies, both of which are in electronic form and mostly referred to interchangeably, given the fact that cryptocurrencies can be settled peer-to-peer whereas virtual currencies are recorded in centralized ledgers maintained by trusted third parties. The peer-to-peer settlements provide the CDBCs and crypto assets including crypto currencies anonymity of the payers. It is interesting to review the degree of anonymity that can be incorporated into the CBDCs as deliberated in the paper by Committee on Payments and Market Infrastructures of BIS titled Central Bank Digital Currencies. "Token-based CBDC can, in principle, be designed to provide different degrees of anonymity in a way that is similar to private digital tokens. A key decision for society is the degree of anonymity vis-à-vis the central bank, balancing, among other things, concerns relating to money laundering, financing of terrorism and privacy." (Bank for International Settlements, 2018, p. 6). It is also a view held in setting the foundational principles that full anonymity is not possible (Group of Central Banks, 2020). At the same time, it is argued with regard to CBDCs, that "there is a cost associated with carrying it, perhaps due to the agents' anonymity concerns" (Davoodalhosseini, 2018).

3. Current trends of Emerging Crypto Asset Ecosystems and CBDCs

Let us review a) CBDCs in comparison to other crypto asset eco systems, b) regulatory trends concerning crypto assets, c) on-going research and development, testing and current level of unveiling of CBDCs.

3.1 Other Crypto Assets and CBDCs

CBDCs has been a subject that has drawn wide research and developmental interest across academia, businesses and investors, central banks, Governments as well as international standard setting organizations. The research and development work has addressed not only the CBDCs but also crypto assets. In the consultative document on Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets by Financial Stability Board, a crypto asset is described as a digital asset (issued by the private sector) that

depends primarily on cryptography and distributed ledger or similar technology, classified as a payment instrument or a security, in the concerned jurisdictions (Financial Stability Board (FSB), 2022). On the other hand, a stablecoin is defined by FSB to be "a crypto-asset that aims to maintain a stable value relative to a specified asset, or a pool or basket of assets" (Financial Stability Board (FSB), 2020). Our previous reference to a CBDC to be "a digital payment instrument, denominated in the national unit of account, that is a direct liability of the central bank" (Group of Central Banks, 2020) completes a hierarchy of a) crypto-assets other than stablecoins, b) stablecoins and c) CBDCs that have lower risk in each succeeding asset class due to either backing of assets as in the case of stablecoins or the Government fiat and issuance by the central banks as in the case of CBDCs. Within the stablecoins and other crypto assets, the level of risk will depend on the type of assets that back them, if any, and other characteristics such as limitation of supply and undertaking or the promise by the crypto exchange to buy back using future revenue. What is clear is that the CBDCs cannot be studied or implemented in isolation. The crypto asset ecosystem, defined to be "the entire ecosystem of that encompasses all crypto asset activities, market and participants" (Financial Stability Board (FSB), 2022) appears to be a pre-requisite or at least a complementary environment for CBDCs to be popularized and effectively distributed. For example, crypto asset services such as facilitation of exchange of crypto assets against fiat currency CBDCs, provision of wallets, trading, lending and borrowing need the mutual coexistence of different asset classes including CBDCs to make the complete digital peer-to-peer eco system. Not only that the digital peer-to-peer asset eco system need to be well integrated within, but also the eco system needs to be integrated with the wider outside financial system.

3.2 Regulatory Trends Concerning Crypto Assets

The emergence and development of the eco system of crypto assets require strong regulatory frameworks. On one hand crypto assets have begun to perform the functions of money and on the other hand they reflect features of tradable securities that disrupt the securities market. One such type of crypto assets is "exchange tokens" with buy back pledges where the issuer promises to buy back the tokens using a share of their revenues (Garratt & Van Oordt, 2024). Collapse of the FTX platform in the USA, that traded FTT exchange tokens, left the platform bankrupt leaving over USD 8 billion owed to the customers (Garratt & Van Oordt, 2024). This was a case in point where governance failures and absence of regulatory oversight to set the prudential norms allowed speculative dealings by the firm. Any disruption arising from the actions of even a single firm would severely impact the eco system. The health of the crypto asset eco system is relevant for the CBDCs as well.

Financial Stability Board had introduced two important consultative documents viz. Final Report and High-Level Recommendations, Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements (Financial Stability Board (FSB), 2020) and Consultative Document, Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets (Financial Stability Board (FSB), 2022). These documents are useful even for emerging market economies in assessing the needs for the regulations in a proactive manner even before such exchanges are set up within the economies. While any crypto assets issued within the exchanges in the economy are easier to regulate bigger challenges would exist to monitor the emergence of shadow monetary systems using cross country traded crypto assets including "global stablecoins". In addition to the FSB documents on regulation, the Basel Committee on Banking Supervision has issued guidelines with the scope and definitions concerning crypto asset exposures under the Basel Capital Framework, initially in 2024 updated effective January 2026 (Basel Committee on Banking Supervision, 2026). The regulatory landscape is thus expanding along with the penetration of the crypto assets.

3.3 Research and Development, Testing and Current Implementation

Research work on CBDCs has been performed by the monetary authorities to different extents along with proofs of concept, testing of prototypes and running pilot projects. BIS has published numerous working papers addressing essential features and definitions, economic implications, implications on monetary policy and cross-border payments and so on. In addition, a series of publications by BIS based on specific projects dealing with technical areas such as Legal aspects of retail CBDCs, design guide for offline payments CBDC, CBDC system design, CBDC user needs and adoption, CBDC interoperability, improving instant cross-border payments using central bank money settlement, tokenization of promissory notes and central bank open market operations with smart contracts are some examples of positive outcomes of research connected with CBDCs and related areas of interest.

International Monetary Fund (IMF) has published several research and concept papers including cross-border payments with retail CBDCs - design and policy considerations, CBDCs role in promoting financial inclusion, implications of CBDCs for monetary policy transmission and central bank exploration of tokenized reserves.

The current level of involvement of monetary authorities towards development of CBDCs has remained strong as per a 2024 survey carried by BIS (Illes et al., 2025). The survey reveals several interesting trends and developments. Of the ninety-three central banks surveyed representing 78% of global population and 94% of global economic output, 85 or 91.5% were exploring either retail or wholesale CBDCs while the concentration was more on the wholesale segment. It is interesting to note that in Advanced Economies (AEs) surveyed 38% were running wholesale CBDC pilot projects while 17% were in fact developing live pilot projects on wholesale CBDCs with the comparisons for retail CBDCs amongst the advanced economies were 15% and 0% respectively. Amongst the emerging market and developing economies (EMDEs) 16% were piloting wholesale CBDCs while wholesale and retail CBDC experiments were being performed by 35% and 27% respectively. As per the survey, a large majority of the central banks (80% of those working on wholesale CBDCs and 75% of those working on retail CBDCs) identified the preservation of central bank money as a key driver towards pursuing CBDCs specially in the context of declining use of cash. In addition, use of wholesale CBDCs as a settlement asset in the transactions involving tokenized assets has been seen as a means of preserving the role of central bank money. In the same background, the developments in stablecoins and other crypto assets had caused more than one in three jurisdictions surveyed to accelerate the work on CBDCs in response. Supporting financial inclusion has been seen as an associated objective in the development of retail CBDCs while supporting cross-border transactions has played a key role in the motivation to develop wholesale

CBDCs. The report further highlights the three central banks that have launched live retail CBDCs viz. Bahamas, Jamaica and Nigeria (Illes et al., 2025). It is also possible to gain more current information from a CBDC tracker run by Atlantic Council, a US entity engaged in research, inter alia, ('Central Bank Digital Currency Tracker', n.d.).

Security of technology used is in fact an important aspect of any digital or electronic payment mechanism. Obviously, pilot projects and gradual implementation and penetration may be a strategy towards minimizing security risks.

4. Design Features and Monetary Policy Implications of CBDCs

Does cash attract interest payments? Obvious answer is no. However, when currency is in electronic form it could. Not only could CBDCs be remunerated with interest payments but also CBDCs could be penalized with negative interest. With the advent of technology, making positive or negative interest payments is possible. There are a few policy choices discussed in the available literature on CDBCs regarding the possibility of remuneration on holding CBDCs, i.e. payment of interest. One is to make them non-interest bearing and the second is to pay interest on CBDCs, where interest will be paid on balances beyond certain thresholds in a tiered structure. Another extended choice is to charge interest for holding CBDCs which effectively means applying negative interest on CBDCs with the intention of encouraging spending, presumably under expansionary monetary policy (Tapking et al., 2024).

When physical currency notes and coins are to be replaced by digital currency an immediate question arises about the impact on seigniorage. Seigniorage is the difference between the face value of currency and the cost of production of currency where the Governments through the central banks enjoy the free float. Instead of the cost of producing currency the central bank will incur costs on setting up and running the CBDC systems. The difference in the cost structures would change the amount of seigniorage accordingly. The cost of interest paid on CBDCs would reduce the benefit of investing the float while interest charged on holders may further increase the benefit of the float thus effectively changing the seigniorage accordingly.

Tapking et al., 2024 contend that it is often claimed or assumed that a retail CBDC would reduce commercial bank deposits given that customers might convert some of their deposits into CBDC. They further argue that under certain conditions such as conversion of Bank deposits to CBDCs being highly convenient, the commercial bank deposits may even increase. Many researchers agree that in banking crisis, bank deposits may get converted into CBDCs thus creating further financial instability while suggesting that limits to the amounts that can be held in CBDCs could address the issue (Tapking et al., 2024).

Further, uncertainty that may be created that the depositors may convert deposits into CBDCs might prompt the banks to maintain higher levels of reserves with the central banks. For this purpose, central banks may have to meet the demand for additional reserves through market operations. On the other hand, if there is a decline of commercial bank deposits due to conversion into CBDCs, the required reserves to be maintained by the commercial banks with the central banks will go down. Yet, in such a scenario, there would be an initial larger decline of reserves equal to the amount of deposits so transferred to CBDCs, and if the reserves with the central bank fall below the required levels the banks would have to liquidate some of the liquid assets and meet the demand thus shrinking the balance sheets. Therefore, the ability of CBDCs to be used in enhancing the effectiveness of monetary policy is significant. The enhanced effectiveness of monetary policy and monetary policy transmission will depend on whether the CBDCs are remunerative or not and also if negative interest rates could be applied when appropriate (Akdağ & Bozma, 2022). Further, Akdağ & Bozma, 2022, contend that increasing dollarization and crypto monetization limit the effectiveness of the monetary policy and CBDCs could be used to counter this effect.

To achieve the benefits of CBDCs as an effective tool in monetary policy, there should be high preference for holding of CBDCs in place of physical cash. Therefore, it is essential that the payment systems, including digital wallets, are all interconnected where the banking system and mobile operators and specialized fintech companies play a key role in reaching the members of public at large while servicing their day-to-day operational requirements, a role that the central banks do not normally engage in. An extension to this would be crypto asset ecosystem. The design of the CBDCs needs to ensure that the CBDCs can be transferred across payment systems both locally and cross-border, a term referred to as interoperability. For a CBDC system, interoperability would mean that there are features and capabilities to achieve easy flow of funds to and from other payment systems (CBDC - System Design and Interoperability, n.d.).

5. Embracing or Distancing Digital Assets and CBDCs?

Monetary authorities are faced with the decisions whether to embrace or distance CBDCs and the other crypto assets and crypto assets ecosystems within the respective jurisdictions. Similar scenarios have prevailed in disruptive technologies and systems such as mobile phones, internet, satellite technology, emails, social media and so on where countries have eventually accepted the changes with controls for regulation supervision and oversight where appropriate. The global trends and penetration of the concept, research and pilot projects and the few live launches do all suggest an increased level of likelihood of CBDCs taking a prominent role in replacing the physical currencies at least partially. The rapid growth of crypto assets including cryptocurrencies, stablecoins and tokenized assets does pose a threat that the payment systems and physical cash would in fact be taken over by such alternative asset classes, although the time frame for such eventuality would, of course, depend on several associated factors. In such an event, central banks, particularly in emerging markets and developing economies, would face the risks of dollarization of economies and loss of control over payment systems and monetary policy implementation. Thus, a pragmatic approach would be to proactively increase preparedness, engage, embrace and implement the technological and payment system developments, including local currency denominated crypto assets and CBDCs, within controls in a regulated environment so that the central banks could retain the substance of monetary sovereignty and effectiveness of monetary policy while the form is allowed to change.

6. Conclusion

There has been extensive research and development, pilot projects and actual launches of CBDCs using DLT such that the implementation of CBDCs as a fiat money substitute for cash is considered feasible, at the appropriate time frame. Interest shown by monetary authorities in the subject has been strong. With additional features such as remuneration by interest payments and penalization by negative interest CBDCs can enhance the effectiveness of monetary policy implementation. Crypto assets including cryptocurrencies, tokenized assets and stablecoins have shown to be potential threats to replace the traditional cash and payment systems thus potentially causing central banks to lose sovereignty over monetary system and control over monetary policy implementation. International organizations such as BIS, IMF and FSB have issued extensive guidelines and concept papers on regulation of crypto assets and implementation of CBDCs. A well-regulated, controlled and supervised crypto asset eco system with local currency denominated crypto assets along with the issuance of CBDCs, at the appropriate time frame, would provide a conducive environment for the central banks to retain the substance of monetary sovereignty and control over monetary policy while allowing the form of money to change.

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ICAAP and RCSA:
hope for the best... but prepare for the worst...

