National Financial Inclusion Strategy for Sri Lanka (2021-2024)

“BETTER QUALITY INCLUSION FOR BETTER LIVES”

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இலங்கை மத்திய வங்கி

CENTRAL BANK OF SRI LANKA

CONTENTS

EXECUTIVE SUMMARY

The concept of 'Inclusive Finance' is a central part of most government initiatives aimed towards supporting the efforts of individuals and entities to work themselves out of poverty and formally participate in the economy. Although financial inclusion alone cannot alleviate poverty, it can help to build better lives. For financially excluded populations, accessing and using financial services and products to help them plan ahead and manage their finances is crucial to opening up opportunities and improving their standard of living.

Over the years, much has been done to make Sri Lanka more financially inclusive. These efforts have improved the access to financial products and services in the country, which is now relatively high.

The National Financial Inclusion Strategy (NFIS) aims to facilitate more accessible, effective, efficient, and affordable financial services for every individual and enterprise in Sri Lanka.

This document sets out the NFIS for Sri Lanka. This National Strategy provides a long-term, comprehensive, standardized and well-coordinated approach that could be used by all stakeholders to operate in one direction to improve financial inclusiveness in Sri Lanka.

Financial inclusion is indeed a challenging objective. While considerable advances have been made, there exist several bottlenecks which are stalling the movement toward higher levels of financial inclusion. The available potential to increase the usage of financial products and services must be fulfilled to overcome the obstacles inhibiting access to credit products. The prevalence of digital payments has improved substantially but there is still room for further growth in digitizing payment systems.

Accordingly, the implementation of the NFIS is a timely initiative to connect all key stakeholders and achieve more complete financial inclusion in Sri Lanka. The Sri Lanka NFIS is a multi-stakeholder effort led by the Central Bank of Sri Lanka, with technical and financial assistance from International Finance Corporation.

The effective implementation of the NFIS requires both high level support and ongoing coordination among all stakeholders including a range of government authorities as well as other public and private sector stakeholders.

1 | INTRODUCTION

Sri Lanka's National Financial Inclusion Strategy (NFIS) is expected to increase the country's financial inclusion by providing a long-term, comprehensive, and well-coordinated approach for all the strategy's stakeholders. Several stakeholders have contributed to the NFIS, led by the Central Bank of Sri Lanka (CBSL), and with technical and financial assistance from the International Financial Corporation in partnership with the Government of Australia. This is Sri Lanka's first comprehensive attempt to facilitate more accessible, effective, efficient, and affordable financial services in a way that responds to the needs of every individual and enterprise in the country.

1.1 | Rationale for the National Financial Inclusion Strategy for Sri Lanka

Sri Lanka's efforts to increase financial inclusion began early in the 20th century, when loans were provided to farming communities through cooperative societies. Several state-initiated programs were subsequently launched to improve financial inclusion, however most of them were uncoordinated at a national level, and their contributions towards achieving financial inclusion goals have been limited.

The Government of Sri Lanka (GOSL) has taken various measures to improve financial inclusion via the CBSL which promotes regional development and financial inclusion through targeted credit delivery programs and specially designed awareness and capacity building programs. As the most appropriate national institution to promote rural integration and financial inclusion, the CBSL became a member of the Alliance for Financial Inclusion (AFI) at its inception in 2008. Identifying the growing need for robust banking practices, the CBSL joined the IFC-backed Sustainable Banking Network (SBN) in 2016, and in June 2019, launched a Roadmap for Sustainable Finance in Sri Lanka, which identifies financial inclusion as a core pillar. The roadmap provides guidance and support to Financial Services Providers (FSPs) so they can effectively manage environmental, social, and governance risks associated with the projects they finance.

Looking beyond financial inclusion, several progressive initiatives have improved the level of financial literacy in Sri Lanka. These include the CBSL's capacity building programs as well as those initiated by licensed banks, various ministries and other government agencies for Micro, Small, and Medium sized Enterprises (MSMEs), entrepreneurs, and the lower-income and vulnerable segments of the population. As part of its initiatives, the CBSL has urged Licensed Banks and Non-Bank Financial Institutions (NBFIs) to increase access to efficient and affordable financial services through improved payment and settlement systems.

Despite the focus and these attempts, the findings of the National Financial Inclusion Survey in 2018/19 (NFI Survey) clearly indicate that achieving an acceptable level of financial inclusion remains a challenge in Sri Lanka. Moreover, gaps in financial inclusion force the most vulnerable to resort to the informal finance sector, exposing them to risks and making them more susceptible to poverty. Financial inclusion has been identified as a vital policy tool in Sri Lanka's development agenda, which promotes balanced growth through poverty reduction and enhanced participation across all the segments of the economy.

Against this backdrop, Sri Lanka is now at a critical juncture to launch a concerted national level effort to achieve its financial inclusion objectives. A national strategy will help stakeholders make a coordinated and cohesive push to improve financial inclusion.

Several stakeholders and specialists representing the financial and non-financial sectors actively participated in a consultative process to design the NFIS. The contribution made by public and private sector stakeholders to identify the priorities for the strategy paved the way for a systematic and nationally relevant approach.[1]

1.2 | Vision

"BETTER QUALITY INCLUSION FOR BETTER LIVES"

All individuals and enterprises in Sri Lanka have well-informed, fair, and equitable access to a range of high-quality, appropriate, secure, and affordable financial products and services that they can use to contribute to economic growth and improve their standard of living.

The vision incorporates important concepts beyond simple “access” to financial services. Financial inclusion requires well-informed consumers who are financially capable and can receive and understand the necessary information to select and use products efficiently and effectively. The NFIS focuses on ensuring that expanded access to financial products also means access to quality products that are appropriately designed and affordable.

1. A complete list of NFIS stakeholders is in ANNEX 1.

1.3 | Definition of Financial Inclusion

Financial inclusion in Sri Lanka encompasses three common dimensions — access, usage and quality — and the definition emphasizes that these should be based on consumer needs and informed choices. The definition highlights that financial inclusion is not a goal in and of itself but a means to an end — leading to positive economic and social impact.

2 | CURRENT STATE OF FINANCIAL INCLUSION IN SRI LANKA

Identifying the current state of financial inclusion in Sri Lanka is essential to designing appropriate policies that will overcome underlying issues and bridge the gaps that hinder efforts towards improving financial inclusion.

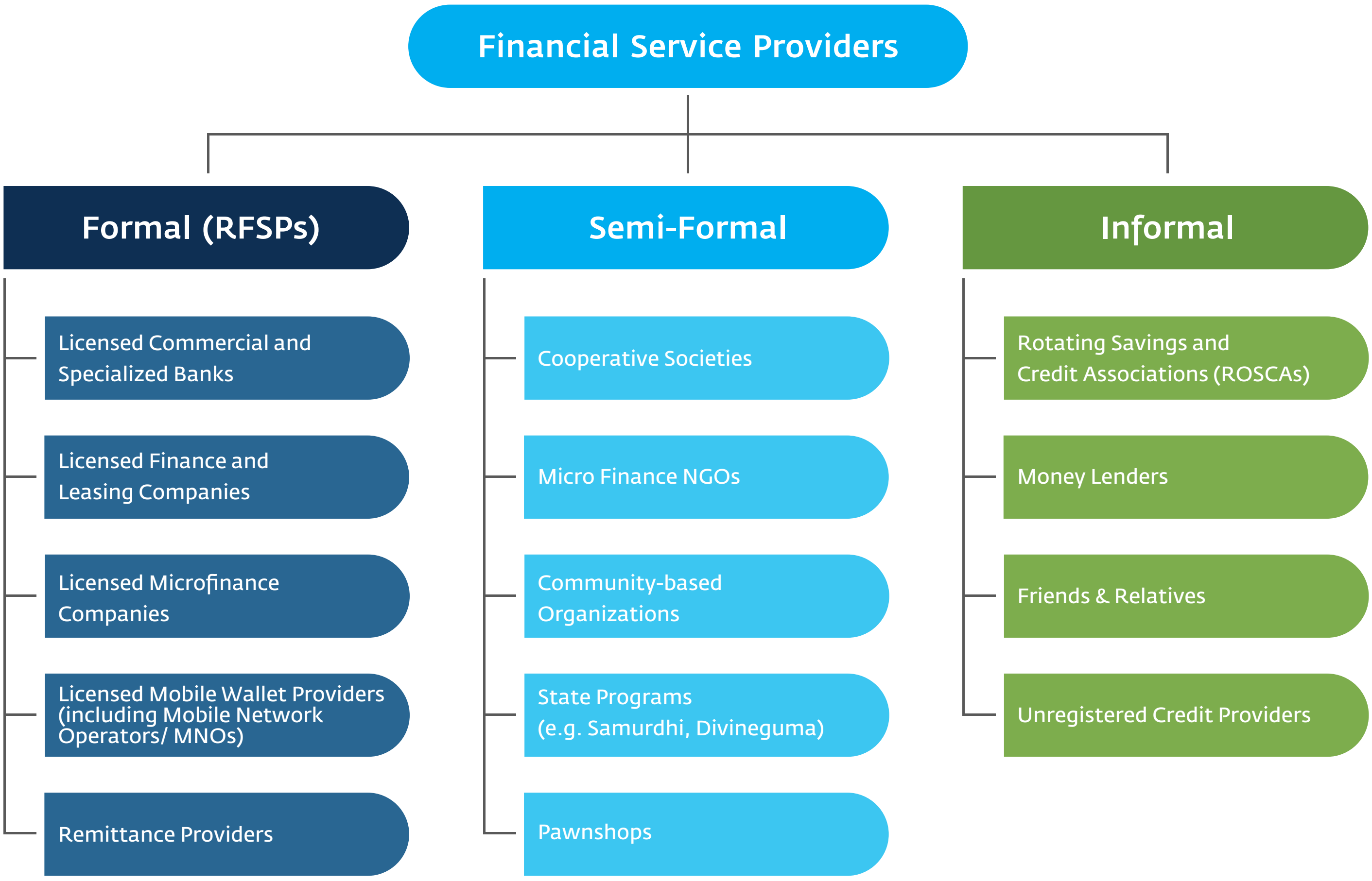
The CBSL and IFC jointly conducted a comprehensive NFI Survey with the primary objectives to fulfil the data and information lacuna and to identify the general landscape of financial inclusion across Sri Lanka. The outcome of this survey was used as the baseline information for the NFIS and to establish future targets.[2]

2. The survey outcomes are in Annex II.

2.1 | Classification of Financial Service Providers in Sri Lanka Based on Regulatory Intervention

Sri Lanka's two decade-long effort to improve financial inclusion has resulted in a wide range of Financial Service Providers (FSPs), which can be broadly categorized into formal, semi-formal, and informal sectors.

