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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

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EDITORIAL

As decided at the inception of the appointment of the new Council of Association of Professional Bankers- Sri Lanka & its Sub- Committees, the Publications Committee was assigned with the task of publishing an e- journal on a quarterly basis. Accordingly the first issue (Volume II Issue I) was released on 9th August 2016 pertains to the quarter ended June 2016. The publication of the next issue which was due on completion of third quarter 2016 was delayed mainly due to the Annual Convention of APB which was held in November 2016. However we are relieved that this publication has now reached you, so that we can say "better late than never."

As we have undertaken to publish the e- journal on a quarterly basis, we will endeavor to achieve the said goal, thus the next issue pertains to the last quarter 2016, is due to be published by February 2017. We therefore appeal to the membership to send in their contributions to the undersigned via e-mail to bhanuw@unionb.com to reach us by not later than 31st January 2017. The members are kindly requested to shed their feelings of reticence and make their valuable contributions by which they will not only share their knowledge with the readers but also enhance their literary skills. For those who may feel that they will do it later because they want to produce an excellent article, if given more time; kindly permit us to say that "Man would achieve nothing, if he waited to do it so well, that no one will find fault with for what he has done" as quoted by Cardinal Newman.

This issue comes to you as the first APB publication after the Annual Convention Volume issued in November 2016 which was enriched with twenty four valuable articles written by eminent professionals, both veterans and young and upcoming bankers on topics aligned with the designated theme of the convention, "Thriving in a digital world", which was well received by the banking fraternity. Opposing to being restricted to a designated theme, this e-journal contains six valuable articles written on different themes and is further enriched with an interview by the Chairman- Publications Committee with the President-Association of the Professional Bankers- Sri Lanka, details of several events conducted by APB since the issuance of the previous e-journal, the Event Calendar of APB and some Health Tips as well.

The Publications Committee is grateful to the authors of the articles published herein who made this issue possible and would once again invite the membership to contribute articles for the next issue. Also I wish to express my sincere thanks and appreciation to all those who helped us to make this issue a reality, with special thanks to my colleague Mr. Nishan Perera of the Publications Committee who played the lead role in presenting this issue before you and also to Mr. Parama Dharmawardane who assisted us in editing articles.

We take this opportunity to wish all readers a happy and prosperous 2017.

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

30th December 2016

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INTERVIEW WITH THE PRESIDENT OF THE ASSOCIATION OF PROFESSIONAL BANKERS SRI LANKA ON THE 28TH ANNUAL CONVENTION THEME

Mrs. Shashi Kandambi Jassim
Senior Deputy General Manager – Sampath Bank PLC
President, Association of Professional Bankers- Sri Lanka

Q. Can you give us a short history of APB & its annual conventions?

A. The Association of Professional Bankers, Sri Lanka was formed in July 1988 by a group of dedicated senior bankers and it has been the most representative organization of banking professionals in the Island. The APB was formed with the declared mission of achieving the following; 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 Banking Industry.

We also function as a forum that brings together leading personalities in business administration to have intellectual discussions on matters of common interest in the contemporary banking and economic sectors.

Ever since its formation, the Association has been very active in trying to achieve most of its objectives by organizing lectures, seminars and various training programmes to help bankers to keep abreast of the latest developments in their sphere of work. Such programmes covered not only the subject of banking but also other related areas such as technology, management, marketing etc., Senior executives of banks were also invited to participate in various programmes organized by the Association on very useful subjects of interest to them as banking professionals.

Our activities are not limited to academic and professional development; we also hold several social events during the year such as the members' night, sing song etc. that promote healthy social relationships among the members.

The Association completed a decade of service in 1998 and the event was celebrated in a fitting manner by organizing several activities spread over 3 days. The main event was the symposium on "Banking Beyond Year 2000" at which the guest of honour was Mr. Andrew Buxton, Chairman of Barclays Bank, London. The event was a tremendous success and became the talking point among those associated with the financial service industry in this country. The success of this event motivated the Association to conduct the convention as an annual event. Since then, the Association has conducted annual conventions on numerous themes of contemporary interest.

In fact our Annual Convention has become a much anticipated event amongst bankers in Sri Lanka. It is becoming an event recognized in the entire South Asian region as we draw some of the resource persons and the keynote speakers from the industry leaders in the region.

Q. What is the theme of this year's annual convention and its relevance and importance to Banking and Finance?

A. The theme of this year's convention is "Thriving in a Digital World". The theme was selected after much deliberation due to its relevance and timeliness.

As you know the effects of Digitalization are seen everywhere. Professor Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, has coined the phrase The Fourth Industrial Revolution to describe the phenomena of Digitalization, and the financial service sector provides ample evidence of the revolutionary change this technology has brought.

At the beginning, the Banking industry benefited immensely from the technological advancements by the automation of its operations. But the technology marched on and now has revolutionized the payment and settlement methods and a few years ago helped the creation of digital currencies, and now it is encroaching into lending and financing activities all of which have been exclusively banks functions.

In facing this challenging situation how will the banking industry ensure that technology actually serves it and does not disrupt it. This is what our learned speakers and participants will discuss in depth at the convention particularly at the technical sessions.

Q. What are the key features and highlights of this year's convention?

A. In every convention we invite an eminent person from the industry, who has made a significant contribution and has achieved international recognition, to deliver the keynote address. The Governor of the Central Bank of Sri Lanka, Dr. Indrajit Coomaraswamy will be the chief guest this year.

The APB will also be publishing the "Anniversary Volume" containing contributions from distinguished professionals and academics. Copies of this publication will be presented to distinguished invitees at the Inaugural Session of the Convention to be held on 02 November 2016 and to all participants attending the Technical Sessions on 03rd November 2016. In addition, copies of the publication will be delivered to all banks, financial institutions, libraries of educational institutions related to banking and finance and to all Universities in the country.

We have observed that the articles in the past volumes have been of immense value to practicing bankers and other professionals in the Banking and Finance Sector and also to those who keenly follow the developments in Banking & Finance.

Another significant event during the inaugural sessions is the presentation of the award for the banker who has made a significant contribution to the profession. This is an Annual award and is regarded as an honour conferred on a distinguished banking professional by fellow members of the profession.

Previous recipients of this awarded are :
2006 -Mr. A. Kadiravelupillai , Mr. Gaston Gunawardena , Dr . WickramaWeerasooriya
2007- Mr. A.S. Jayawardena , Mr. RienzieWijetilleke
2008- Dr. R.B. Ekanayake
2009- Mr. NihalFonseka
2010- Mr. W.A.Wijewardena , Dr. RaneeJayamaha
2011- Mr. ParamaDharmawardene
2012- Mr. RajendraThyagarajah , Mr. RohniNanayakkara
2013- Mr. MokseviPrelis
2014 - Mr. Ranjith Fernando
2015 - Mr. A Sarath de Silva

Q. What is the structure of this year's convention and how have you lined up the program?
A. As I stated the Convention will be held on two days, the Inauguration on 02 November 2016 and the technical Sessions on the 03 November 2016.
The technical sessions will commence with a curtain raiser and culminate with the Chief Executives forum.
The technical sessions are structured resembling a voyage taking the participants through all aspects of the issue that is being addressed. There are six technical presentations arranged in an interest arousing manner, titled Changing Tides (covering Global trends), Charting the Course (Digital Strategies), Unfamiliar waters (Challenges in Transformation), Sentinels (covering Cyber Security), Man over Machine (Human Resource issues) and the Clear Skies or Storms (Disruptions to the Industry).
We have organized these sessions sandwiched between panel discussions so as to keep the participants excited and to keep the maximum take home value. This way we hope to cover the entire spectrum of knowledge that is relevant to the Banking Industry on the topic of Digitalization.

Q. What is the expected audience & what benefits the participants could expect by attending the convention?
A. This event is open to non-members as well. We expect the participation of most senior bankers in this event. As in the previous years we expect the participation to exceed 300
I am sure there have been many seminars on the theme of digitalization organized by various bodies. But this is the one symposium organized by the bankers and for the bankers from the perspective of the Banking Industry. As such, we can call this year's convention the Digitalization Boot Camp for

Bankers.

We are sure the participants will take the wisdom offered by the convention back to their respective employers, thereby increasing the Digitalization readiness of the entire banking sector in Sri Lanka.

Q. As the President of APB what is the message you have for your members and other bankers

A. Having faced multiple economic cycles, and lived through waves of political and social unrest bankers have survived the worst of times. Bankers are agile, adaptable and sometimes adventurous in overcoming challenges.

We need to catch-up, learn and adapt to the changing times and the new climate. Then we can march ahead with the conviction that technology is within our control and that we are going to reap the benefits it offers.

In this connection I wish to invite the young banking professionals to join the APB and benefit from the opportunities it provides to work for the advancement of the professionals as well as their own professional betterment.

THE IMPACT OF WORLD FINANCIAL CRISES ON THE GOVERNANCE STRUCTURES OF CENTRAL BANKS[1]

By Dr.Ranee Jayamaha

Introduction and Background

Governance structures of central banks across the world are threatened by the frequent occurrence of global as well as domestic crises. Moreover, the advanced country central banks have resorted to 'non-standard' or 'unconventional' monetary policies to offset unprecedented threats to the stability of their financial systems. Following the emergence of the global financial crisis, close attention is now being paid to the responsibilities of monetary policy to support financial stability and, more generally, to interactions and possible conflicts between the two objectives of fostering price and financial stability. This sharpened focus on financial stability should come as no surprise, since it has historically been a dominant concern of central banks and, in many countries, a fundamental factor in their original establishment. The global financial crisis has dramatically demonstrated that price stability alone might not suffice to prevent the build-up of financial imbalances and systemic risks, even in conditions of steady economic growth. These changes have influenced the policy thinking of central banks around the world and some central banks have become mere followers of advanced country central banks, ignoring the state of play of the nations' macro-economic imbalances. Due to their resilience and traditional way of moving forward within the established governance structures, a few central banks have been able to overcome some of the challenges, while a few were financially supported by governments through recapitalization to enable them to handle domestic and external crises with no reputational risks. These central banks have accepted the need for change and already introduced appropriate legislation or amended existing statutes. Central banks, which have been on alert during the crisis period, used their discretionary powers and softened the blows from external crises on their financial systems. They are now in hibernation perhaps waiting until the symptoms of the next crisis appear. Some other central banks are struggling to convince their governments of the need to amend their governance structures. Ironically, there are some central banks which are either ignorant of, or indifferent to, potential risks and assume that their governance structures are resilient enough to handle future crises. What one clearly sees in this mix of reactions is that the recent financial crises have threatened the traditional governance structures of central banks thus compelling them to make necessary changes. The widely accepted view is that the central banks being public institutions should not march forward using their inherent discretionary powers, creating tension in the macro economy and losing public confidence in them.

This article is organized into four sections. Following the brief introduction, Section I sets out the key elements of stylized governance structures of central banks, the mandates and objectives of the modern central banks and the challenges faced by them in observing multiple objectives.

[1]This author has delivered the Memorial Oration 2016 for Professor H A de S Gunasekera on a similar topic on 11th November 2016. This article is an adapted version of the memorial lecture.

Section II deals with the impacts of the global financial crises that necessitated the widening of the range of central bank objectives and mandates, and the main issues and challenges confronted by them. Section III highlights the revisiting and restructuring process of governance frameworks and the learning experiences of central banks. Finally, Section IV presents concluding remarks and the way forward for central banks.

Section I:Stylized Governance structures for Central Banks

The governance frameworks of a central bank comprises a number of key elements which are fitted together through legislation, ordinance, by-laws, rules of procedure etc. The central bank is a public policy institution with a specific mandate. Most central banks are owned, but not operated by governments. Central banks therefore, are seen to be independent andautonomous and the degree of independence and autonomy depends on the political structure, the macro economic, social and cultural factors of different economies, the governing law of the particular central bank and the respect for the Governor and the board. Generally, central bank boards are appointed for limited periods on a staggered basis and the government appoints at least one ex–officio member (often the Secretary to the Treasury/the Ministry of Finance) to central bank boards. Some central banks have government ministers and deputy ministers on their boards. Being independent institutions, central banks are possessed of significant discretionary powers compared to currency boards and they maintain their "public institution "character.

Central banks are demand driven institutions and their balance sheets are unique. Through money creation, central banks expand their balance sheets – which is tantamount to the creation of high powered money (monetary base or reserve money). In the money creation process, central banks generate seignorage profits . Traditionally, central banks do not have the profit making objective unlike a corporate entity but loss making central banks are vulnerable to risks. Despite the wide array of instruments in a central bank, usually one instrument is expected to be used to achieve one objective. In multi- regulatory systems, while preserving their reputation, the central banks interact with other domestic regulatory agencies, and build relationships with regional and global regulators. Central banks are expected to work within their governance structures and be transparent in their operations, and are accountable to the Parliament, the general public and to other authorities. The global crisis has made it necessary for central banks to review their governance structures primarily due to the failure of a number of systemically important financial institutions (SIFIs) and other BFIs and for bailing them out using public funds.

Key Components of the Governance Structures of Modern Central Banks

• The Mandate: Objectives and Role of Central Banks

The term "mandate" or "policy mandate" refers to a combination of the responsibility and authority to wield powers in pursuit of public policy objectives. Generally, the governing laws of central banks set out their mandates/objectives, powers, functions/roles, instruments, regulatory and supervisory powers, appointment of the board, governor and senior officials, accountability, external audits etc

[2]The difference between the face value of currency notes and the expenditure incurred on note printing, and the face value of coin minting and the expenditure on coin minting.

Constitutional provisions, statutory statements and judicial interpretations also influence the mandate setting of central banks (Australia, Brazil).Mandates/objectives vary among central banks and they can be broadly categorized in to three sets:

i. Single objective, i.e. price stability, subject to the monetary regime in operation (New Zealand, Sweden, Canada, UK)

ii. Dual objectives: price stability and financial stability/foster financial sector development more broadly (UK, Malaysia, Sri Lanka)

iii. Multiple objectives (USA, Thailand, the Philippines)

On the basis of these objectives, most mandates have defined the role of central banks. Traditionally, central banks set the interest rates; provide and manage liquidity in the system through monetary or inflation targeting; serve as the banker to banks and government; regulate the financial systems; facilitate payments and settlements; promote financial sector development; and undertake agency functions etc. The role of providing liquidity to market participants to tide over their short term problems, which is known as "the lender of last resort- LOLR function", is a role that entails risks to central banks. They are therefore, careful of the quality of collateral offered by their clients. The collateral requirements and rules for such lending have changed over time and in emergencies. As a risk mitigation measure, central banks can set financial buffers in their balance sheets, thereby limiting the exposure of LOLR. For example, the Central Bank of Switzerland has such buffers. In general, self-imposed rules should be applicable in liquidity management and central banks should be extra cautious in providing liquidity to the system in emergency situations. In performing these numerous roles, central banks are expected to be transparent and regularly communicate with all stakeholders explaining their policy stance.

The existence of a policy mandate is clearest when the law explicitly establishes the central bank's responsibility for executing a policy function, states the objective(s), and provides the powers and authorities that may be needed. But some laws are not that comprehensive in that some of the above elements may be missing; objective(s) may not be clearly stated, powers may not be expressly provided, or the law itself may not be clear.As a result, with the passage of time, it may even change the way one interprets public policy. The Bank for International Settlements (BIS) surveys (2009 and 2011) on central bank governance and financial stability responsibilities in normal times indicate weaker forms of legal grounding, ranging from mandates that were only implied in law, to mandates specified in extra-statutory statements or based on tradition or similar procedures (e.g. in the UK, mandates are in the law and in Australia, some mandates are in extra-statutory statements, which are derived from important announcements made by the government or ministers in charge of the subject).