Raja Senanayake

Deputy Chairman of
Commercial Bank of Ceylon PLC

All of us who work in banks are part of the bank's risk and capital story. Every decision we make – setting underwriting standards, granting policy overrides, changing pricing and tenor mix of products, shifting portfolio concentrations, increasing contingent exposures through trade products (LCs and guarantees), adjusting funding sources and liquidity buffers, redesigning processes and controls, outsourcing an activity, introducing new products and channels, or deploying or recaliberating scorecards / models, can materially change the bank's risk profile. And the risk profile, in turn, drives how much capital we must hold to remain safe and resilient. Going beyond the minimum capital requirements under the Basel III framework, ICAAP (Internal Capital Adequacy Assessment Process) is the process through which we assess whether our capital is adequate for all material risks and demonstrate this to ourselves and the regulator. RCSA (Risk Control Self-Assessment) is how business-units and departments periodically self-assess their risks and controls, visualise and rate them early, before those risks turn into unpleasant surprises.

Under Pillar 2 (Supervisory Review Process, SRP) of Basel III, banks are required to implement an ICAAP to assess capital adequacy in relation to their risk profiles, and to develop a strategy for maintaining adequate levels of capital. It is relevant to note that minimum capital requirements, as well as ICAAP under Pillar 2, place more stringent requirements on Domestic Systemically Important Banks (D-SIBs), exerting additional pressure, compared to other banks. ICAAP is a collaborative effort involving several departments such as Integrated Risk Management, Finance, and Planning (with branches and many other departments supporting). A Board-approved ICAAP report prepared as at each 31 December should be submitted to the Central Bank of Sri Lanka (CBSL) by 31 May of the following year.

Recent capital-impacting events such as the restructuring of Sri Lanka's International Sovereign Bonds (ISBs) remind us that "severe but plausible" can quickly become real. A well-run ICAAP and an honest RCSA help ensure we have the capital, buffers and actions planned in advance, before shocks hit.

ICAAP in a nutshell

ICAAP is the bank's own assessment of whether it has, and will continue to have, enough capital for all material risks, today and under severe but plausible conditions, in a futuristic perspective, given the bank's business model and strategy. Where relevant, the scope of ICAAP extends to the group, including local and foreign financial subsidiaries, recognising that a bank's capital strength depends on not only on the performance of the bank but also on that of its subsidiaries.

The evolution of the Pillar 2 Supervisory Review Process requires banks to maintain adequate capital and liquidity to support all risks in their business model, with particular focus on the viability of the business model itself. The revised Basel Core Principles for Effective Banking Supervision, published in April 2024, introduced a heightened focus on the ability of supervisors to take timely and conclusive actions based on the quality of a bank's internal assessments. This suggests that the ICAAP must move beyond a "nutshell" definition towards a comprehensive risk management architecture that accounts for structural transformations such as digitalisation and climate change.

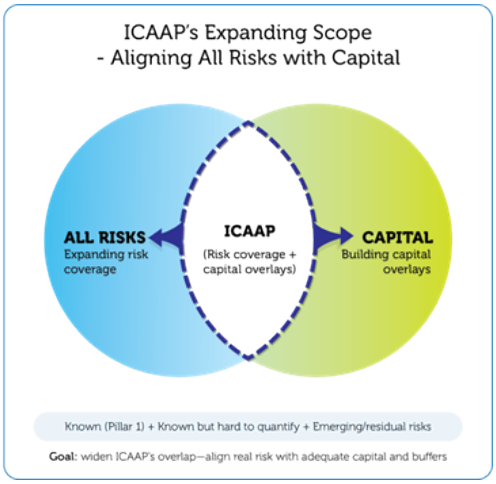
The Basel framework is conventionally divided into three pillars: Pillar 1 - Minimum Capital Requirements, Pillar 2 - the Supervisory Review Process, and Pillar 3 - Market Dscipline. However, contemporary literature and supervisory guidance from the European Central Bank (ECB) and the Basel Committee on Banking Supervision (BCBS) emphasise that ICAAP is not merely a supplementary exercise but a continuous, living governance process that must be integrated into all material business activities.

We can think of ICAAP as a disciplined way to answer three questions:

1. What risks do we face (not only those in the rule book)?
2. How big could losses be, especially in tough times?
3. Do we have the capital and plans to absorb them without derailing our strategy?

A picture worth remembering

ICAAP sits at that intersection. It forces us to match risk reality with capital sufficiency - not once, but evolving with time, with eyes on the future.



Beyond "Pillar 1" compliance

Pillar 1 sets regulatory minimum capital required under Basel III Framework for credit, market, and operational risks - risks that are well-studied, understood and quantifiable. Pillar 2 (through ICAAP) covers bank-specific risks and overlays, including risks not fully captured by Pillar 1 and emerging risks for which there is little history: liquidity, interest-rate risk in the banking book (IRRBB), concentration, model, conduct, reputational, outsourcing/third-party, cyber/AI, climate, etc.

A helpful way to think about risks:

- Known and quantified risks (credit, market, operational) → Capital maintained under Pillar 1 of the Basel III Framework; we need to follow policy, ensure data quality (now a matter of regulatory compliance, not just operational efficiency) and report on time.
- Known but hard-to-quantify risks (IRRBB, liquidity, model, conduct) → Capital maintained under Pillar 2 overlays and supported by management actions; we need to escalate issues early, document assumptions and strengthen controls.
- Unknown/emerging risks (cybersecurity/AI, climate, geopolitics, supply chain) → Often no explicit capital allocation at first, managed through controls, risk management and scenarios, buffers, redundencies, and plans. However, regulators increasingly signal that Pillar 2 overlays (specially for cyber and climate) may be expected where material. We need robust "what-if" thinking, incident reporting and horizon scanning.

  The conversation has moved beyond "impact" reporting alone to a stronger focus on financial materiality - i.e., how climate, environmental and social factors can affect earnings, credit losses, collateral values, funding, operations and ultimately capital. Best practice is a holistic approach where ESG and broader sustainability-related risk drivers are embedded within existing risk types, policies, processes, data and controls, rather than treated as a separate side programme.

For example, climate and social factors typically flow through familiar risk channels:

- Credit risk: Physical risks (floods, droughts) and transition risks (carbon-related taxes/penalties or tighter emissions regulations, shifts in demand and technology substitution) can weaken borrower cashflows and devalue collateral in vulnerable locations or high-carbon sectors.

- Operational risk: Climate events and environmental liabilities can disrupt business continuity; good practice is to identify and tag these losses in operational risk registers so they can be tracked and learned from.
- Reputational/conduct risk: Social factors (e.g., human rights controversies, misleading sustainability claims, or failure to meet public commitments) can trigger customer backlash, legal costs and supervisory attention - which can translate into higher capital expectations under Pillar 2 if material.

  Not all risks require capital - but all risks require management. Some risks are best handled through controls, diversification, better data, contingency plans, and pricing/limits rather than by simply piling up capital.

RCSA: the first line of defence

RCSA is how each business and support service unit identifies their key risks, assesses how strong (or weak) the controls are, and rates the residual risk (risk remaining after controls). Done well, RCSA is the bank's early-warning system. It surfaces real issues and non-modeled risks: recurring system outages, process gaps, vendor dependencies, conduct red flags, reconciliation breaks, cyber hygiene lapses while they are still fixable. These insights feed ICAAP - into scenarios, stress tests (especially "reverse stress tests" – working backwards to find the scenario that would have to go wrong for us to breach capital - useful for blind-spot hunting), overlays, thereby justifying qualitative capital overlays where evidence suggests higher residual risk.

RCSA knows the ground; ICAAP sets the guardrails. Bottom-up RCSA meets top-down ICAAP, that is how our capital plan is grounded in operational reality.

Inherent risk vs residual risk

Inherent risk is the risk before implementing controls, while the residual risk is the risk after implementing controls and risk management. Hence, residual risk is equal to inherent risk minus effect of controls. In real life, there can be times when we see residual risk to be higher than the inherent risk. That sounds paradoxical, but given below are some of the circumstances why it may happen, how it happens and what can be done:

- Mis-scoring inherent risk at the start, with new testing or incidents revealing the true exposure which is higher.
- Changes in the outside world due to new fraud/AML typologies, cyber threats, laws, or macro shocks that outpace controls implemented.
- Controls introducing new risks, such as automation, outsourcing, or complex work-arounds adding IT/third-party/process risk.
- Improved detection revealing more risk
- Stronger monitoring detects more of the risk that was already there.
- Controls not working as intended due to design/implementation flaws, collusion, or weak segregation of duties.
- Regulatory changes redefining the bar. Yesterday's "adequate" becomes today's "insufficient."

When this occurs, we need to first revisit the inherent risk rating to check if it was underestimated. Based on that we need to fix or redesign the controls... and may at times even decommission any controls that create more risk than they remove. We need to record the reasoning and evidence, and escalate any material cases

to the Board Integrated Risk Management Committee/Board. Finally, we need to put in place a time-bound action plan with clear owners and Key Risk Indicators (KRIs) to bring the residual risk down, or, where justified, we need to formally accept it with strengthened monitoring.

The outcome is not just a number; it is a set of actions such as adjusting risk appetite, refining limits, improving controls, re-prioritising projects, recalibrating pricing, and where necessary, holding more capital.

How RCSA powers ICAAP

Think of RCSA as the smoke detector and ICAAP as the fire safety plan. RCSA (bottom-up) surfaces real risks and puts them on radar early. Those insights feed ICAAP (top-down), turning them into "what-if" scenarios and stress tests, decide on actions and capital (e.g., limits, pricing, vendor choices, fixes), and then send clear guardrails and KRIs back to the business as policies, limits, and priorities.

What this means for our day-to-day roles and responsibilities

- Escalate weak signals early since small exceptions today prevent capital surprises tomorrow.
- Own your controls (and test them). If a control adds complexity/risk, say so: simpler and reliable beats clever and fragile.
- Write down the "why." Good documentation turns judgment into evidence ICAAP can rely on.
- Think "what-if." If it happened elsewhere (bank run accelerated via social media, deepfake fraud, cloud outage), it could happen here.
- Follow through on findings. Do not just log issues, identify root causes, fix them, and inform the Integrated Risk Management Department when done.

Scenarios that tie daily work to capital (and what to check)

- Cyber/AI fraud (deepfakes, social engineering). Are call-backs to verified numbers enforced? Do dual controls and anomaly detection catch out-of-pattern approvals? If losses spike, can insurance and capital buffers absorb them?

- Core IT outage (bad release/corrupted payment file). How fast can we restore and communicate? Beyond operational fixes, do we quantify the potential loss of income, customer remediation costs, overtime and Service Level Agreements (SLAs) penalties – and the capital needed to absorb this operational shock without derailing our plan?
- Regulatory compliance failure (eg. an AML/CFT breakdown, sanctions miss, or a major regulatory reporting error). What is the plausible range of fines, remediation costs and reputational impact, and how would that flow into capital planning and management actions?
- Climate & physical risk (flooded branches). Can customers shift to digital channels? What's the effect on collateral values and provisioning?
- Third-party/vendor breach (fintech partner). How quickly can we contain, communicate, and compensate? Do contracts, playbooks, and capital overlays cover the exposure?

Each scenario links to RCSA controls (prevention/detection) and ICAAP buffers (absorption / recovery).

Risks not on the radar are often the most dangerous

Many high-impact events are missed not necessarily because they are unforeseeable, but because banks grow over-confident or fail to imagine them. To counter this, we should build and maintain an "Emerging Risk Register" fed from two directions: outside-in learning (tracking relevant global incidents, e.g., social-media-triggered bank runs, deepfake fraud, major cyber intrusions, climate-driven impairments, vendor outages, and asking, "Could this happen here? What would it cost? How would we respond?") and inside-out imagination (red-teaming and what-if workshops: a voice-clone dupes a high-value client, a cloud-region outage on payroll day, political/social unrest constrains cash logistics). Each entry in the Register should have an owner and KRIs, be reviewed periodically, and be updated by removing those mitigated or escalating when signals heat up. We should never take comfort in familiarity, but challenge assumptions, stress-test beyond the usual, and act on weak signals before they become loud alarms.

Capital is our cushion; RCSA is our compass

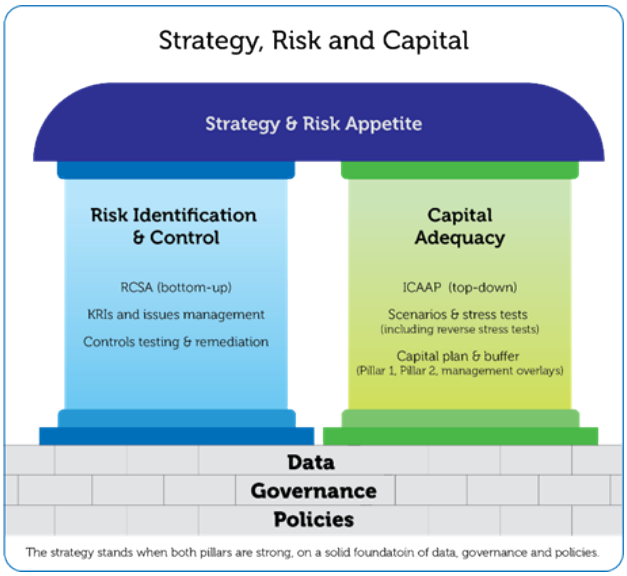
Capital absorbs losses when controls fail or when the world turns against us. But capital alone does not make us safe. We need a disciplined capital plan matched to our strategy, business model and risk appetite.