Figure 01



Source: Adapted from Institute of Policy Studies of Sri Lanka, 2018

The term 'Regulated Financial Service Provider' (RFSP) encompasses formal financial service providers, which are regulated by the CBSL, Securities and Exchange Commission of Sri Lanka (SEC), or Insurance Regulatory Commission of Sri Lanka (IRCSL).

FSPs have extensive networks of physical bank branches. In March 2020, the density of bank branches in Sri Lanka was 16.6 branches per 100,000 adults – nearly double the South Asian regional average of 9.4 per 100,000 adults. Branches are evenly spread throughout the country, which can be partly attributed to government policies to expand access to banking outlets. Sri Lanka also records high rates of account ownership. According to the NFI Survey, 88 percent of respondents have accounts at a financial institution and there is no significant gender or regional disparity in account ownership.

However, gaps remain, and these are exacerbated by a low level of financial literacy. Despite the ease with which most Sri Lankans can access branches, account usage and uptake of other financial products and services (such as insurance) is modest. Further, access to suitable credit products from formal providers remains a significant barrier for both individuals and MSMEs. Even though the prevalence of digital payments systems has increased, there is potential to grow these and other Digital Financial Services (DFS).

2.2 | Summary of Gaps and Underlying Issues in Focus Areas

Based on the NFI Survey findings, the underlying causes for the major financial inclusion gaps were identified.

	Gaps	Underlying Causes
Ownership and Usage	• Low account usage • Rising trend of borrowing from informal sources at high interest rates • Increasing use of semi-formal and informal mechanisms for credit, savings, and investments • Low availability and use of insurance products • Customers with low education levels reluctant to use the formal financial sector	• Lack of access for underserved consumers to transact through physical channels or tools • Insufficiently customized credit and insurance products from regulated entities appropriate for and accessible to underserved individuals • Relatively stringent requirements for formal providers of financial services • Low level of financial literacy among individuals regarding the benefits and risks of financial products and services • Relatively non-transparent fees/charges charged by financial services providers

Delivery Channels and Digital Finance	• Continued reliance on cash for daily transactions • Fewer ATMs and PoS terminals than peer countries • Low acceptance and usage of electronic payment instruments • Low ownership and usage of mobile money accounts • Low penetration of online/ telephone banking • Low ownership and usage of cards and accounts	• High costs associated with RFSPs to serve underserved consumers, leading to increased use of semi-formal and informal sources of credit • Preference for in-person interaction with bank cashiers • Low internet usage and smart phone penetration in rural areas • Lack of trust among consumers regarding digital transactions • Distribution of government welfare benefits is largely cash and coupon based • No centralized digital ID database • Absence of market-wide clarity on the ability to conduct e-KYC and lack of tiered KYC rules • Low interoperability between mobile wallets and between banks and non-banks • Gaps in consumer awareness and financial and digital literacy • Insufficiently active agent banking network • Potential to impose exclusivity on agents by remittance service providers, curbing the network's reach • High cost to purchase for PoS terminals • Merchant discount rate to use payments cards is set at 3 percent of total transaction value • Emerging technologies need more timely and consistent regulatory guidance

MSME Finance	• Limited access to finance for MSMEs • Limited data on MSME finance portfolio • Limited evidence of the effectiveness of MSME support programs	• Low levels of formalized bookkeeping and financial literacy among MSMEs • Lack of data on MSME finance portfolio • Poor coordination among government programs supporting MSMEs
Consumer Protection	• Poor market practices, including aggressive sales practices, oversellin, and abusive debt collection by microcredit providers • Little awareness of existing external dispute resolution mechanisms among consumers • Limited resources of the Office of the Financial Ombudsman	• Legal mandate of financial sector authorities needs to be strengthened for financial consumer protection • No comprehensive regulatory framework for financial consumer protection covering all relevant issues • Semi-formal and informal providers that fall outside of the current regulatory sphere • Insufficient autonomy for the Office of the Financial Ombudsman • Existing External Dispute Resolution (EDR) mechanisms are scattered with limited coordination
Financial Literacy	• No data on key financial literacy gaps • Absence of a clear strategy on improving financial literacy • Limited understanding of the benefits and risks of financial products and services • Mistrust toward mobile money services	• Fragmentation and lack of coordination among providers of financial literacy programs • Limited human and capital resources for financial literacy efforts • No minimum standards and practical, innovative methods for a financial curriculum

3 | STRATEGY FRAMEWORK

The strategy to improve financial inclusion in Sri Lanka centers around four pillars:

① Digital Finance and Payments

② MSME Finance

③ Consumer Protection

④ Financial Literacy and Capacity Building

Three core enablers will help to achieve progress in these areas:

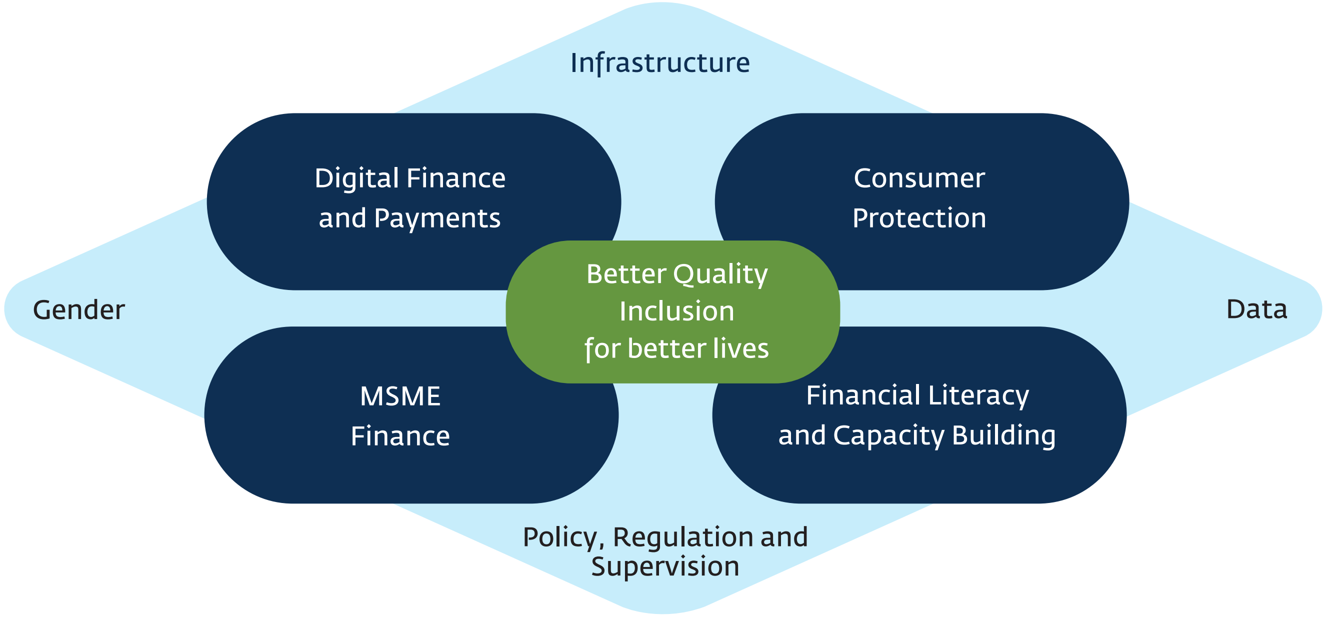
ⓐ Data

ⓑ Infrastructure

ⓒ Policy Tools and an Enabling Regulatory Environment

3.1 | Framework for NFIS of Sri Lanka

Figure 02

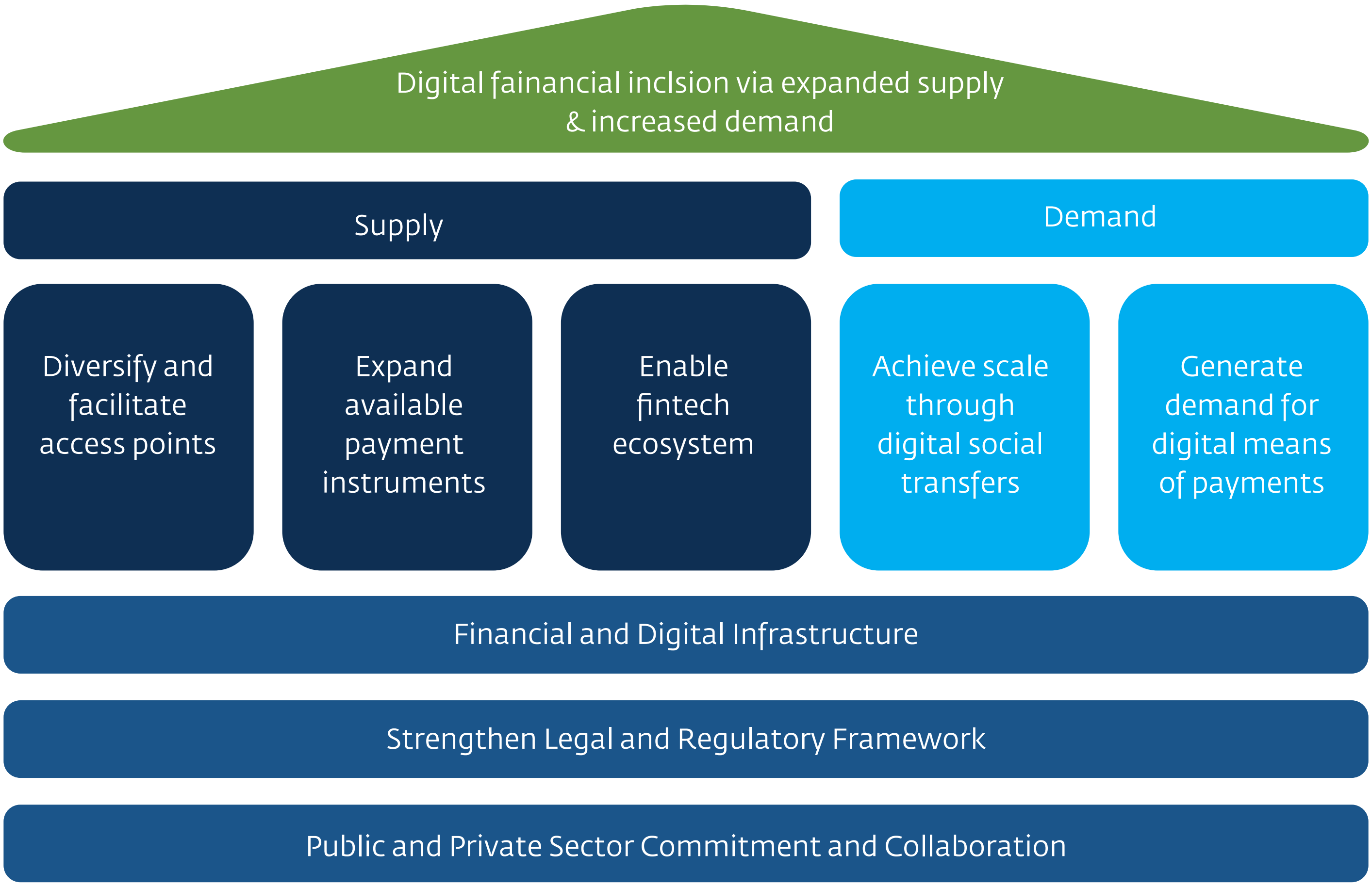


3.2 | Pillars of the NFIS

3.2.1 | Pillar 1: Digital Finance and Payments

Digital Finance and Payments can provide affordable and easily accessible financial products to underserved consumers. For regulated financial institutions, they offer low-cost channels to reach more consumers via a sustainable model. Encouraging a greater variety of appropriately designed, quality digital financial services can help increase usage. Several levers can be applied to increase digital finance uptake and payments from both the supply and demand sides.