• Single, Dual and Multiple Objectives

Prior to the recent crisis, no central bank had a clearly articulated financial stability objective as an explicit part of its formal monetary policy objective. The only clear mandate held by almost all central banks was the oversight of payment systems. Bank of Thailand (BOT) was one of the few central banks that had the mandate and powers ahead of the crisis to act as the macro-prudential regulator (taking financial stability as a whole rather than its individual components). Bank Negara Malaysia (BNM) acquired a similar mandate following the passage of the Bank Negara Malaysia Act in 2009. However, all central banks in the BIS 2009 Survey sample reported having used analytical frameworks that take financial market developments into account when formulating monetary policy. The European Central Bank (ECB)'s "two-pillar monetary policy strategy" is one example, the Bank of Japan (BOJ)'s "one objective, two perspectives" is another.

In the meantime, central banks with a heavy involvement in bank supervision consider themselves as having established means of addressing broader financial stability issues. Some central banks were mandated to achieve a mix of stability and growth objectives. For example, as per the Monetary Law Act (MLA) No. 58 of 1949, at the commencement of the then Central Bank of Ceylon, its objects were set out as the stabilization of domestic monetary values; the preservation of the par value of the Ceylon Rupee and the free use of the Rupee for current international transactions; the promotion and the maintenance of a high level of production, employment and real income in Ceylon; and the encouragement and promotion of the full development of productive resources of Ceylon. During 1950 to 2002, no comprehensive review was done to assess whether Sri Lanka's central bank (named Central Bank of Ceylon up to 1984 and Central Bank of Sri Lanka since then) has achieved all, only some, or none of these objectives.

As a significant component of the CBSL modernization programme, its governance structure was reviewed in 2002 and it was mandated to achieve two core objectives, i.e. economic and price stability and financial system stability (MLA amendment in 2002). Like most central banks did in the 1960-1990 period, CBSL has been targeting monetary aggregates, the broad money target in particular, to achieve price stability but with no specified target point or range. CBSL has now enhanced its monetary policy framework aiming to achieve a combination of monetary and flexible inflation targeting . In the meantime, using its discretionary powers and pre-emptive actions, CBSL managed to soften the impacts of external crises on the country's financial system although there had been no visible revision to the governance structure. While the recently adopted unconventional policy prescriptions by global central banks to prop up their economies through money printing has ruffled the policy thinking of most central banks, the ever increasing domestic fiscal issues together with the collapse of a number of non-bank financial institutions (NBFIs) have forced many Asian central banks, including CBSL, to continue the use of their discretionary powers. In this context, it is opportune time for central banks which have not reviewed their governance structures in the recent past to start the process by identifying gaps and risks and selecting appropriate risk controls to deal with emerging situations rather than continuing with "business as usual".

• Defining and Measuring Financial Stability are Difficult

Given the wide range of components, such as financial institutions, instruments, payment and settlement systems (financial infrastructure) and legal and regulatory systems, it is hard to define or clearly interpret the financial stability objective. Any one of the above mentioned components can disturb financial stability. One easily identifiable component in financial stability is the payment system pillar and that is why the facilitation of payments and settlements has been an essential role of central banks.

[3] The Monetary Law Act No 58 of 1949, para 5

[4] Annual Report -2015, box 10, Modifications to the Monetary Policy Framework in Sri Lanka, Page 204

In terms of reducing financial stability risks relating to payments and settlements, at one time, CBSL was ahead of all central banks in South Asia and was on par with many advanced central banks.

There is a wide array of definitions for financial stability but none is precise enough to be pinned down in law. A sample of such definitions are mentioned to illustrate the gaps and incompleteness in them. Andrew Crocket (1997) defined financial stability as a condition in which economic performance is not being impaired by asset price fluctuations or by an inability of financial institutions to meet obligations. Roger Ferguson (2002) , stated that the absence of instability is characterised by some combination of a number of diverging and distorting factors and opined that taking financial stability as an outcome is more practical than as an objective. Y V Reddy (2006) defined financial stability as the smooth functioning of financial markets and institutions, but not the complete absence or avoidance of crises. The Bank of Norway defines financial stability as the system's resilience that is capable of financing, carrying out payments, and redistributing risk in a satisfactory manner even under stress. The Deutsche Bundesbank describes it as a position in which the financial system efficiently performs its key economic functions, such as allocating resources and spreading risk as well as settling payments. The UK's new definition for financial stability (under the new Banking Act of 2000) comprises five elements (i.e. system stability, with particular reference to continuity of service; confidence; depositor protection; fiscal protection; and property rights protection).

The Global Financial Survey (GFS) - 2011 showed an interesting diversity of intermediate cases where the central bank was not the supervisor of all BFIs but had a number of supervisory tools at hand. One of these was the senior central bank representation on the boards of the other supervisory agencies, as an ex -officio member. The Financial Stability Executive Committee established by BNM in 2009 and the Financial Stability Committee of the Bank of England (BOE) in 2009 are examples.

During the pre-crisis period, while some central banks kept a close eye on market development and market corrections, some others left market corrections to markets themselves. These central banks, wittingly or unwittingly, created a regulatory anarchy and also did not act decisively on time. The former Chairman of the Federal Reserve Bank, Allen Greenspan once hailed the best central banker the world has ever had, was now blamed for the financial crisis that occurred during 2007-09. In his book on "The Man Who Knew: the Life and Times of Allen Greenspan, Mr. Sebastian Mallaby argues "The tragedy of Greenspan's tenure is that he did not pursue his fear of finance far enough; he decided that targeting inflation was seductively easy, whereas targeting asset prices was hard; he did not like to confront the climate of opinion, which was willing to grant that central banks had a duty to fight inflation, but not that they should vaporize citizens' savings by forcing down asset prices. It was tragedy that grew out of the mix of qualities that had defined Greenspan throughout his public life – intellectual honesty on the one hand, a reluctance to act forcefully on the other" (Sebastian Mallaby, 2016).

5Andrew Crocket(1997) , BIS , "The Theory and Practice of Financial Stability" in the GEI Newsletter, Issue No 6, July 1997

6Roger Ferguson , (2002), "Challenges to Central Banking from Globalised Financial Systems entitled "Should Financial Stability be an Explicit Central Bank Objective?"

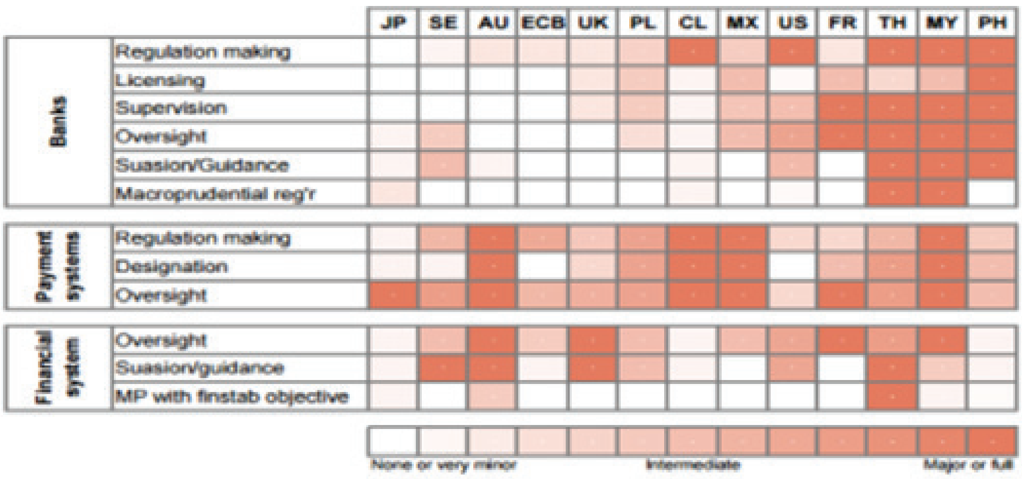
7The Global Financial Survey-2009 (BIS data)

• Financial Stability Related Mandate and powers

The great depression in the 1930s is said to be the largest negative external shock that the world has experienced. Although conditions were not similar, the more recent 2007-2009 global financial crises have left many more debris and blemishes that are equally negative to many financial markets. This situation has been aggravated by the frequent occurrence of mini crises, such as tensions in Russia, economic slowdown in China, the Syrian refugee crisis in Europe, the unexpected Brexit in June 2016, the fall of one of the oldest Italian banks, the historically low commodity prices and, more recently, the capital inadequacies in Wells Fargo Bank in the USA and Deutsche Bank in Germany have caused setbacks in the US and European recovery processes with headaches to world financial markets.

Similarly, the recent crises have undoubtedly raised a number of issues regarding mandates and powers of central banks. The present trends indicate that many central banks are moving away from a narrow focus on price stability to mandates that include financial stability, development of financial sector and the implementation of micro/macro-prudential policies (MMPPs). Price stability is measurable, easy to define and the public can monitor the performance of central banks. There is no precise definition or a measure to gauge financial stability nor can it be felt or enshrined in a law easily. A weak monetary policy could also endanger financial stability as a mandated objective and even in the absence of such an explicit mandate, most central banks attempt to safeguard financial stability. The discussion therefore, focuses on whether the mandates of central banks should be expanded to make financial stability an explicit objective alongside price stability.This might be deemed controversial, but perhaps unnecessarily so, if one considers that financial stability is a precondition for price stability.

Chart 1: Financial stability related mandates of central banks in 2009 (The darker the shading the bigger the mandate).



Source: BIS Survey of participating Central banks, conducted in 2009

As seen in chart 1, some of the South East Asian central banks (Thailand, Myanmar, and the Philippines) appear to be using intense regulatory and supervisory powers over banks, while Myanmar, Mexico, Colombia and also the Philippines concentrate on the payment system aspect of financial stability.

The severity of global financial crises and the economic contraction have also raised a number of fundamental issues about the role of monetary regimes (the fixed or flexible exchange rate systems), governance structures and financial systems. During the sub-prime crisis, the balance sheet of the US Federal Reserve Bank was unprecedentedly inflated due to take overs of troubled BFIs as well as non BFIs. A growing consensus in the post crisis period is that the reform agenda should re-orientate regulatory frameworks to place stronger emphasis on mitigating the impacts of instability on the wider financial system. The regulatory failure and lack of transparency and accountability on the part of central banks/regulatory authorities were seen as the major reasons for the collapse of the financial institutions which in turn were attributed to the lack of clear mandates and power to regulate BFIs. This stance is also well illustrated in Sebastian Mallaby's Book on Greenspan. "Mr Greenspan also held a fear and a hope. His fear was that participants in the financial game would always be too far ahead of the government's referees and that of the regulators would always fail. His hope was that when risk management did fail, the FED would clean up afterwards. Unfortunately, after the big crisis in 2007-08, this no longer proved true". In other words, the absence of an appropriate governance structure with clear objectives, mandates and risk mitigating measures has been a major reason that contributed to the crisis.

Section II: The Crises Have Challenged the Existing Governance Structures of Central Banks

The 2007-2009 world financial crisis has compelled some of the advanced country central banks to assist the collapsed systemically important financial institutions (SIFIs) adopt a near zero interest rate policy and continue quantitative easing (i.e. using central bank money to purchase monetary assets, such as government bonds in a phased manner), all of which have expanded the balance sheets of central banks beyond their normal operations. Notwithstanding this, more recently, the BOE, Bank of Japan, and the European Central Bank (ECB) have extended their asset purchase beyond government bonds to corporate bonds and equities of private firms. The emerging country central banks have not reduced their interest rates to near zero levels nor have they initiated large scale quantitative easing compared to the advanced central banks, although the former too have bailed out SIFIs and other BFIs using their discretionary power and providing funds directly or indirectly through different sources. The major issue faced by the emerging country central banks is the ever increasing demand for monetization of fiscal deficits. In this regard, both advanced and emerging country central banks are forced to follow accommodative monetary policies. The difference is that the advanced country central banks have sought legal protection and amended their laws and statues,

- Debate on Critical Issues and Readiness to Face Challenges

Prior to revisiting their governance structures, central banks should internally discuss the appropriateness of their present mandates to face the next crises and debate on the wide range of pertinent issues, such as should price stability be mandated as the prime objective and financial stability the secondary objective? What degree of responsibility do central banks have for financial stability and do central banks have the instruments commensurate with that responsibility? What indicators and benchmarks must be used to measure financial stability? How best can macro/micro prudential policies (MMPPs) and financial infrastructure be taken as critical elements of financial stability? Should financial stability be a policy objective or a component of governance? Should financial stability be rule-based or principle-based or a combination of the two? Should a central bank – a non-elected agency be assigned the responsibility for price stability, financial stability and the implementation of MMPPs? Should implementation or supervision of MMPPs be handled by another agency? What type of a coordinating mechanism should be established between a central bank and such agencies? How can wider central bank powers be reconciled with the need for greater control – without compromising the autonomy required for effective policy delivery? Why should a central bank bailout SIFIs and other BFIs? Should it not be the responsibility of the government or a separate agency set up for the purpose? If central banks are mandated to preserve financial stability, shouldn't they act pre-emptively and defuse risks to financial stability even when price stability is not at stake? Almost all matured central banks have widely debated these issues and changed their governance structures after taking into consideration the capabilities of central banks. It is therefore, prudent for emerging country central banks to debate these issues prior to introducing legal and institutional amendments necessary for new governance structures.

Multiplicity leads to complexity. In addition to the number of issues mentioned earlier, using MMPPs to support the achievement of financial stability has raised another set of practical issues. If preserving financial stability is to be achieved through addressing a wide range of MMPPs, the concentration of central banks will be spread among a wide range of intermediate targets. For example, if this means bailing out SIFIs in crisis times, central banks will have to assess their capabilities of handling bloated balance sheets of some of the SIFIs and the degree of risks. What then is the order of priority in the achievement of multiple objectives? Should price stability prevail over and above others or should it be assumed or legislated for? Similarly adding growth objectives will add to the conundrum. Are there effective tools for central banks to manage economic development and growth objectives? Are central banks expected to fund the promotion of growth objectives and do they have the skills and capacity to deliver developmental objectives? From hindsight, it is worthy to note that it would be difficult for central banks to focus on multiple objectives due to overlaps, numerous risks, lack of instruments and financial and human resource constraints.

- Issues in Providing LOLR During Normal Times and Emergency Lending at Crisis Periods

Even if central banks can live with a practical mix and match of definitions, lending in emergencies to safeguard or to bail out a BFI is particularly difficult due to maintaining the boundary between secured lending (LOLR) and lending at risk. The availability of information and knowledge necessary to assess credit risk, the reluctance on the part of the central banks to back out or withdraw assistance from the institution/s fearing that the institution will collapse and the non-availability of high grade collateral are serious challenges. The boundary of regulation needed to offset any moral hazard that arises with the availability of imperfectly priced public sector liquidity assurance may pose yet another issue.

In most countries, decisions on the LOLR are fully within the remit of the central bank, while most central banks consult or even let governments take decisions on emergency lending. In the UK, the provision of LOLR loans is determined by the Chancellor of the Exchequer. As providers of LOLR, central banks may find themselves at the sharp end of public policy actions in the face of financial instability. As money markets need to operate smoothly in order for central banks to effectively implement monetary policy, central banks are also morally obliged to provide emergency lending to markets. To what extent the central banks should stretch themselves cannot be legislated that easily but if there is a well-knit governance structure that may help in prudent decision making.