A good capital plan answers to such questions as:

- Do we have sufficient Common Equity Tier 1 (CET1), Additional Tier 1 (AT1), and Tier 2 capital under base and severe-but-plausible scenarios over the next 3 - 5 years?
- What are our buffers – capital held above the regulatory minimum and internal targets to handle stress without stopping execution of strategy?
- If profits fall and/or Risk-Weighted Assets (RWA)* rise, which management actions kick in - pricing, portfolio rebalancing, dividend restraints, cost measures, RWA optimisation, capital raising?
- How do major strategic moves (new products, digital acceleration, new market entries) change our RWA and capital needs?

The bank plans these before it needs them and tests whether they are plausible under stress.

* Risk-Weighted Assets (RWA) - the bank's assets and exposures weighted for their underlying risk under regulatory rules. Higher RWA means more capital is needed.



Illustrative management actions

Think of this as a step-by-step plan to keep our capital ratios strong. We start with quick, low-disruption moves and move to bigger, slower steps only if triggers are hit. We can improve the ratio by either improving earnings and/or adding more capital (numerator of the formula) or by carrying less risk-weighted assets (denominator of the formula).

- Step 1 - Pricing and rules: tighten lending criteria and price for risk to lift margins and slow growth in high-risk assets.
- Step 2 - Spread/hedge risk: diversify and use hedges so the book is less concentrated.
- Step 3 - Costs & portfolio: cut avoidable costs; exit or resize low-return, high-risk exposures.
- Step 4 - Dividends: if pressure remains, pay out a bit less for a period to keep more capital.
- Step 5 - Balance-sheet tools: sell or package some assets; adjust liabilities; consider issuing regulatory capital.
- Step 6 - Raise capital: if required, raise new capital to give a clear boost.

We use steps 1 - 3 early, prepare 4 - 6 in parallel, and move up the ladder only if our internal triggers (risk appetite/buffers) say we must. We plan these in advance and test them under stress to make sure they are realistic.

It also helps to distinguish between (a) ordinary day-to-day capital management actions (pricing, underwriting, portfolio mix, hedging and cost discipline) and (b) extraordinary measures that usually sit in Recovery and Resolution Planning** (for example, suspension of distributions, major balance-sheet restructuring, emergency funding actions, or large capital raising under stress). While the recovery plan is beyond ICAAP, linking the two strengthens preparedness: ICAAP tests the credibility of actions and triggers, and the recovery plan sets the operational playbook if conditions deteriorate quickly.

** Recovery and Resolution Planning is the set of pre-agreed playbooks a bank and its regulators maintain to deal with severe financial stress or failure in an orderly way.

Our part in the story: five simple habits

As the first line of defence, business and support service units should:
1. Speak up early. Small control issues today prevent big capital surprises tomorrow.
2. Write down the “why”. Note your assumptions in credit, finance, IT, operations - ICAAP relies on clear, auditable reasoning.
3. Own your data. Keep it clean and on time so risk models and capital plans are credible.
4. Ask “what-if”. If you see a new pattern or dependency, share it.
5. Close it out. When an audit/RCSA finding names your team, fix it and inform Risk; ICAAP needs evidence of actions, not just awareness.

What to look for (and what you can help with)
Governance: the Board, risk appetite and the Three Lines of Defence

Ultimately, the Board of Directors is responsible for the bank’s governance framework and risk management. Corporate Governance Directions require the Board to ensure that the risk management, compliance and internal audit functions are properly positioned, sufficiently staffed and resourced, and able to carry out their responsibilities independently.

The “Three Lines of Defence” model is a practical way to make that independence real:
- First Line: business and support units that own and manage risks daily.
- Second Line: independent risk management and compliance functions that set frameworks, challenge the first line, and oversee adherence.
- Third Line: internal audit, which provides independent assurance to the Board.

For this to work, the risk function must be independent from the first line, and internal audit must remain

independent from both the first and the second lines. In practice, that means the Chief Risk Officer (CRO) should have a direct reporting line to the Board Integrated Risk Management Committee (BIRMC) and appropriate access to the Board. The Board should also approve the bank's strategy and Risk Appetite Statement (RAS), ensuring they are aligned with the capital plan and financial plan.

We can ask questions like:

- Are all material risks captured (not just Pillar 1)?
- Are the scenarios severe yet plausible and tailored to our vulnerabilities?
- Do capital buffers link to risk appetite and the business plan?
- Are management actions credible and time-bound?
- Does the ICAAP reflect lessons learned from incidents and RCSA findings?
- Is there evidence of cross-functional ownership - Risk, Finance, Strategy, Treasury, Technology, Business Lines?

Your clarity, documentation, and follow-through make these answers convincing.

When the first line is honest and proactive through RCSA, the second line (Risk and Compliance) converts that reality into a smarter ICAAP and the third line (Internal Audit) provides assurance to the Board, the three lines work as one system, ensuring that risk-based capital is grounded in operational reality.

Putting it all together: a living, evolving process

ICAAP is not a static report. It is living governance, the way banks stay resilient as the world changes. When we pair disciplined capital with curious risk thinking, we protect our stakeholders and enable growth with confidence.

- Did your team complete and discuss its RCSA honestly?
- Have you raised at least one emerging risk to add to the register?
- Do your projects and releases include stress/"what-if" testing and back-out plans?
- Are your dashboards tracking a few KRIs that truly matter?
- Have you closed actions on previous findings?

The bottom line

In today's world, the biggest threats are not always the ones we see clearly. Rather, they are the ones we dismiss, underestimate, or fail to imagine. The ICAAP and the RCSA help us turn that unknown into perspective and preparedness. Capital is our cushion; RCSA is our compass. If we surface issues early and candidly through RCSA, ICAAP stays credible and the bank stays resilient while we serve customers and deliver on our strategy.

Hope for the best... but prepare for the worst...

Sectoral Credit Allocation and the Crowding-Out Effect in Sri Lanka: A Pre- and Post-Crisis Analysis

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1. Introduction

Domestic credit markets are critical to sustaining economic activity, facilitating investment, and supporting sectoral growth. In Sri Lanka's bank-centric financial system, commercial banks are the primary source of financing for both private enterprises and the government. As a result, patterns of credit allocation have a direct bearing on economic performance, financial stability, and the effectiveness of macroeconomic policies.

A central mechanism shaping credit allocation is the crowding-out effect, whereby high levels of government borrowing absorb a significant share of available domestic liquidity. This typically results in higher interest rates and portfolio shifts toward government securities, limiting funds available for private sector investment. Conversely, a crowding-in effect may occur when reduced government borrowing eases pressures on domestic credit markets, allowing banks to redirect funds toward private lending, stabilizing interest rates, and supporting investment in productive sectors.

Sri Lanka's experience over the past decade provides a clear illustration of these dynamics. Persistent fiscal deficits and rising public debt prior to the 2022 sovereign debt crisis created strong demand for domestic financing, intensifying competition for bank funds and limiting private borrowing. During this period, government securities dominated bank balance sheets, constraining lending to productive sectors and contributing to uneven sectoral growth.

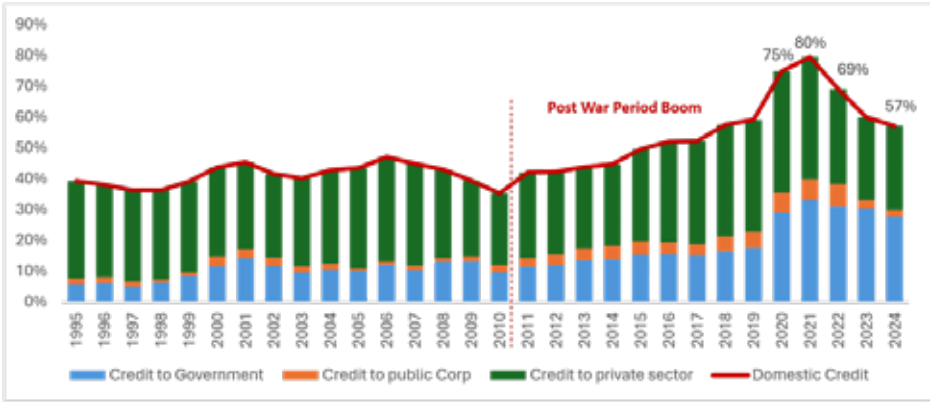
Following the crisis, however, fiscal consolidation measures, improved government cash management, and the maintenance of a substantial cash buffer estimated at nearly LKR 1 trillion by mid-2025 have substantially reduced the government's reliance on domestic borrowing. This structural shift has opened the way for renewed private sector credit growth, altering the dynamics of bank portfolio allocation and improving conditions for investment-led growth.

To fully understand these dynamics, it is important to examine the structure, evolution, and sectoral distribution of Sri Lanka's domestic credit market over time.

2. Background: Sri Lanka's Domestic Credit Market.

Sri Lanka's domestic credit market comprises three main components: net credit to the government, credit to public corporations, and credit to the private sector. Of these, government and private sector credit dominate and largely determine overall credit conditions. In a bank-centric system, commercial banks' portfolio decisions are critical, and changes in the composition of lending can significantly influence economic outcomes.

Credit to Private Sector, Government & public corporation as a % of GDP (1995-2024)



Source: Annual CBSL Monetary Survey, Author's calculations

Historically, domestic credit penetration has been modest. Prior to year 2000, total domestic credit averaged around 38 percent of GDP, reflecting limited financial deepening. Until the post-war period, sustained credit momentum was weak, constrained by structural and macroeconomic uncertainties. This pattern changed markedly in the post-war period, as improved economic sentiment and reconstruction efforts drove a robust pickup in construction activity, which in turn contributed to a notable expansion in credit.

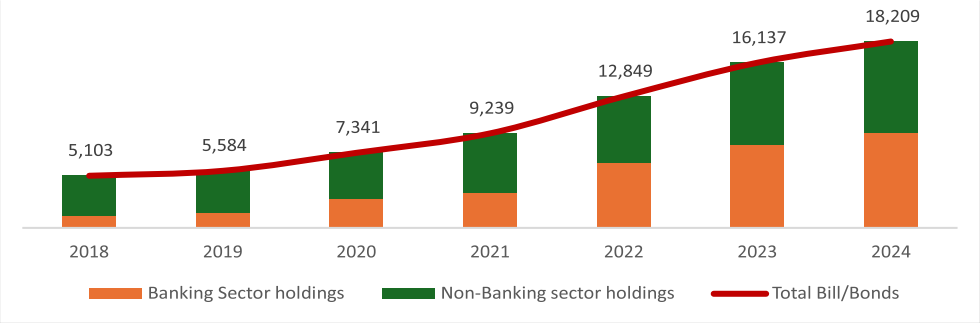
From 2011 onwards, domestic credit grew in line with overall economic activity. Private sector credit in particular supported growth in manufacturing, construction, agriculture, and services. Moderate interest rates, stable inflation, and investment-friendly policies created a favorable environment for lending. While government borrowing remained significant, private sector credit growth was relatively robust.

The economic crisis significantly intensified existing structural weaknesses in the credit market. Pandemic-related disruptions, substantial tax reductions, rising domestic debt, and rapidly declining external reserves jointly undermined macroeconomic stability. These pressures translated into surging inflation, sharp increases in interest rates, and severe liquidity tightening across the financial system. As economic conditions deteriorated, credit risk rose markedly particularly in construction, tourism, and SME segments prompting banks to adopt more cautious lending behavior and scale back private sector credit. This reinforced the crowding-out of productive borrowers.

Between 2020 and 2022, credit dynamics shifted decisively in favor of the public sector.

Domestic credit expanded rapidly, peaking at around 80 percent of GDP in 2021, driven largely by persistent fiscal deficits and the government's growing reliance on domestic financing. Faced with heightened uncertainty and attractive risk-adjusted returns, banks increasingly reallocated their portfolios toward government securities. As a result, credit growth became heavily skewed toward public borrowing, constraining the availability of financing for private investment and slowing broader economic recovery.

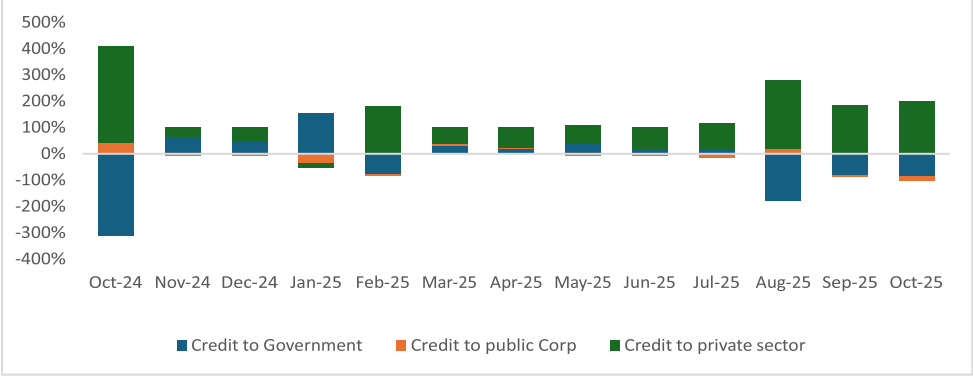
Holding mix of T Bill and T Bond Stock (Rs Bn)



Source : Annual Economic Review 2024, Author's calculations

The post-crisis period marked a structural shift. Fiscal adjustments under the IMF-supported reform program increased revenue to roughly 15 percent of GDP, while expenditure control measures improved the fiscal balance. Treasury primary surpluses, coupled with prudent cash management, reduced government borrowing needs and eased pressures on domestic liquidity, allowing private sector credit growth to resume.