Figure 03 : Levers to Increase Digital Financial Inclusion



Objectives of Pillar 1 – Digital Finance and Payments

- Institutional management of the country's digital economy policy: Strengthen the role of the National Payments Council (NPC) and develop a National Payments Strategy under the leadership of the NPC encompassing the entire gamut of payment and settlement systems.

- Develop a strategy and responsibilities to grow digital payments.

- Digitize schemes and services of the Sri Lankan government.
- Streamline the Know Your Customer (KYC) process to ensure standardization and introduce a tiered approach with proportionate barriers to entry that are dictated by respective risks.
- Develop an enabling regulatory environment with timely, transparent, and consistent guidance to the market .
- Support the development of a fintech ecosystem with an emphasis on financial inclusion.
- Generate more demand to expand the use of mobile and electronic means of payments.
- Strengthen the development of digital infrastructure to facilitate digital payments.

3.2.2 | Pillar 2: MSME Finance

Supporting the growth of MSMEs is a priority for the national policy agenda, as they represent over 90 percent of businesses, employ around three million people[3] and are a major contributor to employment and Sri Lanka's economic growth. However, they face numerous obstacles including difficulty in accessing appropriate, affordable financial products and services.

Objectives of Pillar 2 – MSME Finance

- Assist the formal financial sector to scale up MSME lending and expand the range of high-quality products, with a specific focus on green and sustainable finance as well as vulnerable groups.
- Strengthen market-friendly policy approaches to increase government-assisted MSME finance support programs.

3.2.3 | Pillar 3: Consumer Protection

Poor market practices by financial services providers can create distrust, especially among consumers with low incomes and financial literacy levels. This can reduce financial inclusion, as consumers turn to informal sources for finance or opt out of the financial sector entirely. Policymakers are already implementing initiatives to strengthen protection for financial consumers. Under the NFIS, existing efforts to develop regulatory frameworks for financial consumer protection and enhance supervisory activities will continue and will be expanded. The aim is to protect consumers and contribute to increasing the adoption and use of financial products in Sri Lanka.

3.National Policy Framework for Small and Medium Enterprises (SMEs) Development Action Plan (2016), Ministry of Industry and Commerce

Objectives of Pillar 3 – Consumer Protection

- Clarify and strengthen the legal mandate of financial sector authorities for financial consumer protection regulation and oversight.
- Ensure legal requirements covering disclosure and transparency, fair treatment and business conduct, and internal dispute resolution apply to all providers of financial products.
- Expand specialized financial consumer protection supervisory activities.
- Enhance External Dispute Resolution (EDR) mechanisms to provide financial consumers with accessible, affordable, independent, well-resourced, fair, accountable, timely, and efficient channels for dispute resolution.

3.2.4 | Pillar 4: Financial Literacy and Capacity Building

Poor financial literacy among individuals and MSMEs in Sri Lanka decreases the uptake and usage of financial products and services which in turn prevents consumers from reaping the benefits of financial inclusion. Low financial literacy also puts consumers at risk of unscrupulous market practices. Against this backdrop, improving the population's financial literacy will help to increase financial inclusion in the country.

Objectives of Pillar 4 – Financial Literacy and Capacity Building

- Assess the population's level of financial literacy and identify key gaps.
- Improve the coordination of financial literacy efforts.
- Increase financial literacy among consumers, particularly vulnerable groups, including women, youth, the poor, and those with poor educational backgrounds.
- Increase the capacity of MSMEs on the attributes required to gain access to the formal financial system.
- Improve the effectiveness and efficiency of delivery channels for financial literacy.

4 | NFIS Enablers

4.1 | Enabler 1: Data

Comprehensive and robust data are essential to ensure evidence-based policies and will help to monitor results and evaluate the effectiveness of any initiatives.

Objectives of Enabler 1 - Data

- Develop a consolidated approach to data collection from key providers and programs.
- Conduct new research and consolidate research data to establish baseline indicators for financial inclusion (including gender-disaggregated data), the state of MSME finance, financial literacy, and others.
- Ensure consistency in definitions and indicators for financial inclusion, MSME finance, financial literacy, and other relevant indicators.
- Develop mechanisms for data reporting among agencies, to provide easy access to accurate, relevant, and timely data.

4.2 | Enabler 2: Infrastructure

Strong financial infrastructure, for example, credit bureaus, payments systems, and collateral registries, can help financial services providers evaluate customers effectively, provide affordable products, and reach remote consumers via low-cost channels. Efforts are already underway in Sri Lanka to expand the existing credit information system and secured transactions framework, and these will be supported under the NFIS.

Objectives of Enabler 2 - Infrastructure

- Improve the credit information system.
- Improve the secured transactions framework, especially for movables.
- Improve communications infrastructure (internet coverage and smartphone penetration).
- Operationalize a governance structure for the implementation of the NFIS.

4.3 | Enabler 3: Policy Tools and an Enabling Regulatory Environment

While policy tools support financial inclusion, an enabling regulatory environment is equally essential to achieve progress in the four areas of Sri Lanka's NFIS. A balanced regulatory framework will also help financial services providers to be flexible and innovative, while mitigating risks to consumers and the nation's financial stability.

Objectives of Enabler 3 – Policy Tools and an Enabling Regulatory Environment

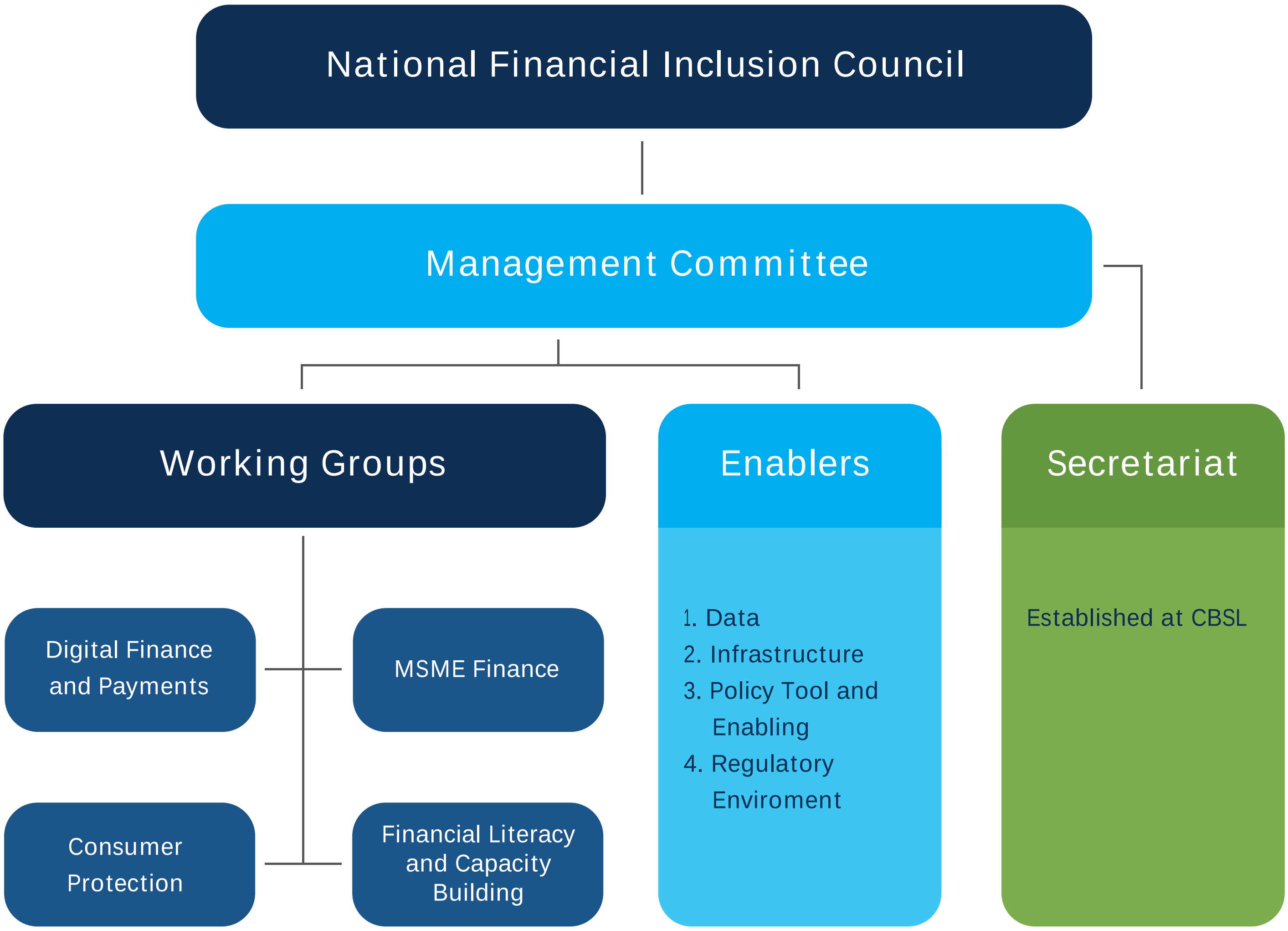
- Develop a legal framework for data privacy and protection.
- Leverage policy tools and encourage providers to expand services for underserved segments.

