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FACULTY OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF KELANIYA

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FINANCE OUTLOOK

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DEPARTMENT OF FINANCE
FACULTY OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF KELANIYA

MESSAGE FROM THE HEAD OF THE DEPARTMENT

It gives me immense pleasure to extend my warmest congratulations for the first issue of the 'Finance Outlook' business magazine published by the Finance Students' Association (FinSK) of the Department of Finance (DFin), University of Kelaniya. I firmly believe that the 'Finance Outlook' business magazine provides excellent insights to unveil the comprehensive knowledge and the practice related excellences of Finance, Banking, and Insurance industry experts and brings out timely topics related to the Finance, Banking, and Insurance industries.

As a department established in 2011, the Department of Finance offers four-degree programmes, namely, Bachelor of Business Management Honours in Finance, Bachelor of Business Management Honours in Banking, Bachelor of Business Management Honours in Insurance and Bachelor of Business Management Honours in Financial Engineering with a student enrollment of 220 in 2021. Being a pioneer in innovation and the most progressive department in the University of Kelaniya, the Department of Finance strides forward to prepare future corporate leaders through innovative thinking and practical knowledge.

The extra-curricular activities conducted by the Finance Students' Association is one of the avenues used to train undergraduates to learn professional practices. The 'Finance Outlook' business magazine is one of the key outcomes of the FinSK in line with the Investment Week 2021/2022, one of the major events in the Department of Finance. The business magazine provides an enormous opportunity for the undergraduates to search for new insights in the field of Finance, Banking and Insurance with the prevailing pandemic and new normality.

I would like to thank the Finance Students' Association and the editorial board for their immense contribution in taking the initiation to publish 'Finance Outlook' business magazine. I hope this magazine will enormously support the reader's mind, and I would like to convey my heartfelt congratulations for their commendable endeavour. I believe that this milestone will provide an excellent platform to enhance the competencies of undergraduates.

PROF. R. ABEYSEKERA
HEAD
DEPARTMENT OF FINANCE
FACULTY OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF KELANIYA

MESSAGE FROM THE EDITOR IN CHIEF

With immense contentment, I extend my thoughts for the first issue of the 'Finance Outlook' business magazine, which is another milestone of the Finance Students' Association (FinSK), Department of Finance (DFin), University of Kelaniya. The 'Finance Outlook' business magazine launch is one of the prominent events in the Investment Week 2021/2022 organized by the Department of Finance.

With the aim to provide knowledgeable and skillful graduates, the Department of Finance expose their undergraduates to many avenues apart from the basic academia such as extracurricular activities, field visits, and internship programmes. As a dynamic and a progressive department of University of Kelaniya, the Department of Finance provides new knowledge for the undergraduates and the business sector. DFin took the initiation in launching the 'Finance Outlook' business magazine to unveil the practices and insights in the corporate sector. This would ultimately help to mold the students into exceptionally demanded professionals in the corporate sector. The 'Finance Outlook' business magazine is expected to create a platform in sharing the thoughts and glances of the corporate expertise in their respective fields. It acts as a platform for the students and academics to share their knowledge on the timely changes in the current business world. I firmly believe that 'Finance Outlook' business magazine will become a golden bridge to fill the gap between the undergraduates and the corporate sector.

On behalf of the editorial board, I would like to extend my sincere gratitude to the eminent corporate personalities for sharing their experiences and insights. Further, the academics of the Department of Finance, for their immense support, the authors and the Finance Students' Association for their enormous contribution given to make the 'Finance Outlook' business magazine a success. I believe that the experiences, and the perspectives put forth in this magazine, will provide a worthy insight to all the readers.

MS. D.M.U.H. DISSANAYAKE
ASSISTANT LECTURER
DEPARTMENT OF FINANCE
FACULTY OF COMMERCE AND MANAGEMENT STUDIES
UNIVERSITY OF KELANIYA

MESSAGE FROM
THE FINANCE STUDENTS' ASSOCIATION

It is with immense pleasure we publish this message in launching the first issue of the "Finance Outlook" Business Magazine, an inimitable magazine proudly presented by the Finance Students' Association, Department of Finance, the University of Kelaniya as a part of the Investment Week 2021/2022.

The Department of Finance, University of Kelaniya provides guidance for the undergraduates to develop their soft skills and become excellent corporate personnel. In fact, the Department of Finance organizes various events to uplift the soft skills of the undergraduates. The flagship event of the Department of Finance; The Investment Week 2021/2022 is enriched with a series of multifarious events; Inter University Finance Quiz Competition, extensive discussions with industry experts and the "Finance Outlook" business magazine launch. The "Finance Outlook" magazine adds a novel aura to the Investment Week, along with the key aims of assisting the young minds, to disseminate knowledge and to bridge the gap between the undergraduates and the corporate sector. We, the Finance Students' Association strongly believe that the "Finance Outlook" Business magazine will widen the horizons to perceive the trends in current business and the prevailing economic status. It will further appear as an outstanding university that becomes the spotlight among other universities for fulling their social responsibilities. The specialty of the magazine lies on the fact that it is developed by the department's very own undergraduates in collaboration with the academic staff members.

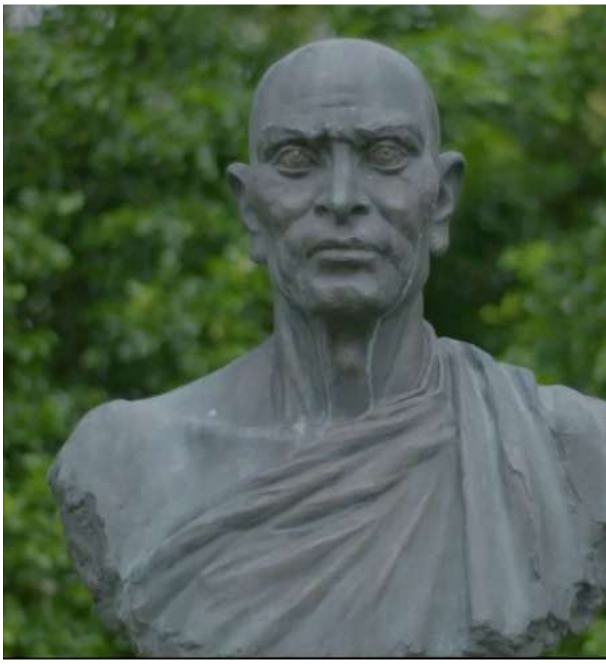
As the Finance Students' Association, we warmly invite you all to explore the magazine to dive into the depths of knowledge banks in the disciplines of Finance. We hope you will indulge in a unique, memorable experience.

SELF-PURIFICATION BY INSIGHT

> "The prestigious University of Kelaniya has nurtured minds with good knowledge and deep insight to enrich our nation with wholesome and outstanding scholars testifying to a glorious past and present in higher education."

The University of Kelaniya, being one of the oldest state Universities in Sri Lanka has its roots in the historic Vidyalankara Pirivena, founded in 1875 as a center of learning for Buddhist monks. Later in 1959, Vidyalankara Pirivena became Vidyalankara University and thereafter, the Vidyalankara Campus of the University of Ceylon in 1972 and eventually was named as the University of Kelaniya in 1978. Offering students with extensive opportunities to pursue their passion, the University is organized across 7 faculties, 56 departments, 3 affiliated institutes and 26 units and centres. As an institute of both graduate and undergraduate studies, the University of Kelaniya offers undergraduate degrees for both internal and external, and diplomas and certificate courses for a wide variety of subject fields. Shaping future and broadening horizons, the University of Kelaniya has an undergraduate student population as large as 12,107 per year and a graduate student population of 1984 per year representing a foreign and local student community of multi-ethnic backgrounds and all walks of life.

Besides academics, the University is fully committed to improving the quality of student life with tremendous opportunities through career guidance, extra-curricular activities, sports, arts and culture and other facilities. Keeping pace with modern trends, the University is known to deliver updated and comprehensive course work for every academic discipline and hosts several events, projects, conferences, and forums annually to make aware, to encourage and to engage. Leading the ranks of Green Universities in Sri Lanka, the University of Kelaniya advocates sustainable development, assuming measures for enhancing environmental sustainability and promoting gender equality.



FINANCE OUTLOOK

Research is woven into the essence of good learning, and persistent learning entails the need for research. As an institute seeking to expand new knowledge through analysis, innovation and insight, the University of Kelaniya acknowledges the vital role of research in the development of knowledge with the practice of a strong research culture. Owing to its commitment towards excellence in research, the Ethics Review Committee of the University of Kelaniya was established in 2016 to provide ethical guidance to the enthusiastic researchers. In the steadfast journey of transforming into an internationally recognized research university by the year 2023, the University of Kelaniya marked the milestone of being locally ranked at the 02nd in the SCIMAGO Institutions Rankings 2020, a ranking based on the assessment of research focused institutions.

Lead by the solidarity of an esteemed panel of lecturers, efficient administration and prudent governance, and driven with the talent of diligent learners, the university of Kelaniya strives forward towards the vision of becoming a center of excellence in creation and dissemination of knowledge for sustainable development.

25 YEARS OF SUCCESS

The Faculty of Commerce and Management Studies (FCMS) of University of Kelaniya was initiated as the Department of Commerce under the Faculty of Social Sciences in 1976. In 1986 its first Masters Degree program; Master of Commerce was introduced. Later, in 1995 it secured Faculty status and has rapidly flourished to become one of the most distinguished faculties of the University today. As the mission is to foster a culture of excellence in teaching, learning and research to nurture tomorrow's leaders, the Faculty of Commerce and Management Studies of the University of Kelaniya has produced over 10,000 graduates and records a current undergraduate and postgraduate enrollment of around 2376 and 585 respectively. Focused on producing world class graduates who are academically and professionally competent, and readily employable, the FCMS comprises 5 academic departments: Department of Commerce and Financial Management (DCFM), Department of Human Resource Management (HRM), Department of Accountancy (DoA), Department of Marketing Management (DMM) and Department of Finance (DFin).

Combining academic goals and industry-oriented education, FCMS offers a total of 14 Undergraduate Degree Programs, 2 External Undergraduate Degree Programs, 2 Postgraduate Diploma Programs, 5 Higher Diploma Programs, 4 Diploma Programs, 7 certificate courses, 6 Master's Degree Programs and a Doctor of Business Administration Program. The quality and world class standard of these degree programs is the result of the vitality the FCMS maintains with the industry and professional bodies through collaborative relationships and partnerships and of the standards upheld by the Faculty Quality Assurance Cell of the FCMS through effective quality assurance policies.

FINANCE OUTLOOK

The learning process at the FCMS utilizes a strategy that integrates knowledge, wisdom, and solutions with collaboration. Student associations, community development projects and student organized events stimulate the sense of teamwork and creative thinking and unfold opportunities for students to discover their full potential and prepare personnel who are versatile and ready to undertake the challenges thrown before them in the real world. In response to contemporary needs, the FCMS has adapted to an e-learning environment to ensure uninterrupted learning and teaching practices. Encouraging the adaptation to new technology and innovation, the FCMS facilitates students with the luxury of smart classrooms, a new incubation center and an innovation lab. Inducing progress in the research culture, two new journals were recently launched by the DoA and the DFin namely, " International Journal of Accountancy" and "South Asian Journal of Finance" respectively.

WHAT'S NEXT?

To accommodate the increasing number of students, a new 10 storied building will be added to the infrastructure of the FCMS under the "Green building project". The building will facilitate a visitors' lobby, spiritual development center, professional development center, smart conference room, common meeting room, gymnasium, examination halls, scale up rooms, presentation practice pods, e-book reading libraries, staff cafeteria and nine large lecture theaters by 2023.

Moreover, the FCMS will expand its current degree program portfolio to several emerging areas of Commerce, Accounting, Finance, Marketing, and Human Resources Management with the introduction of new Undergraduate Degrees such as its own degree in Business Information Systems, Bachelor of Commerce in Business Analytics, Tourism Management and International Business, a degree in Human Resource Analytics, a degree program in Digital Marketing, a degree in Marketing Analytics, Bachelor of Business Management (Honours) in Accounting Information Systems and two Masters degrees; Master of Professional Finance and Master of Banking and Finance.

With the motive to strengthen industry collaborations, the FCMS and its Departments intend to extend Memorandums of Understanding and collaborative agreements with professional and corporate entities in the future ahead. Further, with regard to International Collaborations, the FCMS intends to expand its degree offerings similar to the Masters of Business Administration (MBA) offered in Bangladesh in collaboration with the Cambrian International Study Center (CISC), to regions such as Maldives and Nigeria.

In terms of Research, the FCMS will proceed to improve its research culture to reach new heights by enhancing its journals and continuing to organize annual conferences.

With the aim of serving society, the DFin wishes to introduce a Certificate Course on Financial Literacy as a free online course for the general public. Further, the DMM will continue to sponsor rural schools and conduct skill development projects for under privileged students with high potential.

To enhance the quality of the existing degree programs, the FCMS is in the process of obtaining the AACSB accreditation which will be completed by the year 2024. Further, the DFin is determined to advance to an ISO certification by the year 2022 for its quality in administration and degree programs offered.

Mechale Martis
First Year Undergraduate
Department of Finance.

Ms. Uththara Dissanayake,
Assistant Lecturer,
Department of Finance.

THROUGH ADVERSITY TO THE ST

The Department of Finance, the crowned jewel of the University of Kelaniya celebrates its 10th anniversary in 2021. Being the leader of the field, the Department of Finance showed outstanding performance since its foundation. As the newest of five departments in the Faculty of Commerce and Management Studies, the Department of Finance, which offers four outstanding degree programs stands out as a result of the increasing demand it has generated over the years.

In 2004, the Finance Study Unit was created to supplement the Bachelor of Business Management (Special) Degree in Finance offered by the Department of Accountancy. In June 2011, the Finance Study Unit was elevated to full department status, and the name "Department of Finance" was adopted. The year 2013 commemorates the year when the University of Kelaniya received CFA (USA) recognition, the first time a Sri Lankan university has achieved this honour. Three new degree programs were added to the Department of Finance in 2016 which the department now consists of Bachelor of Business Management (Special) Degree in Finance, Bachelor of Business Management Honours in Insurance, Bachelor of Business Management Honours in Banking, and Bachelor of Business Management Honours in Financial Engineering. In 2018, the department received an "A" grade for SER's Financial Engineering degree program, which began in 2018.

