9TH EDITION
FEBRUARY 2021

FINANCIAL EXPLORER

GREEN FINANCE
WHAT'S GREEN IN FINANCE?

THE VOLATILE MOLOTOV COCKTAIL

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IMPACT OF NATURAL DISASTERS ON FINANCIAL MARKETS

DOES MICROFINANCE TRULY HELP THE POOR?

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A MAGAZINE BY THE STUDENTS' ASSOCIATION OF FINANCE, USJ

Department of Finance

University of Sri Jayewardenepura

In year 2001, under the faculty restructuring program, the Department of Finance was established with the intention of offering B.Sc. Finance (Special) Degree in order to produce graduates with a sound knowledge in the areas of finance, banking and insurance. With the guidance and the supervision of our qualified internal academic staff and finance practitioners who serve as visiting lecturers, the Department of Finance is committed to shape up professionals who are capable of meeting challenges created by rapidly growing financial and capital markets locally as well as globally.

For the purpose of promoting and facilitating personality development and improving the harmony among undergraduates, the Students' Association of Finance (SAF) was established which initiates and launches extracurricular activities on behalf of the Department of Finance. The annual activity plan of SAF includes several aesthetic, sports and community service projects that are aimed at enhancing the interaction among students, building unity and companionship.

The talent show "Nada", is the main event organized by the SAF which creates a great platform for all undergraduates of University of Sri Jayewardenepura to showcase their aesthetic skills in singing, dancing, compering and drama. "Snehadhara", the community service project is focused on supporting students of a rural area who are financially constrained to accomplish their objectives. As a part of this project, the third year undergraduates conduct a financial literacy survey to assess the level of awareness in the respective areas of financial institutes, financial instruments and financial markets in the area. Snehadara'19 was successfully completed in Handagiriya, Balangoda as one of the most fruitful events in the calendar year. "Financial Explorer", the official magazine of the department is expected to replenish the readers' thirst for financial knowledge, updating the current trends and issues in Finance.

The investment day of the Department of Finance focus on developing awareness among young undergraduates to top up their theoretical knowledge with practical applications in the industry by maintaining strong links with some key institutions of the financial market of Sri Lanka. This year, despite of the pandemic, the Investment day of University of Sri Jayewardenepura was held virtually, even enabling external participants to join hands with Department of Finance to uplift their market knowledge.

Other than the main events in the calendar of the Department of Finance, the SAF organizes a Mini welcome for the most junior badge, an annual Tea party for our committed and dedicated lecture panel, a “Sambudda Wandana" program and a Annual Welcome & Going down in a typical calendar year. The Department of Finance and our lecturer panel guides the SAF to fulfil its endeavors every year enabling successful completion of the annual activity plan.

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THE EDITORIAL NOTE

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PLEASE ADDRESS ALL CORRESPONDENCE TO:

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It's been 3 years since the end of 2017, the last time we met you with the Financial Explorer Magazine. What happened over past 3 years were life changing and it also changed the way the financial system operated not only in Sri Lanka but also around the Globe.

The Easter Sunday Attack in April 2019 affected mainly to the tourism industry in Sri Lanka and with the Government change at the end of 2019, changes were gradually bought to the banking sector and financial institutions, making them change their policies in favour to the victimized parties. Without giving enough time for Sri Lankan Economy to rise from the dark period in 2019, 2020 came out with a more tremendous disaster, Covid'19, changing all our lives around the world and forcing the global financial system to reshape their operations in an unprecedented way.
On top of all, from December 2016 to December 2020, 33 countries around the world have declared Climate Emergencies alerting the world about a Global Climate Emergency. With these concerns, Green Finance related regulations have emerged from Developed Countries encouraging other countries to change their policies.

I, Muditha Rajapaksha as the president of the Students' Association of Finance for the year 2020, had the privilege to launch the 9th edition of the Financial Explorer Magazine, along with my editorial team, on the global trendsetting direction of Finance replenished with the aforementioned incidents. This time, the Financial Explorer is presented to you as an e-magazine adapting to the new normal, enabling us to reach every nook and corner of the country despite the pandemic.

My gratitude goes to our university, the resource personnel, our beloved lecturers, my team coordinated by Sadeepani Hewawitharana and to all the other parties for their immense support.
Finally the readers, you are welcome to explore the world of finance.

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THE 'VOLATILE' MOLOTOV COCKTAIL

Analysing the need of using non-traditional forms of risk assessment and uncertainty factoring in the volatile 21st century.

Article by Hirza Careem and Chamini Apeksha

The uncertainty prevailing in the 21st century has made the environment more volatile than ever before. Beyond the profound health and economic uncertainty of the current moment due to the COVID 19 pandemic, catastrophic events are expected to occur more frequently in the future. The digital revolution, climate change, stakeholder expectations and geopolitical risks would play major roles in making the environment more volatile. Digital revolution has changed the availability of data, degree of connectivity and speed at which decisions are made. These changes come with security breaches as well as reputational damage fuelled by social media. The changing climate and natural disasters have caused companies to give more concern to their immediate bottom lines and pressures from government, investors and society at large. Stakeholder expectations are changing where companies are expected to act lawfully with a sense of social responsibility. The world is more interconnected than ever before causing an uncertain geopolitical future. But these ties are under threat since companies will not be able to function smoothly if connections were abruptly cut. Due to the volatility of the environment, companies require dynamic and flexible risk management approaches to navigate an unpredictable future. In the future, companies will require hyperdynamic identification and prioritization of risks to keep pace with the changing environment. They will need to anticipate, assess, and observe threats based on disparate internal and external data points.

The facts about the digital era remain astonishing where computing power has doubled annually since 1970s, and the cost have fallen about the same rate. With every human activity now digitally recorded, more data have been generated in the past two years than in all previous recorded history. Data, analytics and the digital tools to harness them are transforming all aspects of life, including businesses and industries. The consumers and businesses are accustomed to personalization through social media and to rapid fulfilment through e-commerce. The new business models have aroused emerging and evolving types of risks. For instance, digital channels present new kinds of risk (including the greater exposure of digital assets). The rise of analytics requires risk managers to pay close attention to model risk, and the greater level of interconnectedness among businesses requires vigilance on contagion risk. Most business are looking into the digitalization of risks in the digital era where risk would capture and manage information from a broader and richer set of data. The digital transformation would automate processes it controls and it would use advanced analytics to further improve the accuracy and consistency of its models.

The volatile environment and the digital era have aroused new types of risks which companies should be aware of. Risks such as cybersecurity and privacy and identity incidents, litigation developments, changes in the market and other key risks, possible contingent liabilities that are not susceptible to reasonable estimation, and significant unusual transactions or events are considered from a disclosure perspective. In the financial reporting process, management often exercises significant judgment regarding various subjective estimates and valuations that are sensitive to changes in external as well as internal risk factors. Regardless of their designated role in the board's overall risk oversight process, audit committee members should be cognizant of emerging business risks and changes in critical enterprise risks. Clearly, the environment is changing, and digital technology-related opportunities and challenges are driving many of the key risks and companies should be able to assess and manage such risks.

Risk assessment is the first and foremost requirement in risk management and it is the basis for all the other pillars of risk management. The common practice in risk assessment is the development of risk maps, heat maps, and risk rankings based on subjective assessment of severity of impact of potential future events and their likelihood of occurrence, which is the traditional method of assessing risk. Traditional risk management is managed by various responsible departments separately, which focuses on pure risk and refers to individual risks as if they don't interact. Reasons have been identified as to why companies should move beyond the traditional risk assessment process. The risk assessment process can allow individual biases to affect the assessment, foster "group think" and pre-empt outside-the-box thinking. Also scales derived from qualitative descriptions of severity and likelihood are understood and used differently by different people. The subjective assessments are often influenced by experience. This is a dangerous shortcoming since the past is not always a reliable indicator of what to expect in the future due to the volatile nature of the environment. This process offers little insight as to what to do about exposures to extreme events. The process sometimes leads to a conclusion to deemphasize the so-called "high-impact, low-likelihood" risks because of the low probabilities involved and a false sense of security arising from the lack of historical precedence. Therefore, traditional approaches lose their value over time and become more of a backward-looking audit tool than a forward-looking exercise as the company's risk management evolves. Accordingly, more focused assessment mechanisms may be necessary to provide insight that management needs.

With the evolution of risk, companies have moved towards an Enterprise Risk Management (ERM) process, which is a concept that revolutionize the traditional approach and summarizes risk management as an integrated, comprehensive and strategic system. "ERM is not a separate activity with its own objectives, but an integral part of the organization's strategy setting and performance processes." – COSO. The 2013 COSO framework introduces eight components and the 4th component is "risk assessment". Under risk assessment, identified risks are analysed in order to form a basis for determining how they should be managed. Risks are assessed on both inherent and residual basis, with the assessment considering both risk

Figure: The standardize of risk management practices at the international level

likelihood and impact. Management must decide whether the residual risk is within the entity's risk appetite. Risk assessment needs to be done continuously and throughout an entity. Adopting a strategy-centric position toward ERM, as opposed to overly focusing on risk prevention, empowers leaders to take the right risks and realize significant strategic advantages, while strengthening organizational resiliency and agility during times of crisis. The key to building mature risk management plans requires embedding risk into business strategy, breaking through risk management silos, and empowering employees to manage risk with effective tools and resources.

Dynamic and integrated risk management on the other hand, includes the ability to detect risks, determine appetite, and decide on action in real time, is growing ever more critical.

Figure: the actions to establish a dynamic risk management system?

The complexity, volatility and unpredictability of the current economic environment is daily reminder that organizations face many potential risks and it brings the need of non-traditional approaches for risk assessment and some are discussed below.

Stress-testing helps companies to assess the major and immediate effects of changes in one or two specific variables, although the exact timing is not forecastable. Firms use stress tests to assess the risks of unusual events which can occur infrequently. These tail risk incidents are low probability and high loss events and identifying these extreme scenarios can reduce the chances of an entity failing. For example, events such as a finance market crash or a recession, bubble bursts, tripling of oil prices or a large swing in exchange or interest rates. Current dynamic environment has led to lots of such events to be taken place. The most popular methods of stress testing are stylized scenarios, hypothetical scenarios and historical scenarios. Stress testing helps in building a robust and flexible organization which can subsist in extreme conditions. The benefits from stress-testing critically depends on the assumptions made. The tail-risk stress tests of many banks in 2007–2008, for example, while majority of the banks assumed a worst-case scenario as U.S. housing prices remained flat for several periods, very few companies thought to test what would happen if prices began to decline. Those banks are in a competitive position with compared to the other banks.

A **Reverse Stress Test (RST**) starts from the opposite end of stress testing, which is the identification of a pre-defined outcome and later, recognizing the possible events for them to occur. It is more useful for an organization to stand as a strong resilient organization in the current dynamic environment, because it directly recognizes the worse effects. RST can overcome the limitations of an entity's risk model, which can break down in periods of crisis. entity's risk model, which can break down in periods of crisis. With the COVID-19 pandemic, the probability and severity of day-to-day risks such as loss of key management personal, loss of a key customer or cyber security threats are likely to be higher, with staff unable to attend the workplace, the risk of several customers ceasing to trade, and the incidence of cyber-attacks increasing. RST can reveal hidden vulnerabilities and scenarios that are not identified by stress testing and it reduces the possibility of a false sense of security arising from regular stress testing, where entities identify manageable impacts. It can be used to provide early-warning signals of the occurrence of the scenario.

Scenario planning is suited for long-term analysis, typically five to 10 years out. This is a systematic process for defining the plausible boundaries of future states of the world. Companies' examine political, economic, technological, social, regulatory, and environmental forces with selected number of drivers that would have the biggest impact on the company. From the total scenarios, plausible scenarios will be discarded and firms then assess how their strategy would perform in the remaining scenarios. If managers see that their strategy is contingent on a generally optimistic view, they can modify it to accommodate pessimistic scenarios or develop plans for how they would change their strategy should early indicators show an increasing likelihood of events turning against it. This helps companies to adjust their strategies if they are not suitable. On the contrary, **Sensitivity analysis** is used to understand the effect of changes in one independent variable on a selected dependent variable. It assists the companies to recognize the risk magnitude as a result of change in one variable such as interest rates, product price or etc.

War-gaming assesses a firm's vulnerability to disruptive technologies or changes in competitors' strategies. In addition, anything that can happen in the real world, including mergers, acquisitions and natural disasters can be recognized. In a war-game, the company assigns teams with the task of devising plausible near-term strategies or actions that existing or potential competitors might adopt in the near future and examining how proficient competitors could attack those strategies.

Companies have no influence over the likelihood of risk events identified through above methods, but managers can take required actions to mitigate their impact. Companies can use insurance or hedging to mitigate some risks, as an airline does when it protects itself against sharp increases in fuel prices by using financial derivatives. Another option is for firms to make investments now to avoid much higher costs later. For instance, a manufacturer with facilities in earthquake-prone areas can increase its construction costs to protect critical facilities against severe quakes. Also, companies exposed to different but comparable risks can cooperate to mitigate them. airline does when it protects itself against sharp increases in fuel prices by using financial derivatives. Another option is for firms to make investments now to avoid much higher costs later. For instance, a manufacturer with facilities in earthquake-prone areas can increase its construction costs to protect critical facilities against severe quakes. Also, companies exposed to different but comparable risks can cooperate to mitigate them.

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ETHICAL CONCERNS RELATED TO FINANCE INDUSTRY

Article by,
Sachini Fernando

The global financial crisis of 2008 has upscaled the urgency to rethink how financial firms ought to manage risk and do so not only for the sake of generating good results for themselves and their clients, but also for the sake of keeping the entire financial and economic system from collapsing.

Ethics is a set of moral principles that a particular person possesses. It is there to do decide what is right and what is wrong. We can also call it rules of conduct which people usually do not want to break. General ethical norms encompass truthfulness, honesty, integrity, respect for others, fairness and justice. They relate to all aspects of the life including business and finance. Ethics are there to help us and provide guidance for our behavior that affects others.

Financial ethics is therefore a subset of general ethics.

The **financial-economic theory** that underlies the modern capitalist system is based on the rational-maximizer paradigm, which holds that individuals are self-seeking and that they behave rationally when they seek to maximize their own interests. The principal-agent model of relationships refers to an arrangement whereby one party, acting as an agent for another, carries out certain functions on behalf of the other. Such arrangements are an integral part of modern economic and financial system, and it is difficult for us to imagine it functioning without ethics.

The behavioral assumption of the modern financial-economic theory runs counter to the ideas of trustworthiness, loyalty, fidelity, stewardship, and concern for others that underlie the traditional principal-agent relationship. The traditional concept of agency is based on moral values. However, if human beings are rational maximizers, then agency on behalf of others in the traditional sense is impossible. The ethical dilemma presented by the problem of conflicting interests has been addressed in some areas of finance, such as corporate governance, by converting the agency relationship into a purely contractual relationship that uses a carrot-and-stick approach to ensure ethical behavior by agents. In corporate governance, the problem of conflict between management (agent) and stockholders (principal) is described as an agency problem. Economists have developed an agency theory to deal with this problem. The agency theory assumes that both the agent and the principal are self-interested and aim to maximize their gain. The agency theory turns the traditional concept of agency relationship into a structured (contractual) relationship in which the principal can influence the actions of agents through incentives, motivations, and punishment schemes. The principal essentially uses monetary rewards, punishments, and the agency laws to command loyalty from the agent.

Most of our needs for financial services—management of retirement savings, stock and bond investing, and protection against unforeseen events, to name a few—are such that they are better entrusted to others because we have neither the ability nor the time to carry them out effectively.

In financial markets the fundamental ethical requirement of financial markets is that they be fair. Fairness may be defined either substantively (when the price of a security reflects the actual value) or procedurally (when buyers are enabled to determine the actual value of a security). The rationale for mandatory disclosure is that securities transactions are more likely to be fair when material information must be disclosed, and investors have easy access to information.

Fraud, manipulation, and other unfair trading practices lead not only to unfair treatment in securities transactions but to a loss of investor confidence in the integrity of financial markets. Speculative activity also produces excess volatility. Securities Exchange Act prohibit anyone involved in the issue or exchange of securities to make a false statement of a material fact, to omit a fact that makes a statement of material facts misleading, or to engage in any practice or scheme that would serve to defraud. Fraud is obviously committed by an initial stock offering that inflates the assets of a firm or fails to disclose some of its liabilities.

