Central Bank Of Sri Lanka: A Boost For Sri Lankaâ€™S Economy

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Implementation of the Sri Lanka Deposit Insurance Scheme

The Central Bank of Sri Lanka announced that it has implemented a mandatory deposit insurance scheme under the provisions of the Monetary Law Act with e ffect from October 1, 2010. It will be implemented as the Sri Lanka Deposit Insurance Scheme (SLDIS). The intial capital of the Scheme of Rs. 1.1 billion (approximately) will be provided by the Central Bank.

The members of the Scheme will comprise all licensed banks and registered finance companies. All deposits excluding deposits of member banks and finance companies, Government of Sri Lanka, shareholders, directors, key management personnel, other related parties, deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant accounts in terms of the Finance Companies Act, will be considered as eligible deposits under the scheme.

According to the SLDIS, in the event the license or registration of a member institution is suspended or cancelled by the Monetary Board, depositors will be compensated up to a maximum of Rs 200,000 per depositor. While member banks and finance companies will participate in this scheme on a mandatory basis from October 1, 2010. Depositors will be entitled to benefits after January 1, 2010.

The premium to be levied on eligible deposits will range between 0.10 percent and 0.15 percent per annum and will be required to be paid by member institutions on a monthly/quarterly basis. Such premia will be credited to a Deposit Insurance Fund, which will be operated and managed by the Monetary Board of the Central Bank. However, such a Deposit Insurance Fund will be distinctly separate from the Central Bank, and its liability will be limited to the extent of the Fund balance.

With implementation of the Scheme, the Central Bank is of the view that public confidence will be enhanced; interests of small depositors with low financial literacy will be safeguarded; savings among small scale depositors will be encouraged; unauthorised deposit taking activities will be discouraged; and the commitment of the Government in the case of failure of a financial institution will be reduced.

Reduction of the General Provision Requirement on Loans

The Central Bank, with the intention of mitigating any possible threat to the banking industry and thereby the financial system in the face of the potential downturn in the domestic and global economic activities, required licensed banks to maintain a general loan loss provision of one percent against performing loans and loans in the special mention category as a proactive prudential measure. Such general provision introduced in November 2006, brought about an extra capital cushion during the period of financial and economic stress in the recent past, and had the desired effect on the Sri Lankan economy.

However, the careful assessment of the current financial landscape at present suggests that the risk of any potential downturn in the domestic and global economic activities has substantially abated. Further, the benefits of the improved macroeconomic fundamentals have provided the space for the domestic economy to grow rapidly in a stable environment. At the same time banks too have been improving their asset quality over the past few months, which outcome need now be supported by the encouragement of further good quality credit to spur economic growth. Hence the Central Bank has decided to reduce the general provision on performing loans and advances and credit facilities in the special mention category from the current one to .05 percent, by December 31, 2011. Accordingly, banks would now be able to reduce the existing general provision requirement of one to 0.5 percent at a rate of 0.1 percent per quarter, over each of the five quarters commencing with the quarter ending December 31, 2010.