- Use of Macro and Micro Prudential Measures to Attain Financial Stability

The financial stability mandate, whether formal or informal, explicit or implicit, has until recently been thought of by many as a policy function, discharged mostly through: the regulation and supervision of financial institutions; by ensuring the safe functioning of financial infrastructure; adhering to standardised contract arrangements; and reporting to credit bureaus and rating agencies etc. When things go wrong, they assumed that the extended LOLR would be the answer. In the wake of the 2007-2009 financial crises, there has been burgeoning interest in macro-prudential policy as an overarching framework to address financial stability as a whole rather than only its individual components. The array ofmacro prudential measures includes, caps on the loan-to value ratio (LTV), caps on the debt-to-income ratio, ceilings on credit or credit growth, reserve requirements, countercyclical capital requirements and time-varying/dynamic provisioning, net open currency positions/currency mismatch and limits on maturity mismatch etc. Countries often use these instruments in combination rather than singly, to complement other macroeconomic policies, and adjust them counter-cyclically so that they act in much the same way as "automatic stabilizers." The CGFS - 2009 indicated that 10 of the 17 emerging market central banks had significant micro prudential responsibilities, compared with just three of the 18 advanced economies. Figure 1 summarizes the propensity to use macro prudential instruments in advanced and emerging countries. The survey classified them according to the financial stability mandate assigned to central banks, i.e. Extensive, Constrained and Minor/None.

8C. Lim, F. Columba, A. Costa, P. Kongsamut,A. Otani, M. Saiyid, T. Wezel, and X. Wu, IMF working papers, October 2011,Macro prudential Policy: What Instruments and How to Use Them? Lessons from Country Experiences

9The Committee on the Global Financial System (CGFS) Macro prudential instruments and frameworks: a stocktaking of issues and experiences

Figure 1: Propensity to Use Macro-prudential Instruments

Nature of financial stability mandate:	Extensive	Constrained	Minor/None
Average number of categories of macroprudential instrument deployed, per country in the CGFS sample			
Advanced economies	–	0.6	0.5
Emerging Market Economies	2.3	2.0	1.4
Average number of categories of macroprudential instrument deployed, per country where the central bank has a major role in microprudential supervision			
Advanced economies	–	1.0	0.5
Emerging Market Economies	2.0	2.0	1.8

Source: Committee for the Global Financial System Survey, 2009; BIS data

Notes: Financial stability mandates are classified as: (1) Extensive if relevant statutes give the central bank an unqualified objective for the stability of the financial system as a whole; (2) Constrained if the stability objective is expressed in directional terms (eg to promote, to reinforce, on a best endeavours basis), or is related only to a specific central bank function (eg bank supervision, bank licensing, payments system oversight), or is only for a part of the financial system (eg banks, deposit-takers, payment system providers); and (3) Minor/None if there is no such stability objective in the law. The categories of macroprudential instruments referred to are the four presented in Table 3 of the CGFS report cited in footnote 1. No number appears for advanced economies with extensive financial stability mandates because there were no such countries in the CGFS sample.

Source: Committee for the Global Financial System Survey, 2009; BIS data

In practice, this 'macro-prudential' orientation would be implemented by conducting monetary policy in a more systematic and symmetrical way (i.e. through the cycle); not only the normal easing of monetary conditions in downturns, but also a preventive tightening in upturns that feature rapidly growing credit volumes and asset prices, even when price stability is not immediately threatened.6, The Basel Committee on Banking Supervision has introduced the use of the countercyclical capital buffer (Basle III) as one of the new macro-prudential tools. Moreover, like the policy rate itself, macro-prudential measures too may suffer from a 'dosage' issue; that is, magnitude appears to be crucial to effectiveness9 of the interactions, complementarities and potential conflicts among them. The development of a macro-prudential framework is still at an early stage, and several aspects of these policies, most notably how they will work in practice, require further analysis. Micro-prudential information about individual financial institutions is also clearly relevant and such information can be obtained from a variety of sources. While "no one size fits all", some approaches may have advantages in different country situations.

In the legislation adopted in September 2010, the European Parliament opined that the new governance arrangements should have both the micro and macro-prudential spheres. However,ECB's clearly expressed view was that monetary policy should continue to be directed to a price stability objective, not a wider financial stability objective. In the US, the Dodd-Frank Act (2010) created a new centralised macro-prudential body, known as the Financial Services Oversight Council (FSOC). Both jurisdictions emphasise regulatory instruments in the accompanying (implicit) macro-prudential policy frameworks. In the Philippines, Bangko Sentral Philipinas (BSP) is already responsible for supervision of the banking system and oversight of payment systems takes a broad, systemic view of that responsibility.

For the sake of clarity, an amendment specifying financial stability as an explicit objective of BSP is presented to the legislature, while leaving price stability as the prime objective. In mid-2010 and early 2011, the UK Government adopted a radically different approach to financial stability policy. The former Financial Services Authority (FSA)'s responsibilities for micro-prudential supervision of banks and insurers have been absorbed into a new operationally-independent subsidiary of BOE called, the Prudential Regulatory Authority (PRA) which is responsible for the oversight of the safety and soundness of all prudentially significant financial firms (including non-banks). A new Financial Policy Committee (FPC) was established as a formal committee of the Bank's Court of Directors (the

Court), with responsibility for delivering systemic stability through macro-prudential regulation and oversight of the micro-prudential function. The Bank's existing financial stability objective – introduced by the Banking Act in 2009 – was reaffirmed but amended to emphasise the need for coordination with other relevant bodies .

• Practical Difficulties in Achieving Multiple Objectives

Central banks often face confrontations between price stability and financial stability objectives and also among financial stability and other objectives. Having an interest in financial stability does not by itself imply having a public policy mandate to pursue an independent financial stability goal. For example, central banks are concerned about the impacts of fiscal policy and deficit financing, but that does not mean central banks should have fiscal policy as a mandate in their governance structures. As these require different policy actions, it helps those charged with the execution of policy to know which actions are desired and which are articulated in the law, but this may not be sufficient to establish a mandate for financial stability. In any case, it is desirable to spell out the mandates of each agency to understand how they overlap and deal with the potential inconsistencies and conflicts at the boundaries. A powerful way of spelling out the mandate is to establish an explicit objective for the responsible agency. Over the recent decades, central banks' objectives for monetary stability have become considerably more explicit. Financial stability objectives are often vague compared to monetary policy objectives. "Maintain financial stability" is less easily interpreted than "maintain price stability" since price stability can be numerically approximated in terms of a generally agreed index, whereas financial stability cannot be pinned down to an index. Further, financial stability objectives are often expressed in directional, rather than absolute terms. For example, "to promote" or "to support" or "to endeavour to achieve", but there is no measurement to understand how much promoting, supporting or endeavouring is intended. For example, the BSP has responsibility for payment system oversight as an explicit objective and it is a critical component of financial stability. The more explicit the objective is, the easier it would be to decide on risk taking on financial stability.

10BIS: Central bank governance and financial stability. A Report by a Study Group Chair: Stefan Ingves, Governor, SverigesRiksbank May 2011
11S Cecchetti, M Mohanty and F Zampolli (2010), "The future of public debt: prospects and implications", BIS Working Paper no 300, March. 3

Section III: Central Banks have Revisited Their Governance Structures

• Post-Crisis New Mandates, Preventive Action, Emergency Response and Crisis Management

With regard to special resolution regimes for failing BFIs, authorities in the UK and the USA found that their ability to resolve large, complex BFIs whose failure posed a threat to the stability of the financial system was severely hampered by the lack of necessary resolution powers. Special resolution regimes or powers for dealing with failing banks are in place in a few countries (Australia and Japan). The absence of such powers means that destructive financial failures are more likely to threaten the financial system resulting in both fiscal and monetary risks and moral hazard problems. Following the experience with Northern Rock and the need to resort to emergency legislation in early 2008, the UK Parliament passed the Banking Act in early 2009, implementing a standing special resolution regime (SRR). That regime allows the authorities to intervene, before insolvency, to transfer all or part of a failing bank to another bank, to a bridge bank or bring it into temporary public ownership, to administer any residual business not transferred, or to close the bank, liquidate its assets and either pay out or transfer its insured depositors' accounts.

In designing governance structures or frameworks for central banks, the developments regarding emergency arrangements are worth noting in two areas of significance: the provision of emergency lending and the arrangements for managing the failure of SIFIS (bank resolution). In the provision of emergency lending, there are substantial differences across jurisdictions on the specific powers and authorities provided to the central banks. In some countries, a central bank's independent authority to lend to the private sector is tightly constrained by explicit requirements about the nature of the security cover required, the pricing of the transactions, and the range of counterparties. In other countries, these elements are not set out explicitly and require judgment. Yet in others, the government becomes involved in decision-making when non-standard operations are being considered. According to Section 13(3) of the Federal Reserve Act, such emergency credit extension can only be made under the umbrella of a broad-based eligibility programme or facility, and only with the approval of the Secretary to the US Treasury. Similarly, the Federal Reserve Bank has to ensure that loans are not provided to any borrower in any form of insolvency proceedings, and that collateral taken in such loans is of sufficient quality to provide protection. There were no serious bank failures in recent times in Sri Lanka, although there have been a number of finance company failures. CBSL managed finance company crises using the provisions in the law and its discretionary powers but it is difficult to gauge the readiness of CBSL to handle a potential failure of a SIFI and risks to central bank balance sheet in the future. In trying to safeguard financial system stability, central banks may have to bail out SIFIs which are under its supervision or even a number of smaller BFIs. The issue is if central banks make losses in this process, will governments reimburse such losses?

• Transparency and Accountability of Central Banking and Compliance

Most of the new governance structures established or modified in the post-crisis period encompass improved accountability and transparency arrangements for all policy functions of central banks. Accordingly, new high-level coordination or decision-making bodies have been or are being formed with explicit mandates to focus on systemic risk identification and management.Developments in the area of accountability and transparency arrangements for financial stability and new disclosure requirements are prominent parts of the reforms in major central banks (BOE and the Federal Reserve).

Financial stability related activities of the central bank, legal requirements or formal commitments to extensive disclosure have been rare compared to monetary policymaking. Publication of decisions is typically discretionary and often bounded by requirements (or powers) to keep information on individual financial institutions confidential (secrecy provisions). In this scenario, can the decision to publicise a particular financial stability action trigger a destabilising market reaction? Or can this be done through effective communication via central bank publications? The SverigesRiksbank (RiksBank) in Sweden and the BOE in particular have included in their regular financial stability publications the messages they have wanted to communicate actively to market participants and the government. The latest financial stability reports from the BOE present the analysis leading to actual policy decisions while the Fed Board's semi-annual Monetary Policy Report contains a section on financial stability. In contrast, the financial stability reports published by some central banks in the Asian region do not have the same characteristics and quality.

The governance framework of central banks should provide for both internal and external audit reviews. Although there is no best practice, central banks should consider the audit function as a critical component in their governance structures. The compliance culture will be reflected in the audit reviews. Central banks should publish their annual accounts and related financial reports on due dates and be ready to provide any information that are required by auditors, the Parliament and the general public. More importantly, central banks should volunteer to conduct periodic reviews to assess whether they have been working within or outside the governance framework. A self-assessment by the Board itself would give them a better idea of the extent of their compliance with rules and regulations, the extent of the achievement of the prime objective/s and the areas where they have failed in achieving much. For example, Israel publishes two self-evaluation reports each month. Transparency of policy decisions and effective communication to the public remain essential complement of the interactions, complementarities and potential conflicts among them.

• Legal Protection for New mandates , Financial Autonomy and Risk Management by Central Banks

The recent financial crises have forced central banks to support growth and make available required settlement funds to facilitate global payment and settlements. At the start of crises, during 2007-2009, to avoid disruption to global payments, central banks (such as BOE, the FED, ECB, BOJ) joined forces in making available settlement funds and also resorted to non-conventional "quantitative easing" (QEs) in their respective countries. The Fed has stopped QE, but some others are still continuing with it. Do advanced country central banks have a choice during financial crises periods? A number of practical issues are raised with respect to risk management by central banks.Should central banks be assisting governments in crisis times? In what ways and to what extent?

12&20 BIS: Central bank governance and financial stability. A Report by a Study Group Chair: Stefan Ingves, Governor, SverigesRiksbank May 2011

Can central banks preserve their independence while supporting growth objectives? As mentioned earlier, BOJ and BOE are still continuing with near zero interest rate policies (Fed at 0.25-5.0% but hinted of a possible rate increase in December 2016) while BOJ indicated that it will continue to buy bonds to the tune of USD 800 Bn a year at zero interest rates and will target an annual inflation of 2 percent. This shows that mandated or not central banks have no choice other than providing emergency funds to BFIs in the interest of financial stability and support governments in the national interest. In these instances, autonomy is needed to ensure that central banks are shielded from political pressures and undue influence from business and industry. At the same time, close collaboration and effective cooperation will be necessary among the different agencies to successfully deal with the situation. A clear delineation of responsibilities helps achieve a suitable balance between autonomy and cooperation.

Among all governance issues, it is the non-financial risk management of central banks that has been examined the least. Functions such as internal audit and compliance, the structure of the board and its decision-making processes have been well-charted in central banks. These issues require more attention, as non-financial risks carry potentially large adverse (financial) effects for central banks . The Board is responsible for maintaining sound risk management and internal control systems.

• Financial Capabilities to Operate New Mandates : Funding Model for Operating Costs

According to the definition used for the BIS survey, conventional LOLR support is fully collateralised and conditional on solvency (tested or presumed). Ex ante therefore, it is not expected to result in financial costs to the central bank beyond its risk tolerance for conventional LOLR actions. During crises, most central banks would bear any realised losses that result from such limited risks with their own financial resources, at least initially. Over time, any such losses would typically be passed on to the government, via a corresponding reduction in the surplus transferred by the central bank to the government. Notably, in Poland, a temporary law (passed during the recent crisis and was in force until the end of 2010) provided for the central bank to be reimbursed for 50% of any losses caused by LOLR loans that could not be repaid as a result of worsening financial conditions. The Reserve Bank of Australia (RBA) was at one end of the spectrum, as its balance sheet is not available intentionally to support insolvent institutions. If the government still decided to provide support to an insolvent institution, the RBA could facilitate the transaction or take other actions, so long as its balance sheet was not at risk (e. g. using a government indemnity).

Can a central bank work with a negative net worth for a long time? Traditionally, central banks are under-capitalized but they are confident of getting government capital in case they have to be recapitalized. The UK and Canada are under-capitalized by any standard or measurement as they have inflated their balance sheets during crises times. This is not a matter to be complacent about, as central banks should "not rest on laurels". They should endeavor to put pressure on governments and increase their capital as and when possible. More recently, as per section 6 of the Monetary Law Act (amendment) No 15 of 2014, the capital of the CBSL has been increased from Rs 15 mn in 1949 to Rs 50 bn thus providing a comfortable capital cushion. Although this is not commensurate with the growth in the CBSL balance sheet, it was a prudent measure taken by the CBSL in consultation with the Government.