Monthly Domestic credit Mix – Trailing 12 months (% of Domestic Credit)



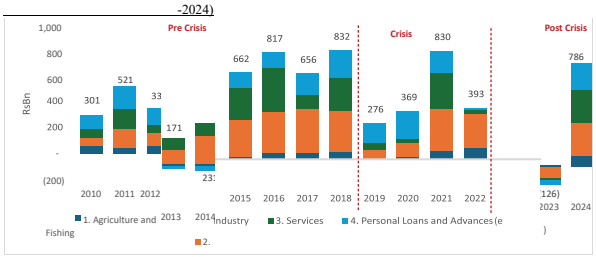
Source: Monthly CBSL Monetary Survey, Author's calculations

The graph indicates that over the past 12 months, the private sector has been the primary driver of credit expansion. Private credit growth has benefited from the reduced absorption of financial resources by the government, allowing it to utilize the available space in the credit market. This pattern suggests that private sector credit still has further room to expand in the continued absence of significant government borrowing pressures. As a result, private sector credit has played a significant role in supporting economic growth since the post-2022 stabilization phase.

While these aggregate trends highlight the overall environment, their impact varies across sectors. The following section examines how credit flows have shifted across industries before and after the crisis.

3. Sectoral Credit Allocation Trends

Private Sector Credit Mix (2010-2024)



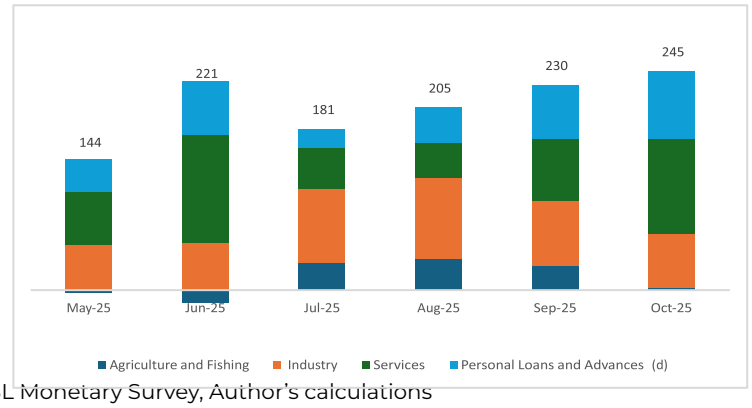
Source : Annual Economic Review 2025, Author's calculations

Before the crisis, sectoral credit allocation in Sri Lanka followed predictable patterns. Predominantly industrial sector, including wholesale and retail trade absorbed a large share of bank credit due to their economic prominence and shorter credit cycles. Construction experienced rapid growth, supported by large infrastructure projects and private real estate development. Manufacturing and other industrial sectors

expanded steadily, driven by moderate interest rates and investment-friendly policies.

These patterns shifted sharply during the crisis. Private sector credit contracted significantly from 2022 onward. Construction lending declined steeply amid rising costs, import restrictions, and project suspensions. Manufacturing faced working capital constraints due to foreign exchange shortages and higher input costs. Tourism businesses, still recovering from pandemic related disruptions, experienced increased defaults, prompting banks to tighten lending standards. Agriculture remained resilient thanks to government-backed lending programs, though policy shifts, such as fertilizer restrictions, affected output and financing needs. Rising yields, higher policy rates, foreign exchange pressures, and provisions for nonperforming loans made government paper a safer and more attractive alternative. This behavior reinforced the crowding-out effect, limiting credit availability for private sector investment.

Monthly Private credit mix – 2025 (May – October)



Source: Monthly CBSL Monetary Survey, Author's calculations

From 2023 onwards, these trends reversed markedly. Credit growth strengthened significantly, particularly in 2025. Monthly private sector credit expansion increased from approximately LKR 144 billion in May to around LKR 245 billion by October, representing a nearly 70 percent acceleration over a six-month period. This expansion was led primarily by the industrial and construction sectors, with close to half of the additional credit channeled toward housing reconstruction and refurbishment, indicating renewed confidence in productive and asset-backed investment. Credit to the services sector remained broadly stable at LKR 50–70 billion, while seeing a substantial increase in months of June and October mainly driven by financial and business services. Furthermore, agriculture recorded a modest increase from LKR 20 billion to LKR 30 billion. Overall, post-crisis credit growth has been driven by construction and industry, underscoring the emergence of a broader economic recovery.

A key factor enabling this recovery is the crowding-in effect. Strong fiscal performance, revenue improvements, and Treasury surpluses have reduced government borrowing from domestic markets. In 2025, the Treasury repaid nearly LKR 900 billion in Treasury bills, injecting liquidity back into banks. Lower competition from government borrowing, combined with stabilizing interest rates, has allowed banks to reallocate portfolios toward private lending, supporting investment, working capital financing, and consumption. These sectoral trends reflect structural improvements in credit allocation, restoring the private sector's leading role in driving economic growth.

These shifts not only highlight the resilience of Sri Lanka's banking system but also underscore the importance of fiscal and monetary stability in shaping sectoral credit flows.

4. Conclusion and Remarks

Sri Lanka's domestic credit market has transformed from the constraints of the 2022 crisis to a period of robust private sector expansion. The shift from a crowding-out dynamic, where government borrows limited private finance, to a crowding-in effect, enabled by fiscal consolidation and reduced borrowing, has been significant. Treasury surpluses and the repayment of nearly LKR 900 billion in Treasury bills in 2025 created liquidity space, allowing banks to redirect funds to productive private sector lending.

Sectoral analysis shows that credit growth has been led primarily by the industrial sector, particularly construction and housing refurbishment, signaling renewed confidence and genuine economic recovery. The reallocation of bank portfolios from government securities to private lending represents a structural improvement in financial intermediation, supported by stabilizing and declining interest rates that improve credit conditions across sectors.

Sri Lanka's experience demonstrates that sound macroeconomic and fiscal management provides the foundation for private sector-led credit growth, efficient portfolio allocation, and long-term economic recovery. For bankers, the lessons are clear: a stable fiscal and monetary environment create opportunities to expand lending to productive sectors, support investment, and foster broad-based economic growth.

Resolution Planning: An essential factor to navigate complexity in Building a Resilient Banking System for Sri Lanka's Future

Bhanu Wijayaratne

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Preamble

The Banking (Special Provisions) Act No. 17 of 2023 marks a transformative milestone in Sri Lanka's financial sector, establishing a comprehensive resolution framework that aligns with international best practices and positions the country as a regional leader in financial stability. This article explores the fundamental concepts of resolution planning, distinguishing between recovery and resolution, and examines the structured process through which the Central Bank of Sri Lanka manages bank distress. Drawing on global standards established by the Financial Stability Board and lessons learned from the 2008 financial crisis, Sri Lanka's framework incorporates key attributes of effective resolution regimes including clear resolution authority mandates, comprehensive planning requirements, taxpayer protection mechanisms, and cross-border cooperation protocols. The article details the legal architecture underpinning the resolution framework, the six-stage resolution process, and the critical data requirements outlined in BSPA Directions No. 1 of 2024. By examining Sri Lanka's position within the South Asian context and its alignment with evolving international standards, this article demonstrates how resolution planning serves as both a regulatory obligation and a strategic opportunity for licensed banks to strengthen risk management, enhance governance, and build institutional resilience that protects depositors, maintains financial stability, and safeguards public funds while supporting sustainable economic development.

Source: https://www.worldbank.org/

1. Introduction: Learning from Global Lessons

The global financial crisis of 2008 taught the world a harsh lesson: without proper frameworks to manage bank failures, entire financial systems can collapse, taxpayers bear enormous costs, and economic devastation follows. The collapse of major institutions like Lehman Brothers demonstrated that interconnected financial systems require robust mechanisms to manage institutional failures without triggering systemic crises.

Sri Lanka too has learned from these experiences. With the Banking (Special Provisions) Act No. 17 of 2023, the country has established a comprehensive resolution framework that aligns with international best practices and positions our banking sector for greater resilience.

1.1 Financial Stability Board's Key Attributes

Sri Lanka's resolution framework is built upon the Key Attributes of Effective Resolution Regimes for Financial Institutions, developed by the Financial Stability Board (FSB) following the global financial crisis. These internationally recognized principles emphasize:

- Clear Resolution Authority Mandates: Designation of authorities with explicit powers and responsibilities for managing failing institutions. In Sri Lanka, the Central Bank serves as the sole resolution authority, with the Director of the Deposit Insurance and Resolution Department empowered to exercise these functions on behalf of the CBSL.
- Comprehensive Resolution Planning: Requirements for systemically important institutions to develop detailed resolution plans that can be executed swiftly during crises. Sri Lanka's framework mandates comprehensive planning for Domestic Systemically Important Banks (D-SIBs) while allowing simplified approaches for smaller institutions.
- Loss Allocation Mechanisms: Frameworks that ensure losses are absorbed by shareholders and creditors rather than taxpayers, protecting public funds while maintaining financial stability. The BSPA incorporates clear hierarchies for loss allocation that prioritize private sector absorption of losses.
- Cross-Border Cooperation: Protocols for coordination among resolution authorities are important when institutions operate internationally, ensuring consistent approaches and minimizing disruption to global financial markets. Sri Lanka's framework includes provisions for cooperation with foreign authorities managing institutions with cross-border operations.
- Regular Testing and Updating: Requirements for continuous refinement of resolution plans through simulations, stress testing, and updates reflecting changes in institutional structure or market conditions. Sri Lankan banks must update recovery plans annually and whenever material changes occur.

1.2. Basel Committee on Banking Supervision Guidelines

The Basel Committee's principles on effective resolution regimes complement the FSB's Key Attributes, emphasizing:

- Early intervention powers that enable regulators to act before institutions reach the point of non-viability.
- Adequate funding arrangements include deposit insurance schemes that can support resolution activities.
- Preservation of critical functions ensuring essential banking services continue during resolution.
- Information sharing protocols facilitating coordination among domestic and international supervisory authorities.

1.3. The Evolution of Resolution Frameworks:

Resolution frameworks worldwide continue to evolve as lessons are learnt from implementation experiences and as financial systems become increasingly complex and interconnected.

- **First Generation: Post-Crisis Foundation (2010-2015)**

The initial wave of resolution frameworks following the 2008 crisis focused on establishing basic legal frameworks, designating resolution authorities, and developing preliminary planning requirements. These frameworks emphasized preventing taxpayer-funded bailouts and establishing "bail-in" mechanisms where creditors absorb losses.

- **Second Generation: Operational Refinement (2016-2020)**

As frameworks matured, attention shifted to operational implementation including development of detailed resolution playbooks, establishment of resolution funding mechanisms, creation of information systems supporting rapid decision-making, and conduct of resolution simulation exercises testing preparedness.

- **Third Generation: Digital and Cross-Border Complexity (2021-Present)**

Current evolution focuses on challenges posed by digital banking, fintech integration, cryptocurrency exposures, cyber risks, climate-related financial risks, and increasingly complex cross-border operations. Sri Lanka's framework, enacted in 2023, incorporates lessons from these evolutionary stages, positioning the country to address contemporary challenges while maintaining foundational principles.

Regional Context: Sri Lanka's Leadership in South Asia

Sri Lanka's BSPA incorporates these principles through its structured approach to early intervention, the establishment of the Sri Lanka Deposit Insurance Scheme, and explicit requirements for preserving critical functions during resolution. Within South Asia, Sri Lanka's resolution framework stands out as among the most comprehensive and advanced, positioning the country ahead of regional peers in several key dimensions:

- Legislative Comprehensiveness: While neighboring countries have various elements of bank resolution frameworks, few have enacted legislation as comprehensive as the Banking (Special Provisions) Act, which addresses resolution authority, resolution tools, deposit insurance, crisis management coordination, and winding-up procedures in a single integrated framework.

- Alignment with International Standards: Sri Lanka's framework demonstrates closer alignment with FSB Key Attributes than most regional counterparts, incorporating explicit provisions for resolution planning, multiple resolution tools, and structured approaches to loss allocation.

- Deposit Insurance Integration: The integration of deposit insurance with resolution authority within a single legal framework represents best practice implementation that enhances coordination and effectiveness during crisis management.

- Systematic Approach to D-SIBs: Sri Lanka's explicit focus on Domestically Systemically Important Banks reflects understanding of systemic risk dynamics and ensures that institutions posing greatest risk to financial stability receive appropriate attention in resolution planning.

- This regional leadership position enhances several strategic advantages for Sri Lankan banks:

- Enhanced International Confidence: Foreign investors and correspondent bank's view robust resolution frameworks as indicators of financial system maturity and stability, potentially improving access to international funding and partnerships.

- Competitive Positioning: Banks operating under comprehensive resolution frameworks may enjoy reputational advantages when competing for regional business or establishing cross-border operations.

- Knowledge Leadership: Sri Lankan institutions can share experiences and best practices with regional counterparts, establishing thought leadership in financial stability matters.

1.4 The Banking (Special Provisions) Act No. 17 of 2023

The Banking (Special Provisions) Act, certified on September 14, 2023, and effective from November 15, 2023, provides a comprehensive legal framework spanning five major areas:

Part	Sections	Description
Part I: Resolution Authority	3-17	Establishes Central Bank of Sri Lanka as sole resolution authority; Governing Board empowers Director of Deposit Insurance and Resolution Department for accountability.
Part II: Resolution Measures	18 -38	Details tools like appointing administrators, bridge banks, mergers.
Part III: Sri Lanka Deposit Insurance Scheme	39-57	Establishes deposit insurance to protect depositors and fund resolutions.
Part IV: Financial Sector Crisis Management Committee	58-64	Creates coordination for systemic crises across institutions/sectors.
Part V: Winding Up of Licensed Banks	65-98	Procedures for orderly liquidation when resolution not feasible

This legal authority is anchored in the Central Banking Act No. 16 of 2023, with Section 62(1) explicitly stating that the Central Bank shall be the authority responsible for the resolution of financial institutions.

