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THE PROFESSIONAL BANKER

ASSOCIATION OF PROFESSIONAL BANKERS
SRI LANKA

OUR VISION

The power of Professionalism in Banking in Sri Lanka

OUR MISSION

To sustain the highest standards of professionalism and Integrity among Bankers

To Advance the Public Interest

To Influence the Achievement of the Highest Ethical Standards and Governance in Banking Industry

EDITORIAL

The Banking Industry has been subject to many changes over the years. The Association of Professional Bankers – Sri Lanka, (APB) has kept the banking fraternity abreast of these changes through various modes of communication. The much awaited Anniversary Convention of APB broadly addresses the current trends and latest developments in the financial industry by identifying an appropriate and a timely theme after much deliberations and discussions. The convention is enriched with a keynote address by an eminent industry specialist followed by technical sessions and panel discussions.

The convention volume published by APB contains valuable articles written by distinguished professionals under the designated theme. The Articles so published in the past convention volumes have been of immense value to practicing bankers and other professionals, who are keen to follow the latest trends and developments in Banking and Finance.

Beside the convention volume, the quarterly Banking Journal "The Professional Banker" is yet another publication of APB, which facilitates knowledge sharing and updates the reader, not only on Banking and Finance but also on other topics of common interest for professional bankers. APB is of the view that Health and well-being of the Banking fraternity is of paramount importance thus would encourage our members to write and publish articles covering areas such as healthy living habits, managing work-life balance etc.

Keeping in line with the current global trends, and also with that of the theme of this year's convention, APB took a conscious decision to present the "Professional Banker" quarterly magazine, in form of an e-journal.

Accordingly the APB proudly presents this e-journal and strongly believes that same would facilitate better reach to our members and create a platform enabling the members to better involve themselves with the activities of APB and also to impart their knowledge by contributing articles for APB Publications.

Whilst offering this e-Journal of the Association of Professional Bankers – Sri Lanka, we wish to place on record our sincere appreciation to the writers of articles, who despite their busy schedules took time off to share their thoughts, knowledge and experience for the benefit of the Banking community. I along with the members of the Publications Committee wish to thank the President, fellow Council Members and the Advisory Council of APB for their unconditional support.

Your valuable contributions and feedback is very much solicited to improve the quality of the e-journal which we intend in publishing on a quarterly basis.

Bhanu Wijayaratne
Chairman - Publications Committee
Association of Professional Bankers – Sri Lanka

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ADDRESS BY THE PRESIDENT,
ASSOCIATION OF PROFESSIONAL BANKERS - SRI LANKA
AT THE 27TH ANNUAL GENERAL MEETING OF THE APB

Mrs. Shashi Kandambi Jassim
Senior Deputy General Manager – Sampath Bank PLC

As you know the APB has performed remarkably well, from its inception, in carrying out its declared mission which bears repetition and reminding ourselves of, every time we contemplate any new activity or plan a new publication.

Our mission requires us to sustain the highest standards of professionalism and integrity among bankers, to advance the public interest and to influence the achievement of the highest ethical standards and governance in the banking industry.

We can be proud that we belong to such a responsible and respected organization.

So first of all I do thank our members for electing me as the president of the association this year. For me, it is a great honour and privilege that my fellow professional bankers have placed such confidence in me.

I must also acknowledge the guidance and assistance I have always received from my predecessors, and other office-bearers, in carrying out the work of the association. I remember with gratitude Mr. Sisira Herath who brought me in to the APB and the Senior members of APB, Mr. Pillai & Mr. Dharmawardena who have always given their guidance and shared their wisdom of experience, and Miss. Nalini , a lady past president who held office during my association with the APB, who has been a source of great encouragement at all time. Thank you.

I can say that I have been faithful to the banking profession ever since I started working shortly after leaving school, because I never harboured aspirations outside the banking industry, or even my first and present employer ¬ Sampath Bank. This is largely due to the fact that I had some wonderful colleagues – seniors, peers and juniors and I have benefited enormously from the friendly guidance of my seniors and the loyal friendship of my fellow officers.

I like to acknowledge my first Manager – Mr.Ganga Kariawasam from whom I learnt my ABC of Banking and who set me on my career path.

I must specially mention with immense gratitude, my Managing Director – Mr. Aravinda Perera, himself a Past President of the APB & Member of the Advisory Council – who has been a guiding light and mentor in my professional life and who inspired and supported me to reach this high office.

For my part I promise that I shall endeavour to serve the association with utmost commitment and dedication, and invite all of you to extend your fullest cooperation to us in the association's activities.

The Banking industry today is facing many challenges in this fast changing world where digitalization is the 'buzz word'! Banks are compelled to race with 'non banks' to deliver innovative payment solutions to customers across an evolving environment. It has become our task for sheer survival to re¬think and re¬design the basic operating model of our industry.

We as an Association will commit ourselves to providing awareness and knowledge and even arrange our fellow bankers from developed financial markets to share their experiences with our membership.

2016, has its own significance to us as Bankers with the expected implementation of BASEL III standards. We plan to have some educational or knowledge sharing sessions in this regard as we go along this year.

It so happens that we as bankers occupy a place in society from which we can observe the consequences of economic policies and implementation measures as they occur.

As the New Year dawned there were many fears and uncertainties in the world economic environment. The imminent rate hike, oil prices, state of the economy in China and their impact on the global economy including ours. Many of these are factors which are often not in our control. When they happen all we do is try to minimize the ill effects and if possible turn them to our advantage.

Looking at our own country, one of the catalysts of economic growth is financial inclusion right to the bottom of the pyramid of the social structure. I believe that we Bankers as responsible citizens of this country have a moral obligation to ensure that the Banking sector works actively to facilitate this.

Whilst addressing and working on all these matters, we as an association will continue this year to provide a networking and social platform for our membership, a must to maintain a healthy work – life balance!

Finally, I like to assure all of you that the council & I will work towards providing you with activities, programmes , publications and events to advance our APB to the next level , and look forward to your support in this journey !

Thank you.

Ms.Shashi Kandambi Jassim

President

Association of Professional Bankers - Sri Lanka

IN SEARCH OF A BANKER CUM MENTOR

By Champal De Costa

In a changing environment, any industry has to continuously redefine its operational norms, reshape its practices and revisit its strategies to ensure survival. The banking industry is no exception to that phenomenon. With reference to findings of Pricewaterhouse Coopers (PwC) on outlook of future banking industry, the 'Social and Behavioural Change of Customers' has been identified as an emerging trend. Along with the developments in technology, the customers have become increasingly connected to others across social, geographic and demographic boundaries. This 'social world' augments close friends, family, business associates and other networks as the primary source of information, opinion and recommendation. In this process, the customer becomes more knowledgeable but may tend to take irrational decisions with regard to fulfilment of financial needs. Excessive spending through credit cards, borrowings without assessing the repayment capacity, doing high-risk investments etc are common examples. These signs prompt the banker to go beyond banking and play the role of a 'Mentor' to his customer who may be oblivious to consequences of his haphazard decisions.

The term 'Mentor' was first introduced in Greek poet Homer's epic tale 'The Odyssey'. Odysseus, the king of Ithaca, left his son Telemachus with a trusted friend when he joined the Trojan War. The name of this trusted friend was Mentor, who looked after Telemachus over two decades guiding and teaching him till the king returned. Thereafter the term Mentor was used to identify a trusted and vice teacher. 'Mentoring' was defined by two behavioural scientists, Megginson and Clutterbuck, as an 'off-line help by one person to another in making significant transitions in knowledge, work or thinking'. It is a developmental, caring, sharing and helping relationship where one person invests time, know-how and effort in enhancing another person's growth, knowledge and skill. The person being mentored is called 'Protégé' or in simpler terms 'Mentee'. Protégé makes an effort to assess, internalize and use effectively the knowledge, skills, insights, perspectives or wisdom offered by the Mentor who extends his relationship beyond formal obligations. Mentoring is a quiet force for good that has been operating for thousands of years, serving the function of passing knowledge and values down through the ages from one generation to the next.