5 | COORDINATION AND IMPLEMENTATION MECHANISMS

Effectively implementing the NFIS requires high-level support and ongoing coordination among public and private sector stakeholders. A clear governance structure is necessary, with a formal set of functional entities overseeing implementation, monitoring progress and providing policy guidance throughout the life of the NFIS. With this purpose, a governance structure for Sri Lanka's NFIS is proposed.

National financial inclusion strategy of Sri Lanka proposed governance structure

Figure 04



5.1 | National Financial Inclusion Council

The Council will provide overall leadership, policy guidance, and strategic direction for the NFIS and oversee the NFIS implementation with support from the Management Committee and the Secretariat. The National Financial Inclusion Council will be co-chaired by the Secretary to the Ministry of Finance and the Governor of the CBSL. The Council will meet at least twice a year.

5.2 | Management Committee

The Management Committee will supervise the day-to-day implementation of the NFIS and ensure that progress adheres to the implementation plan and the guidance of the National Financial Inclusion Council. The Management Committee will comprise senior officials from all entities implementing the NFIS Action Plan.

5.3 | Working Groups

Working groups will be formed for each of the four NFIS focus areas (Digital Finance and Payments, MSME Finance, Consumer Protection, and Financial Literacy and Capacity Building), and there will be one working group for the enablers (Data, Infrastructure, and Policy Tools and Enabling Regulatory Environment) which cut across all the focus areas. The working groups will act as a consultation forum for NFIS focus areas. They will be composed of members who have technical expertise in the respective focus areas and selected from a range of stakeholders, including the public and private sectors and civil society.

5.4 | NFIS Secretariat

The Secretariat at the CBSL will ensure coordination and monitoring across the different entities contributing to NFIS targets and will provide technical and administrative support to the National Financial Inclusion Council, Management Committee, and working groups, which each carry different levels of responsibility.

6 | MONITORING AND EVALUATION

An ongoing monitoring and evaluation (M&E) system will ensure the NFIS objectives are progressing. It will act as an accountability tool that will identify obstacles, highlight results, and efficiently allocate resources to meet the NFIS objectives.

The M&E system will have four elements:

- A NFIS Results Framework that establishes key performance indicators (KPIs) and associated targets in line with national priorities.
- The mechanics of coordinating and implementing the M&E system.
- Relevant and reliable financial inclusion data, from the supply- and demand-sides, which will provide a comprehensive view of the access, usage, and quality of financial services.
- An evaluation of key reforms and programs, and the efficiency, effectiveness, and impact of NFIS actions.

The Secretariat has responsibility for M&E, coordinating the day-to-day execution of the M&E system and providing technical expertise to strengthen the M&E capabilities of implementing institutions. Each implementing entity will be responsible for reporting their status, obstacles to completion, and estimated completion dates.

7 | CONCLUSION AND WAY FORWARD

The NFIS 2021-2024 provides a standardised and coordinated approach, including an action plan for all stakeholders to improve financial inclusion in Sri Lanka. It sets out how the strategy's objectives can be achieved in a timely manner and encourages existing and new parties to create new initiatives to improve financial inclusion.

The NFIS is a national policy document and will be hosted at www.cbsl.gov.lk

7.1 | Detailed Implementation Plans and Action Plan Tracker

All stakeholders must translate NFIS actions into concrete and detailed implementation plans which break each action into a set of sequenced, time-bound activities and outputs, clearly delineate roles and responsibilities, and estimate resource requirements.

Once implementation plans are developed, these should be consolidated into a monitoring tool – an Action Plan Tracker. The Tracker will provide an overview of ongoing and planned activities and outputs, record progress over time and define and monitor progress towards expected outcomes linked to NFIS actions.

7.2 | Strengthening Data Infrastructure

Access to high-quality relevant data is the foundation of a robust M&E system as it provides greater insight into the full breadth of the objectives and actions defined in the NFIS. It is critical to prioritize efforts that will increase the scope and quality of Sri Lanka's financial inclusion data infrastructure. It is especially important to improve demand-side measurement and supplement it with better quality and more frequent supply-side financial inclusion data. The data should be collected directly from financial service providers and cover MSME finance, financial literacy, and the usage of DFS.

7.3 | Communicating NFIS Results and Mid-term Reviews

Communicating NFIS progress will help to keep stakeholders and the public appraised of NFIS successes and remaining challenges. Regular updates to the National Financial Inclusion Council via bi-annual implementation progress reports and an annual public report on financial inclusion are two ways to communicate the NFIS' achievements.

Conducting mid-term reviews and assessments and updating and realigning the original NFIS objectives, policy areas, targets, or actions will maintain their relevance. They can also identify new opportunities and revive momentum if necessary.

ANNEX I

Stakeholders to Implement the NFIS

1. Central Bank of Sri Lanka
2. Ministry of Finance
3. Ministry of Digital Infrastructure and Information Technology
4. Ministry of Education
5. Ministry of Industry
6. Ministry of Transport
7. State Ministry of Samurdhi, Home Economy, Microfinance, Self-Employment, Business Development & Utilization State Resource Development
8. State Ministry of Skills Development, Vocational Training, Research and Innovations
9. Department for Registrations of Persons
10. Department of Cooperative Development
11. Department of Agrarian Development
12. Colombo Stock Exchange
13. Credit Information Bureau
14. LankaClear
15. Public Utility Commission of Sri Lanka
16. Insurance Regulatory Commission of Sri Lanka
17. Securities and Exchange Commission of Sri Lanka
18. Telecommunications Regulatory Commission
19. Finance Commission
20. Financial Ombudsman of Sri Lanka
21. Sri Lanka Bank's Association
22. Lanka Microfinance Practitioners Association
23. Finance House Association of Sri Lanka

* These institutions may change if subjects of those are changed

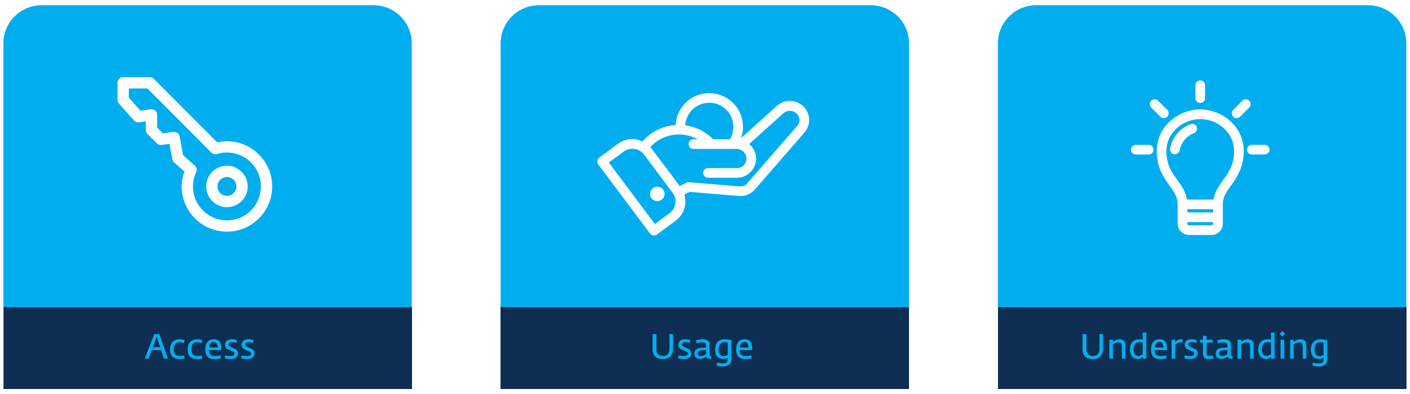
ANNEX 2 | KEY FINDINGS FROM NATIONAL FINANCIAL INCLUSION SURVEY 2018/2019

1 | About the Financial Inclusion Survey (FIS)

This Financial Inclusion Survey (FIS) was conducted as part of the commitment of NFIS to collect data on the Demand Side of financial inclusion to fulfil the long existing lacuna of information to overcome constraints to design a comprehensive landscape to promote financial inclusion. This is considered as the baseline survey of financial inclusion and will be conducted every three (3) years to update the database for a more holistic picture of financial inclusion in the country to facilitate design and implementation of evidence-based policies.

1.1 | Focus of the Survey

The Survey was designed to measure the level of financial inclusion from three different aspects; Access, Usage and Understanding covering financial services such as savings, borrowings, digital finance and investments, as well as aspects of financial consumer protection.



1.2 | Objectives

1. To elaborate the present status of financial inclusion in the country

2. To use that information as a baseline information in developing of the NFIS to support in setting of policy priorities and designing of strategies; and

3. To setting up measurable targets in a forward-looking strategy framework to monitor the effectiveness of the NFIS on a regular basis.

2 | Sampling Process

National Representive Sample of Households

Respondents aged 18 or older

Sample Stratified as

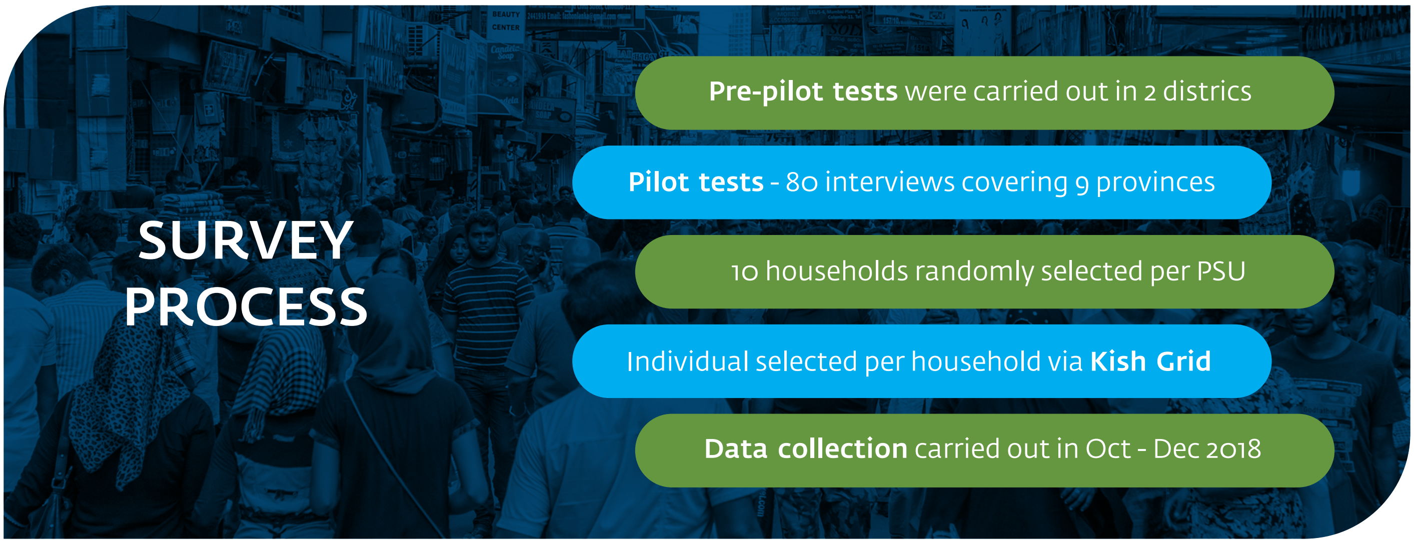
- Primary Sampling Unit (PSU):
  - Grama Niladari Divisions
  - Number of PSUs: **480**
- Secandary Sampling Units (SSU):
  - **4800** Households