ARS

The department is even endorsed by awarding ISO 9001:2015 quality policy which is a rare award that a department can achieve. This policy defines that an organization has accomplished the international standard requirement for a Quality Management System with principles such as leadership, the process approach, and evidence-based decision making. Enrolling 210 students for the degree programs, the department not only provides graduates with the academic knowledge but also with peak skills. Furthermore, the Investment Research Unit provides the opportunity to the undergraduates to pursue their analytical skills with the help of lecturers and corporate world professionals.

When looking at the four-degree programs offered by the Department of Finance, the Bachelor of Business Management (Special) Degree in Finance was the first to be produced. It was able to capture enormous demand in the finance industry not only locally but also internationally as a degree program that goes in line with the industry requirements and standards. The curriculum meets international standards and includes not only coursework but also workshops, field trips, discussions, and other activities to broaden the undergraduates' knowledge. To meet the growing demand in the insurance industry, the Department of Finance has added a Bachelor of Business Management Honours Degree in Insurance. Consisting of modules such as Underwriting Management, Reinsurance, Risk Management in Insurance, Actuarial Valuation, Insurance Law, Insurance Claim Management, prepares them to compete in the market for the best job opportunities.

FINANCE OUTLOOK

The Bachelor of Business Management Honours Degree in Banking is expected to develop an undergraduate to the banking industry. This program continues to meet the demand for future banking professionals who can apply their knowledge to the fullest. Four years of study in Credit Management, Treasury Management, International Banking, Microfinance, Investment and Development Banking, Banking Law, and Regulations produces banking undergraduates to outshine in their fields. The Department of Finance offers a Bachelor of Business Management Honours in Financial Engineering degree as its fourth-degree program. To meet the demand for undergraduates who are experts in Financial analytics, this degree is offered through a separate window. The curriculum, which is explicitly designed to enhance the undergraduate knowledge in Risk Management, Financial Model Building, and Product Development.

Medals and scholarships are awarded to the outstanding graduates who completed and performed well in their degree programs of the Department of Finance. To advocate the best performers, the Department of Finance and Colombo Stock Exchange signed an MoU in attain of offering the "Colombo Stock Exchange Gold Medal Award" to the graduate scoring the highest marks for capital market-related subjects in the Finance degree program and a scholarship which awards Rs. 50,000 annually. The MoU signed between the Department of Finance and Softlogic Life Insurance PLC leads the way to offer the "Softlogic Life Gold Medal Award" to the student who obtain the highest GPA for the subject Risk and Insurance Management in Bachelor of Business Management Honours Degree in Insurance followed by a scholarship. Moreover, the MoU signed between the Department of Finance and IBSL awards a gold medal for the student who achieves the highest GPA in Bachelor of Business Management Honours in Banking. Also, an MoU signed with People's Insurance PLC which bestows internship opportunities for Bachelor of Business Management Honours in Insurance undergraduates. A gold medal will be offered by the CFA society Sri Lanka for the most outstanding student in B.B Mgt (Special) Degree in Finance and CASL will offer a gold medal for the student who obtains the highest aggregate marks.

The Diploma in Business Finance offered by the Department of Finance is a path that leads students to pursue a bachelor's or master's degree in finance. Students with an Advanced Level qualification in any subject or with equivalent qualifications are eligible to apply for this program, which is extremely beneficial due to the Higher Diploma in Business Finance is equivalent to the second year of a bachelor's degree program.

Being an "A" graded Department of Finance for quality, receiving the "Teaching Excellence Award" illustrates the quality of teaching and the increasing number of graduates produced by the Department of Finance. Even though there is a pandemic situation in the country, the department is managed to conduct lectures, assessments, and exams continuously. Furthermore, projects such as "Dfinity", "Dfin Beats", project "Shilpa", "Vaishakya Warnana" magazines have been accomplished by the undergraduates adjusting to the new normal. The "Investment Week", the signature event of the Department of Finance is being conducted with informative sessions, Inter University Finance Quiz Competition, and the "Economic Insight" magazine launch.

"To be a powerhouse of financial expertise which can push the boundaries of business thinking by providing internationally competitive human capital and to serve the expectations of the stakeholders", the vision of the department is not just a combination of words. It represents what the department expects to be in the future. Thus, enhancing the quality of the department in the years to come and serving the nation by optimizing the learning potential is the belief that the department always has.

Kolitha Weerasinghe,
Second year Undergraduate,
Department of Finance.

Ms. Sandali Sudasinghe,
Assistant Lecturer,
Department of Finance.

A MULTIFARIOUS SPACE FOR

FinSK

FINANCE STUDENTS' ASSOCIATION

INTRODUCTION

The Finance Students' Association, University of Kelaniya is a student-led group dedicated to provide a platform for the undergraduates of the Department of Finance to conduct student activities under the guidance of the academic staff. The association intends to provide a holistic university experience to its undergraduates by organizing both academic and extra-curricular activities to enhance student life while contributing for the upliftment of the society. In addition to the web page attached to the University website, its official YouTube channel and pages on Facebook and LinkedIn In provide the latest updates of the events organized by the association. Since the inauguration, the new committee of the academic year 2019/2020 took pleasure in organizing a multitude of student activities with the involvement of academics, undergraduates as well as reputed industry experts.

IT UNIT – COMMUNITY SERVICE PROJECT

As the initial step, the Finance Students' Association donated a fully equipped Information Technology Unit to Meegahagoda Kanishta Vidyalaya, Ahangama on 10th April 2021. The project was initiated with an understanding of the dire requirement of technology in the times of a global pandemic. The association donated four desktop computers, including a whiteboard and other required material after renovating a classroom as the new IT Unit of the school.

WAISHAKHYA WARNANA – ANNUAL VESAK MAGAZINE

With the aim of emphasizing the true essence of Vesak, the association virtually launched their first annual Vesak Magazine, Waishakhya Warnana on the Vesak full moon Poya Day with the contribution of both undergraduates and academics. The magazine comprised short stories, poems, free verses, and artworks created by the members of the Department of Finance in relation to Vesak. Magazine launch was followed up by a Vesak puzzle for which the winners were appreciated with cash prizes. The initiative to launch an annual Vesak Magazine added a novel color to the student activities done by the Finance Students' Association as this transcends the mere disciplines of Finance in academia.

ASHIRWADA POOJA – WELCOMING FRESHERS

Following the annual tradition of welcoming the new batch of students to the Department of Finance, the association organized Ashirwada Pooja on the 1st of June 2021, with the intention of blessing the first-year undergraduates of the department according to religious customs. Ashirwada Pooja was held virtually via Zoom with the honoured presence of Rev. Malwane Chandrarathana, along with the participation of department academics and senior undergraduates.

SHILPA – ADVANCED LEVEL SEMINAR SERIES

Furthermore, the Finance Students' Association took pride in organizing Shilpa - Sarasavi Kirulata Athwalak, a three-day seminar series (11th, 12th, and 13th October 2021), intending to provide a helping hand for the advanced level students to enhance their knowledge in Business Studies. It was focused on motivating the students while instructing them on time management and exam paper structure. The event was a huge success with a number of participants via Zoom, Facebook and YouTube live.

The seminar series was focused on the subject areas: Marketing Management, Human Resource Management, Finance Management and Operation Management with the support of an esteemed panel of lecturers from the Faculty Commerce & Management Studies, University of Kelaniya. Finance Review Magazine which comprised of both educational and inspiring articles from undergraduates and lecturers was launched after concluding the seminar series.

DFIN BEATS – VIRTUAL TALENT SHOW

DFin Beats was an extravaganza organized by the Finance Students' Association, providing an ideal platform for undergraduates to unleash their innate talents on a physical stage during the pandemic. DFin Beats comprised five main categories namely, DFin Step up, DFin Melodies, DFin Theatre, DFin Talk and DFin Innovation. After a series of preliminary rounds, the grand finale was held on 12th of August 2021 from 5 p.m. onwards via Zoom. DFin beats is the first ever virtual talent show by the Department of Finance, the event added a new dimension to the typical extra-curricular activities of the department.

THE JOURNEY AHEAD – UPCOMING PROJECTS

Pamoda Jayasanka
Second year Undergraduate,
Department of Finance.

As the upcoming projects for the next few months, the association has planned a series of exciting events. As its first plan, fulling the requirement of the module, Project Management, a variety of community service projects have been organized catering to timely requirements throughout the month of December. Moreover, Investment Week is planned to be held in the second week of January, along with an inter-university quiz competition and economic forums to power up the future minds. The Investment week which is the most prominent event in the department year calendar opens up a wide variety of opportunities to the undergraduates in order to engage in the field of Finance. Furthermore, in the second week of February, CFA Awareness Programme is also planned to be held as the final event organized by the Board for the year 2019/2020.

ECONOMIC TRENDS IN 2022

A YEAR OF NEW REALITY

With the corona pandemic, worldwide economies have subjected to shockwaves with numerous shares crashing to highs and lows in many production industries. There has been additional economic insecurity, tension, and disruption to every issue of lifestyle. However, still, COVID-19 cases continue to spike around the globe, creating new economic shocks that will continue into 2022 and possibly even longer.

Moving ahead now, 2022 will be a vital year in which the imbalances wrought by the pandemic will likely begin to resolve and the business cycle normalizes.

SO, WILL THE WORLD ECONOMY RETURN TO NORMAL IN 2022?

OPTIMISM GOGGLES ON

The economic and market environment in 2022 will be decidedly reflationary, with higher economic growth and inflation, and higher real interest rates. Above-trend growth of 4.9% is expected from the global economy. The economies of the US and China are forecasted to grow by 3.8% and 5.5%, respectively. Annual global growth is projected to average 2.5% in the years 2022–2026 before ticking down further to 2.4% in 2027–2031 (Global Economic Outlook, 2022) . However, in such circumstances, this will be a bumpy ride over the next few years.

As the economy recovers from the pandemic, labor markets have been tight, with many open job positions going unfilled. According to the World Employment and Social Outlook: 2021, global unemployment is expected to be at 205 million in 2022. In the European area, 2.3% of jobs are vacant, while 5.3 million jobs were opened in the last quarter of the US, and 3 million more workers retired earlier than expected, which led to recruiting more younger workers. This will have a critical impact on labor costs, supply barriers, and inflation in 2022.

On the other hand, for the first time since the time of the 1970s energy crisis, there’s a possibility of the global economy entering into a period of stagflation in the year 2022. Producer price indices in Europe, the US and China all reflect rising costs in both short and long terms, mainly due to rising petrol prices in the US and natural gas prices in the European area. If inflation continues while growth slows and wages stagnate, the world economy will surely have the chance to experience ‘a perfect storm’.

THE CULTURE THAT MAKES THE DIFFERENCE

The story of human progress goes beyond economics. Real economic development is about transforming the lives of people, not just the economies, and it's the culture that makes all the difference.
(Landes, 2021)

"Wellbeing and happiness define a new economic paradigm," implying that happiness is important in both economic and social contexts. So, we need to give more importance to happiness and well-being in determining social and economic development. Since 2012, nations have been ranked based on their happiness levels.

According to the World Happiness Report 2021, Finland has been nominated as the happiest country in the world with a score of 7.842. Denmark received second place, and the third rank was occupied by Switzerland (7.571), but the number of people reporting being sad or worried in 2020 was more than 10% greater for sadness and an 8% increase for worry from 38.4% to 41.5% compared to the last two years. (John F. Helliwell, Word's Happiness Index, 2021)

DO WE NEED EACH OTHER?

To start, prosperity measures how much we have.
According to the Prosperous Index 2021, Denmark was recorded as the most prosperous country in 2021, ranking at the top.

The second rank goes to Norway, and the last year, the 5th rank: Sweden became the third most prosperous country in the world, but what matters is that true prosperity is not always about strengthening communities or fulfilling our own unique potential; it's about who we become and what the whole world becomes.

Again, for the first time in over 20 years, the COVID-19 pandemic has pushed between 88 million and 115 million people into extreme poverty in 2021. During the pre-Covid 19 period, it would have yielded a global poverty rate of 6.1% in 2030. That was already more than double the targeted goal of 3% by 2030. According to this, the COVID-19 pandemic has set back progress towards the World Bank's poverty goal by 6 to 7 years. (Projecting global extreme poverty up to 2030, 2020)

SHIFT FOCUS FROM SPEED TO QUALITY

Governments around the world have likely implemented 1,600 short-term social protection measures in response to COVID-19, but four billion people remain unprotected. During 2019–2021, an additional 83–132 million people experienced hunger. The pandemic has halted progress in health and shortened life expectancy. 90% of countries are still reporting one or more disruptions to essential health services. (The Sustainability Development Goals Report , 2021)

Now back to the discussion. Moreover, with this higher level of poverty, unemployment, and massive gaps in financing, it seems somewhat impossible to attain the target SDG by 2030. So, to maintain sustainable economic development; the peace policy for our future, we need to shift our focus to quality rather than speed (Li Yuanchao).

CROSS FINGERS FOR SRI LANKA

The Sri Lankan economy is anticipated to grow by between 5.5% and 6.0%. Sri Lanka must repay two more loan payments in 2022 and 2023, two bonds of $1.5 billion and $1.25 million in debt. Inflation rates are expected to be 5.0% and production costs are estimated to rise, which will result in a reduction in the purchasing power of consumers. The unemployment rate is forecasted to be around 5.0% in the year 2022 (SL Unemployement rate 2022 Forecast, 2021). The recovery of the Sri Lankan economy would remain fragile due to the uneven rollout of vaccination campaigns and the higher level of debt and deficits.

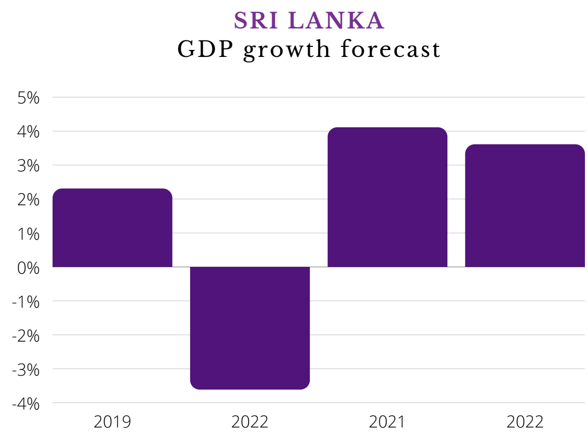


Figure 01: Sri Lankan GDP growth forecast.
Source: ADB's Asian Development Outlook 2021.