In a successful mentoring exercise, the protégé's confidence on his mentor and the mutual trust is essential. Accordingly the mentor should be a person who....

- is absolutely credible, whose integrity transcends the message, be it positive or negative
- tells protégé things he may not want to hear but leaves him feeling he has been heard
- interacts with protégé in a way that makes him want to become better
- makes protégé feel secure enough to take risks
- gives protégé the confidence to rise above his inner doubts and fears
- supports protégé's attempts to set stretched goals for himself
- presents opportunities and highlights challenges protégé might not have seen on his own

Based on Characteristics, there are seven types of mentors:

- **Primary Mentor:**

He happens to be the first one to consult when unfamiliar situations are confronted with. He spends a lot of time with protégés but provides general and less specific guidance. To a start-up entrepreneur, the banker can be a primary mentor.

- **Secondary Mentor:**

He is a specialist who spends less time, helps protégé in addressing specific issue in a deep manner. A customer with fair amount of experience and knowledge may seek this type of mentoring.

- **Structured Mentor:**

He adopts a process characterized by fixed, formal and pre-determined set of goals. A more formal relationship is envisaged here. Structured mentoring can be applied to any customer at any stage of the life cycle.

- **Active Mentor:**

This mentor proactively explores mentoring needs of protégés and helps him without even a formal invitation. When the banker identifies hidden potential and competencies of customers, active mentoring will ensure mutual benefits in the long run.

- **Lifetime Mentor:**

The banker can be customer's lifetime mentor by providing guidance from childhood to maturity of his business or in day-to-day affairs.

- **Group-Mentor:**

This type of mentoring illustrates a process similar to the concept of "Business Support Groups".

- **Momentary Mentor:**

There are instances where protégés seek quick but valuable advices from respected, reputed and successful personalities at unexpected instances. Such advisors are called Momentary Mentors. Through building up a longstanding trustworthy relationship, the banker can become customer's momentary mentor.

According to the researcher Audrey Murrel, all mentoring programmes are obviously acts of initiating dynamic and reciprocal relationships between mentor and protégé. Cultivation of relationships takes time. Therefore both must invest energy, time and commitment in order to enjoy the returns of a healthy mentoring relationship. Based on a Five-Stage model developed by a team of scientists led by David Megginson, the following simple framework is proposed to create a mentoring relationship between the banker and the customer:

Stage 1: Rapport Building

Here the banker proactively takes an inventory of customer's needs together with an assessment of his current status of knowledge and relationship with him. Afterwards he shares experience on cases of other customers' inappropriate decisions while reflecting on areas where he too would be victimised. This would create an environment of trust and dependability.

Stage 2: Setting Direction

At this stage the banker clarifies up to what extent the guidance to be given.

Stage 3: Progression

This is the core period in which the banker proves his ability to transform the relationship from 'banker-customer' to 'mentor- protégé' through a series of mutually beneficial activities. The issues would be analyzed with banker's inputs and the customer is encouraged to come out with innovative alternatives which would thereafter be evaluated, reviewed and scrutinized over short and agreed periods.

Stage 4: Winding Up

This occurs when protégé achieved large part of the goals or feels equipped with confidence to continue his own journey. Timely winding up of mentoring relationships would prevent unhealthy dependency or counter-dependency.

Stage 5: Moving On

At this stage the mentor and protégé reformulate the relationship typically in to a friendship within ethical boundaries of respective industries after which continuous growth of mutual benefits would be envisaged.

The degree of relevance of these stages may be highly situational. With familiarisation of surroundings, the banker may decide on the type of mentoring relationship to be nurtured. Despite the impediments encountered at the beginning, if a healthy mentor- protégé relationship is created, it can be used by both parties as a powerful tool to remain always competitive.

About the Author

Champal De Costa

Champal de Costa, Vice President, DFCC Bank, was graduated from University of Moratuwa in 1986 with a BScEngineering honours degree in Civil Engineering and became a Chartered Engineer in 1991. He obtained the MBA from Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura in 2002. He started the career as an instructor at University of Moratuwa and thereafter worked as a Civil Engineer attached to both government and foreign entities in Sri Lanka. In 1993 he joined the DFCC Bank as a Project Officer. He was subsequently attached to units of Business Development, Leasing and Credit at Bank's Head Office and Colombo Office in the capacity of an Assistant Vice President. Presently he is functioning as the Regional Manager of Bank's Central Region.

THE FALLING BRICS COULD HURT SRI LANKA

By Rashmin Lokubandara

During the last few years a lot of attention had been paid to the BRICS economies (Brazil, Russia, India, China, and South Africa). Jim O'Neill, the then head of global research at Goldman Sachs coined the BRICS acronym to signify the transfer of economic clout away from the developed G7 economies towards the developing world. With their large and growing populations, and rapid economic growth (due to starting from a low base and being commodity rich in a resource hungry world) it was argued that BRICS economies will soon become some of the largest economies of the world. But, recent economic statics paint a much different picture.

Brazil's GDP shrank by 3.8% in 2015. Russia remained in recession for the fifth consecutive quarter with the economy contracting by 1.2% in the first quarter of 2016. The darling of Asia, China, is also feeling the pinch: a growth rate of 6.7% was recorded in the first quarter of 2016 when compared to three decades of spectacular growth in excess of 10% So why have the BRICS and indeed most emerging countries slowed down? What has happened?

First, BRICS countries like Brazil and Russia are mainly commodity exporters. Russia's chief export is crude oil whilst Brazil mainly exports coal and soft commodities such as coffee and soy bean. In the recent decades, the world has faced a commodity super-cycle, driven by the ever increasing population of China who want more and more coffee to drink and more and more crude oil to burn. With China's economy slowing down, the main market for these commodity exports is reducing and thereby adversely affecting commodity exporting countries. The near recessions in the US and the Eurozone negatively affected trade volumes for non-commodity exporting countries such as Sri Lanka. These factors partly explain the contraction in emerging market country macroeconomic activity. But we have also seen the financial markets of emerging countries to have also taken a battering. What has caused this? Some points are discussed below:

Cheap or zero-interest money, created by multiple "quantitative easing's" of US and other western central banks have created a deluge of USD and EURO denominated liquidity. This deluge of cheap money has been surging to emerging markets in the search for better performing assets – equities, bonds, currencies, and commodities. With the US Federal Reserve signaling that this monetary policy stance will be reversed much sooner than later, the flood of easy money has essentially changed course and is flowing back to where it started from! The net result on emerging market assets has not been pretty: All BRICS countries' currencies have weakened significantly against the USD in the last year with yields of their government securities having to adjust upwards due to the local secondary markets getting flooded with offshore investors unwinding their emerging market portfolio investments. These investments that made perfect sense when USD could be borrowed cheap are a poor bet when you need to pay much more to borrow the USD.

The most vulnerable of the BRICS countries are the ones with large "twin deficits": a fiscal deficit as well as a shortfall in the balance of payments. The need to finance the external deficit and to avoid excessive depreciation (leading to higher inflation) calls for raising policy rates or keeping them on hold at high levels. But monetary tightening would weaken already-slow economic growth. Thus, emerging economies with large twin deficits and other macroeconomic fragilities may experience further downward pressure on their financial markets and growth rates.