1.5 Banking (Special Provisions) Act Directions No. 1 of 2024 Data Templates for Resolution Planning for Licensed Banks

Building upon the foundational Act, BSPA Directions No. 1 of 2024 establishes detailed requirements for licensed banks to submit comprehensive data templates that form the backbone of effective resolution planning. The Directions require submission of resolution planning information on specific timelines: annually as of December 31 each year with submission by March 31 of the following year, on request from the Central Bank at any time, or immediately after material changes in organizational structure, legal structure, business activities, or financial condition.

This encompasses ten comprehensive data categories, including audited financial statements (past 3 years), annual reports, capital adequacy ratios, and debt obligations; identification of critical functions, significant assets/liabilities, shared services, and business continuity plans; detailed breakdowns of deposits, senior/subordinated debt, covered bonds, and other borrowings; off-balance sheet exposures like commitments, guarantees, derivatives, and contingent liabilities; hedging operations for interest rate, FX, and market risks with IFRS 9 documentation and effectiveness testing; key contractual relationships, termination impacts, and third-party dependencies; infrastructure details on payment systems, IT agreements, and continuity arrangements; interconnectedness via affiliates, group capital/liquidity mechanisms, cross-guarantees, and intra-group services; liquidity sources such as central bank collateral, marketable securities, and credit lines; and comprehensive recovery plans with early warning indicators, triggers across risk dimensions, and mapped recovery strategies.

1.5.1 Extension to Non-Bank Financial Institutions

Through an Order issued on April 16, 2025, the Central Bank extended resolution provisions to non-bank financial institutions, creating a comprehensive safety net across the entire financial sector. This extension reflects recognition that systemic risks can originate from institutions beyond traditional banks and ensures consistent approaches to managing distress across the financial landscape.

1.5.2 Future Directions

Looking ahead, resolution frameworks are likely to evolve further in response to emerging challenges including the integration of artificial intelligence and machine learning in banking operations, the growth of decentralized finance and digital assets, increased attention to climate-related systemic risks, and the evolution of cyber threats and digital resilience requirements.

Sri Lankan banks should monitor international developments and be prepared to adapt as appropriate to address these emerging challenges. In the financial sector, risks are inherent and unavoidable. The question is not whether banks will ever face severe challenges, but whether we have the tools to manage those challenges effectively when they occur. Resolution planning answers this question by providing a structured approach to managing bank distress in ways that protect depositors, maintain financial stability, and safeguard public funds.

For licensed banks in Sri Lanka, understanding and actively participating in resolution planning is no longer optional it is a fundamental responsibility that contributes to the stability of our entire financial system.

1.6 Recovery vs. Resolution: Two Lines of Defense

Before exploring resolution planning, it is essential to distinguish between two complementary concepts:

Recovery Planning represents the first line of defense. It is a bank's own strategic playbook for navigating severe financial stress through internal actions. Recovery plans outline specific steps management will take to restore stability, strengthen capital positions, improve liquidity, and return to normal operations. The plan is owned and executed by the bank itself, with regulatory oversight. It answers the question: "How can we save ourselves?"

Resolution Planning comes into play when recovery is no longer viable. It is the Central Bank's comprehensive strategy for managing a failing institution in ways that protect the financial system, depositors, and public funds. Resolution planning is owned and executed by the Central Bank as the resolution authority. It answers a different question: "If this bank fails, how do we manage that failure to minimize harm?"

These frameworks are complementary, not competing. Strong recovery planning may prevent the need for resolution, but effective resolution planning ensures that if recovery fails, the financial system remains protected.

1.6.1 The Resolution Process: A Structured Approach

Resolution follows a carefully orchestrated process based on the best international practices:

Stage 1: Preparation and Early Intervention

Long before any crisis emerges licensed banks must prepare and regularly update recovery plans that outline responses to various stress scenarios. These plans must identify early warning indicators, establish recovery triggers across different risk dimensions (capital, liquidity, profitability, asset quality), and map specific recovery strategies to each trigger.

Simultaneously, the Central Bank develops preliminary resolution plans for each institution. For Domestic Systemically Important Banks, detailed resolution plans account for the institution's size, interconnectedness, lack of substitutability of services, and complexity. For non-systemic institutions, simplified plans may be prepared progressively. These living documents are regularly tested through simulations and updated based on changing circumstances, ensuring that when a crisis emerges, both the bank and the regulator have clear, pre-approved playbooks ready for immediate deployment.

Stage 2: Assessment and Diagnosis

When warning signs emerge, that is deteriorating capital ratios, liquidity pressures, mounting losses, compliance failures etc. the supervisory departments at the Central Bank intensify monitoring. If conditions suggest a bank may be approaching non-viability, the supervisory authority formally notifies the Deposit Insurance and Resolution Department.

- This triggers comprehensive assessment examining:
- The bank's current financial condition and trajectory
- The effectiveness of management's remedial actions
- The likelihood of successful recovery through the bank's own efforts
- The potential systemic impact if the bank fails.
- Available resolution options and their relative effectiveness

This assessment phase is critical because it determines whether the bank can still recover independently or whether resolution intervention is necessary to protect the broader financial system.

Stage 3: Decision to Resolve

The Central Bank may decide to resolve a licensed bank when satisfied that the institution is, or is likely to be, no longer viable with no reasonable prospect of becoming viable. A bank is deemed non-viable under circumstances including:

- Regulatory Non-Compliance: Failure to comply with Banking Act provisions, regulations, directions, or orders in a manner that would compel license cancellation, including failures to maintain required capital adequacy ratios or liquidity coverage ratios.
- Actual or Imminent Insolvency: Assessment that the bank's liabilities exceed its assets, or that asset quality deterioration will lead to insolvency.
- Inability to Meet Obligations: Inability to honor withdrawal requests, settle payment obligations, or meet debt service requirements.
- Anticipated Payment Failure: Forward-looking assessment that the bank is likely to be unable to meet obligations as they fall due, enabling pre-emptive action before a crisis fully materializes.

The Governing Board makes the final decision based on the Director of Deposit Insurance and Recovery Department's recommendation, ensuring appropriate checks and balances while enabling swift action when necessary.

Stage 4: Resolution Planning

Once the decision is made, the Central Bank develops a detailed resolution plan tailored to the bank's circumstances and available tools. This concrete action plan considers:

- The most effective resolution strategy is to achieve resolution objectives.
- Appropriate sequencing and timing of resolution actions
- Valuation of assets and liabilities to inform loss allocation
- Identification and preservation of critical functions
- Communication strategy for stakeholders
- Coordination requirements with other authorities and potential investors

Stage 5: Implementation

The Central Bank implements specific resolution tools appointing administrators, transferring assets and liabilities, facilitating mergers, establishing bridge banks, or employing combinations of tools while maintaining close coordination with the institution's board, key management personnel, employees, depositors, creditors, potential investors, and other stakeholders.

Stage 6: Communication and Coordination

Effective resolution requires clear, timely communication with supervisory authorities and regulators, the Deposit Insurance Scheme, the Ministry of Finance, shareholders, creditors, depositors, the public and media, other licensed banks, and potential investors, administrators, valuers, auditors, and arrangers who may play roles in the resolution.

1.6.2 Data Templates: The Foundation of Effective Planning

The comprehensive data templates required under BSPA Directions No. 1 of 2024 serve multiple critical purposes:

- Providing the foundation for effective resolution planning by giving the Central Bank comprehensive information about each institution
- Enabling identification of critical functions that must be preserved during resolution.
- Revealing interdependencies that could complicate resolution or spread contagion.
- Facilitating assessment of potential resolution strategies and their feasibility
- Helping identify impediments to resolutions that should be addressed preemptively.

For banks, maintaining these templates offers significant internal benefits:
- Enhanced understanding of organizational complexity and interconnections
- Improved risk management through comprehensive mapping of exposures and dependencies
- Better preparedness for stress scenarios
- Demonstration of strong governance and risk management to stakeholders
- Alignment with international best practices

1.6.3 The Path Forward: Building Enhanced Resilience

The implementation of the Banking (Special Provisions) Act marks the beginning, not the end, of a journey toward a more resilient financial system. Several priorities lie ahead:

For the Industry

- Embedding recovery and resolution planning into routine risk management practices
- Developing internal expertise in resolution planning concepts and requirements
- Sharing best practices and learning from each other's experiences
- Engaging constructively with regulators to refine the framework based on practical experience.

For Individual Banks

- Ensuring recovery plans are realistic, executable, and regularly tested.
- Maintaining high-quality data systems that support resolution planning.
- Addressing structural issues that could impede effective resolution.
- Investing in governance and risk management capabilities
- Fostering cultures that value resilience and prudent risk management

For Regulators and the Resolution Authority

- Continuing to refine resolution plans based on evolving best practices.
- Conducting simulation exercises to test resolution preparedness
- Building operational capacity for rapid resolution implementation
- Maintaining coordination with other domestic and international authorities

1.6.4 Conclusion: A Shared Responsibility for a Resilient Future

Resolution planning under the Banking (Special Provisions) Act represents a fundamental shift in how Sri Lanka's financial system prepares for and manages bank distress. Rather than hoping failures will not occur, the framework recognizes that in a dynamic financial system, some institutions will face severe challenges. The question is not whether banks will ever fail, but whether we have the tools and preparedness to manage those failures effectively when they occur.

For licensed banks, resolution planning is both a regulatory obligation and a strategic opportunity. The obligation is clear that is to prepare comprehensive recovery plans, submit required data, and cooperate with the resolution authority. The opportunity is equally significant, that is to use the discipline of resolution planning to strengthen risk management, enhance governance, and build resilience that serves well in both

good times and bad.

The success of Sri Lanka's resolution framework depends on active participation and genuine commitment from licensed banks. Recovery plans that gather dust on shelves, data templates submitted merely to check compliance boxes, and superficial engagement with regulators will not produce the resilience our financial system needs. Instead the banks that embrace resolution planning as integral to risk management, that invest in the systems and processes needed to support effective planning, and that engage constructively with the resolution authority will not only meet regulatory expectations that will build stronger, but more resilient institutions which are better equipped to serve their customers, shareholders, and the broader economy.

As the banking sector continues its vital role in supporting Sri Lanka's economic development, the resolution framework provides a safety net that protects the system without stifling prudent risk-taking and innovation. By working together with banks, regulators, and stakeholders Sri Lanka can build a financial system that is both dynamic and resilient, capable of supporting growth while protecting against systemic risk.

The journey toward full implementation of the resolution framework will take time and effort. There will be challenges and learning experiences along the way and the adaptability of the banking system that can weather storms, manage failures without systemic disruption, and maintain public confidence even in difficult times is worth the investment. Every licensed bank has a role to play in this journey, and every contribution to resolution preparedness strengthens not just individual institutions but the entire financial system upon which our economy depends, thus is an essential requirement for the banking industry to navigate complexity in accelerating the achievement of the desired goals whilst ensuring safety and soundness of banks which in turn would facilitate a sound financial system needed by the country.

Reference

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From Cradle to Legacy: Designing Banking Journeys for Life Transitions, Not Products

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1. Introduction

Banking has historically been product driven. Institutions have measured success by the number of accounts opened, credit cards issued, or loans disbursed, treating each product as a discrete solution to an immediate financial need. This approach assumes that customers' financial lives are static and predictable - a model that worked well when income patterns were uniform and life stages followed conventional trajectories.

Yet the reality today is far more complex. Human financial lives are continuous, interconnected, and shaped by milestones - from receiving a first paycheck, buying a home, and funding education, to starting a business, planning for retirement, and leaving a legacy. Each stage interacts with others: early savings influence entrepreneurial capacity, business success affects retirement planning, and even personal milestones like marriage or parenthood can reshape financial priorities. (Gargano & Rossi, 2022)(Source: Google Gemini)

The challenge for modern banks is clear: how can financial institutions move beyond selling isolated products and instead design banking experiences that accompany clients through their life journeys? The question is no longer about transaction volumes; it is about relationship depth, foresight, and the ability to anticipate evolving needs across decades. (Gargano & Rossi, 2022)

In a global context, this challenge is amplified. A young professional in Toronto may juggle student debt, side gigs, and first-time investing, while a mid-career entrepreneur in Colombo navigates cash flow, credit for expansion, and legacy planning. Banks that fail to recognize these nuanced, evolving needs risk losing relevance, engagement, and loyalty in an era where fintech companies and digital platforms are adept at offering personalized, agile solutions.

Designing financial journeys - rather than pushing products - requires a paradigm shift: integrating technology, predictive analytics, human advisory, and behavioral insights to create experiences that grow with the client. This is the essence of moving from transactional banking to life-stage banking, where institutions become trusted partners from cradle to legacy.

2. The Case for Life-Stage Banking

Research show that increasing customer retention by mere 5% can increase profits more than 25% and it can reach an unthinkable increase as high as 95%. (Visbanking, 2025)

Clients rarely perceive financial products in isolation. Financial decisions are embedded in life circumstances, aspirations, and milestones, rather than in discrete product categories. A young professional in Toronto receiving their first salary does not think, "I need a chequing account;" they ask, "How can I manage my money, repay student debt, and start saving for future goals?" Similarly, a mid-career entrepreneur in Colombo may not simply require a business loan but seeks guidance on cash flow management, risk mitigation, tax planning, and investment strategy. (Gargano & Rossi, 2022)

(Visbanking, 2025)

By shifting the focus from products to life transitions, banks can anticipate client needs, intervene at the right moments, and deliver solutions that are both timely and highly relevant. For instance:

- Early-Career Interventions: Offering financial literacy programs, budgeting tools, and micro-investment options to first-time earners can set strong habits and create early loyalty.
- Mid-Life Support: Proactively guiding clients through mortgages, business expansion loans, insurance planning, and wealth accumulation strengthens the client-bank relationship when financial stakes are high.
- Later-Life Planning: Retirement planning, estate advisory, and succession strategies ensure that clients remain connected to the bank long after their peak earning years.