Two stage Stratified Sample

- Stratified by households in urban/ rural sector within each districs (stratums)
- PSU was selected by Probability Proportionate to size (PPS) of households within each stratum

The FIS was conducted, with a nationally representative sample of 4,800 households (individuals aged 18 and above). The sample was stratified in two stages as:

• Stratified by Households in urban/rural sector within each district (Stratums)
• Primary Sampling Units (PSU) were selected by Probability Proportionate to Size (PPS) of households within each stratum

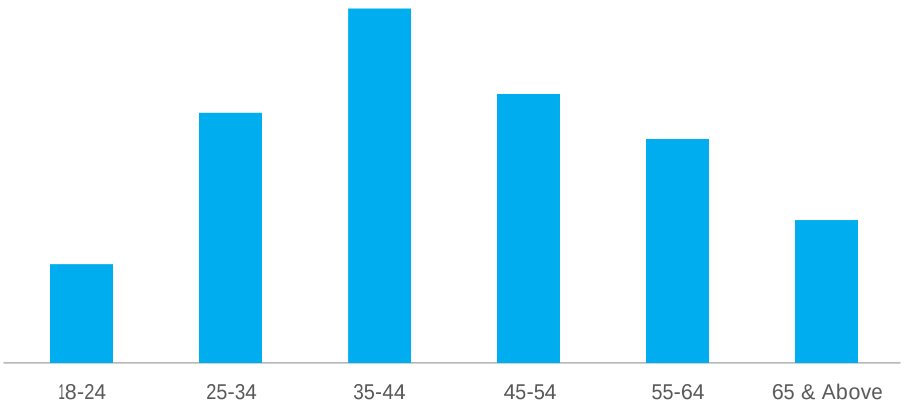


The survey process was deployed to ensure participation of women, by increasing the number of women enumerators where possible and in being considerate of women respondents' time poverty. This additional effort ensured a fair national representation as seen below.

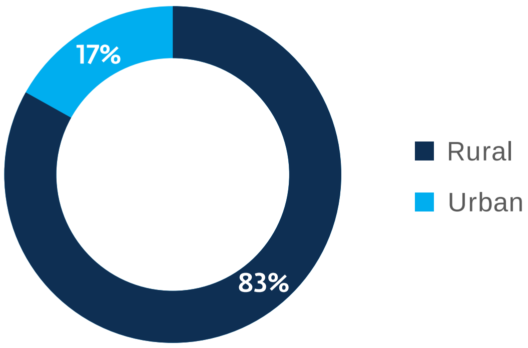
3 | Demographic Profile

Key demographic characteristics of the sample.

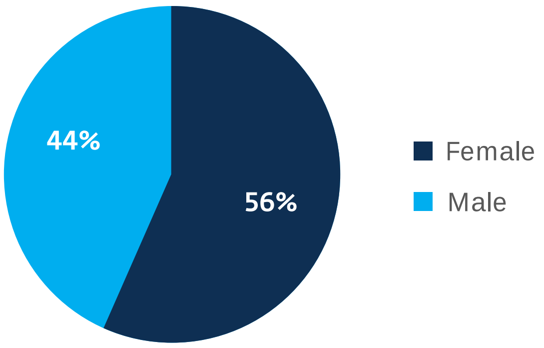
- The age of respondents varied between 18 and 97 years, with a mean of 45 years.



- The robustness of the sample was evident in the geographic representation as well as gender. Geographically, municipal and urban councils were considered as urban, with the rest rural.



- Out of all respondents, 44 percent were men while 56 percent were women.



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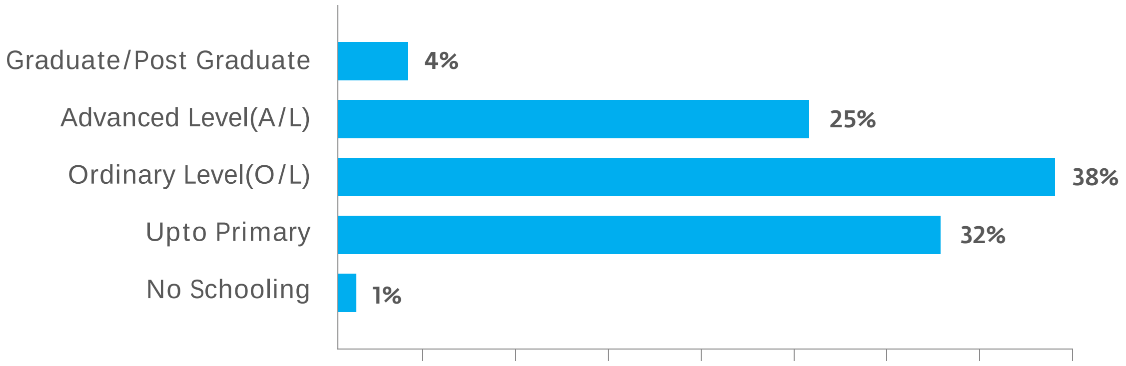


The key demographic characteristics show that most of the respondents belong to the rural sector and have a formal education level at either secondary or higher. The distribution of respondents by sector, gender and age nearly represents the characteristics of the Sri Lankan population. About 50 percent of respondents are within the age category of 35 to 54 years, who are active economically and financially.

4 | Key Findings

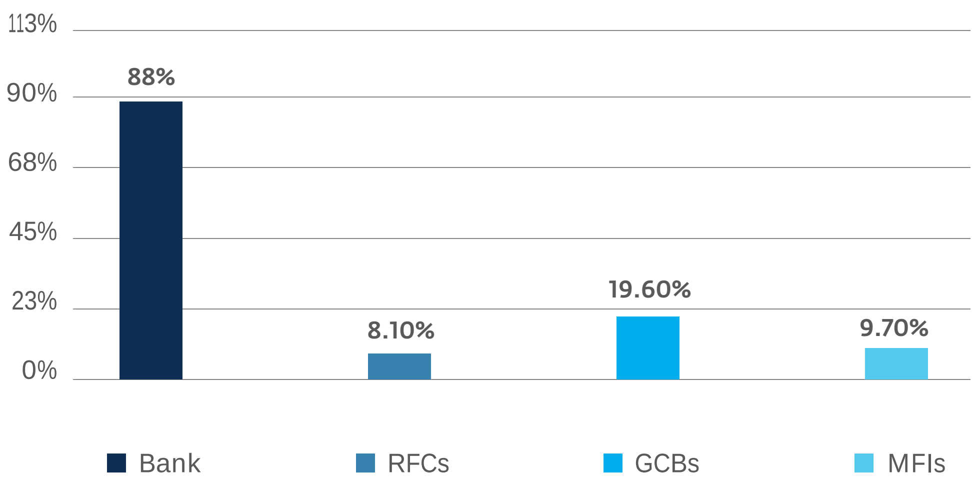
4.1 | Ownership of Accounts and Savings

Ownership of an account is considered a basic indicator of financial inclusion, as it is the entry point to the formal financial system. It makes it easier for individuals to save money, receive a salary, send or receive remittances, and pay bills. An account provides a safer mode of storing money, thus encourages savings. In this analysis, a formal account refers to an account (savings or current) at formal financial institutions.[4]

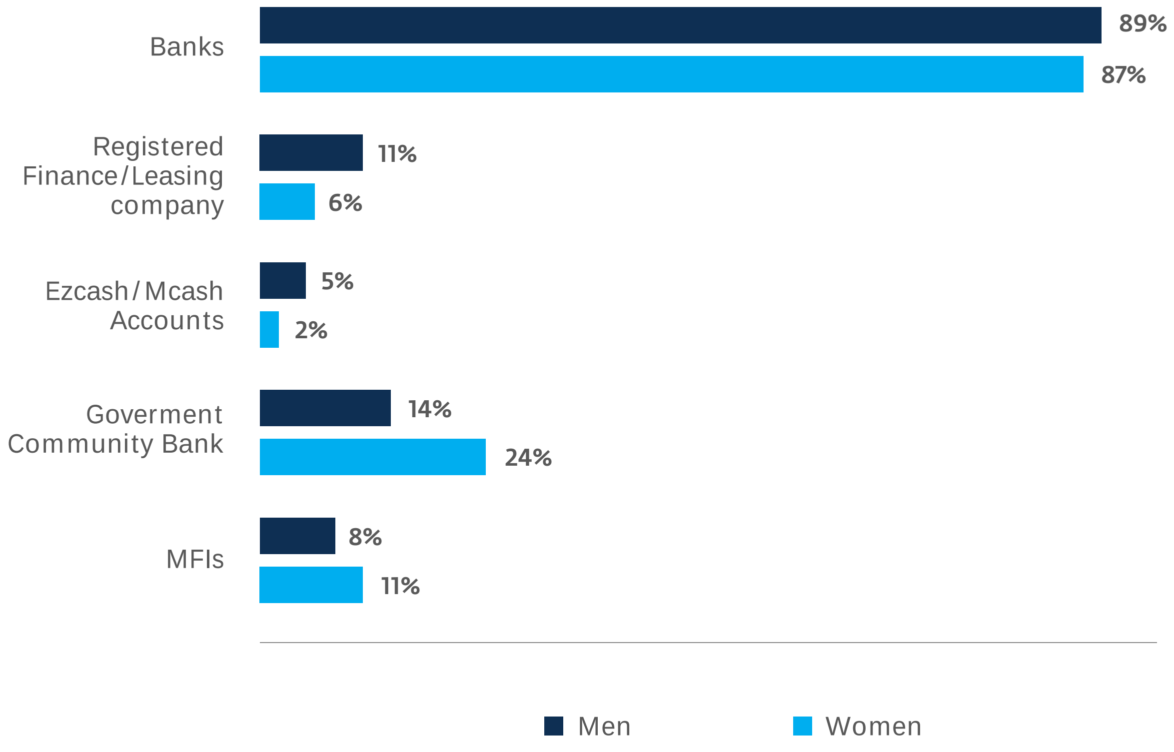
4. Financial Service Providers are classified based on the classification used in the NFIS i.e. the entities that are licensed by a financial sector regulator are considered as formal entities; banks, finance and leasing companies, and micro finance companies. Entities that are registered with any other Government Authority are considered as Semi - formal entities such as rural cooperative banks, microfinance NGOs, Samurdhi banks and pawnshops. Informal entities are entities that are not registered with any authority; money lenders and unregistered credit providers.