These factors explain why growth in most BRICS and many other emerging markets has slowed sharply. Some factors are cyclical, but others – state capitalism, the risk of a hard landing in China, the end of the commodity super-cycle – are more structural. Thus, many emerging markets' growth rates in the next decade may be lower than in the last. The same would apply to the outsize returns that investors realized from these economies' financial assets (currencies, equities, bonds, and commodities). The good times seem to be over for the BRICS.

About the Author

Rashmin Lokubandara
He is attached to Standard Chartered Bank, Sri Lanka as a Senior Dealer, FX & Rates Trading. He is a Chartered Financial Analyst with a Masters in Financial Economics from the University of Colombo. His undergraduate studies are in Computing & Information Systems from the University of London

FIRST THINGS FIRST

By Dr. Shan Fernando

Is our economy doing alright? Will the government be able to increase its revenue? Will it be able to rationalize its subsidies and other welfare oriented expenditure? How should the country's debt be managed? How much more can the country borrow? How can we boost our exports and foreign exchange earnings? How far will we succeed in attracting FDI? These are some of the frequently asked questions (FAQs) these days. These questions highlight some core issues that we face today, and these are certainly tough issues to handle.

In view of these challenges, the government, while trying to enhance its revenue, will also have to rationalize its expenditure. In other words, the government will have to get its fiscal house in order with a view to getting its debt situation under control. The country's debt service payments per annum amount to around 90% of annual government revenue. Annual interest payments on debt alone amounts to one-third of annual government revenue. Therefore, while eliminating unnecessary expenditure, the government will have to come up with strategies to boost the country's foreign exchange earnings and foreign exchange buffers.

In view of the dire economic challenges faced by the country, it will be very important to identify the key areas that we as a country should focus on immediately with a view to boosting the country's foreign exchange earnings and foreign exchange buffers. This article focuses on two key areas that the country needs to fast track if we are serious about achieving these objectives. These areas are discussed below.

Boosting ICT and service exports

Sri Lanka has great capacity to boost her service exports. Indeed the country has been consistently ranked as a top global destination for business process outsourcing (BPO) and IT. "In early 2016 AT Kearney ranked Sri Lanka 14th on its Global Services Location Index, which gauges the commercial attractiveness for offshoring of some 55 countries" (source: http://www.oxfordbusinessgroup.com). Adequate supply of required IT graduates to maintain the growth momentum of the ICT industry will be a challenge. However, fundamental infrastructure is largely in place and this will help the country to gain from an expanding global market (source: http://www.oxfordbusinessgroup.com).

In recent years Sri Lanka's ICT revenues have grown significantly, from USD 128m in revenue in 2007, to USD 325m in 2009, USD 440m in 2011 and USD 719m in 2013, representing 6.47% of total export earnings. Estimated revenues for 2014 were around USD 820m with projections for 2015 exceeding USD 1bn. The ICT industry is targeting revenue of USD 5bn by 2022 along with 200,000 direct jobs and 1000 new start-ups (source: http://www.oxfordbusinessgroup.com).

Sri Lanka's key strengths in relation to ICT are concentrated on building intellectual property and software engineering, at a higher value-added segment of the market. This focus is different from India's focus which is mainly concerned with offering a wide range of services at a low price point. (source: http://www.oxfordbusinessgroup.com). These opportunities have given rise to a number of successful local firms that are strong and internationally focused. By way of examples local firms such as WS02, Codegen and 99x, have experienced accelerated growth serving an international clientele (source: http://www.oxfordbusinessgroup.com).

Leveraging the country's unique location

Another area that offers great economic potential is the unique location of Sri Lanka. Indeed, Sri Lanka's international Unique Selling Proposition (USP) is none other than its hub positioning. Sri Lanka is ideally located along the major East-West trade route. Sri Lanka's strategic location places it on 6 of the 10 largest trade routes of the world and within reach of over 26% of all of the world's container traffic. With a view to leveraging Sri Lanka's strategic location to boost the economy, in terms of Part (iv) of Finance Act No. 12 of 2012 as amended, and the Commercial Hub Regulation No. 1 of 2013, the previous regime declared Colombo and Hambantota ports as free ports. The Katunayake Export Processing Zone and Koggala Export Processing Zone were declared as Bonded Areas. Mattala MRIA Airport and Mirijjawila Export Processing Zone were declared as Specified Bonded Areas.

The above tax exemptions granted for the said ports, airport and EPZs under the above pieces of legislation are in addition to exemptions given to them under the Customs Ordinance, Import and Export Control Act and the Exchange Control Act. These record tax benefits can be used to boost entrepôt trade, off-shore business, front-end-services, headquarter operations, and logistics services.

Today, five companies are successfully running operations benefiting from the Commercial Hub Regulation. These companies are reportedly looking forward to expand their operations. The government should make every effort to help these companies to expand their operations while encouraging other companies to make maximum use of the opportunities afforded by the Commercial Hub Regulation.

The wide applications of the Commercial Hub Regulation can be demonstrated by taking a look at how Dubai has made use of similar arrangements to boost its trading activities. The Dubai Multi Commodities Centre (DMCC) provides a useful model to draw lessons from.

The role of the banks

The areas mentioned above should be fast tracked with a view to enabling the country to gain maximum advantage from its competitive strengths. If the country does not leverage its competitive advantages to the maximum possible level, then its position as a laggard among peers will further deteriorate and the catch-up with the rest will widen.

In view of the above, the government will have to get its act together and align its policies to back the areas identified above. All of this will have to be done with a sense of urgency. If there are delays in implementation, then some other country/s will gain advantage at Sri Lanka's expense and even the little competitive advantage that we as a country has will be lost.

Banks essentially provide the lubricant (or liquidity) that keeps the wheels of the economic machinery going. Therefore, banks also have an important role to play in providing support for the areas identified above. Banks will have to be agile in identifying business opportunities in relation to these sectors and be flexible enough to adopt different approaches, if necessary, in catering to their particular requirements.

Conclusion

Sri Lanka has been consistently ranked as a top global destination for business process outsourcing (BPO) and IT. The ICT industry is targeting revenue of USD 5bn by 2022.

Additionally, Sri Lanka is ideally located along the major East-West trade route. Leveraging this strategic location, the country has an ideal opportunity to boost entrepôt trade, off-shore business, front-end-services, headquarter operations, and logistics services making full use of the legislation which is already in place in terms of Part (iv) of Finance Act No. 12 of 2012 as amended, and the Commercial Hub Regulation No. 1 of 2013.

It is important for Sri Lanka to make full use of the above opportunities in the process of leveraging its competitive advantages. However, these things will have to be done with a sense of urgency. If otherwise, other countries will make inroads into those areas and deprive Sri Lanka from gaining even from her remaining few competitive advantages.

About the Author

Dr. Shan Fernando

The writer counts over two decades of experience in the field of economic research in the private sector. He has earned a BA (Hons) in Economics, an MA in Economics and a PhD in Economics at the Department of Economics of the University of Colombo. He can be reached at shanthikumarf@gmail.com).

THE DAY YOUR PHONE STOPS RINGING

By Naleen Edirisinghe

In 2003, as a young and hard working manager in a suburban bank branch I complained to my boss that I could have done much better if my phone does not ring always and kept me doing my business as usual. The answer I got that day virtually changed my entire direction of business banking.

"Naleen, the day your phone stops ringing you are out of business"

Today, after thirteen years my phone still ringsand array of notifications on emails, messages, group conversations displays on my phone, some complimenting, some barking, some complaining and some pleading but I am a satisfied man as I am still in business as my trusted superior and I wanted.

However, my phone today is not only helping me with my communication with my clients but has helped me to organize my work schedules better. May be I am not the most modern user of the digital banking apps but as a banker closing on 30 years experience my mobile has given me much more positives than negatives.