This table contrasts the legacy acquisition-focused model with the modern CLV-centric approach.

Metric Focus	Traditional Metric (Acquisition-Focused)	Modern Metric (CLV-Focused)	Strategic Implication for Banks
Growth	New Accounts Opened	Customer Lifetime Value (CLV)	Prioritizes long-term relationship profitability over short-term volume.
Customer Health	Account Balance	Customer Satisfaction (CSAT) & Net Promoter Score (NPS)	Measures loyalty and advocacy, which are leading indicators of retention.
Efficiency	Cost Per Acquisition (CPA)	Retention Rate & Churn Rate	Shifts focus from the cost of acquiring a customer to the value of keeping one.
Engagement	Number of Transactions	Products Per Customer & Cross-Sell Ratio	Focuses on deepening relationships and increasing share-of-wallet.
Profitability	Product-Level Profit	Customer Profitability Segments	Allows for targeted investment in high-value customer relationships.

Global experience highlights the effectiveness of this approach. In North America, many banks now implement lifecycle planning dashboards that track milestones such as first home

purchases or family expansion, triggering proactive advisory touchpoints. In Asia, leading banks integrate digital platforms with human advisors to provide holistic support, from managing education funds to planning wealth transfer. Even European neo-banks, while digitally native, map goal-based savings to life events - weddings, career sabbaticals, or children's education - demonstrating that anticipatory, context-aware financial guidance enhances client trust and engagement.

Life-stage banking transforms the client relationship from transactional to consultative. Instead of waiting for customers to ask for products, banks can meet clients where they are in life, creating experiences that resonate emotionally and financially, building long-term loyalty and deeper engagement across generations. (Gargano & Rossi, 2022)

3. Mapping the Journey: Global Approaches

Life-stage banking is not a theoretical concept - leading financial institutions across the world are actively designing products and advisory services around human milestones. The approach differs regionally, reflecting cultural norms, regulatory environments, and technology adoption, yet the underlying principle is consistent: anticipate client needs at each life stage and provide relevant guidance. (Gargano & Rossi, 2022)

3.1 North America

In Canada and the U.S., banks increasingly provide lifecycle financial planning tools that track key milestones such as first home purchases, marriage, the birth of a child, or retirement planning. These platforms trigger proactive advisory nudges, ensuring clients receive timely guidance instead of reactive offers.
For example, a young professional opening their first mortgage may receive tailored advice on:

- Savings strategies to build an emergency fund.
- Tax optimization related to homeownership
- Insurance coverage to protect assets and dependents.

Such interventions transform a single transactional interaction into a holistic financial experience, reinforcing trust and creating long-term engagement. Leading banks also integrate mobile and online dashboards, enabling clients to monitor milestones, visualize goals, and access advisory support seamlessly, combining convenience with strategic planning. (Gargano & Rossi, 2022)

3.2 Europe

European neo-banks, including N26 and Monzo, emphasize goal-based savings and automated guidance. Clients can set financial goals tied to life events — for weddings, career sabbaticals, travel, or children's education - and receive real-time insights and alerts to guide spending and saving behavior.
This approach blends behavioral science with digital technology: small nudges, progress tracking, and gamified savings experiences encourage disciplined financial habits without being intrusive. The result is an environment where clients feel supported, informed, and confident in managing life-stage financial challenges, even in a fully digital interface. (Gargano & Rossi, 2022)

3.3 Asia

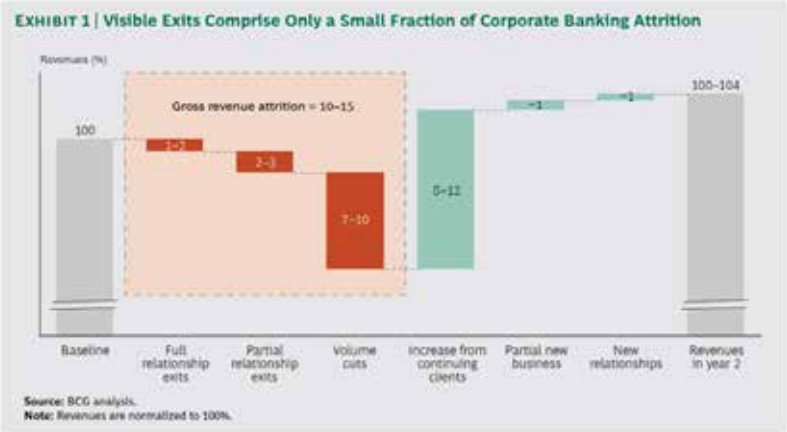
In Singapore, Hong Kong, and Southeast Asia, banks often combine digital platforms with human advisory to deliver comprehensive, life-stage-oriented services. Clients can access tools and advisors for:

- Education funds planning for children.
- Retirement savings and pension strategies
- Integrated insurance solutions
- Wealth transfer and estate planning

This hybrid model ensures that clients benefit from technology-driven efficiency while retaining access to personalized human insight, critical in cultures where trust and long-term relationships are highly valued. By mapping advisory services to life events, these banks move beyond transactional banking and establish themselves as partners throughout clients' financial journeys, fostering loyalty and engagement across generations. (Gargano & Rossi, 2022)

4. Why Life-Stage Banking Matters

Shifting from product-focused banking to life-event-oriented strategies offers multiple strategic advantages that extend beyond immediate revenue. By centering banking experiences around human milestones, institutions can anticipate client needs, strengthen loyalty, and differentiate themselves in an increasingly digital landscape.



4.1 Anticipating Needs

Predictive analytics and life-stage insights allow banks to proactively identify upcoming financial transitions. For example:

- A recent graduate may be approaching their first home purchase within a few years, signaling the need for mortgage planning, credit optimization, and savings strategies.
- A mid-career professional preparing for parenthood may benefit from education planning, life insurance, and flexible investment solutions.
- An entrepreneur planning business expansion may require cash-flow forecasting, tailored lending solutions, and risk management advisory.

By anticipating these transitions, banks move from reactive product selling to timely, personalized guidance, increasing relevance and client satisfaction. North American banks, for instance, integrate milestone-based triggers in their digital dashboards, prompting advisors to reach out with tailored solutions just as clients enter key life stages.

4.2 Deepening Loyalty

Clients who perceive that their bank understands their life trajectory are far more likely to consolidate financial relationships over decades. When banks proactively support life transitions - whether it's funding a first child's education in Singapore, managing property purchases in Europe, or providing retirement planning in Canada - they embed themselves in the client's financial ecosystem.

This approach transforms one-time transactions into ongoing relationships, reducing attrition and building a foundation for cross-generational engagement. In Asia, hybrid digital-human advisory models have shown that clients remain engaged longer when banks demonstrate awareness of their evolving life circumstances.

4.3 Differentiation in a Digital World

While fintech companies excel in convenience, speed, and user-friendly interfaces, they often lack continuity and deep human insight. Traditional banks can leverage life-stage banking as a differentiator: combining technology with human advisory to provide guidance that is anticipatory, empathetic, and contextually relevant. (Karthikeyan, Goyal, Khodabandeh, Dye, & Chhajer, 2017)

For example, a neo-bank may help a young professional track savings goal, but only a full-service bank can provide integrated advice across investments, insurance, mortgages, and succession planning, reinforced by human oversight at critical life moments. This combination of digital efficiency and human insight creates a competitive advantage that is difficult for purely transactional platforms to replicate.

5. Implementing Life-Stage Journeys

Designing banking experiences around life transitions requires a strategic combination of technology, human touchpoints, and behavioral insights. Simply offering products is no longer sufficient; banks must craft journeys that anticipate needs, guide decisions, and adapt over time.

5.1 Digital Platforms with Predictive Analytics

Banks can leverage data analytics and artificial intelligence to track client milestones and forecast upcoming financial needs. For instance:

- Monitoring salary deposits and spending patterns to anticipate mortgage readiness.
- Detecting life events such as marriage, childbirth, or career changes from transactional data or self-reported milestones.
- Triggering timely nudges for savings, investments, or insurance based on projected life-stage transitions.

Such predictive insights allow banks to intervene proactively, offering relevant solutions before clients actively seek them, thereby enhancing perceived value and trust. (Karthikeyan, Goyal, Khodabandeh, Dye, & Chhajer, 2017)

5.2 Humanized Advisory

Even in a digital-first world, human interaction remains critical. Virtual or in-branch advisors provide context, reassurance, and expertise during key transitions:

- First-time homebuyers benefit from step-by-step mortgage planning and risk assessment.
- Entrepreneurs can access personalized business advisory to manage growth, credit, and succession.
- Retirees receive guidance on income planning, tax optimization, and estate management.

This hybrid model - combining automated insights with personalized human support — ensures clients feel understood and cared for, reinforcing loyalty.

5.3 Behavioral Nudges and Goal-Based Tools

Behavioral design enhances client engagement by simplifying decision-making and encouraging positive habits:

- Automated savings programs that round up transactions or allocate a portion of income toward goals.
- Progress trackers for education funds, emergency savings, or retirement accounts.
- Reminders and alerts aligned with life events, such as insurance renewals or investment rebalancing.

Such nudges create a sense of financial control and confidence, particularly for clients navigating multiple life transitions simultaneously.

5.4 Flexible and Adaptive Products

Life-stage banking requires products that evolve with the client's circumstances:

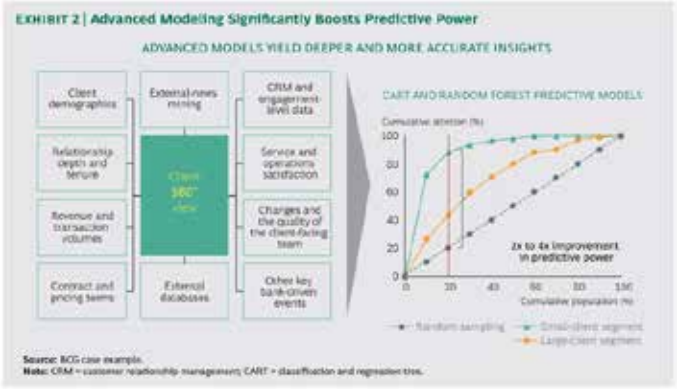
- Mortgage or loan plans that adjust temporarily during parental leave or career shifts.
- Investment portfolios that adapt to changing risk tolerance as clients age.

- Credit solutions tailored to entrepreneurs, freelancers, or clients with irregular income streams.

By offering dynamic, context-aware products, banks address real financial challenges while building trust and reducing attrition.

5.5 Cross-Generational Integration

Life-stage journeys must account for multi-generational engagement: children, dependents, and even aging parents often influence financial decisions. Banks can integrate advisory services across generations, helping clients plan for education, intergenerational wealth transfer, and retirement, thereby strengthening long-term relationships and creating lasting brand loyalty. (Karthikeyan, Goyal, Khodabandeh, Dye, & Chhajer, 2017)



6. From Cradle to Legacy

The ultimate goal of life-stage banking is continuous, empathetic engagement across a client's life journey. Financial needs, priorities, and aspirations evolve over decades, and banks that anticipate these changes - rather than reacting only when a product is requested - can position themselves as trusted lifelong partners. This approach transforms banks from transactional service providers into institutions capable of nurturing relationships across generations, fostering both loyalty and trust. (Visbanking, 2025)

6.1 Early-Life Interventions

The foundation of a lifelong banking relationship begins with early exposure to financial literacy and planning. Programs targeting students and first-job earners equip clients with essential skills such as budgeting, saving, and understanding credit. For example:

- In Canada, banks offer workshops and digital tools for post-secondary students, teaching budgeting and debt management in the context of student loans and first paychecks.
- In Singapore, youth-targeted financial education programs are paired with micro-savings accounts and goal-based digital wallets, encouraging disciplined habits from an early age.

Such initiatives not only establish early engagement but also create brand affinity that persists as clients' earning power grows.

6.2 Mid-Life Support

As clients progress into careers, family life, or entrepreneurship, their financial complexity increases. Mid-life advisory focuses on:

- Mortgages and real estate planning
- Family-related financial needs, such as education funding and insurance
- Investment planning and wealth accumulation
- Business growth strategies for entrepreneurs

By proactively guiding clients through these stages, banks can reduce stress, improve decision-making, and deepen loyalty. A small business owner in Colombo, for example, benefits from advisory that combines working capital solutions, structured lending, and investment guidance - a holistic approach far beyond simply offering a loan product. (Karthikeyan, Goyal, Khodabandeh, Dye, & Chhajer, 2017)

6.3 Late-Life Planning

Finally, late-life financial needs often involve retirement income planning, estate management, and legacy advisory. Tailored solutions help clients preserve wealth, optimize tax outcomes, and transfer assets efficiently to the next generation. Globally, leading banks integrate digital tools with human advisors to deliver personalized retirement projections, estate planning strategies, and philanthropic guidance, ensuring clients feel supported, secure, and valued even after decades of engagement. (Karthikeyan, Goyal, Khodabandeh, Dye, & Chhajer, 2017)

By structuring services from cradle to legacy, banks ensure that clients are supported at every financial milestone. This longitudinal approach transforms banking from a series of transactions into a continuous, evolving partnership, capable of nurturing trust, loyalty, and multi-generational engagement.