According to the FIS, account ownership stands at 90 percent, which is comparatively higher than the South Asia average as reported by Global Findex.[5] Significantly higher numbers of Sri Lankans (90 percent) have an account in a Licensed Bank (LB). Only around 9 percent of Sri Lankans have an account in a Registered Finance Company (RFC), around 20 percent in Government Community Banks (GCB) and around 10 percent in Microfinance

Account Ownership



Account Ownership among Men and Women



5. According to the World Bank Group's (WBG) Global Findex for 2017, nearly 74 percent of adults in Sri Lanka have accounts at a financial institution, which is higher than the regional average in South Asia of 70 percent (36 percent, excluding India). International Bank for Reconstruction and Development/The World Bank (2018) The Global Findex Database 2017 Measuring Financial Inclusion and the Fintech Revolution

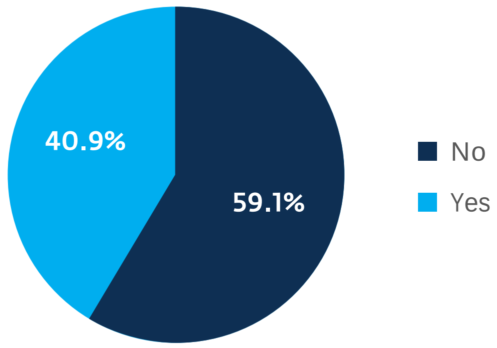
Awareness of Saving Opportunities

Overall, the awareness of savings opportunities among Sri Lankan adults is considerably high (65 percent) and this corroborates with the high level of account ownership seen above.

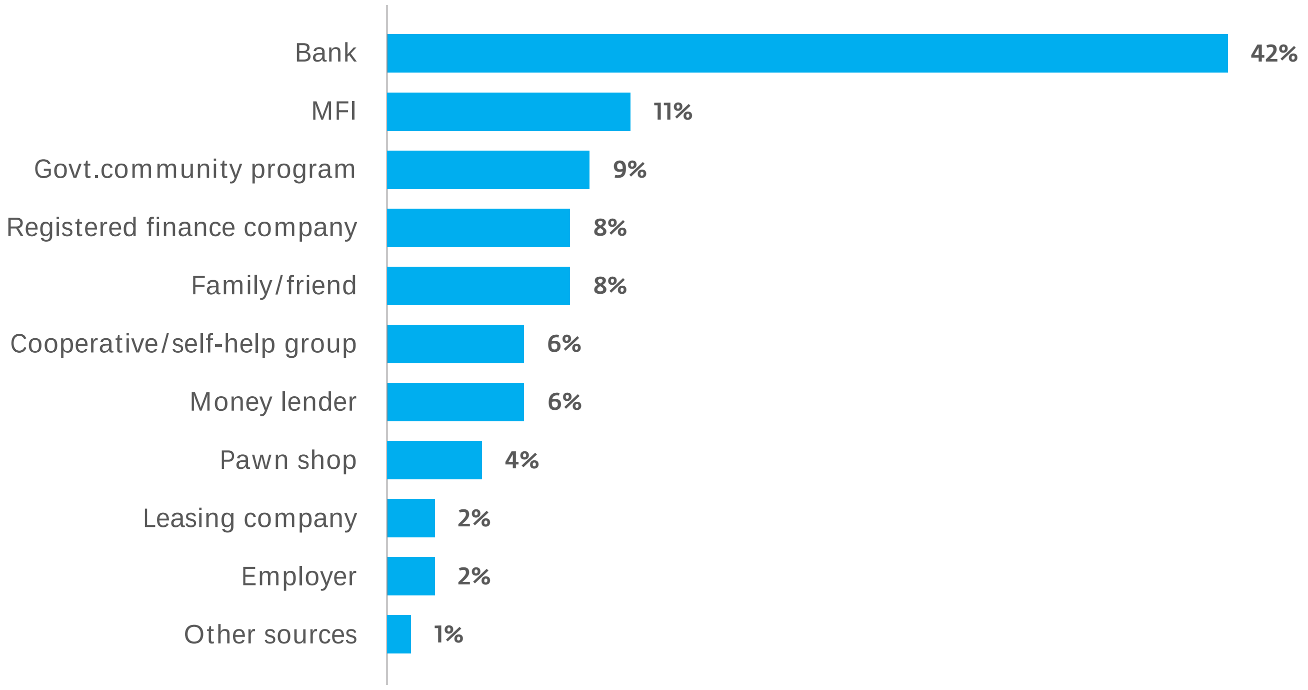
4.2 | Access to Borrowings

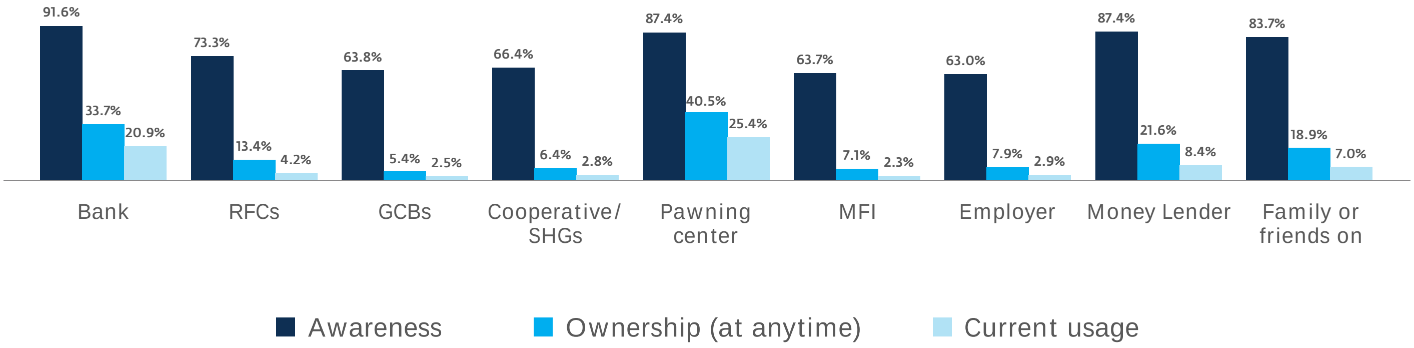
Whilst access to accounts provides an entry to the formal financial system, this access seems to be underutilised in terms of borrowing. According to the FIS, only 49 percent of the respondents reported any borrowing. Of this, 52 percent had borrowed from formal financial institutions, i.e. banks, finance companies, and leasing companies, while 48 percent had borrowed from semi-formal and informal sources i.e. MFIs, government community programs, family and friends, cooperatives, and moneylenders.

Borrowing from any source during last 12 months



Awareness of Saving Opportunities





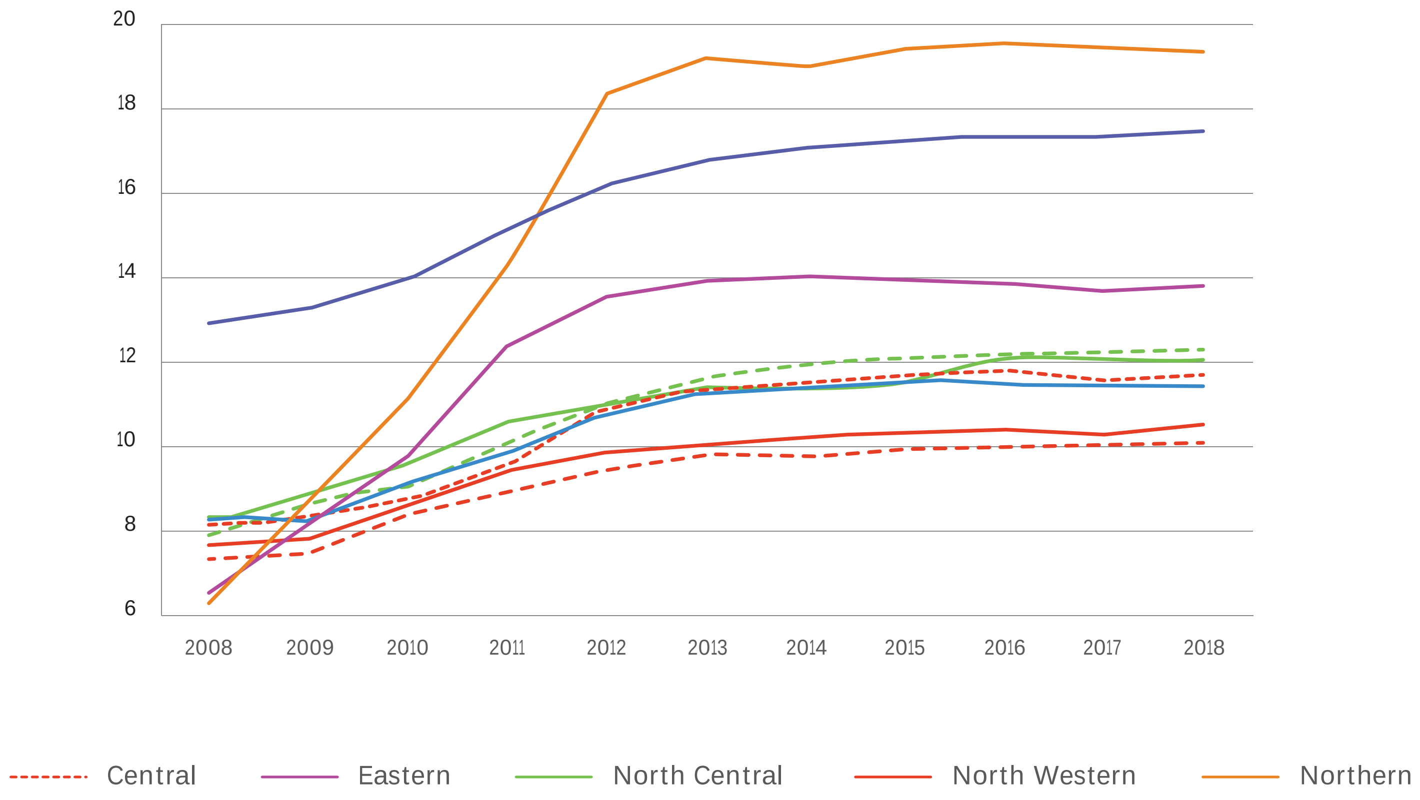
Despite high levels of awareness of various sources of borrowings, particularly from banks, actual usage was considerably low. Borrowing from pawning centers appears to be more popular among Sri Lankan adults. Women's reliance on the informal sector for borrowing was greater at 62 percent when compared to their male counterparts (52 percent).