Fairness in financial markets is often affected by inequalities in information, bargaining power, resources, processing ability, and special vulnerabilities. Unequal information, or information asymmetry, may refer either to the fact that the parties to a transaction do not possess the same information or that they do not have the same access to information. The possession of different information is a pervasive feature of markets that is not always ethically objectionable. Indeed, investors who invest resources in acquiring superior information are entitled to exploit these advantages, and they perform a service by making markets more efficient. The unequal possession of information is unfair only when the information has not been legitimately acquired or when its use violates some right or obligation.

On the other side financial managers have the task of actively deploying assets rather than investing them. Unlike a portfolio manager who merely buys stocks of corporations for a client, a corporate financial manager is involved in the running of a corporation. Investment decisions in a corporation are concerned not with which securities to hold but with what business opportunities to pursue. The ethical issues in financial management are mainly,

- Financial managers, as agents and fiduciaries, have an obligation to manage assets prudently and specially to avoid the use of assets for personal benefit. Thus, managers, who have preferential access to information, should not engage in self-dealing.

- Financial managers are called upon to make decisions that impact many different groups, and they have an obligation in their decision making to balance some competing interests. For example, should the decision to close a plant be made solely with the shareholders' interests in mind or should the interests of the employees and the local community be considered?

Financial industry is a massive place. So that every part of that should contribute for its development and ethical environment.

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DOWNGRADING OF SRI LANKAN FITCH RATINGS

BY.

Yanushi Gunasekara

Fitch Ratings is an international credit rating agency based out of New York City and London. This rating systems guides investors to identify the investments which will not default and subsequently yield a solid return. They publish opinions on a variety of scales and the most common of these are credit ratings, but they also publishes ratings, scores and other relative opinions relating to financial or operational strength. Fitch bases the ratings on factors, such as what kind of debt a company holds and how sensitive it is to systemic changes like interest rates. According to Fitch Ratings official website, they have always been trying to challenge conventional thinking and make a change in the word, starting in 1923 they invented the famously known ‘AAA’ to ‘D’ ratings scale. From the beginning they committed to provide a value beyond the classical rating system and value added through independent and prospective credit opinions and research. Also they have a branch in Sri Lanka and it is located in World Trade Centre Colombo 01 with local analysts.Fitch's credit ratings do not directly address any risk other than credit risk. These ratings do not deal with the risk of a market value loss on a rated security due to changes in interest rates, liquidity and other market considerations. However, in terms of payment obligation on the rated liability, market risk may be considered to the extent that it influences the ability of an issuer to pay upon a commitment. Ratings nonetheless do not reflect market risk to the extent that they influence the size or other conditionality of the obligation to pay upon a commitment.

Fitch Ratings and Sovereign Nations

Sovereign credit nations describes each nation's ability to meet their debt obligations. This provides investors about an insight into the level of risk associated with investing in a particular country. Fitch Ratings and many more other credit rating agencies will be invited by countries to evaluate their economic, political environments and financial situations to determine a representative rating. It's very important to have the best sovereign credit rating possible, especially for the developing nations, as it helps in obtaining funds in international bond markets. Because of this Sri Lanka's economic performance has also been presented by many rating agencies. Such as Fitch Ratings, Standard & Poor's and Moody's

Covid-19 and Fitch Ratings of Sri Lanka

During the newest update Fitch Ratings has downgraded Sri Lanka's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDR) to 'B-', from 'B' with the Covid-19 pandemic. The Outlook is Negative. Along with that, Issuer Default Ratings of Bank of Ceylon (B-/Negative), National Savings Bank (B-/Negative) and DFCC Bank PLC (B-/Negative) also been downgraded in May 2020.

The impact of downgrading of Sri Lanka's Fitch Ratings

Current public and external debt sustainability will be worsened by the Covid 19 pandemic because the fiscal policy changes cannot be implemented due to the fall of the tourism industry which connected with weaker domestic demand, will further damage Sri Lanka's public and external finance metrics.

Sri Lanka's external financing challenges have increased in the current environment of global risk aversion and financial market volatility, with large upcoming external debt redemptions and limited foreign-currency reserves as inflow of foreign currency have been halted due to the pandemic. Sri Lanka's foreign-currency reserves are about USD7.2 billion, while the sovereign's external debt payments from May to December 2020 amount to USD3.2 billion, including a USD1.0 billion international sovereign bond payment due in October. According to their reports Fitch Ratings has estimated Sri Lanka's external liquidity ratio, defined as liquid external assets/external liabilities, at about 64%, among the weakest in the 'B' rating category.

The government is seeking to meet external funding needs in 2020 through multilateral and bilateral support, but securing these funds could be challenging due to the pandemic and its effect on global liquidity and financing conditions. The projections assume the sovereign will not have access to international bond markets in 2020. As the government is in discussion with various parties, including regional central banks on the use of possible bilateral swap lines and the IMF on its Rapid Financing Instrument for Covid-19-related funding. However, even after such support, the country's foreign currency debt service obligations and financing challenges will remain substantial over the medium term.

Fitch Ratings further says that the budget deficit to widen to 9.3% of GDP in 2020, from an estimated 6.8% in 2019. This is greater than forecast of 7.5%, as there will be significantly lower revenue due to the impact of the pandemic on economic activity and the spillover of tax cuts and other fiscal changes late last year. The authorities may need to increase spending over time to support the economy, although they have yet to formalize any large scale measures beyond 0.2% of GDP for relief to vulnerable groups.

General government debt is high and the pandemic has increased risks to public debt sustainability. The main forecast is for gross general government debt/GDP to rise to about 94% in 2020 and 96% in 2021, from an estimated 87% in 2019, and to continue rising, increasing the risk of debt distress. This will see gross general government debt stay far greater than the 'B' median of 52%.

According to Fitch Ratings report, downgrading of Sri Lanka's ratings to 'B-' also reflects the following key rating drivers;

- Postponement of Parliamentary elections set for April 2020 has prolonged policy uncertainty. This, in turn, has made it difficult to complete the seventh and final review under the IMF Extended Fund Facility arrangement. Discussions over a new arrangement may be possible only after the parliamentary elections and once next year's budget is approved.
- A decline in tourism, lower remittances, and weaker exports are likely to widen the current account deficit to 3.3% of GDP this year - despite some relief from lower oil prices - from 2.2% in 2019, before narrowing to 2.3% in 2021, in line with our expectations for a gradual recovery in the global economy.
- Large interest payments as a share of revenue of around 65%, according to Fitch Ratings estimates for 2020, a low fiscal revenue ratio and high public debt/revenue ratio continue to highlight the weak structure of Sri Lanka's public finances. The government debt/revenue ratio was about 690% in 2019, significantly higher than the 'B' median of 258%. Foreign currency debt continues to be about half of total government debt, leaving Sri Lanka's public finances vulnerable to renewed currency depreciation.
- Sri Lanka's basic human development indicators, including education standards, are high compared with the 'B' and 'BB' medians, based on the UN Human Development Index Score, which positions Sri Lanka in the 60th percentile, well above the 37th percentile for the 'B' median. The country's per capita income of USD3,939 at end-2019 is also modestly above the 'B' median of USD3,335.
- Fitch Ratings banking sector outlook was revised to negative in March, reflecting a more challenging operating environment due to the pandemic, which has pressured banks' asset quality and profitability. Demand for credit is likely to remain muted in 2020 due to the weaker growth outlook.
- ESG - Governance: Sri Lanka has an ESG Relevance Score of '5' for Political Stability and Rights as well as for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption, as is the case for all sovereigns. These scores reflect the high weight that the World Bank Governance Indicators have in our proprietary Sovereign Rating Model. Sri Lanka has a medium World Bank Governance Indicator ranking in the 46th percentile, reflecting a recent record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity, established rule of law and a moderate level of corruption.

To get the positive Fitch Ratings,

Fitch Ratings also state few factors that could, individually or collectively, lead to positive rating action/upgrade that can be used by Sri Lanka.

- Improvement in external finances, supported by higher non-debt inflows or a reduction in external sovereign refinancing risks from an improved liability profile.
- Improved policy coherence and credibility, leading to more sustainable public and external finances and a reduction in the risk of debt distress.
- Stronger public finances, underpinned by a credible medium-term fiscal consolidation strategy.

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FINTECH

NEXT BIG THING IN FINANCE

Financial technology has become a leading topic in financial industry. According to Wikipedia, financial technology is "any innovative ideas that improve financial service processes by proposing technology solutions according to different business situations, while the ideas could also lead to new business models or even new businesses." The use of Smartphone services and cryptocurrency are examples of technologies aiming to make financial services more accessible to the public.

Here, we are going to discuss about several uses in financial technology that includes artificial intelligence (AI), cryptocurrency, blockchain and Robo-advisors.

ARTIFICIAL INTELLIGENCE

Artificial intelligence is intelligence demonstrated by machines, unlike the natural intelligence displayed by humans and animals. Leading AI textbooks define the field as the study of "intelligent agents": any device that perceives its environment and takes actions that maximize its chance of successfully achieving its goals. One of the most significant business cases for AI in finance is its ability to prevent fraud and cyberattacks. Consumers look for banks and other financial services that provide secure accounts, especially with online payment fraud losses expected to jump to $48 billion per year by 2023, according to Insider Intelligence. AI could analyze and single-out irregularities in patterns that would otherwise go unnoticed by humans.

Consumers are hungry for financial independence and providing the ability to manage one's financial health is the driving force behind adoption of AI in personal finance. Whether offering 24/7 financial guidance via built-in chatbots or personalizing insights for wealth management solutions, AI is a necessity for any financial institution looking to be a top player in the industry.
The benefits of implementing AI in finance for task automation, fraud detection, and delivering personalized recommendations are monumental. Front- and middle-office AI applications can transform the finance industry by:

- Enabling frictionless, 24/7 customer interactions
- Reducing the need for repetitive work
- Lowering false positives and human error
- Saving money

Automating middle-office tasks with AI has the potential to save North American banks $70 billion by 2025. Further, the aggregate potential cost savings for banks from AI applications is estimated at $447 billion by 2023, with the front and middle office accounting for $416 billion of that total.

CRYPTOCURRENCY

Cryptocurrency is a digital asset designed to work as a medium of exchange wherein individual coin ownership records are stored in a ledger existing in a form of computerized database using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership. It typically does not exist in physical form (like paper money) and is typically not issued by a central authority. Cryptocurrencies typically use decentralized control as opposed to centralized digital currency and central banking systems. Some examples for cryptocurrency are Bitcoin, Ethereum, Ripple, Dash, Litecoin, Dogecoin and zCash.

At the root of it all, any type of currency is valuable because it is accepted as a store of value. The more people accept this, the more valuable the money becomes. Additionally, more acceptance leads to more stability in the value of the money. Additionally, both fiat money and cryptocurrencies solve the issue of the double coincidence of wants. Furthermore, cryptocurrency runs on blockchain technology

BLOCKCHAIN

This new and ingenious technological concept increases the security of the currency and allows for verification of transactions in the currency.

The blockchain network is supported by voluntary "miners". Miners are computer systems that are offered for use in the specific networks that support each cryptocurrency. For example, the Bitcoin blockchain network is supported by thousands of individual computers that help "mine" the network

MINING

"Mining" is the act of verifying, encrypting, and securing transactions in each block. Each miner (computer system) has a ledger of all past and current transactions operating in the network. This means that every new transaction can be recorded and verified in the ledger. If someone tries to create any counterfeit coins or steal coins from another person's cryptocurrency wallet, this is checked against the millions of copies of the ledger. All legitimate copies of the ledger will return an invalid authentication on the fraudulent transaction, and as such, the counterfeit or stolen coins will not be recorded.

ROBO-ADVISORS

Robo-advisors are digital platforms that provide automated, algorithm-driven financial planning services with little to no human supervision. A typical robo-advisor collects information from clients about their financial situation and future goals through an online survey and then uses the data to offer advice and automatically invest client assets.

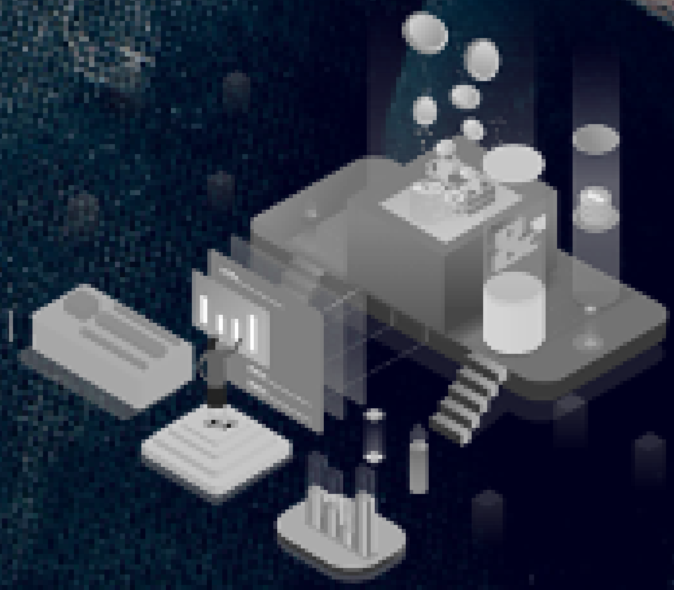
The primary way that most robo-advisors earn money is through a wrap fee based on assets under management (AUM). While traditional (human) financial advisors typically charge 1% or more per year of AUM, most robo-advisors charge around just 0.25% per year. They can charge lower fees because they use algorithms to automate trades and indexed strategies that utilize commission-free and low-cost ETFs. Because they charge lower fees, however, robo-advisors must attract a larger number of smaller accounts to generate the same revenues as a pricier advisor.

ROBO-ADVISORS CONT.

In addition to the management fee, robo-advisors can make money in several other ways. One way is the interest earned on cash balances ("cash management"), which is credited to the robo-advisor instead of the client. Since many robo-advised accounts only have a small allocation to cash in their portfolios, this can only become a significant source of income, again, if they have many users.

Another revenue stream comes from payment for order flow. Typically, robo-advisors will accumulate funds that have been added from deposits, interest, and dividends and then bundle these together into large block orders executed at just one or two points in a day. This allows them to execute less trades and get favorable terms due to the large order sizes. Many times, these blocks will be directed to liquidity providers such as high-frequency trading shops or hedge funds in return for rebates which are paid to the robo-advisor.
Finally, robo-advisors can earn money by marketing targeted financial products and services to its customers such as mortgages, credit cards, or insurance policies. These are often done through strategic partnerships rather than the use of advertising networks.

by: Ishini Eranga



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NADA'19

NO DéJà VU S
FACING REAL & TERRIFIC CHALLENGES FOR THE FIRST TIME

Article by,
Hansani Shanika

Where are SMEs headed?

Life is full of challenges and surprises. Though we have had plans for future, those plans would be questionable when we are to face unpredictable challenges of mother nature as well as some vicious surprises planned by extremists. Now, it is the Covid-19 outbreak that we fear the most. Somehow when it comes to businesses it really has been a bad mess since last year. Specially for Small and Medium Enterprises (SMEs), which do a considerable part when driving the economy of the country. Hereinafter, is a discussion of not only the impact of these tiresome challenges to various industries of SME sector but also the remedies taken to reduce the severity of the issues raised.

After the Easter Sunday Attacks, things were never the same!!

On 21st April 2019, another dark, brutal day was added to the Si Lankan history. At the day of the Easter Sunday celebrations, three churches in Sri Lanka and three luxury hotels in Colombo were attacked in a series of coordinated suicide bombings planned by some Islamic extremists. More than 250 people were killed while more than 500 were injured.

It is estimated that MSME sector contribute 52% to the GDP and accounts for about 45% of the total employment whilst making up more than 75% of total enterprises being the backbone of the country's economy. Most of the SMEs hit their worst after this tragic incident.

What happened to SMEs in Tourism Industry?

SME sector in tourism is responsible for thousands of jobs across the island and is a valuable foreign exchange. Tourism industry was affected badly more than other industries. Tourist arrivals drastically dropped by 71% in May 2019. Mainly tourism related SMEs like small hotels, travel agencies, restaurants, Ayurveda spas, tour-guiding, surfing, and diving, souvenirs and handicrafts were downsized by either discontinuing staff or sending them on compulsory leave. For instance, one safari provider mentioned that all 15 of its jeeps had stopped operating since the attack (Source: Association of SMEs in Tourism-ASMET). Chaffer guides who work most of the time as free lancers for travel agents generally do not have fixed contracts. Thus, it resulted in a loss of tips, fees, the daily 'batta' payment for them as well as high monthly lease payments for their vehicles was an immense burden. As a result, some of them had turned into other industries. To control situations like this, government provided solutions like below.