Apart from that, Sri Lanka's first indigenous electric supercar is planned to enter production in 2022. This is the first electric sports car to be manufactured in Sri Lanka and South Asia

2022

AND BEYOND

Vinodya Sithumini
First year Undergraduate
Department of Finance

Ms. Ganga Madhushani
Lecturer,
Department of Finance.

Economists assume that from 2022 onwards, there will be fewer pandemic disturbances compared to last year, and regarding the "Omicron uncertainty," it's already been proved that it’s less deadly, so we can assume that it won’t cause more severe damage than before. Central banks across the world are looking forward to the launch of their own cryptocurrencies. It is expected that 2022 will see a correction in the trend of everything happening digitally and virtually, and it will become critical for companies to build products and services that serve environmental and sustainability goals.

SO, WHAT COULD GO WRONG?

UNFORTUNATELY, PLENTY!

APPRAISING SUSTAINABLE INVESTMENTS TO STRIVE TOWARDS A RESILIENT FUTURE

Ms.Vinodhini Radhakrishnan

Customer Support Manager at Programus Limited,
Former Manager of Whittall Boustead (Travel) Ltd,
John Keells Holdings

Ms.Vinodhini Radhakrishnan is serving as a Customer Support Manager at Programus Ltd, a leading Computer Software Company in Sri Lanka that is registered in the United Kingdom. She has years of excellence in customer care, emergency handling, building high-performing teams, MS office skills and excelled in administration and operations. She is explicitly recognized as an activist in the sustainable development sector and has contributed to various sustainable development initiatives in Sri Lanka.

During her career, she has been fortunate enough to be a part of the Corporate Social Responsibility projects of John Keells Holdings PLC, which has been one of the largest conglomerates for the past many years. She actively took part in the PlastiCycle project initiated in 2020, representing her company with the teams where they collected plastic waste to build plastic bricks intending to demolish pollution and reuse resources. She is a former member of the Sustainable Development Team of her sector, where she contributed to advocating sustainable development practises within the organisation and in Sri Lanka.

She has obtained her MBA in Business Administration and Management from the University of West London. She is also qualified as an Associate Chartered Management Accountant from The Chartered Institute Management Accountants, UK (CIMA).

> Even though investing was all about profits and financial gains back in the day, the future does not stop there. Investors need to contemplate what they expect to do for the planet and its people. That is how their success story will continue to grow and prosper.

How do you define the concept of sustainable investment, and why is it essential for a nation?

Sustainable investment is a widely spoken topic nowadays. Sustainability development and its goals stem from the United Nations, where every country is working hard to instill this culture in their communities. Sustainable investments have a direct link in terms of environmental, social, and governance factors. It is not the usual type of investment to invest money and time with the expectation of receiving solely financial gains.

There is a significant demand that is arising from the community as well. Unlike in the good old days, it is not all about the material benefits; people around us vigilantly observe what a particular company does and give back to society. As a result, it has become a mandate for investors to consider this topic seriously. Since it directly focuses on the triple bottom line, sustainable investment exhibits intrinsic values and positively changes the environment. Even though investing was all about profits and financial gains back in the day, the future does not stop there. Investors need to contemplate what they expect to do for the planet and its people. That is how their success story will continue to grow and prosper.

Sustainable investment is undoubtedly a concept that is essential for society and the economy. On the other hand, many investors perceive it as a mere trend and believe it will not last long. As per your opinion, is it truly a short term investment practices?

I would definitely not recommend it as a short-term option for investment. The concept of sustainability itself is not something that can be derived overnight. Sustainable investment is a vast topic, unlike any business investment that primarily focuses on financial gains.

It is a gradual and steady process that requires rigorous awareness, which can be challenging. This implies that it takes a great deal of time to reach out with this concept to individuals on a mass scale. As a result, anyone with the knowledge, commitment, dedication, and desire to give back to society may pursue the idea of sustainable investment.

When this concept is put into practice, it is crucial to consider it from a holistic perspective rather than merely do it for its sake. Most companies get involved in many cooperative social responsibility projects and sustainability projects purely as a marketing strategy or probably to gain popularity. However, the reality is that it should be instilled within us, and we need to feel for it. Indeed, sustainability investment is not a quick fix but rather a long-term commitment that demands a lot of patience. Investors must have a positive attitude towards their investments to get a consistent return.

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When this concept is put into practice, it is crucial to consider it from a holistic perspective rather than merely do it for its sake. Most companies get involved in many cooperative social responsibility projects and sustainability projects purely as a marketing strategy or probably to gain popularity. However, the reality is that it should be instilled within us, and we need to feel for it. Indeed, sustainability investment is not a quick fix but rather a long-term commitment that demands a lot of patience. Investors must have a positive attitude towards their investments to get a consistent return.

Apart from the necessity of the societal perspective, Why would investors choose to adopt sustainable investments? apart from the necessity of the societal perspective, Why would investors choose to adopt sustainable investments?

Investors win the community's hearts in the first place by implementing sustainable investment practices, because not everyone wants to set foot on this challenging task. As mentioned previously, the ultimate goal of sustainability investment is to bring about positive changes. As a result, when particular investors have that perception in mind when they invest, society will eventually benefit from it. They will start building trust with that investor. All this positivity that derives definitely brings a plethora of economic benefits at the end of the day. There is no need to regret the choices, feeling that the efforts were in vain. Nobody should have a fear factor when it comes to sustainable investments because it will eventually add value for the effort they put in.

From my judgement, choosing to invest in a sustainable venture will undoubtedly provide greater regard in building a better nation while avoiding absolutely catastrophic acts that could cause a lot of damage to the community and the planet as a whole.

Do you believe that the lack of adaptation in sustainable investments is due to the inadequate returns they generate compared to traditional forms of investment, despite the fact that many organizations constantly advocate them?

There are two perspectives on this issue. The first is a lack of awareness, and the second is a lack of interest. When going into further details about the lack of awareness, sustainability as a concept in Sri Lanka is still at a baby boom level. Many individuals in the community are unaware of the concept of sustainable development and what it entails. First and foremost, for someone to consider and invest in a project that involves sustainability, he/she should be made comfortable and aware of what it is all about. Sri Lanka is a country that, if done right, has the potential to do miracles in terms of sustainability. Because of its rich soil and the ocean surrounding the island, Sri Lanka is blessed with a multitude of resources, both naturally and socio-culturally. The country is under-utilizing a variety of talent pools. If all of these resources were combined, it would be much easier to inculcate the sense of awareness that the country lacks.

The second issue is a lack of interest. Investors are so focused on enhancing their profits that they are oblivious to the environmental devastation. For instance, if an investor is considering switching from polythene production to all-paper production, he is simply concerned about how soon he will earn the optimum return on his investment. And when he realizes that convincing people to use paper bags as an alternative to polythene is difficult because people have become accustomed to polythene to the point of no return, he may opt to take a step back. This is because he becomes aware that he will not make substantial profits anytime soon. That is the reality of this concept. Unfortunately, even if the returns will not be immediate, I urge that this misconception be transformed into positivity. People should first be made aware of what sustainable development is and how, in tandem, sustainability investment should be encouraged to invest in a large number of projects in sustainability. Hence, this dilemma of investing could be avoided.

What initiatives has the Government taken to improve sustainability investments, and what measures, in your opinion, should be implemented to encourage them?

Sri Lanka has maintained a firm grip in terms of sustainable investment. It is quite promising to see a lot of positive things happening around the country. For instance, the Government and the country's regulating organizations for the travel and tourism sector are highly concerned and are alerting tourists to ensure that they do not harm the environment. They discourage the use of plastic and urge people to safeguard the beaches. Furthermore, they have stringent protocols even in terms of marine life. These rules are progressively making their way across the country. However, this is insufficient because it is only conveyed to a specific community. It is mostly limited to famous cities such as Colombo or other well-known cities in particular districts. However, Sri Lanka as a community could do much more. The lack of awareness is a significant hindrance that should be addressed. Due to a lack of awareness and the Government's refusal to take an interest in dragging people out of their dilemma and facilitating that awareness, sustainability development has yet to shine. There is a greater need for awareness and funding. It is not only about monetary support or financial investment when it comes to funding. The required technical information must be delivered through collaboration with relevant resource personnel who can reach ground-level people. This will educate, empower, and assist them in becoming economically robust in order to provide a better yield to the nation. Moreover, as a country, the governing bodies and the state should go beyond what they are doing now to enable society to overcome its bitter attitudes and strive for a better future.

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THE ROADMAP TO A ROBUST INVESTMENT DECISION MAKING CULTURE

Mr. Nuwan Jayawarwardana

Director, Investment research at Acuity Knowledge Partners

Mr. Nuwan Jayawardana, a CFA (US) charterholder with over 18 years of total work experience. He is knowledgeable in investment research and analysis across equity and fixed income asset classes. Currently, Mr. Jayawardana, serves as a Director, leading the Fixed Income and Credit Research delivery operations based out of Sri Lanka at Acuity Knowledge Partners. He manages over 40 credit analysts supporting 14 clients, including World's leading asset managers and investment banks and also heads Acuity Knowledge Partners' Outreach programme with Universities in Sri Lanka. Mr. Jayawardana Covered US Mortgage REITs sector at his early part of research career, and then moved to fixed income research, where he provided shadow ratings / rating recommendations for issuers across multiple sectors and regions. He also led multiple fixed income teams covering Investment Grade, High Yield, distressed debt, and Emerging Market credits prior to being appointed as the head of Sri Lanka Head of Fixed Income Research. Nuwan is also the incumbent Chair of the University Outreach Committee, CFA Society, Sri Lanka. He is a Passed Finalist of CIMA (UK).

Various factors influence investment decisions, including broad market factors such as economic growth, rupee depreciation, inflation, interest rates, and investor behavior. Sri Lanka is currently experiencing economic distress because of rising inflation. What is the advice you can give to local investors considering the uncertainties caused by the COVID-19 pandemic in Sri Lanka?

Inflation will likely accelerate as we approach 2022 and perhaps even beyond. COVID-19 has induced supply-side disruptions that have resulted in inflationary pressures throughout the World. This is not confined to a single country but is found in most countries across the World. Most countries in the world resorted to partial or complete lockdown of economies and borders to control the spread of COVID-19, especially during the early part of the pandemic, bringing manufacturing and distribution almost to a standstill across major manufacturing hubs such as China. It was first assumed to be transitory inflation, meaning it would last only a short time until the supply disruptions were remedied and normalized. However, this is no longer the case. In this backdrop, we should expect the central bank to raise interest rates and reduce money supply to combat inflations. As we know, increasing interest rates will have a negative impact on equity valuations.

Sri Lanka is also likely to see continued foreign currency shortage to meet its dollar bond servicing requirements and the demand for imports. This would mean continued pressure on the rupee and extended import restrictions, both of which would lead to higher inflation. Looking back at 2021, despite being a challenging year for rest of the most sections of the economy, Sri Lankan stock market witnessed one of its most phenomenal years on record. The wholesale price index increased by approximately 81 percent on-year on year basis, while the S&P SL20 increased almost 61 percent. We can assume the historically low interest rates which prevailed during the year to have contributed to this performance in 2021. However, this low-interest rate stimulus will reverse if the Central Bank increase interest rates in 2022, which will attract funds back to fixed deposits and reduce funding that came through higher private borrowings.

In an inflationary scenario, when considering equity markets, the investors should look at the sectors that have the power to transfer cost increases to the customer. Some of these sectors include utilities and consumer staples. Moreover, income-generating real estate asset generally have clauses to increase rent based on annual inflation, which provide a hedge against inflation. Investors should, however, wary of investing in companies with high leverage as their cost of borrowing go up in an increasing-interest-rate environment.

Needless to mention, investors will benefit from investing in firms with export revenues given the pressure on the rupee. Within exporters, ones with lower dollar-denominated expenses associated with operations, such as services sector. These companies will outperform other export-oriented firms with substantial dollar-denominated production expenses, not only because of the increase in raw material cost but also possible delays in procuring them due to dollar shortages and transport delays. Small and Medium Enterprises (SMEs) that produce import alternatives are yet another sector that may thrive under import restrictions and high cost of imported goods. While it is true that most these SME that are set up to capitalize on this short of short-term market disruptions may not survive in the long-run, there can be a few who reaches quality standards and scale to build sustainable long-term brands/businesses, proving to be good opportunities, especially for PE investors.

Investors don't always give consideration to fundamentals in picking stocks for their investment portfolios. What is your opinion on that aspect?

You cannot underestimate the importance of fundamental analysis when making long-term investment decisions. The fundamental analysis involves the process of scrutinizing the industry, business model, competition, management, etc. of a company to estimate its free cash flows. This process helps the investor to come up with an intrinsic value for the frim. Once you have an idea about the intrinsic value of the firm, you now have a good basis to compare with the existing market price to come up with a buy/hold/sell decisions. Having a thorough understanding the business model of a company is critical in predicting the impact of events such as COVID-19 pandemic. While lot of businesses suffered, technology companies, such as Zoom, and e-commerce companies (Amazon) were among the sectors that flourished. We can expect the investors who had a good understanding of the fundamentals of these firms to have been in a better position to predict these results when COVID struck as opposed to those who did not, as they could have easily predicted the benefits of work from home and lockdowns to these firms.

Alternatives approaches such as technical analysis, which examines historical trends in terms of volume and price movements, can assist investors in terms of timing entry/exit decisions, but it should not be the basis of selecting a long-term investment.

Moreover, anyone aiming to be a competent investor or investment analyst in the future would do themselves a massive favor if they refrained from making investment decisions based on rumors, which is no different from gambling. Apart from that, the brokerage community need to set the benchmarks and make fundamental drive research available to the investors.

> "YOU CANNOT UNDERESTIMATE
> **THE IMPORTANCE OF**
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> LONG-TERM INVESTMENT DECISIONS."

The lack of fundamental knowledge about this industry has paved the way for many malicious activities among the community. What is your take on this risk factor that the investors tend to encounter when making investment decisions?

Investors need to understand the risk-return relationship when considering alternatives within and across asset classes. When investors seek for higher return generating investments, they should also understand that they will invariably be exposed to higher risk. Fixed income securities, for instance, have less risk when compared to equities, but they also provide lower returns. Within fixed income securities, government bonds are perceived as risk-free (when denominated in the local currency), provide very low returns when compared to corporate bonds. An investor deciding to invest in corporate bonds (vs. government bonds) for higher returns should understand that he is now going to be exposed to defaults risk in case the company face with liquidity problems or go bankrupt. Within corporate bonds, there are bonds that falls under investment grade and high yield grade depending on their probability of default.