When you plug in your phone charger in the morning or in the evening (What we usually does and drain the battery life by half by keeping it charged for about 8 hours) have you ever thought that you are powering the most effective tool of your profession which will virtually run your business and bring you new business the next day. Most of all your pay check now depends on this magical instrument as not only business contacts , dealing effectively with your internal staff including top management will depend on how well you use this instrument for getting things done.

Your phone today is your best friend, which is why we see people glued to the phones thanto people like in the 80's and the 90's.Now there are various types of phones with numerous features which can organize your communication model which will allow you to be a step ahead of peers/-competitors.

Some of the features in the modern mobiles will help you immensely in day to day life for a typical manager who has busy schedules,take a look at this list;

- Waking up to your favorite tune rather than the normal blaring alarm which will keep you on the move the whole day
- Using a mobile App to do a work out in line with your BIM
- Looking up at appointments for the day using the calendar
- Using the best route to work place avoiding traffic using navigation
- If you are using public transport or chauffer driven logging to a local newspaper headlines site to be updated in important news
- Never being late to appointments by using the reminders
- Being prepared for any weather type by using the weather forecast
- Doing any calculations without searching for the calculator that is always missing
- Answering important callers/messages immediately using VIP function
- Responding to not so important calls later

- Having all contacts in one place
- Having all important documents scanned in the Wallet
- Taking photographs/videos of any important place/event
- Keeping notes at meetings
- Voice recording at meetings so that you would not miss any points
- Calling others using video function so that eye contact is met and the message is better communicated
- Search for a good restaurant/pub nearby to have a enjoy on a Friday evening with colleagues
- Reminding you to sleep on time rather than watching Kadarshians bathing on TV late at night

The list goes on and there are now Apps to say whether you had a good night's sleep the other day which is an important aspect for healthy life. I have only come up with a few important features that can be used by a busy banker like me, but there will be hundreds of other apps , functions that can make your life easier by a phone in this modern day.

Now, back to my business calls which I started with, which has now diverted to messages, emails , group notifications thus reducing the voice calls to some extent, the basic principals still remains. All calls aren't important but you will never know when you will get the call of your life. It may be from a contact or an unknown number that is why you need to respond in some way to all incoming communications, may be if you are unable to respond then and there you can respond by texting or calling later thus not missing a single opportunity that comes you way. An acknowledgment is a must for any incoming communication even though you are unable to respond immediately, for this most phones have in built responses. A person who responds to calls, messages and emailsis respected much more than a person who ignores, it is like you speak to somebody who is in your next seat and he is ignoring or pretending not to hear you. Would you want to speak to such a person again, leave alone a 100 Million transaction, I doubt it.

After all, the day your phone stops ringing you will realize that the ringing days were much merrier than the silent days!!

About the Author

Naleen Edirisinghe

He is currently the Deputy General Manager (Retail & SME) at Pan Asia Banking Corporation PLC. Naleen counts more than 29 years banking experience including Commercial Bank of Ceylon and National Development Bank. He joined Pan Asia Bank in 2000 and has extensive experience in Retail and SME banking including Credit, Recoveries, Project Financing and Branch Operations. He holds an M.Sc in Management from the University of Sri Jayewardenepura. He is also a fellow of the Institute of Bankers of Sri Lanka and a fellow of the Certified Professional Managers.

RISK APPETITE, STRESS TESTING AND CAPITAL PLANNING FOR BANKS – AN INTEGRATED APPROACH

By Medhani Rajanayake

Capital is a precious resource to a bank, it has to be managed more efficiently by achieving a right balance between performance and risk. This requires building an integrated approach, combining risk management and financial planning to gain operational efficiencies, growth and solvency.

Sri Lankan banks have been developing an Internal Capital Adequacy Assessment Process over the past years as evident by the issuing of Banking Act Direction No 5 of 2013 on Supervisory Review Process (Pillar II of Basel II) for Licensed Commercial Banks and Licensed Specialized Banks. The process comprises of risk appetite, stress testing and capital planning concepts, with the purpose of combining the business performance, risk sensitive capital and the risk mitigation practices.

This article reviews interdependencies and the benefits of integrating three key concepts in Risk Management; Risk Appetite, Stress Testing and Capital Planning to minimizing threats and maximizing opportunities to achieve organizational goals.

Risk can be defined as an uncertainty, but not all uncertainties are risks. There can be uncertainties with positive impact (an opportunity) or a negative impact (a threat). To create maximum value a bank should exploit opportunities and minimize threats. This can be achieved through an integrated & cohesive strategic planning process with due prominence to risk management.

Effective risk management is imperative to generate profits consistently and sustainably and thus forms a critical part of financial and operational management. Risk appetite framework is paramount in formulating the business strategy and the risk culture of a bank.

Risk Appetite

Risk appetite is the level of risk a bank or an organization desires to take in when achieving its objectives.

Risk appetite reflects the key aspects of business such as organization objectives, business plans and stakeholder expectation. A risk appetite statement should be a document approved by the Board of Directors of the bank containing a mixture of qualitative and quantitative measures, effectively communicated throughout the bank.

Risk appetite is not merely a regulatory or a corporate governance requirement. Clearly articulated risk appetite statement helps to enhance value by aligning business operation and risk. It facilitates the staff at business divisions to understand the level of risk they may take in pursuit of daily business operations, so that they can take more risk aware decisions.

To be more meaningful, risk appetite can be expressed in measurable terms. This is termed as a risk threshold. Setting a risk threshold is a combination between the risk appetite and the risk attitude. In simpler terms, how much risk a bank desires to take and how much risk the bank chooses to take in a given situation.

To set the correct risk threshold limits, both capital planning and stress testing provide valid inputs. For example, even if a bank wants to take lots of risk for better return, the capital plan may restrict their desire. A stress testing exercise helps to determine the correct amount of risk a bank can prudentially tolerate in a given situation or event.

Stress Testing

Stress testing is an important element of a sound risk management system. Stress tests are integrated, multivariate tests that shows to varying degree, whether a bank can withstand unforeseen events of varying severity under adverse economic, political and physical changes to the environment, in which it operates. The term integrated explains the involvement of both dependent and independent variables in stress testing assumptions.

A stress testing exercise typically consists of more than one scenario and different stress levels (mild, moderate or worse case) to accommodate future uncertainties. A stress testing policy framework approved by the Board of Directors of the bank is critical to ensure appropriate use of stress testing in risk governance and capital planning.

An effective stress testing exercise highlights potential problems and allows to identify opportunities as well. The managers can plan in advance to prevent a crisis by adjusting dependent variables and also to rapidly & effectively exploit opportunities to win a competitive edge.

Unforeseen events sometimes called as "Black Swans" are the main threat to the capital of a bank. Stress testing reveals unforeseen events and they enable managers to identify what might go wrong, how it might go wrong & how badly will it affect earnings, capital requirements and liquidity of a bank.

Capital Planning

Capital plan is a forward strategy, which expresses the risk appetite and strives to strike a right balance between reinvesting capital in bank's operation and providing shareholder returns. Capital plan is strongly linked with the strategic plan, to enable the Board of Directors and the management to make informed judgment about the appropriate amount and the composition of capital required to carry out the bank's business strategy across a range of potential scenarios.

To understand the capital needs, a bank should have a comprehensive, forward looking and adequately formalized risk management process, which enables understanding of the risk inherent in the business strategy. Capital ensures the ability to absorb losses. Strong capital structure elevates the resilience of a bank in times of stress.

The amount of capital that a bank should hold depends on the business strategy, risk appetite and the capital required to continue operations through times of economic and financial stress.