Government relief measures for Tourism related SMEs:

- Government announced a debt moratorium in May 2019 on loans taken by tourism related business registered under the SLTDA (Sri Lanka Tourism Development Authority). It was to be valid until the end of March 2020. But extended further for 6 months commencing from 1 October 2020.

- Licensed Commercial banks were permitted to use the funds in 'Jaya Isura' loan scheme under the government's 'Enterprise Sri Lanka' program and 'Saubhagya' loan scheme of the Central Bank of Sri Lanka (CBSL) to grant working capital loans to those who are engaged in tourism industry.

- Value Added Tax (VAT) rate for tourism related industries was reduced to 7% from 15% for the period of 1 June 2019 to 30 November 2019.

- In May 2019 as a relief package, an interest free loan up to LKR 0.5 Mn was available to informal tourism sector including small-scale hotels, inns, and related service providers.

- Moreover, Sri Lanka Tourism Promotion Bureau- SLTPB launched several promotional campaigns which included press trips and press conferences held in China and India to rebuild the brand image of Sri Lanka to present the country as a safe tourist destination.

One disaster after another!

Covid-19 pandemic put SMEs in a distress for the second time!
Tourism industry has just begun to show a slight recovery after Easter Sunday attacks when another devastating situation came across not only in Sri Lanka but also around the world. A new disease, Covid-19 which was first emerged in the city of Wuhan in China in December 2019 is fast spreading across the world causing more than 1mn deaths. After detection of the first case here in Mid-March 2020,

things began to get more difficult. Government took measures to keep things under control at the initial stage by enforcing police curfew in the country, shut down of airports and seaports to restrict human movement. Things got more difficult when Covid-19 cases were started to report in three-digit numbers. People have been stuck in their home for months. Contraction in economies is felt all around the world. Economic activities in Sri Lanka have been reduced significantly as well. Tourist arrivals have dropped by 70.8% in March 2020 compared to the previous year. After March still it is almost 100%.

WHAT HAPPENED TO SMEs THEN?

Two thirds of SMEs reported a decrease in demand for their products and services since Covid-19 and for almost three quarters reported decreased sales with companies in agriculture, manufacturing, and service sector. Staff redundancy issues emerged. Increased absenteeism and turnover due to increased care responsibilities. Moreover, SMEs need to continue paying recurrent costs and delayed debt payments, incurring losses in their businesses.

According to the manufactures in the apparel sector SMEs, customers mainly in USA and EU countries have postponed or cancelled some of the orders while some are delaying payments for their exports. Hence most of the time, the SMEs cannot meet their working capital requirements. On the other hand, some raw materials are imported from countries like China for the purpose of exporting apparels. That procedure has also disrupted. (Source: Small and Medium Garment Exporters Association- SMGEA) Thus, government has provided immediate financial support to severely affected SMEs in response to the corona virus disease.

Remedial measures:

- Introduction of the 'Saubhagya Covid-19 Renaissance Facility'- CBSL introduced an LKR 50 Bn refinance loan scheme in March 2020 to overcome working capital issues faced by small and micro businesses which are adversely affected by Covid-19 to revive their activities.

- International Finance Corporation (IFC) - a member of World Bank group, is providing $50 Mn loan under IFC Covid-19 fast track facility to Commercial Bank of Ceylon to help small and medium business in the country to deal with the adverse economic impacts of Covid-19.

- SMEs under manufacturing, services, construction, tourism, agriculture and Agri-processing businesses, trading and value addition businesses and domestic pharmaceutical suppliers with annual turnover below LKR 1 Bn are eligible to below concessions.

Concession	Period
Debt moratorium for interest and capital Existing tenure of loans eligible for debt moratorium will also be extended	Six months Extension commencing from 1 October 2020
Working Capital loan Higher of two months' working capital requirement of the business or LKR 25Mn per bank per borrower. LKR 10Mn per other financial institution per borrower	Two-year loan at 4% interest
Investment Purpose loan LKR 300Mn per bank per borrower to expand business activities- only granted by banks	Five-year loan at AWPLR (Average Weighted Prime Lending Rate) + 1.5% interest

- Asian Development Bank (ADB) approves USD 165 Mn loan to provide financial support for SMEs severely affected by Covi

-d-19. It will also be used to provide long term financing to underserved SMEs including businesses led by women and tea smallholders. They plan to provide working capital loans through 10 local banks.

• As per the government suggestions, related departments, associations, financial institutions, nonprofit organizations together with banks have been conducting webinars to assist SMEs on how to recover from the impacts of Covid-19, use of new technologies for better business processes as well as many other areas which SMEs want help with.

Seeking for a silver line out of dark clouds!

On a positive note, new business opportunities are emerging. Due to extended quarantine curfew, many businesses have begun to use social media platforms as their medium to continue their operations. For some social media based Micro & SMEs, (MSMEs) particularly those who operating in the food industry have resulted an extraordinary rise in demand for home deliveries. (home bakers, food caters)

Payment methods have been shifted from direct banks transfers and cash on delivery to online payments since the public is unable to access banks/ATMs. Nevertheless, SMEs in apparel industry face a situation of cancelling of orders, they are now open to some new type of orders. Face masks and safety clothes are being exported instead. Beyond the current crisis, digitalization of not only services but also payment systems and business platforms are being prioritized.

In conclusion, the current situation of SMEs is depressing under above mentioned working capital issues, probability of shortage of labor, supply chain disruptions and many more raised from these novel series of challenges. Therefore, they further need to be guided into a better direction now or never!

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Impact of Covid-19 to MSME sector in Sri Lanka by D.P. Gunawardena

Long term impact of Easter Sunday Attacks on SMEs by Market Development Facility

SMEs Line of Credit project- Third additional financing by Asian Development Bank

“FIGHT THE BATTLES IN LIFE WITH DEDICATION, HARD WORK AND PATIENCE”

The interview with **Mr. Hasitha Premaratne,** Group Finance Director Brandix Group

Learning from achievers who manifest their dream is the best inspiration we can receive, to pave our journey towards success. This success story reveals the amazing personality of a role model for all the undergraduates in Sri Lanka.

We will be sharing the illuminating story of Mr.Hasitha Premaratne, the current Group Finance Director of Brandix Group and the Managing Director of Brandix India Apparel City. In addition, he overlooks all Joint Ventures and Investments of the Brandix Group. He was a Director of Bank of Ceylon and a Committee Member of Ceylon Chamber of Commerce. He was also a Board Member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and was a Board Member of CIMA Sri Lanka during 2016. Furthermore, Mr. Premaratne has been a regular columnist for LMD Magazine for 17 years. He was formally the Head of Research at HNB Stockbrokers (Pvt) Ltd and holds massive amount of experience in the fields of capital markets, economics, strategic finance, management and research. He has a MBA in International Finance and a BSc in Computer Science.

He is a Fellow Member of Chartered Institute of Management Accountants (CIMA - UK), Association of Chartered Certified Accountants (ACCA-UK), and the Institute of Certified Management Accountants (CMA - SL). He is also a Chartered Global Management Accountant (CGMA). Mr. Premaratne was the winner of the "Tutor of The Year Award" at CIMA Global Financial Management Awards 2009 held in London during November 2009. He was the Winner and Gold Medalist of prestigious "CIMA Star of the year" award in 2012 and the Winner of "Young CIMA Star of the year" award, in 2006. He was the "Most Outstanding Royalist of the year" in 1997 and was the Deputy Head Prefect of Royal College in 1998.

1. Sir, how do you describe your childhood memories for our readers?

My father being a doctor and mother being a teacher, education was a priority at home. But they believed that sports and extracurricular activities were equally important for an adolescent. During my school days, I participated in many sporting activities but after a few years chose badminton as the sport that I wanted to dive deep into. What I believe is that to succeed in life you need to allocate enough time and effort into it. I chose one sport, Scouting and Philatelic Club as the three areas of extracurricular activities and devoted enough time in each of those areas to contribute and achieve the maximum. Throughout my badminton journey, I was able to lead the college team and was selected to the Sri Lanka national pool to represent the country. In Scouting I won many awards including the President's scout Award and was adjudged as the "Best Scout of Royal College in 1997". Later, I became a scout leader of Royal college and continued to lead the Troop for 7 years. It provided good exposure on leadership. I was also a member of the Philatelic club because I was interested in collecting stamps as my hobby. I ended up being the Chairman of that club as well. All these made me an all-rounder and set a solid foundation to develop skills on multi-tasking.

Life was never a rose garden and success came with many challenges and some failures. I played badminton till early November although I had O/Ls in December. Even when I was in my A/L class, I continued to play till April, when the A/L exam was in August. In fact, this had some negative repercussions as well. Just 4 months before my A/L examination I got injured during a badminton tournament played in Maldives and had to undergo a surgery in the month of May that disturbed my preparations for the exam. I went to the A/L exam in crutches but was determined to do well and fell about two or three marks short of entering Engineering Faculty of University of Moratuwa (UOM). Luckily, because of my extra-curricular activities I was able to gain additional marks and eventually got selected to engineering at UOM. At that time, I had already registered for the Computer Science degree. So, I had to choose between Moratuwa and Colombo. Moratuwa University was closed at the time and I chose to do the Computer Science degree in Colombo. It was a tough decision to opt out of Engineering after been selected but when I look back, I think that was the correct decision. There have been many similar battles in life. What you need is the dedication, hard work to counter challenges and stay committed to your goals while practicing good values with integrity. You also need to be patient because nothing in life comes to us on a gold platter.

2. Did you have the dream of becoming a CFO when you were young?

I didn't have such a specific dream, but after starting CIMA, I always saw myself as a person in the business world. I took a step at a time and worked myself towards a leadership role. In fact, my first job was as an Equity Analyst. During the middle stage of the career, you need to ask the question whether you are a specialist or a generalist. When you start your career, start in one field and you can gradually build it up. If you decide to become a specialist, you must be a top cat in that area. If you are a generalist, then multi skills is the key. Today's Finance Leaders need to stay close to the business and understand the business as much as anyone else in the organization. It will help you to be a strong CFO by adding greater value to drive profitable business growth.

3. You have been a lecturer at a reputed professional educational institution for 11 years. How did that exposure help in your career, sir?

In 2000 just after being qualified in CIMA, I stared lecturing while still in the second year of University. Lecturing was an interesting experience because I was able to develop my public speaking skills. I was lecturing for more than 500 students in a class at times and it gave me the ability to improve my communication skills and stay ahead in subject matters.

More than anything else I enjoyed imparting what I have learned to others and it was not money that motivated me to be a lecturer but the satisfaction of passing on knowledge to students.

4. When you joined HNB Stockbrokers as a Research Analyst, did you have the vision to go up in the corporate ladder?

When I was 23, I joined there as my first permanent job. It was a fantastic opportunity to learn about Financial Modeling, Funding and how capital markets operate. By meeting CEO's of listed companies to learn about their strategies, I was able to understand how large organizations work. I published many research reports and opinions about economy and companies to investors. I was fortunate to be trained under a leading Research personality of JP Morgan, a world-renowned Investment Bank. It helped a lot for me to build a platform at HNB Stockbrokers as a Research Analyst and was promoted as the Head of Research. Later we extended our research to support the Hatton National Bank requirements as well. At that time my supervisor gave a lot of freedom to operate. While in a small company, I was a big fish in a small pond. But at the time I set my foot in to HNB bank, I realized that I was a small fish in a big pond. I worked under the great leadership of a veteran banker. Apart from dealing with the investors and corporate, I was closely working with regulatory bodies including, Central Bank, Ministry of Finance and Securities and Exchange Commission and Colombo Stock Exchange. I was invited to represent Sri Lanka to the investors abroad in Dubai, New Zealand, Singapore and Hong Kong, on behalf of the Stock Exchange of Sri Lanka. I also learnt a lot about working with media institutions, especially when establishing a public opinion about the capital markets.

5. How did your journey at Brandix start?

Due to vulnerable economic conditions in 2005 and 2006, I was keen to play a role in the export sector of the country. I had the opportunity to join Brandix, a leading apparel company, who was looking to go global at the time. I was one of the key team members in setting up Brandix India Apparel City, where I am the Managing Director today. In retrospect, I have moved up vertically in the ladder of finance at Brandix from Corporate Finance Manager, Chief Finance Officer and today as the Group finance Director.

Mr.Hasitha Premaratne sharing Brandix's success story in India, at the Growing with Giants conference

Parallelly, I have been responsible on our group investments including joint Ventures and Investment Companies like TeeJay Lanka PLC, where I provide the leadership to the CEO's of those respective companies. I'm a Board Director of more than 20 companies within the group.

6. Sir, you surely must have faced a lot of challenges throughout your journey up until becoming the Group Finance Director of Brandix. Would you like share some thoughts about how you overcome them?

My opinion is; if you expect challenges to become a part of your life, it will be easier to handle. Stressing yourself and making it personnel, that is where the things go wrong. You must know where to draw the line. When challenges come, challenges are embedded; you face it and move on.

7. How do you maintain the work-life balance being a busy person?

During my early days, I did so many things while at school, parallelly. I believe it helped me to learn how to balance things in life. However, prioritizing "many to a few", is very important. Until I got married and had kids, I always had time for lecturing, but I had to quit because I needed more time at home. Also, I had reduced my social time. Obviously with kids it is completely a different ball game, Spending time with them is my hobby now. Generally, I don't work during weekends and public holidays. But on Weekdays I work till very late. I will spare my weekends for my family. My parents and family have been behind me right through my career during all ups and downs, and their patience and support is something I always appreciate. If you consider spending time with your family as one of your hobbies, it is the best balance that you can have.

8. How was your experience of being part of different boards and committees?

For the last 5-6 years I have been getting invitations to sit in various external boards. All of these gave me an opportunity to provide my maximum contribution from what I have learned. My policy for working on these boards is you go, learn, contribute, and depart. As a Non – Executive Director, you can contribute to a certain point, but you can't contribute to beyond that. I have been consciously moving out of certain roles time to time to better manage my time availability. What I believe is you need to figure out when to retire from a role when you cannot add value in it.

9. Sir, you are a very skilled person in many areas. What are the driving forces behind these skills? How hard did you work to develop them?

Technical skills are a result of my academic and professional education over the years. Continuous training and reading are a must to modernize your technical skills time to time. When it comes to the soft skills, they should be developed on the job and it's all about working with people ultimately. When I was at school, I had exposure to work with people from different backgrounds of the society who came from multiple races, religions, social backgrounds etc. This gave an early foundation to learn about the diverse expectations of people in the society and to respect them. I think that's the fundamental base for developing soft skills. I had a similar experience when I was doing my distance learning MBA at Oxford Brookes University. I got an exposure to meet multiple representatives from different countries like Asia, Africa and Europe, broad basing the knowhow of geographical diversity. Since I was involved in a lot of extracurricular activities in school, I knew the pain of losing and the fun of winning. Both were part of my life because of sports and other extra activities. This helped me to be flexible during challenging times and to approach different situations. I am confident about the decisions I make, and I take responsibility for them. Life is always on the move and I don't believe you can plan for too long. Next 6 to 12 months is the key. All you can do is, revisit occasionally and check whether you are on the right track and your skills are updated to suit the changes in the external environment.

10.What suggestions do you have, to overcome the current economic situation in Sri Lanka?

COVID-19 has brought a new set of challenges because our core exchange earning industries like tourism and travel have come to a complete stand still in the last few months, and it will take some time to settle these down. We will have to readjust our economic and corporate strategies to face these realities. We need to manage that import-export equation very carefully because improving exports is crucial. I think we need to create more networks and industries to reach out to the world and pick up the niche that suits our exports. If we are planning to compete with the world, we need to differentiate our products in order to gain competitive advantage.

In that process we need to collaborate and build alliances with the new world. We need it as a country not as an industry. I strongly believe that we need to have more industries like apparel in the economy which can bring export income. So, building exports and managing imports in a structured manner is vital. Parallelly, the domestic industry must become cost competitive and technology driven. So, technology must come in as an important yardstick whether it is in the service, manufacturing, agriculture or any other industry. Similarly, Technology must be utilized as a focused intervention to support productivity. We should be using it to build our place and position within the global market. Another angle to the whole equation is to bring Foreign Direct Investments which will lead country towards economic growth. We should create a conducive environment, with supportive regulations in line with a safe and sound corporate governance to ensure investor confidence. Although it is a hard job, I believe Sri Lanka has the potential and these cohesive strategies will direct our country to the next level for sure.