14Ashraf Khan, Central Bank Governance and the role of non-financial risk management, IMF working Paper

The ability of a central bank to print money and take the seignorage profits is another comfort for central banks. During the recent crises period, BOE and BOC have taken seignorage profits into books and have also invested such profits in government paper. The consequences of this radical departure from traditional central banking, the dangers of the enormous discretionary powers of central banks and the loss of autonomy of the present day central banks in supporting the government during crisis periods have provoked public debates. The governing laws have prevented some central banks from the passing of seignorage profits to governments. For example the MLA in Sri Lanka has no provision for direct monetization of seignorage profits the CBSL had earned. Like all other central banks, CBSL also makes seignorage profits on its currency issues and such profits are dispersed across all the assets of the Bank and it is not identified as a surplus to be paid to the government. Instead, the books of the CBSL would record the interest income which the Bank earns on the assets it has created. In arriving at the net surplus, all costs relating to the currency printing and minting as well as investment expenditure are deducted from the interest income. The net surplus however, cannot be automatically transferred to the consolidated fund as the CBSL has to follow the practice stated in the MLA in appropriating central bank profits. Clearly, the legal provisions in the MLA have provided safeguards to CBSL.

• Decision Making and Effective Co-ordination with Other Agencies

In multi-regulatory or agency systems, decision-making with respect to the provision of financial support to banks appears to be remarkably diverse, both in terms of the committee structure used by the central banks and the involvement (or not) of government or government agencies. Chart II below indicates a wide spectrum of decision making by central banks in bailing out SIFIs or a troubled bank (financial stability objective) and or supporting governments at crisis periods. As shown in Chart II, the decision-making framework at the BOE has made major threats to the Bank's capital less likely, while at the BOJ's capital is not necessarily protected ex ante. The quality of collateral offered by BFIs during crises periods may or may not be up to standard or even realizable. In these circumstances, legal risks to the central bank can be considerable, particularly when it is involved in bank resolution.

Chart II: Decision Making Processes of Central Banks at Crises Times

Central Bank	Internally - by Executive Board	Dedicated financial crisis management team	Internal policy board and decision making by government	Balance sheet support decision by Minister of finance or equivalent and for the Court of Directors to decide	Governing board in consultation with the ministry of finance	Use government indemnity and support but not through central bank balance sheet
SverigesRiks bank-Sweden	✓					
Bank of England				✓		
Bank of Japan						
National Bank of Poland		✓				
Central Bank of Sri Lanka					✓	
The Fed reserve Bank					✓	
Reserve bank of Australia						✓
Bank of Mexico		✓				

Source: BIS Survey 2009

• Independence, Interdependenceand Trade-offs

The effective conduct of monetary policy presupposes a stable financial system and vice versa. Stability in both dimensions help promote the efficient allocation of resources and sustainable economic development over time. However, the short-term interests of monetary policy and financial stability may occasionally diverge and in such situations, having explicit policy objectives will help authorities set the desired priorities. The trade-off dilemma should not be exaggerated, though; its management will be easier if the authorities have a wide range of tools, consistent with their mandate, for dealing with financial stability matters. The crisis has surfaced the assumption that over longer horizons there is no trade-off between the objectives of price stability and financial stability – rather, there are synergies. As a result, even in the absence of a formal mandate for financial stability, central banks have long factored in developments in the financial sector – most notably in the money, credit and asset markets – into the conduct of monetary policy. A major issue that should be highlighted is the potential for conflicts and 'trade-offs' – between monetary policy and MMPPs.

Where the central bank has policy responsibility for both monetary and financial stability, some ranking of objectives would be desirable (though it may not be possible in all circumstances). In the case of the ECB, CBSL and BOE for example, such a ranking exists with the primary objective being price stability. Such a ranking would also be useful where decision-making on financial stability policy actions is shared with other authorities. Central banks are known to be independent. Where trade-offs exist and another party participates in decisions, without clear rules, the decision making would be difficult. Another example would be a central bank that defends a fixed exchange rate by raising short-term interest rates to stem capital outflows. The higher interest rates may support the nominal monetary policy anchor, but at the cost of creating strains in the financial system (inter alia, Sweden in 1992).

Explicit policy objectives may be needed to manage policy trade-offs. Policy effectiveness may also be hampered if, at moments where decisiveness is required, lawyers need to be engaged to assess whether the law provides the necessary authority to act. What emerges is that there is a strong case for making the financial stability mandate explicit and clear in a central bank governance structure. Doing so, reduces the risk of boundary disputes and turf fights between different agencies and the risk of defensive responses by a central bank. Some central banks have set up Inter- Institutions Regulatory Committees to effectively coordinate regulatory and supervisory aspects among multi regulatory authorities.

Section IV: Concluding Remarks and Way Forward for Central Banks

During the recent crises and post crises period, the advanced country central banks like The Fed, BOJ, and BOE have been keeping the short term interest rates at zero or near zero levels, while engaging in "quantitative easing" with the express aim of driving down long term interest rates. In doing so, these central banks have also taken steps to pass necessary statutes, amend existing governing laws and secure legal interpretations to cover them from legal and reputational risks. Yet, the unconventional moves by the advanced country central banks have raised a number of issues in the art of central banking and also changed the policy thinking of developing and emerging country central banks. While all central banks are keen to preserve the health of the transmission mechanism through a stable financial system, most central banks are confronted with the issue of how to undertake financial stability responsibility without an explicit mandate. Until central banks start reviewing the existing governance structures, they may not be able to gauge the complexity of the exercise and gather experience. The advanced countries have reviewed their governance structures, introduced relevant changes and have realized how painful and challenging the task was. Some central banks in South East Asia like Malaysia, the Philippines and Thailand have started the process. Some central banks have ignored reality, while others keep postponing revisits due to fear of challenges. The postponement of reviewing governance structures, would result in the central banks seeking clarity and legal interpretations or frequently referring potential cases to the legal authorities or the judiciary. Given the frequent global financial turmoil, it is imprudent for central banks not to pay attention to their governance structures and examine the relevance of the objectives and mandates.

In a crises, it is safer for central banks to be the "first at the scene" with clear mandates and powers. Given the recent financial crises, central banks may define what they wish to achieve and what they are capable of achieving through the financial stability objective.

Resuscitating Troubled BFIs

Source: Economist 13th -19th August 2011

No central bank is capable of achieving a whole range of objectives underpinning financial stability and managing to meticulously monitor the behavior of each such component covered by the term financial stability. Various options might be considered. One is to include the most important and prime objectives in statute, and then amplifying and interpreting the evolving understanding of what they imply for policy through high-level strategy statements. Another option would be to define financial stability in terms of preconditions (rather than outcomes) and attempt to achieve such outcomes. A third, would be to decide on the more crucial and systemically important components of financial stability and mandate them in the governance structures.

As regards the role of central banks in assisting growth objectives, some economists will vigorously argue that central banks are capable of supporting economic growth. Those who have price stability as the prime objective will be dreaming of printing more money to buy any amount of assets, including stocks, like what the US FED did and what BOE, ECB and BOJ are still continuing to do. They can even edge interest rates to the negative range and raise their inflation targets thus propelling monetary policy driven growth. Does this mean that the concept of using fiscal policy in economic growth and fine tuning the economy is out of fashion? In the process of reviewing the governance structures, shouldn't governments and central banks rethink the mix up of their mandates, roles and responsibilities? Each agency should decide on the role they are capable of playing and more effectively than others rather than mixing up each one's responsibilities.

It is not practical to construct the building blocks for a "one size fits all governance structure" for central banks across the world. However, if a standard template can be used for the purpose, central banks can modify its components to suit their economies and the political environment. That would provide an opportunity for central banks to act pre-emptively using different components of the governance structure to achieve the desired objectives. The important point is not to wait till the next crisis hits central banks but to start a stock taking of their governance structures. The postponement of reviewing a governance framework, would result in the central banks seeking clarity and legal interpretations or judicial decisions. The debate on the appropriate governance structure for central banks is likely to continue into the future and also be renewed from time to time due to the influence of global crises and actions by major central banks. Governing laws of central banks are neither sacrosanct nor inflexible. The enormous economic and social costs of the crisis have greatly reinforced the alternative view, that in some circumstances central banks need to act pre-emptively, even when price stability is not at stake. Many central banks have to walk a fine line between maintaining accommodative monetary conditions as long as necessary to support recovery and avoid disinflation, and preventing excessive risk-taking that could subsequently generate macro-financial imbalances. This makes the review of the governance structures of central banks even more imperative.

The evolution of central banking records both happiness and grief. Happiness because central banks have autonomy and a wide array of discretionary powers. Grief, because over the years, central banks have been made subservient to governments and their autonomy has vaporized. Amidst frustrations and enormous external and internal challenges, central banks all over the world are struggling to do the right thing. When things are not right, central banks think of other options. One such option is to revert to the currency board system. Some central banks have reverted to currency boards (Hong Kong after abandoning the currency Board system for some time.) due to the risks central banks are exposed to, and the legal protection they have under the currency board system. However, due to the apparent limitations in the currency board system to adjust to the present complex macro economic and political environment, reverting to it may make things much harder for central banks which have enjoyed flexibility and discretionary powers for many decades. Having a well-knit governance framework would help central banks in decision making and more importantly in taking pre-emptive action to mitigate potential external and internal disturbances. Central banks cannot afford to design strategies when crises hit them as governments, markets, the public and international institutions will be putting numerous pressures on central banks to act promptly. It is "the moment of truth" for central banks and they should ensure that their governance structures have provided them with adequate legal protection to meet crises related demands and avoid reputational risks. A well-knit governance structure is an imperative for the orderly conduct of central banks.

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Abbreviations

1. BFIs: Banks and Financial Institutions
2. BIS: Bank for International Settlements
3. BOE: Bank of England
4. BOJ: Bank of Japan
5. BNM: Bank Negara Malaysia
6. BOT: Bank of Thailand
7. BSP: BangkoSentralPhilipinas
8. CBC: Central Bank of Ceylon
9. CBSL: Central Bank of Sri Lanka
10. ECB: European Central Bank
11. LOLR: lender of Last Resort
12. MLA: Monetary Law Act
13. MMPPs: Micro and Macro Prudential Policies

14. NBFIs: Non –Bank Financial Institutions
15. QE: Quantitative Easing
16. RBA: Reserve Bank of Australia
17. The FED: The Federal Reserve Bank

Authors Profile

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Dr. RaneeJayamaha is currently a Consultant to International Financial Institutions; Member of the Council of the University of Colombo; Director of Overseas Realty (Ceylon Ltd) and Mireka Capital Land (pvt) Ltd. Dr.Jayamaha has 45 years of extensive national and international experience in the fields of Economics, Banking, Finance, Payment Systems, Regulation and Administration. She had a distinguished career at the Central Bank ofSri Lanka from 1971 onwards with several assignments at international organizations. She retired in 2009 as the Deputy Governor in charge of Financial System Stability of the Central Bank. Dr. Jayamaha was the Chairperson of Hatton National Bank PLC, for four years. In addition to more than 30 local and international publications, in 2014, Dr. Jayamaha authored "The Money Pipeline- a Pillar of Financial Stability", the first ever Book written on Payments Systems in Sri Lanka.

The Fourth Industrial Revolution - The Day After

By Rohan Muttiah

Klaus Schwab, Founder & Executive Chairman, World Economic Forum, introduced us to what he termed the Fourth Industrial Revolution.

Just as the previous 3 Industrial ages transformed society, this fourth revolution has already started to redefine how we lead our lives in ways that were unimaginable even 5 years ago. Indeed, some of the elements of the Fourth Industrial Revolution have become so ubiquitous that we may not have noticed the awe inspiring scale of what has been achieved in a very short period of time.

Consider Skylab the first US Space Station launched 43 years ago in 1973. Skylab reputedly cost in excess of $2 Billion, and amongst other things had a Robotic Arm operated by 16KB of memory. Contrast this with the roughly $500 cost of an Android Phone today with 64GB of memory and rich functionality. While Skylab and an Android Phone are quite different propositions, the gulf in memory is telling.

Similarly, 10 years ago 1 TB of storage capacity cost approximately $40,000 and was only commonly available on high-end SAN and NAS devices. Today a device similar to a USB costing a few hundred Dollars provides the same storage capacity. This is an example of Moore's Law, applied however to Storage Capacity.

20 years ago I was fortunate to work at what was then one of the top 3 technology organisations in the world. I was fortunate because I had access to the latest and best technology. However if I could travel back in time and take my Smartphone and Tablet with me, I would be able to dispense with my Laptop, Feature Phone, Landline, Photocopier, Printer, Scanner, Facsimile, Voicemail, Answering Machine, Telex, Modem, Calculator, Watch, Camera, GPS, Map, Contacts List, Calendar, Diary, Portable CD Player, Radio, etc., etc. - more than a Wheelbarrow full of junk perhaps. Mobile Devices have come a long, long way from their original incarnation in World War 2 as brick sized 'Walkie Talkies'.

Some of us recall the social status attached to a household that had an encyclopedia, and the even higher status accorded to one with the Encyclopedia Britannica collection. While these remain fountains of knowledge and their inlaid gold covers are a collector's dream, they are but mere wood pulp when compared to the knowledge available across the Internet and accessible at our fingertips using mobile devices. The unprecedented access to knowledge is surely the 8th Wonder of the World.

The benefits of advances in Memory (and Processing Power), Storage Capacity, Mobile Devices, and Access to Knowledge, are elements of the Fourth Industrial Revolution that are now embedded in our lives to an extent where they challenge Maslow's hierarchy of needs!

The creeping impact of the Fourth Industrial Revolution on our lives can also be seen with the following examples.

The Champion Chess Grand Master of the world long ago ceased to be a human, overtaken by the relentless march of Artificial Intelligence (AI). The combination of AI and Robotics has resulted in instances where jobs such as Receptionists and Customer Service Officers have been taken over by life-like Robots. AI and the Internet-of-Things (IoT) have combined to give us Autonomous Vehicles and Drones. If we thought Uber was innovative, consider the driverless variants now being trialed in Singapore. AI and IoT are also making Virtual Assistants possible and in some cases more functional than their human counterparts.

3 D Printing has taken the world by storm with perhaps its most extreme example being the printing of an aircraft engine. The degree of engineering involved and the dire implications for high-tech jobs are almost too much to digest. Manufacturing and by extension jobs, education, supply chains, distribution channels, and financing will all surely be transformed beyond recognition.
Nano Technology, Bio Technology, Materials Science, Energy Storage, Quantum Computing, and Cyber Warfare are also elements of the Fourth Industrial Revolution and a cursory analysis would reveal how they too are becoming unexpected but integral parts of our lives.

Clearly the Fourth Industrial Revolution poses challenges and opportunities for Government, Business', and Society as it shapes our future, and Banking is no exception.

One of the ways the Fourth Industrial Revolution is manifesting itself is through Block Chain technology, and its application to Distributed Ledgers. Consider the Banking and Payments landscape today that is underpinned by Cash, Bank Accounts, Credit Cards, ATM networks, Mobile Cash, Merchants, and all the products, services, supply chains, and logistics that function in support of it. This is a vast eco system consisting of people, buildings, a variety of infrastructure, and physical media and movement. At a conceptual level, Distributed Ledgers are a secure mechanism that allows authorized parties to electronically query and update a repository. So, assume a person has Rs 1 Million. This fact is recorded in a Distributed Ledger. Whenever that person makes or receives a payment the Ledger is updated. Salary and commissions are credited to the Ledger while purchases are debited from the Ledger. Therefore the Banking and Payments eco system could possibly be centered around a Distributed Ledger. The need for Cash, ATMs, etc., suddenly is reduced and the eco system becomes real-time and less resource intensive.