When moving from bonds to equities, there is a higher the risk of losing because equity investors are ranked as last in priority in the case of an insolvency. Within equities growth stocks and early-stage firms are far more risky than mature companies. And nowadays, millennials are quick to pounce on any new opportunities and trends, such as cryptocurrency. However, I am not sure to what extent they understand the risks associated with this new asset class. Apart from all the risks associated with a new technology, the cryptocurrency faces very high regulatory risk as it encroaches into the Governments' right to control the money supply and interest rates. These speculative asset classes experience large price swings each day , exposing the investors for significant losses in a short time.

Traditional investing has undoubtedly prioritized profits, but environmental implications have been consistently overlooked, resulting in societal disparities and climatic emergencies. What role does ESG investing analysis play in addressing this problem?

This concept is more relevant in the context of global markets than in the context of Sri Lankan markets because Sri Lanka still lags behind in terms of incorporating ESG factors into investment decision-making. These factors are becoming increasingly important in developed countries as more and more assets management firms incorporate them into their investment analysis and selection process.

In credit rating agency reports, there are now specific allocations for ESG considerations. Explicit assessment of environment, social, and governance criteria of a company helps the investors identify risks and opportunities that arises due to these factors which may not necessary be visible in a traditional financial analysis process. Investors' placing more emphasis on ESG factors in their research process also forces companies to take action to improve their ESG performance.

Some active investors go beyond using ESG in investment selection process to a more active engagement with companies to force them to rectify ESG factors such as large greenhouse gas emissions, poor working conditions of staff, and low women representation in the boards etc. The increase in the investor scrutinization and the active engagement by investors' forces companies to incorporate ESG into their corporate planning and disclosures which in return facilitate better ESG analysis and productive engagement by investors with companies for better ESG results. This creates a positive re-enforcement cycle.

However, the availability and comparability of ESG data is a challenge even highly ESG active markets such as Europe. Certain companies are also blamed for "green washing", which make it important to go beyond the company propaganda to understand the actual ESG risks faced by the company and how prepared it is to mitigate those risks.

In order to understand the growing importance of ESG factors we only need to look at exponential rise in ESG AUM, which has seen an avg. growth of about 30% in the past five years reaching USD38 trillion by end-2021. This is expected to surpass USD140 trillion by 2025 which will represent about third of global AUM. This is a good positive trend forcing companies to target reaching carbon neutrality by 2050 and improve ESG disclosures and performances.

As Finance graduates who are aspiring to become potential investors what are the qualities that we should master and the aspects we should look at when we make investment decisions?

I am encouraged to see universities such as University of Kelaniya (UoK) incorporating research analysis topics such as financial model building into their curricula. SL's universities also encourage students to follow professional qualifications such as CFA while in the university. We also see increase level of participation in capital market events by universities such as participation in the CFA research challenge. I highly encourage students to make maximum use of these initiatives which expose them to real life application of the skills they learn in the university.

Students equipped with basic techniques should look to gain practical experience in financial model building, financial statement analysis which require a thorough understanding of interrelationships of accounts and definitions of standards and specialist ratios, valuation knowledge, and business analysis skills to understand a company's economic model and industry structure.

What is also very important, and more often than not lacking in fresh graduate is the financial market awareness. It is critical that an aspiring investment analyst remain on top of the business news and capital market trends. Students should spend 30-60 minutes each day reading financial news in websites such as WSJ, Bloomberg etc. I also encourage students to write a daily summary of what they learn by reading and have a discussion in the classroom with fellow students on latest developments and their impact on investment decision making at least once a week.

This small habit can deliver bigger results interns of financial market awareness, analytical skills and communication skills if done on a regular basis.

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BANKING GOES BEYOND CASH WITH DIGITAL ENGAGEMENT

OVERVIEW OF THE BANKING INDUSTRY IN SRI LANKA

The banking sector in Sri Lanka, comprising both licensed specialized banks (LSB) and licensed commercial banks (LCB), plays a dominant role in the financial system. At the end of the year 2020, a total of 24 LCBs (13 domestic banks and 11 foreign banks) were operating in the country, with 6,703 total banking outlets, and 6 LSBs had 703 total banking outlets (CBSL annual report, 2020). In terms of asset base and extent of services provided, LCBs can be considered the most important category of financial institutions in the country. By the end of 2020, the LCBs dominated the financial system of the country with a market share of 54.4% of the total banking sector assets, whereas LSBs had only a 7.8% share of the total assets of the banking sector. Consequently, the health of the Sri Lankan financial system is largely dependent on the soundness of the LCBs. (CBSL,2020)

Banks in Sri Lanka are established under the Banking Act No. 30 of 1988 and under the Monetary Law Act No. 58 of 1949 and require Monetary Board approval. Bank supervision by the Banking Supervision Department of CBSL is based on standards set by the Basel Committee for Banking Supervision.Currently, the Basel III guidelines relating to capital, leverage, and liquidity are applicable. Despite the challenging economic environment resulting from the on-going pandemic and resulting regional or countrywide lock-down periods having disrupted business activities to a greater extent, credit growth in the banking sector of the country has improved during 2020 compared to 2019.

With the rapid pace of digital transformation, an increasing trend of moving towards digital banking services is evidenced among Sri Lankan banks. This is mainly due to the fact that banks have identified the threats from financial technologies (Fintech) and are currently taking proactive measures to protect their competitive positioning in the industry. According to McKinsey calculations, banks could lose around 29–35% of their revenue to the disruptors. Thus, banks have identified the importance of bringing outside-in rather than inside-out while transforming their conventional business models into technology-driven business models. In this backdrop, it is of great importance to assess the digital transformation journey of Sri Lankan banks.

FINTECH IS RESHAPING BANKING

Fintech is an acronym for "Financial Technologies", which indicates technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services (Financial Stability Board, 2021).

Nowadays, fintech has become an integral part of the commercial banking value chain. Banks use chatbots to establish a good communication process with consumers to offer them an around-the-clock conversational banking experience. With the Omni-Channel Synchronized operating system, banks could be able to deliver consistent support to their customers through aligning all the communication channels. The Omni-Channel synchronizer serves as a hub which allows integration between front-end channels (ATM, mobile or internet banking, mobile wallet, etc.) and the back-end systems (local middleware such as SLIPS or Lanka Pay, core banking system, card management, access control system, etc.).

As a result, a single platform will be created to integrate ATM, card issuance/acquisition, mobile device transactions, dispute resolution/reconciliation, and fraud management services with the core banking systems without having to implement changes to the back end.

Furthermore, blockchain and cryptocurrency have made transactions faster, safer, and more seamless. Further, the peer-to-peer lending (P2P lending) platform has led to the elimination of the complexity in the lending process of conventional banks. Cloud technologies allow banks to provide their services anywhere in the world by decentralizing the services on the network. Big data enables banks to analyze fast-moving digital information and thereby offer more personalized products to their customers. Payment systems adjusted with Artificial Intelligence (AI) enable us to analyze customers' payment history and spending habits. As a result, banks could predict their future behaviors in order to suggest suitable products to meet their future demand. More importantly, open banking allows third party access to customers' financial information securely.

SHIFTING TOWARDS A CASHLESS ECONOMY: BANKS ARE LEADING THE WAY

Banking is experiencing a major transformation, with institutions adapting their structures to keep up to date with new demands and requirements from the public. Sri Lanka's banking sector is no exception. It is now working hard not only to meet clients' expectations, but also to be one step ahead in offering innovative products and services. According to a source of the CBSL, the number of transactions through the payment systems has increased in the year 2020 compared to 2018. This provides a great example of Sri Lanka's banking industry moving away from traditional banking to a cashless economy.

Furthermore, the data in **Table 1** shows a dramatic improvement in non-cash payment methods and infrastructure over the last few years. Furthermore, it is evident that banks, as the major financial institutions in the country, are investing in digital payment and settlement systems that will enable the country to move towards a cashless society in the near future.

TABLE 01: NON-CASH PAYMENT STATISTICS

YEAR	VALUE OF CREDIT CARD TRANSACTIONS (RS.BN)	VALUE OF DEBIT CARD TRANSACTIONS (RS.BN)	VALUE OF MOBILE BANKING TRANSACTIONS (RS.BN)	VALUE OF INTERNET BANKING TRANSACTIONS (RS.BN)
2013	121.10	46.10	4.70	771.80
2014	134.60	61.90	7.80	983.80
2015	154.20	83.10	11.30	1,204.90
2016	182.10	108.00	14.60	1,588.60
2017	198.50	134.50	31.40	2,100.60
2018	241.80	158.70	142.40	2,933.00
2019	277.20	194.80	336.50	3,875.40
2020	221.80	209.50	484.60	4,441.60

Source: CBSL quarterly payment Bulletins (2013-2020)

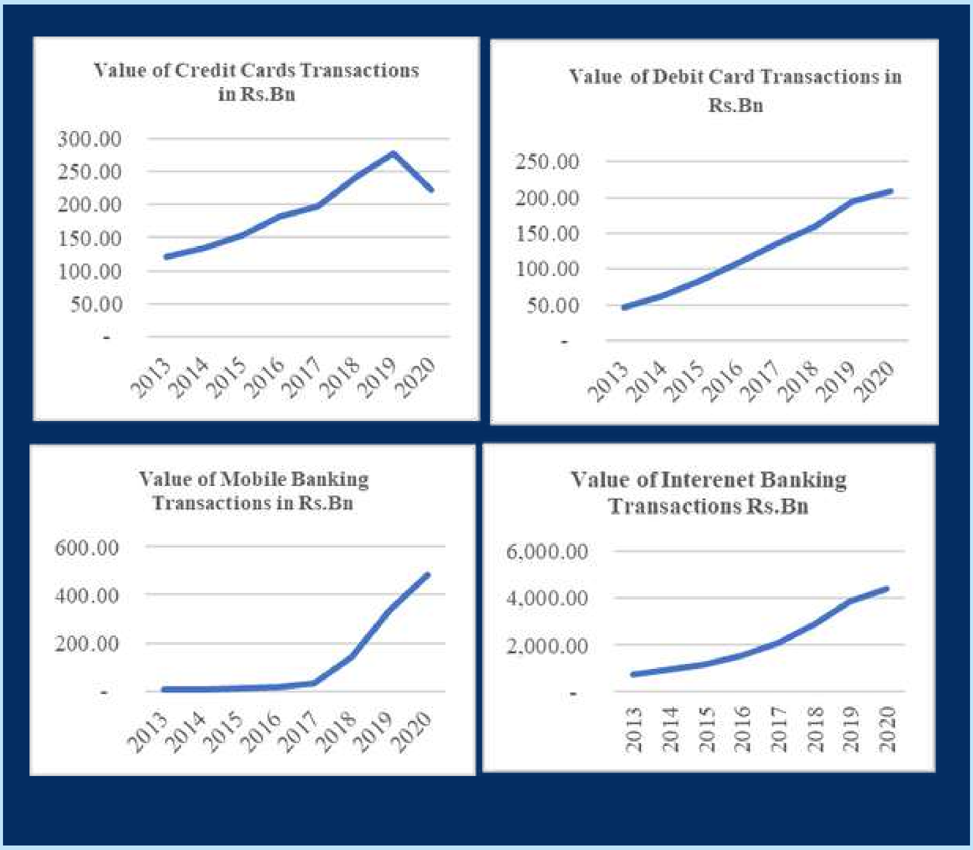

FIGURE 01: BEHAVIOR OF NON-CASH PAYMENT TRANSACTIONS IN SRI LANKA

Source: CBSL quarterly payment Bulletins (2013-2020)

TOWARDS DIGITALIZED BANKING BUSINESS MODEL

Technology has redefined the standard of living, raising consumer expectations for convenient, seamless, omni-channel banking solutions including online bill payments, fund transfers, and deposits. Digital banking has completely changed the way we bank in today's times. Emerging technologies such as blockchain, AI, and cloud computing are transforming many aspects of banking, providing opportunities for driving operational efficiencies, reducing costs, interacting with customers, and optimizing resources. Banks in Sri Lanka have embraced digital transformation. Especially under the COVID-19 pandemic, as customer mobility is restricted to a greater extent, an increasing trend among bankers to shift towards digital services can be evidenced. This is mainly focusing on driving the increased usage of banking businesses among customers.

Many banks in the country have recently considered driving digital excellence as a key strategic aspiration and have continued to invest funds in improving their digital capabilities. Below is a list of some of Sri Lanka's leading banks that have taken steps towards a digitalization journey.

TABLE 02: DIGITALIZATION JOURNEY OF SRI LANKAN BANKS

Name of the bank	Digitalization Actions Taken by the Bank
Commercial Bank PLC	Introduced the "Com Bank Digital" mobile application, which allows consumers to handle their finances swiftly and securely on the go. The mobile application is compatible with both the iOS and Android operating systems and complies with international standards and best practices adopted to provide the utmost user security.
National Development Bank (NDB)	NDB introduced the NEOS Pay feature through the NEOS app, a QR payment method through which customers can make payments to merchants and pay other bills, all the while having access to banking transactions via the same platform. This positioned NDB NEOS as the first in Sri Lanka to enable banking and merchant transactions in one single app.
Sampath Bank PLC	Sampath Bank introduces 10 digital services, heading to a new era in banking. The new range of services will enhance the bank's relationship with customers while enabling them to access key banking services online at their own convenience. Sampath Mobile App, Sampath Safety Locker App, Sampath Pawning e-pay, Sampath Missed Call App, Sampath e-enrollment, Sampath e-signature, Sampath e-ID, Sampath e-loan Application, Sampath Loan Card, Sampath Pay.
People's Bank PLC	Peoples' Bank mobile banking app, People's Wave, and they have over 1.1 million digital accounts on internet banking, People's Web, over 250 self-banking units, and a digital payments network of over 45,000 merchants accepting credit/debit cards and/or Lanka QR payments. They have planned under People's Wiz, two digital loan origination systems have already been implemented at 100 branches, one for retail customers and the other for corporates, with plans to extend this to 100 more in 2021.
Bank of Ceylon PLC (BOC)	"Smart Pay App" for low-value transactions to be paid by scanning a 'LANKAQR' certified QR code at any merchant location and the "BOC B app" with a range of benefits to manage your day-to-day transactions.