Risk appetite, stress testing and capital planning has less meaning in isolation. It is difficult to meaningfully address any of the three concepts separately without the others. However, risk appetite can be considered as the fundamental concept since it articulates the level of risk, a bank is willing to take in pursuit of value.

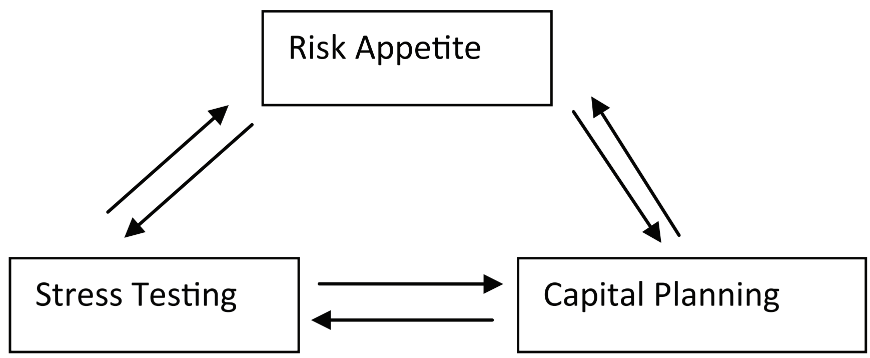
Interdependencies of the three concepts

There is a close conceptual relationship and interdependency in risk appetite, stress testing and capital planning exercises. The integration of the three concepts is evident in the recent global regulatory trends, encouraging banks to think about the business plan, capital plan and risk in a closely linked way.

These concepts are interdependent in both directions. Setting risk appetite is a broad initiative that influences the entire bank. A thorough understanding of the business operation and the capital plan is required with adequate stress testing to define & monitor the risk appetite limits.

Whereas in capital planning, the capital level should essentially be aligned to the risk appetite, since it reflects the risk taking capacity of the bank, stress testing is used to determine the capital buffer required for future unexpected risks. A forward looking stress testing exercise is essential for the managers to justify future capital requirements of a bank.

Risk appetite sets capital and loss threshold levels approved by the Board of Directors, which will act as a yardstick to measure stress testing results without which the stress testing exercises will be meaningless. This enables to determine the risk level in each adverse scenario.



Benefits in an integrated approach

The components of risk appetite, stress testing and capital planning processes feeds on or is interdependent on each other. Though it is possible for a bank to perform these processes in isolation it will be less meaningful to do so, compared to an integrated approach.

The data and the skills essential for an integrated approach require a fine coordination between business, treasury, finance and risk management functions; hence the commitment of the senior management is critical.

Risk appetite and level of unexpected losses arrived from stress testing provide valued feedback to

capital planning. A comprehensive understanding of outcomes from all three concepts will provide a bank, better knowledge of its strategic goals, market condition, regulatory requirements and the risk profile, which enriches the strategic planning process.
Moreover, banks can gain significant operational efficiencies through resource optimization and synergies due to interaction of multiple faculties towards achieving organizational goals.

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About the Author

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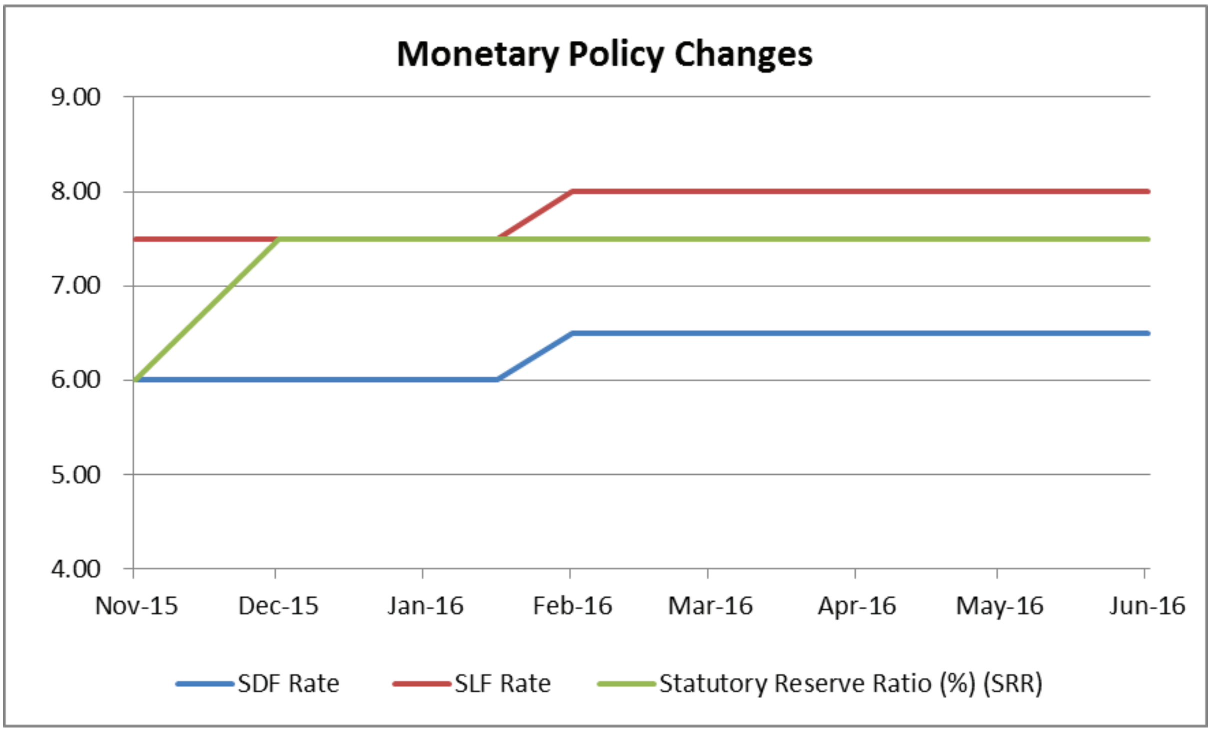
MARKET UPDATE

Compiled by - Kavin Karunamoorthy

Sri Lankan economy witnessed an eventful first half on the backdrop of unstable global economic conditions. The economy faced many challenges during the period on both internal and external fronts. Sri Lanka's sovereign credit rating was downgraded to 'B+' from 'BB-' and assigned a negative outlook by Fitch Ratings, further Standard & Poor's rating agency assigned a negative rating outlook on Sri Lanka's 'B+' long-term sovereign credit rating from stable citing rising fiscal and external imbalances.

The country witnessed huge outflow of foreign investments in both debt and equity creating pressure on the rupee. Foreign investors have reduced their holdings in Rupee denominated Sri Lankan Government Securities to approximately 5.2 percent in April 2016 compared to 10.72 percent in April 2015. The Central Bank started the year by tightening monetary policy, citing excess liquidity fueling future inflation. The Monetary Board raised the Statutory Reserve Ratio (SRR) applicable to all rupee deposit liabilities of commercial banks by 1.50 per cent to 7.50 per cent effective from January. The Monetary Board also raised the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points each, to 6.50 per cent and 8.00 per cent respectively with effect from February. The Monetary Board decided to keep its policy stance unchanged since February citing the measures taken during the beginning of the year would be adequate to taper rising inflation and credit growth.