11. What is the advice you wish to deliver to undergraduates, to be successful in their future careers?

As my first advice I would like to say don't see challenges as problems, always see them as part of life and be resilient. Secondly, don't get overfocused or under focused. Strike a balance. Prioritize and do what is manageable with the limited time you have. Don't wait till tomorrow. My third point is, don't forget the basics, your values and ethics. You should consider dedication and hard work as your basics. Finally, try to develop the patience to mingle with different people. But it is not an easy task and making necessary adjustments within the working environment is essential. When you are managing and leading, we need to respect each person's abilities. Keep patience with you.

We would like to thank Mr. Hasitha Premaratne for his valuable time spared on illuminating our lives with this wonderful session.

Interviewed by ;
Gayara Wijayasundara & Kavya Hapuarachchi
(Special thanks to Kaveesha Perera)

DO YOU KNOW ?

By Ishanika Seneviratne and Kaveesha Perera

ALTERNATIVE INVESTMENT TOOLS FOR 2021.

• Peer-to-peer lending

Offering loans for businesses, personal use or any other purposes. There's no bank involvement. Pooling investor's money and provide loans to individuals. Earns an interest on those loans.

• Real estate

Buying and own a property. Benefits can be gained from rent income and appreciation of value of the property

• Gold

There are various ways of investing in gold such as purchasing and holding physical gold, gold exchange-traded funds, gold accounts, through gold mining stocks, futures and options.

• Owning a business

Invest your money in your own business. This will generate high returns to the money you invested. On the other hand, it may bankrupt if you don't manage it properly. But it is a stable income-generating investment.

• Equity crowdfunding

Also known as Angel Financing. Investing money in startups without owning a particular Organization. AngelList, CircleUp and SeedInvest are some examples for angel financing websites.

KEY FINANCIAL INDICATORS OF SRI LANKA.

Inflation Rate

Measures the overall increase in the general price level.

INFLATION RATE(NCPI)=5.20%

Policy Rates

Key policy interest rates of the Central Bank of Sri Lanka.

o Standing Deposit Facility Rate (SDFR) – The floor rate used in absorbing overnight excess liquidity from the banking system by the Central Bank. The Repurchase rate that was in place until 02 January 2014, was replaced by the Standing Deposit Facility Rate.

SDFR =4.50%

o Standing Lending Facility Rate (SLFR) - The ceiling rate used in injecting overnight liquidity to the banking system by the Central Bank. The Reverse Repurchase rate was replaced by the Standing Lending Facility Rate.

SLFR = 5.50%

o Bank Rate - The rate at which CBSL provide advances to commercial banks for temporary liquidity purposes.

BANK RATE =8.50%

o Statutory Reserve Requirement - The minimum amounts of rupee deposit liabilities that commercial banks are required to maintain as a deposit with the CBSL is known as the Statutory Reserve Requirement.

STATUTORY RESERVE RATIO(SRR) =2.00%

POPULAR PERSONAL FINANCIAL SERVICES IN UNITED STATES

• Chime – Providing fee-free financial services through mobile app

• Personal Capital - US-headquartered direct-to-consumer (D2C) digital wealth manager offering savings and retirement planning services.

• Cleo - AI-powered money management chatbot that analyzes and generates personalized financial insights.

POPULAR CONSUMER FINANCIAL SERVICES IN UNITED STATES

• American Express: This is a known credit card services payment firm who recently partnered with Marriott Bonvoy for the purpose of offering rewards for travel-focused credit cards.

• LendingTree: This facilitates the connection between borrowers and lenders to help them find the best deals on loans

POPULAR CORPORATE FINANCIAL SERVICES IN UNITED STATES

• Angel investors: Wealthy individuals trying to invest in small businesses and startups.

Venture capital: Financing provided to startups that are expected to have a long term growth potential.

KEY FINANCIAL INDICATORS OF SRI LANKA.

Exchange Rate.

This is the value of one currency for the purpose of conversion to another currency.

Currency	Buying Rate	Selling Rate
United States Dollar (USD)	190.7700	196.0500
Sterling Pounds (GBP)	261.6746	269.7095
Euro (EUR)	231.5872	238.6519
Japanese Yen (JPY)	1.8434	1.8980
Chinese Yuan (CNY)	28.7337	30.5232
Australian Dollar (AUD)	148.6639	153.8082

Credit Ratings of Sri Lanka by Leading Rating Agencies.

- Fitch Ratings has downgraded Sri Lanka's Long – Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC' from 'B-' (27 Nov,2020).
- S&P has downgraded to 'CCC+/C' on increasing external financial risks & fiscal deterioration.
- Moody's has rated as Caa1.

FINANCIAL REGULATORY IN SEVERAL COUNTRIES.

• SRI LANKA- CENTRAL BANK OF SRI LANKA

• INDIA – RESERVE BANK OF INDIA

• USA – FEDERAL RESERVE SYSTEM

• UK – FINANCIAL CONDUCT AUTHORITY

• CHINA – PEOPLE'S BANK OF CHINA

• JAPAN – BANK OF JAPAN

• GERMANY - DEUTSCHE BUNDESBANK

• SWITZERLAND – SWISS NATIONAL BANK

• AUSTRALIA – RESERVE BANK OF AUSTRALIA

• CANADA – BANK OF CANADA

INSIGHT BY SNR. PROF. D. B. P. H. DISSABANDARA

SRI LANKA MICROFINANCE CRISIS

According to the central bank, micro finance includes financial facilities granted to low income earners and unemployed for income generating activities

The concept of microfinance was introduced by Muhammad Yunus who was awarded the Nobel Peace Prize for founding the Grameen Bank and pioneering the concept of microfinance with the objective of reducing the poverty and women empowerment in Bangladesh.

Although the concept originated with a positive goal, in many countries including Sri Lanka, it has become a crisis in rural areas across the country, even leading to multiple reported deaths in the past few years.

How does something that was intended to save the poor, ends up becoming an island-wide crisis?

To answer that question, it is needed to understand why microfinance is needed in the country. Even though there are many branches of licensed financial institutions, Specially commercial banks, even in remote areas, most people do not have the basic requirements to obtain loans from them as most banks require some form of collateral and a large pile of documentation to approve a loan. This forces people to go for a microfinance option that comes with no collateral requirement and a considerably easy procedure to follow. The difference between the demand and supply for credit, in other terms the credit gap from licensed financial institutions is around USD 1.1 Billion (about LKR 200 billion) in Sri Lanka which further increases the chance of someone going for an unlicensed microfinance provider instead of a licensed financial institution.

WHAT DOES ACTUALLY COUNT AS A MICRO FINANCE INSTITUTION?

According to the Central Bank, microfinance loans are "loans granted for individuals/groups under group lending system for income-generating activities" but this article will stick to much broader view of microfinance, which is "provision of financial services to low income earners"

When it comes to the microfinance institutions in Sri Lanka, the story becomes more and more unclear and uncertain. Sri Lanka's microfinance services go way back to the "Seettu System".

The first credit union was formed in 1911 with the introduction of the Co-operative Credit Societies Ordinance No. 7 of 1911 and the microfinance movement has gone through many phases thereafter to this day. Over time many formal and informal institutions were formed targeting many remote and low-income earning regions. Gradually, the main objective of microfinance, which was to help the poor to stand up on their own, became a mere profit objective for many of these institutions that entered the industry.

How many microfinance institutions are there? Who regulates over microfinance institutions?

Currently there are more than 10,000 microfinance institutions located throughout Sri Lanka. As a result of almost all of these institutions not being governed by any regulatory body or regulated under any proper set of rules, it is almost impossible to provide an exact answer to the question. Currently, only 4 companies are listed as a licensed microfinance institution under the Central Bank of Sri Lanka. Although around 63 micro financial institutions have membership with the Lanka Microfinance Practitioners Association (LMFPA), even they do not fall under any regulatory framework but the association policies which are optional. Parliament enacted the Microfinance Act, No. 6 of 2016 to regulate the industry to some extent, but this effort was not successful considering the Act applies only to very small number of microfinance institutions that are licensed with the central bank which lets out 99.9% of microfinance institutions in Sri Lanka unregulated.

How can someone describe "Microfinance Loan Trap"?

The weak regulatory framework allows the microfinance institutions to operate freely and it has ultimately resulted in some very unpleasant experiences for the loan holders and other involved parties. Most microfinance institutions charged around 40% interest rates where at the same time, a bank would lend at around 14%. In some extreme cases, this figure may go as high as 200% annual rate of interest.

Most microfinance providers exploit on the low financial literacy and destitution of the poor to charge sky-high interest rates on the microfinance loans. Some informal microfinance providers may go as to represent the interest rates on a daily or monthly basis to hide and misrepresent the actual annual effective interest rate.

Most of these loans are provided on the basis of group lending system which acts as a substitute for collateral where each member acts as a guarantor for loans of others. If one group member defaults the payment, it would be the responsibility of other members to pay his debt on his/her behalf. To prevent other group members having to pay the debt, if someone is unable to pay the loan, in most situations most of these people will go for other microfinance providers to take another loan to pay the first one then another to pay the latter. This will put these families in a situation that is known as a microfinance loan trap.

REASONS FOR MICROFINANCE DEFAULTS?

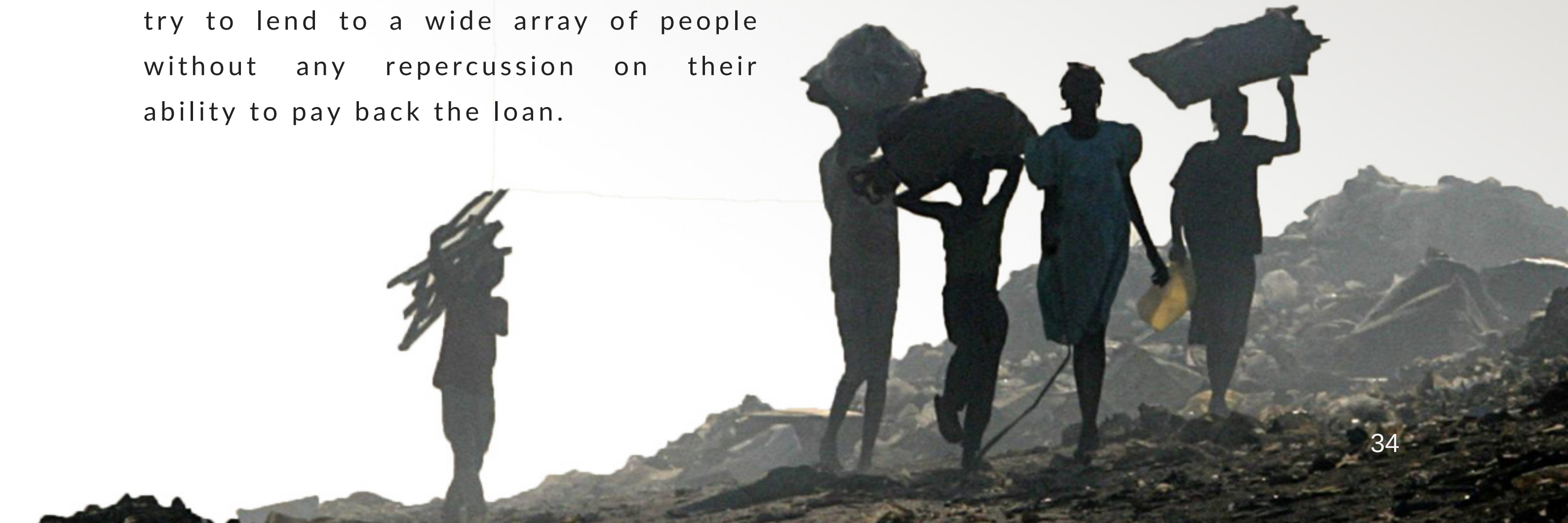
Although it seems that the loan holder should take the sole responsibility of a default, there are a lot to the picture than what is visible from outside, that is hidden from the society. A research done on microfinance loan defaults in Sri Lanka classifies all the reasons for microfinance defaults into 3 broad categories.

Those are namely,

- Characteristics relating to loan group and borrower's family
- Actions of microfinance institutions and collecting agents
- Macroeconomic issues

All 3 of above reasons play a similar role to maintain a proper functioning microfinance system. Failure of any will lead to some unfortunate circumstances. This article will focus on what can be done in the part of microfinance institutions in Sri Lanka to be free from the microfinance crisis that the country is facing currently.

Most of these microfinance providers try to lend to a wide array of people without any repercussion on their ability to pay back the loan. This has become a huge problem in most areas as different microfinance providers come at different times in the year and offer to provide loans to families. In certain situations, loans are distributed through local committees like women's societies and youth societies to reach a larger customer base and for convenience. Although most of the time, It is agreed, on an informal basis that the loan is for improving income-generating actives, no proper background checks are conducted during the procedure as most employees working in these institutions lack the knowledge and training to conduct a proper assessment of individuals' ability to pay back loans. This has led to an increase in Non-Performing Loans (NPL) in the industry where in some regions NPL go as high as 60%. Sometimes husband of the family is unaware of the loans taken by wife and sometimes it's the other way around. Most of the people who end up defaulting payments have already taken microfinance loans from other parties that are already being defaulted or at a considerably risky level. Absence of a proper evaluation procedure with strict policies, when offering microfinance loan schemes allow such practices to continue and further fuel the crisis that is already happening.



REASONS FOR MICROFINANCE DEFAULTS?

Most of the time, there will be no follow up activities to ensure that the funds are transferred to proper income generating actives on the part of microfinance institutions. As most of the users of microfinance lack the financial literacy required to manage a considerably large sum of funds on their own, sometimes incidents can be seen that funds are used to pay daily expenses or penalties and interest of other loans they have obtained.

Most of the microfinance institutions in existence in Sri Lanka today, whether licensed or unlicensed, follow a system of borrowing and lending, where only a few microfinance institutions engage in lending from utilizing their own funds. Most institutions borrow the funds they require from commercial banks or other licensed financial institutions at the regular interest rate and lend the funds at high interest rates for microfinance loans to cover the cost and earn high profit margins. These high interest rates result in loan holders having to pay more than their daily earning for the collecting agents on daily or weekly basis, leaving them with no option but to borrow money from somewhere else to pay the instalment, directing them on a path to a microfinance loan trap.

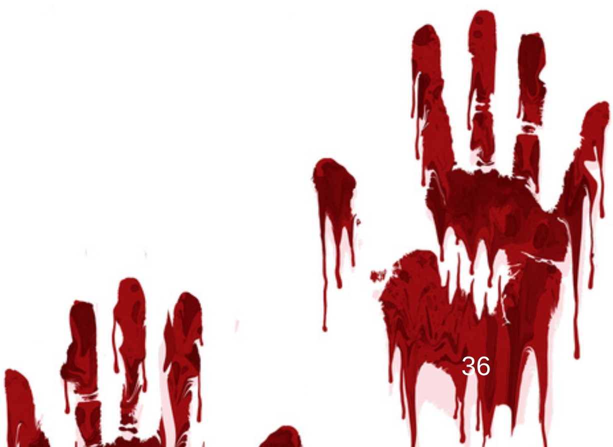
"ණය මහත්තයා ගෙදරට එනකොට අපේ මහත්තයා එළියට යනවා. ණය මහත්තයා වාරිකය එකතු කරන්න එන දිනය සහ වේලාව දුරකථනයෙන් මට දැනුම් දෙනවා. මම ඒ බව මගේ මහත්තයට කියනවා. ඉතින් එයත් බිම බලාගෙන ගෙදරින් පිටවෙලා යනවා. පැය දෙක තුනකට පස්සේ තමයි ආපහු එන්නේ. වාරික පහක්ම ගෙව්වේ එහෙම තමයි. මොකද වුණේ කියලා අපි දෙන්නටම හිතාගන්නවත් බෑ. ඒ තරමටම පීඩනයක් තිබුණේ."

REASONS FOR MICROFINANCE DEFAULTS?

One important part of a microfinance loan is collecting agents, whose job is to visit the customer premises and collect instalment payments on a daily or weekly basis. Most of the agents work for the microfinance institutions on part-time or sometimes as permanent employees. Due to the absence of proper policies on credit collection to govern the practices on collecting agents, many incidents have been reported in the past year that have severe impact on the society on a moral point of view.

" ....

This is referring to a situation that took place in Trincomalee. Most of these collecting agents lack the social discipline to handle a situation properly nor given a proper training to prevent a situation from being escalated. Most importantly due to the lack of proper policies to govern the behaviour of collecting agents, the situation in some villages have gotten as extreme as sexual bribe and suicides.



HAVE THE AUTHORITIES TAKEN PROPER ACTIONS?