The Government of Sri Lanka plans to introduce a smart Bio-metric National Identity Card (NIC) shortly. Supported by the Electronic Transactions Act this smart NIC will transform Know Your Customer (KYC) processes. The smart NIC in conjunction with other methods will also complement Distributed Ledgers by providing near iron-clad transaction authentication.
The Information Communications Technology Agency (ICTA) is working with Google on low cost broadband Internet access with island-wide coverage. National Smartphone penetration is

currently estimated at more than 50%, a phenomenal rate of growth over the past 2 years. Given the continued drop in price we could assume that Smartphone penetration will keep growing at a rapid rate.

Sri Lanka would thus have the majority of the population with access to broadband Internet using Smartphones, along with smart Bio-metric NICs. Combined with Distributed Ledgers this will create the conditions for realizing the long cherished dream of a Cashless society.

Fanciful one might say? On the contrary, the National Australia Bank (NAB) recently completed a cross border transaction with the Canadian Imperial Bank of Commerce (CIBC) using Ripple's Block

Chain technology.
We are indeed living in the day after the Fourth Industrial Revolution. Just as in past Industrial Revolutions, there will be winners and losers. Let's make sure we are the former.

Authors Profile

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Prior to joining Cargills Bank, Rohan worked at John Keells Holdings, Commercial Bank of Ceylon, and NDB Bank.

'THE WAY FORWARD' - SRI LANKA NEEDS TO ESTABLISH GOOD PRIVATE UNIVERSITIES PROFESSIONAL INSTITUTIONS AND TECHNICAL COLLEGES

By Dr. Indunil Liyanage

The free education should be protected and developed further to cater to the talented students in the country. It is important to further develop free education in the country to be more systematic and produce employable graduates to take up the challenges and to harness opportunities globally. The sad part of this process is that every child in Sri Lanka will not get the same opportunity to achieve what he or she would like to be. Out of the 300,000 students or so who sit the GCE Advanced Level examination but only 25,000 get selected to state universities every year. There are 275,000 students who do not get an opportunity to enter state owned universities every year. This is the majority of the student population (275,000) who are in disarray and in dire need of quality education. As a country which is in the development mode we needs to rethink this in a much more broader sense to have a balance of state and private sector education in the country to cater to the students who are not selected to the state universities. For what feels like eternity, Sri Lankan students wishing to achieve higher or tertiary level education have had two options; either perform well in their Advanced Level examination and gain eligibility to enter a state university or travel overseas and attend a reputed foreign university.

While both these options are unquestionably valuable, and have contributed to build numerous degree holders, there is a large segment of the student population who are barred from traveling down either path, and are left to fend for themselves as best as they can. What happens to those talented students who fail to gain entry to a state university by one or two points/ marks? Or those students whose parents are unable to afford the exorbitant expenses to send these students to a university overseas?

We should pose these questions to every intellectual, parent and authority figure in the country. On the surface, the answer that these students may attend an institution that offers educational, professional or vocational qualifications seem sufficient, but, there is still the undeniable fact that out of the large number of students who face the A/L examination, only a fraction of that number can actually enter a state university and even a smaller number can attend a university overseas.

A bell curve, demonstrates that the number of students who do not attend either a state or overseas university is drastically higher than those who attend state universities. Rather than the students attending a university, these students are the future citizens who will immediately and directly contribute to the economy. "We are all born in Sri Lanka, live here trying to develop the country and get a job in Sri Lanka," . At the moment brain drain has taken place in our country where we need to keep knowledgeable and skillful individuals to stay in Sri Lanka and engage in the development process. We have to develop a method/ system to retain them in the country by having a debate with all stakeholders.

A part of the way forward the Government will have to formalize modalities to encourage private universities, professional institutions and technical colleges to set up campuses in the country. We also need to encourage very good foreign universities to set up their campuses in our country. Malaysia has successfully established this concept. Malaysia has campuses of Monash University Malaysia and Manipal University Malakka and several other foreign universities. Sri Lankan students are also studying in those universities by paying exorbitant amounts. They also established Malaysian universities under joint collaborations/ affiliations with foreign universities. The Government will have to set up a Council of Higher Education in Sri Lanka under the University Grants Commission (UGC) to encourage and establish private universities and other institutions in the country. This council will have to introduce a set of rules and regulations to establish private universities/ institutions similar to those in the Asian region or in USA or UK (adopting best practices from developed countries). Any university under BOI or non BOI will have to go through this process to obtain the approval to establish respective universities in the country. Sri Lanka should open up for private medical colleges/ institutions to enroll more medical students where opportunities are available for them locally and internationally. Other governing professional bodies such as Sri Lanka Medical Council (SLMC), Council of Legal Education, Institute of Engineers and any other professional bodies will have to be aligned with the latest educational developments to encourage this endeavor. The recognized professional associations and trade unions also need to support this national issue to find a suitable answer within Sri Lanka. Hope those professional bodies, associations and trade unions will take the lead role to provide necessary assistance to the UGC and thereby assisting to solve this national issue.

As explained previously the country needs private institutions that could offer world class courses to meet future challenges in our country. This will lead to the creation of new jobs in Sri Lanka. The Government will have to take the lead role by inviting all stake holders for a debate and through that formalizing a strategy to encourage good private universities to be set up in the country. Otherwise the country will face a huge unrest among youth looking for a higher education and a way to overcome unemployment and the social issues as we experienced during past. We are not late but need to find solutions to this issue as soon as possible. The most important thing is the quality of knowledge you obtained from the education and it is immaterial whether it is from a Government or a private university/ institute. Either party could provide a quality education to students. There is no Government knowledge or private knowledge. The knowledge is the knowledge you grain from quality higher education. Once the competition is created between state and private sector universities, the state universities will be compelled to raise its bar and will start adopting new strategies to provide an employable education to meet the challenges in the country as well as globally.

The Government also has a huge responsibility to protect free education in the country by allocating enough funds every year. Once the private universities/ institutions are established and it will automatically lead to the conducting of more research oriented work at universities and also to enhancing the educational system to produce employable graduates. It will also lead to innovation and producing novel concepts to the world an area where Sri Lankans are way behind at the moment. The involvement of the Government should be in the form of subsidizing the tuition and scholarships to the really talented. Since the Government will not have to spend taxpayer's money for the development of the infrastructure and operating cost of these private universities/ institutions the Government could utilize the funds saved for subsidizing tuition and awarding scholarships. Such a system, through creating competition for the state universities, may actually motivate the state universities. Otherwise, having no competitors, the Government universities are in danger of becoming complacent. It will also prevent the mass exodus of students leaving the country. The country needs 'job creators' in the place of 'job seekers', departing from the templated education that students are accustomed to. Additionally, it may prevent the national income from flowing out of the country to foreign universities every year. This could be done by getting all stakeholders together to find a suitable solution to this national issue "A stretched elastic will eventually snap," the Government cannot take sole responsibility to provide free education to every student in the country who is unable to enter into a state university by allocating tax payers money. He suggests that a public-private partnership between the Government and reputed international universities or Sri Lankan investors who would like to set up private universities in the country would be more effective. The Government should have about 25-30% stake in those universities/ institutions. With the Government providing the land, electricity and other facilities and the university providing a quality education, the exorbitant tuition fees that students pay to get a degree would be minimized. In developed countries there are financial aid systems such as loan facilities for students where they would be able pay off after graduating and once they find a job. The quality control of those private universities/ institutions will take place automatically when the Government becomes a stakeholder of those institutions.

This could be done similar to corporations or companies established right now.
Furthermore, by entering into a public-private partnership with globally accepted universities, Sri Lanka will be able to attract foreign students from around the world to attend those universities/ institutions. Thus, the Sri Lankan students may get the opportunity to interact with students from other nationalities and cultural backgrounds and the foreign currency flowing into the country may increase. We need to open up for world class universities to set up campuses in Sri Lanka. By doing this Sri Lanka could be an educational hub or centre for education in the Asian region. Our children can study in world class universities within Sri Lanka.

This task cannot be solely undertaken by the Government. The involvement of multiple stakeholders ranging from the Government to intellectuals, academics, educationalists, experts in education to parents to students, various trade unions, societies, interested parties may ensure finding a suitable solution to this issue as soon as possible. However, at present, it is only an idea and I invite the readers to enter into a discussion/ dialogue or a debate regarding the merits of the system, improve it and work towards turning it into reality to have a better higher education system with public-private partnership for future generations in our country.

Authors Profile

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'HEIGHTENED PROTECTION IN A DIGITAL WORLD' - THE CONVERGENCE OF TWO GIANT INDUSTRIES TO SERVE THE COMMON CUSTOMER - RISE OF BANCASSURANCE.

By Sajith Silva

Old vs New

Digitization of things - for good or worse has spread its tentacles on everyone and everything as we speak. Whether you like it or not, there is no return from the age of the digital.

This paper explores the positive influences of the digital world across a cross section of the financial services industry, in particular that of the 'protection' side of the business.

One could argue that 'protection' vs 'digital, have resemblance to maturity vs novelty or stability vs agility.

That's the kind of contrast that we would encounter exploring this theme, protection in the digital age.

So, what is protection?

Protection can be interpreted as a 'shield' against the unexpected and potentially costly events, including illnesses, accidents, unemployment and death.

Protection comes in two major forms, long term protection and short term protection.

Insurance / assurance, more technical terms for protection - is a process of transferring risk, achieved through risk pooling.

Life insurance is referred to as long term protection while short term protection has reference to general insurance, such as motor, fire, marine, health, business continuity, travel, etc.

History of the protection industry

In some sense one could argue that origins of protection / insurance date back to the early human society.

Insurance is a risk transfer mechanism that ensures full or partial financial compensation for the loss or damage caused by events beyond the control of the insured party.

The first methods of transferring risk in a monetary based economy, were practiced by the Chinese and Babylonian traders in the 3rd and 2nd millennia BC. Such is the rich history the business of protection has behind its existence.

Banking by no means boasts a lesser history than that of its counterpart.

The history of Banking began with the first prototype banks of merchants of the ancient world, which made grain loans to farmers and traders who carried goods between cities. This began around 2000 BC in Assyria and Babylonia.

Bank + Assurance

Both banking and the insurance industries date back to many a centuries as independent sectors – however, both by nature are inseparable from one another like the tire to the wheel.

However much the history of these two great industries date back to, however much interdependence that these two industries have experienced, the evidence of them both working together as one, surprisingly has a shorter history.
The banks taking over insurance is particularly well-documented with reference to the experience in Europe.

Across Europe in countries like, Spain, France, Portugal, and Italy, banks started the process of selling life insurance decades ago and customers found the concept appealing for various reasons.
The system of Bancassurance, which is also referred to as Allfinanzin some places, was well received in Europe, where Portugal and France taking the lead followed by Spain. However, European financial giants, UK and Germany were slow respondents towards Bancassurance in the early days.
In USA the practice was a late entrant and had not caught up as European counterparts.
In contrast, Asia has shown tremendous growth potential for Bancassurance. Countries that are in the forefront in Bancassurance are Taiwan, China, Philippines, Malaysia, Indonesia, India, Thailand and Hong Kong.

Bancassurance in Sri Lanka too is not a very new concept to the Banking industry, a few private banks with links to Insurance companies, started Bancassurance in the early 2000s.
However, may be due to lack of focus and other macro-economic conditions Bancassurance could not sustain the interest of the banking community for a longer period. Another reason could have been the meager contribution towards the bottom line in the early days of the business.
On the other hand, insurance companies too were not aggressive enough in their pursuit of getting in to Bancassurance partnerships with the well-established banking sector of the country.
Here's a very brief look at the insurance industry in Sri Lanka.
Highly regulated and highly saturated, the 29 strong insurance industry players, both on life and general spheres operate under the direction and guidance of Insurance Board of Sri Lanka.
Total premium income of the industry in 2015 was LKR 122.3 Billion compared to LKR 105.3 Billion in 2014. Total premium of insurance business as a % of GDP is 1.09 in 2015. Total assets of the industry (both life and general) stood at LKR 465 Billion in 2015, a 10.33% growth over the previous year. However, the total asset base compared to the entire financial sector was only 3.4%.
Source - www.ibsl.gov.lk

Why Bancassurance?
The stiff competition out there among the 25 licensed commercial banks(LCB) and 7 licensed specialized banks (LSB), just like in the insurance sector, have started showing its bearingon many key performance indicators – especially that of the smaller players.
The most pressure has been on the interest margins, the thinning process has taken place at a continuous pace.

That's when Bank's started looking at other income streams more seriously, to off -set leakages on the core business side.

Bancassurance is one of the best fee income avenues to the bank, which comes its way almost at zero cost and minimal risks.

Of course, the risk part depends on the model on which a bank operates its Bancassurance business. The referral model of Bancassurance business, which is widely practiced in Sri Lanka, gives the said benefits of zero cost/ zero risk to Banks at sound fee income generation.
In this context, where Banks could easily find a good source of additional fee income, it's sensible to dig deep in to the business of 'Protection' and its mechanics.

Why protection?
As a bank - a lender - a responsible corporate social citizen, it is very important for a bank to make sure that all its customers are protected from the unforeseen and the unexpected.
Calamities could strike at any moment, thus ensuring business continuity is of paramount

importance.
'Act of god' is beyond ones control, however, taking precaution, having a safety net for protection is the only prudent action a bank can advise or even enforce on its customers.
What might be seen as a nuisance at the beginning could very well turn out to be the blessing in disguise, if obtained with due attention and care.
As an individual – a professional – a businessman - or even an organization could benefit immensely by having relevant protection covers to mitigate risks that could come ones' way due to unexpected events.

The most precious asset for an individual is the family; protection of the family's future – the lifestyle and the well-being is the core reason why protection or insurance is needed even at individual level. Loss of income due to unemployment could be the worst nightmare that no one would want to wake up to. Protection is needed, so that when someone's down and out, the safety net comes to the rescue.

Indemnity against professional negligence, third party damages is vital for professionals, executives or entrepreneurs who engage in delicate businesses. Insurance is again sought after for such instances for indemnification of associated risks.

When is protection needed?
Most of the time protection is forced upon customers by Banks and financial institutions out of

necessity and for the well-being of both parties.

Almost all lending activities go hand in hand with some kind of insurance cover inbuilt or attached to it.

For instance, housing loans are attached to Mortgaged Protection policies and fire covers, leases are tied to motor insurance covers and import export loans are linked to Marine insurance covers and the list goes on.

The other side of the coin is that just like forced protection- people opt for voluntary protection as well. Life protection, future income protection (retirement), child's future plans, protection against critical illness expenses, protection from burglary and natural disasters are a few that can be listed under voluntary protection initiatives of individuals.

Current status

Life insurance penetration in Sri Lanka is among the weakest in the world and probably in the region for that matter. Out of the entire population between 12% - 13% have an insurance cover.

This figure improves when compared with the working population of the country. Closer to 30% are insured, a figure not to be proud of.

The number of insurance agents currently in operation in the market is about 40,000, most of them are understandably saturated in the Western province where the population and the economic activity are high.

For every 525 persons, one life insurance agent is available at least on paper, which is not a bad number from the agent's point of view.

The prime reasons for the lower penetration could be attributed to the lack of trust and belief of the protection industry as a whole.

At individual sales person's level, the lack of penetration could be attributed to quality and skill of the insurance agents who might lead the customer in to a mis-sell, knowingly or unknowingly.