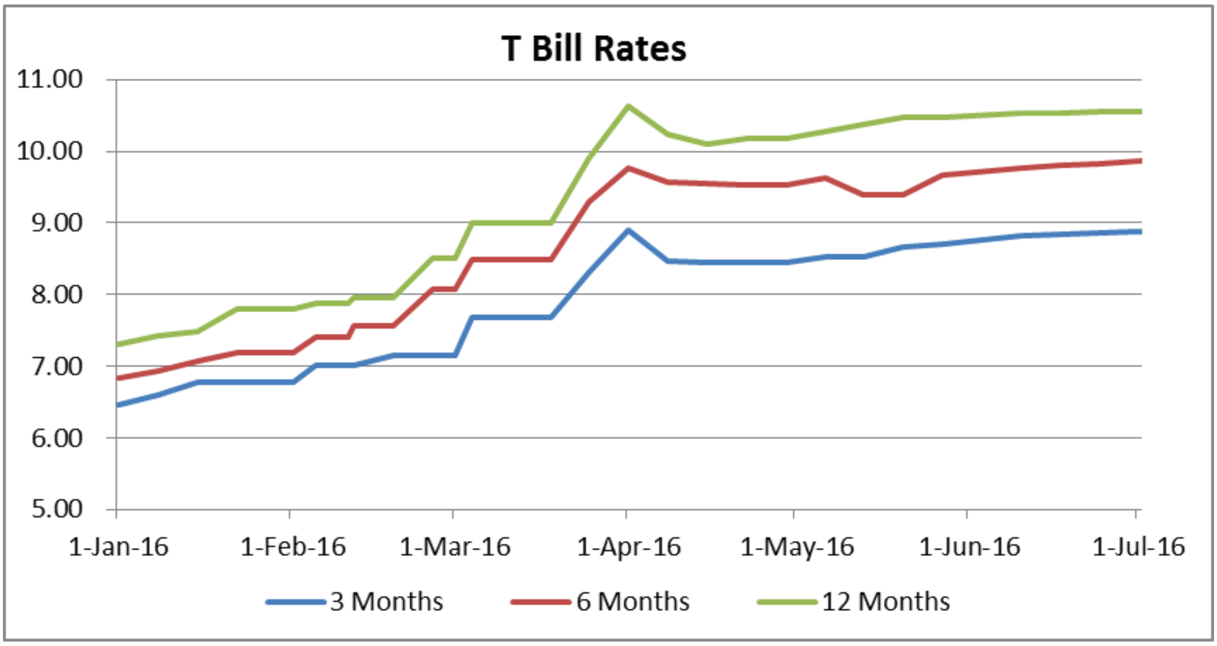
The Executive Board of the International Monetary Fund (IMF) approved a 36 month Extended Fund Facility (EFF) to Sri Lanka for 1.5 billion dollars, to support the country's economic reform agenda. IMF support lifted the confidence in the Sri Lankan economy amongst both foreign and local investors. The Central Bank will issue a dual tranche US dollar bond during July to bridge the budget deficit and to stabilize the foreign reserves.



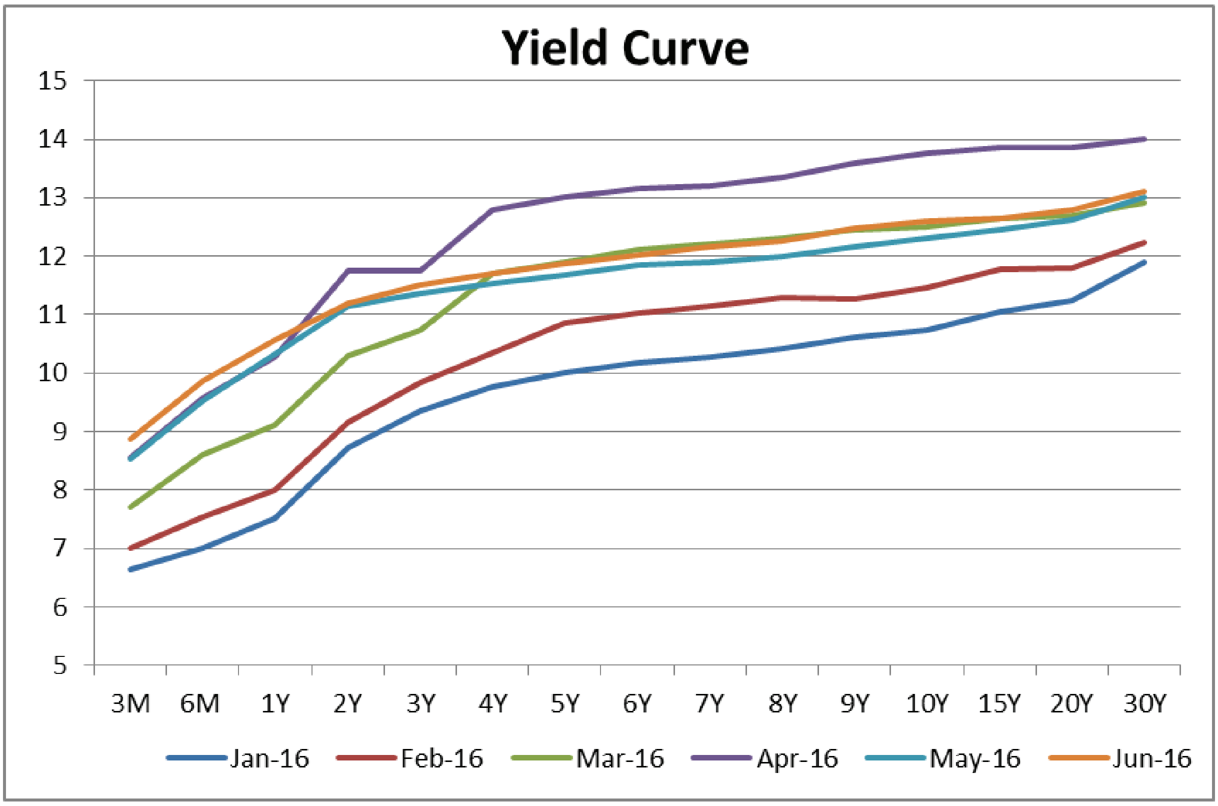
Interest Rates

Short term benchmark rates increased during the first half mainly due to tightening of monetary policy, continuous selling by foreign investors and increased borrowing requirement by the Government.

The short term benchmark rates witnessed an increase during the first half of the year. Treasury Bills rates started the year at 6.45 percent, 6.83 percent and 7.30 percent for 3, 6 and 12 month tenors respectively. The auctions rates continuously edged upwards and closed at 8.86 percent, 9.83 percent and 10.55 percent for 3, 6 and 12 month tenors respectively. The Treasury Bonds also witnessed an increasing trend during the period from January to April, with an upward movement of approximately 350 basis points. IMF's agreement to grant 1.5 billion dollars on a 36 month Extended Fund Facility (EFF) and possible issuance of a US dollar bond increased domestic and foreign investor confidence. This caused the above 1 year yields to decrease from the levels seen in April. The most actively traded tenors such as 2 years, 5 years, 8 years, 10 years and 15 years Treasury Bonds closed at 11.20 percent, 11.85 percent, 12.25 percent, 12.59 percent, and 12.75 percent respectively.