4.3 | Delivery Channels and Most Common Types of Financial Transactions

Policy efforts to improve delivery channels across the country have been successful as seen in the expansion of bank branches.

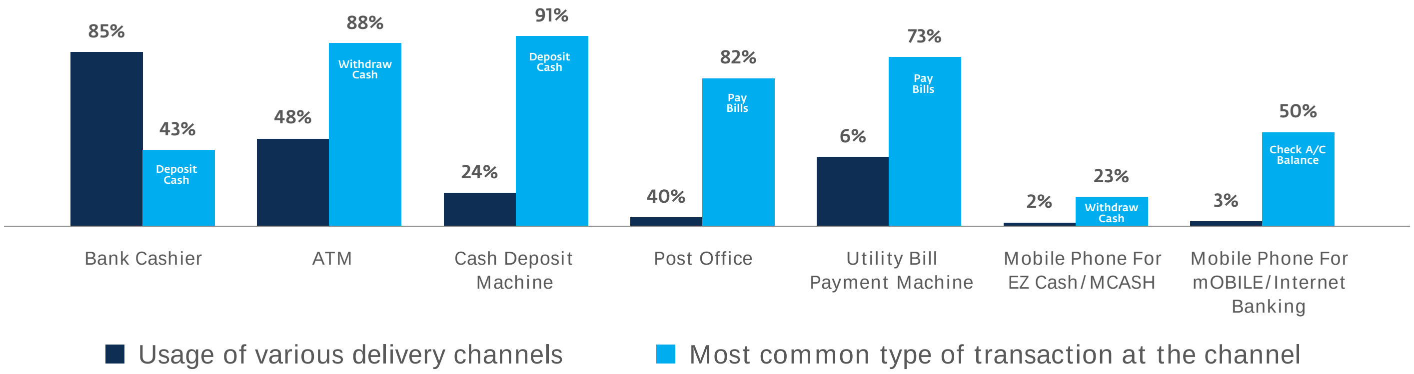
Improvement in LBs Density by Province (2008-2018)

(Number of bank branches per 100,000 population)



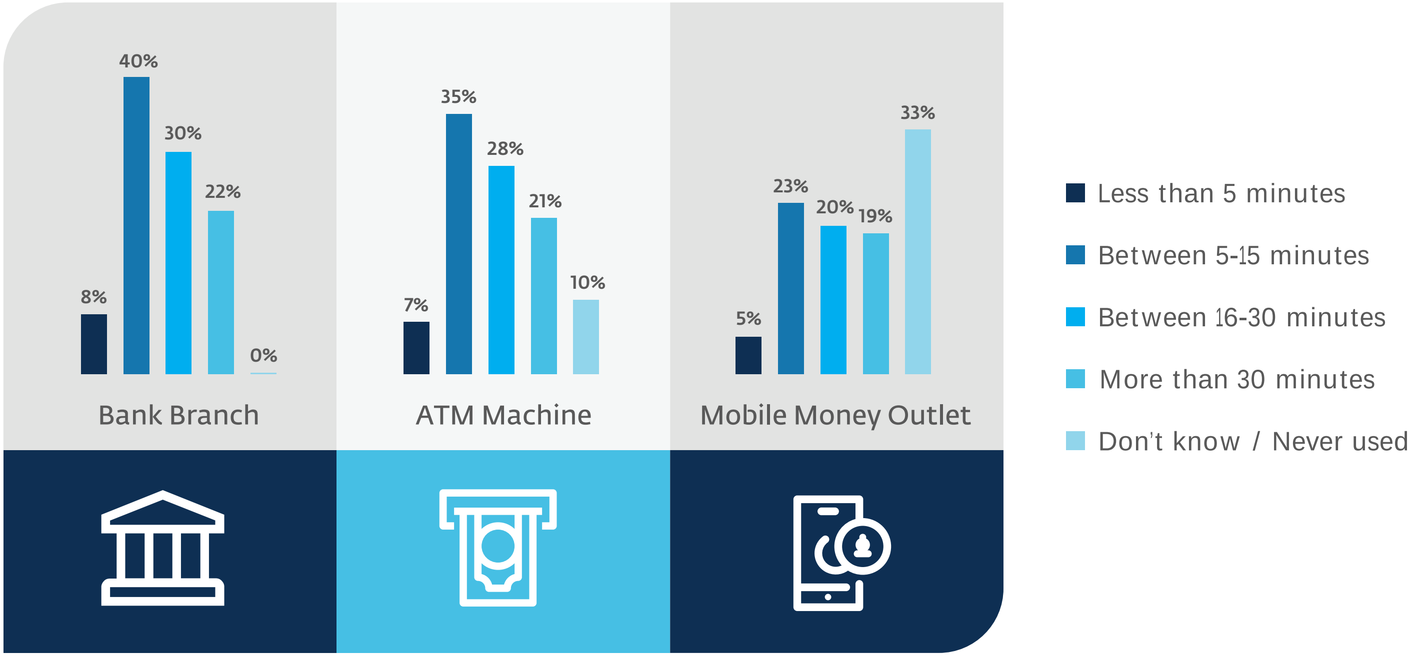
Usage of Traditional face to face transactions with Bank Cashiers remain the most common delivery channel by Sri Lankans. Depositing cash is reported as the most common type of transaction. However, use of technology-enabled channels such as ATMs and Cash Deposit Machines (CDMs) seems to have gained popularity.

Delivery Channels of Financial Services



Proximity to Outlets

Reconfirming the above, bank branches are the closest available outlet for most consumers. Alternatively, this could simply be the most well-known to the respondents.

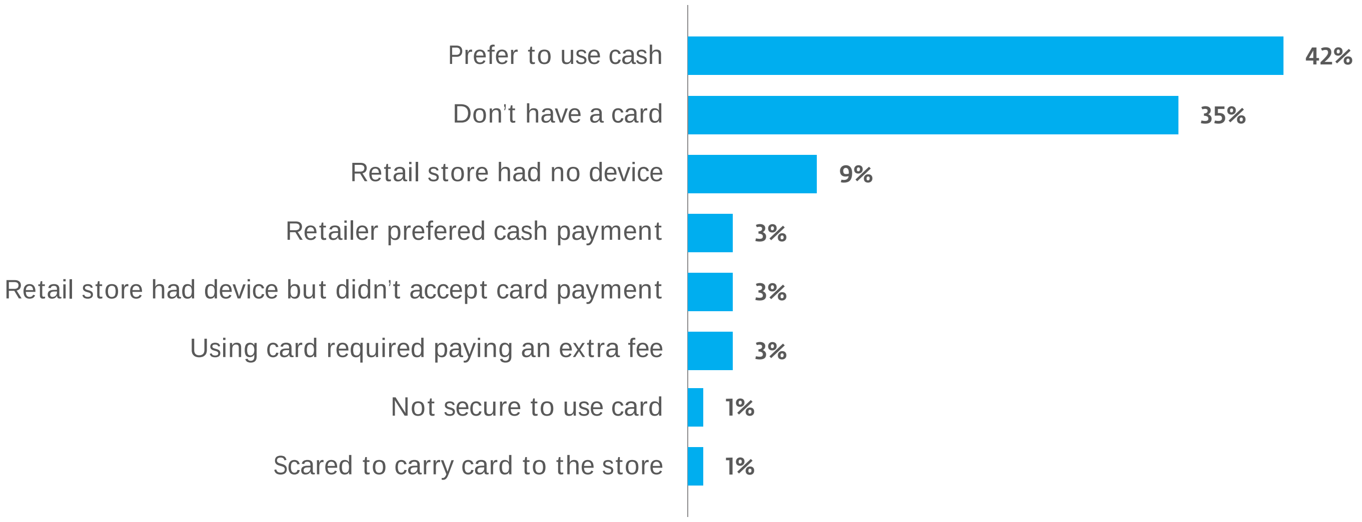


4.4 | Digital Finance

Proactive policy measures for digital finance have been deployed. This includes the establishment of an enabling legal and regulatory framework for e-money and digital payments while opening up the market to non-banks such as mobile network operators (MNOs) and encouraging interoperability within the system.

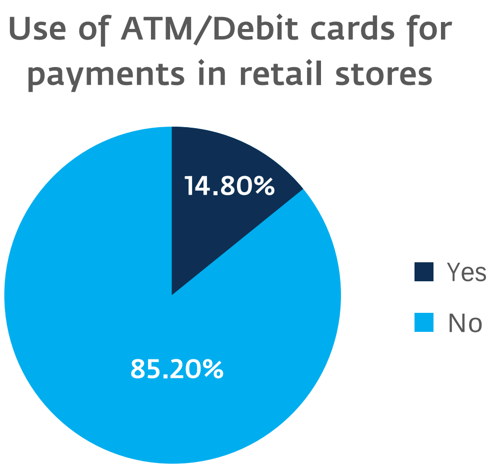
Despite the good foundation is in place, the survey findings indicate that there is significant opportunity to increase electronic retail payments. Ownership and usage of payment cards remains low and cash remains the most preferred mode for transactions.

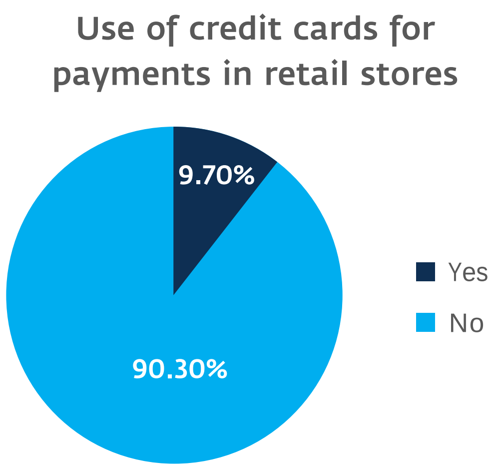
Reasons for not Using a Card to Make Retail payments



Even though the ownership of payment cards is increasing, their use remains low, reflecting the same trend as ownership and usage of bank accounts.