Lack of training and experience, cultural misfits, greed, misaligned value set – could all be reasons for such a low penetration figure in a country where the mobile hand set penetration is said to be over 100%.

Where would we want the industry of 'protection' to be?

The industry, lead by the IBSL and fueled by IASL (Insurance Association of Sri Lanka) are eager to put the business of protection on the right track. As discussed, due to many stated or unstated reasons, including the incorrect practices adopted by insurance practitioners have lead the industry to witness a negative growth of assets in 2015 compared to that of 2011. (www.ibsl.gov.lk)

It would be unfair by the insurance stakeholders, if it is not mentioned of the fact the industry is facing, in terms of limited customer reach, due to lesser number of qualified sales professionals available in the industry. Which also lead the industry into murky waters of unfulfilled customer service and care.

One of the major moves that the industry is pursuing these days is to get the insurance sales fraternity to work on 'Needs based selling'. The business should be more of demand driven rather than piling up push strategies to lure the customer in to purchase.

Due to lack or nonexistent needs based selling practices in the insurance market, the insurance lapse ratios of policies have sky rocketed. Policy lapse ratio at present scenario stands at higher grounds, which also mean a couple of things,

Customer is unhappy and the industry found an unhappy customer to spread the unhappiness among his/her close circles.

The spiral effect of spreading unhappiness by own customers is that the uphill challenge of climbing the 'Mount Insurance Penetration' becomes ever more sleeper and harder.

In this light, the Marketing and the Sales forum of IASL through its NAFLIA platform (National Forum for Life Insurance Advisors) has initiated action to introduce Needs Based Selling as a key driver for sustainable growth in the immediate future.

How do we get there?

Sustainable growth through needs based selling would be the motto for Bancassurance industry in Sri Lanka. Maintaining high persistency ratio (75% -85%) reflects the health of the operation and also would ensure continuous steam of income. Moreover, happier customers spread the word of happiness in his/her circles as opposed to unhappiness.

According the IBSL statistics, the foot hold of Banking sector in the financial services industry is immense (assets), to be factual, it is 69.6% by 2015, compared to 69.7% in 2011.

What this indicates is the trust and confidence people and businesses have placed over the Banking sector of the country. Strong regulators on either side, i.e.Banking and Insurance, would add more cushion to confidence indexes and reflective numbers.

The case has been deliberated and debated over many decades, the direction is clear on the basis how Banks and Insurance companies should work on. Because their inter-dependence is so much, like the tire to the wheel, working on the same platform to serve the common customer should be the order of the day.

How this is achieved is the million dollar question.

Banks are blessed with their own assets in the form of large-loyal customer base, traditional-extensive brick and mortar branch network, highly talented- professional human resource pool, multi-faceted touch points mostly decorated with the digital foot-print, plethora of financial products for both cash rich and other-wise, last but not least, the biggest chunk of mind share of customers for financial solutions.

On the other hand, what insurers could bring to the table are, gamut of protection products, technology, assertive sales culture (which is lacking at the other end), marketing budgets, global know how, local expertise and wealth of customer insights.

Armed with all of the prerequisites to succeed in almost unchartered territory, Banks could easily lay the platform for ethical distribution, for the need of Protection, be it long term or short term in nature, by way of forming meaningful partnerships with their insurance cousins.

As most banks prefer adopting the referral model for Bancassurance, creating demand for protection products would be done by well trained and experienced sales professionals of partner insurance companies, who are purposefully located on Bank premises to better serve its customer base.
Segmentation is the key in this exercise of needs based solution generation for the protection needs of different customer segments.

The intensity and depth of protection coverage an HNW (High Net worth Customer) customer requires is totally distinct to that of a customer who would be categorized under mass market or even for that matter the affluent.

The use of digital platforms and suitable gear is the order of the day, if key success factors like, scale, efficacy, and customer care were to be achieved.

The investment towards the digital journey of serving the common customer has to come from both ends.

The partnering insurer has to provide the digital platform to manage the entire long term protection process, from lead generation, issuance of quotations through to medicals - underwriting and the post selling engagement.

This process has to be managed fully by Bancassurance staff of the insurance company in a referral model, who is assigned to partnering Banks.

This paper-less transaction would be the first milestone in the e- journey.

Next to encounter are the analytics and the Big Data story. Know Your Customer (KYC) could be the most commonly used phrase in the banking operations. As to how far actually we know about our customer is now up to the big computers and Big Data mechanism. Data warehousing, mining through to analytics are all part and parcel of the KYC process.

Two birds with one stone – KYC as a compliance tool as well as a Marketing tool.
Both the insurer and the bank can bring in their own expertise to dig deep into the same customer to find out new trends, patterns, health conditions, and changes in life style, income spikes or slumps, purchase behavior and many more insights to serve the common customer better in a more holistic way.

As most of these information would lie in the form of raw data in banking transactional records, be it credit card purchase- information such as travel, medical, health, educational expenses, car care, food, fuel, subscriptions, entertainment or types of vehicles purchased through the leasing records, housing requirements, demand for educational products, it's a matter of focus until all these valuable information are unearthed.

Customer engagement is important in the quest to move the customer swiftly through the decision making process. Digital environment facilitates customer freedom and choice to the maximum.
Realization of need for protection on the part of the consumer is the foremost challenging hurdle in the protection business.

Digital channels such as mobile apps, websites and social media have come to the forefront to create customer awareness - in terms of risks associated in all walks of life, events linked with risks and solutions / protection types available to the customer.

Few examples from overseas to this effect are as listed below,
'Make Safe Happen' by Nationwide Insurance
''In an effort to make homes safer for children, Nationwide has released its 'Make Safe Happen' mobile app in collaboration with the Nationwide Children's Hospital.

The app allows users to record the age of each child then access a safety checklist and specific advice for each room in the house, including the kitchen, living room, bedroom, stairway, and bathroom.''
www.nationwide.com

Good Ride by Allstate Insurance
''Allstate narrowed its focus to the niche biker market with GoodRide, which is designed to help motorcyclists record the details of their journeys. The app tracks miles traveled, routes taken, photos,

and comments. Riders also have access to a checklist that helps them look at local weather and see gas stations, so they can prepare before taking off. While they're on the road, they can keep track of maintenance, such as changes to battery, oil, and tires."
www.insurancetech.com

Defend your income by Council for Disability Awareness
"Defend Your Income is an educational game that puts users in a virtual practice arena. There, you're forced to fend off blows from shadowy attackers like Cancer, Respiratory Disease and, Pregnancy Complications. After each round, trivia questions and random facts help teach about the prevalence of disability. Other portions of the site let users gauge their disability likelihood (and potentiallost income) and learn about steps they can take to protect themselves."
www.defendyourincome.org

Marketer's next big challenge is driving the customer to the next phase where actual demand pull materializes.

A few practical concerns at this juncture a customer has to deal with are, parting important information such as income, health and other personal data to un-almost unknown, time and frequency of face to face appointments, dependability of advice provided, service quality, etc.
All these issues are inherent to the traditional insurance business, where market penetration is as low as 12%-13%.

However, the combination of Bancassurance and digital channels working in tandem would do wonders to convert awareness and interest into action by way of instilling the trust / comfort factor through bank's role as a proxy and the digital mediums providing convenience, privacy, 24 x 7 access, knowledge sharing, instant feedback, consistency and cost savings to the customer.
Own websites with built in features like live chats, instant quote generation, customer care, be it along the journey or at the end of the ride, plays a pivotal role in the 'Service' industry. Banking-Insurance are on exception, neither for Bancassurance.

Customer service apps, 24/7 live chat services, SMS alerts, facebook and twitter are a few digital worriers that could save the 'services' world from embarrassment. Incorporation of such valuable tools do not require large investments nor manpower.

Furthermore, banks could also link in their digital payment solutions like the virtual wallets, internet banking and mobile banking apps to make transactions more convenient.

The world of digital is synonymous with the younger generations, to be precise the millennial to a greater extent and Gen X to a lesser extent.

The only language this generation (Gen Y) speak and understand is 'digital', hence the answer for a demand pull for insurance should come through digital, most precisely, through interactive – game based applications like the www.defendyourincome.

The digital world moves so rapidly, now the standard mobile games have been engulfed by AR (augmented Reality) games such as the phenomenal 'PokemonGO', Geocaching, TheWalk, Zombies, Run!

The story was told, history was re-visited, role plays identified, responsibilities understood, prospects revealed, success stories shared – Now the path is clear to walk the talk to witness the Rise of Bancassurance!

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Managing life insurance, Shashidharan K Kutty

Authors Profile

D.L.H Sajith Silva is a Chartered Marketer with two decades of experience in Banking, Insurance, Advertising, Apparel manufacturing and Shareholder Services, which includes two years' experience in the United Kingdom
He holds an MBA from Australia and a PG Dip from CIM,UK.
Sajith is a part-time faculty at the Sri Lanka Institute of Marketing.
Currently Sajith holds the position of AVP/Head of Bancassurance at DFCC Bank PLC.

RISK AND FRAUD IN INTERNATIONAL TRADE

By JanathIlangatillake

What is International Trade?

Trade involves the supply of Goods and or Services from Seller to Buyer and payment for the Goods and or Services from the Buyer to the Seller.

When Goods and or Services are traded between the buyer and the seller located within a country it is known as Domestic Trade.

When a buyer and a seller who are located in different countries trade in Goods and or Services, it is known as International Trade.

International Trade is getting increasingly complex and diversified.

Parties involved in International Trade are facing a growing threat from crime. The main threat to an International Trader is from organized crime. These include theft of goods, cross-border crime and crimes committed during Freight of goods.

The rise in online trading has created a new form of criminal activity, such as cyber-crimes and new techniques for money laundering.

Risk is inherent in any international trade transaction and these risks are amplified when a fraud is committed by a party to the transaction. Therefore, it would be prudent for traders to delve deep into the vulnerabilities of the transaction before committing to a seemingly normal transaction.

In order to do this probe, any party who has a vested interest in the transaction should examine three key components of the transaction:

a. the payment method it uses,
b. the goods being bought or sold,
c. the counterparties to the transaction.

This type of a diagnosis of the situation can determine what type of a risk a party is facing and what should be done about it.

Given the complexity of International trade, it is not realistic to eliminate every possible risk that a party may be exposed to. However, knowing the risks and the manifold methods and practices adopted by fraudsters, could certainly help to mitigate or at least reduce the exposure to such risks.

Some of the risks that may give rise to fraud are counterparty risk, country risk and third party risk.

Counterparty risk

The location of the counterparty, its reputation and the history of the relationship with it are key factors in determining whether a transaction might become tainted by trade-related financial crime or fraud. Knowing your customer and his business are key to mitigate this risk.

Country Risk

Some countries present higher risks of financial crime than others. Nations mired in conflict, for example, may be associated with terrorist financing. Other countries are known for certain types of fraud. In still others, corruption is endemic in the financial sector and the government. Dealing with a counterparty whose domiciliation is or has roots to such a country might expose the trader to risk of fraud.

Third party Risk

This is an unforeseeable risk that may arise due to frauds being committed by related or unrelated third parties such as transport operators, unscrupulous freight forwarders and charter parties, theft of goods, piracy, phishing e-mails and cyber-crimes.

Understanding common types of frauds in International Trade

There are many types of frauds committed in International Trade. Among maritime frauds the scuttling of ships and the deliberate sinking of ships in order to collect insurance money stands out. It is believed that marine transport is exposed to organized crime groups.

It is reported that the highest incidences of scuttling occur during times of depressed freight markets, when financially strapped vessel owners, use the crew of the ship to dispose the vessel.

Frauds by supplier / buyer

Non-payment by the foreign buyer

This happens when the exporter delivers the goods but the foreign buyer doesn't pay for them, even when the buyer is in no obvious financial difficulty and appears to be functioning normally. It would be a futile effort to recover the losses as legal fees may be high in the importer's country and sometimes the judicial system itself may not be favorable. The exporter now faces a complete write-off of the shipment value. It has thus been a victim of financial fraud in the form of non-payment, which it might have avoided either by a rigorous credit check or by shipping the goods only after payment was guaranteed (through an LC, for example)

Nonperformance by the exporter (seller)

Some foreign companies will offer favorable pricing and payment terms if the importer agrees to pay in Advance, partially or in full before receiving their goods. Here, the financial fraud occurs because the foreign seller never delivers the promised merchandise.

Shipment of goods of inferior quality

An importer who has paid in advance for the goods, to his surprise might discover that the goods supplied are not as originally represented by the exporter but are of inferior quality. The merchandise cannot even be considered a legitimate substitute for the intended goods, which was permissible under the original sales agreement. In this case, the exporter has committed a crime, since collecting payment and then substituting inferior goods for the proper merchandise constitutes fraud.

Another variation of this method is shipment of counterfeit goods – that is, they were not manufactured by the company that holds a legitimate license to make them, but by some other firm. They are invariably of inferior quality and unlicensed.

Piracy and Theft

Fraudsters may try to steal your goods during the voyage of the goods and attacking of vessels in International waters by pirates, is quite common.

Phishing emails and Cyber Crimes

Criminals may approach traders and buyers through letters, phone calls, social media or via email to tap in to the business.

They would try to intercept a trade transaction between two parties and provide instruction to the buyer to transfer funds to fraudulent third party accounts. As for the buyer, the instructions would appear to have been received by the actual supplier and the unsuspecting buyer would end up transferring the funds to the fraudsters account.

Use of International Trade to launder money

International Trade is a popular method used by criminals to launder money. Due to the high values involved in International Trade, fraudsters could move illegal money to the banking mainstream through the use of International Trade transactions.
Trade based money laundering is the process in which criminals use a legitimate trade transaction to disguise their illegal money from their original sources.

The effects of money laundering

Money laundering encourages corruption and can destabilize the economies of countries. It also compromises the integrity of legitimate financial systems and institutions and gives organized crime the funds it needs to conduct further criminal activities. It is a global problem, and the techniques used by its perpetrators are numerous and sophisticated. In Money laundering, goods themselves are of little importance, as they serve merely to camouflage the movement of the money. Money laundering could take place with the collusion of parties involved or it may sometimes be outright fraud by one party to launder money by using an innocent trader.

Some of the actions include moving illicit goods, falsifying documents misrepresenting financial transactions.

Following are some of the other methods used to launder money.

Over Invoicing

Fraudsters could use a method of over invoicing to launder money. They would invoice an International Trade transaction much higher than the actual value of the goods shipped. The excess money paid will be the illegal amount of money moved to the main banking stream.

Under Invoicing

Under invoicing is another method which fraudsters use to launder money. In this instance the criminals would invoice the value of the goods much lower than the actual value shipped. The illegal money has now moved to the mainstream in the form of goods and the difference between the actual value of the goods and the lesser amount invoiced will be the laundered amount.

Over shipment

This is also a method used in International Trade, where goods are shipped more than the value of the amount invoiced. The illegal money now moves into the mainstream in the form of goods

Under-shipment

The fraudster's ship goods much lesser than the actual amount invoiced in an international Trade transaction. Therefore, the value of money paid for the transaction is much higher than the actual value of the goods shipped, thereby moving illegal money into the main banking channels byway of the excess amount paid.