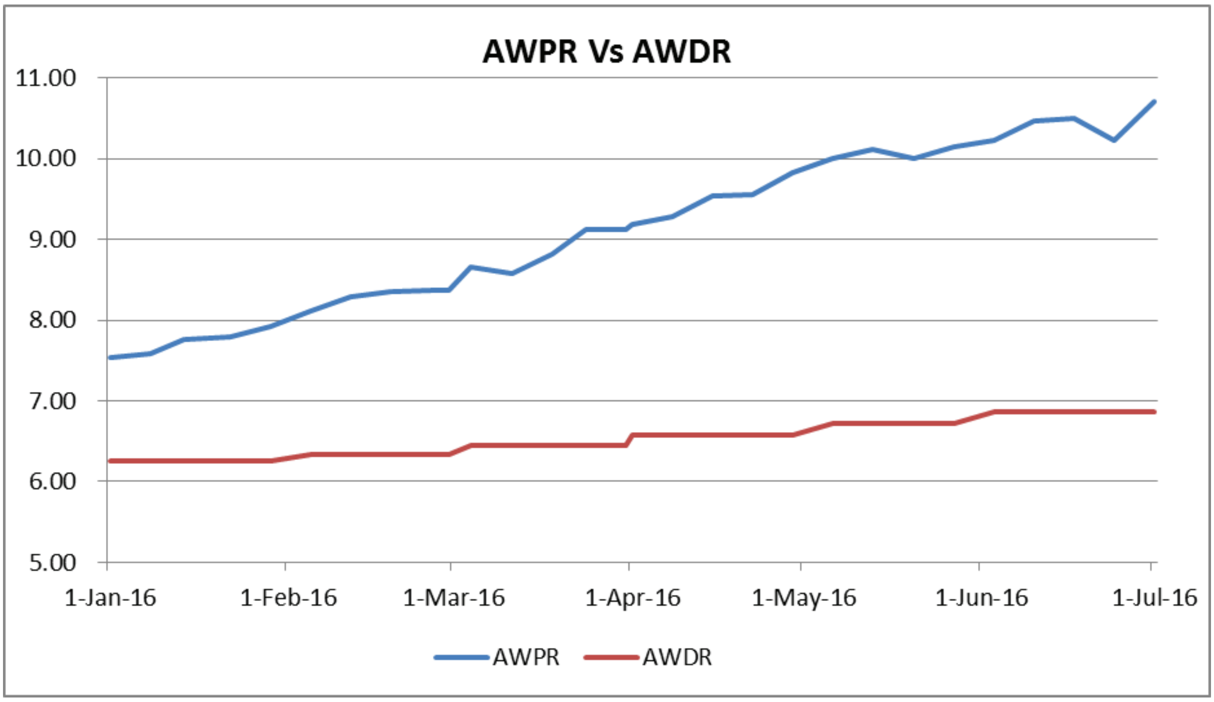
Treasury Bill Auction Rates from January to 08th July 2016



Yield Curve: Rates sourced from CBSL weekly report

Inter-bank Money Market liquidity declined due to Government Borrowings as well as Private sector credit growth. Liquidity levels at the beginning of the year stood at a surplus of LKR 124.91 Billion and recorded a negative of LKR 13.83 Billion as at 30th June 2016.

The Central Bank Holdings increased considerably during the period from LKR 91.42 Billion in January to a high of LKR 308 Billion in April. The holdings stood at LKR 273.89 Billion as at 30th June 2016. Overnight Money Market and Repurchase Rates also witnessed an increasing trend leaving the Overnight Money Market rates at 8.15 percent and Repurchase Rate at 8.00 percent up from 6.40 percent and 6.25 percent respectively.



Average Weighted Prime Lending Rate (AWPR) Vs Average Weighted Deposit Rate
Prime Lending Rate (AWPR)

Average Weighted Prime Lending Rate (AWPLR) of banks; also moved upwards from 7.53 percent to 10.23 percent as at first week of May. The AWPLR continued its upward trend though the other benchmark rates witnessed a drop. Average Weighted Deposit Rate (AWDR) increased by 61 basis points from 6.26 percent to 6.87 percent as of end June.

Exchange Rate

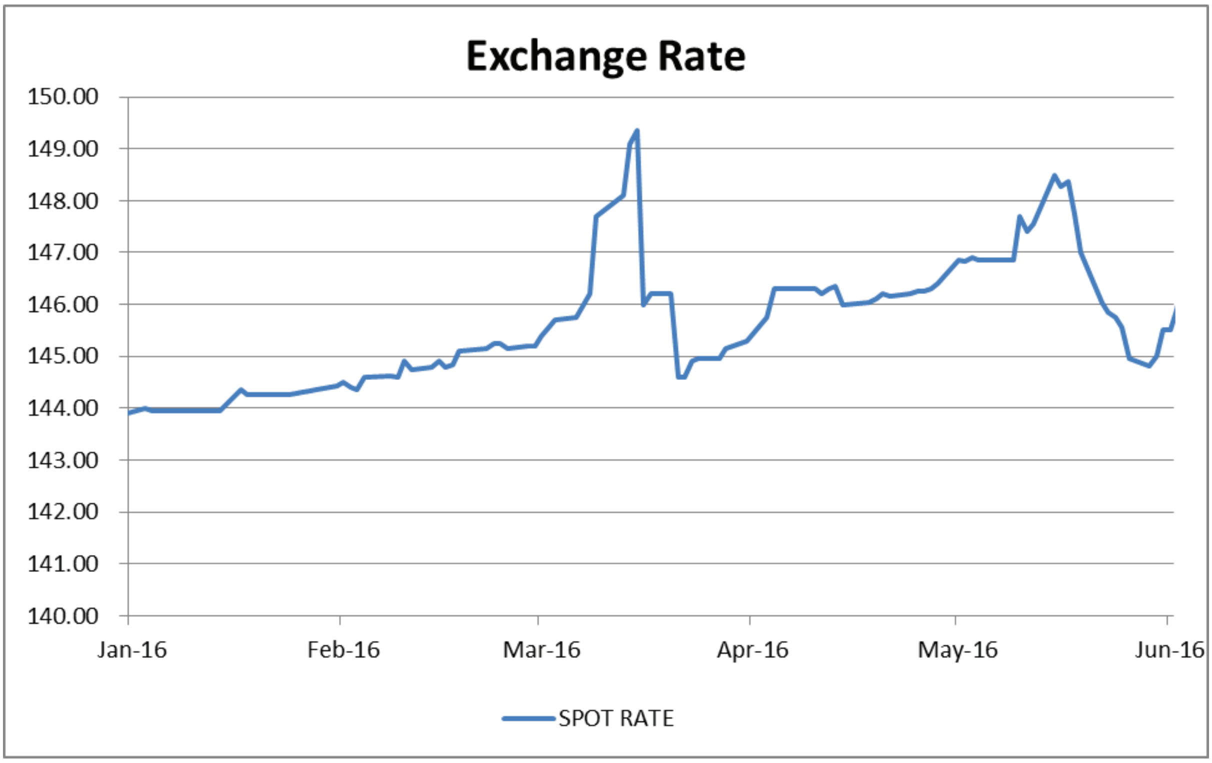
The rupee recorded a modest depreciation of 0.8 per cent against the US dollar during the period from end 2015 through 30 June 2016. Furthermore, reflecting the cross currency movements, the rupee also depreciated against the euro by 2.5 per cent, the Japanese yen by 15.4 per cent, the Canadian dollar by 7.4 per cent and the Australian dollar by 2.8 per cent during this period while appreciating against the pound sterling by 9.6 per cent and the Indian rupee by 0.7 per cent.

Latest Central Bank data indicated that Sri Lanka's official reserves were 5.27 billion US dollars at the end of June, down from 5.64 billion US dollars end of May.

The Sri Lankan Rupee started the year at 144.15/30 against the US dollar and experienced a huge pressure mainly due to importer dollar demand and foreign outflows from local government securities and equity. This situation got further aggravated to lackluster exporter conversation. During the period the rupee recorded its all-time low of 149.35 against the US dollar on 30th March 2016.

However the rupee gained significantly during the month of April supported by inflow of worker remittances which led to dollar sales by state and private banks and also IMF's agreement to grant

1.5 billion dollars on a 36 month Extended Fund Facility (EFF). During this period the rupee was trading at 146.00 /20 against the US dollar. The prevailing importer dollar demand pushed to the rupee to 146.75/85 levels and its hovering around the same levels.