Unfortunately, proper actions cannot be seen on the part of the authorities. For a long period of time, microfinance was a field that was not properly governed by any central authority under any legal framework. The foundation was put to regulate the industry in 2016 through the Microfinance Act, No. 6 of 2016. Although the act only regulated the companies that satisfied certain conditions, that are known as Licensed Microfinance Companies (LMFCs). LMFCs would be directly regulated by the monetary board of the central bank of Sri Lanka. Act also provides for the registration of Microfinance Non-Governmental Organizations (MNGOs) registered under the voluntary social services organizations Act, No. 31 of 1980.

Even though it seems as microfinance institutions are being regulated to certain extent, this doesn't show the whole picture around the microfinance industry in Sri Lank as there are tens of thousands of companies that provide some form of microfinance services throughout the country that are not governed under any regulation or central authority. No extract number can be given to the amount of microfinance providers in Sri Lanka as no proper legal framework is there that mandate the registration of these companies. Lack of proper legal guidance has granted these companies the ability to charge arbitrary and sky-high interest rates and late payment penalties from the loan holders. Even though the central bank has intervened in regulating the interest rates in multiple occasions, latest ruling reported in December 2018, regulating the highest possible interest rate as 35% (Effective Annual Interest Rate). This ruling only applies to licensed financial companies which represent less than 1% of total microfinance institutions in Sri Lanka.

WHAT CAN BE DONE?

One of the main reasons for microfinance loan trap is the habit of taking new loans to pay the existing loans. This is possible as almost all of the microfinance institutions do not have the access the Credit Information Bureau of Sri Lanka (CRIB). This is a significant limitation faced by microfinance institutions when assessing an individual's ability to repay debt. Having access to CRIB reports of the microfinance borrowers allows prevention of such practices that otherwise would lead to a microfinance loan trap. As a precaution, proper data protection laws can be set out to prevent any misuse of CRIB reports in the future. Awareness programs that will increase the financial literacy of people will also help as an effective preventative mechanism rather than a correcting mechanism. Also, Sri Lanka should speed up the process of replacing traditional national identity cards with electronic identity cards. This will demotivate malpractices in the industry as all the credit records of a person will be mapped to a centralized database, making it nearly impossible to get new loans without the lending party getting to know about the credit history of the borrower.

Also, this will facilitate limiting of number of microfinance loans taken by an individual or a close member of his family to prevent them from falling in the same trap over and over.

Introduction of a proper set of rules to regulate not only licensed microfinance institutions but also small-scale microfinance providers that provides microfinance facilities throughout Sri Lanka is necessary to maintain the proper governance over the industry and to help mitigate malpractices happening in the industry, specially relating to the interest and other hidden charges. Due to lack of such rules, Even the debt moratorium offered to certain industries during the pandemic period was not given to almost all microfinance loan schemes as it was only applicable to regulated financial institutions. However, in the microfinance industry, there are many MFIs including those in the Lanka Microfinance Practitioner's Association membership that do not fall under any regulatory framework. Only a handful of microfinance institutions offered a relief period for the microfinance loans offered by their intuitions on a voluntary basis. A national credit act that would classify different types of loans based on suitable criteria will also facilitate limiting of certain types of loans in terms of loan size and interest rates.

WHAT CAN BE DONE?

ARTICLE BY
MUDITHA RAJAPAKSHA AND
ANJANA URULUGASTENNA

Special thanks to SNR. PROF. D. B. P. H. Dissabandara for providing insights into the microfinance industry

Most malpractices regarding collecting agents occur due to the lack of proper policies and well put-together routines to handle different scenarios with customers. A centralized authority to govern all microfinance institutions, that would function as a separate entity to the Central Bank of Sri Lanka would significantly increase the efficiency of the industry in relation to fund transfers which would allow microfinance institutions to lend funds at a lower interest rate instead of borrowing funds from commercial banks. Introduction of a proper regulating body would also allow execution of industry-wide standards and code of ethics which would significantly increase the quality of the industry. This will allow efficient management of the industry and provides a way to complain any misconduct that may be faced by any individual or a family with regard to microfinance.

If proper actions are not taken to mitigate this crisis happening in the microfinance industry, Sri Lankan microfinance industry will become another playground for a certain group of people who would exploit the helplessness of the poor without any hesitation just to earn profit. Most microfinance borrowers are suffering from financial stress and anxiety since they are left with no options but to pay almost all of what they daily earn to pay sky-high interest rates. Most of these people are already suffering from poverty and the COVID-19 has worsened the situation furthermore. A crisis in a critical part of the domestic financial system would have a drastic effect on the country in terms of both economic and moral viewpoints. An efficiently governed microfinance sector regulated under a proper legal framework is compulsory for the Sri Lankan economy to improve the standard of living of citizens and to keep the poverty at a minimum level.

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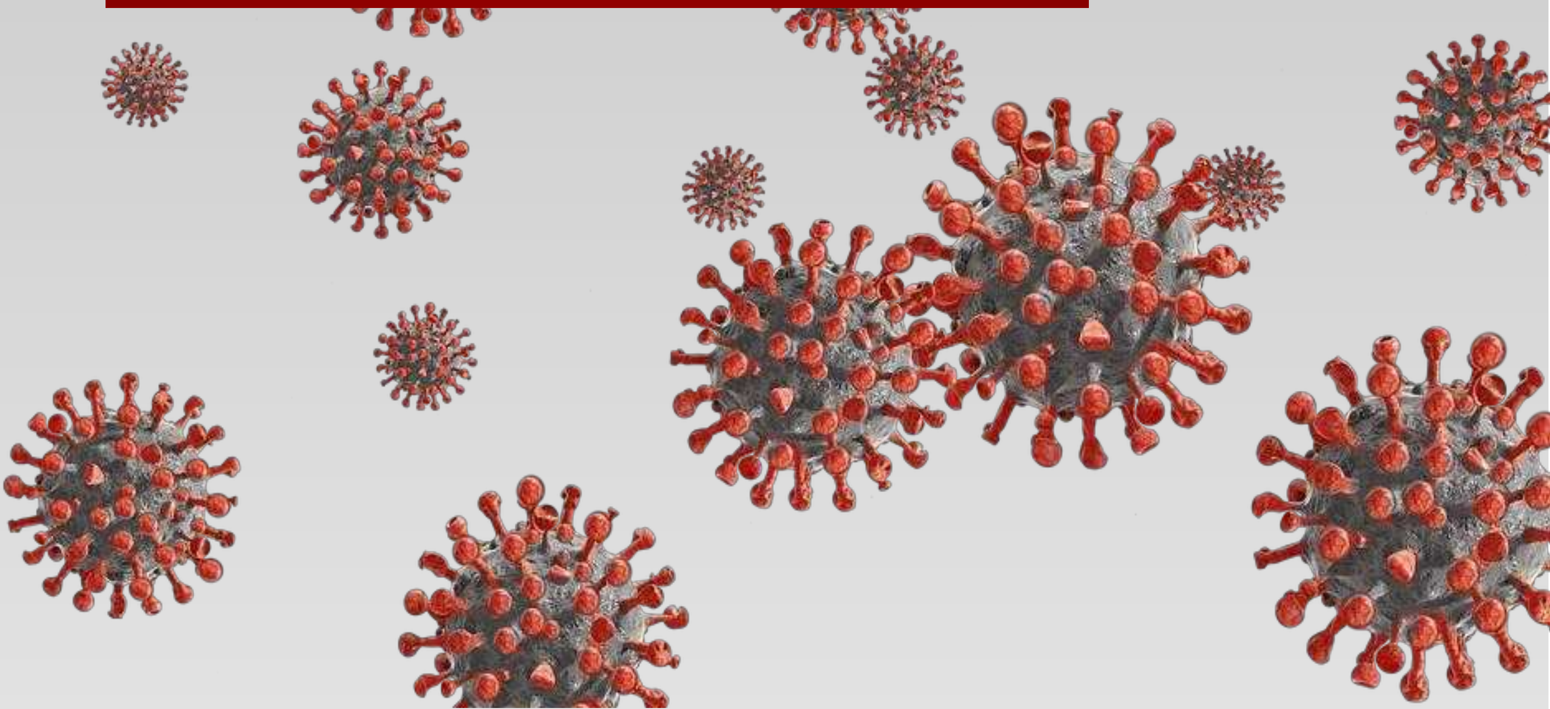
o Determinants of Microfinance Loan Default: An Empirical Investigation in Sri Lanka
D. T. Priyankara 1and E. A. G. Sumanasiri1

NATURE 1
MARKETS 0

IMPACT OF THE GLOBAL PANDEMIC AND NATURAL CATASTROPHES

ON THE FINANCIAL MARKETS AND CONTINGENCY PLANS TO BE ADOPTED IN THE FUTURE



A Year Never to be Forgotten in Our Lives

(Sequence list in order of appearance & video credits : cheero.ch)

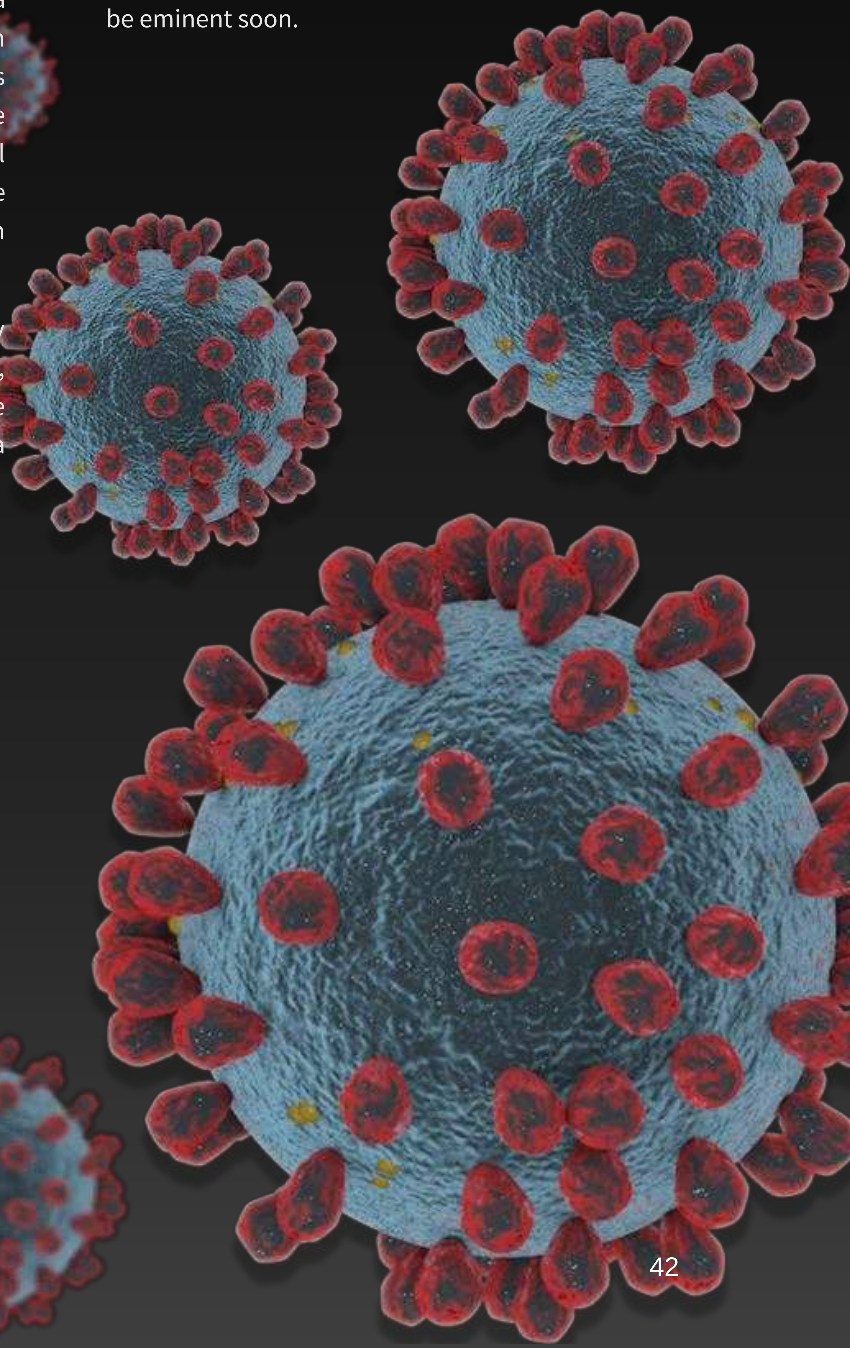
2020 resulted an unanticipated havoc of events which affected the world in varying depths with COVID-19, Wildfires, Floods, Earthquakes, Atlantic Hurricanes and Super typhoons becoming the deadliest natural catastrophes to name whilst U.S Civil Unrest, Yemen and Southern Border Humanitarian crisis, Rohingya Refugee Crisis and Beirut explosions were also a part of the unforgettable crashes happened during the year of 2020. In this article, we will focus on how natural exogenous events affect the global financial markets and the possible attempts that we could focus on in coming into terms with these natural catastrophes.

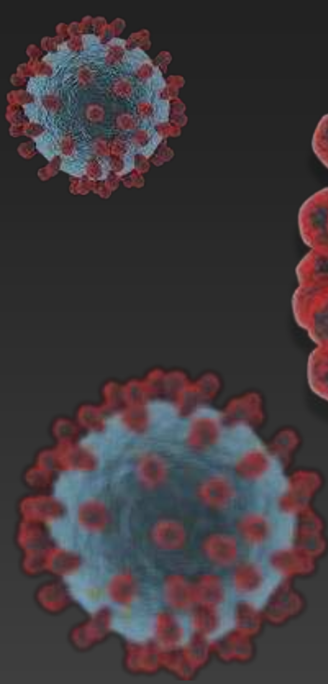
According to the Cambridge Centre for Risk Studies, "well-designed investment portfolios (high quality investment portfolio - with an asset composition of geographical markets and financial instruments that reflect the expected liabilities and exposures of their underwriting activities in international markets around the world)", are susceptible to short term fluctuations. Yet, the fluctuations in markets that would result from these scenarios would only cause "single digit reduction in returns". More aggressive portfolio options are prone for severe reductions in yields varying with asset mix and geographical origins.

The Cambridge Centre for Risk Studies has performed several hypothetical and actual simulations, for investment portfolios and financial risk management, a territorial war between China and Japan, a virulent flu pandemic, and a breakdown of the European Union since 2009. In both historical and hypothetical scenarios, it was observed that economic losses of over $1 trillion are catastrophes that affect to significant detrimental change in the markets. Stock exchanges in the countries are worst affected with a domino effect on the global exchanges.

The costliest natural disasters in the recent history prior to the pandemic are the Hurricane Katrina, Californian Northridge Earthquake, Hurricane Andrew, Tokyo Earthquake, Tsunami- Java Sumatra and the eruption of Mount Rainer.

COVID-19 has been the most lethal blow to the man kind in the recent past, with a reported level of 85,091,012 confirmed cases and 1,861,005 deaths according to WHO as at 07/01/2020. The pandemic has not only been brutal to the survival of humans but has also had a noticeable impact for the economic stability in the world, hinting further possibilities to degrade. For example, in Sri Lanka, during the pandemic, in the months of April to May, the trading in Colombo Stock Exchange was halted resulting a heavy blow to the economy. Not only the declining emerging markets, but also the economic giants around the world have indicated severe troughs in recession in the immediate future. Moreover, the effects of the pandemic on the financial market are yet to be assessed and the results of the insufficient attention forwarded in formulating policies for global catastrophes would be eminent soon.





What kind of events cause market shocks?

The devaluation of the market, - various classes of investment assets, changes in interest rates, changes in currency exchange rates and sovereign credit ratings, and bond yields, even in high quality asset classes- more than 10% or more within a single quarter is typically known as a market crash which might reach a trough for approximately 6 months. Table 1 summarises 28 market crashes that have occurred in the past with their impact and the lag of repetitions. Less than 10% of these financial crises are exogenous but, the severity is not to be undermined.