Source: Banks' Annual Report

THE FUTURE OF BANKING

The current banking environment and existing players in the sector need to be aligned with the requirements of the future of banks. In order to be proactive with the rapid pace of technological advancements, banks must make necessary changes to their go-to market approach, starting with shortening their strategy cycles to months instead of years. They also need to be on high alert about the signals of changes in the environment and become tactically focused on being operationally lean and agile in response to market conditions. More importantly, banks can think of partnering with Fintech businesses that are offering digital interactions. Today, we live in a world driven by technology. Hence, consumers now have more power while being exposed to the virtual transformation of every aspect of society. According to the "Emotions in Banking 2021 Study" conducted by EMO Insights International, customers' emotional attachment to their banks has fallen with the pandemic. Also, according to the Financial Innovation Barometer created by Funcas in collaboration with Finnovating, 4 out of 10 customers would switch to a non-traditional entity if they had to choose a new financial provider.

As a result of these changes, many financial companies consider their long-term survival while engaging in radical change in their business models and strategies in order to become future-ready bankers.

In particular, during this new normal, banks will move towards the open banking model, which indicates that everything is digitalized, available in the cloud, available at any time, assisted by artificial intelligence, and that the customer is attended to by both people and online chatbots 24 hours a day.

THEREFORE, THE BANKS SHOULD MOVE FORWARD IN FOUR DIRECTIONS.

01 Reinforce their channel strategy by placing greater emphasis on user experience, omnichannel and access to new connected devices, designing other means of communication, mainly by voice.

02 Should gain efficiency both through automation (robotics or AI) and cloud adoption.

03 Use data and the speed of reaction (big data and fast data) to improve customer knowledge and be able to meet their needs in a hyper-personalized way and in real-time.

04 Banks will have to be flexible in order to create tailor-made products almost automatically.

CONCLUSION

As per the payment and settlement transaction statistics from 2013- 2020, there is an increasing volume of non-cash payments in the country. Especially with respect to mobile banking, internet banking, credit card and debit card transactions, which have been increased, making cash less significant for the economic activities of the country. This has been further confirmed with the COVID-19 pandemic as people demand more virtual transactions rather than visiting bank branches. Thus, banks are currently embracing digital disruption in order to ensure their long-term survival. To this end, banks must move away from their current accounts and cash machines and become advisers to their customers, offering them a holistic personal finance service in one place.

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A GLIMPSE OF THE POST-PANDEMIC BREAKTHROUGH OF THE BANKING INDUSTRY IN SRI LANKA

Mr. Nilendra Vithanage
Senior Relationship Manager and Sector Expert - Agriculture at National Development Bank PLC

Mr Nilendra Vithanage is a chartered accountant and a senior banker with over 14 years of experience in project lending, relationship management, development financing & risk management. He worked as a unit head, senior relationship manager and credit analyst for corporate business banking clientele.
His unique combination of qualifications in the Banking industry includes Associated Charted Accountant from The Institute of Chartered Accountants of Sri Lanka as a "Chartered Accountant", ACMA from The Institute of Chartered Management Accountants (CIMA-UK) as a "Chartered Management Accountant". He has a Bachelor's Degree from the University of Sri Jayewardenepura as BSc. Financial Management (Special) and the Master's Degree from the University of Colombo in Financial Economics.
He is currently managing a team of 5 Regional Managers and two credit trainees for business banking client relationships at NDB Sri Lanka, where he has been awarded as a "Top Performer" and successfully won the "Best Credit Officer" award in the year 2016.

What are your thoughts on the banking industry today?

Sri Lanka is going through a post-pandemic economic situation. Because of that, there is macro and microeconomic turbulence. Ultimately, all of these will drill down into the banking sector. However, all banks posted reasonably good results on their bottom lines, profitability, and balance sheets. The government and private sector banks have generated impressive figures in terms of those variables. However, the industry itself has specific issues, with the pandemic outbreak, those issues have been aggravated. For instance, the rate of non-performing loans is notching up. During the pandemic, the central bank together with banks offered moratoriums where borrowers were provided with ability to postpone repayments. These moratoriums will be in force until December 31st, 2021. However, it will be extended until 2022 for the tourism sector. When the moratorium ends, the businesses will be required to initiate the repayments. The banks should keep an eye on the issue from then on because a moratorium component makes up around 20%-30% of any bank's loan book, which is a significant percentage. Hence, the industry's risk is represented by the moratorium component and non-performing loans.

On the other hand, the banking industry is target-driven and, if you observe the trends in the past few months, most banks have met their deposit targets. However, there remains a gap between loan targets, and asset targets that should be minimized. It demonstrates the country's macroeconomic position. People obtain loans to invest. But, due to the pandemic and post-pandemic issues, people are still quite reluctant to obtain a loan and invest. As a result, the lending targets are falling behind. This issue should be closely monitored because the central bank has set specific targets for each sector of the economy. Banks, for example, should lend a predetermined percentage of their loans to agricultural, manufacturing, and many other sectors to drive the country's economy. Apart from that, the digitalization drive of the industry is booming. It can be observed that many banks in the industry are currently undergoing a digitalization drive since it offers many advantages.

In a nutshell, despite some inherent challenges with the current situation, the banking sector of Sri Lanka is performing well in terms of it's bottom line.

The banking industry will unavoidably confront challenges on its way to expansion. Furthermore, the world is changing as a result of digitization. What challenges does the banking sector face, and how can digitalization address them?

A few years ago, banks were primarily concerned about expanding branch networks and physical presence. However, establishing a new branch at a specific location is costly. It can sometimes reach 100 million rupees. Nevertheless, post-pandemic, the situation improved to the point that banks were no longer obliged to maintain a significant physical presence. With that came the threat of FinTech organizations and mobile applications invading the fund transfer market, which had previously been dominated by the banking sector. As a result, it diverted commissions andfees among various other mobile and FinTech companies that would otherwise have gone to banks. Moreover, there were many cybersecurity issues in the banking sector.

> "The industry had to go through a tough time due to the drawbacks of not focusing on digitalization back then. The tables have now turned, and the banking industry is investing in digitalization quite impressively."

Since this industry is heavily systems and IT-driven, there is more room for cyber security to be compromised. For instance, the industry is constantly prone to security issues such as hacking of systems and data, cyber-attacks, and phishing attacks. The industry had to go through a tough time due to the drawbacks of not focusing on digitalization back then. The tables have now turned, and the banking industry is investing in digitalization quite impressively. Every bank has now developed mobile apps to engage with their customers. This makes it convenient for customers to interact with the banks. For instance, now customers can even download the CRIB report with the click of a button. All they have to do is provide the NIC number and full name.

Other benefits of digitalization include making utility bill payments, fund transfers, credit card bill payments, and deposit placing. Moreover, customers can now transfer money to a stockbroker through the mobile application and trade shares. On the other hand, most banks are now running on robotic software. Banking has a lot of routine processes, and the robotic software enables them to feed the data through AI. That software carries out all the monotonous routine work. It has assisted banks in saving millions in staffing costs that should be incurred otherwise. The banking sector has been thriving more than ever, all thanks to digitalization. It benefits not only the customers but also the banks. For instance, banks can now cut down on their branch setting costs and invest the saved money on more profitable alternatives. Moreover, the current generation has now become absolutely tech-savvy. Hence, they have become the most significant digital drive in the banking industry.

Digital banking is quite popular among our generation. However, not everyone is comfortable with the use of digital banking options. What is the cause for this, and what actions have the banking industry undertaken to familiarize them with digital banking services?

People are still hesitant to adopt digital banking services because they are unaware of the benefits of digitization. They prefer to visit banks and complete their tasks physically rather than digitally, regardless of how digitalized banking services are. For instance, during the first wave of the pandemic, people visited banks to do minor tasks like updating their passbooks or getting new passbooks, even though they could have done them far more swiftly via mobile.

The Central Bank and the industry as a whole are conducting campaigns to raise awareness. Furthermore, the top management of the banks is giving targets for downloading mobile apps to their staff members. The staff members were empowered and encouraged internally to educate the customers and raise awareness. Apart from that, a percentage of clients are still accustomed to the physical presence. Nevertheless, the trend is such that people are gradually moving on to digitalization because of the benefits of digitalization platforms. All these mobile applications, FinTech, and robotic process automation will also help the future generation. These are the drives or promotional activities that we, as an industry, are undertaking.

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What is your message to undergraduates who are looking forward to being a part of the banking industry? And, what are the opportunities that they will get in the future for being a part of the banking sector?

The banking industry has widened its spectrum with many opportunities. It is basically technology and sales. First and foremost, any undergraduate willing to enter the banking industry should be ready to accept change and prioritize on-the-job learning due to its dynamic nature. Apart from that, the industry's technology-driven nature makes it a rewarding career path where you can earn more if you sell more. Adapting to this sales-driven culture will assist you in boosting your personality, your skillset, and your presentation skills. Although it used to be restricted to banking operations, the industry now incorporates a wide range of business functions. The specific career paths in the industry include business analytics, financial analytics, credit analytics, relationship management, and digitalization experts. Therefore, if you are an undergraduate who can take on challenges, the banking industry would be a rewarding career path. Apply the basic knowledge you received from the university on the job, educate yourself, and launch it to strive towards an outgoing career.

On the other hand, the initiative that the student body of the Department of Finance has undertaken is quite timely. We have observed that a majority of the undergraduates are not open-minded towards change. They are in a fixed mindset. Therefore, there is a gap between their career readiness and their current status. This initiative will be a huge opportunity to bridge that gap as well.

CORPORATE WORLD EMBRACES SUSTAINABILITY REPORTING...

Corporates use financial reporting to discharge their accountability, by preparing and presenting financial reports to demonstrate the financial performance of the organization to the immediate stakeholders. But with the heavy attention placed on the companies with respect to the environmental impacts, sustainability, and corporate governance by the society, companies were compelled to disclose their non-financial information to discharge their accountability to the whole society. With that, the concept of Sustainability Reporting was evolved in 1990's as a key channel for companies to communicate their environmental and social performance.

> As per the Global Reporting Initiatives (GRI) Sustainability Reporting is "the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance toward the goal of sustainable development."

Sustainability reporting carries the disclosure of voluntary information about the economic, environmental and social impacts from activities of organizations as its main objective and it invites the companies to present their positive and negative sustainability performance and witness the reduction of information asymmetries and increase in transparency. In line with that, during the last decade sustainability reporting has established itself as a key instrument serving the organizations to fulfill the growing demand for transparency from their stakeholder and society in general.

Although, the Global Reporting Initiative reports that sustainability reporting is mostly a voluntarily practice by companies, despite being a voluntary practice statistics evident that 96% of the world's largest 250 companies (G250) report on sustainability by today (KPMG,2020). Further, according to a study conducted by the Governance and Accountability Institute, USA, on the adoption of sustainability reporting by the S&P 500 companies in the year 2011, it has been revealed that only about 20% of the companies were publishing a sustainability report, but it has been found that this volume of reporting has significantly increased each year since 2011, where it has rocketed to 90% by 2019 (Governance and Accountability Institute, 2020). Thus, this increasing enthusiasm among the global leading companies, in publishing their sustainability reports, is largely to provide tangible and credible demonstrations of their sustainability performance and to reap the benefits of reporting on sustainability.

It has been evidently proved that sustainability reporting serves as a tool for better risk management in modern businesses. This is due to the increasing social and environmental risks, which manifest themselves over a long term and are largely outside the organization's control and affects the business in many dimensions. Some argue that risk and sustainability reporting are 'two sides of the same coin' as it shapes the business's future operating environment, its corporate perception, enhances the transparency and partnership, while bringing resilience and efficiency into the business.

A few decades back, it was believed that corporate profits, sustainability, and sustainability reporting are mutually exclusive. But that conventional belief has reversed, with companies realizing the cost savings through sustainability-related operational efficiencies and most of the investors are increasingly correlating better financial performance with better Environmental, Social and Governance (ESG) performances of companies. Hence, by today it has been a firm belief in the corporate world, that the sustainable companies deliver a significant positive impact on the organizations' financial performance.

Moreover, preparing and presenting sustainability reports provides the opportunity for companies to improve their brand reputation. By today, most of the clients and other stakeholders want to get allied with reputed organizations and by demonstrating the efforts in promoting sustainability, companies can easily strengthen their customer base and satisfy the key stakeholders. Most importantly, reporting on sustainability provides a better ground for companies to benchmark themselves against their historic performance, as well as that of their competitors. This offers a strong point for organizations to differentiate themselves from their competitors to achieve competitive advantage.

Apart from all the materialistic benefits, sustainability reporting offers companies an opportunity to positively impact the environment, people's quality of life and future generations as responsible corporate citizens. To summarize, it can be stated that adopting sustainability reporting assists companies to stop being a stand-alone unit and transform into a community, a regional and a global unit. Thus, sustainability reporting is a win-win concept for an organization and all the key stakeholders around.

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HOW THE ROLE OF AN ENTREPRENEUR AFFECT THE ECONOMIC GROWTH OF SRI LANKA?