U S Dollar / Sri Lankan Rupee Currency Rate

Prime Lending Rate (AWPR)

About the Author

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MR. DIAN GOMES ADDRESSES THE APB MEMBERS ON 'LEADERSHIP'

Mr. Dian Gomes, Chairman of HELA clothing, delivered an inspiring lecture on leadership to an overflowing gathering of bankers on 11th May 2016 at the Bank of Ceylon auditorium. This lecture, the first such lecture for the current year is a part of a series of lectures to be organized by the Association of Professional Bankers of Sri Lanka (APB).

Welcoming the audience, Ms. Shashi Kandambi Jassim, the President of APB explained that these lectures are organized as a part of Continuous Professional Development of its members, to ensure that the highest professional standards are maintained by the membership of the APB. Mr. Dilshan Rodrigo of the Continuous Professional Development Committee (CPDC) of APB introduced Mr. Dian Gomes as someone who is passionate, charismatic and committed to achieve what is seemingly impossible.

Mr. Dian Gomes having once managed one of the largest exporters in Sri Lanka, being the Group Director of MAS holdings, had a wealth of experience to share with the audience. However he chose to relate his experiences in Boxing to illustrate the topic of Leadership to the audience.

He stated that to any celebrated leadership example, the failures are the best illustrations and learning points. Having addressed the topic of leadership to many audiences globally, he said that this is his 490th lecture. Having lectured at Imperial College Business School London, and Said Business School, University of Oxford, UK, Dian explained that you do not have to attend a great Business School to learn humanity, humbleness and the book of leadership.

He shared his experiences in and out of the Boxing Ring, using multimedia to illustrate and build the concepts of leadership into the hearts of the audience. He connected with audience by stating that "Every one of you is a leader, if you are a good parent then you are a good leader" and went onto explain the benefits of the work life balance to the bankers. Components of leadership such as, working under pressure, motivating people, persuasive techniques and inspiring a team to achieve the shared vision were explained with such subtleness and refinement, swinging the emotions of the audience.

Some members of the audience, when departing, thanked the organizers stating that the lecture was just like having watched an inspiring movie with a message, and expressed that they felt quite refreshed after a hard day's work.

There were around 350 bankers present in the audience and some of those who got late spent nearly two hours standing but listening attentively to the lecture. "We had to close the registrations much earlier than the anticipated date due to overwhelming response from the bankers, when the lecture was announced" said Mr. Dilashan Perera, Chairman of the CPDC of APB.

The CPDC lectures are conducted by the APB for the benefit of its members and as such the privilege of participation will first be offered to the members and then to the bankers nominated by the respective banks on a first come first served basis.


OCIATION OF PROFESSIONAL BANKERS
SRI LANKA

DR. RAVI FERNANDO ADDRESSES THE APB MEMBERS ON BLUE OCEAN STRATEGY

Dr. Ravi Fernando, reputed Blue Ocean strategist, and Executive in Residence at the Social Innovation Centre of INSEAD, addressed a packed audience of bankers on "Can Blue Ocean strategy be applied to the banking industry?" on 16 June 2016, at the BOC Auditorium. The Continuous Professional Development Committee (CPDC) of the Association of Professional Bankers of Sri Lanka, having filth at proactive measure serenaded to counter any disruptions to the industry organized the lecture for the benefit of in senior management and strategy formulation positions. Mr. Senarath Bandara, Senior Vice President of APBSL in welcoming Dr. Ravi Fernando stressed the importance of having a Blue Ocean mindset in the banking industry. Dr Fernando, who possesses a wealth of experience in the Blue Ocean Strategy Concept, stated that his aim is to inculcate a new skills set to the audience that will be of immense use to bankers as well as to those in any other industry. He went onto explain theBlueOceanmindset and the sustainability mindset and explained the importance and the interconnectivity of both. He stated that the banking industry is ripe for disruptions as very little has changed in the industry for many years. Quoting global examples from the hospitality industry (ieAirBNB) and from the automotive industry (ie Tesla), he warned that the threats could come from the most unexpected source as the industries currently outside the banking sector are seeking opportunities in the Banking Industry. He shared indepth perspectives of the difference between the red ocean and blue ocean strategies, identifying the difference between competing in existing market spaces, and creating uncontested market spaces, thereby making competition irrelevant. He went on to explain the importance of the triple bottom line concept, quoting alarming examples from the water crisis, and the new concept of environmental migration. By creating a responsible marketplace for lending, he stressed that the banks can play a massive role in promoting sustainability. The Blue Ocean strategy that was developed by W. Chan Kim and Ren, eMauborgne following extensive, decadelong study of more than 150 strategic moves spanning more than 30 industries over 100 years, has been effectively adopted by countries like Malaysia, Singapore and South Korea. Dr Ravi Fernando stated that it is time for Sri Lankan industries to use the Blue Ocean Strategy. He posed the question to the audience "Are you going to be the tenth player in the market or are you going to be the first in the market?"and said: "If the answer is you are not the first, then go and motivate your team to come up with blue ocean strategies" he concluded.






AT THE AGM - 2016







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APB - BANK REPRESENTATIVES – 2016 /17

APB EVENTS CALENDAR

Month	Year	Date	Activity
August	**2016**	08th	03rd Evening Programme – Experience sharing session by Jayanthi Kuru Utumpala the first Sri Lankan to summit Mount Everest & Johann Peiris who partnered her in the expedition.
September	**2016**	To be notified	04th Evening Programme Lecture by Dhananjaya Hettiarachchi (World Champion of Public Speaking)
October	**2016**	10th & 11th	28th Annual Convention of APB
November	**2016**	To be notified	"Grand Finale of APB Inter Bank Debate 2016"
January	**2017**	To be notified	Annual Members Get-together at Sri Lanka Foundation Institute
February	**2017**	18th	Benku Ridma 2017 Talent Show at the Bishop's College Auditorium
March	**2017**	03rd	28th Annual General Meeting of APB

HEALTH TIPS

SLEEP

(Excerpts from a video clip by Dr. ArpithaKomanapalli)

Sleep is one of the most important things you can do to keep your body healthy. Less sleep can aggravate health problems and interfere with body's natural aptitude to heal itself.

Research tells us

- That average night's sleep during early 1900's was 9 hours
- By 1975 it dropped down to 7.5 hours
- By 2002 it fell to down to 6.9 hours
- Today most people average just 5-6 hours' sleep per night.

Research also tell us that,

- Cutting down sleep from 8 hours to 4 hours for a night even to a period of less than a week can produce changes in your body that will mimic advance aging and early diabetes. Sleep and new endocrine systems are interconnected.

Chronic loss of sleep can cause diabetes, hypertension, obesity and memory loss.

Lack of sleepcan increase secretion of your stress hormones

Getting sufficient, quality sleep is one of the most important things you can do to improve your health.

Sleep allows your body to rest after a long day balance hormones and also helps to control stress

Some of other benefits of sleep are

- Improve memory
- Better focus an concentration
- Long life
- Maintaining a healthy way

Five ways to improve the quality of your sleep

1. Set a routine

Try to go bed at the same time every night and try to wake up in the morning at the same time.This helps your body to get used to a sleep cycle and it will get easier for you to get to sleep.

2. Set a perfect environment

Try to get to bed in a cold and dark and room, this decreases the core temperature of the body and initiates sleep.

3. Have a proper diet

Don't go to bed empty stomach or full stomach and try to avoid high carb diet before you go to bed.

4. Avoid electronic devices before you go to bed

Avoid watching TV or working on your computer or mobiles at least an hour before you go to sleep, this decreases the alertness of the body and helps you to go to sleep easily.

5. Sunlight

Try to expose more to sunlight during the day time this helps you to balance the related hormones and this decreases the stress and helps you to get a good quality sleep.