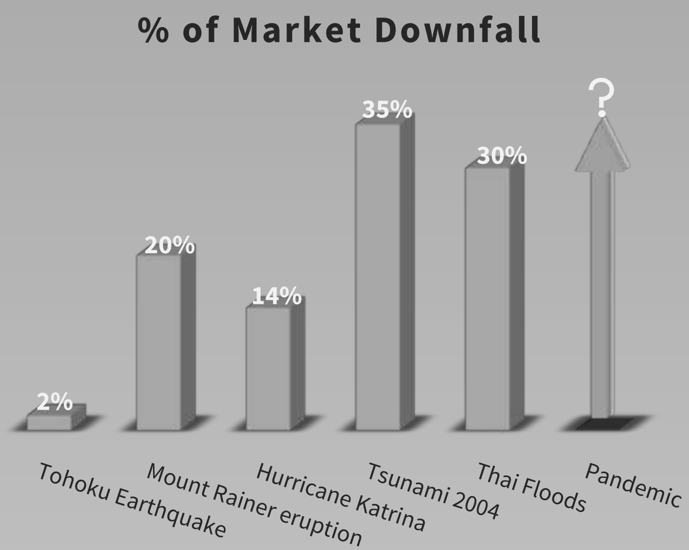


Table 1: US Stock Market Crashes since 1800, by peak-to-trough severity

Crashes Greater Than	Number of Crises	Average Interval (Yrs)
10 %	12	16
20 %	9	21
40 %	6	32
80 %	1	190

Table 2: Maximum quarterly downturn from 2017Q4 across major share price indices, demonstrating 'worst case' impacts across scenarios.

	Baseline	EQ-LA	EQ-TKY	HU-FL	HU-NJ	VO-MA	VO-RA
Germany	0.21%	-6.42%	-4.13%	-8.75%	-8.88%	-2.88%	-12.33%
Japan	0.50%	-4.43%	-24.41%	-6.56%	-6.68%	-3.45%	-9.95%
UK	0.49%	-4.25%	-3.20%	-5.84%	-6.40%	-1.92%	-8.64%
US	0.43%	-11.73%	-2.28%	-19.75%	-16.32%	-1.24%	-25.48%
World	0.64%	-7.75%	-5.87%	-13.90%	-11.52%	-2.81%	-18.98%

EQ = Earthquakes
HU = Hurricanes
VO = Volcanoes

“Stock markets are not pricing in the risk of climate change, warns the IMF”

According to the IMF, the cost of natural disasters in the past decade is closer to US$ 1.3 trillion. IMF has estimated that the equity investors are underestimating these unanticipated risks. The climate changes are more likely to stimulate more climatic hazards in the future marking the vitality of concern given for these events. Thus, IMF emphasises the need of taking the effects of global warming and the climatic permutations into consideration given the significance of the market risk.

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What can the policymakers do?

- COVID-19 is a reminder to all of us that crisis preparedness and resilience are essential to manage risks that can have unexpected upscaled damages to survival of Human and markets alike.
- Expanding the availability of insurance and strengthening the overall financial strength can lessen the impact of climatic disasters and thereby reduce financial stability risks.
- Initiating “global mandatory climate change physical risk disclosure standards” to preserve financial stability.
- Climate-change stress testing can enable financial firms and their supervisors to have a better understanding of the extent of exposures and the physical risk.

Undoubtedly, the most effective step which can be put forward is a strong global policy action to reduce climatic hazards such as greenhouse gas emissions, global warming and by sustaining the nature, well beyond the boundaries of financial markets’ stability.

Article by : Winura Wijekulasooriya & Tharushi EgodaHewage

FALL OF ETI FINANCE. -WILL IT LEAD TO A CRISIS IN THE FINANCIAL SYSTEM, STORY BEHIND THE FALL, EFFECT TO THE SYSTEM, DESTROYING PUBLIC TRUST?

BY,
PRAMUDITH RAJAPAKSH

ETI is the newest example of what would happen to finance giants; when they grow their deposits at an accelerating pace, lend unwisely, invest in illiquid asset properties that don't generate steady income flows and fail to ring-fence their operations against related groups of companies.

Edirisinghe Trust Investments Finance Limited also popularly known as ETI Finance is a Sri Lankan private limited company as well as a non-banking financial institution which worked as a licensed finance company accepting deposits from general public. The company's business was primarily based on lending money on gold securities. The company was founded by veteran entrepreneur E. A. P. Edirisinghe in 1967 initially as a pawning business registered under the Finance Companies Act no 78 of 1988.[3] The company later expanded its business activities such as accepting deposits, leasing etc. ETI Finance is a core company of popular family controlled entity EAP Holdings. The company was regarded as a leading financial institution in Sri Lanka for decades and the reputation of the business started to make downfall soon after the death of E. A. P. Edirisinghe. Soma Edirisinghe, wife of EAP Edirisinghe took over the company and remained as the chairperson of the company until her death in 2015.

ETI Finance Limited is bankrupt today due to the lack of proper supervision by the Central Bank and because depositors money was poorly managed and used to finance other businesses. As a result, a large group of depositors have lost their investments. The gold price drop in 2012 made this worsen. ETI Finance failed to maintain required liquidity position since 2011 and the company was failed to honor depositors' request of money withdrawals since 2011. In 2013, Fitch Ratings, the financial ratings agency, issued the first warning against ETI, that it need to be sold if external funding didn't materialize. Fitch downgraded ETI's National Long-Term rating to "CC (lka)" from "BB-(lka)". The downgrade followed the restructuring of ETI's operations and the subsequent restatement of its financial accounts for the year ended March 2012 which showed capital adequacy ratios (CAR) and liquid assets below their respective minimum regulatory thresholds. In the period of 2015-2018, three institutions had agreed to buy ETI, two Sri Lankan companies and one foreign company. However, the foreign company – Blue Summit Capital Management Ltd. (BSCM) – succeeded in the bidding process at a total of $ 75 million. The initial investment was $ 75 million but was later reduced to $ 70 million as they decided to exclude Swarnamahal, which was valued at $ 5 million. The investor has already paid $ 54 million out of the $ 70 million and another $ 16 million had to be paid. The Central Bank noted that the remaining $ 16 million was transferred to a local bank, but as a result of the uncertainty surrounding the transaction and money laundering allegations the investor subsequently withdrew that amount. Even though investor agreed to invest in ETI, the investment was not enough to repay all depositors. Because of these reasons depositors continued to demand their deposits be repaid.

As the problem gets worsen, the Monetary Board of the Central Bank of Sri Lanka at its meeting held on 01.01.2018, having considered the weak financial performances of the ETI Finance Ltd. (ETIF) and Swarnamahal Financial Services PLC (SFSP) with a view safeguard the interests of the depositors and other creditors of the two companies, and to ensure safety and soundness of the financial system, decided to take several regulatory actions, as a temporary measure, under the provisions of the Finance Business Act No. 42 of 2011, with immediate effect. As CBSL appointed a new management to ETI Finance (ETIF) and its subsidiary Swarnamahal Financial Services, restricting withdrawals – maturing deposits were extended by six months – and ensuring interest payments to depositors. ETI's deposit base was around Rs. 35 billion and Swarnamahal's Rs. 3.5 billion at the time the appointments were made. The CBSL restricted the two finance companies from mobilizing new deposits and issuing new loans. Though CBSL took such measures, the Independent Association to Protect the ETI Depositors President Anusha Jayanthi alleged that even though the Central Bank of Sri Lanka (CBSL) was appointed to oversee the struggled ETI Finance Ltd. (ETIF) and Swarnamahal Financial Services PLC (SFSP) was listed to safeguard the interests of the depositors and ensure stability of the financial system, it was currently doing the opposite by defending ETI and not the depositors. Also they petitioned President HE Gotabaya Rajapaksa to appoint a commission to probe the sale of assets of ETI Finance Ltd.

The report of the Presidential Commission appointed by President Gotabaya Rajapaksa on January 9, 2020 to investigate, inspect and report the alleged wrongdoings, irregularities and malpractices of the Edirisinghe Trust Investments Ltd (ETI) which was chaired by retired Supreme Court Judge K. T. Chithasiri has been submitted to the President on October 6, 2020. The aforesaid commission has pointed out that there have been several offences under the Company Law, The Financial Cooperation Act, The Money Laundering Act, The Financial Information Reporting Act, and The Legal Framework for the transfer of lands to foreigners as well as the penal code by its observations and recommendations. Moreover, the report of the aforesaid commission has pointed out the need to reform the Non-Banking Financial Institutions Supervision Department of the Central Bank of Sri Lanka that supervises and regulates Finance Companies.

According to a press release of CBSL, the Monetary Board (MB) of the Central Bank of Sri Lanka (CBSL) at its meeting held on 10th July 2020 has decided to suspend business of ETI Finance Ltd (ETIF) and Swarnamahal Financial Services PLC (SFSP), in terms of Section 31 of the Finance Business Act, No. 42 of 2011 (FBA) with effect from 13th July 2020. Due to the inability of Board of Directors and Senior Management of the respective companies to satisfactorily address the said deficiencies, the MB on 02nd January 2018 issued Directions restricting the affairs of the Companies and the powers of the Board of Directors of the two Companies. A Panel of Management was also appointed by the MB to oversee the affairs of both Companies. During the subsequent period both Companies were able to repay 30% of the deposits outstanding of each Company through various measures. Even though the MB directed the Board of Directors of both

Companies to find suitable investors to revive the Companies, no viable proposal did materialize. Due to the inability to revive the Companies successfully the financial situation of both Companies continued to deteriorate. As a result, both ETIF and SFSP are currently not in a position to repay the deposits by themselves, irrespective of such deposits being matured. However, with the suspension of business of ETIF and SFSP the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) of the CBSL will take necessary actions to pay compensation to the insured depositors under the applicable laws and regulations which would facilitate to settle;

- 75% of the ETIF's total depositors in full (28,554 depositors out of 38,111 total depositors), while each of the remaining 25% depositors (9,557 depositors) will also receive Rs.600,000/- as a part of their deposit amount, and
- 89% of the SFSP's total depositors in full (7,802 depositors out of 8,726 total depositors), while each of the remaining 11% depositors (924 depositors) will also receive Rs.600,000/- as a part of their deposit amount.

Further, the Director of the Department of Supervision of Non-Bank Financial Institutions of the CBSL decided to issue notices of suspension of Certificate of Registration of ETIF and SFSP as Registered Finance Leasing Establishments in terms of Section 9(1) of the Finance Leasing Act No. 56 of 2000 with effect from 13th July 2020.

ETI's problems could spread to the rest of the subprime lending industry, and then to banks, like what happened when the Golden Key Credit Card Company went bust. ETI is a bigger risk, with public deposits worth Rs35 billion. Former CBSL governor Mr. Indrajit Coomaraswamy, also once said there had been shortcomings in how the Central Bank regulated financial institutions, but that was a thing of the past. A new resolution department was also been set up and technical assistance sought from the US. But that may not be enough; rules on publishing credit ratings and financial results are weakly enforced. They are important to keep finance companies on their toes. In research done by Echelon, A media company in 2015, a third of the 48 registered finance companies weren't transparent with their financial performance, and 19 of them hadn't published a credit rating. Neither the finance companies' websites, websites of the three credit rating agencies nor Echelon's team visiting the head offices of these 19 firms were able to figure if they currently had a credit rating.

According to the latest events of ETI Finance, on the 5th of January 2021, the Attorney General had directed the Inspector General of Police (IGP) to conduct a criminal investigation against the Directors of the ETI Finance and Swarnamahal Jewellers Ltd. pertaining to their involvement in operating an unauthorized finance business. Accordingly, Jeewaka Edirisinghe, Anjalee Edirisinghe, Asanka Edirisinghe and Nalaka Edirisinghe were arrested by the CID, acting on further directives from the Attorney General. However, they were all released on bail by the Colombo Fort Magistrate on 6th of January.

On the 8th of January the Criminal Investigation Department (CID) arrested four former Directors of ETI Finance, Nalaka Edirisinghe, Jeewaka Edirisinghe, Anjalee Edirisinghe and Asanka Edirisinghe again on the charges of criminal misappropriation, cheating, money laundering and other offences, on the directives which issued by Attorney General Dappula de Livera. After producing the former Directors of ETI Finance Limited before the Magistrate Court on the 9th of January, Colombo Additional Magistrate Ruwan Nelumdeniya, ordered to remand until the 12th of January and later remanded till 15th of January.

During the Magistrate Court hearing on the 12th, Senior Deputy Solicitor General Haripriya Jayasundara told the court that the ETI Finance has defrauded deposits worth over Rs. 13 billion and as per the report of the Presidential Commission of Inquiry appointed to probe the matter, the directors of ETI Finance have violated the sections of penal code pertaining to fraud, criminalmisconduct, criminal breach of trust, and money laundering. Further Senior Deputy Solicitor General stated that the ETI Finance had maintained undisclosed accounts which were not subject to Central Bank regulations, since 2011 and nearly 43,000 depositors had already deposited money in ETI Finance by then. Even later the ETI Finance had defrauded money while continuing to accept deposits in violation of the restrictions imposed by the Central Bank according to the report and the directors of ETI Finance have utilized the money defrauded from the depositors for renovating cinema halls, purchasing vehicles and charity events.

Investigations are being carried out over the unauthorized acceptance of deposits worth billions of rupees, misappropriation, and money laundering, according to Attorney General's Coordinating Officer said. The Attorney General has also decided to forward indictments against the Directors of Swarnamahal Jewellers Ltd. for conducting an unauthorized finance business.

According to a press release issued by the Department of Supervision of Non-Bank Financial Institutions on 12th of January 2021, the Monetary Board of the Central Bank of Sri Lanka (Monetary Board) has decided to cause Director,Supervision of Non-Bank Financial Institutions to make an application to a competent court for the winding up of ETI Finance Limited (ETIF), in terms of Section 31(5) (b) of the Finance Business Act, No. 42 of 2011 (FBA).unauthorized acceptance of deposits worth billions of rupees, misappropriation, and money laundering, according to Attorney General's Coordinating Officer said. The Attorney General has also decided to forward indictments against the Directors of Swarnamahal Jewellers Ltd. for conducting an unauthorized finance business.

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Reference,
Central Bank of Sri Lanka
Ada Derana
Daily Mirror

GREEN FINANCE

ARTICLE BY,
Dakshini Jyesekara
Sadeepani Hewavitharana

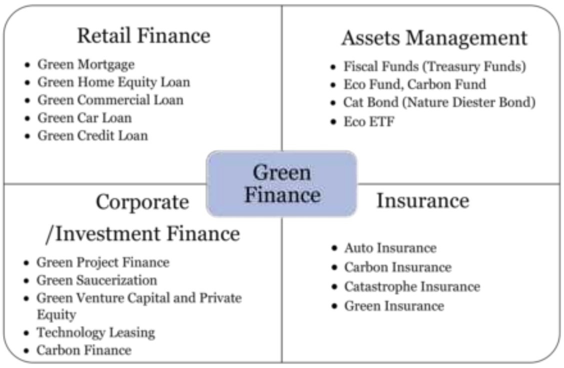
When you hear the word "Green" it immediately alerts you that it should be something related to "Environmentally Friendly" concept. But as far as we have heard of "Finance", it is related to money, investment, risk, return and numbers. If we take these two concepts together it creates a picture of "Investment in the benefit of the environment".

From the very beginning and through out the evolution to the forever in future, humans will always be involved in businesses of various kinds. All these years up until now, many businesses have forgotten that they are dealing with the environment where they must cohabit for not only today, but for generations to come. This neglection towards the effect of business activities on environment has already cost us so much hence we have come to a point of Global Climate Emergency situation.If the current trajectory of global fossil-fuel use continues, the planet's temperature is likely to rise by 4-6 degrees Celsius above its pre-industrial level, an increase that would be catastrophic for food production, human health, and biodiversity; indeed in many parts of the world it would threaten communities' survival. This indicates that we have been digging our own hell with or without knowing it. It is high time that things should take a turn for good for the sake of survival in the planet. Green finance is the solution for accomplishing contract between the economy and nature.

If we go back to where this concept emerged, in 1992, The United Nations Environment Program Finance Initiative (UNEP FI) was launched when UNEP joined with a group of commercial banks to promote consciousness of the environmental program into the banking industry. The UNEP Finance initiative is a unique corporation among UNEP and the economic region. It can be seen as the initial idea of Green Finance. Later on, the initiative keeps engaging more financial institutions, including investment and commercial banks, insurers and fund managers into close dialogues about connecting environmental protection with sustainable economic development. It aims to integrate environmental considerations into present financial services and practices.

There is no standard meaning of green financing. Green finance is characterized as money related assistance for green development, which is the answer for three current dangers to the worldwide economy; in particular, environmental change, vitality imperatives and money related emergency. It decreases ozone depleting substances (GHGs) and air poison discharges essentially. In general, it is any structured financial activity, a product or service that's been created to ensure a better environmental outcome. Green finance also can be defined as channeling funds into sustainable practices through new financial instruments and new policies, such as green bonds, green banks, carbon market instruments, fiscal policy, green central banking, fintech, community-based green funds, etc. which offer environmental benefit with a decent return.