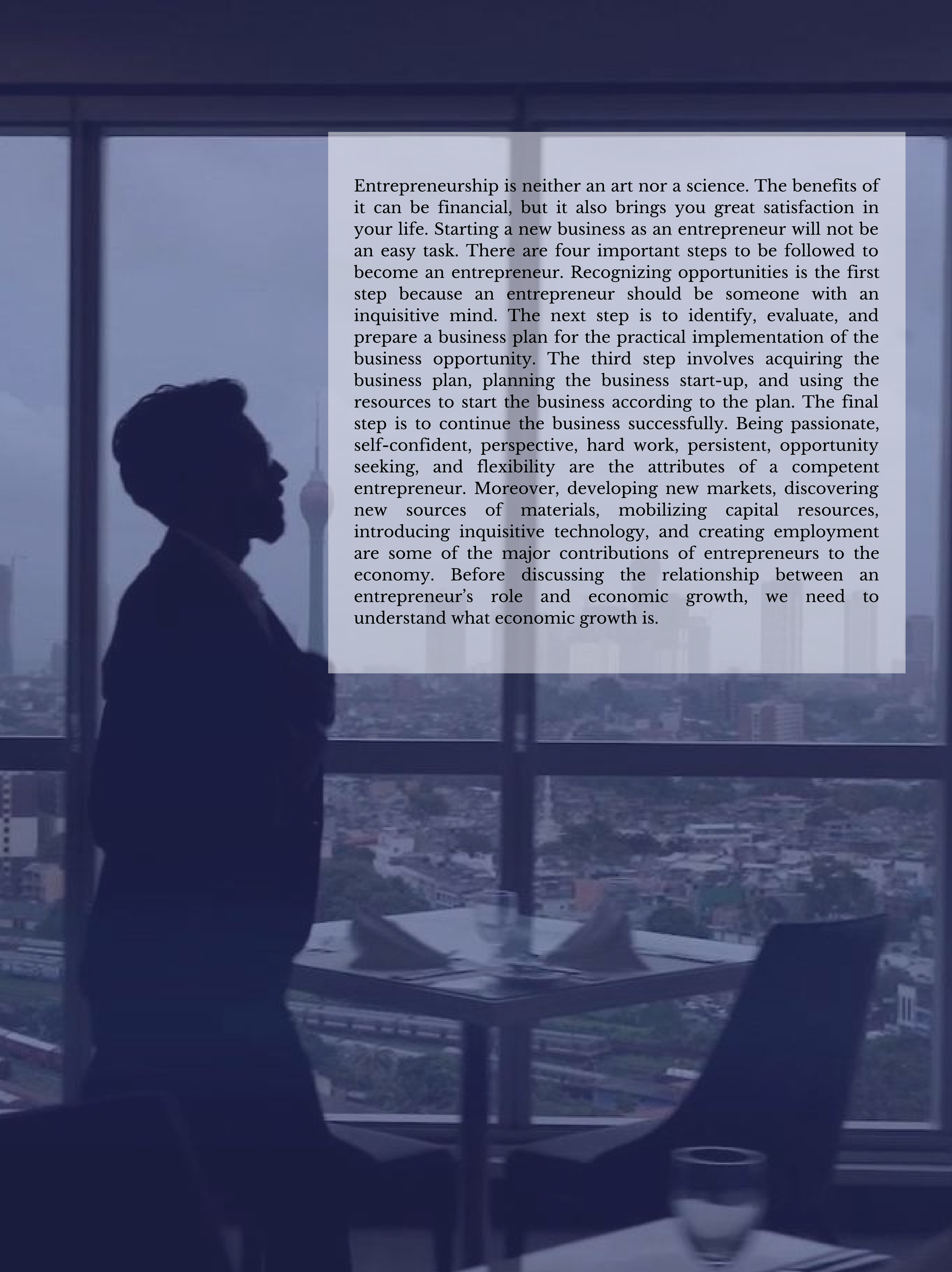
Today the world is undergoing a rapid economic, social, and cultural transformation driven by the impact of globalization. Among all, the changes to the economic environment are a predominant factor to be considered. As economic growth has become the principal measure of a country's success, today the world is much focused on economic development. Entrepreneurship is one of the most influential elements of economic growth in each economic system. If I draw your attention to how the role of an entrepreneur affects the economic growth of Sri Lanka, first, I would like to move your curiosity to the concept of entrepreneur.

> "An entrepreneur is someone who perceives an opportunity and creates an organization to pursue. The entrepreneurial process involves all the functions, activities and actions associate with perceiving opportunities and creating organizations to purse them"

By the definition, an entrepreneur is someone who seizes an opportunity and takes advantage of it. "Entrepreneurship" is a word derived from the French word "entreprendre". In French, it means that seeking new opportunities, accepting new challenges, innovating new things, satisfying human needs and wants, etc. In commercial terms, it means starting a new business.

ENTREPRENEURSHIP IS THE WAY TO LOOK AT SOMETHING.

Way to think. It's a new way.



Entrepreneurship is neither an art nor a science. The benefits of it can be financial, but it also brings you great satisfaction in your life. Starting a new business as an entrepreneur will not be an easy task. There are four important steps to be followed to become an entrepreneur. Recognizing opportunities is the first step because an entrepreneur should be someone with an inquisitive mind. The next step is to identify, evaluate, and prepare a business plan for the practical implementation of the business opportunity. The third step involves acquiring the business plan, planning the business start-up, and using the resources to start the business according to the plan. The final step is to continue the business successfully. Being passionate, self-confident, perspective, hard work, persistent, opportunity seeking, and flexibility are the attributes of a competent entrepreneur. Moreover, developing new markets, discovering new sources of materials, mobilizing capital resources, introducing inquisitive technology, and creating employment are some of the major contributions of entrepreneurs to the economy. Before discussing the relationship between an entrepreneur's role and economic growth, we need to understand what economic growth is.

ECONOMIC GROWTH

means an increase in the production of economic goods and services when compared from one period to another. It can be measured in nominal or real terms. Traditionally, aggregate economic growth is measured in terms of gross national production (GNP) or gross domestic product (GDP). An increase in capital goods, the labor force, technology, and human capital can contribute to economic growth. Moving to the fact of how the role of an entrepreneur affects economic growth, First I will take you to the 18th Century. According to Adam Smith and Jean-Baptiste, they have seen entrepreneurship as a potential catalyst to stimulate progress in the backdrop of recession, declining growth rates, unemployment, political instability, and environmental challenges. Thus, the historic evidence as above will point out the importance of entrepreneurship in a growing economy.

Developing new market trends is one of the most important contributions of an entrepreneur to economic development. A developing country is always chasing a new market. This is because the growth of demand in new markets leads to an increase in GDP and exporting of goods and services to the world market. Entrepreneurs are always capable of generating effective demand thus it opens many new markets to the industry. If Sri Lanka needs to overcome the current recession, one of the most important steps to be taken is to invest in new businesses and new markets. This will upsurge demand for local products in foreign markets and, thereby, attract foreign exchange to Sri Lanka. Further, there will be a possibility to reduce the cost of imports by manufacturing goods and services locally which is required for domestic consumption. Hence, one of the most crucial contributions to the economic growth of a country is to create new products and open new markets for businesses.

Discover new sources of materials is another important contribution by an entrepreneur. As the entrepreneurs are not satisfied with the existing materials, they will explore a new source of materials to be used. On the other hand, most of the businesses currently engaging in importing raw materials. But it would be of great benefit if they could use local raw materials as a substitute. Utilizing local raw materials for business will encourage small industrialists. Many businesses in Sri Lanka are still importing foreign raw materials. If alternative raw materials could be produced locally, the current shortage of raw materials in the country could be alleviated to some extent.

Mobilizing capital resources is one more contribution of an entrepreneur, and it has a significant impact on economic growth. Entrepreneurs are the organizers of the combination of production, land, labor, and capital factors. They always try to expand their product range using new technology. Creating new products by pooling the resources that are already in the economy is a powerful booster to economic growth. Even though there are various resources scattered around Sri Lanka, people are not encouraged to use them for new production processes.

Creating employment is also an important factor that affects economic growth. Entrepreneurs are the largest employers in the private sector as they can create millions of jobs. Creating jobs on a large scale accelerates economic growth as it increases the personal income and demand for goods and services. And so forth, the economy will be grown exponentially. At present, the unemployment rate in Sri Lanka is 4.84% and the figure has been increased by 0.05% when compared to the year 2019. Thus, one major solution that can be brought to decrease the unemployment rate could be to create new business opportunities within the country. Considering the above fact, practicing entrepreneurial skills in a country is a driving force to achieve stable economic growth. But the existing issue is, most individuals are not interested in being entrepreneurs. According to the Department of Labor Statistics, only 2.8% or Approximately 230,000 of the Sri Lankan working population are employers or business owners. Most of the developed economies in the world are increasingly inclined towards innovation. Most of them are entrepreneurs rather than employees and always seeking better business opportunities. According to the Department of Labor Statistics, only 2.8% or Approximately 230,000 of the Sri Lankan working population are employers or business owners. Most of the developed economies in the world are increasingly inclined towards innovation.

Also, according to the Global Entrepreneurship Monitor (GEM) study, 7.6% of Americans are actively engaging in starting businesses or are the owner/manager of a business. Further, the following are the percentages of new business start-ups in different countries per annum. Peru, 27.2%; Brazil, 17.5%; Argentina, 14.2%; China, 14.4%. These statistics represent the tendency for entrepreneurship in developed countries of the world. Before moving any further, it is important to discuss the reasons for the slow pace of entrepreneurship in Sri Lanka. There are several reasons why entrepreneurs in Sri Lanka are kept to a minimum level of percentage or are demotivated. Since childhood, parents encourage their children to engage in white-collar jobs but not to look for new business opportunities. Also, still, there is no proper recognition for entrepreneurs in Sri Lanka. Not including entrepreneurial development modules in the education system is also one major reason for not having many entrepreneurs in Sri Lanka. The Sri Lankan government and administration do not pay enough attention to developing entrepreneurs. Not only that but also difficulties face when finding funds to start the businesses as the legal requirements are tightened in financial institutions is also a current issue in the industry.
Next, we will discuss the solutions we can take to achieve economic growth through the development of entrepreneurship in Sri Lanka. It can be seen the future generation is much interested in entrepreneurship. Teaching children to get rid of a dependent mentality since childhood will help them to develop an independent mindset which requires for an entrepreneur. Not only that, but it is also important to update and revise the syllabus and skills required for entrepreneurship development in schools, universities, and other educational institutes. In addition, the government needs to take various important actions to develop entrepreneurs in the country. Accordingly, it is very much important to improve the effectiveness and the entrepreneurial skills of the government institutions and government officers. Officers appointed through Divisional Secretariats at the rural level should be further encouraged and deployed for the development of entrepreneurs. Existing businesses need to be further developed and the hidden entrepreneurial skills of the rural population need to be nurtured. It is also essential today to develop the infrastructure required for business development in Sri Lanka. Providing financial support, resources, and technical support to entrepreneurs for starting new businesses should be a must in the current economic situation in Sri Lanka.

With the prevailing covid-19 Pandemic, the world economy has collapsed to some extent which had several impacts on the Sri Lankan economy. The Sri Lankan government has imposed many new import restrictions to control the rupee depreciation. Therefore, there is a shortage in import goods in the country and there will be a shortage of import raw materials for business. Therefore, it has been motivated Sri Lankans to start investing in new businesses. Thus, the government has implemented necessary actions to develop the economy through investments. The government has been taken to create new business opportunities and enhance the productivity of existing businesses by utilizing economic development officers and effective development officers appointed in the rural areas. In addition, through the Export Development Board of Sri Lanka (EDB), many arrangements are being made to empower rural entrepreneurs to export their products. If this has become successful, it will be a successful long-term solution to the current economic recession. As we have discussed what is entrepreneurship and its relation to economic growth it has been noted that developing entrepreneurial skills and increasing the investments in new ventures is one of the crucial factors to be considered if the country needs to overcome its current conditions

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An Insight to the Way Forward of the Financial Sector in Sri Lanka

Mr. Nishan Fernando

Managing Director of BDO Consulting; Chairman of First Capital Holdings PLC, Chaiirman of AOSSG, IFRS Specialist

Nishan Fernando is the Managing Director of BDO Consulting (Pvt) Ltd., which carries the Advisory Practice of BDO Lanka. Mr. Nishan has been involved in standards-setting and governance aspects in Sri Lanka. He is a past president of the Institute of Chartered Accountants of Sri Lanka He has functioned as a Commission Member of the Securities & Exchange Commission of Sri Lanka; and as a member of the Sri Lanka Accounting and Auditing Standards Monitoring Board. He has been a member of the Sri Lanka Accounting Standards Committee which he chaired from 2009 – 2013 during which he drove the project to converge Sri Lanka with International Financial Reporting Standards. He has been the Chairman of the Sri Lanka Financial Reporting, Implementation, and Interpretation Committee since 2013. He has been a member of the Corporate Governance Committee which developed the Corporate Governance Codes in Sri Lanka.

The finance sector is a fast-paced and dynamic industry. So, how do you perceive the financial industry in Sri Lanka, and what, in your opinion, are the main threats that this industry currently faces?

For many years, the financial sector has been extremely vibrant. But with the outbreak of the pandemic and various other challenges, it has grown more vulnerable, particularly to macroeconomic variables. Currently, it is dealing with a severe shortage of foreign reserves, with the foreign reserves being considerably depleted, which has a negative impact on the financial sector as well. In addition, the inconsistency and uncertainty in the policy framework have also posed a threat. For instance, a special tax of 25% was imposed abruptly, with retrospective effect, in the recent budget of 2021, affecting some key industries including the banking industry. Subsequently, almost a year ago, a restriction on imports, notably on automobiles, was imposed. As a result, most non-banking financial institutions are now confronting a major issue with their leasing operations. Furthermore, real interest rates have turned negative because of higher inflation, which is officially just below double digits. As a result, the Central Bank and financial institutions are being compelled to increase the interest rates.

However, this might have negative consequences, such as raising the cost of funds and forcing the businesses to incur higher expenditures. As a result, they will not be able to compete in the market, particularly in the international market. Hence, the industry is confronted with a double-edged sword dilemma. Moreover, some businesses are curtailed by the lack of foreign reserves, not being able to import essential raw material, which is a consequence of import restrictions and scarcity of foreign reserves which has led to the banks not being able to open Letters of Credit for importation. Several industries have suffered the consequences due to this. For example, the construction industry is experiencing difficulties in continuing operations owing to a shortage of various supplies, and the IT industry is confronted with issues related to the acquisition of the required hardware components. So, because of all these challenges faced by various industries, the banking activities such as opening LCs and trade operations are adversely affected, and the recovery of loans from the affected businesses has become a concern. These are the threats that the Sri Lankan financial industry is currently dealing with.

As you stated there are several negative sides due to the current situation caused by the pandemic. On a more positive note, what are the key opportunities that today's financial sector must explore to avoid these threats?

Because of the pandemic, almost all banks and financial institutions have improved in terms of digitization, allowing people to conduct most of their transactions electronically or over the phone. So, there has been a rapid advancement of using technology in financial activities, such as electronic payments, fund transfer systems, digital onboarding of clients, and digital completion of KYC (Know Your Customer) forms etc.

When the country went on its first lockdown, the public and most of these industries were not advanced in terms of digitization to that extent.

But within a couple of weeks, most banks started to engage their clients electronically.

And when supermarkets switched to online operations back then, people were not aware about the right procedure. However, we can now see that placing an online order and receiving groceries is rather convenient. Supermarkets partnered with banks and financial institutions to establish a platform on which they could recover credit card payments and get the system going. As a result, the industry has proven that it has made significant progress in terms of digitization.

The Colombo Stock Exchange has made significant gains in the past two years. Even amid the pandemic, over 70,000 new CDS accounts have been opened. And the long-awaited listings on the Empower Board of the Colombo Stock Exchange took place recently.

In the meantime, the financial sector can do much more in terms of entrepreneurial development.