Over payments

Exporters are accustomed to receiving exact payment for their goods when payment is due. Overpayment by a foreign buyer is unusual and, while it may be explained by clerical or computer errors, there are cases in which it is deliberate and is actually intended to launder money. In this kind of a scenario, the payment received by the exporter exceeds the invoiced amount by a considerable percentage. The importer would then contact the exporter and whilst apologizing for the error, would request the exporter to remit the excess amount to a different beneficiary in an unrelated third country. The unsuspecting exporter would remit the money as instructed by the importer thus facilitating to launder money to a third country, which may possibly use it for criminal or illegal activity in that country.

Cash payments

The exporter would sometimes be compelled to receive a bag full of cash from a person who is purported to be an agent of the importer, due to the attractiveness of a cash deal for the exports.

Payment for imported goods to third countries

An importer normally pays for foreign goods by sending payment either directly to the overseas supplier or directly to the supplier's bank. If the foreign company/supplier instead asks the importer to make the payment to an apparently unrelated third party, it may be trying to launder money to that third country.

Letter of Credit Frauds

A Letter of Credit fraud is where a fraudster attempts to make money via a business transaction, where they inform victims that the Letter of Credit is an investment.

A Letter of Credit (LC) is a conditional written undertaking issued by the Importer's bank (Issuing Bank) to the Exporter (Beneficiary) at the request of the Importer (Applicant) to effect payment up to a stated amount within a stated time period against presentation of compliant documents.

Scammers use Letters of Credit by promising to ship goods in exchange for payments, only to disappear after receipt of the money.

Criminals also mislead victims by stating the Letters of Credit are an investment, though this type of investments does not exist.

Standby Letter of Credit Frauds

Some of the other methods used by fraudsters are standby Letters of Credit.
A Standby Letter of Credit (SBLC) is one which is issued to cover non-performance. It stipulates that a sum of money will be paid to the beneficiary in the event of default or non-performance.

Standby Letters of Credit are guarantees issued by banks on the request of their customer known as the applicant, which would guarantee payment to the beneficiary in the Standby Letter of Credit, in the event of non-payment by the applicant for the goods or services supplied by the beneficiary to the applicant.

Fraudsters could mislead innocent victims on the guise that they would ship goods as per an agreement or contract and request for a Standby Letter of Credit to cover possible non-payment of invoices by the buyer. Once the Standby Letter of Credit is issued, the fraudster would lodge a claim under the Standby Letter of Credit, stating the buyer (applicant of the Standby LC) failed to make the payment for the goods shipped, without actually making a shipment.
The issuing bank of the Standby Letter of Credit will be compelled to pay the claimed amount and recover the money from the applicant.

Consequences of Money laundering

A person or an entity, either knowingly or innocently engages in a money laundering it may be exposed to legal and financial risks that may have serious repercussions.

Legal risk

Legal risk pertains to the risk that a party's actions, or the actions of its officers, may breach the laws of the domiciled country or another country. Such breaches can lead to criminal prosecution or actions in civil court. A firm can face financial penalties if convicted and individuals can face both imprisonment and fines.

Financial risk

If a company becomes embroiled in a trade related financial crime, the costs can rapidly become very substantial. They may include fines or a ban on business, thus jeopardizing the future of the company.

Parties involved in International Trade should be alert to the possible red flags indicate a possible trade based money laundering transaction.

These could be but limited to the following

- Payments to vendors by unrelated third parties
- False reporting such as misclassification of commodity
- Commodity over or under valuation
- Repeated importation and exportation of the same high value commodity, known as a carousal transaction.
- Commodities traded that do not match the business involved
- Unusual shipping routes or transshipment points
- Packaging inconsistent with the commodity or shipping methods
- Double invoicing

International Trade related frauds and money laundry activities are growing in volume and global reach. Banks too could be victims of such frauds apart from the innocent trader that had been defrauded by the criminals.

It is very difficult for bank to prevent these types of frauds and therefore the potential victims should also to be aware of the red flags in such dealings.

Compliance officers of bank and organizations should remain current on emerging schemes and use latest AML technologies to detect and prevent criminal activities.

Authors Profile

Janath Ilangantileke is currently the Head of Trade Services at Hatton National Bank, PLC. He counts over twenty years of experience in Trade with exposure both locally and overseas.
He holds a Bachelor's degree in Leadership & Management from the University of Northumbria - UK and a Master's Degree from Manipal University India. He is an Associate of the Institute of Bankers Sri Lanka, an Associate Member of the Chartered Institute of Management Accounts, UK and is also a Certified Practicing Accountant (CPA-Australia).

MARKET UPDATE

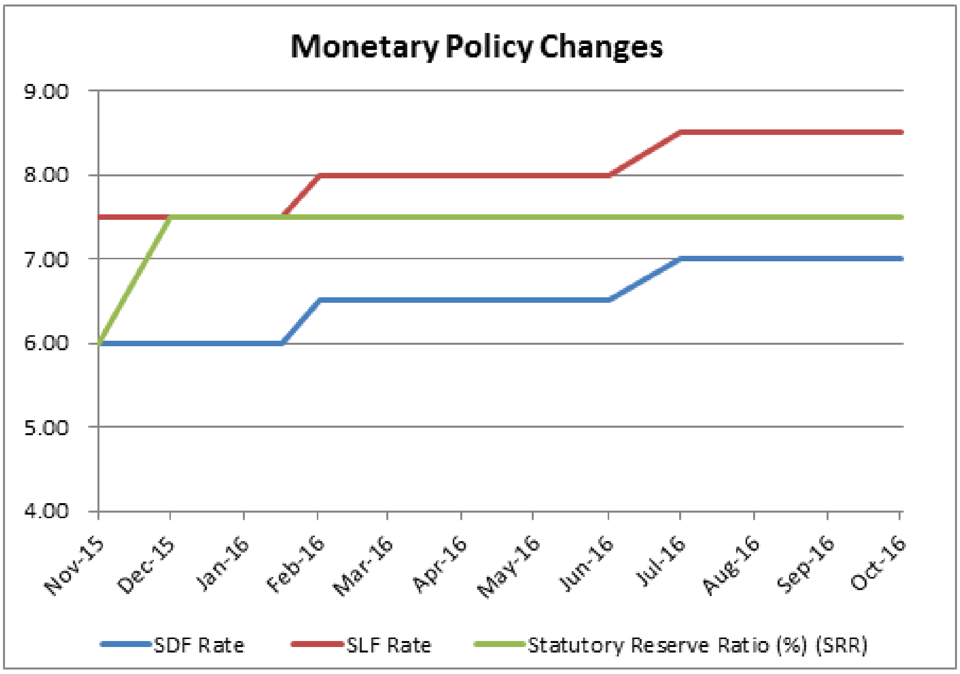
Compiled by – Kavin Karunamoorthy.

Overview

The Central Bank of Sri Lanka on behalf of the government successfully raised 500 million dollars through 5.5-year sovereign bonds and one billion dollars through 10-year sovereign bonds. Despite the high volatility in the global financial markets following the historic U.K. referendum in June regarding their membership of the EU, the Bonds saw strong investor demand. Both the 5.5-year and 10-year tranche were priced well inside the initial price guidance of 6.125 percent area and 7.125 percent area, with a coupon of 5.750 percent and 6.825 percent at par, respectively.

Gross domestic product grew by 5.2% in the first quarter and then dropped to 2.6% in the second quarter thereby holding the growth in the first half of 2016 to 3.9% year on year. Sri Lanka's official reserves dropped by 394.6 million US dollars to 6.1 billion dollars in October, down from 6.5 billion dollars at the end of September.

The Monetary Board raised the benchmark policy rates for the second time of the year. The Monetary Board raised the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) of the Central Bank by 50 basis points each, to 7.00 per cent and 8.50 per cent respectively with effect from July. The Monetary Board further tightened the monetary policy to curb excessive demand thereby easing inflationary pressures and to support the balance of payments.

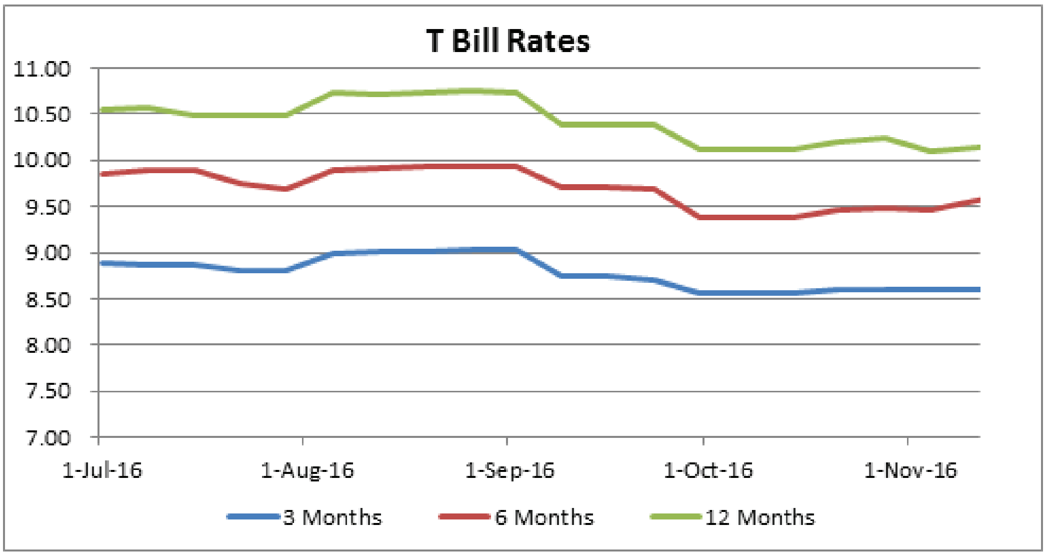


Interest Rates

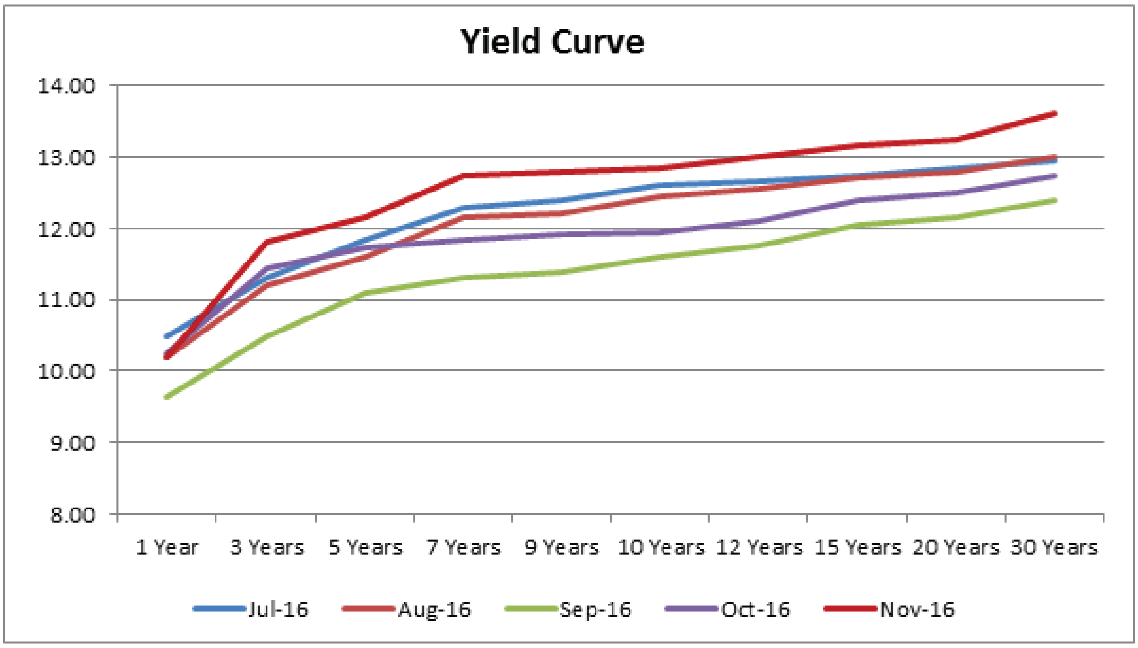
Short term benchmark rates continued its increasing trend mainly due to tightening of monetary policy, anticipation of increased government borrowings to bridge the budget deficit and lack of investor demand. During the period short term rates were seen increasing gradually from the levels seen during the first week of July which is 8.88 percent, 9.86 percent and 10.55 percent for 3, 6 and 12 month tenors respectively. The short term benchmark rate reached a high of 9.04 percent, 9.94 percent and 10.75 percent for 3, 6 and 12 month tenors respectively during the last week of August

The Government of Sri Lanka successfully raised 700 million U S dollars through a syndicated loan in early September. Though the initial amount launched was 500 million U S dollars, attractive rate and investor demand made the Government to increase the borrowing to 700 million U S dollars. Interest rates on both short and long term started declining due to the Central Bank indicating that the government borrowings and funding requirements are sufficient after the syndication loan. Huge Investor demand for Government Securities was seen among both local and foreign investors, the longer tenor declined on a faster pace due the trading activities. Treasury bill auction rates declined throughout the month of September and October and edged slightly higher in the month of November, and closed at 8.60 percent, 9.65 percent and 10.20 percent for 3, 6 and 12 month tenors respectively as at 18th November 2016.

Heavy trading activities caused a downward movement of nearly 75 to 100 basis points in the longer tenor yields during the month of September and October. However profit taking, negative investor sentiment and fears of a possible Fed rate hike and proposed new taxes on Government Securities forced the longer tenor rates to rise during the last week of October. The rate increased by approximately 100 to 120 basis points from its lowest levels seen in October. The most actively traded tenors such as 3 years, 5 years, 9 years, 10 years and 15 years Treasury Bonds closed at 11.80 percent, 12.15 percent, 12.80 percent, 12.85 percent, and 13.15 percent respectively.



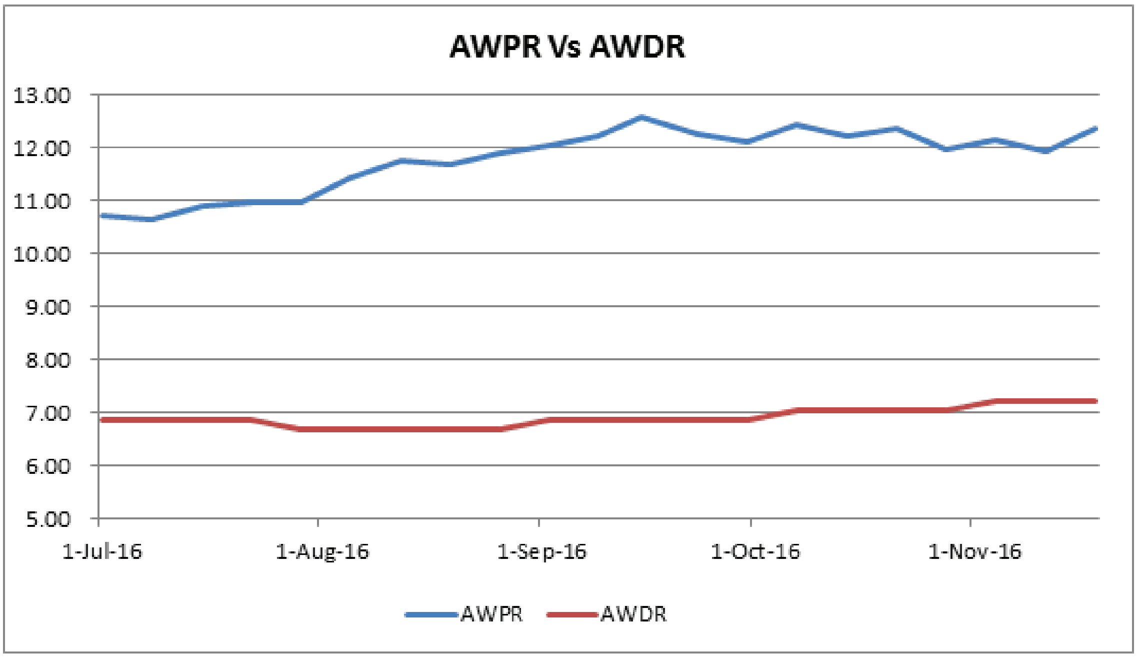
Treasury Bill Auction Rates from 01st July 2016 to 18th November 2016



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 July recorded a negative of LKR 21.91 Billion and continued to be in the negative territory and closed at LKR 45.02 Billion as at 18th November 2016.