Green Finance Products



Some of the initiatives that can be taken to promote the Green Finance are,

- Changes in countries' regulatory frameworks
- Harmonizing public financial incentives
- Increases in green financing from different sectors
- Alignment of public sector financing decision-making with the environmental dimension of the Sustainable Development Goals
- Increases in investment in clean and green technologies,
- Financing for sustainable natural resource-based green economies and climate smart blue economy,
- Increase use of green bonds
- Promote use of electric vehicles

Paris Climate Agreement and UN Sustainable Development Goals are the main driving forces of Green Finance initiatives in a global scale. The Paris Agreement is a landmark environmental accord that was adopted by nearly every nation in 2015 to address climate change and its negative impact. The agreement includes commitments from all major emitting countries to cut their climate-altering pollution and to strengthen those commitments over time.

UN Environment has been working with countries, financial regulators and finance sector to align financial systems to the 2030 sustainable development agenda, to direct financial flows to support the delivery of the Sustainable Development Goals.

USA, France, China and United Kingdom are the countries that are leading the way in Green Finance

But the story is different in a country like Sri Lanka since we are a developing country with a relatively small and weak financial system. Financial Development shapes the context for green finance. In order to initiate Green Finance related projects, a country needs to have a stable, strong financial system and people with high level of financial literacy. In records it says the level of Financial Literacy in Sri Lanka is 35% which is expected to be lower than that in reality.

Some other deficiencies faced by a developing country like Sri Lanka in this context are,

- The costs and benefits of economic activities/externalities (such as air and water pollution) are not internalized in the pricing system
- Typically, banks are not willing to provide loans for long-term sustainable infrastructure projects,
- Because of the lack of information environmentally and socially responsible investors do not know which companies to invest in. Investors do not have the reference data or the analytical tools that is necessary to assess investments in green projects.

In such an environment, in order to promote Green Finance in a developing country like Sri Lanka, the government must reshape the roots of the country's financial system. Administrative simplicity in policies is a must. And the government has to take significant efforts to educate the public in this regard. Another important pre-condition to boost green finance is to improve disclosure. Good disclosure allows financial investors to understand risk properly and to price for that risk. The ability to put a price on natural assets is important to use Green Finance that seek to protect natural capital. This will allow investors to invest for instance in conserved forests through tradeable securities like bonds.

Even though the developed countries are taking measures to promote Green Finance, those efforts will be useless if the rest of the countries are still using fossil fuel and releasing greenhouse gasses like Chlorofluorocarbons (CFCs). With all the above-mentioned facts, it's high time for the Sri Lankan government to pay a considerable attention to these growing concerns.

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ස්නේහධාරා '20

By Hussain Shakib and Madhawa Darshana

AGE OF MISINFORMATION

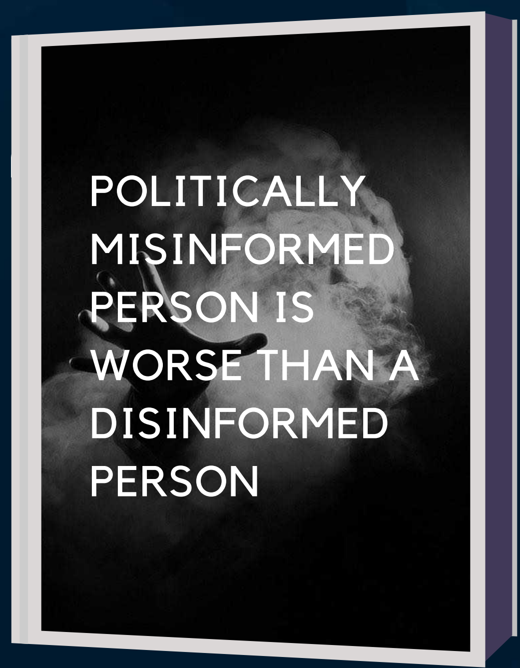
HOW IT AFFECTS FINANCIAL MARKETS

What is Misinformation? Simply it can be expressed as an inaccurate information which has been communicated between people with the intention of misguiding someone. There are different contexts of misinformation such as news, fake rumors, pranks, insults, gossips, and many others. So, our next question will be, what Age of misinformation is? It can be simply expressed as, the people in the world are facing an era which spreads false information rapidly due to the development of communication technology and internet.

How has this age of misinformation affected people’s lives and decisions in the world? This is a very critical question, which everyone should have an understanding

The main causes are internet capabilities and social media platforms. Now, most of the people are interacting through social media platforms which serves as platforms in spreading misinformation between people. Could you imagine how powerful these platforms are? Even the state governments have failed to manage the spreading of misinformation via these platforms. The ease of access, lack of rules and regulations with high level of interactivity are the main reasons which make social media a center-point in spreading false information. Further, the news and mass media have become profit motivated businesses rather than being accurate information providers such as the politically allied news channels.

Spreading of misinformation can affect the society in political, economic, and social aspects. We can observe that misinformation has been used as a tool in political campaigns. Politicians try to misinform their followers to get their votes. This is a very crucial factor in deciding the sustainability and going concern of a country. A famous quote which expresses this idea is as follows.



IMPACT ON SOCIETY

For this, the best example is the COVID'19 pandemic. Actually, the spread of misinformation on Covid'19 severely effects the behavior of people by causing confusion and negative emotions such as fear and anxiety.

If we consider the effect of misinformation on financial decisions of people, fake news and social media platforms play a major role in providing false information on financial decisions of people. Assume that you are going to invest some money in a semi-government owned enterprise, if your news reporter is a politically allied news reporting organization, you will only get across news on government policies, budget plans which will inversely affect your investment, and sometimes you will be misled about your investment resulting an opportunity cost.

Often, people make financial decisions in financial markets based on emotions and personal values. These emotions and personal values can be easily influenced and changed by misinformation. As an example, specific ethnic and religious groups will never invest on a liquor company even though it performs well in the market. In addition, some companies may actively participate in making false news on their competitor firms to damage their goodwill, which will misguide public on their behavior in financial markets.

Recently you may have seen that the vaccines which have been invented to cure COVID'19 boast about their successfulness without proving it. So, people will buy shares of those companies and their share prices will increase. But after some time, the people will realize that this vaccine will not cure the virus. In this case the share prices will go down rapidly with the sales of those shares. This fluctuation in share price, has mainly occurred due to the irresponsible sharing of misinformation with public.

Another reason why misinformation would influence investors is that some decisions need to be taken immediately. In such situations, the lack of time, to properly analyze incoming data forces investors to depend on others' possibly misleading hypotheses and assumptions.

The stock market is particularly prone to all forms of misinformation because predictions made from current events always leave a degree of uncertainty, making it harder to distinguish between valid and incorrect information. Moreover, the similarity between the original and misleading source plays a vital role in the magnitude of the effect – the more similar the two sources are, the higher the chance of confusing them.

According to "Source Monitoring Errors Concept", subjects exposed to two different sources may remember the data from both sources but are unable to recall which data comes from a particular source. For example, an investor planning to buy stocks of company Q for a short period of time may be interested in short-term analyses only. The subject is exposed to a negative short-term analysis for the next month. After some time, the investor reads a long-term analysis, which takes the current negative situation as insignificant and not relevant in the long run.

As shown above, the misinformation effect is likely to occur in financial markets, and its potential consequences for behavioural finance are not to be ignored. Therefore, misinformation can alter the investors' memory trace. The link between those traces and investment choices needs to be investigated empirically.

WHAT IS FINANCIAL DERIVATIVE MARKET?

By Shashikala Karunaratne and Lashani Sanjula

Derivative is a financial security that the value is derived from or relies on an underlying asset or group of assets. And a derivative agreement is a contract between two parties who have agreed to buy or sell a particular underlying asset on a certain price decided today. This agreement will not be worth if there is no time gap between the execution date and the date of the agreement. And ultimately the value of the security is derived from the fluctuations in prices of underlying assets; hence the term derivative is used for these securities. There are different types of derivatives for varying purposes. There are commodity and financial derivatives. Underlying asset of commodity derivatives can be agricultural assets like wheat, soybeans, cotton or any other asset like gold, fuel, and oil. The financial derivatives include variety of financial assets such as stocks, bonds, treasury bills, foreign currencies, and other hybrid securities. Derivatives are mainly exchanged through exchange traded markets and over the counter market

Features of Financial Derivatives

- It is a contract: It is a future agreement between two parties
- Derives value from an underlying asset
- Direct or exchange traded
- Delivery of underlying asset not involved: usually parties involved in derivatives engage in offsetting agreements.
- May be used to defer delivery: Derivatives are also known as deferred delivery or deferred payment instrument. It means that it is easier to take short or long position in derivatives in comparison to other assets or securities.
- Secondary market instruments: Most derivatives are secondary market instruments. However, we can see fresh capital instrument like warranties and convertibles.

Types of Financial Derivatives

Forward Contracts

This is an agreement to buy or sell assets at a certain price in a certain future date. These instruments are traded through the over-the-counter market. Parties who agree to buy an underlying asset take the long position and parties who sell the asset take the short position.

Futures Contracts

This is also an agreement between two parties to sell or buy assets in certain future date for certain price. However, these are traded at exchange market. At the same time future contracts have certain standardized features specified by the exchange. So future contracts are more formal than forward contracts.

Options

Options are another type of financial derivatives. Unlike futures and forward agreements options have right instead of obligation.

Call option → this gives holder to buy and asset at certain price for certain future date.

Put option → this gives holder to sell underlying asset at certain price for certain future date.

Swaps

Swaps are agreements between two parties to exchange cash flows according to pre agreed formula.

Interest rate swaps:

This entails swapping only the interest related cash flows between the parties in the same currency.

Currency Swaps:

This entails swapping both principal and interest on different currency than those in the opposite direction

Why we use Derivatives?

Derivatives were created for the need of financial markets. Derivatives can be used for wide variety of purposes. Some of the purposes that they serve are ethical whereas some of them are not. In this article we will list down the most common purposes to use derivatives.

Hedging

All businesses bear a risk when operating within this dynamic business environment. Companies use derivatives, for hedging the risk involved with uncertainty of exchange rate, price of the products, interest rates, weather conditions etc. Hedging is the most legitimate purpose of using derivatives.

For example, consider an airline firm. The operations of an airline firms are mostly exaggerated by the prices of jet fuel. The prices of jet fuel vary very rapidly. Hence, businesses cannot estimate a stable income in their business So, organizations frequently prefer stability and here firms can use derivatives to hedge the risk uncertainty to ensure the stability of prices regardless of the rise and fall in commodity prices.

Farmers face the risk of variability in the price of their products. If there is excess produce, then the prices would be low and vice versa. If farmers want to dispose of this price risk, they can use derivatives to hedge the risk of volatility.

Speculation

This is the completely opposite of hedging. Here investors use derivatives to speculate on future prices of underlying assets. Simply, speculation is a process of making money by predicting the future direction of the behavior of the underlying asset.

Earn profit from arbitrage opportunities

Arbitrage opportunities immerge when the same assets are traded in different market at different prices. Investors immediately recognize these opportunities and earn riskless excess profit by using derivative instruments. But these arbitrage opportunities will be eliminated from the market and reach an equilibrium in no time.

Change the nature of assets and liabilities

If the preferred type of the liability/asset and the type that gives the comparative advantage is different, then a company can use derivative instruments to swap the nature of the liability/asset.

For instance, if a company can earn a comparative advantage by taking a loan from with variable interest but it wants to borrow money with a fixed interest rate. Then it can use swap agreement to change the nature of the liability.

Circumventing Regulation

Some funds are not allowed to invest their money in risky investments. Derivatives can be used to eliminate the risk involved with these investments.

Due to its inherent benefits, investors have built more trust in entering into agreements and traders have been facilitated to hedge their day-to-day risks. Even though, in global context the derivative market is larger than the stock market, we cannot see the popularity of derivatives in the Sri Lankan Market. But from what is evident from literature and market results, the derivative market is an efficient and a convenient platform for individuals and traders alike. Therefore, necessary steps should be taken, to raise awareness on activating the derivative market in Sri Lanka which will make trading in a developing country, more approachable and rational for both local and foreign investors.

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STOCK MARKET INVESTMENT

Knowledge on investment in stock market for Beginners

A Stock market which is also named as equity market/share market is the aggregation of buyers and sellers of stocks, which represent the ownership of businesses. These may include securities listed on a public stock exchange, as well as stock that is only traded privately, such as shares of private companies which are sold to investors through equity crowdfunding platforms. Investment in the stock market is most often done via stockbrokerage firms and electronic trading platforms. Investment is usually made with an investment strategy in mind. In Sri Lanka we have Colombo Stock exchange .Lets now see what CSE or Colombo Stock Exchange means..!

WHAT IS ACTUALLY CSE?

The Colombo Stock Exchange (CSE) is the main stock exchange in Sri Lanka. It is one of the exchanges in South Asia, providing an electronic trading platform. The headquarters of the CSE have been located at the World Trade Center (Colombo) Towers in Colombo since 1995 and it also has branches across the country in Kandy, Jaffna, Negombo, Matara, Kurunegala, Anuradhapura and Ratnapura.

CSE CONSISTS OF

- 296 companies.
- representing 20 business sectors.

TWO INDICES IN THE CSE

1. The All Share Price Index (ASPI)
2. The S&P Sri Lanka 20 Index (S&P SL20)

CAN YOU REALLY INVEST IN CSE? IF SO HOW?

Yes of course, if you own a legal citizenship in Sri Lanka you can invest in CSE. Investing in Stock Market is a great way to earn extra cash. You can do stock market trade as a self employment, or, if you are a student, then you can do this while studying for higher education to save for future or to cover your education expenses.

If you think you are not having a soundd knowledge on CSE,or you don't have enough money .Dont worry.Because now online investing is availabe so has made the process much simpler and accessible that almost anyone can do it starting tha amount he/she has and gain the knowledge by investing a small amount and learn the style of how trading is done and shares are circulating.However, you should be responsible and disciplined, because sometimes the potential risk involved is generally greater than the returns

HOW TO START INVESTING?

To start trading in Colombo Stock Exchange, you need to open a CDS (Central Depository System) account by filling necessary forms with one of the Stock Brokers we have listed below. Once you have setup your account, you can then place share trades with your investment advisor who will execute it on your behalf or you can directly place orders thorough your online trading platform.

IF YOU ARE A RESIDENT

- CDS Form 01
- KYC FORM (Know Your Customer)
- Joint Application (optional)

AND SUBMIT ALONG WITH

- Proof of identity: A clear photo copy of National Identity Card or A copy of a valid Passport
- Proof of residence: A latest copy within 3 months of proof of address is required.
- Copy of the NIC could be used as a proof only if you are still residing in the address appearing in the NIC

IF YOU ARE FIRST TIME INVESTOR THEN CONSIDER FOLLOWING FACTORS IN SELECTING YOUR FIRST BROKER.

- Minimum amount - Most brokers have minimum balances for starting a brokerage account.
- Withdrawal - Check whether you can withdraw you money easily. That's because brokers sometimes charge fees to make a withdrawal.
- Fee Structures - While most brokers have similar fee schedules, some brokers have complex fee structures that make it harder to sort out hidden fees.
- Online Account – While some brokers may not change a minimum fee some Sri Lankan Brokers need you to maintain at least Rs. 500,000.00 start an online brokerage account. It is better to check and select a broker who does not charge you for online trading account.
- Investment Adviser – Your broker will provide you an investment advisor.

TRADING is a high return high risk investing method.

RISK

PRICE VOLATILITY

Market price of a share will be based on the demand and supply in the market for that share.

LIQUIDATION

It is the process by which a company (or part of a company)is brought to an end, and the assets and property of the company are redistributed.)

RETURN

Dividends
Right to vote
Liquidity
Capitalization of reserves
Capital Gains
Right issues

TRADING SESSIONS OF CSE

Open auction call	9.00 - 9.30	Monday to Friday (Except public holidays)
Regular trading	9.30 - 14.30	
Market Close	14.30	

So if your interest to invest money in stock market, start your research and choose the funds that fit's for you. If you want to learn further things about stock market you can go to the official website of Colombo Stock Exchange www.cse.lk or you can hire an investment advisor to guide you. Now it's time to investing!