7. A Call to Action

In today's rapidly evolving financial landscape, technology drives convenience, and fintech platforms redefine access, speed, and personalization. Yet the human dimension - trust, guidance, and continuity - remains a differentiator that traditional banks can leverage. By aligning products with human life transitions rather than simply pushing transactional offerings, banks can reclaim relevance and establish enduring client relationships.

(Source: Google Gemini)

The focus must shift from selling isolated products to designing holistic financial journeys. This entails:

- Understanding client aspirations: Engaging with clients beyond immediate transactions to comprehend their goals, challenges, and long-term priorities.
- Anticipating needs: Leveraging predictive analytics, life-stage mapping, and behavioral insights to proactively offer advice, products, and solutions at the right moment.
- Providing consistent, empathetic support: Maintaining meaningful touchpoints through digital, hybrid, and in-person advisory, ensuring clients feel seen, understood, and guided throughout life's transitions.

When banks embrace this approach, they do more than open accounts or sell loans. They build a partnership that evolves with the client, fostering trust, deepening loyalty, and creating relationships that span decades - from first paychecks to retirement planning and legacy management.

Life-stage banking transforms the role of a financial institution from a transactional service provider into a lifelong partner, capable of shaping client outcomes, supporting aspirations, and leaving a lasting impact across generations. In a world awash with convenience and competition, this human-centered strategy is not just valuable - it is essential for sustainable growth, resilience, and relevance.

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Regional Collaboration for Sustainable Finance in Sri Lanka: Navigating Climate Risk While Accelerating Green Investment

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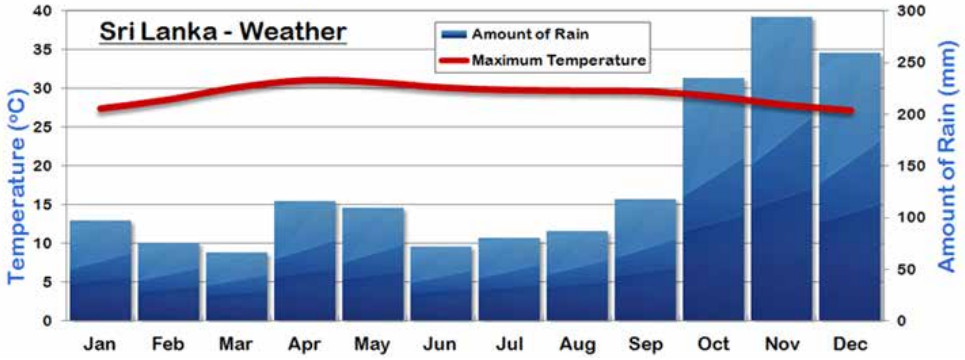
Introduction

Sri Lanka stands at a critical juncture where climate vulnerability, regional economic disparity, and the evolving role of finance intersect. As a small island developing state, the country is disproportionately exposed to climate-related shocks despite contributing minimally to global greenhouse gas emissions. Rising temperatures, irregular rainfall patterns, frequent floods, prolonged droughts, coastal erosion, and ecosystem deterioration are no longer distant risks but present-day realities that increasingly shape economic outcomes across regions (Ministry of Environment Sri Lanka, 2023). These climate pressures are not evenly distributed; rather, they manifest differently across provinces, affecting livelihoods, infrastructure, and productivity in highly localized ways, particularly in agriculture-dependent, coastal, and flood-prone regions (Asian Development Bank, 2020)

Sri Lanka Weather



Source: Weather-Guide.com

Within this context, the financial system has emerged as a central actor in shaping Sri Lanka's response to climate risk and sustainable development. Sustainable finance compassing green finance, climate finance, and socially responsible investment, provides a critical mechanism for channeling capital toward climate resilience and low-carbon growth (World Bank, 2020; IFC, 2021). However, the effectiveness of sustainable finance depends on the extent to which financial institutions can navigate regional climate complexity, generate measurable economic and environmental impact, and foster coordinated, regionally integrated investment approaches that align national sustainability objectives with local development needs.

Sustainable Finance - Key Priority areas

Source: Central Bank of Sri Lanka

This article examines how regional collaboration can strengthen Sri Lanka's sustainable finance ecosystem, enabling the country to better manage climate risk while unlocking green investment opportunities. It addresses three interconnected dimensions: First, it explores how regional climate risks shape financial decision-making, requiring more granular and adaptive approaches to risk assessment. Second, it analyses how sustainable finance can accelerate development by directing capital toward region-specific green investments with measurable outcomes. Third, it highlights the importance of regional synergy, emphasizing inter-provincial collaboration as a pathway to building resilient, climate-aligned financial ecosystems that support inclusive growth.

Navigating Complexity: How Regional Climate Risks Shape Sri Lanka's Sustainable Finance

Navigating complexity in Sri Lanka's sustainable finance landscape requires a clear recognition that climate risk is unevenly distributed across the island. Provinces differ markedly in their environmental exposure, economic structures, and social vulnerabilities. As a result, uniform approaches to climate risk assessment and green financing are insufficient and often misaligned with regional realities.

In the Western, Central and North central provinces, recurring floods linked to intense rainfall events and inadequate urban drainage systems continue to disrupt economic activity, damage property, and place sustained pressure on municipal infrastructure. Financial institutions operating in these regions face elevated credit risk arising from business interruptions, asset impairment, and rising insurance claims, particularly among small and medium-sized enterprises concentrated in urban centers. Meanwhile, the Northern and Eastern Provinces experience sustained exposure to drought and water stress, even as recent years have seen occasional cyclone-related disruptions. This combination of climate risks adversely affects agricultural productivity, food security, and household incomes across agrarian communities. In coastal districts across multiple provinces, sea-level rise and coastal erosion increasingly endanger fisheries, tourism assets, and coastal settlements, creating long-term structural risks for local economies (IPCC, 2023; ADB, 2020).

These region-specific climate pressures directly influence the risk profile of borrowers and investment projects. Traditional financial risk models, which rely heavily on historical data and standardized assumptions, often fail to capture the forward-looking and non-linear nature of climate risk (Network for Greening the Financial System, 2021). As a result, banks and financial institutions must increasingly integrate climate considerations into credit appraisal, portfolio management, and capital allocation decisions, with a stronger emphasis on regional differentiation and climate-adjusted risk pricing (Basel Committee on Banking Supervision, 2022; Central Bank of Sri Lanka, 2022).

From a sustainable finance perspective, this complexity calls for a transition toward geographically informed climate risk frameworks. Financial institutions must move beyond broad sector-level assessments and develop province or district specific climate risk insights that capture local exposure, sensitivity, and adaptive capacity (World Bank, 2020). For instance, agricultural lending in drought affected regions requires risk mitigation approaches that differ fundamentally from those applied in flood affect areas. These may include adjusting loan tenors, embedding climate-resilience criteria within project appraisal processes, or linking financing to the adoption of adaptive technologies such as drip irrigation, water-efficient farming systems, and flood resistant infrastructure.

Regulators and policymakers play a critical role in supporting this transition. By promoting climate-related financial disclosures, encouraging scenario analysis and stress testing, and facilitating access to granular, region-specific climate data across the financial sector, they help embed climate risk considerations into financial decision-making. Over time, these measures strengthen the resilience of financial institutions while ensuring that capital continues to flow toward productive economic activities, including in climate-vulnerable and high-risk regions.

Ultimately, navigating complexity in Sri Lanka's sustainable finance agenda is about recognizing climate risk not as a constraint, but as a strategic input. When regional vulnerabilities are properly understood, measured, and priced, they create opportunities for targeted green investment that strengthens economic resilience while supporting inclusive and sustainable development across provinces (World Bank, 2020; ADB, 2021).

In the Western and Southern Provinces, recurrent flooding driven by intense rainfall and inadequate urban drainage systems continues to disrupt economic activity, damage property, and place sustained pressure on municipal infrastructure. These conditions elevate credit risk for financial institutions operating in urban centers, particularly through business interruptions, asset impairment, and rising insurance claims among small and medium-sized enterprises. By contrast, the Northern and Eastern Provinces face heightened exposure to prolonged droughts and water scarcity (despite the monsoon rains), which constrain agricultural productivity, weaken food security, and suppress household incomes in agrarian communities (Ministry of Environment Sri Lanka, 2023). Across coastal districts in multiple provinces, sea-level rise and coastal erosion pose growing threats to fisheries, tourism assets, and coastal settlements, generating long-term structural risks for local economies.

These region-specific climate pressures materially shape the risk profiles of borrowers and investment projects. Conventional financial risk models, which depend largely on historical data and standardized assumptions, are often ill-equipped to capture the forward-looking and non-linear characteristics of climate risk (Network for Greening the Financial System, 2021). Consequently, banks and financial institutions must increasingly embed climate considerations into credit assessment, portfolio management, and capital allocation decisions, with greater emphasis on regional differentiation and climate-adjusted risk pricing.

From a sustainable finance perspective, this complexity necessitates a shift toward geographically informed risk frameworks. Banks need to move beyond sector-level assessments and develop province or district-level climate risk insights that reflect local exposure, sensitivity, and adaptive capacity (World Bank, 2020). For example, agricultural lending in drought-prone regions requires different risk mitigation strategies compared to lending in flood-affected zones. This may involve adjusting loan tenors, incorporating climate-resilience criteria into project evaluation, or linking financing to the adoption of adaptive technologies such as drip irrigation, water-efficient farming systems, or flood-resistant infrastructure.

Regulators and policymakers play a pivotal role in enabling this transition. Through the promotion of climate-related financial disclosures, the advancement of scenario analysis and stress testing, and improved access to granular, region-specific climate data, they support the consistent integration of climate risk across the financial sector (Network for Greening the Financial System, 2021). Over time, these measures strengthen the resilience of financial institutions while sustaining the flow of capital to productive economic activities, including in climate-vulnerable and high-risk regions.

Ultimately, navigating complexity in Sri Lanka's sustainable finance agenda involves reframing climate risk from a constraint into a strategic input. Proper understanding, measuring, and pricing regional vulnerabilities enables targeted green investments that strengthen resilience and support inclusive, sustainable development across provinces (World Bank, 2020).

Accelerating Development Through Sustainable Finance

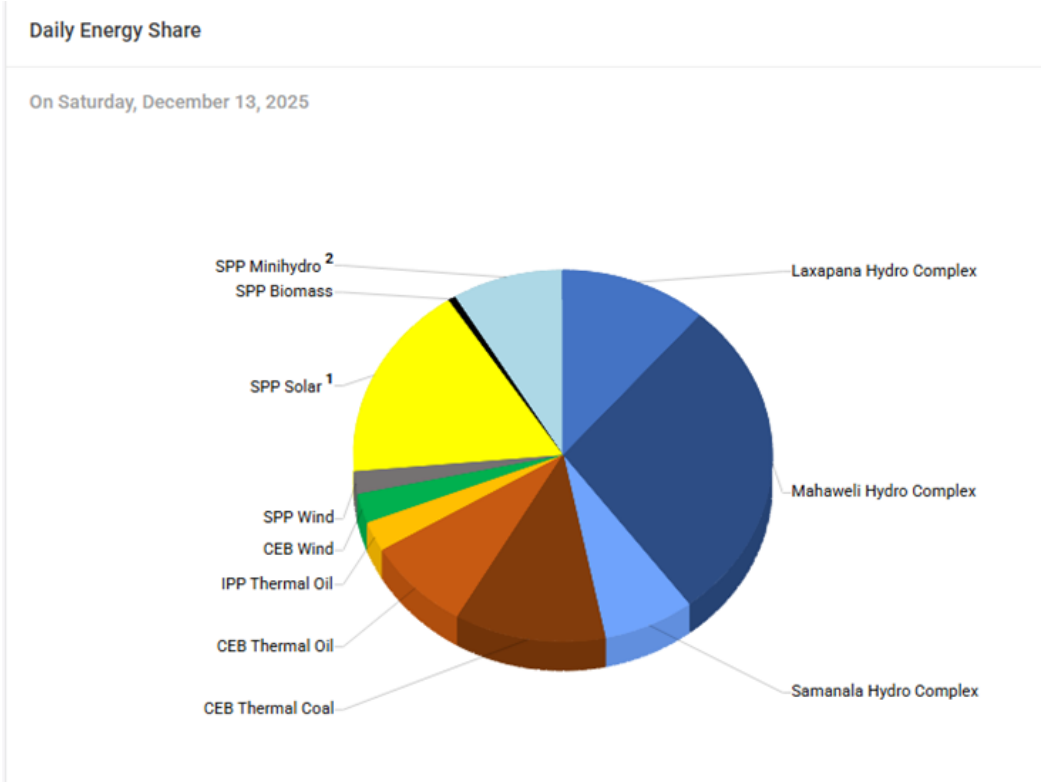
Accelerating impact within Sri Lanka's sustainable finance agenda requires converting climate awareness into tangible investment outcomes that generate both economic and environmental value. Sustainable finance achieves its greatest effectiveness when aligned with regional development priorities, directing capital toward initiatives that address local climate vulnerabilities while supporting national sustainability and energy transition objectives (Central Bank of Sri Lanka, 2022).