Ownership and Usage of Payment Cards

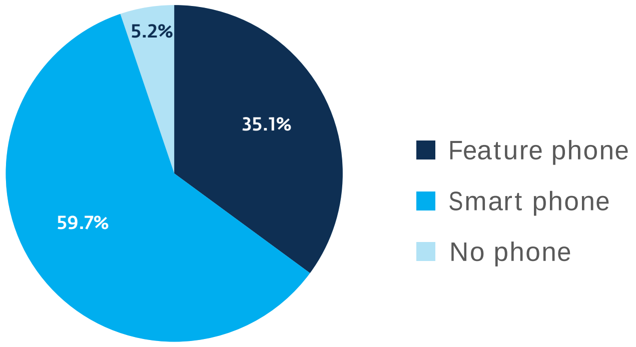




Although over 51 percent of respondents owned debit cards, only 14.8 percent used them for payments in retail shops. The usage of credit cards is even lower at 9.7 percent. From a gender perspective, 35 percent of women used debit cards, compared with 41 percent of men. Similarly, women were less familiar than men with using either debit or credit cards at retail stores.

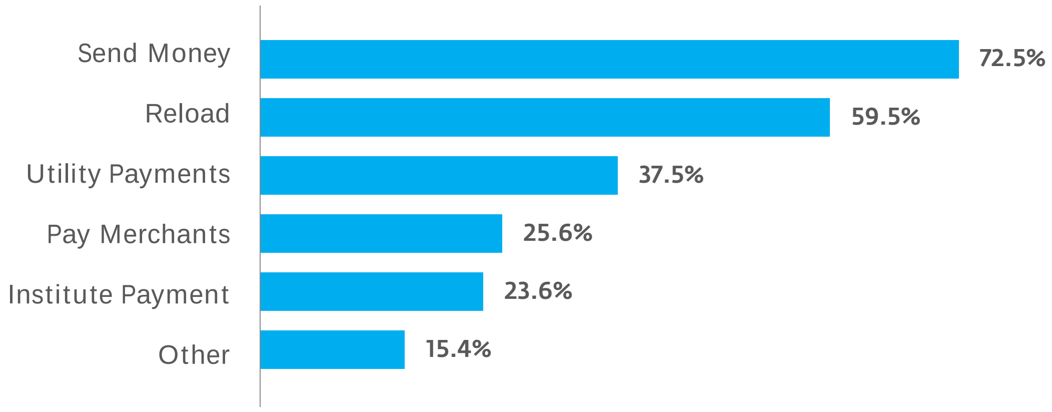
4.5 | Mobile and Internet Payments

In terms of mobile penetration, the survey notes that 82 percent of the respondents owned a mobile phone. Here again a gender gap is noted where 86 percent of men compared with 79 percent of women owned a mobile phone. Feature phones remain the popular choice (61 percent) compared with smartphones. The digital gender gap is further evident here with just 1.2 percent of women using mobile money compared with 4.9 percent of men.



Even though over 80 percent of Sri Lankans have mobile phones and mobile money services are available to 90 percent of mobile phone subscribers, only 2 percent of adults in Sri Lanka actually own a mobile money account, which is considerably lower than the regional average 4 percent in South Asia (2017 Global Findex).

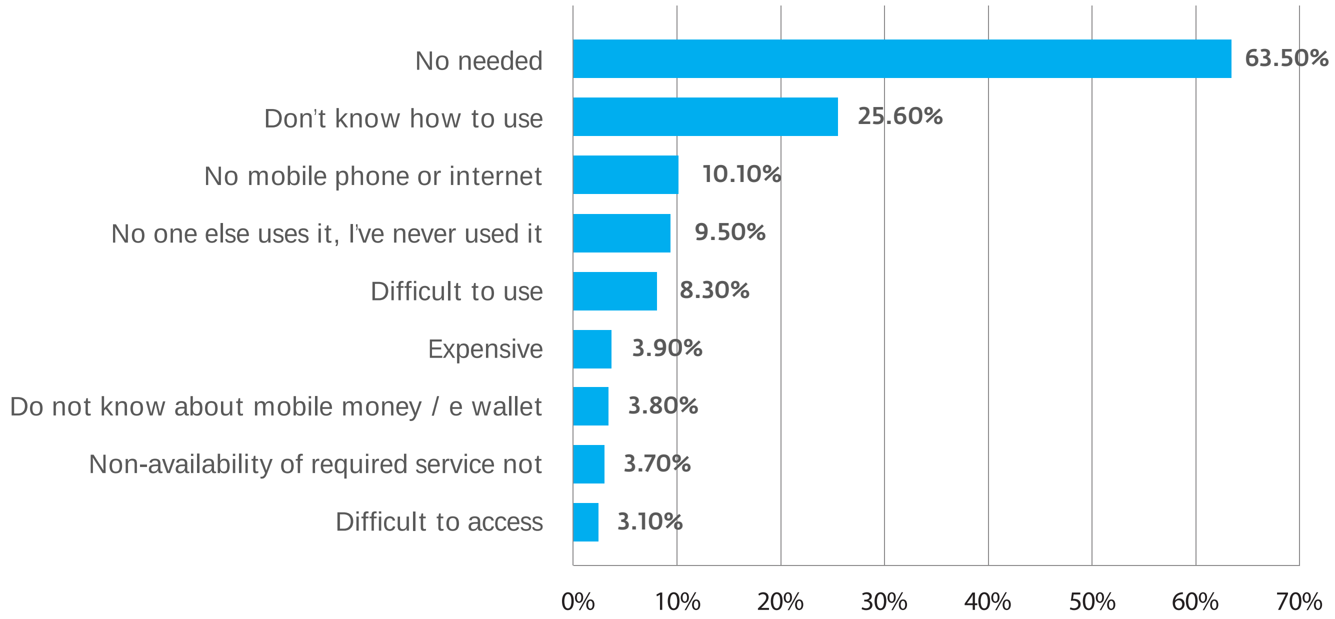
Usage of Mobile Money Accounts



The majority of mobile money account holders use their account to send money or reload their phone, while less than 30 percent use their accounts to make merchant payments.

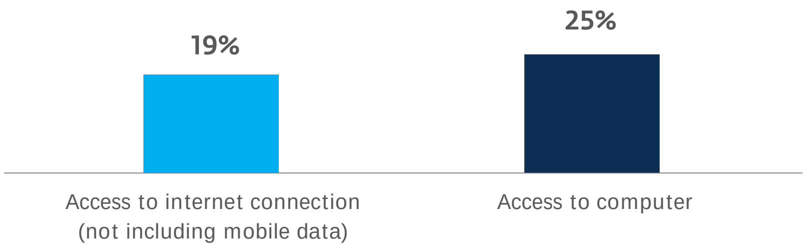
In addition to low overall ownership of mobile money accounts, there is also low regular usage of mobile money accounts among those who do subscribe to mobile money accounts. The most common reasons for not using them include not seeing the need and not knowing how to use it.

Reasons for not using a mobile money wallet



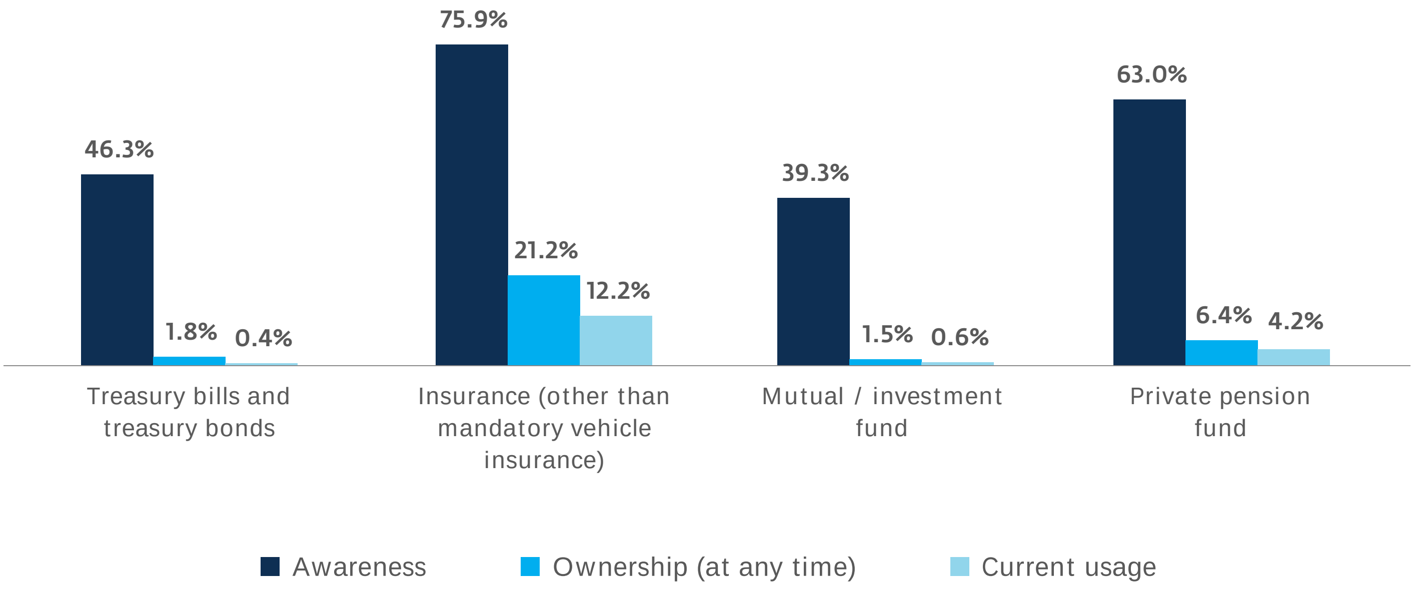
While most Sri Lankans have access to a mobile phone (80 percent), access to a (non-mobile) internet connection (19 percent) and access to a computer (25 percent) both remain low.

Percentage of adults with internet connectivity



4.6 | Investment and Insurance

Awareness of basic investment products available is low compared with the awareness of other financial products and services.



However, around 21 percent of Sri Lankan adults reported having insurance, out of which 86 percent have life insurance. While men are slightly more likely to have insurance than women (23 percent vs 20 percent), 88 percent of women have life insurance and 22 percent have health insurance. In comparison, 83 percent of men have life insurance and 18 percent have health insurance.

4.7 | Financial Consumer Protection

Around 70 percent of Sri Lankans are aware that CBSL or another regulatory body monitors financial institutions such as Licensed Banks and Licensed Finance Companies or Licensed Insurance companies.

Similarly, around 65.2 percent are aware of the risks of dealing with informal financial institutions not controlled by CBSL. However, it is not reflected by the behaviour of people, where the majority, particularly women, relied on informal sources.

Further, the findings revealed that the level of understanding of interest rates among respondents is quite low. Around 56 percent have not compared the interest rates across other alternative providers when they borrow and more than 67 percent of them believe it is not necessary.

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