Imports are restricted at the moment, which is why entrepreneurial development and the development of local industries are more important than ever. After the country gained independence, local industries thrived, and they were encouraged. However, following the introduction of capitalism in 1977, it evolved into an open market model and eventually, we began importing everything. It is necessary to reverse that direction and the financial sector could contribute a lot towards that. For instance, quite a high proportion of our tea production is still exported as bulk tea, except for a very small number of companies that do value addition. So why can't we encourage producers to produce value-added tea?

The problem is that they lack sufficient financial resources and support from the financial sector. And despite the fact that the country is surrounded by the ocean, we continue to export raw fish without proper value addition.

The financial sector should aid local entrepreneurs whenever it is necessary to avoid such loopholes.

When compared to Asian giants such as India, China, and even smaller countries, our local banks are not competitive in the global market due to smaller size and proportionately high overheads. From a Sri Lankan perspective, most banks are capitalized and performing well and they, of course, can stand on their own and withstand shocks. However, they may not be competitive enough on a global scale. It is high time that Sri Lanka looks at consolidation in the banking industry enabling them to compete at a global or at least regional level.

So those are some of the opportunities that the finance sector should explore to avoid any threats that it might come across.

Being a financial analyst is a rewarding career path for those who are interested in the financial industry. Most finance undergraduates aspire to become financial analysts and have a strong interest in the field. So, what do you think the position of a financial analyst has in today's corporate environment?

The right financial analysts are extremely useful and needed. Currently, there is probably a dearth of them especially the right financial analysts. Because financial analysis is the foundation for investment decision-making, there is a lot of potential for competent financial analysts.

That is the basis as well as the final recommendation point. I'd also want to emphasize how pleased and excited I am to hear that the University of Kelaniya has established its first undergraduate program in financial engineering, which will contribute immensely to shaping the financial sector with the right and competent financial analysts.

What qualifications and attributes do undergraduates need to be equipped with to become competent analysts, given that many of them are interested in this career path and, as you previously indicated, the industry is now lacking the right analysts?

In my opinion, the first and most important ingredient they ought to have is common sense. They should be able to grasp and recognize what a symptom implies when they look at it. The next thing is that they should have the willingness to go into detail.

But most of our students nowadays are doing otherwise. The right financial analyst should go deeper to uncover the root cause allowing businesses to make informed decisions and take corrective actions. To pay attention to details, you must be able to conduct research. Because doing research gives you the ability to read and comprehend information. The ability to carry out surveys, which allows you to gather primary data, is crucial in performing analysis based on research. A student who is interested in becoming a financial analyst should be able to conduct extensive research and develop those skills so that they can become qualified financial analysts.

The ability to integrate multiple disciplines and strong communication skills are the next key attributes they must possess. If you want to be a competent analyst, you shouldn't restrict yourself just to finance though it could be the major. All the disciplines that you study in your degree program should be integrated into your financial analysis.

The ability to integrate multiple disciplines and strong communication skills are the next key attributes they must possess. If you want to be a competent analyst, you shouldn't restrict yourself just to finance though it could be the major. All the disciplines that you study in your degree program should be integrated into your financial analysis. Hence, a financial analyst should go beyond the frame and integrate all disciplines to provide a holistic business solution. Undergraduates who wish to become effective financial analysts need to broaden their horizons around finance which could be the core. Furthermore, being tech-savvy is one of the other requirements that may be necessary. In the future, you may want to deal with emerging technologies such as artificial intelligence and data analytics. Finally, you must have a broad understanding of the subject that is essential while interacting and communicating with business owners.

It is apparent that the younger generation has started to invest in the stock market. The stock exchange is the first thing that comes to our mind when we consider making an investment. As per your opinion, what other investment alternatives does Sri Lanka offer other than the stock exchange, and are they secure options for investors?

Risk and return are the two main factors to consider when making an investment. Some people are willing to take higher risks in exchange for higher earnings. The stock market is a high-risk, high-return investing opportunity. Apart from the stock exchange, there are certainly other investment opportunities. One such opportunity is an equity unit trust, which is ideal if you don't have the skill or the time to manage a balanced equity portfolio. In an equity unit trust, there are professional fund managers who maintain balanced portfolios on behalf of their clients. However, the returns that you get will be slightly lower than what you would get if you manage your own portfolio. There are also unit trusts that invest in a mix of equity and debt instruments giving the investor a more stable return. So, depending on the type of return that you expect, and the risk that you are willing to absorb, you can invest in one of those types of unit trusts. You can invest in government securities such as treasury bills and treasury bonds if you are risk-averse.

The majority think that the sole return on treasury bills and bonds is its interest.

However, you may trade them and profit from the capital gains. Corporate debentures are another investment option that offers a higher rate than government securities due to the comparatively higher risk associated with private company offerings. There are some people who like to cover the risks while getting a return as well. So, investing in an insurance scheme is an ideal opportunity for such people. Insurance companies offer schemes that give them a reasonable return and some risk coverage, particularly with life insurance.

One of the simplest ways to invest is to put money aside in savings or fixed deposits and earn interest at a predetermined rate. The only thing that differentiates them from government securities is their non-tradability.

Nowadays, people also prefer to invest in real estate and gold due to the low-interest rates offered for deposits and other instruments. It is a good investment opportunity, even though it might create some hassle in terms of liquidation. So, these are the investment opportunities available in Sri Lanka depending on your requirements.

In conclusion what sort of a message you would like to convey to our students?

Once again, I would like to commend the University for commencing this undergraduate program to fulfill a timely requirement. I would be happy if this program is adequately filled with practical exposures such as conducting this type of interviews, writing articles, strategy-focused financial analysis, business diagnostic studies, and communication skills development. The students are advised to integrate competencies in all relevant ancillary disciplines around the core discipline of finance and apply them with strategic intent with the aim of unearthing the cause of a problem and providing a practical business solution.

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Digital Transformation of the Insurance Industry and Future Prospects

Digital transformation has made a significant contribution to the growth and socio-economic development in countries and regions around the globe. The widespread adoption and integration of technology has reduced information and transaction costs, improved service delivery, created new jobs, generated new revenue streams, and helped conserve resources. Digital transformation has also transformed the way businesses, people, and governments work, interact, and communicate.

Digital companies, multinationals, and large machinery manufacturers, as well as small and medium farm input suppliers, provide services to farmers and their organizations through digital means. Downstream, supermarkets and agricultural product buyers engage in the food value chain. New technologies are also used by farmers' cooperatives, international organizations, civil society, and governments to provide information on many aspects of farming, including regulation. However, the rapid global revolution in digital transformation stands in stark contrast to the continuing high numbers of extremely poor and hungry individuals in the world. The new digital technologies and innovative use of transformation create enormous opportunities and pose daunting challenges to ending poverty and hunger. On one hand, there is potential to increase productivity and wealth, generate new activities, products, and services, and improve livelihoods.

We are living in an unprecedented time, and we are facing a dynamic and complex risk landscape that ushers us toward diverse, interconnected, and complex risk factors. At the same time, it has presented new avenues and opportunities for insurers to mitigate them as well. To confront these challenges, every insurer has to step out of their comfort zone and take a holistic approach to broaden their horizons.

The key factors affecting the cause of low insurance penetration in Sri Lanka are low disposable income levels and low priority towards insurance rather than protection in general public's spending, high dependency rate, free health care services and active participation of both formal and informal welfare schemes and micro-level community-based welfare systems in the country.

Throughout COVID-19, the insurance industry along with all businesses has experienced a time of monumental challenge. With the rise of the pandemic in 2019, the importance of digital collaboration is gradually increasing in the Sri Lankan Insurance industry. To be successful in the future, insurers need to connect their front, middle, and back offices in ways that respond to the evolving needs of their customers. This means more than linking disparate channels; it means connecting all functions and technologies, so they provide the data needed to create personalized offerings and an unparalleled customer experience.

Rural households are economic agents that make their choices using all of the information available to them. Based on this information, they choose which economic activity to pursue, what to plant, which inputs to use and how, when to plough or fish, when to seed, when to harvest, how much to keep for consumption in the household, how much to sell to raise cash, and how much to store. They often make their choices in an adverse economic environment in which markets do not function well, they face the difficult challenge of managing risk, and where very little information is available to inform their decisions. As a result, their choices are often not optimal. Digital innovation can play a crucial role in bridging this critical information.

Insurance penetration in Sri Lanka which is reflected by the insurance premium generated by licensed insurance companies as a percentage of GDP amounted to 1.39% in 2020. Although insurance penetration had slightly increased in 2020 compared to 1.31%, which was recorded in 2019, it is still low compared to other countries in the Asian region and may be misleading due to a drop in GDP in 2020. The industry must also address the critical societal need for affordable health care.

> **To be successful in the future, insurers need to connect their front, middle, and back offices in ways that respond to the evolving needs of their customers.**

The reason why insurance is not used by more people is well understood. Considerable research has been conducted to understand the low usage of formal insurance, especially among vulnerable populations who are expected to benefit most from suitable risk management in their struggle out of poverty. While local particularities play a role, several common factors explain low insurance uptake. They need to be understood to appreciate how suitable use of technology like that proposed by Insurance ventures has the potential to overcome these barriers.

And another reason can be shown as, Limited purchasing power. In absolute terms, people with low income can spend less on insurance. They need lower insurance cover, as the overall value of their assets is lower, as is the loss of income due to death or disability. The next reason is, limited understanding, numerous surveys in developing countries show that most people there never had any insurance, never heard of it, and misunderstand it. Despite increasing efforts towards financial literacy of wider populations, that is not changing quickly.

The focus of financial inclusion strategies and financial literacy efforts often is primarily on banking products, loans, savings, payment systems that are more immediately relevant to most people, easier to understand, and easier to provide. They are comparable to the informal mechanisms that most unbanked people use to save or borrow. By contrast, insurance is a much more abstract concept which doesn't immediately relate to the various informal risk-sharing mechanisms in use by low-income communities.

Through risk prevention and risk reduction and by sharing risks insurers help protect society, foster innovation, and underpin economic development. Sri Lanka's insurance industry has a vital role in managing Sri Lanka's social security risks. This social security gap, which is growing wider every year, has to be bridged by the country's insurance sector. It has been identified the need of establishing a structured Social Security System in Sri Lanka to fulfill the objectives of bridging the protection gap, a key Socio-Economic issue in Sri Lanka, which has negatively affected both Economic and Social/Human development in the country.

Most Insurance propositions do not aim to make insurance work for people who are currently excluded from formal insurance markets but focus on people who voluntarily remain underinsured in the existing models of insurance provision. But if they succeed at that, they also have to potential to overcome barriers to inclusive insurance.

Bringing transparency to insurance products, prices and conditions can be expected to increase customers' value for money and improve affordability. Training, licensing, and professional liability insurance contribute to making conventional distribution channels too costly to service the majority of low income or geographically remote populations. Regulatory requirements for disclosures and advice further increment the cost of distribution are some of the proven solutions for the above-mentioned barriers.

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Considerable research has been conducted to understand the low usage of formal insurance, especially among vulnerable populations who are expected to benefit most from suitable risk management in their struggle out of poverty. While local particularities play a role, several common factors explain low insurance uptake. They need to be understood to appreciate how suitable use of technology like that proposed by Insurance ventures has the potential to overcome these barriers. In absolute terms, people with low income can spend less on insurance. They need lower insurance cover, as the overall value of their assets is lower, as is the loss of income due to death or disability.

In the coming decade, we expect significant new products, services, and value propositions, as well as richer, experiences for all customer segments. Insurers will make much more sophisticated use of advanced technology, with increased digitalization helping to reduce costs at the same time as it enhances customer experiences. Workforces will be considerably leaner and feature new skills and talents. Distribution networks will be remixed.

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Shedding Spotlight on the Thriving Insurance Industry in Sri Lanka Amidst COVID 19.

Mr. Nuwan Withanage
Chief Financial Officer at Softlogic Life Insurance PLC:
Governing Council member of CA Sri Lanka

Mr. Nuwan Withanage currently serves as Chief Financial Officer of Softlogic life insurance PLC and also serves as a Member of Governing Council of the Institute of Chartered Accountants of Sri Lanka. He also serves as Chairman of the Finance and Technical Committee of the Insurance Association of Sri Lanka and Chairman of the Taskforce to Develop Non-Financial Reporting Practices in Sri Lanka at the Institute of Chartered Accountants of Sri Lanka. He is also a member of the Standard Interpretation Committee (SIC) and SLFRS 17 implementation task force at the Institute of Chartered Accountants of Sri Lanka. Mr. Nuwan also served as a Board member of the Integrated Reporting council of Sri Lanka. He is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and the member of Certified Management Accountants of Sri Lanka. Mr. Nuwan holds a Master's in Business Administration from the Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura and also holds a Business Management Finance Special Degree from the University of Kelaniya - Sri Lanka. He counts over 16 years of management experience in the fields of strategy, finance, audit, and general Management.

How do you perceive the insurance industry in Sri Lanka, and, in your opinion, what do you think its potential is to grow as an industry in the future?

The insurance sector in Sri Lanka generates over LKR 200 billion in revenue. The industry is divided into two categories. The life insurance segment is one, while the general insurance segment is the other. Both areas have a great deal of potential to grow, and the life insurance section offers more possibilities than the general insurance segment, despite the relatively smaller market size. The insurance penetration rate for the life insurance segment, as measured by insurance premiums divided by GDP, is now at 0.5 percent. In Thailand, it is approximately 3 percent. When compared to Thailand, it's obvious that Sri Lanka has almost six times the potential. Not to mention the fact that Sri Lanka's per capita income is around $3,700, whereas Thailand's is roughly twice as much.

But if we can grow our per capita income, we can double it as well, thus creating an opportunity to grow the insurance industry. From a research standpoint, there is an x-curve relationship between per capita income and insurance penetration. So, after reaching a certain level of insurance penetration, there is a sudden spike in it. Our estimation is that we are on the verge of reaching that spike. It will only be a matter of time until we reach that level. Following that, it has been recorded that 16% of Sri Lanka's population is over the age of 55. It is expected that by 2032, this will increase to roughly 24%. That means every person out of every four will be over 55. The demand for patient products and health needs will rise as the country's population ages. The need for insurance will inevitably play a big role, with a considerably higher demand.

Then there's the fact that a lot of people are talking about the insurance industry, correlating it with the ongoing economic downturn. Because the country's economy is small, this is a temporary situation that can quickly turn around if we can act together. Insurance, more than any other business, has the greatest potential for growth in this context. The insurance industry has continued to thrive regardless of what has happened in the economy over the years or even this year. Despite the fact that the economy is collapsing, the life insurance industry grew by approximately 19% in first nine months of 2021, and before that, when the Easter Sunday attacks occurred, the insurance industry rose by roughly 11%. It indicates that irrespective of what is going on around the world, this industry is thriving purely due to the potential of the industry to grow. As a result, it has more room to expand. In a nutshell, it is possible to declare that the future of the insurance industry is very bright.