One of the most significant opportunities lies in the expansion of renewable energy. Sri Lanka's regions offer diverse renewable energy potential, including solar power in dry-zone provinces, wind energy in coastal and elevated areas, and small-scale hydropower in suitable inland regions (Sri Lanka Sustainable Energy Authority, 2022). Channeling green finance into decentralized renewable energy projects not only reduces reliance on fossil fuels but also enhances energy security, creates local employment, and supports regional economic diversification (IRENA, 2021). Financial institutions can play a catalytic role by offering tailored green loans, project finance structures, and risk-sharing mechanisms that improve bankability and crowd in private investment (IFC, 2021).

Sri Lanka current energy mix

Renewable Energy	**76.1%**
Hydro Power (Laxapana, Mahaweli, Samanala, Mini Hydro)	55.4%
Solar PV	17.2%
Wind Power (CEB & SPP)	4.5%
Biomass	0.6%
Thermal Power	**23.3%**
Coal	11.6%
Thermal Oil (CEB & IPP)	10.7%

Source : Ceylon Electricity Board (2024)



Source : Ceylon Electricity Board (2025)

Climate-resilient agriculture offers a high-impact opportunity within Sri Lanka's sustainable finance framework. Despite its central role in rural economies, the sector remains highly vulnerable to climate variability and water scarcity. Sustainable finance can enable the transition toward climate-smart agricultural practices, including drought-resistant crop varieties, water-efficient irrigation systems, soil conservation techniques, and enhanced post-harvest infrastructure (Ministry of Agriculture Sri Lanka, 2022). The World Bank (2020) notes that financing such interventions not only stabilizes farm incomes and reduces credit risk but also strengthens agricultural value chains. These investments produce measurable outcomes—such as improved yield stability, enhanced water-use efficiency, and reduced emissions—making them well aligned with impact-focused financing approaches.

Water management and flood mitigation represent critical investment priorities in regions increasingly exposed to rainfall variability and extreme weather events. Strategic investments in reservoirs, rainwater harvesting, drainage infrastructure, and early warning systems strengthen short-term resilience and reduce long-term economic losses from climate-related disasters. The use of concessional green finance and blended finance structures plays a key role in improving project bankability, expanding access for local authorities and communities, and accelerating regional adaptation outcomes.

In coastal regions, sustainable finance can support the transition toward a resilient blue economy. Financing mangrove restoration, sustainable fisheries, and eco-tourism initiatives help to protect critical ecosystems while sustaining livelihoods in climate-exposed coastal communities. These initiatives often generate strong social and environmental returns, making them well suited for sustainability-linked loans, blue bonds, and impact-linked financing instruments (UNEP, 2022).

At a systemic level, accelerating development through sustainable finance hinges on the credibility of impact measurement and accountability. Financial institutions must shift away from intent-based green labels and provide evidence of how financed activities generate measurable outcomes, including emissions reduction, climate adaptation, employment generation, and regional income growth (IFRS Foundation, 2023). Consistent metrics, standardized disclosures, and transparent reporting frameworks are essential for strengthening investor confidence and scaling capital flows within the sustainable finance ecosystem (OECD, 2021). By aligning green investment with regional development needs, Sri Lanka can ensure that sustainable finance is not merely a compliance exercise, but a powerful driver of inclusive, resilient, and regionally balanced economic growth (Central Bank of Sri Lanka, 2023).

Regional Synergy: Regional Integration for Sustainable Growth

Regional synergy is important for inter-provincial collaboration as a path to building resilient, and climate-aligned financial ecosystems that support inclusive growth. While tailored regional strategies are essential, the sustainability of Sri Lanka's finance agenda depends on effective regional integration. Climate risks and economic systems are deeply interconnected across provinces through supply chains, ecosystems, and financial networks. Strengthening inter-regional collaboration allows for more efficient resource mobilization, risk sharing, and the scaling of green investment initiatives.

One key area for regional synergy is the development of province-level climate-risk maps and data-sharing platforms. By coordinating data collection and analysis across regions, financial institutions and policymakers can build a more comprehensive understanding of national climate exposure. This supports better portfolio diversification, allowing banks to balance high-risk regions with lower-risk areas while maintaining credit flow across the country.

Regional collaboration plays a critical role in expanding access to green finance, particularly for smaller provinces and rural districts that face constraints related to project scale and perceived risk. By pooling projects across regions and developing integrated investment pipelines, financial institutions can leverage economies of scale and attract institutional capital through instruments such as green bonds and sustainability-linked loans. This enables more efficient capital mobilization while ensuring that green investment reaches regions that are traditionally underserved.

Defining Sustainable Bonds

Source: Central Bank of Sri Lanka.

Coastal regions, in particular, stand to gain significantly from coordinated approaches to blue-economy development. Fisheries, tourism activities, and coastal ecosystems often extend across administrative boundaries, reducing the effectiveness of isolated or fragmented interventions. Regional collaboration enables joint planning, harmonized investment frameworks, and the adoption of consistent sustainability standards, collectively enhancing the resilience and long-term viability of coastal economies.

Strengthening regional value chains represents another critical dimension of regional synergy. Climate-resilient agriculture, for instance, depends on integrated value chains that link farmers, processors, distributors, and end markets across provinces. Sustainable finance can play a catalytic role in reinforcing these linkages by supporting investments in logistics, storage, and processing infrastructure. Such financing ensures that climate adaptation efforts move beyond production-level resilience and translate into stable incomes, improved market access, and sustained livelihoods for rural communities.

From a financial stability perspective, regional synergy plays a vital role in mitigating systemic risk. By diversifying climate exposure across regions and sectors, the financial system becomes more resilient to localized climate-related shocks. This reinforces the role of sustainable finance not only as an instrument for economic development, but also as a critical mechanism for safeguarding long-term financial and macroeconomic stability.

Conclusion

Sri Lanka's progress toward sustainable finance is inseparable from its regional context. Climate risks vary significantly across the island, shaping economic outcomes and financial stability through complex channels. Addressing this reality requires financial institutions to adopt regionally differentiated risk frameworks that account for local vulnerabilities while identifying opportunities to deploy capital toward resilience-enhancing investments.

Sustainable finance presents a critical mechanism for accelerating development by channeling green investment into projects that deliver measurable economic and environmental outcomes. Alignment with regional priorities ensures that these investments strengthen livelihoods, improve resilience, and contribute to long-term growth. Equally important, regional synergy functions as the unifying framework that connects these efforts. Through inter-provincial collaboration, Sri Lanka can establish integrated, climate-aligned financial ecosystems that mobilize capital efficiently, diversify risk, and promote inclusive access to green finance. In an era of increasing climate uncertainty, regional collaboration is not optional, it is essential. By integrating regional insights into financial decision-making and fostering inter-regional cooperation, Sri Lanka can transform climate risk into an opportunity for sustainable, resilient, and inclusive growth.

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Association of Professional Bankers - Sri Lanka
Council Members 2025 - 2026

Seated From Left to Right
Mr Isuru Jayaweera- Asst. Secretary/ Ms Devika Silva- Treasurer/ Mr Rohana Kumara- Vice President/ Mr Halin Hettigoda- Immediate Past President/
Mr Anton Arumugam - President/ Mr Dilshan Perera - Senior Vice President/ Mr Tharaka Ranwala- Vice President/ Ms Ramonez Perera - Secretary General

Standing From Left to Right
Mr Kanchana Karunagama/ Mr Paduma Subasinghe/ Mr Surantha Jayathilaka/ Ms Thushari Hewawasam/ Ms Uthpala Herathrandeny/
Ms Aruni Liyanagunawardena/ Ms Champi Gunawardena/ Mr Indika Tennakoon/ Mr Asela Wijesiriwardena

Association of Professional Bankers - Sri Lanka
Advisory Committee 2025 - 2026

Standing 1st Row From Left to Right
Dr Mrs Viruli De Silva/ Mr Thimal Perera/ Mr Anton Arumugam (President)/ Mr A Kathiravelupillai/ Mr Aravinda Perera

Standing 2nd Row From Left to Right
Mr Senarath Bandara/ Mr Clive Fonseka/ Mr Damith Pallewatta/ Mr Kelum Edirisinghe

Association of Professional Bankers - Sri Lanka
Fund Management Committee 2025 - 2026

Standing Row From Left to Right
Mr Bhanu Wijeyaratne/ Mr Aruna Fernando/ Mr. Anton Arumugam (President)/ Mr Jeremy De Zilva/ Mr Dilshan Rodrigo

Past Presidents of Association of Professional Bankers

Mr. Rienzie T. Wijethilleke
1989/1990 & 1990/1991

Mr. A. Kathiravelupillai
1991/1992

Mrs. Rohini L. Nanayakkara
1992/1993

Mr. N. Patrick S. de Silva
1993/1994

Mr. A. L. Abeygunawardena
1994/1995

Mr. K. Sivagananathan
1995/1996

Mr. N. A. Dharmabandu
1995/1996 & 1996/1997

Mr. Upali De Silva
1998/1999

Dr. R. B. Ekanayake
1999/2000

Mr. R. Nadarajah
2000/2001

Mr. Sisira Herath
2001/2002

Mr. A. Sarath De Silva
2002/2003

Mr. J. D. Nihal Kekulawela
2003/2004

Mr. K. P. Nimal Dias
2004/2005

Mr. Eastman Narangoda
2005/2006

Mr. Rajendra Theagarajah
2006/2007

Mr. Lakshman Silva
2007/2008

Mr. Buwanekabahu Perera
2008/2009

Mr. Ajantha Madurapperuma
2009/2010

Mr. Dimantha Seneviratne
2010/2011

Ms. W. A. Nalani
2011/2012

Mr. H. M. Hennayake Bandara
2012/2013

Mr. Aravinda Perera
2013/2014

Mr. Piyal Hennayake
2014/2015

Mr. Deepal Abeysekera
2015/2016

Ms. Shashi Kandambi Jassim
2016/2017

Mr. K. B. Senerath Bandara
2017/2018

Mr. Asanka Ranhotty
2018/2019

Mr. C. Amaraasinghe
2019/2020

Mr. Aruna Fernando
2020/2021

Mr. K. B. Rajapakse
2021/2022

Mr. Jeremy de Zilva
2022/2023

Mr. B. A. H. S. Preena
2023/2024

Mr. Halin Hettigoda
2024/2025


NAVIGATING COMPLEXITY AND ACCELERATING IMPACT THROUGH REGIONAL SYNERGY
36TH ANNIVERSARY CONVENTION 2026 OF ASSOCIATION OF PROFESSIONAL BANKERS - SRI LANKA
The Chief Guest
Dr. P Nandalal Weerasinghe
Governor - Central Bank of Sri Lanka
Key note speaker
Shri Ajay Kumar
Executive Director, Reserve Bank of India
Inauguration
Thursday, 19th February 2026 | 6.00 p.m.
Technical Sessions
Friday,
20th February 2026
7.30 a.m. to
5.00 p.m.
Lumina Ballroom
Cinnamon Life
SESSION 1 | DRIVING RESILIENT GROWTH IN A BANI WORLD
Speaker/Panelist
Mr. Akash Lal
Senior Partner
McKinsey's
Panelist
Dr. Harshana Suriyapperuma
Secretary to the Treasury and
Secretary of the Ministry of Finance
Planning and Economic Development
Panelist
Dr. Chandranath Amarasekara
Deputy Governor
Central Bank of Sri Lanka
Panelist
Mr. Dilshan Wirasekara
Managing Director/
Chief Executive Officer
First Capital Holdings PLC
Moderator
Mr. Chayu Damsinghe
Head, Macroeconomic Advisory,
Frontier Research (Pvt) Ltd
SESSION 2 | ARCHITECTURE FOR THE FUTURE: SECURE, SCALABLE AND SMART
Speaker/Panelist
Mr. Anshuman Upadhyaya
Managing Director & Partner,
Boston Consulting Group
Panelist
Mr. Sandun Hapugoda
Country Manager
Master Card
Sri Lanka and Maldives
Panelist
Mayura Malagala
Human Capital Consulting,
Engineering, AI & Data,
and Growth Office Leader
Deloitte Sri Lanka and Maldives
Panelist
Mr. Channa de Silva
Chief Executive Officer
Lanka Pay
Moderator
Ms. Sunari Danderiya
Chief Information Security Officer
Comenercial Bank of Ceylon PLC
SESSION 3 | FUTURE-READY TALENT IN AN AGILE ERA
Speaker/Panelist
Ms. Chandi Dharmarathna
Founder and Director,
WeOptimice (Pvt) Ltd
Country Head,
Ma Foi Strategic
Consulting (Pvt) Ltd.
Panelist
Prof Dr. Georg Bouché
IU International
University
Senator H. C. of the
European Economic Senate
Honorary Consul of
The Gambia
Panelist
Mr. Mohd Adhari Belal Din
Managing Director
OMNIA Advisory Malaysia
Former Assistant
Governor of
Bank Negara Malaysia
Panelist
Mr. Ramesh Jayasekara
Director
Chief Executive Officer
Seylan Bank PLC
Panelist
Mr. Ravi Jayasekara
Chief People and
Corporate Affairs Officer
Hemas Holdings PLC
Moderator
Ms. Oshana Dias
Consultant,
Transformation,
Fortude
SESSION 4 | CLARITY IN COMPLEXITY – STEERING GROWTH
Panelist
Mr. Kavinda De Zoysa
Chairman
Bank of Ceylon
Panelist
Mr. Clive Fonseka
General Manager/
Chief Executive Officer,
Peoples Bank
Panelist
Mr. Damith Pallewatte
Managing Director
Chief Executive Officer
Hatton National Bank PLC
Panelist
Mr. Thimal Perera
Chief Executive Officer
DFCC Bank PLC
Moderator
Mr. Nisthar Cassim
Editor
Daily Financial Times
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Association of Professional Bankers - Sri Lanka

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