The Central Bank Holdings stood at LKR 271.08 Billion as at 01st July 2016 and reached a high of LKR 290.13 Billion on 12th July 2016. Subsequently the holdings witnessed a gradual decrease and stood at LKR 240.00 Billion as at 18th November 2016. Overnight Money Market and Repurchase Rates also witnessed an increasing trend leaving the Overnight Money Market rates at 8.44 percent and Repurchase Rate at 8.49 percent up from 8.20 percent and 7.95 percent respectively.



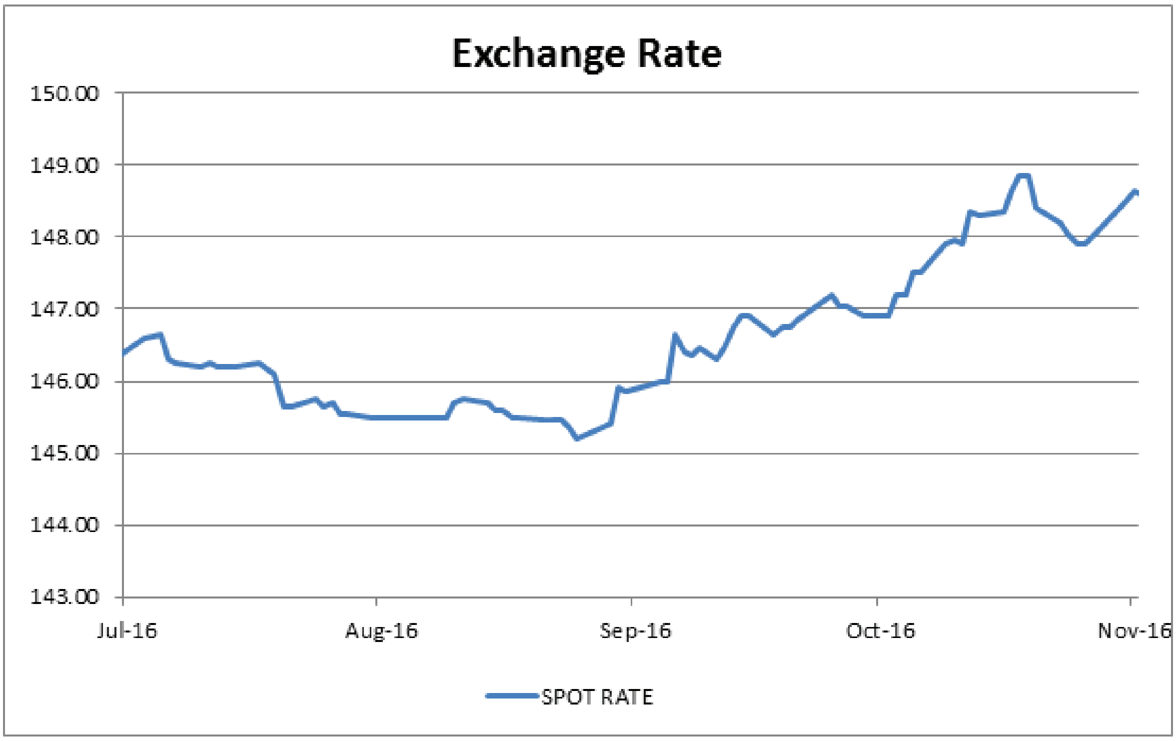
Average Weighted Prime Lending Rate (AWPR) Vs Average Weighted Deposit Rate

Average Weighted Prime Lending Rate (AWPLR) of banks also moved upwards from 10.70 percent to 12.38 percent as at 18th November 2016. The AWPLR continued its upward trend, Average Weighted Deposit Rate (AWDR) increased by 36 basis points from 6.87 percent to 7.23 percent as of November.

Exchange Rate

The Sri Lankan rupee witnessed heavy volatility against the US dollar during the period from July to November. The Sri Lankan Rupee started trading at 146.25/35 against the US dollar on the first week of July. The rupee gained against the US dollar as the market anticipated the dollar inflow to the country through the sovereign bond issue and the syndicated loan. Sri Lankan currency maintained its strong position till the second week of September and was seen trading at 145.20/25 levels against the US dollar.

Lackluster exporter conversation, high importer dollar demand and foreign investment outflows caused the rupee to lose value against the dollar. This situation got further aggravated due to global economic conditions and anticipation of a FED rate hike. Lack of liquidity in the spot market forced market dealers to look for other alternative forwards such as spot next and one week forwards. This led the one week forward rate to reach a high of 148.90/149.10 levels against the US dollar. The Sri Lankan rupee closed trading at 148.70/75 as at 18th November 2016.



U S Dollar / Sri Lankan Rupee Currency Rate

Authors Profile

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AN EVENING WITH CLIMBERS JAYANTHI KURU UTHUMPALA AND JOHANN PERIES

Participants were treated to a first-hand account of an amazing adventure to the top of the world by the Climbers Jayanthi Kuru Uthumpala and Johann Peries on 8 august 2016, at a lecture organised by the Association of Professional bankers of Sri Lanka (APB) held at the BOC auditorium.

The speakers recreated their journey in the minds of the audience with their narration of the epic climb from the conception of the idea, the preparation and the journey itself.

The duo met in 2011 they said. Both had an interest in summiting Everest, and so, over a period of five years, everything necessary to make this journey, was put in place.

Teamwork was an important aspect of this journey, Jayanthi said, explaining that she was very happy that Johann and she undertook the expedition together, as a team. Preparing physically and mentally for the summit, Jayanthi said that she and Johann would engage in both aerobic and anaerobic fitness together: "During the past few years, if you had passed indolence square are you would have definitely spotted us in training at least one of us, every evening.

She said this had included interval training, which entailed, for example, running up the Piduruthalagala, Kirigalpoththa and Thotupola Kanda peaks, swimming, doing yoga and cycling. Jayanthi said she had also researched mental strength strategies to prepare her for the extreme physical challenges of scaling Everest.

They gained mountaineering experience with several other peaks. In 2011 they scaled Island Peak in the Himalaya, while in 2014, Mt. Kilimanjaro in Tanzania, and went rock climbing at every opportunity including in the Spanish Pyranees, Argentian Andes, South Africa, UK, and Thailand.

Locally, they trekked many mountains that included Kirigalpoththa in Horton Plains, Sinhagala in the Sinharajah Rainforest, Manigala in Knuckles mountain range and Bible Rock.

The Everest expedition costs a whopping LKR 10 Million for each of them. They knew that in addition to preparing physically and mentally for the challenge, Johann and Jayanthi would have to find the money to make the trek. Together with a team of friends who volunteered support, the formal fundraising events were arranged.

At the beginning, most of the would-be sponsors were sceptic, and conquering the Everest was a distant dream due the sheer financial reasons. But ultimately they managed to convince few sponsors, who saw their determination and developed faith in their ability. There was one sponsor who said that "Even if you do turn back it is all right"

But they knew that they needed very good reasons to turn back. And they were not willing to turn back. And they left for Nepal on the 28th of March to climb the Mount Everest.
The trek to the Base Camp, the acclimatizing treks of ever grueling difficulty, and the final push to the summit was explained with greater detail making the entire audience a set of armchair climbers to the peak of Mount Everest.

The first hurdle is the treacherous Khumbu icefall. It can only be traversed at night, when it is protected from the Sun's heat and is at its most stable. "it's like clambering over giant ice cubes, as big as houses" says Johann, explaining that the ice is constantly melting and moving, at a onetime Johann narrowly escaped a calamity due to ice fall. The sound was like thunder, says Johann.

Johann saw people die on this mountain, watched as they plummeted to their deaths. Crossing crevasses on rickety ladders was a great peril. Finally, they started looking forward to the adventure of crossing ladders. They emphasized that it was not the physical strength but the mental strength that helped them to succeed. "It has made me stronger, mentally and spiritually I feel completely changed." Johann said.

The region above 26,000 feet is called the death Zone and there is only about Thirty percent of oxygen as there is at sea level. This makes breathing difficult, let alone climbing to the top of the mountain.

They departed from Camp 4 and Johann made it to beyond Camp 4 and Jayanthi along with her Sherpa continued to the summit. This was a strenuous overnight trek through the Death Zone. On 21 May 2016, Jayanthi became the first Sri Lankan ever to climb to the top of Mt Everest (29,029ft). Just 300m from the summit, Johann was told he was running out of oxygen and would have to turn around. But Johann said that although he could not reach the summit, it was a great achievement for him to climb the mountain so far. "I do not see this as a defeat. I see this as victory. I was able to hoist the Sri Lankan flag in a height of 8400m on the Everest. Also, we both achieved victory as a team" Said Johann, who still bears the injuries caused by the frost bite.

International Mountain Guides, the mountaineering company supporting Jayanthi and Johann are overseeing the training, logistical support, as well as providing meals for the duo.

In retrospect, their first-hand account of the lessons learnt during the climb included the very lessons the corporate trainers are teaching in the class rooms.

Life skills such as the importance of having mental stamina, team work, celebrating the team victory over the individual glory, making right choices and decisions, situational leadership, and how to work under pressure were the subtle take-home lessons given to the audience. Also the audience was reminded of the importance of keeping ones focus after the victory by narrating perils involved in the trip down.

Jayanthi quoted from Sir Edmund Hillary "It is not the mountain that we conquer but ourselves". Jayanthi further mentioned the need of the women to be empowered in the corporate sector, and requested women employees to work towards breaking the perceived glass ceiling.

Having listened to the presentation the members of the audience were clearly uplifted as indicated by the lively question and answer session and the rush to get autographs from the celebrated mountaineering duo Jayanthi Kuru-Utumpala and Johann Pieris who made history for Sri Lanka.

THE OFFICIAL LAUNCH OF THE E-JOURNAL QUARTER 2, 2016

President Shashi Kandamby Jassim launches E-Journal with Chairman Publications Committee Bhanu Wijayaratne

President APB addressing the gathering after the launch

MONTH	DATE	ACTIVITY
January 2017	To be notified	Annual Members Get-together at Sri Lanka Foundation Institute
February 2017	Saturday, February 18th, 2017	Benku Ridma 2017 Talent Show at the Bishop's College Auditorium
March 2017	Friday, March 03rd, 2017	28th Annual General Meeting of APB

HEALTH TIPS

HOW I RECOVERED FROM SECONDARY CARCINOMA.

Dr Cynthia Jayasuriya

ENT Surgeon

In 2002 I developed transitional cell carcinoma of the left ureter and my left kidney, ureter and the area in the urinary bladder, where the ureter enters it, were surgically removed. I had radiation but no chemotherapy.

For seven years, with annual cystoscopies, I was quite well. Then in the seventh year I started passing blood in the urine. A cystoscopy showed a growth in the bladder. This was scraped off and sent for biopsy. It was secondary transitional cell carcinoma. I was asked to come back to another cystoscopy after a month.

Then I came to know from my brother in law in Australia, that people eat the Apricot Seed Kernel which had a substance called B17, which healed cancer patients. (See www. Worldwthoutcancer.org)

This is how B17 works in the normal cell and the cancer cell.

B17 normal cell ---sugar   B17 cancer Cell --- sugar

Sugar, Benzaldehyde

Sugar, Hydrocyanic acid

The enzymes in the immature cancer cell brakes B 17 into this cyanide which kills the cell. Reality it is very gentle chemotherapy.

When I looked up the internet about B17, I found it was present in about ten other food items like manioc (a.k.acassawa, yucca, tapioca), millet and apple seed etc. So I decided to eat the freely and the cheaply available manioc daily: for breakfast a plateful with coconut sambol for lunch, cooked into a curry with coconut milk, garlic and turmeric, about 4 or 5 tablespoons full and eaten with rice. And for dinner, the same curry also with a little rice.

After a month I had my cystoscopy under general anesthesia. The surgeon had been amazed that the bladder was so clear. He could not take a biopsy because there was no growth.So, I knew something good had happened .I had not seen blood in the urine after eating the manioc. My feeling about my health was good. So I decided to write my experience to all the newspapers in the country but never asked anyone to do follow it except at their own free will. I was hoping that others too would have the good sense to try because there was nothing lost. Fortunately, many folks, both educated and simple, did so.People started contacting me to tell their stories. I was extremely happy!

Manioc is so cheap and easy to procure in Sri Lanka, throughout the year. It is a food, very palatable easy to take, when compared to the fabulously expensive chemo drugs, which cause immeasurable pain, loss of hair and a host if negatives.

I read thatlong ago the world grew and consumed millet not wheat. Millet had B17 but not wheat. People in those days did not have cancer.

An analogy to the story of B17 is the story of Vitamin C. When the only driving force for ships was the wind and the sail, no engines, no refrigerators on board and they hot lost in the doldrums for long periods, they developed bleeding from the teeth, pain and thickening of long bones all due to lack of Vitamin C. They died of scurvy. Vitamin C in oranges, lemons and limes cured scurvy.
Another analogy: Rice eating people polished their rice and lost all the Vitamin B compounds in the outer cover of the rice they developed pellagra, beri-beri and haeamolyticanaemia. They died of swelling of feet, dementia and marasums .It was so simple to leave the rice unpolished but it took a century to realize it.

So probably, we lost B17 due to changes in our diet.

Chemicals used as insecticides and fertilizer killed the bad insects and the good insects. Asian countries, after using chemicals are plagued with dengue fever.Struggling to control the mosquito population by spraying chemicals, they also kill the fish, toads, garden lizards and all types of little creatures who eat the mosquito lava. Does mankind like to cut its nose to spite its face? Money had been made into a god but it is god who made human beings and nature. The whole world pays a deadly price for making money a god.

If you go to Google Search and type "Dr Cynthia Jayasuriya' and read my articles you can know more I have written.

A U.S doctor, Larry Von M.D. said that in the early 1940s Professor Manual Navarro, Professor ofMedicine, SanThome Medical College, Manila (who was also a biochemist) had treated more than 500 cancer patients successfully, with cassawa or manioc.There was no internet then and he could not proclaim it to the world. But he had read many papers at cancer seminars and written 3 books. Larry Von M.D had got one book. So he sent me the way Professor Navarro had treated cancer patients.

Take a 4 inch piece of manioc not more than 3 inches in diameter , clean, chop into small pieces, put in blender with two measuring cups of clean water (boiled, cooled) and blend for two minutes. Then it becomes like milk. Put it in a glass bottle and keep in the fridge for 2 hours. The white residue (carbohydrate) settles down at the bottom. Carefully pour out the clear liquid on top. Drink half of it in the morning and half in the evening.

Diabetics can drink it because there is no increase of sugar .Also people who find it difficult to swallow solids can take it as liquid.

So fear not cancer can be overcome.

I know because I did.

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