Article by
Kawshalya Geenath

FINANCIAL LITERACY

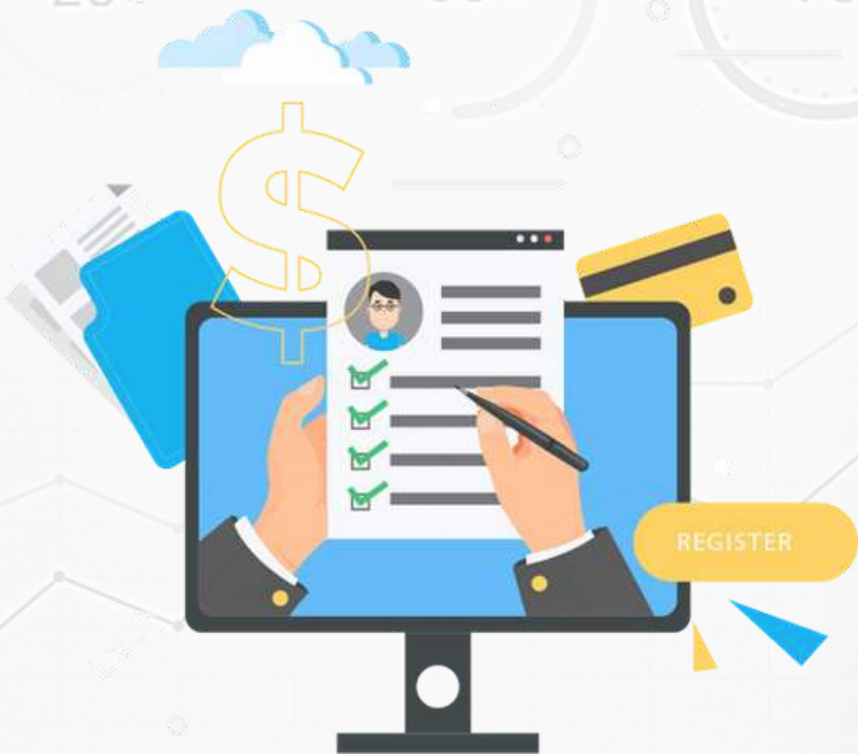
By Madhuri nisansala & Sithara madhushani

Even though the term "financial literacy sounds complicated and unfamiliar, it is a necessity for all who expect to manage their income properly and lead a balanced0 life. Poor financial literacy could even drive one's life to a complete mess.

First, of all let's see the meaning of financial literacy. There are hundreds of definitions used all over the world to define what financial literacy is.However, the best definition of financial literacy is " the ability of people to use knowledge and skills to manage financial resources effectively for well – being".

The motive of carrying out financial literacy surveys is to measure the participants' ability to earn, save and grow their money. Various media can be used to conduct a financial literacy survey and many organisations and universities use sets of questions unique to them. Financial literacy consists of few components such as,

- Earning
- Saving
- Investing
- Spending
- Borrowing



ATTRIBUTES OF A GOOD QUESTIONNAIRE FOR A FINANCIAL LITERACY SURVEY

The questionnaires should be designed in a manner that covers all the above components. The purpose of conducting financial literacy surveys should be,

- As an initial measure of financial literacy to identify national levels of financial literacy, provide a baseline and set benchmarks for national strategies as well as particular programmes.
- A description of levels of financial literacy in terms of key socio-demographic groups and explanatory variables that will enable policymakers to identify the needs of the population, the groups with the greatest needs and the gaps in provision
- The opportunity to conduct repeat measures of financial literacy to identify change over time;
- As a comparison of levels of financial literacy across countries.

THE BENEFITS OF A STANDARD QUESTIONNAIRE

- The questionnaire is based on a widely accepted working definition of financial literacy which stresses general behaviours, attitudes and knowledge that could be attained in a variety of ways.
- The questions are designed to be read aloud by an interviewer: there is no requirement for the respondent to be able to read and a respondent would not be considered more financially literate simply because they have high levels of literacy.
- Where Likert-type scales are used (such as strongly agree through to strongly disagree) instructions tell the interviewer to probe well, and to provide the respondent with a hard-copy printed scale if the respondent finds it cognitively difficult to put themselves on a scale without a visual aid.
- The question about individual's capacity to draw on savings is relative rather than absolute –focusing on the amount of time they could manage for, rather than the amount of money they have saved.
- Market-specific questions, such as product awareness and access to information about products are designed to be edited as appropriate in order to be context specific. This will ensure that all countries have internationally comparable data whilst also having information of relevance to their specific market.

THE METHODOLOGY

- A Financial Literacy Questionnaire can be used to collect information about financial literacy within a country, and to compare levels of financial literacy across countries.
- The same data collection process should be used in every case in order to collect internationally comparable data.
- Participants should be adults. For the sake of international comparison, we suggest that the survey is of individuals aged between 18 and 79.
- The interviews should be personal interviews, undertaken by telephone or face-to-face interrogations.
- A minimum achieved sample size of 1,000 participants per country should be considered in order to analyse the data by key socio-demographics such as gender and age. In order to interview 1,000 participants, we recommend that survey agencies have an original sample of 1,700 people from which to draw participants.

WHAT IS THE IMPORTANCE OF FINANCIAL LITERACY?

So, Let's dig deep into why we actually need to raise awareness among people towards financial literacy.

The United States of America is a great example that helps us identify the importance of financial literacy. As we all know, the United States of America is known as the richest country in the whole world and the following statistics show the average income of an American citizen. Personal income is an individual's total earnings from wages, investment interest, and other sources. The Bureau of Labour Statistics reported a median personal income of $865 weekly for all full-time workers in 2017. The U.S. Census Bureau lists the annual median personal income at $35,977 in 2019.

According to the above statistics, the daily income of an average citizen in America is very high, compared with other countries in the world. However, many American citizens face many financial difficulties throughout their lives due to financial illiteracy.
Following information confirms it

- 50 % of American citizens don't expect to have enough money to retire comfortably.
- Credit card debt has reached its highest margin in history.
- About 40% of Americans are not able to afford a $400 emergency expense.

The above statistics, prove that two-thirds of the entire American citizens can't pass a basic test of financial literacy.

FINANCIAL LITERACY IN SRI LANKA.

The financial literacy of Sri Lanka is 35% as a percentage and it is very low when compared with the developed countries that have 65% finance literacy. Sri Lankans are still struggling hard to cope with their financials even though the country is blessed with a literacy rate of 96.3%, which is comfortably above the regional and global averages. The students of Sri Jayewardenepura university in Sri Lanka had carried out an island-wide survey to examine the financial literacy in the country The survey was done by interrogating 300 villagers randomly. The survey confirmed that the villagers are engaged in various practices that harm their financial strength. This proved the financial illiteracy among the public in the country.

These statistics leave us with a must answered question on the steps we can possibly take as the partakers of the future of our economy. This has been one of the most discussed topics in our country in the recent past. If the government and the regulators of our country do not focus on spreading the right information and the actions, our country may not be able to stand financially independent in the immediate future, with the harsh effect from this pandemic. The most feasible way for a government to educate its public is to target the labour force of the economy who are the backbone of a country's economy. The usual theoretical approach may not be the most favoured path right now. We must be creative to encourage people to develop their financial literacy. We can initiate awareness programmes through social media, since it is the most captivating platform to attract the labour force. Financial literacy is something we have to work on daily. For example, the Japanese children are taught from a younger age on how to manage their funds. Russians had joined hands with the World bank in 2011 to include financial literacy into their education system. We need boost our younger generation with the ability to think of their own and be tactical in problems which will come in handy when developing one's ability to cope up when they grow up. This is the most suitable era for a change as it is eminent that precautions are always necessary in the future. If we are to dream of a better Sri Lanka, we might have to re-think on the way we manage our financials and initiating nation wide strategies to enhance our financial literacy.

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By Pramudith Rajapaksha

BECOMING THE GREATEST AMONG GREATS

SKILLS AND TRENDS TO BE FOLLOWED BY AN UNDER GRADUATE TO BECOME SUCCESS IN THE FIELD OF FINANCE

If you think the only people who need to understand finance are those who work in banking, it's time you reconsidered your point of view. Whether you realize it or not, there's a good chance that you use finance every day. Studying finance can have a huge impact on your life and it's probably not as difficult as you might think.

Normally, finance refers to all of the money-related decisions consumers, businesses, and governments make on a daily basis. Finance helps us make better decisions with our money. This lack of financial understanding among citizens is troublesome and underscores the great need for financial education. Studying finance can prepare you not only for careers in the financial services sector, but also for tasks in your everyday life. A bachelor's degree in finance, can prepare you to work in corporate and government financial management, banking, and financial planning. Growing employment opportunities in a variety of corporate, nonprofit, and government settings make finance an exciting and rewarding career.

Studying finance is both challenging and rewarding, it’s important to assess your skills. In today’s fast-evolving workplace, finance professionals must demonstrate everything from interpersonal skills to understanding of a computer. Let’s find out the skills which will move up ladder.

PROBLEM-SOLVING SKILLS

Majorly in finance, you'll be asked constantly to change the situation of a given set of variables. To answer these questions, you'll need to assess what can be done differently, spot trends within industries and evaluate potential opportunities. These days, it isn't enough to have knowledge of processes, it's also essential to be able to tackle complex problems as they arise. Whether it's addressing the financial implications of a complicated business structure or coming up with a personalized solution for a client's problem, a record of solving problems will see your career grow in leaps and bounds.

QUANTITATIVE AND STATISTICAL ANALYSIS SKILLS

Finance is driven heavily by numbers. If math and statistics have been areas of strength for you in the past, you're likely to thrive as a finance major. In order to understand and analyze data, link concepts and derive conclusions based on these findings, you will need a strong mathematical foundation. Candidates looking for a successful career in finance must demonstrate their analysis abilities with real-world examples and KPI driven results. They should embrace and utilize this part of their role, demonstrating their ability to think in logic and order. This is an extremely important skill to have as a finance employee, as your job will require you to be well versed in rationality to come through with an adequate solution.

TECHNOLOGICAL ADAPTATION

The increased focus on digitization and automation has encouraged more hiring managers to look toward financial professionals with the right IT skills to leverage new financial systems. Technological advancements have made waves in the financial industry. Not only have they made streamlining time consuming processes a breeze, but they have also increased speed and productivity in the majority of business practices. With this being said, financial professionals must place tech skills at the forefront of their learning. They must have knowledge in the most up to date programs, going above and beyond to excel in the specific tools and platforms that are relevant to the industry. Without this knowledge, you will find yourself falling behind and becoming less of an asset to the finance industry around you.

"Skill development, speed and scale are the 3 most important aspects that are relevant to the present day growth and development module. We need to give importance of skill development because this way we can end unemploymen"

NARENDRA MODI

COMMUNICATION SKILLS

The ability to communicate your analysis, findings and conclusions is really important as you head toward a career in finance. This is because in any finance-related position, you will need to effectively talk through complex data to show how various aspects of the business may be impacted. As a finance major, you'll be put through a series of different projects, both individually and in group presentations, to hone your communication skills and prepare you for a potential career path within the industry. There was once a time when finance professionals were bound to cubicles, but that era is long gone. These days, any perception that a career in finance involves simply crunching numbers has been replaced by the reality that positions require workers to deal with clients every day. For aspiring finance workers, strong written and oral communication skills are important, but it's just as imperative to be able to explain financial jargon in simple terms. If you want to excel in the financial field, being friendly and approachable is a big part of the job requirements.

CAPACITY FOR INNOVATION

Finance and accounting may be associated with routines and systems, but that doesn't mean that innovation doesn't have its place. Whether you've invented a data-collection method that streamlines productivity or a recording process that drives accuracy, candidates who are innovative are likely to stand out.

While a career in finance may be traditionally associated with routines and systems, this does not mean there is no place for innovation. Productivity drives this industry, always looking for new ways to achieve and complete things. This is where you come in. Your innovation can streamline processes to speed and accuracy, helping to save time and money within your organization. These efforts will help your career in leaps and bounds, showing that you are constantly pushing yourself to think outside the box.

By applying these skills into you, you will become a unique and different individual from others. You will excel in the field of finance once you understand what the industry is expecting from you, a finance graduate.

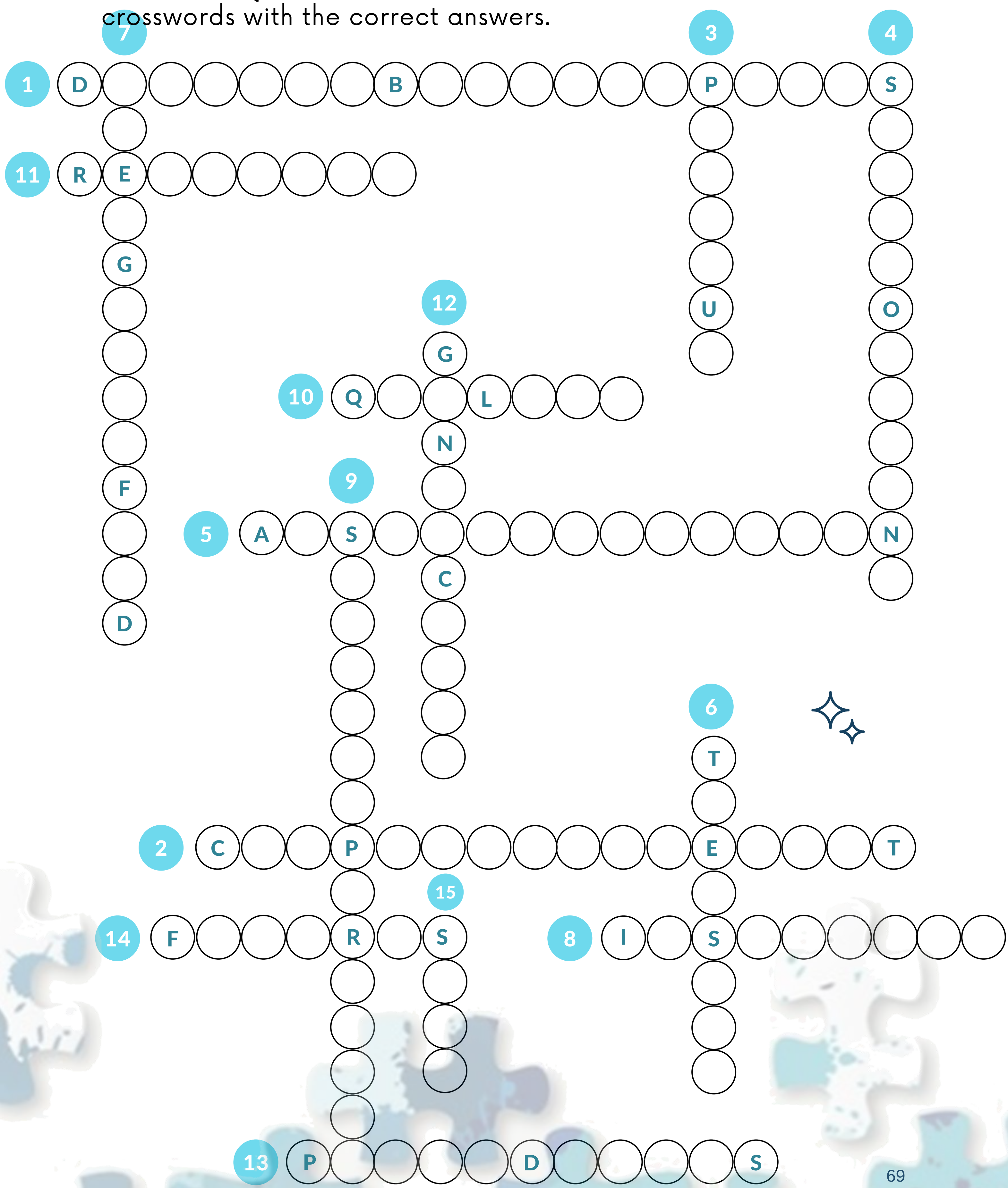
References

- https://www.roberthalf.com.au/
- https://www.purdueglobal.edu/

PUZZLE

By Vishwani Jayawichrama

Answer the questions and fill in the crosswords with the correct answers.



ACROSS

1 Employer-sponsored retirement plans, such as pensions, in which the employer promises a specified retirement benefit based on a formula that may include an employee's earnings history, length of employment and age.

2 When you're investing or saving, this is the interest that you earn on the amount you deposit, plus any interest you've accumulated over time.

5 The process by which you choose what proportion of your portfolio you'd like to dedicate to various asset classes, based on your goals, personal risk tolerance and time horizon.

8 Risk management against financial loss.

10 A real or perceived difference between one product or service and another for which consumers are willing to pay a higher price.

11 Something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge.

13 Vital literature source for any research and are easily accessible.

14 An agreement between two parties to buy or sell an asset at a certain time in the future for a certain price.

DOWN

3 The payments you make to an insurance company in return for protection from financial losses within the scope of your policy.

4 Companies often use these as management incentives .

6 Executive branch of the government that manages national finances.

7 Money saved for an unexpected cost.

9 A popular way for companies to return cash to investors.

12 Used to produce a schedule for the research.

15 A derivative contract where one party exchanges the cash flows or value of an asset for another

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