> **THE FUTURE OF THE INSURANCE INDUSTRY IS VERY BRIGHT.**

Despite the fact that the insurance industry promises to have a bright future and the potential to grow, we cannot deny that COVID-19 has had a detrimental impact on the industry. What are these negative outcomes, and how would you elaborate on the ratio between positive and negative outcomes?

We need to look at it both ways. What I can say is that COVID-19 impacted the insurance industry more positively than negatively. I'll begin with a negative perspective on how the industry is struggling. The majority of policyholders were unable to settle monthly premium installments due to the pandemic's outbreak. Furthermore, due to travel limitations and lockdowns, the insurance agents were unable to canvass for their respective companies as physical interactions were limited. This caused a considerable drop in the revenue especially in life insurance industry in lockdown period.

Companies, on the other hand, swiftly adapted to the new normal by developing more digital solutions to continue doing business without having to interact with customers. COVID-19 was initially successful in fostering optimism in the industry. For instance, when it comes to the life insurance segment, people tend to consider it unessential, whereby they only consider becoming policyholders if they have any money left after spending on all sorts of other expenses (Insurance is considered as sold product). But the pandemic implanted a sense of uncertainty about life, and people realized the need of having health and life insurance. This was something that industry couldn't do for the past 30-40 years as an industry. Also, it is estimated that industry over LKR 1Bn as COVID claims to the general public even this was not covered in the policy benefits. Hence COVID-19 created a positive impact on the image of the industry. There is a positive demand for life insurance policies post-pandemic, especially for health insurance. People have been persuaded to the point where they would rather get an insurance policy than spend their money on luxury products. Hence, many individuals now view insurance with a positive mindset. Furthermore, all businesses have acknowledged the need to perform their operations in the current "new normal" situation. So, several companies have introduced technological solutions to effectively overcome this critical hurdle. In a nutshell, the insurance industry is thriving more than ever.

The term "digitalization" is frequently used across the globe and is now moving forward with it. What role will insurance play in a digitalized world, and how has the insurance industry embraced digitalization?

Every industry benefits from digitalization. It can assist businesses in entering into new markets. Another benefit is that it opens up new ways of evaluating data, allowing businesses to explore new combinations and relationships. Furthermore, digitalization can contribute to enhancing the way services are delivered. One is through quality, while the other is through efficiency.

For instance, Softlogic Life introduced a new AI-based technological solution called "claim it," where customers submit their claims via WhatsApp or another compatible online platform, and a claim engine automatically checks all the requirements itself and approve the claims within few seconds without any human intervention. This is a fully automated claim process and is one instance where digitalization improves the efficiency of the insurance process. Digitalization will also boost credibility, making it easier to improve services. Another benefit of digitization is the use of RPA to automate repetitive tasks. Companies do not want to invest in human resources to carry out monotonous functions. They could easily be performed by machines, which do not require human intellect and generate more precise results. Hence, efficiency and cost benefits will increase, allowing us to direct human resources to areas where greater strategic involvement is necessary.

Overall, it is undeniable that current technology and digitalization can be utilized to not just automate processes, but also expand markets and improve services. It's all about incorporating technological solutions into every aspect of the company's operations.

The insurance industry acts as a support service to businesses. Considering the current situation of the economy, how does the insurance industry continue to aid businesses effortlessly as a support service?

Insurance serves as a supporting service in two distinct ways. The first is how it benefits the economy, and the second is how it benefits businesses. Having stated that, let us examine how it benefits businesses. The primary objectives of life insurance are to protect citizens against unforeseen circumstances and to assist them in overcoming them.

It also provides relief regardless of whether the insured is a high-net-worth individual or a low-wage worker such as daily earners. The insurance sector, particularly the life insurance segment, is focused on delivering solutions to all of the country's citizens. Another thing is the lack of foreign currency reserves currently prevailing in the country. This is mostly due to a lack of foreign direct investment. One of the most crucial factors that foreign investors examine when seeking a country to invest in is the scale and attractiveness of the industry in which they intend to invest. They simply do not invest if the industry in which they seek to operate is not appealing or does not have the potential to grow.

Insurance is now one of the most booming industries, with significant room for expansion. This gives us more space to attract foreign direct investment and provides a boost to the economy. Finally, for an economy to thrive, it is necessary to guarantee that the assets of businesses are fully covered. This is when the general insurance policy comes in handy.
In conclusion, insurance provides a platform for individuals to guarantee their right to safety, and the industry itself is appealing to foreign investors, allowing for the attraction of foreign direct investments.

What is your message to our undergraduates who are looking forward to being a part of the insurance industry? What are the opportunities that they would make use of to have a successful career in the industry?

First and foremost, anyone planning to enter any industry should examine if it has the potential to grow. When an industry thrives, the employee profile expands, resulting in additional opportunities.
The next requirement is that you must have a clear perception of the industry. Having strong academic or professional credentials does not guarantee that your career will be advanced in no time. This industry does not grant seniority-based preference either. It is endowed with a performance-driven culture, which means that if you are a great performer who can work hard and think outside of the box, the sky is the limit. And after you've settled in, your income potential is unrestricted.

Because this industry is specialized, it is not easy for anybody to go in and take the seats of others. You need to master it. This is the fundamental reason why the industry is now unable to recruit adequate talent. And many people consider insurance to be a second-tier industry. I believe undergraduates are the perfect fit to fill this void since they are mastering all the technical requirements as well as the soft skills.
So, my message is that if you want to learn and achieve something extraordinary, the insurance industry is where you need to be. However, you must have the confidence to work harder and smarter. You must also be eager to learn. It's the equivalent of on-the-job training. The industry is struggling owing to a lack of talented individuals. But little do you know that this is one of the industries where you can put your skills to good use and strive to improve your life.

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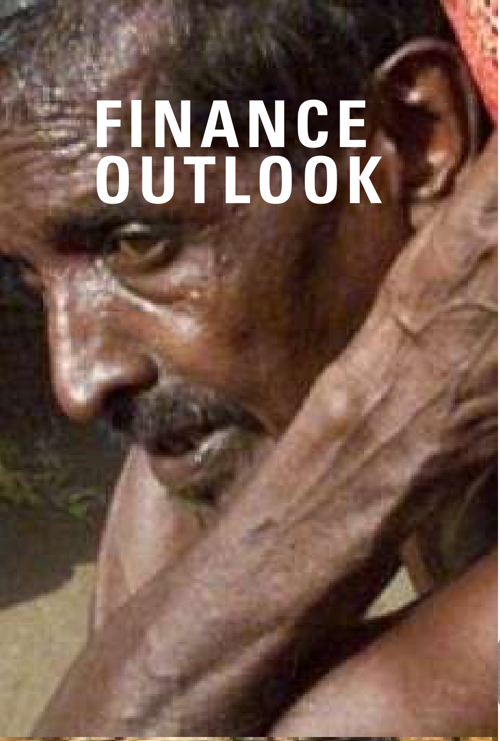
DEVELOPING MICRO-ENTERPRISES THROUGH MICROFINANCE



WHAT IS MICROFINANCE?

Microfinance, also called microcredit, is a type of banking service provided to unemployed or low-income individuals or groups who do not have easy access to other mainstream financial services.

Microfinancing is aimed at 2.8 billion people in the developing world who live less than 2$ a day. Provision of small loans, savings, microinsurance are some services that are included in microfinancing. This microcredit system helps low-income earners to become self-sufficient. Hence, practicing microcredit services in a country will reduce income inequality and at the same time, it will increase the overall production of a country.

The first goal in the sustainable development goals introduced by the UN in 2015 was zero poverty. Following that one of the main objectives of microfinance is to mitigate the poverty level of a country. With the current covid-19 pandemic situation the need for microfinancing services was increased as most of the people lost their jobs due to the cost reduction approaches taken by the companies. Therefore, people had to find a way to look after their family's while being financially stable. Thus, many of them decided on starting new businesses or borrowing money.

Whilst exploring ways, they have found microfinance as their best option in the given situation. As such microfinance was able to save low-income earners' livelihood by maintaining and stabilizing their future income flows.

Even though there is no unique criterion or a unique definition to identify micro-enterprises, businesses that are employing fewer than 10 people and where the investment in equipment does not exceed Rs. 1,000,000 can be elaborated as small businesses. Various institutions use different criteria to separate small businesses from large-scale businesses. If you are a sole trader, self-employed, or if you have no employees, still you can start forming micro-enterprises with the little resource you have. Micro-enterprises belong to the small and medium enterprises category. Most of the time these enterprises are started with a small amount of capital and funded by microcredit. Most micro-enterprises are specialized in providing goods or services in their local areas. Therefore, to start and to continue microfinancing is very much essential for microenterprises today, since it is very difficult for micro-enterprises to continue, on their own without any financial support.

"MICROFINANCING IS AIMED AT 2.8 BILLION PEOPLE IN THE DEVELOPING WORLD WHO LIVE LESS THAN 2$ A DAY. ."

MICROFINANCE IN SRI LANKA

“Microfinance is not an unfamiliar concept to us Sri Lankans”

Microfinance is not an unfamiliar concept to us Sri Lankans. The roots of microfinance have spread back to the early 20th century in Sri Lanka. In the beginning, it was called “The Cooperative Movement”. The sector is well established in Sri Lanka with over 10,000 branches around the Island. The Credit and Thrift Cooperative Societies (TCCS) were established during the British Colonial period and were replaced by Consumer Cooperative Societies in 1940. These consumer cooperative societies were renamed Multi-Purpose Cooperative Societies (MPCS) in 1950. In the 1970s all TCCSs were renamed Sanasa and in 1980 Sri Lankan government introduced the Janasaviya program. In 1985, six regional banks were formed, and they have become Rural Development Bank (RDB) in 2010. After 1991, NGOs and programs were initiated relating to microfinance as SEEDS and Regional Development Bank in 1986, Janasaviya Trust in 1990. Further, the programs such as Samurdi, Gama Naguma, Gami Diriya, and Divi Naguma have been introduced by the government to support microfinance. Not only government but also local and foreign NGOs, licensed specialized banks, and finance companies have started microfinancing services.

At the beginning of the MFIs, their main purpose was to uplift the livelihood of the low-income population, by providing loan schemes with easy paying methods including microfinance and insurances. MFIs have done their best to achieve the core purpose of microfinance. Not only in Sri Lanka, in other South Asian region countries like India, Pakistan, Bangladesh, Nepal this microfinance has helped the low-income population to maintain their livelihood as well as their businesses. Unfortunately, today as in the other South Asian countries, in Sri Lanka, without working towards customer welfare, MFIs started to work towards profit as it disrupts the core purpose of microfinance. This is one of the main problems in this sector that we Sri Lankans are facing at the moment.

MICROENTERPRISES IN SRI LANKA, THEIR CONTRIBUTION TO THE ECONOMY, AND PROBLEMS FACED BY THEM

The finance system of Sri Lanka consists of 24 commercialized banks, 6 licensed specialized banks, 34 license finance companies, and 3 specialized leasing companies with many primary dealers, pension/provident funds, and credit co-operative societies. However, commercial banks dominate the financial system and account for nearly 72.5% of the total asset value. (Nearly LKR 17087 billion or USD 85 billion) (CBSL, 2020). In 2020 Licensed Microfinance Companies (LMFC) sector reported assets of Rs. 6.8 billion with a 16% percent growth compared to the previous year.

Loans provided from the LMFC's have increased to Rs. 5.8 billion in 2020 compared to Rs. 4.7 billion in 2019. That means a noticeable amount has been provided by LMFC towards the Sri Lankan economy. The government of Sri Lanka recognizes SMEs as the backbone of the economy, as it contributed over 75% of the total number of enterprises, provide 45% of the employment, and contributes to 52% of the GDP (Ministry of Industry and Commerce).

As the consequences of providing microfinance services to those who are in need will directly have positive impacts on the economy as it accelerates the circular flow of income. Most importantly it has greatly helped women entrepreneurs from rural areas to commence their businesses and support their social status. Ultimately it has directly contributed towards poverty alleviation in the country.

Today, micro-enterprises face challenges from increased competition, the ability to adapt to rapidly changing market demand, technological development, and capacity constraints relating to knowledge, innovation, and creativity are problems faced by the micro-enterprises. There are many reasons for the above-mentioned issues and challenges.

Following are some of the major problems that micro-enterprises face today.

Sourcing Finance	01
Low/Dull sales	02
Absence of skilled labor	03
Finding place/ Space issues	04
Higher competition	05
Sourcing Raw materials	06
Registering/licensing procedure	07
Bad weather conditions	08

HOW DO MICROFINANCE INSTITUTIONS (MFI'S) IN SRI LANKA HELP MICRO-ENTERPRISES?

Since micro-enterprises face many problems, they should obtain assistance from those who can support them. The microfinance institutes (MFIs) are their best option. The MFIs can assist micro-enterprises in several ways including providing microcredit, conducting training programs, and providing advisory services for micro-enterprises.

The development of micro-enterprises cannot solely depend on funding. Not as in the past, today micro-enterprises have to face rising competition as there are many constraints in finance, social, technological, and cultural as well. So, they should get the help of marketing, capital, technology, and human resources, etc. to strive in the competition. MFIs are their best chance for this since MFIs already providing above mentioned services. Through training programs conducted by MFIs, micro-enterprises can gain knowledge, especially in the above-mentioned areas. Marketing management is also very useful to create a competitive advantage over other rival enterprises. Capital management and technical management knowledge also can be obtained through these training programs and these will greatly increase the chances of micro-enterprises succeeding. Advisory service is also another service provided by MFIs to micro-enterprises. Micro-enterprises can pursue these services if they expect to succeed in the market. Microfinance services act as the key support for the micro-enterprises for their business growth and these services also help the low-income households and microenterprises because it improves their consumption and savings.

Sarvodaya Development Finance Limited (SDF), Sanasa Development Bank (SDB), and Regional Development Bank (RDB) are some of the examples of other microfinancing Institutes. SDB bank provides Divi Saviya, Jawaya, Upahara, Uththamavi, Sanupa Saviya loan schemes for agricultural purposes, to purchase equipment/machinery, for export/import purposes & technical purposes. Not only them other microfinancing institutions also do their best to provide financial support to the microenterprises in Sri Lanka.

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